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Security rights in intellectual property rights

Note by the Secretariat*

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* This note is submitted two weeks less than the required ten weeks prior to the start of the meeting because of an extremely heavy workload and the need to complete consultations and finalize subsequent amendments.



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I. Introduction

1. At its thirty-ninth session, in 2006, the Commission considered its future work on secured financing law. It was noted that intellectual property rights (e.g. copyrights, patents and trademarks)¹ were increasingly becoming an extremely important source of credit and should not be excluded from a modern secured transactions law. In addition, it was noted that the recommendations of the draft Legislative Guide on Secured Transactions (“the draft Guide”) generally applied to security rights in intellectual property to the extent that they were not inconsistent with intellectual property law. Moreover, it was noted that, as the recommendations had not been prepared with the special intellectual property law issues in mind, the draft Guide suggested that enacting States might consider making any necessary adjustments to the recommendations to address those issues.²

2. In order to provide more guidance to States, the suggestion was made that the Secretariat should prepare, in cooperation with international organizations with expertise in the fields of secured financing and intellectual property law and in particular the World Intellectual Property Organization (WIPO), a note for submission to the Commission at its fortieth session, in 2007, discussing the possible scope of work that could be undertaken by the Commission as a supplement to the draft Guide. In addition, it was suggested that, in order to obtain expert advice and the input of the relevant industry, the Secretariat should organize expert group meetings and colloquiums as necessary.³ After discussion, the Commission requested the Secretariat to prepare, in cooperation with relevant organizations and in particular WIPO, a note discussing the scope of future work by the Commission on intellectual property financing. The Commission also requested the Secretariat to organize a colloquium on intellectual property financing ensuring to the maximum extent possible the participation of relevant international organizations and experts from various regions of the world.⁴

3. Pursuant to the decision of the Commission, the Secretariat organized in cooperation with WIPO a colloquium on security rights in intellectual property rights (Vienna, 18 and 19 January 2007). The colloquium was attended by experts on secured financing and intellectual property law, including representatives of Governments and national and international, governmental and non-governmental organizations. At the colloquium, several suggestions were made with respect to adjustments that would need to be made to the draft Guide to address issues specific to intellectual property financing.⁵

4. At the first part of its fortieth session (Vienna, 25 June-12 July 2007), the Commission considered a note by the Secretariat entitled “Possible future work on security rights in intellectual property” (A/CN.9/632). The note took into account the conclusions reached at the colloquium on security rights in intellectual property rights. In order to provide sufficient guidance to States as to the adjustments that

¹ The asset that is encumbered is described as an “intellectual property right” rather than as “intellectual property” (see para. 47 below).

² *Official Records of the General Assembly, Sixty-first Session, Supplement No. 17* (A/61/17), paras. 81 and 82.

³ *Ibid.*, para. 83.

⁴ *Ibid.*, para. 86.

⁵ See <http://www.uncitral.org/uncitral/en/commission/colloquia/2secint.html>.

they might need to make in their laws to avoid inconsistencies between secured financing and intellectual property law, the Commission decided to entrust Working Group VI (Security Interests) with the preparation of an annex to the draft Guide specific to security rights in intellectual property rights.⁶

5. At its resumed fortieth session (Vienna, 10-14 December 2007), the Commission finalized and adopted the UNCITRAL Legislative Guide on Secured Transactions (“the *UNCITRAL Secured Transactions Guide*”) on the understanding that an annex to the *UNCITRAL Secured Transactions Guide* specific to security rights in intellectual property rights would subsequently be prepared.⁷

6. The purpose of the present note is to discuss briefly how the *UNCITRAL Secured Transactions Guide* intersects with existing intellectual property regimes and to explore ways in which the benefits of an efficient and effective secured transactions law can be extended to collateral consisting of intellectual property rights through appropriate asset-specific adjustments to the *UNCITRAL Secured Transactions Guide*. The note builds on the general policy approaches of the *UNCITRAL Secured Transactions Guide* and the United Nations Convention on the Assignment of Receivables in International Trade (hereinafter referred to as “the United Nations Assignment Convention”).⁸ At the same time, the note is based on the fact that the *UNCITRAL Secured Transactions Guide* defers to national law and international agreements “relating to intellectual property” and does not change intellectual property law (see recommendation 4, subparagraph (b)).

7. In order to clarify the context and the type of transactions to be covered, the note first presents typical examples in which intellectual property rights may become subject to secured transactions (chapter II). The note then discusses briefly the treatment of security rights in intellectual property rights under current law in various legal systems (chapter III). In chapter IV, the note, summarizing the treatment of security rights in intellectual property rights in the *UNCITRAL Secured Transactions Guide*, suggests for consideration by the Working Group several adjustments to the asset-specific part of the *UNCITRAL Secured Transactions Guide*. The note concludes with suggestions for future work on security rights in intellectual property rights (chapter V).

II. Examples of intellectual property financing practices

8. As the focus of this note is to stimulate thinking on ways of promoting secured credit for businesses that own or have the right to use intellectual property while also protecting the legitimate interests of the owners (or rights holders) or licensees of the intellectual property, it is useful to have a number of hypothetical fact patterns to provide a backdrop for the analysis.

9. The following examples have been designed to reflect typical financings that involve intellectual property rights in some way, although they represent only a small sampling of the many and varied examples that arise in actual practice.

⁶ *Official Records of the General Assembly, Sixty-second Session, Supplement No. 17* (A/62/17 (Part I)), paras. 156, 157 and 162.

⁷ *Ibid.*, *Sixty-second session, Supplement No. 17* (A/62/17 (Part II)), paras. 99-100.

⁸ United Nations publication, Sales No. E.04.V.14.

Certain of the examples presented below involve situations in which the party seeking financing is the owner of the intellectual property that are to secure the requested financing, while the other examples involve situations where the party seeking financing is the licensee of the intellectual property.

Examples in which the grantor is the owner of intellectual property

Example 1 (portfolio financing – revolving credit)

10. Company A, a pharmaceutical company that is constantly developing new drugs, wishes to obtain a revolving line of credit from Bank A secured in part by Company A's portfolio of existing and future drug patents and patent applications. Company A provides Bank A with a list of all existing patents and patent applications, as well as their chain of title, valuation and royalty receivables. Bank A evaluates which ones it will include in the "borrowing base" and at what value. In connection therewith, Bank A obtains an appraisal from an independent appraiser of intellectual property. Bank A then obtains a security right in the portfolio of patents and patent applications and files a notice of its security right in the appropriate national patent registries. As Company A invents a new patent, it provides its chain of title, valuation and potential royalty stream to Bank A for inclusion in the borrowing base. Bank A evaluates the information, determines how much credit it will extend, and adjusts the borrowing base. Company A then makes appropriate filings in the patent offices reflecting its security right in the new patent.

Example 2 (single asset financing)

11. Company B, a well-known manufacturer of photocopy machines, wishes to borrow money from Bank B secured in part by its trademark, patents used in connection with the photocopy machines and trade secrets used in its manufacturing process which have been appraised at €100 million by an independent appraiser. Company B is engaged in ongoing sales of its photocopy machines and licensing of its trademark and patents to generate cash flow to repay the loan. The trademark and patents are included in an "enterprise loan" for all the assets of Company B. Company B provides Bank B with a list of all countries in which the trademark and patents have been registered or used, along with a list of all approved licensees. Upon completion of the loan documentation, and at a (small) part of the loan fee, Bank B registers its security right in the appropriate national trademark and patent registers.

Example 3 (royalty financing)

12. Company C, a publisher of comic books, licenses its copyrighted characters to a wide array of manufacturers of clothing, toys, interactive software and accessories. The licensor's standard form licence agreement requires licensees to report sales, and pay royalties on such sales, on a quarterly basis. Company C wishes to borrow money from Bank C secured by the anticipated stream of royalty payments arising under these licences. Company C provides Bank C with a list of the licences, their credit profile, and the status of each contract. Bank C then requires Company C to obtain an "estoppel certificate" from each licensee verifying the existence of the licence, the absence of default, the amount due, and the agreement to pay future royalties to Bank C until further notice.

Example 4 (project financing)

13. Company D, a motion picture company, wishes to produce a motion picture. Company D sets up a separate company to undertake the production and hire the individual writers, producers, director(s) and actors. The production company obtains a loan from Bank D secured by the copyright, service contracts and all revenues earned from exploitation of the motion picture. The production company then enters into licence agreements with Licensees in multiple countries who agree to pay “advance guarantees” against royalties upon completion and delivery of the picture. For each licence, the production Company D, Bank D and Licensee enter into an “Acknowledgement and Assignment” agreement under which the Licensee acknowledges the prior security right of Bank D and the assignment of its royalty payments to Bank D, while Bank D agrees that in case of enforcement it will not terminate the licence so long as Licensee makes payments and otherwise abides by the licence.

Examples in which the grantor is the licensee of intellectual property rights**Example 5**

14. Company E, a manufacturer of designer jeans and other high-fashion clothing, wishes to borrow money from Bank E secured in part by Company E’s inventory of finished goods. Many of the items manufactured by Company E bear well-known trademarks licensed from third parties under licence agreements that give Company E the right to manufacture and sell the goods. Company E provides Bank E with its trademark licence agreements evidencing its right to use the trademarks.

Example 6

15. Company F, one of Company E’s distributors, wishes to borrow money from Bank F secured in part by its inventory of designer jeans and other clothing that it purchases from Company E, a significant portion of which bears well-known trademarks licensed by Company E from third parties. Company F provides Bank F with invoices from Company E evidencing that it acquired the jeans in an authorized sale, or copies of the agreements with its supplier, Company E, evidencing that the jeans distributed by Company F are genuine.

Example 7

16. Company G, a retail book store, seeks a loan from Bank G secured by Company G’s inventory of hard cover and paperback books. Company G acquires its books in two ways. First, it buys individual copies from publishers. Second, recently, Company G has been taking possession of the books “on consignment” and agreeing to provide shelf space and advertising. Company G only pays for the books when they are sold; it has the right to return the books after several months if they remain unsold.

Example 8

17. Company H is the licensee of a patent under a licence agreement that gives Company H the right to manufacture and sell equipment including technology covered by the patent. Company H wishes to obtain financing for its business

secured by the equipment it manufactures and the receivables arising from sales of the equipment to Company H's customers. Company H is willing to provide a lender with a copy of its patent licence (subject to any confidentiality restrictions).

18. Each of the above-mentioned examples illustrates how owners or licensees of intellectual property can use their rights as security for a loan. The main question is what rights exactly can be used as collateral. A related practical question is how the borrower can ensure that it receives the highest appraisal of the value of those rights. Secured transactions law cannot address this question, but the annex might discuss as it affects the use of intellectual property rights as collateral for credit. In this context, the commentary might explain that appraising the value of an intellectual property right may raise significant difficulties. Different criteria have to be taken into account, such as the value of the right itself and the expected cash flow, but there does not seem to be a universally accepted formula. However, in part as a result of the increasing importance of intellectual property as collateral for credit, in some countries, lenders and borrowers are often able to seek guidance from independent appraisers of intellectual property.

19. For prospective lenders, due diligence requires the lenders to ascertain the nature and extent of the rights of the owners and licensees of the intellectual property involved, and to evaluate the extent to which the proposed financing would or would not interfere with their rights. The ability of a lender to address these issues in a satisfactory manner, obtaining consents and other agreements where necessary from the owners of, and other parties having rights in, the intellectual property, will affect the lender's willingness to extend the requested credit and the cost of such credit. In so doing, however, the lender can often rely on appropriate due diligence already conducted by the prospective borrower. Moreover, in most cases the cost of conducting due diligence is a one-time fee included in the initial cost of the loan.

20. Examples 1 through 4 involve situations in which the party seeking financing is the owner, rather than a licensee, of the intellectual property in question, and the intellectual property ownership right itself is to serve as collateral for the loans. This circumstance presents issues for the prospective lender that are somewhat different from the issues presented by Examples 5 through 8. Some of these issues are as follows:

(a) Is there an efficient and straightforward method for creating a security right in all categories of intellectual property rights and making it effective against third parties? Are the procedures for creating a security right costly in terms of notarial fees or other formal requirements, or registration fees, which will increase the cost of the credit to the grantor? Are these costs justified because of the increased benefits the lender receives through protection of the intellectual property rights that form the basis for its collateral, which can reduce the cost and increase the amount of the credit that the lender is willing to make available to the grantor because of this increased protection? Is there a way for the bank to easily and inexpensively search the record to establish the priority of its security right in the intellectual property right before it extends credit? Will the security right be effective against an insolvency trustee for the grantor of the security right?

(b) In the case of intellectual property rights that are registered in multiple jurisdictions, will the lender be entitled to register its security rights in all of the jurisdictions? What benefits or detriments arise from so doing?

(c) Are there certain categories of intellectual property rights referred to in the examples in which a security right cannot be created under applicable law in one or another country?

(d) Can the security right be created in a way that covers not only existing intellectual property rights, but also future intellectual property rights that the grantor develops or acquires? For example, in Example 1, can the security right granted to Bank E automatically extend to new drug patents obtained by Company A and new patent applications filed by Company A?

(e) Is there a straightforward procedure for Company C and Company D to grant a security right in the revenue streams under the royalty producing licences in Examples 3 and 4? What is the effect of a prohibition on assignment contained in the licences referred to in Examples 3 and 4?

(f) In each of the examples, is there an efficient way for the lender to enforce its security rights in the relevant intellectual property rights if the grantor defaults under the financing arrangement?

21. Examples 5 through 8 all involve situations in which the collateral includes intellectual property not owned by the grantor of the security right, but rather by a third party. In Examples 5 and 6, some of the goods that are to serve as security for the loans to Company E (the manufacturer of the goods) and Company F (a distributor of the goods) bear trademarks owned by third parties and licensed to Company E under a licence to manufacture and sell goods bearing the marks. The book publisher in Example 7 acquires books in a legitimate sale that “exhausts” certain intellectual property rights, and in consignment transactions that may not do so. The equipment manufacturer in Example 8 is a licensee of patents that are essential to the functioning of the equipment. Each of these examples presents important due diligence issues for the prospective lender concerning the extent to which the lender will be able to obtain, and enforce if necessary, a security right in the proffered collateral. Certain of these issues are as follows:

(a) If Bank E in Example 5 wishes to realize on its security consisting of the trademarked goods if it enforces its security right, would it be required to obtain the consent of the licensors of the trademarks, or to pay royalties to such licensors or otherwise comply with other obligations of Company E under the licence agreements? Alternatively, does Bank E have a right to dispose of the trademarked goods without consent of the trademark owners? These issues will require Bank E to examine the licence agreements under which its borrower obtained the licence to use the trademarks on the goods from the trademark owners.

(b) What would happen if, while Bank E’s financing to Company E is outstanding, one of the licensors of the trademarks becomes insolvent? Would the insolvency administrator for that licensor be able to terminate the licence to Company E? If, on the other hand, the licensor is not insolvent, but is nevertheless in default to its own lender, and that lender assigns the trademark to a third party in connection with the enforcement of its security right, would that assignment terminate the licence to Company E? Would the result depend on whether

Company E's licence was made before or after the grant of the security right to the licensor's lender? What effect would that termination have on the ability of Bank E, upon a default by Company E under its credit facility with Bank E, to dispose of existing goods that were manufactured under the licence while the licence agreement was in effect?

(c) If Company E becomes insolvent, would it nevertheless be able to continue to operate under the licences if Company E reorganizes under applicable insolvency law, or, at a minimum, have the right under the licence agreements to complete existing work-in-process? Under what circumstances, if any, would Company E have the right under applicable insolvency law to assign the licences to a third party in connection with a sale of its business, with the approval of the insolvency court, to a third party?

(d) Do the licence agreements in favour of Company E impose any limitations on Company E's ability to disclose confidential information to Bank E that Bank E might require in order to evaluate the trademarks as collateral? In other words, does Bank E have a right to obtain confidential information of the licensor that is subject to non-disclosure? And can Bank E then use the confidential information without restriction?

(e) In Examples 6 and 7, the bank is faced with similar due diligence issues as the bank in Example 5. Are the answers in Example 6 any different because Company F is a distributor of the goods in question rather than a manufacturer? Are the answers in Example 7 any different because the intellectual property rights in question consist of copyrights rather than trademarks? What difference does it make that some copies are sold (and may trigger exhaustion),⁹ while other copies are consigned? Are the answers in Example 8 any different because the intellectual property rights in question consist of patents rather than trademarks?

III. The treatment of security rights in intellectual property rights under current law

22. National intellectual property laws differ in many respects (e.g. the meaning, the scope of intellectual property rights, the requirements and legal effects of registration of intellectual property rights). Harmonization of intellectual property law is within the mandate of organizations, such as WIPO, under the auspices of which several intellectual property law treaties have been prepared (the next paragraph includes a list of some of those treaties). As already mentioned, the *UNCITRAL Secured Transactions Guide* defers to national law and international agreements "relating to intellectual property" (see recommendation 4, subparagraph (b)).

23. In most legal systems patents, trademarks and copyrights are generally recognized as different types of intellectual property rights. For example, for the purposes of the Agreement on Trade-related Aspects of Intellectual Property Rights (Marrakesh, 1994; hereinafter referred to as "TRIPS"), the term "intellectual property rights" refers to: (a) copyright and related rights; (b) trademarks; (c) geographical indications; (d) industrial designs; (e) patents; (f) layout designs

⁹ For an explanation of the meaning of the "exhaustion doctrine", see para. 105 below.

(topographies) of integrated circuits; and (g) protection of undisclosed information (see article 1, para. 2). According to the Convention Establishing the World Intellectual Property Organization (Stockholm, 1967, as amended in 1979; 184 States Parties; hereinafter referred to as “the WIPO Convention”), intellectual property rights includes the rights relating to: (a) literary, artistic and scientific works; (b) performances of performing artists, phonograms and broadcasts; (c) inventions in all fields of human endeavour; (d) scientific discoveries; (e) industrial designs; (f) trademarks, service marks, and commercial names and designations; (g) protection against unfair competition; and (h) all other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields (see article 2, para. (viii)).

24. In addition to TRIPS and the WIPO Agreement, there are a number of treaties promulgated under the auspices of WIPO on intellectual property law, including but not limited to: (a) the Patent Law Treaty (Geneva, 2000; 17 Contracting Parties); (b) the Patent Cooperation Treaty (Washington, D.C., as most recently amended in 2001; 138 Contracting Parties); (c) the Trademark Law Treaty (Geneva, 1994; 39 Contracting Parties); (d) the Madrid Convention for the Repression of False or Deceptive Indications of Source on Goods (Madrid, 1891, as revised most recently in 1958; additional act, Stockholm, 1967; 35 Contracting Parties); (e) Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (Madrid, adopted in 1989 and amended in 2006; 74 Contracting Parties); (f) Lisbon Agreement for the Protection of Appellations of Origin and their International Registration (Lisbon, as most recently amended in 1979; 26 Contracting Parties); (g) the Hague Agreement Concerning the International Registration of Industrial Designs (Geneva, 1999; 47 Contracting Parties); (h) the WIPO Copyright Treaty (Geneva, 1996; 64 Contracting Parties); (i) the Berne Convention for the Protection of Literary and Artistic Works (Berne, 1886, as revised most recently in 1979; 163 Contracting Parties); (j) the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (Rome, 1961; 86 Contracting Parties); (k) the WIPO Performances and Phonograms Treaty (Geneva, 1996; 62 Contracting Parties); (l) the International Convention for the Protection of New Varieties of Plants (Geneva, 1961, as revised most recently in 1991; 64 Contracting Parties; prepared under the auspices of the Union internationale pour la protection des obtentions végétales).

25. As the *UNCITRAL Secured Transactions Guide* indicates (see Chapter I, Section B, Basic approaches to security), there are great divergences in the approaches taken in the various legal systems to security rights in movable property (tangible and intangible). These divergences create obstacles to the availability of credit and thus to both domestic and international trade. The *UNCITRAL Secured Transactions Guide* is an effort to modernize and harmonize secured financing law. The increasing use of intellectual property rights as collateral for credit creates additional difficulties of coordination between currently existing secured financing and intellectual property law. The proposed annex is an effort to address these difficulties that already exist outside the *UNCITRAL Secured Transactions Guide*. The following paragraphs indicate some of these difficulties.

26. In many jurisdictions, the practice of using intellectual property rights as security for credit is totally unknown or very limited. In some jurisdictions, views diverge as to whether intellectual property rights are proprietary rights (in rem) or

reinforced personal claims (in personam). Accordingly, in some jurisdictions, there is no special law regulating the use of intellectual property rights as security for credit; the general provisions for security rights in intangible assets apply. In other jurisdictions, these general rules are supplemented by general rules dealing with transfers of title, pledges or mortgages of intellectual property rights. Transfers of title can be either outright transfers or transfers for security purposes (in which the transferee will have an obligation to retransfer the intellectual property right back to the transferor upon payment of the secured obligation). In some jurisdictions, copyrights are non-registered rights, divided into moral rights (that are not transferable and thus not capable of being used as collateral for credit) and economic rights (that are transferable and thus may be subject to a security right). In some jurisdictions, domain names are treated as assets that may be subject to property rights, while in other jurisdictions they are treated as personal claims.

27. The status of the law in this regard is as described in the section of the *UNCITRAL Secured Transactions Guide* on the basic approaches to security. Generally, in the absence of a comprehensive law, in many countries, practice developed different devices, such as an outright or conditional transfer of title for security purposes and pledge of intangible assets.

28. In a few countries, intellectual property rights are financed by an outright transfer of full title (ownership) to the creditor, subject to a contractual obligation to retransfer the intellectual property rights upon satisfaction of the obligation. Outright-transfer-based financing transactions of this type typically happen outside the national secured financing regime and, as such, are subject only to whatever contractual rights the transferor negotiates. As a matter of principle, this practice is often discouraged as a circumvention of the national financing regime. As a practical matter, it is often limited to special cases and thus has limited commercial utility.

29. In some countries, pledge-based concepts have been applied to intellectual property rights financing. As the typical pledge pre-supposes transfer of possession of the pledged assets to the secured creditor, the pledge has to be fictive or non-possessory as intangibles are not subject to possession (and possession of software encoded on a CD or chip does not constitute possession of the software). In these countries, it is often the case that filing evidence of the pledge in an available national intellectual property rights registry, such as a national patent office, serves to create the fictive possession required for the financing. Where such a specialized registry is not available for a specific type of intellectual property right, such as for copyrights, the law is often unsettled whether the intellectual property rights can be effectively financed.

30. In other countries, mortgage-based concepts are applied to intellectual property financing. In mortgage-based financing practices in some jurisdictions, the creditor is deemed to be holding the effective title while the financing is in place. This gives the creditor the right to control licences and use to prevent waste, but also obligates the creditor to pursue any infringer and deal as necessary with governmental authorities. If the creditor does not wish to deal with these matters, it is necessary for the creditor to grant a “licence back” to the debtor to do so. While workable in concept, this approach requires additional documentation and monitoring costs. In other jurisdictions, these differences are addressed through the particular type of financing instrument. Thus, in some common law countries, a

“legal” mortgage allows the creditor to retain title and consequent ability to deal with the intellectual property rights, while an “equitable” mortgage allows the grantor to do so. In these situations, different priority rules apply to the different types of financing devices.

31. In many of the jurisdictions that permit fictive or non-possessory pledges of intellectual property rights, certain types of intellectual property rights may be the subject of such transactions (e.g. patents and trademarks) but not others (e.g. copyrights or trade secrets) that lack registration systems. In jurisdictions that permit mortgages and similar title-based devices, a wider range of intellectual property rights is usually covered by the financing regime. With respect to some types of intellectual property rights (e.g. patents or trademarks), evidence of the agreement has to be registered in an asset-specific intellectual property rights registry (different for patents and trademarks). Registration usually has constitutive or declaratory effects, although there are some registries in which registration has third-party effects. The encumbered intellectual property right has to be described specifically in the document registered in an asset-based registry. In some cases, the entire financing agreement has to be registered, while in other cases a memorandum of essential terms sufficient to identify the interest affected and the parties will suffice. The operation of these registries has specific consequences on “future” intellectual property rights (see paras. 123-125 below). There are also various registries for different types of intellectual property right. Some laws permit the registration of title only. Other laws permit the registration of title transfers and licences of intellectual property rights. Yet other laws permit also the registration of security rights in intellectual property rights.

32. In some common law jurisdictions, a distinction is drawn between fixed charges (on specifically described assets) and floating charges (on an unspecified pool of assets). Generally, fixed charges have priority over floating charges. Floating charges crystallize upon the occurrence of specified events (e.g. default or insolvency) and become fixed charges on specific assets in existence at the time of crystallization (subject to various priority claims that may then be in existence or to a carve-out for unsecured creditors). Floating charges have the additional characteristic that they allow the grantor to remain in possession or control of and to deal with the encumbered assets. In these jurisdictions, fixed or floating company charges are registrable in the company registry. What is registered is the full transaction document, and not just a notice; the transactions document is checked by the registrar and a certificate is issued that provides conclusive evidence of the rights created by the transaction.

33. With respect to assignments, in common law jurisdictions, a distinction is often drawn between an assignment in law, which transfers ownership, and an assignment in equity, which amounts to a conditional transfer of ownership. In this framework, a secured creditor may obtain a conditional right (“equitable title”) to take full title to the encumbered intellectual property right in case of default and enforcement, or the secured creditor may take the full title and leave the debtor with the conditional right (“equity of redemption”) to recover the full title upon satisfaction of the secured obligation. Similarly, often a distinction is drawn between legal ownership and beneficial or equitable ownership (a trustee in a trust has legal ownership, while the beneficiaries hold beneficial or equitable ownership). In intellectual property practice, these formal distinctions about which party holds

“title” can have consequences with respect to standing to sue infringers and exercise the intellectual property right.

34. In a few jurisdictions, enterprise mortgages or pledges of all assets of an enterprise are permitted. Where the enterprise is the owner or proprietor of the intellectual property rights, then in the usual case an owner is considered empowered to make transfers, so the enterprise security device extends to the intellectual property rights. In a few countries, the intellectual property right itself cannot be assigned, but it can be the subject of exclusive licences, and the security device can operate as such a transfer. Where the enterprise’s interest is only a licence of intellectual property, however, the practice differs. In some countries, it is suggested that, given the personal nature of licences, a licence is not transferable without the consent of the licensor. Therefore, a licensor should be able to terminate a licence upon the granting of an enterprise security right, or, in any case, should be able to do so upon an attempted enforcement that would result in a transfer of the licence to another party. However, in other jurisdictions, there is an exception to the usual rule of non-transferability in the case of a transfer of all assets of an enterprise, and an enterprise security device would seem to fall within this exception. Where an enterprise mortgage is recognized, it may be ineffective against prior or even subsequent transferees or security rights in specific intellectual property rights, especially when these specific transfers or security rights are registered in the relevant intellectual property rights registry.

35. In some jurisdictions, an additional complication is the intersection of transfer of title and pledge law with intellectual property law, and the addition of various rules and different registries. Secured credit law and intellectual property law often do not work well together. There are two main reasons for this situation. Secured credit law with respect to intellectual property rights has the same problems as secured credit law with respect to other types of encumbered asset, as described in the *UNCITRAL Secured Transactions Guide* in the section on basic approaches to security (the law is often unclear, scattered in various laws, presenting inconsistencies and gaps); in some jurisdictions, there may even be no secured credit law with respect to intellectual property rights. The other factor is that intellectual property rights can be hard to evaluate, with the result that it is not used at all as security for credit or its use is very limited (see para. 18 above).

36. In legal systems that have a regime similar to the regime recommended in the *UNCITRAL Secured Transactions Guide*, a security right in an intellectual property right may be created, made effective against third parties, obtain priority and be enforced in the same way as a security right in any other intangible asset, subject to any appropriate limitations introduced by intellectual property law. The details of the treatment of security rights in intellectual property rights given below with respect to the *UNCITRAL Secured Transactions Guide* apply to these regimes as well. In short, a security right is created by agreement, which has to be in writing if a non-possessory security right is created (as is ordinarily the case with security rights in intellectual property rights). The security right extends to proceeds and future assets (i.e. assets produced or acquired after creation of the security right). It becomes effective against third parties by registration, possession (in the case of possessory security rights in tangible assets) or control (in the case of security rights in intangible assets such as the right to receive payment of the funds credited to a bank account).

37. Priority is generally based on the time of registration or third-party effectiveness. The security right may be enforced judicially (including expedited proceedings) or extra-judicially subject to safeguards to protect the rights of the grantor and the grantor's other creditors. The basic effectiveness of a security right is respected in the case of insolvency of the grantor, subject to avoidance actions (see recommendation (88) of the *UNCITRAL Insolvency Guide*). The priority of a security right under general law before commencement of an insolvency proceeding is recognized, subject to preferential claims and to court decisions permitting security rights securing post-commencement finance to take priority over pre-commencement security rights (see recommendation 239). Special priority is recognized for security rights securing the purchase price of tangible assets (see recommendations 180 and 192). If law other than insolvency law treats them as ownership devices, in the case of insolvency, assets subject to such rights may be treated either as encumbered by a security right or as third-party owned assets (see recommendations 186 and 201).

38. The preceding paragraphs indicate: (i) the diversity of existing intellectual property regimes; (ii) the diversity of approaches to secured financing; and (iii) the current situation in which the two regimes are not well adjusted. Harmonizing intellectual property law is outside the scope of the *UNCITRAL Secured Transactions Guide* and any annex on security rights in intellectual property rights. Harmonization of approaches to secured financing is certainly one of the objectives of the *UNCITRAL Secured Transactions Guide*. With respect to the coordination between intellectual property and secured financing law, it should be noted that the *UNCITRAL Secured Transactions Guide* does not create this lack of coordination. The *UNCITRAL Secured Transactions Guide* is rather an effort to address this problem that already exists under law applicable outside the *UNCITRAL Secured Transactions Guide*.

IV. The treatment of security rights in intellectual property rights under the *UNCITRAL Secured Transactions Guide* and possible asset-specific adjustments

A. Terminology

1. The general approach of the *UNCITRAL Secured Transactions Guide*

39. The *UNCITRAL Secured Transactions Guide* already defines the term "intellectual property" as follows:

“‘Intellectual property’ means copyrights, trademarks, patents, service marks, trade secrets and designs and any other asset considered to be intellectual property under the domestic law of the enacting State or under an international agreement to which the enacting State is a party.”

40. The *UNCITRAL Secured Transactions Guide* also includes the following commentary to the definition:

“The definition of ‘intellectual property’ is intended to ensure consistency of the *UNCITRAL Secured Transactions Guide* with intellectual property laws and treaties, while at the same time respecting the right of the

legislator in a State enacting the recommendations of the *UNCITRAL Secured Transactions Guide* to align the definition with its own law and international obligations.

An enacting State may add to this list or subtract from it types of intellectual property to conform it to national law. The reference to international agreements is intended to refer to agreements, such as the Convention Establishing the World Intellectual Property Organization and the Agreement on Trade-Related Aspects of Intellectual Property ('TRIPS').¹⁰

In order to clarify that the definitions of the terms 'acquisition security right', 'acquisition financing right', 'retention-of-title right' and 'financial lease' (and the recommendations referring to them) apply only to tangible assets (and not to intangible assets such as intellectual property), reference is made in these definitions to 'tangible assets'.

In the definition of the term 'receivable', reference to 'the performance of non-monetary obligations' has been deleted to clarify the understanding that the definition and the recommendations relating to receivables apply only to receivables and not, for example, to the rights of a licensee or the obligations of a licensor under a contractual licence of intellectual property rights."

41. The commentary also clarifies that references to "law" throughout the *UNCITRAL Secured Transactions Guide* include both statutory and non-statutory law. In view of recommendation 4, subparagraph (b), if a State adds to the list of types of intellectual property, the deference to law relating to intellectual property law will be broader. If a State subtracts from the list types of intellectual property, the deference to law relating to intellectual property will be narrower.

2. Possible additional definitions

42. The Working Group may wish to consider whether the definition of intellectual property and related commentary are sufficient or whether additional definitions and clarifications in the commentary are necessary. For example, the Working Group may wish to consider whether the particular types of intellectual property right should be defined or whether reference should be made to definitions in generally recognized intellectual property law treaties. In this regard, the Working Group may wish to note that the definitions are included in the commentary of the *UNCITRAL Secured Transactions Guide* (and in the Annex to the Guide including the recommendations) to assist the reader and are not part of the recommendations.

43. As the definitions of the term "assignment" and the related terms "assignor", "assignee" and "debtor of the receivable" refer to receivables, they (and the relevant commentaries and recommendations) do not apply to intellectual property. To use terminology that would be consistent with intellectual property law and practice, the Working Group may wish to consider whether a new definition of the term "assignment of an intellectual property right" should be added to the *UNCITRAL Secured Transactions Guide* or whether reference should be made to a more neutral term, such as the term "transfer of an intellectual property right" or "disposition of

¹⁰ Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, annex IC (United Nations, *Treaty Series*, vol. 1867, No. 31874).

an intellectual property right” to avoid confusion or misunderstanding with the meaning of similar terms as used in intellectual property law. A definition along the following lines might be considered:

“‘[Assignment] [Transfer] of an intellectual property right’ means the transfer by agreement from one person ([‘transferor’] [‘assignor’]) to another person [‘transferee’] [‘assignee’]) of all, part or an undivided interest in the transferor’s rights in the intellectual property. A transfer may be outright or conditional or by way of security. A transfer of an intellectual property right by way of security amounts to the creation of a security right in the intellectual property right.”

44. Reference in the definition to the encumbered asset (i.e. the intellectual property right) would be necessary to avoid the conclusion that recommendations applicable to the assignment of receivables apply also to the assignment of an intellectual property right.

45. The Working Group may also wish to consider whether the key term to be used in the *UNCITRAL Secured Transactions Guide* should be the term “assignment” (or transfer of an intellectual property right), as is the case with receivables, or the term “security right”. In either case, in line with the approach followed in the *UNCITRAL Secured Transactions Guide*, it should be ensured that an assignment by way of security is treated in the same way as a transaction creating a security right in an intellectual property right (as to outright transfers of intellectual property rights, see paras. 83-85 below).

46. Such a definition would be in line with intellectual property law, which generally recognizes two types of voluntary conveyance of intellectual property rights: assignments and licences. Assignments, in turn, can be outright assignments, or assignments by way of security and security rights, which are often treated as conditional assignments. An assignment thus results in the transfer of ownership or the creation of a security right. A licence, in principle, creates an authorization to use, however, in some cases (especially in the case of copyrights), an exclusive licence may amount to a transfer of ownership.

47. The Working Group may also wish to define the encumbered asset. In this context, the Working Group may wish to consider that what is encumbered is not the intellectual property (e.g. a trademark, patent or copyright), but the ownership right or the right to use intellectual property. The definition may be an indicative definition referring to generally acceptable treaties, such as TRIPS or the WIPO Agreement or a more descriptive definition, bearing in mind that the definitions are not real definitions that are part of a law, but rather descriptions or explanations of terms used on the *UNCITRAL Secured Transactions Guide* that are part of the commentary and not the recommendations. The Working Group may wish to consider alternatives along the following lines:

Alternative A

“‘Intellectual property right’ is a right to intellectual property conferred by law relating to intellectual property. Such a right generally includes the right to own and a licence to use intellectual property under the terms of the licence, as well as claims.”

Alternative B

“‘Intellectual property right’ means an ownership right to intellectual property and a licence to use intellectual property under the terms of the licence.”

48. If the Working Group prefers to adopt Alternative A, it may also wish to define the term “claim” along the following lines:

“‘Claim’ means a right to seek relief against any infringement or misappropriation of an intellectual property right.”

49. However, in view of the broad definition of “proceeds” in the *UNCITRAL Secured Transactions Guide*, claims may be treated as proceeds of intellectual property rights (“‘proceeds’ means whatever is received in respect of encumbered assets, including what is received as a result of sale or other disposition or collection, lease or licence of an encumbered asset, proceeds of proceeds, civil and natural fruits, dividends, distributions, insurance proceeds and claims arising from defects in, damage to or loss of an encumbered asset”). Similarly, royalties arising from the assignment or a licence agreement would be treated as proceeds of intellectual property rights.

50. In this connection, the view is expressed that receivables should be treated as forming part of the intellectual property right from which they flow, as the essence of an intellectual property right may lie in the income stream it generates and there is a need for the owner to control use and payment streams of intellectual property rights. This treatment is important, they maintain, to ensure that applicable principles in the international intellectual property law conventions, including minimum rights, effective remedies, and applicable non-discrimination principles, also apply to royalty entitlements. According to this view, security rights in receivables from intellectual property transactions, such as licence royalties, should be subject to the same intellectual property law rules as those applicable to security rights in intellectual property rights themselves. Intellectual property law experts also argue that the royalties arising from intellectual property transactions are treated differently for accounting purposes from trade receivables arising from the sale of tangible commodities (see International Accounting Standard No. 38, <http://www.iasb.org>). These differences impact when royalties are “earned” (or “recognized”). For example, unlike trade receivables earned upon shipment of goods, even after the shipment of CDs, royalties may not have been earned unless the software is installed in the recipient’s computer. According to this view, only earned royalties may be treated as assets that are separate from the intellectual property rights from which they flow.

51. However, the treatment of royalties as part of an intellectual property right that enjoys the protection afforded to intellectual property rights under international treaties is a matter for those treaties. Similarly, the treatment of royalties for accounting purposes is a matter for the relevant accounting rules. In the same way, the treatment of royalties as collateral for credit is a matter of secured transactions law. Typically, secured transactions law treats royalties as receivables and proceeds (i.e. as separate assets from a legal point of view, but not from an economic point of view) of the intellectual property right from the use of which they flow (just as rents are treated as separate assets from the movable or immovable property from which they flow). This is the approach followed in the United Nations Assignment Convention, and reflected in the *UNCITRAL Secured Transactions Guide*.

52. In addition, the Working Group may wish to define the term “licence”, drawing a distinction, first between the licence agreement and the licence (i.e. the right to use) and, second, between exclusive licences and non-exclusive ones along the following lines:

“‘Licence’ means the right of a person (‘licensee’) to use intellectual property under the terms of the licence. The licence may be given by agreement with the person holding rights to the intellectual property (‘licensor’) or by law. The licensor may be the owner of the intellectual property rights or a licensee with a right to grant a sub-licence. The term includes both exclusive and non-exclusive licences.”

“‘Exclusive licence’ means the right of a person (‘licensee’) to use intellectual property under the terms of the licence to the exclusion of all other persons, including the licensor or other rights holder.”

“‘Non-exclusive licence means the right of a person (‘licensee’) to use intellectual property under the terms of the licence, where the licensor or other rights holder may use or grant to another person similar rights.”

In these definitions, the terms “under the limits of the licence” refer to the particular description of the specific intellectual property rights, the authorized or restricted uses, geographic area of use, and the duration of use. Thus, an exclusive licence to exercise the “theatrical rights” in Film X in Country A for “10 years starting 1 Jan. 2008” is different from one to exercise the “video rights” in Film X in Country A for “10 years starting 1 Jan. 2008”.

53. An issue that commonly arises is whether an exclusive licence is a proprietary transfer in the sense that it allows the licensee such an extensive use of the intellectual property that it is treated as an assignment under intellectual property law. In some jurisdictions, an exclusive licence may amount to a transfer of ownership. In other jurisdictions, it does not amount to a transfer of ownership as the owner may always revoke it if the licensee violates the terms of the licence agreement. In any case, whether an exclusive licence is a transfer of ownership is a matter of intellectual property law. In any case, under the *UNCITRAL Secured Transactions Guide*, an exclusive (or non-exclusive) licence does not create a security right.

54. Finally, the Working Group may wish to consider whether definitions of additional terms or commentary to explain the application of existing definitions might be necessary. For example, with respect to the term “grantor”, it might be usefully explained that: the grantor may be the owner, in which case the encumbered asset is the right of ownership in the intellectual property rights; that the grantor may be a licensee in which case the licensee’s right to use the intellectual property rights in accordance with the terms of the licence agreement is the encumbered asset; and that, as in the case of any other asset, the grantor may be a third party granting a security right to secure the obligation of the debtor towards the secured creditor on the basis of a contractual relationship with the debtor of the secured obligation.

55. Another definition that the Working Group may wish to review is the definition of the term “competing claimant”. In secured transactions law, the concept of a “competing claimant” is used in the context of priority rules to deal with other parties that might claim a right in the encumbered assets, or the proceeds

from its disposition, in preference to the secured creditor. In intellectual property law, priority rules typically deal with “conflicting transfers” rather than “competing claimants.” The *UNCITRAL Secured Transactions Guide* does not deal with such conflicts between outright transferees only; a security right or the right of a transferee under a transfer for security purposes, which is treated as a security right, has to be involved. Thus, the *UNCITRAL Secured Transactions Guide* deals with a conflict between the rights of a transferee, lessee or licensee of an encumbered asset and a security right of a secured creditor. In such a case, in principle, the transferee, lessee or licensee will, in principle, take the encumbered asset subject to the security right (see recommendation 79).

56. In addition, in an intellectual property law context, a priority conflict may arise between rights of transferees and rights of licensees. The *UNCITRAL Secured Transactions Guide* leaves such a conflict to intellectual property law (unless a transfer by way of security is involved). If one of the competing rights is the right of a transferee under a transfer by way of security, the rules explained in the preceding paragraph apply. Accordingly, a prior licensee takes free of the right of the transferee/secured creditor (as the grantor cannot transfer more rights than it has), while a subsequent licensee takes, in principle, subject to the security right (see recommendation 79).

57. Moreover, in an intellectual property law context, a priority conflict may involve rights of creditors of owners (or other licensors) and rights of creditors of licensees (or sub-licensees) of intellectual property rights. Again, the *UNCITRAL Secured Transactions Guide* applies only when one of the competing rights is a security right (including a security transfer). Furthermore, the conflict has to relate to the same asset, which is not the case when the owner transfers or creates a security right in its right of ownership and a licensee creates a security right in its right of use. Similarly, the encumbered asset is not the same when a licensor creates a security right in any royalties owed to the licensor by the licensee and the licensee creates a security right in royalties owed to the licensee by sub-licensees. Thus, the conflict between the creditors of the licensor and the creditors of the licensee is not a true priority conflict under the *UNCITRAL Secured Transactions Guide* and is left to other law.

58. However, if a licensor grants a security right in an intellectual property right and then grants a licence, and the licensee in turn grants a security right in its right to use the licensed intellectual property, then in principle there can be a conflict between the rights of the secured creditors in the licensed intellectual property. Under the *UNCITRAL Secured Transactions Guide*, the result is that the licensor’s secured creditor has superior rights as the licensee took subject to that security right and the secured creditor of the licensee could not have taken from the licensee more rights than the licensee had (according to the generally applicable rules of property law that nobody can transfer to another person more rights than the transferor has). This principle may be derived also from recommendation 82 (*a contrario*), which provides that, if a licensee takes free of a security right, any sub-licensee takes also free of the security right (see recommendation 82).

59. The Working Group may wish to note that the *UNCITRAL Secured Transactions Guide* recognizes that, for purposes of secured financing law, secured creditors and other creditors of the grantor (other than transferees in a transfer by way of security) are not treated as transferees. When a secured creditor acquires a

security right under the *UNCITRAL Secured Transactions Guide*, that secured creditor is not presumed to obtain ownership. Not only do secured creditors not obtain ownership of the encumbered assets, they typically not even want to obtain ownership, as ownership is associated with responsibilities and costs. Even when the secured creditor disposes of the encumbered asset to enforce its security right after default, the secured creditor is not an owner. In this case, the secured creditor merely exercises the owner's rights with the consent of the owner given when the owner granted the security right. Only where, after default, the secured creditor exercises the remedy of proposing to acquire ownership in total or partial satisfaction of the secured obligation (in the absence of any objection by the debtor and the debtor's other creditors), or acquires ownership by purchasing the asset at a public sale may the secured creditor become an owner. Similarly, as already mentioned, the *UNCITRAL Secured Transactions Guide* does not treat a right of use under a licence agreement as a security right. Of course, intellectual property law may have different treatment for its purposes; and nothing in secured transactions law prevents a secured creditor from agreeing with an owner or other rights holder to become an owner or other rights holder.

60. The Working Group may wish to adopt a working assumption with respect to the above-mentioned definitions for the purpose of the discussion of the substantive issues below and come back to the definitions when it has reached an agreement in principle on the substantive issues discussed below.

B. Key objectives and fundamental policies

1. The general approach of the *UNCITRAL Secured Transactions Guide*

61. The *UNCITRAL Secured Transactions Guide* contains a general statement of key objectives and fundamental principles. The overall objective of the *UNCITRAL Secured Transactions Guide* is to promote secured credit. In order to achieve this general objective, the *UNCITRAL Secured Transactions Guide* discusses several sub-objectives, including the objective of predictability and transparency. The *UNCITRAL Secured Transactions Guide* also promotes several fundamental policies, including the comprehensive scope of secured transactions laws, the integrated and functional approach, the possibility of granting a security right in future assets, the extension of security rights into proceeds, the distinction between effectiveness as between the parties and effectiveness as against third parties, the establishment of a general security rights registry, the possibility that multiple security rights may be created in the same assets by the same grantor, the need to cover priority conflicts in a clear and comprehensive way, the possibility for extrajudicial enforcement of security rights and the equal treatment of all creditors granting acquisition financing.

2. Possible asset-specific adjustments

62. The Working Group may wish to consider whether or how all these key objectives and fundamental policies apply to secured transactions with respect to intellectual property rights. For example, the Working Group may wish to consider emphasizing, for example, the following key objectives in the context of secured transactions relating to intellectual property rights:

(a) Allow intellectual property rights holders to use intellectual property rights as collateral for credit (see Key objective 1, subparagraph (a));

(b) Allow intellectual property rights holders to use the full value of their assets to obtain credit (see Key objective 1, subparagraph (b); this may mean that credit can be obtained through a secured transaction and not through an outright assignment);

(c) Enable intellectual property rights holders to create a security right in their intellectual property rights in a simple and efficient manner (see Key objective 1, subparagraph (c));

(d) Enable parties to secured transactions relating to intellectual property rights maximum flexibility to negotiate the terms of their security agreement (see Key objective 1, subparagraph (i));

(e) Enable interested parties to determine in a clear and predictable way the existence of security rights in intellectual property rights (see Key objective 1, subparagraph (f));

(f) Enable secured creditors to determine their priority in a clear and predictable way (see Key objective 1, subparagraph (g)); and

(g) Facilitate efficient enforcement of creditor's rights (see Key objective 1, subparagraph (h)).

63. The Working Group may also wish to consider whether additional key objectives or fundamental policies should be elaborated.

64. For example, a central purpose of intellectual property rights is to benefit the public by providing legal protection to works of the mind so as to encourage further innovation and creativity. An elaboration for the commentary of the key objective of promoting secured credit with respect to intellectual property rights may be to ensure that that key objective is achieved in a way that discourages unauthorized use and utilization of intellectual property and promotes legal protection of innovation.

65. An example of a possible additional fundamental policy might be to ensure coordination between secured financing and intellectual property law, which should prevail to the extent of any inconsistency. The *UNCITRAL Secured Transactions Guide* in recommendation 4, subparagraph (b), states that the law proposed in the *UNCITRAL Secured Transactions Guide* should not apply to "intellectual property in so far as the provisions of the law are inconsistent with national law or international agreements, to which the State is a party, relating to intellectual property". In addition, the definition of "intellectual property" refers to national law and international agreements relating to intellectual property. The Working Group may wish to consider that the definition and recommendation 4, subparagraph (b), reflect a fundamental policy of the *UNCITRAL Secured Transactions Guide* to defer to law relating to intellectual property rights. The commentary could explain that "law relating to intellectual property" includes both statutory and non-statutory law and is broader than "intellectual property law" but narrower than general property law. The commentary may wish to provide examples of how this principle would apply in the various legal systems.

66. Another example may relate to the question whether a secured creditor that obtains a “security right” under the *UNCITRAL Secured Transactions Guide* by so doing becomes a “right holder” with respect to any intellectual property rights encumbered by the security right (under article 42 of TRIPS, “right holders” may assert their rights “in civil judicial procedures concerning the enforcement of any intellectual property right covered by this Agreement”). The commentary could explain that in addressing this issue, States should consider the different approaches in secured financing law and intellectual property law. For secured financing purposes, the *UNCITRAL Secured Transactions Guide* is primarily concerned with the rights of the secured creditor as against the grantor (and other obligors) and third parties that may claim a right in the encumbered assets.

67. To deal with these matters, the *UNCITRAL Secured Transactions Guide* dispenses with formal notions of the location of “title” to the encumbered assets. Instead, under the *UNCITRAL Secured Transactions Guide*, when the secured creditor disposes of the encumbered asset in enforcing its security right after default, it exercises the grantor’s rights as an owner (or rights holder). Thus, for resolving issues germane to secured financing law, the secured creditor is not treated as an “owner” of the encumbered asset, until and unless, after default, it acquires the encumbered asset. This principle applies both to tangible and intangible assets.

68. Intellectual property law, however, is concerned with ownership and the notion of “third parties” has a different meaning, as it refers to authorized users (e.g. licensees), unauthorized users (i.e. infringers) and transferees. Intellectual property law often decides which party, grantor or secured creditor, has legal authority to deal with these third parties under formal notions of title. For these purposes, which are separate and apart from the concerns of secured financing law, it is important to decide whether a secured creditor is a “right holder” in the sense used in TRIPS while the financing is in place. In these situations, the *UNCITRAL Secured Transactions Guide*, of course, leaves questions of which party is a “right holder” to intellectual property law. Thus, it can happen that, for intellectual property law purposes, a secured creditor can be an “owner” or “right holder” of the encumbered asset, especially when the issue involves such matter as dealing with infringers, while for secured financing purposes such a classification is unnecessary as it does not impact the relative rights of the parties when dealing with issues specific to secured financing law, such as the requirements for an effective security agreement. It will be important for the Annex to distinguish these differing perspectives.

69. Another example of a possible additional key objective or fundamental policy may relate to the fact that the *UNCITRAL Secured Transactions Guide* defers to general property law with respect to principles such as the principle of *nemo dat quod non habet*, i.e. nobody gives what he or she does not have. The commentary could explain that a secured creditor obtains no greater rights in any intellectual property rights encumbered by a security right under the *UNCITRAL Secured Transactions Guide* than the actual interest of the grantor of the security right in the encumbered intellectual property rights. The rights of the secured creditor are subject to all enforceable terms and conditions regarding the use of the encumbered intellectual property rights to which the grantor is subject. In particular, all terms and conditions regarding the use and exercise of intellectual property rights set out

in a disposition document (including an assignment, licence or transfer by succession) are subject to intellectual property law and secured transactions law does not affect them.

70. In this regard, it is crucial to distinguish property rules, such as the *nemo dat* principle, from priority rules. The property law rules determine whether a party has a right in an asset, while the priority rules then determine which party prevails among competing rights holders. The *nemo dat* principle may lead to a priority rule (i.e. “first in time”) but is not itself a priority rule. To illustrate, assume A owns a patent in country X but not in country Y. Then:

Case 1: A assigns the patent in Country X to B. Later, B assigns the patent in Country Y to C.

Case 2: A assigns the patent in Country X to B. Later, A assigns the patent in Country X to C.

Case 1 is a pure application of the *nemo dat* rule. As B never had any right to the patent in Country Y, C gets nothing, and no priority rule can ever vest rights in C. Case 2 is a pure priority conflict. If the priority rule is “first in time,” then C gets nothing. Alternatively, if the priority rule is “first to file in the patent office in Country X” then C could prevail. *Nemo dat* does not provide an answer in Case 2 since it would mean that B always prevails (i.e. C “takes nothing” due to the prior transfer to B) whereas in fact C can prevail if C qualifies under the priority rule. In either case, the *UNCITRAL Secured Transactions Guide* does not apply unless one of the assignments is a security right or an assignment by way of security and it has been made effective against third parties by registration in the general security rights registries.

71. A further example of a key objective or fundamental policy may relate to the question whether a security right under the *UNCITRAL Secured Transactions Guide* is effective against the rights of any assignee, licensee or transferee of intellectual property rights encumbered by that security right. The matter may be addressed in the commentary on priority. Two general situations must be distinguished. In the first situation, a rights holder transfers its intellectual property rights and then creates a security right. In this case, the subsequent secured creditor would obtain nothing as the grantor could not grant a right that the grantor did not have. However, if the applicable intellectual property law protects a secured creditor in good faith, then a later security right that was registered first in an intellectual property rights registry could prevail. In the second situation, a rights holder creates a security right and then transfers its intellectual property rights. In this case, following generally applicable property law principles that a property right follows the asset in the hands of a transferee, lessee or licensee (*droit de suite* of property rights), the *UNCITRAL Secured Transactions Guide* provides that the transferee, lessee or licensee takes the encumbered asset subject to the security right (see recommendation 79; the exceptions are discussed in the priority section in A/CN.9/WG.VI/WP.33/Add.1). It should also be noted that, under the *UNCITRAL Secured Transactions Guide*, the prior security right only prevails if it has also gained third-party effectiveness by a proper filing in the general security rights registry.

72. The Working Group may wish to note that, in light of recommendation 4, subparagraph (b), if the intellectual property law rule gives priority to the first party

to duly record its right in the national intellectual property rights registry, then priority would be based on this rule. The Working Group may wish to consider whether this matter should be discussed in the commentary on priority or be upgraded to a general policy approach. The Working Group may also wish to consider whether the commentary should discuss the difference between third-party effectiveness under the *UNCITRAL Secured Transactions Guide* (which relates to effectiveness against competing claimants) and third-party effectiveness under intellectual property law (which relates to effectiveness as against transferees, licensees and infringers of an intellectual property right).

73. Another example of a fundamental approach may relate to the question whether States should be able to continue to utilize their existing specific methods of financing of intellectual property rights by a conditional assignment, mortgage, fixed charge, fixed pledge or other comparable device. This may be a specific expression of the principle of deferral to intellectual property law, which would require that these methods are authorized by law relating to intellectual property (and not general property law). Whether such a financing device should have priority over a security right under the *UNCITRAL Secured Transactions Guide* may be better dealt with as a priority issue, although it may also have an impact on the way of achieving third-party effectiveness. In any case, under the *UNCITRAL Secured Transactions Guide*, a security or other right registered in a specialized registry has priority over a security right registered in the general security rights registry (see recommendations 77 and 78).

74. Under the *UNCITRAL Secured Transactions Guide*, this priority does not extend to security rights that are not registered in the relevant intellectual property rights registry. However, if a security right is created in an intellectual property right and then that right is transferred or licensed, the transferee or licensee will take the intellectual property right subject to the security right (see recommendation 79). Both priority rules are subject to the principle of recommendation 4, subparagraph (b), which means that, if they are inconsistent with a priority rule of intellectual property law, that rule prevails. The Working Group may wish to consider whether a distinction should be drawn between security rights in ownership rights and security rights in the rights of a licensee of intellectual property. In addition, the Working Group may wish to consider whether security rights in specific intellectual property rights should be subject to different third-party effectiveness and priority rules from security rights in pools of assets, including intellectual property rights.

75. Examples of other key objectives and fundamental policies may include the following: the secured transactions law should neither diminish the value of intellectual property rights nor result in the inadvertent abandonment of intellectual property rights (e.g. failure to use a trademark properly or to use it at all on goods or services or to maintain adequate quality control may result in loss of value or even abandonment); in the case of trademarks, consumer confusion should be avoided (e.g. where a secured creditor removes trademarks from goods and sells them); secured transactions law should not, and does not, provide that the granting of a security right in the rights of a licensee under a personal licence could result in the assignment of such rights without the consent of the owner.

C. Scope of application and other general rules

1. The general approach of the *UNCITRAL Secured Transactions Guide*

76. The *UNCITRAL Secured Transactions Guide* applies to security rights in all types of movable asset, including intellectual property (see recommendation 2, subparagraph (a)). However, it does not apply to intellectual property “in so far as the provisions of the [secured transactions] law are inconsistent with national law or international agreements, to which the State is a party, relating to intellectual property (see recommendation 4, subparagraph (b)).

77. As mentioned above (see para. 65), “law relating to intellectual property” includes both statutory and non-statutory law and, while its exact scope is a matter of intellectual property law, it seems to be broader than strictly speaking “intellectual property law” but narrower than general property or contract law (as set out in a code in civil law countries or in case law in common law countries).

78. So, for example, if national law provides that a certain intellectual property right must be registered in a designated registry in order to be effective against third parties, this rule of national law would prevail over any inconsistent rule enacted by a State pursuant to the recommendations of the *UNCITRAL Secured Transactions Guide*. However, if general property or contract law in a State were to provide that contracts relating to property rights generally have to be in notarial form (and this rule were consequently applicable to contracts transferring intellectual property rights), such a rule would not fall within the exception stated in recommendation 4, subparagraph (b). The reason is that this is not a rule that constitutes “national law relating to intellectual property”. It is a rule of national law that may have a collateral impact on the regime of intellectual property, but it is not a rule that elaborates any particular feature of the intellectual property regime as such.

79. Similarly, the question of who has title in a chain of transferees (including transferees in an assignment by way of security) is a matter of intellectual property law. At the same time, the question whether an assignment by way of security is a security device is a matter of general property and secured transactions law.

80. Again, intellectual property law may provide for specialized rules governing the manner in which a creditor may seize and sell intellectual property rights in satisfaction of a judgement against the rights holder. In this case, the *UNCITRAL Secured Transactions Guide*’s enforcement regime would defer to intellectual property law. However, if there is no rule of intellectual property law on the matter, and the enforcement of judgements is a matter left to the Code of Civil Procedure or an Executions Act, then the enforcement regime for security rights elaborated in the *UNCITRAL Secured Transactions Guide* would take precedence over general national rules relating to the compulsory enforcement of obligations and judgements.

81. Finally, the *UNCITRAL Secured Transactions Guide* generally recognizes the principle of party autonomy with certain exceptions and promotes electronic communications (see recommendations 10 and 11). The Working Group may wish to discuss special expressions of these principles in secured transactions relating to intellectual property rights. For example, the commentary could provide that the grantor and the secured creditor may agree that the secured creditor may be a rights

holder under intellectual property law and thus entitled to register or renew registrations, as well as to sue infringers, if intellectual property law would recognize a secured creditor as a rights holder.

2. Possible asset-specific adjustments

82. The Working Group may wish to consider whether the commentary on the scope to the annex to the *UNCITRAL Secured Transactions Guide* on security rights in intellectual property rights should clarify that the purpose of the annex is to explain where inconsistencies might exist between the approach in the *UNCITRAL Secured Transactions Guide* and laws relating to intellectual property rights and to avoid such inconsistencies by providing the necessary adjustments with intellectual property rights-specific recommendations and commentary. In addition, the Working Group may wish to consider the issues discussed briefly in the following paragraphs.

(a) Outright assignments or transfers of intellectual property rights

83. The Working Group may wish to consider whether the *UNCITRAL Secured Transactions Guide* should apply to outright assignments (or transfers) of intellectual property rights and, if so, to what extent. In this connection, the Working Group may wish to note that the only outright transfers, to which the *UNCITRAL Secured Transactions Guide* applies, are outright transfers of receivables. The *UNCITRAL Secured Transactions Guide* thus applies to issues of creation, third-party effectiveness and priority of rights of transferees of receivables. However, this approach is limited to the application of the standard of conduct in the case of enforcement (good faith and commercial reasonableness) and the right of the assignee to collect an assigned receivable and rights securing payment of an assigned receivable (see recommendations 3 and 167). As already noted (see paras. 49-51 above), receivables arising from intellectual property rights are generally considered to be proceeds of intellectual property rights.

84. The main reasons for the approach of the *UNCITRAL Secured Transactions Guide* with respect to outright transfers of receivables are: (i) the need to have a comprehensive set of priority rules where there are multiple assignments of the same receivables by the same assignor mainly based on registration (with the exception of receivables embodied in negotiable instruments with respect to which possession gives a superior security right); (ii) the need to address a priority conflict between an assignment by way of security, an outright assignment and the creation of a security right in a receivable; and (iii) the difficulty of third parties to determine whether an assignment is by way of security, an outright assignment or a transaction creating a security right in a receivable. In determining whether outright assignments (or transfers) of intellectual property rights should be covered in the *UNCITRAL Secured Transactions Guide* and, if so, to what extent, the Working Group may wish to consider whether the above-mentioned reasons apply to intellectual property rights or whether other considerations should prevail.

85. In the context of intellectual property law, the concepts of “third-party effectiveness”, “priority” and “competing claimant” may differ mainly in the sense it relates to competing title transfers and to the exercise of rights flowing from title (or ownership). In the context of secured transactions law, as already mentioned (see paras. 66-67 above), the secured creditor is not treated as an owner (unless and until

it exercises its remedy after default to acquire the encumbered asset); even if the secured creditor disposes of the encumbered asset, it merely exercises the grantor's ownership rights. So, in deference to intellectual property law, the *UNCITRAL Secured Transactions Guide* may not need to address outright transfers, unless there is a priority competition with a security right.

(b) Rights arising under licence agreements

86. As already mentioned (see para. 53 above), a licence agreement is not a secured transaction and it does not create a security right (or an acquisition security right or a retention-of-title right). However, under the *UNCITRAL Secured Transactions Guide*, a security right may be created in a licensor's or licensee's right under a licence agreement. In cross-licensing arrangements, a licensee may develop the licensed intellectual property rights and license it back to the licensor. In such arrangements, each party is both a licensor and a licensee.

(i) Rights of the licensor

87. A licensor has a right to claim royalties and possibly other contractual rights of value that could be used as security for credit (e.g. the right to claim that the licensee advertises the licensed intellectual property or product, with respect to which the intellectual property right is used).

88. Following the approach taken in most legal systems and reflected in the United Nations Assignment Convention, the *UNCITRAL Secured Transactions Guide* treats receivables as an asset that is separate from the asset from which they flow, just as rents are separate assets from the movable or immovable property from which they flow. The *UNCITRAL Secured Transactions Guide* then applies the same treatment to license royalties. This means that the general recommendations apply as modified by the receivables-specific recommendations. Thus, under the *UNCITRAL Secured Transactions Guide*, statutory prohibitions that relate to the assignment of future receivables or receivables assigned in bulk or partial assignments are set aside (see recommendation 23). However, other statutory prohibitions are not affected (see recommendation 18). Of course, this treatment would be subject to laws relating to intellectual property rights in accordance with recommendation 4, subparagraph (b).

89. Questions that may be discussed by the Working Group include: (i) whether a description of encumbered assets as "intellectual property rights" would be sufficient to include royalties as a form of proceeds, or whether it would be necessary to describe royalties as separate collateral (i.e. "intellectual property rights including royalties"); (ii) what steps are needed to make a security right in royalties effective against third parties, and do they differ from those for the intellectual property rights from which the royalties are derived; (iii) what steps are needed to give a security right in royalties priority against competing claimants, and do they differ from those for the intellectual property rights from which the royalties are derived; and (iv) what conflict-of-laws rules apply to these issues.

90. Under the *UNCITRAL Secured Transactions Guide*, if a licensee (or sub-licensee) includes in the licence agreement (or a sub-licence agreement) under which the royalties are payable a contractual provision that restricts the ability of the licensor (or a sub-licensor) to assign the royalties to a third party ("assignee"), an assignment of the royalties by the licensor (or sub-licensor) is nonetheless

effective and the licensee (or sub-licensee) cannot terminate the licence agreement (or sub-licence agreement) on the sole ground of the assignment of the royalties (see recommendation 24). However, the licensee (as a debtor of the assigned receivables) may raise against the assignee all defences or rights of set-off arising from the licence agreement or any other agreement that was part of the same transaction (see recommendation 120, subparagraph (a)). In addition, the *UNCITRAL Secured Transactions Guide* does not affect any liability that the licensor may have under other law for breach of the anti-assignment agreement (see recommendation 24).

91. It is important to note that these provisions do not apply to an agreement between the licensor and the licensee that the licensee will not assign sub-licence royalties payable to the licensee from sub-licensees. This may be the case where the licensor and the licensee agree that sub-licence royalties will be used by the licensee to further develop the licensed intellectual property rights. Thus, the *UNCITRAL Secured Transactions Guide* does not affect the right of the licensor to negotiate the licence agreement with the licensee so as to control who can use the intellectual property rights or the flow of royalties from the licensee and sub-licensees.

92. Similarly, the *UNCITRAL Secured Transactions Guide* does not affect the right of the licensor to protect its right to receive the royalties payable by the licensee by agreeing with the licensee that the licensee will not assign royalties to be paid to the licensee upon its sub-licence of its rights under the licence. In this context, it should be noted that the right of the licensor to terminate the licence if the licensee breaches this agreement gives the sub-licensees a strong incentive to make sure that the licensor gets paid. In addition, the *UNCITRAL Secured Transactions Guide* does not affect the right of the licensor to agree with the licensee that part of the licensee's royalties (representing the royalties the licensee owes to the licensor) be paid to an account in the name of the licensor, or to obtain, under the *UNCITRAL Secured Transactions Guide*, a security right in the licensee's future royalties to be paid by sub-licensees, register a notice in that regard in the general security rights registry and thus obtain a security right with priority over the licensee's other creditors. However, such priority cannot be automatic. It follows the rules of the *UNCITRAL Secured Transactions Guide* for obtaining third-party effectiveness and priority of security rights.

93. Finally, it should be noted that the *UNCITRAL Secured Transactions Guide's* provisions with respect to limitations to the assignment of receivables only apply to contractual limitations. Many countries have "author-protective" or similar legislation that designates a certain portion of income earned from exploitation of the intellectual property rights as "equitable remuneration" or the like which must be paid to authors or other entitled parties or their collecting societies. These laws often make such payments expressly non-assignable or practicably so by treating them as non-waivable. The *UNCITRAL Secured Transactions Guide's* provisions with respect to limitations to the assignment of receivables does not apply to these or other legal limitations.

(ii) *Rights of the licensee*

94. A licensee has the right to use the intellectual property in line with the terms of the licence. In addition, if a licensee has under the terms of the licence the authority to grant sub-licences, the licensee has a right to claim royalties from sub-licensees. Under intellectual property law, it is commonly provided that the licensee may not

create a security right in its right to use the licensed intellectual property or in its right to receive royalties from sub-licensees without the licensor's consent (an exception may arise where the licensee sells its business as a going concern). The reason is that it is important that the licensor has control over the licensed intellectual property, determining who can use it. Otherwise, the confidentiality and the value of the information associated with the intellectual property right may be jeopardized. The *UNCITRAL Secured Transactions Guide* does not affect these licence practices (see para. 122 below).

(c) Claims against infringers of intellectual property rights

95. In some jurisdictions, claims against infringers of intellectual property rights are transferable and may be used as collateral for credit. In other jurisdictions, such claims are not transferable without the right of ownership. If there is a statutory prohibition to the transferability of claims, the *UNCITRAL Secured Transactions Guide* does not affect it (see recommendation 18). Thus, a security right to an intellectual property right would not extend to claims against infringers.

96. If claims are transferable, the question arises whether a security right in an intellectual property right extends to claims against infringers. The Working Group may wish to consider that this is a matter of intellectual property law. If intellectual property law does not address it or leaves it to the security agreement, another question arises, namely whether, as a matter of secured transactions law, claims should be part of the encumbered intellectual property right even if the description of the encumbered assets in security agreement does not explicitly include claims or only if claims are explicitly referred to in the security agreement. The reference to the security agreement could take the form of the appropriate description of the encumbered asset so as to include the relevant intellectual property right and claims against infringers. It could also take the form of a description of default so as to include failure of the owner to launch a suit against infringers of the encumbered intellectual property right.

97. Whatever the answer to this question, even if claims are not part of the originally encumbered intellectual property right, they are proceeds under the *UNCITRAL Secured Transactions Guide* and thus the secured creditor could exercise the grantor's rights and sue infringers.

98. However, the following situations should be distinguished. If, at the time a security right is created in an intellectual property right, an infringement has been committed, the holder of the intellectual property right has sued infringers and infringers have paid compensation, the amount paid would not be part of the intellectual property right and the secured creditor could not claim it in the case of default as part of the original collateral. However, the secured creditor could claim it as proceeds of the original collateral. If the compensation has not been paid, the receivable could be part of the intellectual property right as an associated right and, in the case of default, the secured creditor could claim it. If the lawsuit is still pending at the time of creation of the security right, the secured creditor should be able to give the buyer of the intellectual property rights in the case of default standing to continue the lawsuit (if the security agreement so provides or unless the security agreement otherwise provides).

99. Where the encumbered asset is the licensee rights, similar questions arise, namely: (i) whether the licensor or the licensee and its secured creditors may exercise rights against infringers; and (ii) whether, if intellectual property law does not address it and leaves it to the parties, there should be a default rule applicable in the absence of a contrary agreement of the parties.

(d) Right to register intellectual property rights

100. Another question is whether the right to register an intellectual property right or renew a registration is an inalienable right of the owner or may be transferred and thus become part of the encumbered intellectual property right. If the latter were the case, the secured creditor may wish to have the right to register or renew a registration. The Working Group may wish to consider whether this matter should be treated as a matter of intellectual property law. If intellectual property law does not address it and leaves it to the parties, similar questions arise as with respect to claims, namely whether the right to register or renew a registration would be part of the encumbered intellectual property right even if not mentioned in the security agreement at all or only if specifically mentioned in the security agreement. The reference to the security agreement could take the form of the appropriate description of the encumbered asset so as to include the relevant intellectual property right, claims against infringers and rights to register. It could also take the form of a description of default so as to include failure of the owner to register or renew the registration of the encumbered intellectual property right.

101. Where the encumbered asset is the licensee rights, similar questions arise, namely: (i) whether the licensor or the licensee and its secured creditors may register or renew a registration; and (ii) whether, if intellectual property law does not address it and leaves it to the parties, there should be a default rule applicable in the absence of a contrary agreement of the parties that the licensee and its secured creditors could register or renew a registration of an intellectual property right.

(e) Intellectual property rights related to tangible assets

102. The relationship between intellectual property rights and tangible assets is often complex. Sometimes, the tangible asset is manufactured according to a patented process, or through the exercise of patented rights. Sometimes, a tangible asset clearly bears an intellectual property right (e.g. jeans bearing a trademark or cars containing a chip which includes a copy of copyrighted software). Sometimes, a tangible asset is the physical form in which an intellectual property right is contained (e.g. a CD containing a software programme or a heat pump containing a patented product). In each of these cases, however, as a matter of intellectual property law, the intellectual property right exists independently from those tangible assets and is a separate intangible property right.

103. The question that arises is whether a secured creditor with a security right in the relevant tangible asset would obtain an enforceable security right in the tangible assets only where the security agreement specifically includes the related intellectual property right in the description of the encumbered asset (e.g. all inventory and any associated intellectual property rights) or even if the description of the encumbered asset is general (e.g. all inventory). If a specific description were necessary, a secured creditor that took a security right in inventory unaware of the related intellectual property rights would be left without protection. This result

could undermine inventory financing without benefiting the holders of intellectual property rights (as there are other ways in protecting the rights holder). The Working Group may wish to consider the following examples.

104. If a trademark owner sells trademarked goods (e.g. soft drinks) and the buyer creates a security right in the goods, a question arises as to the ability of the secured creditor to dispose of the goods in case of default. The answer depends on the right obtained by the buyer/grantor. If the buyer/grantor obtained the goods in a transaction that exhausted the relevant trademark rights of the trademark owner, then the secured creditor upon enforcement could dispose the goods to the extent of the exhausted right. For example, if the sale only exhausted rights in one country, the secured creditor could resell the goods in that country, but not another country where the rights were not exhausted. Alternatively, it may be that the trademark owner gave the buyer the right to resell the goods, and the secured creditor obtained the right to exercise this right in the case of the buyer's default. Of course, in this case the resale would need to conform to the terms of the agreement between the trademark owner and the buyer; thus, if the agreement limited disposition of the goods in some way, then the secured creditor would be required to comply.

105. Similarly, if a trademark owner gives a licence to a manufacturer or a distributor of goods and the manufacturer or distributor creates a security right in the goods, whether the secured creditor can resell the goods again depends on the terms of the trademark licence. In some cases, the exhaustion principle (or doctrine) may apply. In other cases, the trademark owner may have only licensed the manufacturer to make the goods for ultimate resale by the trademark owner, in which case the secured creditor could have no greater rights than those accorded to the manufacturer. The "exhaustion doctrine" (often referred to as "exhaustion of rights") is a concept in intellectual property law whereby an intellectual property rights owner will lose or "exhaust" certain rights after the first use of the asset with respect to which an intellectual property right is used. For example, the ability of a trademark owner to control further sales of a product bearing its mark are generally "exhausted" following the sale of that product. The rule serves to immunize a reseller from infringement liability. However, it is important to note that such protection extends only to the point where the goods have not been altered so as to be materially different from those originating from the trademark owner. The reseller, for example, may not remove or alter the trademark applied to the goods by the trademark owner.

106. In some cases, it may be possible to remove the intellectual property right from the goods. For example, it may be possible to remove a computer chip containing copyrighted software from a car. In that case if the licensor terminates the licence, the secured creditor may be able to sell the goods without reference to any intellectual property right. In other words, unless the licence agreement provides otherwise, the manufacturer or distributor and its secured creditors cannot dispose of the goods without obtaining proper clearance from the rights holder. This means that, if the intellectual property rights cannot be separated (e.g. patent from inventory of patented pumps), the secured creditor will not be able to sell the inventory absent clearance from the rights holder. If the intellectual property right may be separated (e.g. copyright from copyrighted software in inventory of cars), the secured creditor will have to separate the intellectual property right and sell the tangible asset without it (e.g. car could be equipped with other software).

107. In any case, with respect to the rights of parties under licence agreements, secured transactions law should defer to intellectual property law. This means, inter alia, that the *UNCITRAL Secured Transactions Guide* will not affect any anti-assignment agreement contained in the licence that the licensee cannot grant a sub-licence or, if the licensee may grant a sub-licence, assign its royalty claims under a sub-licence agreement.

(f) Application of the principle of party autonomy and electronic communications to security rights in intellectual property rights

108. The Working Group may wish to consider whether the commentary should explain the application of the principles of party autonomy and electronic communications with respect to security rights in intellectual property rights (see the section on the rights and obligations of the parties to the security agreement in A/CN.9/WG.VI/WP.33/Add.1).

D. Creation of a security right (effectiveness as between the parties)

1. The general approach of the *UNCITRAL Secured Transactions Guide*

109. The *UNCITRAL Secured Transactions Guide* provides that a security right is created by agreement between the grantor and the secured creditor (see recommendation 12). To be effective, a security agreement must reflect the intent of the parties to create a security right, identify the secured creditor and the grantor and describe the secured obligation and the encumbered assets (see recommendation 13). With respect to intangible assets (such as intellectual property rights), which may not be subject to possession, the agreement must be concluded in or evidenced by a writing that in itself or in conjunction with the course of conduct between the parties indicates the grantor's intent to grant a security right. Otherwise, it may even be oral (see recommendation 15). Once it is created, a security right (including a transfer by way of assignment) becomes effective only as between the parties; effectiveness as against third parties is subject to an additional requirement (see recommendations 14 and 29).

110. The assets encumbered under the security agreement may be described in a generic way, such as "all present and future assets" or "all present and future inventory" (see recommendation 14). The security right may secure any type of obligation, present or future, determined or determinable, as well as conditional and fluctuating obligations (see recommendation 16). It may cover any type of asset, including assets that, at the time the security agreement is concluded, may not yet exist or that the grantor may not yet own or have the power to encumber (see recommendation 17). With few exceptions relating mainly to the transferability of future receivables, statutory limitations to the transferability of an asset are not affected (see recommendation 18). Unless otherwise agreed by the parties to the security agreement, the security right in the encumbered asset extends to its identifiable proceeds (see recommendation 19).

111. If the encumbered asset is a receivable, an assignment of the receivable is effective as between the assignor and the assignee and as against the debtor of the receivable notwithstanding an agreement between the initial or any subsequent

assignor and the debtor of the receivable or any subsequent assignee limiting in any way the assignor's right to assign its receivables (see recommendation 24).

2. Possible asset-specific adjustments

112. The general provisions of the *UNCITRAL Secured Transactions Guide* with respect to the creation of a security right may apply to security rights in intellectual property rights (see recommendations 13-19). However, the application of certain provisions to security rights in intellectual property rights may need to be adjusted with asset-specific recommendations. Several issues may need to be considered.

(a) The concept of creation

113. Under intellectual property law, an assignment (whether outright or by way of security) of and the creation of a security right in an intellectual property right are subject to a written agreement. With respect to intellectual property rights that are subject to registration in an intellectual property rights registry, the agreement may have to describe them specifically.

114. In many jurisdictions, as a matter of intellectual property law, an assignment of an intellectual property right (whether outright or by way of security) and the creation of a security right are effective against all (in other words, in rem rights have effects *erga omnes*). TRIPS requires recognition of voluntary transfers of intellectual property rights by assignment or licence though appropriate implementation of the national legislative framework (see articles 9, 21 and 28 (2)). Nothing in the *UNCITRAL Secured Transactions Guide*'s recommendations with respect to the creation of a security right appears inconsistent with TRIPS. In any case, if there is any inconsistency, TRIPS would prevail, both because of recommendation 4, subparagraph (b), and also because implementation of the *UNCITRAL Secured Transactions Guide* would take the form of national law that typically would be subject to the international obligations of the enacting State.

115. With respect to creation, this means that, if intellectual property law addresses the creation of a security right in an intellectual property right (including an assignment by way of security), it prevails. If intellectual property law does not address it, the secured transactions law applies (see recommendation 4, subparagraph (b)).

(b) Creation and registration

116. In some jurisdictions, registration is required for the effectiveness of an assignment of an intellectual property right, but not for the creation of a security right in an intellectual property right. In other jurisdictions, both assignments and security rights have to be registered, but registration may have only declaratory or third party effects. In yet other jurisdictions, registration of at least certain intellectual property rights is not required at all for effectiveness. For example, a copyright is acquired with the creation of, for example, a book or a song. As the moral rights of a copyright owner are not transferable, no security right may be created in them (only in the economic rights, i.e. royalties and right to use, is this possible). Under the *UNCITRAL Secured Transactions Guide*, registration is a method of achieving third-party effectiveness but does not in itself create a security

right, nor is it necessary for the creation of a security right (see recommendation 33).

117. The approach described above means in this respect that, if under intellectual property law an assignment of intellectual property rights (including assignments by way of security) has to be registered in the relevant intellectual property rights registry, the *UNCITRAL Secured Transactions Guide* does not interfere with that requirement (even though the *UNCITRAL Secured Transactions Guide* equates security transfers to security rights). Whether the regime governing the specialized registry permits such registration and, if so, the mechanics (e.g. whether document registration is required rather than notice registration) and the legal consequences of registration (i.e. whether the right is created or made effective against third parties) are left to that regime.

118. For example, the degree of specificity in the description of an intellectual property right as an encumbered asset in the document to be registered in a specialized registry is a matter of intellectual property law. While a description that embraces “all intellectual property rights” may not be sufficient for these purposes under intellectual property law, a description such as “all rights in Patent B in Country X” or “all motion pictures owned by Studio A identified by title on the attached schedule” would often be sufficient. Similarly, as intellectual property rights registries index registered documents by the intellectual property rights, not the grantor’s name or other identifier, a document that merely identified “all intellectual property rights of the grantor” would not be sufficient for registration in that registry. It would instead be necessary, under intellectual property law, to identify each intellectual property right in the registered document. Furthermore, intellectual property law may require the description of the encumbered assets in the security agreement to meet the same level of precision.

119. If intellectual property law does not require registration of an assignment of intellectual property rights, the *UNCITRAL Secured Transactions Guide* applies and, at least, an assignment by way of security of intellectual property rights has to be registered in the general security rights registry under the *UNCITRAL Secured Transactions Guide* to become effective against third parties and obtain priority.

(c) Legal or contractual limitations to the transferability of an intellectual property right

120. Under intellectual property law, certain intellectual property rights may not be transferable by law or contract. The *UNCITRAL Secured Transactions Guide* respects legal or contractual limitations to the transferability of intellectual property rights (see recommendation 18). As a result, security may not be obtained, for example, in the moral rights of an author. Similarly, security may not be obtained in the right to receive performance of a personal service contract with an author or inventor (if they are not transferable under intellectual property law) without consent of the party owing the performance of such services.

121. The only exceptions refer to legal limitations to the transferability of future receivables, receivables assigned in bulk and parts or undivided interests in receivables, as well as to contractual limitations to the assignment of receivables arising for the sale or licence of intellectual property rights (see recommendations 23-25).

122. With respect to agreements limiting the assignability of receivables, the *UNCITRAL Secured Transactions Guide* provides that an agreement between the creditor of a receivable and the debtor of that receivable is enforceable between them, but cannot in itself justify avoidance of the contract from which the receivable arises nor be enforced against an assignee. However, if under other law the assignor is liable to the debtor for breach of contract, the *UNCITRAL Secured Transactions Guide* does not affect that liability (see recommendation 24). This means that a licensee cannot prevent by agreement a licensor from assigning its claim to the royalties payable by the licensee to the licensor. However, this provision does not apply to an agreement between the licensor and the licensee prohibiting the licensee from granting sub-licences or from assigning its claims to royalties payable to the licensee as sub-licensor from its sub-licensees (see also paras. 90-94).

(d) The creation of security rights in future intellectual property rights

123. Many intellectual property laws limit transfers of various types of future intellectual property rights (e.g. rights in new media or technological uses that are unknown at the time of the creation of the security right; although the notion of “future” may also include registrable rights created but not yet registered). Statutory prohibitions may take the form of a requirement for a specific description of the intellectual property right. They may also be the result of the *nemo dat* principle, in accordance with which a creditor obtaining a security right does not obtain any rights more than the rights of the grantor. In particular, if the grantor were a licensee, the licensee cannot give anything more than the right granted to the licensee from the licensor. As a result, lenders need to conduct appropriate due diligence to determine matters such as the extent of the licensee’s rights, the duration of those rights and the territories in which those rights may be exercised.

124. Other limitations on the use of future intellectual property rights as collateral for credit may be the result of the meaning of the concepts of “improvements” and “derivative works” under intellectual property law. The creditor should understand how these concepts are interpreted under intellectual property laws and how they may affect the concept of “ownership” which is essential in the creation of a security right in intellectual property rights. This determination is of particular relevance in the case of software, for example. In this case, a lender’s security on a version of a software which exists at the time of the financing may not extend to modifications made to that version following the financing if it is determined that, under intellectual property laws, the modifications to such version are considered to be “derivative works” (intellectual property law concept). As is the case with other statutory prohibitions, the *UNCITRAL Secured Transactions Guide* does not affect these prohibitions (see recommendation 18).

125. If there are no such prohibitions, the *UNCITRAL Secured Transactions Guide* applies and permits the creation of a security right in future assets, i.e. assets created or acquired by the grantor after the creation of a security right in them (see recommendation 17). This approach is justified by the commercial utility in allowing a security right to extend to intellectual property rights to be later created or acquired. For example, in some States it is possible to create a security right in a patent application before the patent is issued. Similarly, it is common practice to fund motion pictures or software to be produced.

(e) Ownership in encumbered intellectual property rights

126. With respect to intellectual property rights, title determines important components of asset value, including the right to deal with governmental authorities for several purposes, such as for patent prosecutions, to grant licences and to pursue infringers. It is, therefore, essential for intellectual property law purposes to determine whether the grantor or the secured creditor holds title to the intellectual property right, as this will be important to both parties in order to preserve the value of the encumbered asset.

127. As already mentioned (see paras. 66-68), the question of who has title and whether the parties may determine it for themselves is a matter of intellectual property law. The *UNCITRAL Secured Transactions Guide* defers to intellectual property law in that regard (see recommendation 4, subparagraph (b)). In any case, under the *UNCITRAL Secured Transactions Guide*, for purposes of secured transactions law the grantor remains the owner of the intellectual property right, and the secured creditor does not become owner of the intellectual property right, at least until it acquires the asset in satisfaction of the secured obligation which requires the consent of the grantor and its other creditors (see recommendations 156-157), or purchases the asset at a public sale (see recommendations 141 and 148). This approach is based on the assumption that secured creditors have a legitimate interest in the payment of the secured obligation and are generally not prepared or willing to accept the responsibilities and costs associated with title, unless they specifically decide to acquire title.

128. In addition, the *UNCITRAL Secured Transactions Guide* does not affect who has title in a chain of transferees or the application of the *nemo dat* principle. A search as to who has title is necessary under the *UNCITRAL Secured Transactions Guide* for both tangible and intangible assets; and registration, under the *UNCITRAL Secured Transactions Guide*, does not affect title as it results only in third-party effectiveness and priority, but does not create rights, in particular if a grantor does not have such rights.

(f) Nature of encumbered asset

129. The Working Group may wish to consider that a security right may be created in rights of ownership of intellectual property rights (including joint ownership rights), rights arising under licence agreements, assets including intellectual property rights and claims against infringers. The commentary could explain that, based on general principles of law (e.g. the *nemo dat* principle) in all cases, the secured creditor does not obtain any rights more than the grantor has. So, for example, where the licensor grants a security right in the rights the grantor has under the licence (to use the intellectual property rights and claim payment of royalties owed by sub-licensees), the security right is limited by the terms of the licence. The commentary could also explain whether and, if so, to what extent a secured creditor with a security right in an asset that includes intellectual property rights may sell the asset without the consent of the holder of the intellectual property right. Furthermore, the commentary could explain that licence royalties are treated, for purposes of secured transactions law, as any other receivables.

(g) Acquisition financing and licence agreements

130. The *UNCITRAL Secured Transactions Guide* provides that acquisition-financing arrangements with respect to tangible assets (i.e. retention-of-title sales, financial leases and purchase-money lending transactions) should be treated as secured transactions and suggests a unitary and non-unitary approach to such transactions (see recommendations 9 and 187-202).

131. A licence agreement may have some of the characteristics of a secured transaction, since a licence agreement involves: (i) financing of the licensee by the licensor to the extent that royalties are payable in future periodical instalments; (ii) the grant of permission to the licensee by the licensor for the licensee to use the intellectual property rights under the conditions set out in the licence agreement; and (iii) the retention of title in the intellectual property rights by the licensor. However, a licence agreement is not a secured transaction. In a licence agreement, the licensor remains the owner and does not become a secured creditor, and the licensee does not acquire title, nor does it automatically have the right to give a security right in the licence or give a sub-licence to a third party, if this is not permitted under the licence and intellectual property law.

(h) Intellectual property rights related to tangible assets

132. As already discussed (see paras. 102-107 above), when dealing with an intellectual property right used in connection with a tangible asset, it is important to remember that two different types of asset are involved. One is the intellectual property right; another is the right in the tangible asset. These rights are separate. Intellectual property law allows a right holder the ability to control many, but not all uses of the tangible asset. For example, intellectual property law allows a right holder to prevent unauthorized duplication of a book, but not to prevent an authorized bookstore that bought the book to sell it or the end-buyer to make notes in the margin while reading. As such, a security right in the intellectual property right does not extend to the tangible asset, and a security right in a tangible asset does not extend to an intellectual property right, unless the security agreement otherwise, explicitly or implicitly, provides. In other words, the extent of the security right depends on the description of the encumbered asset in the security agreement. In this regard, the question arises as to whether the description should be specific (e.g. my inventory with all associated intellectual property rights and other rights) or whether a general description would be sufficient. It would seem that a general description would be in line with the principles of the *UNCITRAL Secured Transactions Guide* and the reasonable expectations of the parties, with the realization that separate assets are involved. At the same time, key principles of intellectual property law should be respected.

133. Thus, the ability of a secured creditor to dispose of tangible assets, with respect to which intellectual property rights are used, ultimately depends on the terms of the security agreement. A grantor may give one creditor a security right in the tangible inventory and another creditor a security right in the intellectual property right. This happens often when the holder of an intellectual property right uses a manufacturer or laboratory to make items for disposition by another. In that case, in case of default, both parties may need to cooperate to dispose of the encumbered asset. Alternatively, a grantor may have obtained clearance from a rights holder, so that a grant of a security right in “inventory” allows disposition of

the tangible items by the secured creditor in case of default because the requirements of intellectual property law have been satisfied. Finally, if the grantor has obtained ownership of the goods in a transaction that “exhausted” relevant intellectual property rights, a secured creditor could resell the goods at least to the extent of the exhausted rights.

E. Third-party effectiveness of a security right

1. The general approach of the *UNCITRAL Secured Transactions Guide*

134. As already mentioned, the *UNCITRAL Secured Transactions Guide* distinguishes between creation, i.e. effectiveness between the parties (for which a simple agreement is sufficient for the creation of a security right in intangible assets) and effectiveness against third parties, which can be achieved through an additional act (see recommendation 29).

135. The main method for making a security right effective against third parties is registration of a notice with limited information in a general security rights registry (see recommendation 32). Other methods for achieving third-party effectiveness of a security right include registration in a specialized registry (see recommendation 38), transfer of possession (see recommendation 37) and control (see recommendations 49 and 50).

136. Registration of a notice does not create a security right and is not necessary for the creation of a security right (see recommendation 33). In any case, registration of a notice in the general security rights registry would not reflect the chain of title in the relevant intellectual property right. As is the case with tangible and other intangible assets, secured creditors would have to check the chain of title in the encumbered asset outside the general security rights registry to ensure that they would obtain an effective security right from an owner or other rights holder in line with the *nemo dat* rule.

2. Possible asset-specific adjustments

(a) The notion of third-party effectiveness

137. Under secured transactions law, the term “third parties” refers to creditors of the grantor of the security right competing with the secured creditor as to who will receive payment first in the case of default (which is important if the grantor or other debtor cannot pay all outstanding debts) in the case the grantor defaults and cannot pay all its outstanding debts. Under intellectual property law, third parties also include transferees, licensees and infringers of intellectual property rights. The commentary may have to clarify the difference and state that secured transactions law is concerned only with competing claimants (one of whom has to be a secured creditor or a transferee in an assignment of intellectual property rights for security purposes, which is treated as a secured transaction). Effectiveness of an intellectual property right against third-party transferees or infringers only is a matter of intellectual property law.

138. With respect to security rights in intellectual property rights, the *UNCITRAL Secured Transactions Guide* in effect provides that, unless otherwise provided by intellectual property law, a security right in an intellectual property right that is

registrable under intellectual property law in the relevant intellectual property rights registry (e.g. a patent or a trademark registry) may be registered either in the general security rights registry or in the relevant intellectual property rights registry (see recommendation 38). The commentary may have to clarify that the requirements and legal consequences of registration in an intellectual property rights registry are left to intellectual property law. If, under that law, a document has to be registered rather than a notice, with constitutive or declaratory rather than third-party effects, the *UNCITRAL Secured Transactions Guide* does not interfere with these results. If other law relating to intellectual property does not deal with these matters, the *UNCITRAL Secured Transactions Guide* applies (see recommendation 4, subparagraph (b)).

(b) Third-party effectiveness of security rights in intellectual property rights registrable in an intellectual property rights registry

139. As already mentioned, some intellectual property rights are registrable (e.g. trademarks and patents). Security rights in such intellectual property rights have to be registered in the relevant registry for creation, third-party effectiveness of declaratory purposes. Where there are improvements or derivative works, they have to be registered in the relevant intellectual property rights registry when they arise. Security rights in such improvements or derivative works have also to be registered in the intellectual property rights registry but not in the general security rights registry, in which the initial registration covers future assets.

140. Where a security right in an intellectual property right is registered in the general security rights registry and another security right or a transfer is registered in the relevant intellectual property rights registry, the question arises as to which security right has priority or whether the transferee acquires the intellectual property right free of the security right. A separate question is whether a third-party searcher would need to search in both registries.

141. It would seem that the answer to these questions would depend on the way in which the priority among competing claimants is regulated. Under the *UNCITRAL Secured Transactions Guide*, if A creates a security right in a patent in favour of B who registers in the general security rights registry, and then A transfers title to the patent to C who registers in the patent registry, C would take free of the security right, because it was not registered in the patent registry (see recommendation 78). Similarly, if A instead of making a transfer creates a second security right in favour of C and only C registers in the patent registry, under the *UNCITRAL Secured Transactions Guide*, C would prevail (see recommendation 77, subparagraph (a)). In either case, as registration in the patent registry gives superior rights, third-party searches could rely on a search in that registry and would not need to search in the general security rights registry.

142. If third-party searchers had to search in both registries, in view of the different structures of the two registries, they would need to search under the name of A in the general security rights registry and under the name or number of the patent in the patent registry. These difficulties could only be resolved if the registration rules in the different systems were reconciled in a way that would allow a registration in the relevant intellectual property rights registry to be transmitted electronically to the security rights registry in the grantor's location and to be indexed under the grantor's name or other identifier. Such transmittal would require that either the

registrant or the registry staff of the intellectual property rights registry register a notice that would be registrable in the general security rights registry. The Working Group may wish to consider work undertaken by other organizations on registration of intellectual property rights.

143. The fact that a security right about which a notice is registered in the general security rights registry is subordinate to a security right registered in the specialized intellectual property rights registry does not mean that registration in the general security rights registry is of no value, as it could still give a security right priority as against other creditors (e.g. the insolvency administrator and other secured creditors that registered only in the general security rights registry).

144. The discussion in the preceding paragraphs is based on the assumption that the registries are in the same State. If the registries are in different States, different applicable law issues arise, which are discussed below (see discussion on conflict of laws in A/CN.9/WG.VI/WP.33/Add.1). Another question raising applicable law issues is the question of the definition of title (for example, a transfer for security purposes may be treated as a transfer in State A and as a security right in State B). Under the *UNCITRAL Secured Transactions Guide*, if intellectual property law treats a transfer for security purposes as a pure transfer, it prevails. If intellectual property law does not address the issue, the *UNCITRAL Secured Transactions Guide* applies and treats a security transfer as a security device (see recommendation 4, subparagraph (b)).

(c) Security rights in intellectual property rights that are not registrable

145. As already mentioned, under intellectual property law, not all types of intellectual property rights and not all rights in intellectual property rights are registrable in an intellectual property rights registry (e.g. in some States, copyrights, trade secrets or database rights,¹¹ and security rights or licences may not be registrable). Under the *UNCITRAL Secured Transactions Guide*, a security right in such an intellectual property right may become effective against third parties by registration of a notice in the general security rights registry. However, in such a case, under the *UNCITRAL Secured Transactions Guide*, registration of a notice is sufficient and the effect of registration is to make the security right effective against third parties (see recommendations 29, 32-33 and 38).

F. The registry system

1. The general approach of the *UNCITRAL Secured Transactions Guide*

146. The *UNCITRAL Secured Transactions Guide* recommends a general security rights registry (see recommendations 54-75). In general, the purpose of the registry system in the *UNCITRAL Secured Transactions Guide* is to provide a method for making a security right effective in existing or future assets, to establish an efficient point of reference for priority rules based on the time of registration and to provide an objective source of information for third parties dealing with a grantor's assets as to whether the assets are encumbered by a security right.

¹¹ See Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases.

147. Under this approach, registration is accomplished by registering a notice as opposed to the security agreement or other document (see recommendation 54, subparagraph (b)). The notice need only provide the following information:

- (a) An identification of the grantor and the secured creditor and their addresses;
- (b) A description that reasonably identifies the encumbered assets, with a generic description being sufficient;
- (c) The duration of the effectiveness of the registration; and
- (d) If the enacting State so decides, a statement of the maximum amount secured.

148. The *UNCITRAL Secured Transactions Guide* provides precise rules for identifying the grantor, whether an individual or a legal person. This is because notices are indexed and can be retrieved by searchers according to the name of the grantor or according to some other reliable identifier of the grantor (see recommendations 54, subparagraph (h), and 58-63). The *UNCITRAL Secured Transactions Guide* contains other rules to simplify operation and use of the registry.

2. Possible asset-specific adjustments

(a) Coordination of registries

149. As discussed above, many States maintain registries for recording transfers of intellectual property rights. In some of those registries, even security rights may be registered. These registries exist in most States for patents and trademarks. Some States have similar registries for copyrights, but the practice is not universal. While there are notice-based intellectual property rights registries, they mostly use recording act structures or “document registration” systems. In those systems, it is necessary to record the entire instrument of transfer, or, in some cases, a memorandum describing essential terms of the transfer. The reason for this is the need for transparency as, in many cases, the transfer may only involve limited rights in the intellectual property rights. As such, it is essential for the instrument of transfer to identify the precise right being transferred in order to give effective notice to searchers and to allow efficient utilization of assets. In addition, the intellectual property rights registries index registrations by the specific intellectual property right, and not by the grantor’s identifier. This is because the central focus is on the intellectual property right itself, which may have multiple co-inventors or co-authors and may be subject to multiple changes in ownership as transfers are made.

150. The *UNCITRAL Secured Transactions Guide* respects the different structure and effects of registration in intellectual property rights registries. To the extent that intellectual property law addresses registration, its requirements and effects, the *UNCITRAL Secured Transactions Guide* defers to that law. If intellectual property law does not address these issues, the *UNCITRAL Secured Transactions Guide* applies (see recommendation 4, subparagraph (b)). In addition, even if it generally applies to registration matters, in order to preserve the reliability of intellectual property rights (and other specialized) registries, the *UNCITRAL Secured Transactions Guide* provides that a security right registered in the relevant

intellectual property rights registry has priority over a security right registered in the general security rights registry (see recommendation 77, subparagraph (a)). For the same reason the *UNCITRAL Secured Transactions Guide* provides that a transferee of an intellectual property right acquires it in principle free of a previously created security right, unless it is registered in the intellectual property rights registry (see recommendations 78 and 79).

151. As the issue of coordination of registries may affect intellectual property law, the *UNCITRAL Secured Transactions Guide* addressed it through the general deference to intellectual property law and appropriate priority rules. The Working Group may wish to consider whether the commentary should discuss the issue further and perhaps suggest that States consider taking measures to enhance coordination between general security rights and intellectual property rights registries. One such measure, for example, might be the transmittal of a notice about a registration in an intellectual property rights registry to the general security rights registry. Of course, such a transmittal of a notice might be easier, simpler and quicker in an electronic system rather than in a paper-based system.

(b) Registration of notices about security rights in future intellectual property rights

152. An essential feature of the general security rights registry recommended in the *UNCITRAL Secured Transactions Guide* is that it can apply to future assets of the grantor. This means that the security right can cover assets to be later produced or acquired by the grantor (see recommendation 17). The notice may also cover assets identified by a generic description (see recommendation 66). Thus, if the security right covers all existing or later acquired inventory, the notice may so identify such inventory. Since priority is determined by date of registration, the lender may maintain its priority position in later-acquired inventory. This greatly facilitates revolving credit arrangements, since a lender extending new credit under such a facility knows that it can maintain its priority position in new assets that are included in the borrowing base.

153. Existing intellectual property rights registries, however, do not readily accommodate future assets. As transfers of or security rights in intellectual property rights are indexed against each specific intellectual property right, they can only be effectively recorded after the intellectual property right is first registered in the registry. This means that a blanket recording in a specialized registry with respect to future intellectual property rights would not be effective, but instead a new recording would be required each time a new intellectual property right is acquired.

154. The Working Group may wish to consider whether the commentary should explain that, under the *UNCITRAL Secured Transactions Guide*, a secured creditor would not obtain a security right by registration, if such a right has not been created by agreement between the grantor and the secured creditor. The commentary could also explain that, if under intellectual property law future intellectual property rights are not transferable, the *UNCITRAL Secured Transactions Guide* does not interfere with that prohibition and does not make the grant of a security right in such an asset possible. However, if the creation of a security right in future intellectual property rights is not prohibited under other law, a security right in such an asset could be created and made effective against third parties under the *UNCITRAL Secured Transactions Guide*.

(c) Dual registration or search

155. Where a specific intellectual property right and a security right in it are both registrable, the question arises whether registration in both registries is necessary. By deferring to intellectual property law with respect to the details of registration in an intellectual property rights registry and by giving priority, as a matter of secured transactions law, to rights registered in such a registry, the *UNCITRAL Secured Transactions Guide* makes dual registration or search unnecessary. Secured creditors and other parties would always need to register and search in the intellectual property rights registry to ensure third-party effectiveness and priority over other parties that might register in the relevant intellectual property rights registry. This would not mean that registration in the general security rights registry would be useless. In any case, a security right registered in such a registry would be effective against third parties and have priority over the rights of creditors of the grantor, such as other secured creditors that register only in the general security rights registry, judgement creditors and the administrator in the insolvency of the grantor.

156. Registration only in the general security rights registry would seem to be necessary and useful for secured transactions purposes: (i) where the encumbered asset is a type of intellectual property right with respect to which no registration is required under intellectual property law (e.g. copyrights or trade secrets); (ii) where a right in an intellectual property right is not registrable (e.g. a security right or a licence); and (iii) where there are other secured creditors that register only in the general security rights registry. The Working Group may wish to examine whether this approach could create any inconsistency with intellectual property law.

(d) Time of effectiveness of registration

157. Under patent and trademark law in many jurisdictions, priority dates back to the date of application for registration (which is useful where the registry takes time to actually register the patent or trademark). Under the Guide, registration of a notice becomes effective when the information in the notice is entered into the registry records and becomes available to searchers (see recommendation 70). Where the registry is electronic, registration of a notice will become effective immediately upon registration. However, where the registry is paper-based, registration of a notice will become effective after some time from registration.

158. In view of the priority given by the *UNCITRAL Secured Transactions Guide* to registration of a security right in a specialized registry irrespective of the time of registration (see recommendations 77 and 78), this difference in the approach as to the time of effectiveness of registration may not cause any problems as the *UNCITRAL Secured Transactions Guide* does not interfere with the time of effectiveness of registration in a specialized registry. When the security right in a patent or a trademark becomes effective against third parties by registration in a specialized registry as a matter of patent or trademark law, it will gain priority even over a security right that was registered earlier in a security rights registry.

(e) Registration of security rights in trademarks

159. The Working Group may wish to note the following registration system recommended by the International Trademark Association (“INTA”) on

21 March 2007¹² and may wish to consider whether it provides an appropriate basis for discussion of the issue of registration of security right in trademarks or in other types of intellectual property rights as well.

160. INTA endorsed uniformity and best practise in registration mechanisms and methods regarding trademark security rights, recognizing that: intellectual property rights, including trademarks and service marks, are a major and growing factor in commercial lending transactions; lack of consistency in the recording of trademark security rights fosters commercial uncertainty, as well as poses an untoward risk that a trademark owner may forfeit or otherwise endanger its trademark related rights; many countries have no or insufficient recording mechanisms for the registration of trademark security rights; many countries apply different and conflicting criteria for determining what can and will be recorded; and international initiatives on security rights in intellectual property rights by organizations such as UNCITRAL will have broad implications for the way secured financing laws are implemented to deal with registration and other aspects of trademark security rights, especially in developing countries.

161. The main features of such best practices are the following:

(a) Security rights should be registrable against registered trademarks, and ideally also against marks covered by pending applications;

(b) For purposes of giving notice of the security right, registration in the applicable national Trademark Office or in any applicable commercial registry is recommended, with free public accessibility, preferably through electronic means;

(c) The grant of a security right in a trademark should not effect a transfer of legal or equitable title to trademarks, which are subject to a security right, and should not confer upon the secured creditor a right to use the marks;

(d) The security agreement creating the security right should clearly set forth provisions acceptable under local law enabling the renewal of the marks by the secured creditor, if necessary to preserve the trademark registration;

(e) Valuation of trademarks for purposes of security rights should be made in any manner that is appropriate and permitted under local law and no particular system or method of valuation is preferred or recommended;

(f) Registration of security rights in the local Trademark Office should suffice for purposes of perfecting a security right in a trademark; at the same time, registration of a security right in any other place allowed under local law, such as a commercial registry, should also suffice;

(g) If local law requires that a security right be registered in a place other than the local Trademark Office in order to be perfected, such as in a commercial registry, dual registration of the security right should not be prohibited;

(h) Formalities in connection with registration of a security right and the amount of any government fees should be kept to a minimum; a document evidencing: (i) existence of a security right, (ii) the parties involved, (iii) the trademark(s) involved by application and/or registration number, (iv) a brief

¹² See http://www.inta.org/index.php?option=com_content&task=view&id=1517&Itemid=

description of the nature of the security right, and (v) the effective date of the security right, should suffice for purposes of perfecting a security right;

(i) Regardless of procedure, enforcement of a security right through foreclosure, after a judgement, administrative decision or other triggering event, should not be an unduly burdensome process;

(j) The applicable Trademark Office should promptly record the entry of any judgement or adverse administrative or other decision against its records and take whatever administrative action is necessary; the filing of a certified copy of the judgement or decision should be sufficient;

(k) In the event that enforcement is triggered by means other than a judgement or administrative decision, local law should provide for a simple mechanism enabling the holder of the security right to achieve registration, with free public accessibility, preferably through electronic means;

(l) In cases where the trademark owner is bankrupt or otherwise unable to maintain the trademarks which are subject to a security right, absent specific contract provisions the holder of the security right (or the administrator or executor, as the case may be) should be permitted to maintain the trademarks, provided that nothing shall confer upon the secured creditor the right to use the trademarks; and

(m) The relevant government agency or office should promptly record the filing of documentation reflecting release of the security right in its records, with free public accessibility, preferably through electronic means.
