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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:

However, the only IP legislation which provides for the possibility of creating security interests over IPRs is the Industrial Designs (Amendment) Act 2013 ("IDA"). The IDA contains provision for registered industrial design to be subject of a security interest and for such interest to be recorded in the Register of Industrial Designs.

There are currently no similar clauses under the Patents Act 1983 and Trade Marks Act 1976 that provide for the possibility of creating security interests over patents and trademarks.

While proposed changes allowing securitization of patent and trade mark has been discussed and mapped out by the Intellectual Property Corporation of Malaysia (MyIPO) in the public consultation papers since June 2012, the proposed amendments to the Patents Act 1983 and Trade Marks Act 1976 have yet to come into force. There is no specific timeline or guarantee that these amendments will be coming into force anytime soon.

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:

Yes but for both specific provisions relating to security interests over IPRs and by general commercial law provisions.

Registered Designs - A specific provision relating to security interests over industrial designs is Section 29 of the IDA which provides that a registered industrial design may be the subject of a security interest in the same way as other personal or movable property.

**"29. Registered industrial design is personal property**

**(1)** A registered industrial design is personal property and is capable of assignment, transmission or being dealt with by operation of law in the same way as other personal or moveable property, subject to the provisions of this section.

**(5)** A registered industrial design may be the subject of a security interest in the same way as other personal or moveable property."

General - Section 108(3) of the Companies Act 1965 explicitly permits the registration charges in respect of intellectual property including a charge "on goodwill, on a patent or licence under a patent, on a trade mark, or on a copyright or a licence under a copyright".

- 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:

Malaysia largely follows the English common law position in relation to the creation of security interests over IPRs. Below are the types of security interests recognised under Malaysian law:

Charge: A charge is a type of security interest with no legal title to the IPRs being transferred to the chargee. A charge merely creates an encumbrance over the IPRs. There are 2 types of charges:

1. Fixed charge: A fixed charge attaches to the IPRs when it is created and it prevents the chargor from dealing with the IPR in any way including granting license on the IPRs to any third party in any way without the consent of the charge unless such fixed charge is released or the indebtedness secured by such fixed charge is fully settled.
2. Floating charge: A floating charge hovers over the IPRs when it is created. A floating charge generally does not prevent the chargor to deal with the IPR in the ordinary course of business of the chargee until a crystallization event occurs. Upon a crystallization event occurs, the floating charge will become a fixed charge and attach over the IPRs. Mortgage: Essentially, a mortgage involves the

transfer of legal title to the IPRs from the mortgagor to the mortgagee subject only to the mortgagor's equity of redemption. If the formalities to transfer away legal title to the IPRs are not complied with, then the mortgage is only equitable mortgage. A legal mortgage is the most secure and comprehensive form of security interest. It transfers legal title to the mortgagee and it prevents the mortgagor from dealing with the IPRs while it is subject to the mortgage. It is important to note that from the perspective of the lender, a legal mortgage presents difficulties because it places the responsibility on the lender for maintaining and enforcing the IPRs with respect to any infringements. A lender may not have the necessary expertise and resources to manage IPRs. Secondly, the taking of a legal mortgage over the IPRs will also require the lender to licence the IPRs back to the security provider for use and then to arrange for a reassignment of the IPRs on discharge of the legal mortgage. This will require more fees incurred. For the reasons above, it is uncommon to create security interest over IPRs by way of a legal mortgage. While Section 30 of the IDA provides that registered designs may be the subject of a security interest, the provision does not provide that it must be by full assignment of the IPR to the security taker.

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).

no

Please explain:

The IDA does not specifically provide an authorization for the security taker to realize the security interest in the event of default. The rights and remedies available for a security taker of a security interest over IPRs are typically provided in the relevant security document and accordingly, any rights by the security taker to realise the IPRs will be determined by the parties in the relevant security document. Note that the rights to realise the IPRs under the security document would remain subject to the common law principle whereby realization of a security can only occur if there is a default under the security document.

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:

The IDA does not provide for security interests that authorize the security taker to use the underlying IPR. Whether a security taker may use the underlying IPRs would depend on the type of security interest created – a legal mortgage would, in principle, entitle the mortgagee to use the IPRs whereas a charge does not confer such rights onto the chargee. However, the extent of the rights to use the IPRs are typically provided in the relevant security document.

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.

It is still fairly uncommon to create security interest over IPR in Malaysia. If security interests is taken in relation to IPR, it is often taken with the rest of the asset as the overall fixed charge or floating charge. There is no particular type of security interest exclusively used for certain types of IPR.

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.

no

Please explain:

No. As stated, it is not common to create security interest over IPR in Malaysia. Any restriction will depend on the security agreement undertaken.

Legal mortgage

With respect to a legal mortgage, since the legal title to the IPRs are transferred to the mortgagee, there is a restriction on the use of the IPR by the mortgagor. In practice, the security taker has to licence the use of the IPRs to the security provider.

Charge

There is no transfer of legal title with respect to a charge taken over IPRs. Therefore, the ownership continues to be enjoyed by the security provider. Hence, unless restrictions are provided in the security document, the security provider can freely use its IPRs. However, with respect to a fixed charge, the chargor is prevented from disposing the IPRs without the express consent from the charge.

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

no

Please explain:

However, there is no specific provision which restricts the assignment of security interests. It would depend on the security document and any security document will typically not allow assignment without the consent of the security taker.

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)?

not applicable. please refer to question 6 above.

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

yes

Please explain:

Generally, the position for security over movable property is that property remains encumbered with the original security interest for the benefit of the security taker until the security interest in discharged.

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

There are no express provisions under the IDA and the rights of the security taker would depend on the security document. Note that the rights to realise the IPRs under the security document would remain subject to the common law principle whereby realization of a security can only occur if there is a default under the security document.

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

Depending on the security document created and in the absence of any express provision, the registered owner will be responsible for maintenance and defence of the IPR.

1. If a legal mortgage is taken over IPRs, the legal title of the IPR is transferred to the security taker. As such, the maintenance and defence of the IPR is likely to be the responsibility of the security taker.
2. If a charge is taken over IPRs, the legal ownership remains with the security provider and accordingly, the security provide will be responsible in maintaining and defending the IPR.

However, the different arrangement for the maintenance and defence of the IPR can be agreed between the security provider and the security taker in the relevant security document.

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.

Depending on the security document created and in the absence of any express provision, the security taker would likely have a claim against the security provider for any loss suffered as a result of the expiration or revocation of the IPR.

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:

Generally yes. Subject to specific statutory requirements, it is possible to modify the effects of security interest over IPRs by way of contract. For example, the security taker can waive its rights for compensation if the underlying IPR is expired or revoked.

#### 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:

The position in Malaysia is that security interests over IPRs are subject to the laws of the country in which the relevant IPR subsists.

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 laws of the country of creation of the relevant IPR apply to the creation of security interests.

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:

IPRs are territorial in effect and they exist as a creature of statute. As such, it is unlikely that a choice of law provision in a security interest agreement over IPRs overrule the applicable law as to availability and effect of the relevant IPRs.

#### 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?

no

Please explain:

## **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:

In Malaysia, security interest over IPR is not fully developed.

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:

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:

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:

Proposed changes allowing securitization of patent and trade mark has been discussed and mapped out by MyIPO in the public consultation papers since June 2012. Amongst other things, the MyIPO has proposed a recordable system of registrable transactions to increase the monetisation of IPRs. However, the proposed amendments to the Patents Act 1983 and Trade Marks Act 1976 have yet to come into force and there is no specific timeline or guarantee that these amendments will be coming into force anytime soon.

### 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:

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?

Registered IPRs such as patents and trademarks should be capable of being the subject of a registrable security interest, as a minimum.

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:

#### 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:

It should be subject to the interests of the security provider being fully protected and to the terms of the security document.

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

no

Please explain:

It should be subject to the consent of the security taker.

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

This should be a matter to be negotiated and agreed contractually between the parties.

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

no

Please explain:

This should be a matter to be negotiated and agreed contractually between the parties.

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)?

This should be a matter for agreement between the parties and subject to the terms of the security document.

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

yes

Please explain:

by agreement between the parties.

#### 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 law of the place of creation of the IPR to promote certainty.

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

no



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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.

Not applicable.

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

Not applicable.

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

Not applicable.

Summary