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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:

As the Industrial Property Law does not contain any specific provisions regarding establishing of security interests on IPRs, general rules and principles of civil law with respect to rights' titles apply through combining the Property Code (SPZ - Stvarnopravni zakonik), the Code of Obligations (Obligacijski zakonik - OZ) and the Law on Execution and the Interim Protection of Claims (ZIZ - Zakon o izvršbi in zavarovanju).

- 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:

Different forms of security interests are possible among which pledges are usually used the most.

Conditional or unconditional full assignment of the IP right and assignment to claim royalty payments arising from the IP right are possible and used as well.

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:

Yes. According to the general provisions of applicable laws, security takers are most commonly not allowed to realize the security interest in any way prior to the event of default. Nevertheless, different contract arrangements are possible.

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:

*Yes, according to the Property Code, *usus fructus* rights during the term of encumbrance can be contractually agreed.*

- 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 mentioned in question 3), pledges are most commonly used. As there are no restrictions about exclusive use of a certain type of security interest, it is possible to equally encumber all three types of IP rights (patents, trademarks and registered designs).

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:

It principally depends on the contractual agreement between the parties. Continuous exercising of the IPR generally increases its goodwill and so value of security interests hence the assumption is restrictions will generally not be agreed. Specific cases where exploitation would undermine security value would be addressed specifically under agreed contracts.

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

no

Please explain:

Usually assignments of encumbered IPRs to third parties are contractually prohibited. Hence such assignments are only possible upon obtaining consent from 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)?

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

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

Unless contractually agreed otherwise the security taker usually has no rights prior to the event of default. All above mentioned rights, including the responsibility for up keeping validity of the right, enforcement and defence of the right remain the responsibility of the debtor as holder of the right.

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

See question 8).

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.

If the IPR underlying the security interest expires or is revoked/is annulled or lapses, the security taker loses the security interest. Usually there are contractual stipulations put in place that the creditor as security taker has the right to demand a new collateral if the previous right no longer exists and does not represent a sufficient security, or has a compensation claim against the security provider. According to the Industrial Property Act, IPRs can expire as a result of a lapse of time, in case of failure to pay the maintenance fee or when revoked in court.

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:

Yes, all IPRs security interests can be modified by contractual provisions between the parties.

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:

In the absence of an explicit choice in the contract, rules of the Private International Law and Procedure Act (Zakon o mednarodnem zasebnem pravu in postopku - ZMZPP) are applied to determine which law is to be used. According to Article 52, it is possible to determine the jurisdiction of a local court in case of at least one party being Slovene (Slovenian citizen or legal entity established in Slovenia).

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.

All IPRs are equally considered regardless of the right's origin, so same rules can be applied for national as well as foreign IPRs. In the given example of patents, the origin of the patent will never represent an issue for the bank as long as judicial procedures are conducted in local courts. The questions relating to validity, applicability and related of the IPR will be adjudicated according to the rules of IPR origin. It is however unlikely that purely foreign IPR not valid in the country where security interest is established, will be applied.

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

yes

Please explain:

Yes, according to the Rome I. Regulation, parties have the right to choose the law that will govern their contract where this choice is expressly made or clearly demonstrated by the terms of the contract or the circumstances of the case, except for the provisions of the law which cannot be derogated from by agreement.

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:

Yes, this is already a common habit as no particular provisions specifically with respect to security interest establishing are determined in the Industrial Property Act.

All answers to the questionnaire are based on traditional security instruments (conceived and ordinarily

used for real estates or different other property rights), which are then appropriately applied on IP rights. Agreements are therefore always made according to the specifics of the case.

At this point it is important to stress that different institutions, especially banks, which are involved in transactions establishing security interests, are usually prone to use and accept instruments in their traditional form and format. In practice non-standards security instruments may not be well accepted in negotiations.

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:
Some more case law on the topic is desirable. Case law may at times be unpredictable. Court proceedings may sometimes take quite some time.

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)?

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:
Again, it depends on specific contractual arrangements applicable in the case.
While negotiating with banks, security providers are usually in a significantly unfavorable position because the contract is heavily in favor of the bank with no room for negotiation by the security provider. But if the security taker later needs to enforce the right, he is obliged to go to court and, according to question 16), this may put him in an unpromising position.

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:
The most important is to raise awareness and work on increasing recognition and knowledge regarding IP rights among all applicable stakeholders (IP right holders, lawyers, banks etc.) in order to facilitate these types of transactions and make them more frequently used.

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?

no

Please explain:

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

no

Please explain:

No, not necessarily.

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

Types which enable the creditor to get easily payed from the right and are at the same time simple, transparent and efficient, according to the background of each specific country involved in the harmonization.

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:

We do not believe that such restrictions could positively affect the transactions, therefore we do not find setting different limitation possibilities purposeful. IP rights are similar enough to regulate them in the same way and allow them to be equally encumbered with all types of security interests.

On the other hand, such provisions could induce a unified approach and provide more certainty and predictability to the parties.

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:

No, except if this is justifiable by the creditor's specific interests.

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

yes

Please explain:

Possibly yes, if this does not affect the level of security involved in the deal. Usually assigning of encumbered rights to third parties is regularly subject to the security taker's consent.

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

He can be entitled to all these rights without any restrictions; the question is, whether the use of these rights are in his interest.

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

no

Please explain:

The allocation of responsibilities may differ from case to case according to the goals of each specific deal.

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)?

We believe it is not in our interest to harmonize the consequences but rather leave different countries to regulate them by themselves.

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

yes

Please explain:

Yes, it should be possible to modify it anytime without restrictive provisions determined under the law.

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 exclusive use of foreign law is possible, but we believe it would cause complications in practice and hinder the transactions. Therefore, the use of local laws should be allowed as well.

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

yes

Please explain:

Different solutions are possible. On the one hand, the overruling could be beneficiary in practice and increase efficiency, but on the other hand it would considerably undermine predictability.

It depends on the overall interest regarding the security interest deal and the degree of harmonization in general.

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.

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

Any provisions that will help harmonize are welcome. In the future EU's legislation activity, the introduction of one or more 'Community security interests' could be considered to unify the system and facilitate business as much as possible.

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

Summary