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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:

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:

The security interests are defined by general civil law principles regulated in Civil Code (ordinary pledge) and separate Act on Registered Pledge (registered pledge).

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.

no

Please explain:

There are no security interests regulated in the Polish law which would envisage the full assignment of the IPR for the purpose of security, as for both types, meaning ordinary pledge and registered pledge, the pledger remain the owner and the holder of the secured rights.

However, in the case of registered pledge, there is a possibility for the parties of the pledge agreement to establish that in case of default the IPRs will be assigned to the security taker (article 22-23 of the Act on Registered Pledge).

- 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:

For both types of security interests available for IPRs in Poland the standard procedure of satisfying the pledgee in the event of default is to liquidate the pledge in the enforcement proceedings.

However, in the case of registered pledge, there is a possibility for the parties of the pledge agreement to establish that in case of default the IPRs will be assigned to the security taker (article 22-23 of the Act on Registered Pledge).

- 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?

yes

Please explain:

Ordinary pledge.

As already mentioned above the ordinary pledge on IPRs is regulated by general provisions of Civil Code which are not designed for this specific type of the secured rights. Moreover there are only several provisions in the Civil Code which concern strictly the pledge on rights while this type of pledge is predominantly regulated by reference to the provisions regarding the pledge on movables, which are sometimes hard to apply for pledge on rights due to different character of the security subject. In effect there are numerous controversies in the Polish doctrine as regards its proper interpretation, including the issue of the entity authorize to actually use the rights during the term of encumbrance.

According to article 307 § 1 of Polish Civil Code one of the conditions to establish the ordinary pledge is the handing over of the movable thing to the creditor or to a third party to which the parties agreed. However, according to article 318 of the Civil Code the aim of the handing -over of the pledge subject is its preservation rather than its use as the actual ownership of the thing/rights remains in the pledger. On the contrary, in case of pledge on movables the use of the pledge subject by the pledger is limited by the above condition, the use of the rights by the pledger and especially intellectual property

rights which are intangible, even if they are secured by the pledge is still applicable. There is no basis in the Civil Code which might entitle the pledgee to use the right.

Another issue is whether the parties may agree on the pledge agreement that the pledgee is entitled to use the secured IPR. In the Polish doctrine there is a dominant position that such contractual provision would be hard to reconcile with the essence of the ordinary pledge and would go beyond its purpose. Therefore in order to enable the use of the IPR for the pledgee there is a need for some another agreement such as license or Usufruct agreement.

Registered pledge.

The issue of the possibility to use the right by the pledgee is clear in the case of registered pledge as article 11 par. 1 point 1 of the Act on Registered Pledge clearly indicates that it is the pledger who is authorized to use the subject of the pledge. There is still a question whether it is possible for the parties to agree otherwise between themselves. However, the arguments presented above as regards the ordinary pledge that such possibility would be in contradiction with the nature of the pledge as security on the value of the collateral not on the actual subject of the pledge, are as well applicable to the registered pledge.

- 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.

Non-applicable.

#### 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:

As explained in point 3c) it is the pledger, meaning the holder of the right, who is entitled to use the encumbered IPR (for both IPR- meaning the ordinary and registered pledge). However, as there is no separate provision for the security interests over the IPR, the actual scope of such possible use is not unambiguously established. Notwithstanding, it is commonly assumed in the Polish doctrine that the pledger is entitled to use the secured IPR for their economic purpose and in accordance with the content of the exclusive rights<sup>[1]</sup>, including activity for profit such as licensing.

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<sup>[1]</sup> See ?. ?elechowski, „ Zastaw zwyk?y i rejestrowy na prawach w?asno?ci intelektualnej”, Warszawa 2011, str. 410

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

yes

Please explain:

It is a general rule for both the ordinary pledge and registered pledge that in case of default the pledgee might be satisfied from the secured IPRs regardless of the entity which is the current owner of such IPR. Therefore, there are no contraindications for the encumbered IPR to be assigned to third party, as the interest would be still secured.

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)?

The law does not provide for additional conditions for the encumbered IPR to be assigned to third parties in case of both the ordinary and registered pledge.

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

yes

Please explain:

The general rule is in case of both the ordinary and registered pledge that despite the assignment of the right to third party, it remains encumbered. However, the Act on Registered Pledge provides for certain exceptions to this rule.

According to article 13 of the Act on Registered Pledge the assignment of the encumbered right to the third party would cause the expiration of the pledge if:

1) the purchaser does not know, and with due diligence, could not have known about the existence of the pledge at the time of the handing over of the encumbered thing or the transfer of the encumbered right ownership;

2) the encumbered thing is one of the things usually sold in the economic activity of the pledger and the thing was released to the purchaser, unless the purchaser has acquired the thing in order to detriment the pledgee.

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

The discrepancies as regards the position of the pledgee on rights concerns the obligation created in article 319 of the Polish Civil Code which states that “if a pledged thing brings profits, the pledgee should [...] collect them and credit them towards the receivable and any related claims”. However, the above provision is only determined by the condition to hand-over the pledged thing to the pledgee which means that the pledger is no longer able to collect the profits and in order to avoid wasting of such profits the pledgee needed to be entitled to collect them. However, the Polish doctrine is consistent that it should not be applicable to the pledge on rights as there is no need for the pledgee to protect the profits which still might be collected by the pledger.

However, there are no contraindications for the parties of the pledge agreement to regulate the profits collection otherwise and authorized the pledgee to do that<sup>[1]</sup>.

Also the issue whether the pledgee might be entitled to collect the profits should be interpreted as in the case of ordinary pledgee, meaning that there is no legal basis for the pledgee to do that. However, there is no reason why the parties would not be entitled to agree otherwise on the basis of the agreement effective *inter partes*<sup>[2][#\_ftn2]</sup> .

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[1][#\_ftnref1] See ?. ?elechowski, „ Zastaw zwyk?y i rejestrowy na prawach w?asno?ci intelektualnej”, Warszawa 2011, str. 414

[2][#\_ftnref2] See ?. ?elechowski, „ Zastaw zwyk?y i rejestrowy na prawach w?asno?ci intelektualnej”, Warszawa 2011, str. 418

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

Polish law:

1. Ordinary pledge.

The general rule, which results from the fact that the pledger remains the owner, holder and possessor of the collateral IPR, is that the pledger is the one who remain responsible for maintenance and defense of the secured IPR. However, according to article 330 of the Polish Civil Code: “*A pledgee may perform all actions and pursue all claims which are intended to preserve the pledged right*” which means that the pledgee is as well authorize to actions which aim is to maintain the secured rights. Polish doctrine found the following actions of the pledgee as within the scope of the above provision:

- Paying a fee to the Polish Patent Office for the next period of protection of the secured IPR<sup>[1][#\_ftn1]</sup>
- Raising a claim against the infringer of the secured IPR<sup>[2][#\_ftn2]</sup>
- Refusing the acceptance to the pledger waiver of the secured IPR on the basis of article 90 par. 1 point 2 of Polish Industrial Property Act<sup>[3][#\_ftn3]</sup>
- Registered pledge

On the basis of the reference stated in article 1 par. 2 the same applies to registered pledge.

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[1][#\_ftnref1] A. Kopff, „Obrót prawny w zakresie wynalazczo?ci (w:) Prawo wynalazcze. Zagadnienia wybrane”., red. S. Grzybowski, A. Kopff, warszawa 1973, s. 287; E. Traple „Zastaw na prawach w prawie polskim i niemieckim ze szczególnym uwzgl?dnieniem problematyki praw na dobrach niematerialnych (zagadnienia wybrane),KSP 1992” str. 57

[2][#\_ftnref2] A. Kopff, „Obrót prawny w zakresie wynalazczo?ci (w:) Prawo wynalazcze. Zagadnienia wybrane”., red. S. Grzybowski, A. Kopff, warszawa 1973, s. 287; E. Traple „Zastaw na prawach w prawie polskim i niemieckim ze szczególnym uwzgl?dnieniem problematyki praw na dobrach niematerialnych (zagadnienia wybrane),KSP 1992” str. 57

[3][#\_ftnref3] A. Szewc, G. Jy?, „Prawo w?asno?ci przemys?owej”, Warszawa 2003, str. 257

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.

As regards the expiration of the encumbered IPR the Polish doctrine is consistent that it means at the same time the *ex nunc* expiration of the pledge.

While, in case of the IPR which were revoked the dispute concerns the theoretical issue meaning whether the pledge in such situation would simply expire or it would mean that it had never existed as the encumbered right was revoked *ex tunc*.

The issue whether the creditor has got any compensation claims in the above cases is vague due to lack of special provision regulating the pledge on IPRs. In the Polish doctrine two provisions are indicated as the potential basis for the creditor claims:

1. article 291 of the Polish Industrial Property Act which states: “in the event of the invalidation of the patent, an acquirer, a licensee or any other person on behalf of which the holder of the patent disposed of his right against payment, shall be entitled to reimbursement of such payment and to redress of damage, in accordance with the general rules of law”. The doubts whether the above provision should become a basis for the creditor claims is the stipulation that the character of the disposition need to be against payment, while the pledge as well as the mortgage are considered as gratuitous<sup>[1]</sup>. Therefore, the above provision might be applicable only in case when the pledger obtained from the pledgee the separate reward for establishing a pledge.
2. Article 458 of the Polish Civil Code which states: “If a debtor becomes insolvent or if, due to circumstances for which he is liable, the security for the claims is considerably reduced, the creditor may demand that the performance be made regardless of the stipulated period”. Despite the fact that the provision speaks about the reduction of security according to the rule *argumentum a minori ad maius* it should be applicable as well to the situation when the security expired<sup>[2]</sup>. However, the provision covers only the circumstances for which the pledger is liable which excludes the cases when the IPR expired due to the lapse of time what was inevitable (patents and registered designs).

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[1] See ?. ?elechowski, „ Zastaw zwyk?y i rejestrowy na prawach w?asno?ci intelektualnej”, Warszawa 2011, str. 404

[2] See ?. ?elechowski, „ Zastaw zwyk?y i rejestrowy na prawach w?asno?ci intelektualnej”, Warszawa 2011, str. 404

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?

yes

Please explain:

In the case of registered pledge it is possible for the parties of the pledge agreement to establish by contractual provisions that the pledger undertakes not to assign the secured IPR to the third parties before the expiration of the pledge<sup>[1]</sup> despite the general rule explained in point 6 above. In such case the assignment is valid only if the person on whose behalf the pledger made the assignment, did not know and with due diligence could not have known of that stipulation at the time of conclusion of the agreement with the pledger (art. 14 par. 2 od the Act on Registered Pledge). In case that the agreement remain valid according to the provision indicated below, the pledgee may demand the

immediate satisfaction of his claim secured on a pledge (art. 14 par. 3 of the Act on Registered Pledge). The above described stipulation is directly excluded in Article 311 of the Polish Civil Code as regards the ordinary pledge.

As mentioned in point 10 the rights of the pledgee are not secured enough in the Polish law in case of the expiration and revocation of the encumbered IPR. Therefore, Polish doctrine and contractual practice accept the situation that the parties of the pledge agreement, establish the rights of the pledgee in case of termination of rights on the contractual basis<sup>[2]</sup>.

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<sup>[2]</sup> See ?. ?elechowski, „ Zastaw zwykły i rejestrowy na prawach własności intelektualnej”, Warszawa 2011, str. 405

#### 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?

no

Please explain:

N/a

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.

Polish law does neither regulates such situation as regards ordinary pledge nor the registered pledge. However Poland, as well as all the other countries in Europe, are bound by the TRIPS agreement as member states of World Trade Organization and Paris Convention for the Protection of Industrial Property.

Although these conventions do not expressly address the law applicable to issues arising with respect to security rights in intellectual property, they generally adopt the principle of territoriality. It is asserted that provisions such as article 2, paragraph 1, of the Paris Convention for the Protection of Industrial Property (1883),<sup>23</sup> article 5, paragraph 2, of the Berne Convention for the Protection of Literary and Artistic Works (1886)<sup>24</sup> and article 3, paragraph 1, of the TRIPS Agreement lead to the conclusion that the appropriate connecting factor is the place of protection of the relevant intellectual property right. Thus, in States parties to these conventions, the law applicable to ownership and issues of protection of intellectual property rights (such as the comparative rights of an intellectual property owner in one State as against a licensee or an infringer in another State) is the *lex protectionis*. It should be noted that, with respect to types of intellectual property that are subject to registration in a national, regional or international intellectual property registries (for example, patents and trademarks), the *lex protectionis* is the law of the State (including the rules promulgated by regional or international organizations) under whose authority the registry is maintained.

The view is expressed that the principle of national treatment embodied in international conventions protecting intellectual property implicitly imposes a universal rule in favour of the *lex protectionis* for

determining the law applicable not only to ownership of intellectual property but also to issues arising with respect to security rights in intellectual property. In other words, according to this view, States parties to any of these international conventions are required to apply the *lex protectionis* to issues arising with respect to security rights in intellectual property<sup>[1]</sup>.

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<sup>[1]</sup> See UNCITRAL Legislative Guide on Secured Transactions Supplement on Security Rights in Intellectual Property, Chapter X paragraph A point 3.

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:

not applicable

#### 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:

According to the Polish doctrine it is possible to create a solely contractual regime for security interests over IPRs which is called fiduciary transfer of ownership right for the security purpose. The agreement provides the transfer of the debtor's property rights (including IPR) to the creditor for the time of the security interest and at the moment of paying the debt, the debtor become right back the owner of the encumbered IPR.

As this type of agreement is not precisely regulated by the provisions of Polish law (safe for a mention in the Banking law with regard to fiduciary transfer of property and securities), the parties of the agreement are free to regulate the conditions of the agreement on their own, including the rights of both the creditor and debtor, the effects of the debtor default as well as the enforcement of the agreement.

## 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?

no

Please explain:

As mentioned above, the main concern as regards the Polish regulations as regards the ordinary and registered pledge on IPRs is lack of specific provisions which would regulate such specific subject of the pledge as IPR. There are only two provisions which directly apply to security interests over IPR:

1. Article 67 par. 4 of the Polish Industrial Property Act which states that the pledge over the patent is effective since the entry into the registered of the pledge and should be as well revealed in the Polish Patent Office Register and



2. Article 41a of the Polish Act on Registered Pledge which states that the court is obliged to send an information to Polish Patent Office Register about the pledge entered into the General Register of the Pledge.

Moreover, the currently existing provisions are mainly shaped for the purposes of the pledge on thing and only several provisions are designed for the aims of the pledge on rights what additionally increasing the level of uncertainty.

It is debatable whether the pledgee may perform certain activities before the Patent Office related to the pledged right (eg. patent or trademark application)

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)?

yes

Please explain:

In the view of above it is visible that in Polish law the rights on pledge, both ordinary and registered, are constructed in favor of the security provider, who is entitled to wholly use the secured IPR in the course of business activity despite the risk of impairment of encumbered rights and is not obliged to consult the transactions over the encumbered IPR with the pledgee. In effect by securing its debt by the IPR, the pledgee imposes on itself a big risk of decrease in the value of collateral, especially bearing in mind that in the Polish law there is no provision which would clearly defined his situation in case of the encumbered IPR expiration or revocation.

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)?

yes

Please explain:

The point above applies

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.

yes

Please explain:

Under the current Polish regulation provided for the security interests over IPR, the system of enforcement is not enough effective as the only way for the pledgee to satisfy its interests is its liquidation in the enforcement proceedings. While as regards the IPR it would be more effective if the security taker would be entitled to dispose the IPR in case of default of the pledger. Moreover, it would be useful if the secured creditor has the right to propose to the grantor that it acquires the grantor's rights in total or partial satisfaction of the secured obligation. If the grantor is the owner of intellectual property, the secured creditor could itself become the owner in the way prescribed by law relating to intellectual property, provided that the grantor and any other interested party (such as the debtor, any other person owing performance of the secured obligation or any person with rights in the encumbered

asset) do not object.

### 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:

Generally bearing in mind the specific character of the IPR as a subject of the security interests it would be effective to introduce several provisions regulating only the security interests over such specific types of rights as IPRs.

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

no

Please explain:

Not applicable

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

In accordance with latest trend of commodification of knowledge an available minimum standard in all countries should be a possibility to pledge the IPRs.

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:

In the case of the pledges the distinction of the different types of IPR would not play significant role as in such case the right is still in disposition of the pledger, meaning there is no actual change in the way the IPR is used. Therefore applicability of registered pledge with simplified and efficient enforcement procedures would be the best option whereas use of fiduciary transfer of ownership opens many new risks which have not been addressed and are difficult to be addressed.

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:

Bearing in mind the specific character of the IPRs it would be unprofitable for both the security taker and provider if the IPRs would not be used according to their purpose. It is especially visible as regards the trademarks which value is measured by the range of their use. It is slightly different as regards the patent, however bearing in mind the rate of change in technological and industry environment, such non- used patent might swiftly become obsolete and at the same time the value of the security interests would be decreased.

However, the right to use the encumbered IPR by the security provider should not be entirely unlimited. It might be effective to introduce some scope of control by the security taker over acts which may adversely affect its interests, especially as regards the right to grant an exclusive license by the security provider as in such case any other party could not use the encumbered right.

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

yes

Please explain:

According to the basic nature of the security interest which should enable the satisfaction from the encumbered rights despite their current owner, there should not be any obstacles for the assignment of the encumbered IPRs to third parties. However, it implies the need to secure the claims of the security taker against such third parties and preferably the obligation to submit the information about all the pledge agreements in the national and international IPR registers in order to ensure the widespread knowledge about any encumbrance on IPR for the third parties.

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

The system which provide some rights for the security taker before the default of the security provider might be more effective for both sides of the security agreement.

Firstly, if the security taker would be entitled to collect the benefits meaning license fees and the compensation from the injunction of the encumbered rights, the debt would be satisfied faster what it is in the interest of both parties.

Secondly, the security provider would have some help in remaining the rights if the security taker would be entitled to deal with authorities, renew registrations or pursue infringers. It would also means that the security taker interests are more effectively protected as the risk of securing the debt by IPRs is decreased.

The choice between the above options above might be left to the parties to regulate in the pledge and reflected in the appropriate register.

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

yes

Please explain:

Basically it should be the security provider, however the security taker should be given a chance to step in to keep the right in place when formalities such as renewals are not attended to by the security provider.

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)?

As regards the existence of security interest after the expiration or revocation of the security subject, the actual solution provided in the Polish law, meaning the simultaneous lapse of the security interest seems as the most reasonable solution as the existence of the security interest without the security subject is inconsistent with the structure of the security interest.

As regards the right of the creditor to gain a compensation claim due to the expiration or revocation of the IPR it should be left to contractual regulation.

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

yes

Please explain:

According to the theory of the parties autonomy and general rule of freedom of contracts it would be reasonable for the parties to modify the effects of security interest over IPRs according to their common will so as to meet their practical needs and potentially improve the quality and rate of the obligation fulfillment as it was mentioned in the points above.

For example, unless otherwise provided by law relating to intellectual property, an owner/grantor and its secured creditor should be able to agree between themselves that:

1. the secured creditor may exercise some of the rights of the owner/grantor (for example, to deal with authorities, renew registrations or pursue infringers);
2. the owner/grantor may not grant licences (in particular exclusive licences) without the consent of the secured creditor; or
3. the secured creditor may collect royalties owed to the owner/grantor as a licensor even before default on the part of the owner/grantor.

#### 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?

The common approach based on *lex protectionis* which was explained in point 13 as regards the availability of the security interests seems to be reasonable option as in order for a secured creditor to be able to obtain an effective and enforceable security right in an intellectual property right in a State

in which the intellectual property right exists, the secured creditor would have to fulfil the requirements of that State. In effect, the application of *lex protectionis* rule result in the same law applying to both security rights and ownership rights in intellectual property.

However, there might also be inefficiencies to an approach based on the *lex protectionis* as there are numerous transactions which demand registration in local registries. In effect whenever in the security interest there are involved (a) intellectual property rights protected under the laws of various States (b) assets which are not limited to intellectual property that is used and protected under the law of a single State, the approach based on *lex protectionis* would be likely to add the cost and complexity by increasing registration and search costs.

In addition, if the security provider is not located in the State under whose law the encumbered intellectual property is protected and an insolvency proceeding with respect to the grantor is commenced in the State in which the IPR is located, it might be unjustified obstacle for the grantor to protect his right. Therefore it would be reasonable to separate the choice of law applicable to the creation, effectiveness against third parties and priority of a security right in intellectual which should be based on *lex protectionis* approach from the law applicable to the enforcement of a security right which should be the law of the State in which the security provider is located.

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

yes

Please explain:

As indicated above, despite the fact that in general *lex protectionis* approach seems to be the most universal, there are situations when such approach may unnecessarily deprive secured creditors of the choice of following the law of the State of the grantor’s location or registering in the general security rights registry and thus saving transaction costs.

Thus, the parties of the security interest agreement should be free to establish the applicable law based on the circumstances of the agreement.

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.

We find it useful to refer to the UNCITRAL document

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:

Summary