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2016 – Study Question (General)

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Security interests over intellectual property

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I. Current law and practice

You are reminded that **IPRs** refers to patents, trademarks and registered designs only.
If more than one type of security interest is available under your Group's current law, please answer the questions for each type of security interest, as applicable.

Availability of security rights

1)	Does your Group's current law provide for the possibility of creating security interests over IPRs?

yes

Please explain:

The response provided herein was contributed by the undersigned. It was not discussed by the Israeli Group.

If yes, please answer Questions 2) to 14) inclusive before proceeding to question 15) and following.
If no, please proceed directly to question 15).

2)	Are the available types of security interests defined by specific provisions relating to security interests over IPRs or by general commercial law principles (e.g. specific provisions in your Group's patent legislation rather than general commercial provisions that are applicable to tangible personal property as well as to patents)?

yes

Please explain:

Security interests over patents are governed both by specific IPR legislation, specifically the Patent Act 5727-1967 ("**the Patent Act**"), as well as by general commercial law legislation. Security interests of companies are governed by the Companies Ordinance 5743-1983 ("**the Companies Ordinance**")

while security interest of cooperative associations are governed by the Cooperative Associations Ordinance 5693-1933 ("**the Cooperative Associations Ordinance**") and the Companies Ordinance , and security interests of individuals and other bodies corporate are governed by the Pledge Law 5727-1967 (**"the Pledge Law"**).

Security interests over trademarks and industrial designs are governed by the general commercial law legislation, since there is no specific legislation regulating the issue.

3) Under your Group's current law, what types of security interests are available for IPRs?
In addressing the questions in sub-paragraphs a) to c) below, please specify briefly the main characteristics and differences of the available types of security interests.

a) Does your law provide for security interests which are characterized by the full assignment of the underlying IPR to the security taker? For example, an assignment of the IPR for the purpose of security or authorization to dispose/use fully in the event of default.

yes

Please explain:

Even though that according to the Pledge Law, the ordinary way of creating a security interest is by creating a pledge (also known as a "fixed charge") - a type of security interest that authorizes the security taker to realize the security interest only in the event of default (as will be explained below). In addition, section 2(b) of the Pledge Law provides that the law applies to any transaction, which intends to create a security interest to secure the repayment of debt, regardless of the transaction formal characterization. This leads to instances where the full assignment of an IPR for the purpose of creating security is recognized as a pledge; of course, this means that the pledge law directions apply in cases where the security interest is assigned to the security taker. In other words, if a pledge is not registered over a full assignment for the purpose of creating a security, the transaction may be declared unenforceable against the creditors of the assignor.

b) Does your law provide for security interests that authorize the security taker to realize the security interest only in the event of default? For example, a pledge over an IPR that authorizes the pledgee to liquidate the pledged IPR in the event of default (but not to otherwise dispose of the IPR).

yes

Please explain:

As stated above, the common pledge in Israel is one where ownership over the encumbered asset (in this case, the IPR) does not transfer to the security taker, but remains with the security provider, while the security taker can only realize the pledge in the event of default (as detailed in sections 16-17 of the Pledge Law). When the event of default occurs, ownership over the IPR does not automatically transfer to the security taker. Instead, the realization of a security interest must be implemented under a court order or an order of the Chief Execution Officer (In regards to patents – section 92 of the Patent Act states that the realization of a security interest can only be done under a court order). According to section 19 of the Pledge Law, the main realization method is a public auction of the secured IPR, this is done in order to guarantee that the security interest is sold for the maximum price, in order to make sure that the security provider is fully compensated (or at least compensated as much as possible) for the IPR.

Section 90 of the Patent Act provides that in order to perfect the security interest, i.e. to make it effective against third parties, the security interest has to be registered with the patent registry; the registration has to be done within 21 days of creation of the security interest. Security interests over trademarks or designs have to be registered with the Registrar of Pledges, at any time following creation of the security interest, and are valid against third parties from the date of registration (see

section 4(3) of the Pledge Law, that governs all assets not governed by other specific legislation).

In accordance with section 179 of the Companies Ordinance, security interests over patents, trademarks or designs, which belong to a company, must be registered with the Registrar of Companies under the Companies Ordinance (with respect to patents - in addition to the registration in the register of patents). Documents must be filed within 21 days of creation of the security interest. If filed within this period, the security interest is retrospectively valid against third parties from the date it is created.

Section 27(2) of the Cooperative Associations Ordinance applies the regime set out by the Companies Ordinance in respect to cooperative associations. In addition, section 28 of the Cooperative Associations Ordinance provides that security interests over assets owned by a cooperative association, must be registered with the Registrar of Cooperative Associations, in order to be valid against third parties. As with security interests over IPRs which belong to a company, documents must be filed within 21 days of creation of the security interest. If filed within this period, the security interest is retrospectively valid against third parties from the date it is created.

c) Does your law provide for security interests that authorize the security taker to use the underlying IPR? For example, usus fructus rights that authorize the creditor to use and/or realize proceeds from the exercise of the IPR only during the term of encumbrance. Is any right to use the encumbered IPR conditional upon default of the security provider?

no

Please explain:

Section 89 of the Patent Act gives patent owners the possibility of encumbering the revenue from the patent without encumbering the patent itself.In respect to trademarks and industrial designs there is no clear direction in the pledge law about encumbering their revenue with a pledge, however one can assume that because the right to royalties can be labeled as property, they can also be encumbered with a pledge without legislation specificity stating that it is possible.

There is no provision in the Patent Act or the Pledge law that allows the security taker to use the IPR during the term of encumbrance. To do this would probably be deemed as an unenforceable attempt to contract out of the Pledge Law (the Pledges Law provides that a creditor and a debtor cannot agree on a method of realization that is different from the method prescribed by the Pledge Law, unless the agreement is reached after the due date of the event of default).

4) If more than one type of security interest is available under your Group's current law, what types are commonly used for IPRs? Please also specify if certain types of security interests are exclusively used for certain types of IPRs in your country. For example, patents may commonly be encumbered with pledges, while trademarks may commonly be assigned to the security taker.

As stated in the answer to question 3, there is only one type of security interest used for IPRs under Israeli law – a pledge, and as a result this question is moot.

Effects of security interests

5) Is the security provider restricted in their right to use their IPR after providing a security interest over that IPR? For example, in respect of their right to grant licenses, or the right to use the protected subject matter. Please answer for each available type of security interest.

yes

Please explain:

Section 91 of the Patent Act states that granting licenses to a patent that is subject to a security interest can only be done with the agreement of the security taker, (unless the patent is under a floating charge (provided for in the Companies Ordinance), in which case, there is no need to ask for the security taker's approval). With respect to trademarks and industrial designs, the Pledge Law does not explicitly state any restrictions on the security provider regarding his right to use the IPR, but the prevalent opinion is that the security provider is unrestricted in their right to use their IPR, unless the security agreement states otherwise.

6) May encumbered IPRs be assigned to third parties by the security provider?

yes

Please explain:

Yes, however any assignment of an encumbered IPR would remain subjected to the pledge. If the pledges agreement prohibits such an assignment, such assignment will not be possible.

According to a scholarly writing, in situations where the underlying IPR is fully assigned to the security taker, the security taker is not allowed to assign the security interest by itself since the entire purpose of the security interest is to ensure the payment of the debt. However, the security taker is allowed to assign the IPR to a third party along with his right to the debt that is secured by the security interest.

7) If yes:

a) under what conditions may an IPR be assigned (e.g. obligation to obtain consent from the security taker, public notification or registration)?

Neither the Patent Act nor the Pledge Law state if the security provider is allowed to sell the security interest, however the prevalent opinion in Israeli legal literature and among practitioners is that the security provider is allowed to assign the security interest to a third party, as long it is not forbidden by the security agreement[1][#_ftn1] . If the security taker wishes to forbid the security provider from assigning the security interest to others, they can state it in the security agreement.

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[1][#_ftnref1] Joshua Weisman, Law of Property Right of First Refusal Studies in Secured Transactions, 131 (2014)

b) does the IPR remain encumbered with the original security interest for the benefit of the security taker?

yes

Please explain:

A pledge is considered a proprietary right, which belongs to the security taker. As a result, the IPR remains encumbered with the original security interest even when sold to a third party.[1][#_ftn1]

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[1][#_ftnref1] Bankruptcy procedure 1048/02 **Midrashat Rupin v. the Official Reciver**

(30.07.2012).

8)	What are the rights of the security taker before default (e.g. entitlement to damages, injunctions against infringers, or license fees)?

The applicable law in Israel does not grant any rights to the security taker before the event of default. However section 9 of the Pledge Law states that if a security interest is in any way damaged, and as a result the security provider has a right to compensation against a third party, the right to compensation will also be encumbered with a pledge for the benefit of the security taker.

9)	Who of the security provider or the security taker is responsible for maintenance and defence of the IPR provided as collateral?

This issue is not regulated by legislation nor has it been addressed by the court. However, we assume that if the court is asked to decide in this matter, its answer will be that although the IPR holder is the one that is responsible to pay IP renewal fees, a different arrangement can be agreed upon in the security agreement.[1][#_ftn1]

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[1][#_ftnref1] This is question is not answered by either legislation or case law, however the practice of Israel's Patent Office is to allow payments of IPR renewal fees by a third party.

10)	What are the legal consequences if the underlying IPR expires or is revoked? For example, the security right lapses simultaneously; the creditor has a compensation claim against the security provider.

In the absence of an encumbered IPR, the security interest itself expires together with the IPR.[1][#_ftn1] However, in accordance with section 9 of the Pledge law, if the expiration or revocation of the pledge results in the security provider having a right to compensation against a third party, the right to compensation will also be encumbered with a pledge for the benefit of the security taker. It stands to reason that the security taker may be allowed to file an application to restore the term of a patent that expired for failure to pay renewal fees.

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[1][#_ftnref1] Civil Appeal 2123/10 Adv. Pini Yaniv in his role as Receiver v. M.D Sea Views Investment L.T.D. (06.10.2011).

11)	Can any of these effects of security interests over IPRs before default be modified by contractual provisions between the parties? If so, which effects?

no

Please explain:

According to section 16(b) of the Pledge Law, a creditor and a debtor cannot agree on a different way of realizing the pledge than the way determined by the law, until after the event of default occurs.

Applicable law

12)	Does your Group's current law provide for conflicts of laws as to the availability and effect of security interests over IPR portfolios containing foreign as well as national IPRs?

yes

Please explain:

Neither the Patent Act nor the Pledge Law addresses the issue of conflict of laws. The ability to register security interest is determined by the nationality of the debtor, if the debtor is Israeli a security interest can be registered in Israel over IPRs belonging to the debtor, even if those IPRs are registered outside of the country. The applicable law is Israeli law, however jurisdiction is personal (*in personam)*.

13)	Which national law applies as to creation, perfection and effect of security interests over foreign IPRs? For example, where a US patent is provided as collateral in respect of a financial transaction in Europe.

The applicable law is determined by the nationality of the debtor. If the debtor is Israeli, the applicable law is Israeli law, however jurisdiction is personal.

14)	Can a choice of law provision in a security interest agreement over IPRs overrule the applicable law as to availability and effect?

no

Please explain:

This question is not addressed by in the legislation and was not addressed in case law. We would submit that the parties may not avoid the Israeli law requirements regarding perfection and realization of securities by choosing a foreign law as the applicable law of the Pledge agreement. We would also expect an Israeli court to apply provision of a foreign law chosen in the pledge agreement to the extent such law adds to and does not contravene Israeli law.

Additional question

15)	Regardless of your Group's current law relating to security interests over IPRs, is it possible to create a solely contractual regime for security interests over IPRs (i.e. beside the types of security interests defined by law) that is enforceable between the contracting parties?

yes

Please explain:

In accordance with section 3(a) of the Pledge Law a security interest is created by an agreement between the creditor and the debtor, this means that it is possible to create a contractual regime for security interest that differs from the regime determined by the law, it is important to note that as long as the agreement is not registered in the appropriate registry, the security interest will not be in effect against third parties.

In regards to the realization of the pledge, section 2(b) of the Pledge Law applies the law to any transaction, which intends to create a security interest to secure repayment of debt, regardless of the transaction formal characterization. This results in the fact that the parties cannot determine a different way to realize the pledge than the way determined by the law, until after the event of default.

II. Policy considerations and proposals for improvements of the current law

16) Is your Group's current law regarding security interests over IPRs sufficient to provide certainty and predictability to the parties?

yes

Please explain:

Generally yes.

17) Under your Group's current law, is there an appropriate balance between the rights between security takers and security providers? For example:

a) are there situations in which the rights of security takers should be limited or extended (e.g. if assignment of an encumbered IPR is possible by the security provider without involvement of the security taker)?

no

Please explain:

Generally, there is an appropriate balance.

b) are there situations in which the rights of security providers should be limited or extended (e.g. if the security taker is authorized to dispose of existing licenses without involvement of the security provider)?

no

Please explain:

Generally, there is an appropriate balance.

18) Are there any aspects of these laws that could be improved? Are there any other changes to your Group's current law that would promote transactions involving IPRs as collateral? If yes, please briefly explain.

no

Please explain:

We do not have any comments.

III. Proposals for harmonisation

19) Does your Group consider that harmonization of laws concerning security interests over IPRs is desirable?

yes

If yes, please respond to the following questions without regard to your Group's current law.
Even if no, please address the following questions to the extent your Group considers your Group's laws could be improved.

Security system regarding IPRs

20)	Should there be specific provisions regulating security interests over IPRs (i.e. separate from security interests over tangible property) generally?

yes

Please explain:

Probably yes, in order to clarify the points discussed in response to Part 1 above.

21)	If no, should there be general commercial law principles that also apply to IPRs? If not, why?

no

Please explain:

N/A

22)	What types of security interests should be available as minimum standard in all countries?

The minimum standard for types of security interest that are available should not be any lower than the standard developed in Israel. The double registration demand in regard to security interest over patents owned by a company (i.e. the requirement to register the pledge both with the patent registry and the Registrar of Companies) in order to be effective against third parties is redundant.

23)	Should the law be applied differently depending on the type of IPR? For example, should patents be encumbered exclusively with pledges, should trademarks be assigned to the security taker for the purpose of security?

no

Please explain:

The law should not be applied differently depending on the type of IPR.

Effect of security interests

24)	Should the security provider be restricted in their right to use their IPR after providing a security interest over that IPR (e.g. in respect of their right to grant licenses, or to use the protected subject matter)? If so, how?

no

Please explain:

The security provider should not be restricted in their right to use their IPR, as long as the use conforms to the security agreement.

25)	Should the security provider be able to assign encumbered IPRs to third parties?

yes

Please explain:

Yes, as long as the IPR remains encumbered with the original security interest for the benefit of the security taker, even after it is assigned to a third party.

26)	What should the rights of the security taker be before default (e.g. entitlement to damages, injunctions against infringers, or license fees)?

The security taker should not have any rights regarding the IPR before the event of default, as long as the loan is repaid as originally planned. However, it would be appropriate to make sure that the security taker is aware of matters regarding the renewal of the IPR, as will be explained below.

27)	Should the security provider or the security taker be responsible for maintenance and defence of the IPR provided as collateral?

yes

Please explain:

*The security provider should be the one responsible for maintenance and defense of the IPR provided as collateral. However, it would be beneficial to have the security taker aware of any case where the security provider does not pay the IPR renewal fee**[1]**[#_ftn1] , and to grant the security taker the opportunity to pay the renewal fee instead of the security provider, in order to prevent the IPR from expiring.*

[1][#_ftnref1] Currently, only the IPR owner is notified of the need to pay the IPR's renewal fees. As provided be section 86 of the Patent Regulations (Procedure, Law Procedure, Documents and Fees of the Authority), 5728-1968[http://10.0.0.14/infocenter/Gilat/chakika/PatentRegulations_Procedure_1968.docx] and section 52 of the Trademark Regulations, 1940.

28)	What should the legal consequences be if the underlying IPR expires or is revoked (e.g. the security right lapses simultaneously; creditor gains a compensation claim against security provider)?

It would be beneficial if any right that the IPR owner holds in respects to appealing the expiration or revocation of the IPR, would also be held by the security taker. That way, if the IPR owner does not exercise their right and take the appropriate actions to appeal the expiration or revocation of the IPR, the security taker can do it instead.

29)	Should it be possible to modify these effects of security interests over IPRs before default by contractual provisions?

no

Please explain:

Applicable law

30)	Which law should apply as to the availability and the effects of security interests where a foreign IPR is provided as collateral? Why?

As long as judgements in these cases are matter of personal jurisdiction, only the local law should apply, if there were to be an international system regarding security interests, specific laws would have to be set.

31)	Should a choice of law provision in a security interest agreement over IPRs overrule the applicable law? If yes, why?

no

Please explain:

Additional considerations and proposals

32)	To the extent not already stated above, please propose any other standards your Group considers would be appropriate to harmonize laws relating to security interests over IPRs.

N/A

33)	Please comment on any additional issues concerning any aspect of security interests over IPRs you consider relevant to this Study Question.

N/A

Please indicate which industry sector views are included in part "**III. Proposals for harmonization**" of this form:

This question is irrelevent.

Summary

Israeli law provides the possibility of creating security interests over IPRs. The security interests are governed both by specific IPR legislation, as well as by specific general commercial law legislation.

The ordinary way of creating a security interest is by creating a pledge: a security interest that authorizes the security taker to realize the security interest only in the event of default. Before the event of default occurs, the parties of a security agreement cannot agree on a different way of realizing the pledge than the way prescribed by law. For the pledge to be effective against third parties it must be registered in the appropriate registry.

Creation of a security interest over an IPR does not, in and of itself, restrict the security provider freedom to use its IPR. The security provider may assign the encumbered IPR to a third party; however the IPR would remain subjected to the pledge. If the security taker wishes to forbid the security provider from using or assigning the IPR, they can state it in the security agreement.

An Israeli debtor can register in the Israeli register a security interest over IPRs that are registered outside of Israel. However jurisdiction against the debtor is *in personam*.