



INTELLECTUAL PROPERTY AND SECURED TRANSACTIONS: GOING THE WRONG WAY IN THE RIGHT DIRECTION?

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The idea that Intellectual Property (“IP”) rights are mostly freely transferable rights would theoretically make them prime candidates for their use in commercial transactions: fast, sure and sought after. However, the very nature of intellectual property may suggest an approach different to that of traditional property in common commercial transactions, especially when it comes to the issue of valuation, financing and secure collateral.¹

Naturally, IP rights having the “property” component, it is without a doubt this aspect that makes these rights the focal point when studying the use of IP rights as collateral in secured transactions; since traditional security legislation normally focus on the concept of property in the strict sense, should IP rights be lumped in with this same category?

The first rationale for this type of conceptualization is the fact that not all IP rights are necessarily transferable per se (for example, moral rights to a copyright protected work are generally not transferable); is there something in the nature of an asset that would make it inappropriate for use as security, such as the case for copyright and other similar forms of intellectual property protection? This would necessarily depend on how a given Nation defines the rights in question.

This brings us to the discussion of how IP rights are being treated on a national level. The prospect of a universal and internationally recognized commercial code has brought up many issues and more specific to intellectual property, has initiated several debates that study the very nature of these rights and their potential accessory uses as collateral for secure transactions.

When we are speaking of IP rights as security, we are making reference to intellectual property having enough measurable value on its own so as to be used as a practical form of guarantee. In terms of a loan, this would put into play two separate spheres of evaluation: the existence of an IP right, and the securitization of private property.

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¹ Intellectual Property as Collateral in Secured Transactions: Collision of Divergent Approaches, [2009] Business Law International Vol 10, 27-50, ISSN: 1467 632X

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Therefore, it is important to realize that for many legal systems, separate legal regimes govern both intellectual property and secured transactions independently. Certainly, there are jurisdictions that provide directly for security rights directly in their IP laws while others only recognize the possibility in their legislation governing secured transactions.

There are also jurisdictions that do not explicitly mention the securitization of IP rights at all and it is therefore assumed that both rights remain in separate legal categories, instilling a certain level of uncertainty with regards to the relationship between the two.

Conflicts can then arise between IP law and secured transaction law, as it is often the case with the issue of perfection and registration. While IP laws are principally concerned with documenting the creation of IP rights, the registration of security interests in such rights would mainly be useful for subsequent, alternative changes or dealings to the property. Therefore, most IP registry systems are designed for transaction filings rather than “notice filing”². On the other hand, secured transactions registries contain limited information, having for main goal the purpose of serving notice to third parties. It is the difference between creating a right and perfecting it that is usually the main point of contention between differing views on the issue of IP rights as a form of security.

Some coordination is therefore required between the ability for a lender to obtain security towards a borrower’s IP rights and his ability to realize such rights in a manner that effectively recognizes priority and that properly evaluates the economic interests involved. Now compound this issue, which exists at a national level, to an international scale and it can easily be understood as to why there is a sentiment in the air towards certain harmonization initiatives.³

This lack of coordination is precisely why the use of IP rights can be seen as risky by prospective lenders. Not only is there an inherent risk to the use of IP rights due to the complex valuation process and the applicable time limitations, there is also the additional lack of certainty concerning the perfection and enforceability of these types of guarantee agreements.

This leads us back to the general question of: “Should IP be treated in the same manner as other types of property within the world of financial transactions?”⁴

However, before uniformity can effectively be discussed, it is important to understand the issues currently being dealt by a representative group of countries, as well as the options made available by them concerning the use of IP rights as collateral in secured transactions; presented below is a birds-eye view of certain national approaches to the use of intellectual property as collateral in secured transactions.

² *Id.*

³ For example: UNCITRAL Colloquium On Secured Transactions: Security Interests in Intellectual Property Rights (vienna, 18-19 January 2007)

⁴ As already cited, see “Intellectual Property as Collateral in Secured Transactions: Collision of Divergent Approaches, [2009] Business Law International Vol 10, 27-50, ISSN: 1467 632X” for an introduction to the topic.

1. NORTH AMERICA

(a) Canada

Canada, being a federalist country, relies on the concept of the division of legislative powers to delineate the competencies between federal and provincial jurisdictions.

Everything that can be defined as private property, including the transfer of such, is constitutionally recognized as being under provincial jurisdiction and naturally, the registration and perfection of such rights are provincial responsibilities by assimilation.

Concurrently, intellectual property is under federal jurisdiction in Canada and the question can be asked as to the dynamic between both forms of property rights (in the strict sense) as recognized by each form of legislation. More specifically, the question can be asked as to the relationship between the federal and provincial government when it comes to the perfection of a security interest (normally of provincial jurisdiction) in an IP right (under mixed jurisdiction).

At first glance, securities in Canada are generally managed by a form of “Personal Property Security Act”⁵ or as it is the case for Quebec, by Book 6 of the Civil Code⁶.

Canada treats IP rights as intangible movable property rights and it is under this definition that different provinces are enabled to legislate on their use as collateral for secured transactions. Usually, to be set up against a third person, such rights would need to be performed/published in provincial registers under any of the PPSA legislations that may be applicable.

However, there are also federal registers that exist under Canadian intellectual property law and it remains to be seen whether it is in fact necessary to publish in both the provincial “PPSA type” registers, as well as the federal intellectual property registers, to properly perfect the conferred security.⁷

What is clear is that at the provincial level, since IP rights remain intangible movable property rights, publication in a personal property register remains indispensable to confer priority rights against a third party.

But what about the federal registers? The applicable intellectual property laws⁸ speak generally of the registration and publication of any assignment affecting IP rights, but it is unclear if whether or not an assignment includes a security interest. There is jurisprudence that indicates that publication in a federal intellectual property register can confer additional rights, however we are not aware of any recent developments on this particular topic to offer any clear insight.

⁵ For example : *Personal Property Security Act*, R.S.O. 1990, c. P.10

⁶ *Civil Code of Québec (C.C.Q.)*, S.Q. 1991, c. 64

⁷ Sotiriadis, Bob H. and Danis, Christian “Prise de garanties en matière de propriété intellectuelle” (Janvier 2002), 14(2) *Cahiers Prop. Intel.* 581

⁸ Principally: *Patent Act*, R.S.C. 1985, c. P-4; *Trade-marks Act*, R.S.C. 1985, c. T-13; *Copyright Act*, R.S.C. 1985, c. C-42;

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To be concise, federal laws provide for the publication of IP rights in a federal register, including the transfer or assignment of such rights; however the terms “transfer” and “assignment” have yet to be defined. It must be mentioned that in certain cases, the courts have recognized that an assignment under guarantee should be published in both a federal & provincial register, but such an obligation still remains nuanced.

In light of this grey zone, it has nonetheless become practice to recommend publication of any IP rights conferred through a secured transaction in both provincial and federal registers; taking into account the importance of the assets, the possibility to identify the rights in question and the general interest of both parties.

(b) The United States

Even though IP rights are largely recognized as being under federal jurisdiction in the United States, the creation and perfection of security interests are governed by each State independently. However, the rules with regards to security interests have been generally harmonized in all most of the States, following the implementation of the *Uniform Commercial Code* (U.C.C.)⁹, although some States may have included some variations from the model law.

Section 9 of the U.C.C. applies to all transactions, irrespective of their form, creating any type of securitized private property.¹⁰ More specifically, section 9 also governs securities with regards to intangibles,¹¹ a category that includes residual concepts of property such as IP rights.

The securitization of IP rights in the US comprises three general steps: creation, perfection and enforcement. Furthermore, there seems to be some doctrinal debate as to the status of registered intellectual property versus common law IP rights.

Registered IP rights are properly securitized in reference to the laws applicable to each State;¹² the intellectual property being charged needs to be of a discernable value, with the debtor holding rights in said property (as properly described via the load-securitization contract).¹³

To be opposable to third parties, the securitization rights have to be published through a lien notice in local State or federal registries, whichever applicable. The jurisdiction depends on the type of IP rights being perfected and there is still some debate as to the proper model to follow.

The general rule is to recognize the debtor’s jurisdiction as being the “publication jurisdiction”¹⁴ on the State level. However, there is an exception to this rule: such a publication

⁹ For the purpose of this paper, we will be referencing the U.C.C. as enacted by New York State

¹⁰ U.C.C. 9-109(a) 1)

¹¹ U.C.C. 9-102(42)

¹² U.C.C. 9-201(a)

¹³ U.C.C. 9-203(b)

¹⁴ U.C.C. 9-301

would not be necessary if the property in question is governed by federal legislation that already provides for the possibility of publication in a federal registry.¹⁵

It is therefore not surprising that, even with explicit guidance as found in the U.C.C., general practice still suggests a form of double publication at both the federal and the state level; the uncertainty being due in part to certain ambiguities found in the American Patent and Trademark laws with regards to publication.

For example, both trademark and patent rights can be securitized and published in a state registry as per section 9 U.C.C. Parallel to this, section 1060 of the *Lanham Act*¹⁶ (dealing with trademark) and section 261 of the *Patent Act*¹⁷ provide for certain rules with respect to the publication of assignments and other accessories to personal property. Certain doctrine is of the opinion that this publication can be assimilated to a securitization process and that the exception provided under the U.C.C. (publication in a federal register voids the necessity to publish at the State level) would be applicable; therefore, a security would not have to be registered with a state register to be opposable to a third party. However, there is also jurisprudence in the other direction, hence the suggested cautionary practice.

2. EUROPE

(a) United Kingdom

Under British law, intellectual property is recognized as being like any other form of private property and therefore, IP rights can be used as collateral in certain forms of secured transactions.

Naturally, IP rights are considered intangible rights, which are normally guaranteed in the U.K. through the issuance of a “legal mortgage”, a “fixed charge” or a “floating charge”.

A legal mortgage is often used when the IP rights are specifically identifiable. The Lender is assigned the IP rights while the borrower retains an equitable interest. Once the loan is repaid, the legal ownership switches back to the Borrower;¹⁸ if the Borrower defaults, property is redeemed by the Lender under the mortgage.

A fixed charge can be used for IP rights where the lender takes equitable interest in the property rights and the borrower keeps all legal ownership unless there is default, at which point the charge fixes on the IP rights and ownership switches.

Finally, a floating charge is used most frequently with IP rights which have not been registered with the relevant IP authorities, in situations where such rights are not easily identifiable or definable. A charge floats over the unregistered right pending default, at which point the charge then “materialises”.

¹⁵ U.C.C. 9-310(a)

¹⁶ 15 U.S.C.

¹⁷ 35 U.S.C.

¹⁸ *Santley v Wilde* [1899] 2 Ch 474; *Carter v Wake* (1877) 4 Ch D 605

There is a potential grey area concerning the defining lines between these forms of security since English law provides for the same obligations when it comes to the publication and perfection of the above-mentioned rights.

In order to be recognized as valid, the security agreement must be written and signed by both parties.¹⁹ Additionally, select intellectual property laws provide that the agreement would have to be published in the proper intellectual property bureau register to have any effect and to be opposable to any third party,²⁰ while others (such is the case for the legislation governing Trademarks) contain no express mention of such a form of publication; however this formality can be inferred from the nature of the right, being private property.

Therefore it is suggested that all assignments, licenses (exclusive and non-exclusive) as well as security interests in registered IP rights be recorded and published in the relevant register within six months of their execution.²¹

As well, Companies who are registered in England or in Wales have to register their security interests with the Registrar of Companies at Companies House within a 21-day period of execution of the transaction.²²

(b) France

Traditionally, under French law, the term pledge is often used for a security granted on an intangible right:

“Article 2355

A pledge of an incorporeal thing is the allocation of an incorporeal movable or of a set of incorporeal movables, actual or future, as security for an obligation.

It may be conventional or judicial.

Judicial pledge is regulated by the rules which apply to enforcement proceedings.

Failing special provisions, a conventional pledge which attaches to debts is regulated by this Chapter.

Failing special provisions, a conventional pledge which attaches to other incorporeal movables is regulated by the rules laid down for the pledge of corporeal movables.”²³

¹⁹ for example : *The Patents Act 1977*, art 30(6)

²⁰ *The Patents Act 1977*, art. 33(3) b

²¹ www.ipo.gov.uk

²² *Companies Act 1985 (c. 6)*. sections 395, 396(1)(j) et 396(3A)

²³ art. 2355 C.Civ: « Le nantissement est l'affectation, en garantie d'une obligation, d'un bien meuble incorporel ou d'un ensemble de biens meubles incorporels, présents ou futurs. Il est conventionnel ou judiciaire. Le nantissement judiciaire est régi par les dispositions applicables aux procédures

The pledge therefore has to be registered with the clerk of the Commercial Court and not respecting this step renders the act void. A Pledge on an industrial property right also needs to be filed with the registries of the National Industrial Property Institute to have an effect. In France, industrial property, which includes patent and trademark rights, is differentiated from other forms of intellectual property such as copyrights.

Therefore, in France, pledges that charge rights for trademarks or for patents need to be registered with the National Industrial Property Institute to have an effect and said pledges would also have to be registered with the Commercial Court following the commonly recognized procedure.

(c) Germany

Germany recognizes two types of IP rights: those that need to be registered (such as Patent rights) and those that do not (such as Copyright).

As such, for the sake of commercial stability, registered rights are preferred over unregistered ones when speaking of collateral for financial transactions in Germany, if only from a risk mitigation point of view.

Another aspect to the use of IP rights as collateral in securitized financial transactions in Germany is their transferability: patents and trademarks being transferable by nature, these two types of rights will therefore be privileged by lenders.

Copyright being non-transferable under German Law,²⁴ such rights would not be able to be used as collateral in Germany, except for matters concerning the transfer of rights towards a license to use a given recognized copyright, provided that consent from the author is obtained.²⁵

Therefore, under German law, two forms of securitization are recognized for intangible rights: the Pledge and a form of "Trust-security".

The Pledge is created via legal act between the borrower and the lender following the transfer procedure as set out by the German civil code.²⁶ The general consensus seems to be that this type of security does not need to be registered with the Intellectual Property Office and that publication in said register is at the discretion of the parties.²⁷ Publication of the Intellectual Property Office does not establish any rights per se and would only serve to alert third parties to the existence of such a pledge.

civiles d'exécution. Le nantissement conventionnel qui porte sur les créances est régi, à défaut de dispositions spéciales, par le présent chapitre. Celui qui porte sur d'autres meubles incorporels est soumis, à défaut de dispositions spéciales, aux règles prévues pour le gage de meubles corporels. »

²⁴ UrhG s. 29

²⁵ UrhG s.34-35

²⁶ BGB s. 1274

²⁷ DPMVA s. 29

Also, certain laws provide explicitly for the creation of such a pledge; as it is the case for trademarks in Germany.²⁸ Again, the registration of such a security is at the discretion of the parties and would only serve to establish the presumption of right.

Priority between lenders is determined through the principle of “Prioritätsprinzip”: dependant on the time of creation, even if created in the future through the use of a conditional clause.²⁹

Alternatively, a Trust-security (or “Sicherungsabtretung”) can be used as a guarantee and this type of title transfer, for movable rights, is seen more commonly than a pledge.

Essentially, a lender agrees to finance the borrower in exchange for the transfer of all rights to a given IP.³⁰ The transfer of rights does not need to be filed with the registers in order for the agreement to be enforceable between the parties; again, such a registration merely renders public the existence of said transferred rights.³¹

3. ASIA

(a) China

The road to secured transactions in China is, if anything, newly paved; especially with regards to the use of intellectual property. Under the old Security Law,³² the availability of collateral offered to secured lenders was limited, but collateral over IP rights such as exclusive trademark and patent rights remained possible. The question soon arose of the practicality of such security, especially under the newly introduced Property legislation³³ and it is provided that any difference or confusion that may arise between the two legislations (Security and Property) is resolved by giving deference to the more recently enacted law.

As such, certain IP rights can be used as collateral for secured transactions by means of mortgages³⁴ (more akin to the civil law concept of hypothecation) or pledges.³⁵ Registration and filing of such acts constitute formal requirements with respect to their enforceability between the parties, as well as their opposability towards outside creditors.

For example, mortgages on certain forms of IP rights, as inferred through an interpretation of the new Property law, are perfected through the registration of the agreement³⁶; but filing with the State Intellectual Property Office of the P.R.C. (“S.I.P.O.”) is also suggested to further render them opposable to third parties.

²⁸ MarkenG s 29(2)

²⁹ BGB s 1209

³⁰ BGB s. 413, s.398

³¹ <https://www.aippi.org/download/comitees/190/SR190French.pdf>

³² *Guarantee Law of the People's Republic of China*, (Adopted at the 14th Meeting of the Standing Committee of the Eighth National People's Congress on June 30, 1995, and effective as of October 1, 1995)

³³ Property Right Law of the People's Republic of China, Adopted by the fifth session of the National People's Congress on March 16, 2007 and effective as of October 1, 2007

³⁴ *The Property Rights Law of the People's Republic of China*, s 180

³⁵ *Id.*, s. 223

³⁶ *Id.*, s. 188

Similarly, Pledges granted towards IP rights, such as exclusive trademark rights, patent rights and transferable copyrights, start with the conclusion of a contract between the parties. The Pledgor and the Pledgee must conclude a contract in writing and the rights attached to such a pledge only becomes effective upon registration with the administrative department in charge of commerce and industry.³⁷ The property rights cannot be transferred or used by another unless it has been agreed to by the parties and the proceeds from such transfer or licence are used to pay the Pledgee's claims.³⁸

It remains to be seen how financial institutions will adapt their lending policies regarding the new property law changes, especially with respect to the valuation and perfection of IP rights as security in China.

(b) Japan

In Japan, the road to intellectual property used as security is also a new one, but one that has seen a few years of work. IP rights can be used as collateral for securitized transactions; however, industrial property (patents, trademarks, etc.) need to be contrasted from other IP rights such as copyright.

With regards to industrial property in the strict sense, such rights can be used for both mortgages and pledges in Japan.

Only pledges are explicitly named under Japanese industrial property law and they can cover both specific and undetermined rights. To perfect a pledge on an industrial property right, it would have to be registered with the applicable administrative body managing the type of industrial property right in question.³⁹

Concerning mortgages, a patent right (for example) would be a recognized form of loan collateral: the Lender is transferred all rights to the industrial property (in name only) that were previously held by the Borrower, with the title being returned to the Borrower once the debt is paid.

For this type of mortgage, even though the right to a patent is transferred to the Lender, the right to benefit from such a patent (or to continue to exploit such patent) depends on the agreement between the parties. This type of mortgage or transfer is established by registration of the transfer with the register of the Japan Patent Office to be enforceable and to be opposable to any third party.⁴⁰

As for copyright, it is possible to register a pledge with the Cultural Affairs Agency. Contrary to pledges on industrial property, publication is not necessary for the act to be enforceable between the parties, but is necessary only with respect to enforceability towards any third parties.⁴¹

³⁷ *Id.*, s. 227

³⁸ *Id.*

³⁹ Patent Act (Act No. 121 of 1959), art 98(1)(iii); Trademark Act (Act No.127 of April 13, 1959), art 34(3)

⁴⁰ Patent Act(Act No. 121 of 1959),art 98(1) (i)

⁴¹ COPYRIGHT ACT(Act No. 48 of 1970), article 77(2)

As well, unless specifically outlined via contract, the copyright holder can continue to exercise his or her rights, irrespective of the granted security.⁴²

Concerning the mortgaging of a copyright, the same rules apply as those for any industrial property: registration of the transfer with the applicable authorities.

4. Conclusion

As it was briefly shown, there are divergent approaches and philosophies when it comes to the use of IP rights as collateral in secured transactions. However, this divergence is countered by a united recognition of the value that these rights can provide when properly valued and secured.

It is this aspect that will determine how the recognition and the enforceability of these rights will develop, as discussions towards harmonisation continue. From a stability perspective, a lender should not be placed in a position where they may end up with less or more than what they were willing to agree to (hence the importance of proper valuation) and concurrently, a borrower should not be placed in an unfairly advantageous position where the enforceability of a loan agreement, granting the secured transaction, is put into question through the eyes of an opportunistic third party.



⁴² COPYRIGHT ACT(Act No. 48 of 1970), article 66(1)

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