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I. Introduction

1. At its present session, Working Group VI began its work on the preparation of an annex to the *UNCITRAL Legislative Guide on Secured Transactions* (hereinafter referred to as “the Guide”) specific to security rights in intellectual property pursuant to a decision taken by the Commission at its fortieth session, in 2007.¹ The Commission’s decision to undertake work on security interests in intellectual property was taken in response to the need to supplement its work on the Guide by providing specific guidance to States as to the appropriate coordination between secured transactions and intellectual property law.²

2. At its thirty-ninth session, in 2006, the Commission considered its future work on secured financing law. It was noted that intellectual property (e.g. a copyright, patent and trademark) was 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 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 of the draft Guide had not been prepared with the special intellectual property law issues in mind, enacting States should consider making any necessary adjustments to the recommendations to address those issues.³

3. 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 colloquia as necessary.⁴ 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.⁵

4. Pursuant to the decision of the Commission, the Secretariat organized in cooperation with WIPO a colloquium on security rights in intellectual property (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

¹ *Official Records of the General Assembly, Sixty-second Session, Supplement No. 17* (A/62/17 (Part I)), para. 162.

² *Ibid.*, para. 157.

³ *Official Records of the General Assembly, Sixty-first Session, Supplement No. 17* (A/61/17), paras. 81 and 82.

⁴ *Ibid.*, para. 83.

⁵ *Ibid.*, para. 86.

adjustments that would need to be made to the draft Guide to address issues specific to intellectual property financing.⁶

5. 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. In order to provide sufficient guidance to States as to the adjustments that 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.⁷

6. At its resumed fortieth session (Vienna, 10-14 December 2007), the Commission finalized and adopted the Guide on the understanding that an annex to the Guide specific to security rights in intellectual property would subsequently be prepared.⁸

II. Organization of the session

7. The Working Group, which was composed of all States members of the Commission, held its thirteenth session in New York from 19 to 23 May 2008. The session was attended by representatives of the following States members of the Working Group: Algeria, Australia, Canada, Chile, China, El Salvador, Fiji, France, Germany, Guatemala, Honduras, India, Iran (Islamic Republic of), Italy, Kenya, Malaysia, Malta, Morocco, Namibia, Nigeria, Norway, Pakistan, Republic of Korea, Russian Federation, South Africa, Spain, Switzerland, Thailand, Uganda, United Kingdom of Great Britain and Northern Ireland, United States of America and Venezuela (Bolivarian Republic of).

8. The session was attended by observers from the following States: Argentina, Belgium, Burundi, Democratic Republic of the Congo, Indonesia, Jordan, Lithuania, Peru, Philippines, Slovenia, Trinidad and Tobago, Turkey and Yemen.

9. The session was also attended by observers from the following international organizations:

(a) *United Nations system*: World Bank and World Intellectual Property Organization (WIPO);

(b) *Inter-governmental organizations*: Asian-African Legal Consultative Organization (AALCO) and European Union (EU);

(b) *International non-governmental organizations invited by the Commission*: American Bar Association (ABA), Commercial Finance Association (CFA), Forum for International Conciliation and Arbitration (FICACIC), Independent Film & Television Alliance (IFTA), International Bar Association (IBA), International Federation of Phonographic Industry (IFPI), International

⁶ See <http://www.uncitral.org/uncitral/en/commission/colloquia/2secint.html>.

⁷ *Official Records of the General Assembly, Sixty-second Session, Supplement No. 17 (A/62/17 (Part I))*, paras. 156, 157 and 162.

⁸ *Ibid.*, *Sixty-second session, Supplement No. 17 (A/62/17 (Part II))*, paras. 99-100.

Insolvency Institute (III), International Trademark Association (INTA), New York City Bar Association and Union internationale des avocats (UIA).

10. The Working Group elected the following officers:

Chairman: Ms. Kathryn SABO (Canada)

Rapporteur: Ms. Melati ABDUL HAMID (Malaysia)

11. The Working Group had before it the following documents: A/CN.9/WG.VI/WP.32 (Provisional Agenda) and A/CN.9/WG.VI/WP.33 and Addendum 1 (Security rights in intellectual property rights).

12. The Working Group adopted the following agenda:

1. Opening of the session and scheduling of meetings.
2. Election of officers.
3. Adoption of the agenda.
4. Security rights in intellectual property.
5. Other business.
6. Adoption of the report.

III. Deliberations and decisions

13. The Working Group considered a note by the Secretariat entitled “Security rights in intellectual property rights” (A/CN.9/WG.VI/WP.33 and Add.1). The deliberations and decisions of the Working Group are set forth below in chapter IV. The Secretariat was requested to prepare a draft of the annex to the Guide on security rights in intellectual property rights (hereinafter referred to as “the Annex”) reflecting the deliberations and decisions of the Working Group.

IV. Security rights in intellectual property

A. General

14. The Working Group noted that the Commission, at its resumed fortieth session in December 2007, had adopted the Guide. The Working Group also noted that the Guide did not apply to intellectual property in so far as the provisions of the law were inconsistent with national law or international agreements, to which the State is a party, relating to intellectual property (see recommendation 4, subparagraph (b)). In addition, the Working Group noted that its mandate was to develop an annex to the Guide that would include specific comments and recommendations on security rights in intellectual property rights. It was widely felt that, while due deference should be expressed to intellectual property law, the point of reference for the discussion of the Annex should be the Guide and not national secured financing law.

15. At the outset, the Working Group expressed its appreciation to the Secretariat for the clarity and the balance of the discussion contained in documents A/CN.9/WG.VI/WP.33 and Add.1. With a view to expediting its work in

reviewing those documents, the Working Group decided to begin its deliberations with a discussion of the creation of a security right in an intellectual property right and to consider the terminology, the key objectives and the scope of the annex in the appropriate context in which those issues arose or only after it had considered the other substantive issues (such as creation, third-party effectiveness, registry system, priority, enforcement and insolvency).

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

1. The concept of creation

16. The Working Group considered the question whether a distinction should be drawn in the Annex between the creation and the third-party effectiveness of a security right in an intellectual property right. It was stated that making such a distinction would be consistent with the approach taken in the Guide. However, it was also observed that, under intellectual property law in many States, reference was made to assignments of intellectual property rights with respect to which no such distinction was made. After discussion, it was agreed that, in line with the principle of deference to intellectual property law (see recommendation 4, subparagraph (b)), if intellectual property law addressed the issue, intellectual property law would apply; otherwise, the Guide would apply.

17. The Working Group considered next the question whether the Annex should address outright assignments of intellectual property rights. The Working Group noted that outright assignments of intellectual property rights were normally covered by intellectual property law, which dealt mainly with competing transfers of title and to which the Guide deferred. Therefore, the Working Group adopted the working assumption that outright assignments of intellectual property rights should not be covered in the Annex, unless there was a priority competition with a security right in an intellectual property right.

2. Creation and registration

18. The Working Group considered the question whether registration should be a requirement for the creation or the third-party effectiveness of a security right in an intellectual property right. It was noted that, if intellectual property law required the registration of an assignment of an intellectual property right (including an assignment by way of security) in the relevant intellectual property registry, the Guide would not interfere with such a requirement (see recommendation 4, subparagraph (b)). If, however, intellectual property law did not require such registration, the general approach of the Guide would apply and registration (in the general security rights registry or the relevant intellectual property registry) would be only a requirement for the third-party effectiveness but not for the creation of a security right (see recommendation 42).

19. The view was expressed that, for reasons of certainty as to who would be the rights holder with respect to an intellectual property right (and could, for example, sue infringers), it would be preferable to make registration of a security right in an intellectual property right in the general security rights registry a condition of the creation of a security right. It was observed, however, that the question of who

was the rights holder was a matter of intellectual property law. It was also pointed out that the creation of an intellectual property right, which was a matter of intellectual property law, was separate from the creation of a security right in an intellectual property right, which was a matter of secured financing law. In addition, it was stated that making the creation of a security right more difficult would run counter to one of the key objectives of the Guide (see recommendation 1, subparagraph (c)).

20. After discussion, it was agreed that the Guide would apply to the creation of a security right in an intellectual property right and thus registration would not be required for creation purposes, if intellectual property law did not require registration of an assignment of an intellectual property right (including an assignment by way of security) for creation purposes. If, however, intellectual property law required registration of an assignment as a condition for the creation of a security right in an intellectual property right, the Guide would defer to that law (see recommendation 4, subparagraph (b)).

3. Legal or contractual limitations to the transferability of an intellectual property right

21. The Working Group noted that the commentary of the Annex should address a number of matters, including that the Guide respected any legal or contractual limitations to the transferability of intellectual property rights (see recommendation 18). The Working Group also noted that the commentary should explain that the only contractual or statutory limitations that the Guide affected were those relating to the transferability of receivables (see recommendations 23-25).

22. In that connection, the Working Group considered whether receivables were part of the intellectual property right, the sale or licence of which generated the receivables. After discussion, the Working Group adopted the working assumption that, while for the purposes of protection under intellectual property law receivables could be treated as part of the intellectual property right from which they flowed, for the purposes of secured transactions law such receivables were, like any other receivable, proceeds of the intellectual property right.

4. The creation of security rights in future intellectual property rights

23. The Working Group considered the question whether a security right could be created in a future intellectual property right. It was noted that the Guide would respect any statutory limitations in that regard (see recommendation 18). It was suggested, however, that the commentary of the Annex should explain that such limitations were rare and, in any case, did not prevent the conclusion of a security agreement, as the security right would be created only when the intellectual property right would be established. The economic value of security rights in future intellectual property rights was particularly emphasized.

5. Ownership in encumbered intellectual property rights

24. As already noted (see para. 19 above), the Working Group adopted the working assumption that who was a rights holder with respect to an intellectual property right (the grantor or the secured creditor) was a matter of intellectual

property law. It was also noted that, in that regard, there was no difference between rights in tangible and rights in intangible assets.

6. Nature of encumbered asset

25. With respect to the nature of an encumbered asset, it was noted that the commentary of the Annex should clarify a number of matters, including that: (a) a security right could be created in the right of ownership of an intellectual property right or in the rights arising under a licence agreement to use intellectual property under the terms of the licence agreement; and (b) the scope of a security right granted by a licensee would be limited by the terms of the licence.

7. Acquisition financing and licence agreements

26. The Working Group noted that, while a licence agreement had some of the characteristics of a secured transaction, it was not a secured transaction. It was agreed that the matter could be further discussed in the context of the Working Group's deliberations on the priority of a licensor (see paras. 51 and 74-76 below).

8. Intellectual property rights related to tangible assets

27. It was generally agreed that a security right in a tangible asset, in connection with which an intellectual property right was used, did not extend to the intellectual property right, unless the parties agreed otherwise. At the same time, it was agreed that, upon default, the secured creditor could exercise the remedies recognized under secured transactions law, provided that such exercise of remedies did not interfere with rights existing under intellectual property law. In that connection, it was suggested that, while the concept of "exhaustion" could be retained, use of the particular term could be avoided as it was not universal (see also para. 71 below).

28. Differing views were expressed as to whether the encumbered asset should be described in the security agreement in somehow specific terms (e.g. "my inventory of TV sets with all related intellectual property rights") or only generally (e.g. "my inventory of TV sets"). One view was that a specific description would provide certainty not only to the owner but also the owner's creditors. Another view was that a general description that would reflect the expectations of the parties would be more in line with the Guide (see recommendation 14). The Working Group agreed to revert to that issue.

C. Third-party effectiveness of a security right

1. The notion of third-party effectiveness

29. It was widely felt that the commentary of the Annex should explain that, in an intellectual property context, the notion of third parties included not only competing claimants but also other third parties such as infringers of an intellectual property right. The commentary should also explain that, while effectiveness against competing claimants was a matter of secured financing law, effectiveness against other third parties such as infringers was a matter of intellectual property law.

2. Third-party effectiveness of security rights in intellectual property rights that are registrable in an intellectual property rights registry

30. The concern was expressed that the Guide might appear as recommending registration in both the relevant intellectual property rights registry and the general security rights registry. It was pointed out that such an approach might create inefficiencies, delays and costs. In response, it was stated that the Guide merely addressed the question as a matter of priority of security rights, if they were registrable in both registries. It was also observed that secured creditors for whom the intellectual property right constituted the main security and who wanted to have priority over all possible competing claimants would check and need to register only in the relevant intellectual property rights registry, while secured creditors who wanted to have priority only over other secured creditors who registered in the general security rights registry and the insolvency representative would check and need to register only in the general security rights registry.

3. Third-party effectiveness of security rights in intellectual property rights that are not registrable in an intellectual property rights registry

31. It was suggested that a distinction should be drawn between intellectual property rights registries, in which security rights in intellectual property rights could be registered, and intellectual property rights registries, in which security rights in intellectual property rights could not be registered. It was stated that the recommendations concerning registration in a specialized registry of a security right in an intellectual property right should apply only to the registries in which security rights could be registered.

D. The registry system

1. Coordination of registries

32. Several suggestions were made with a view to ensuring effective coordination of specialized intellectual property rights registries and general security rights registries. One suggestion was that the commentary of the Annex should discuss the possibility of information registered in one registry being made available in the other registry automatically.

33. Another suggestion was that an encumbered intellectual property right might be described specifically in a notice registered in a general security rights registry, as was normally the case with registrations in specialized registries. That suggestion was objected to. It was stated that there was no need to introduce an exception to the general rule of reasonable description of encumbered assets which was sufficient for the purpose of achieving third-party effectiveness. Otherwise, it was observed, the coherence and the practical character of the registry system facilitating financing transactions relating to a changing pool of assets or future assets could be compromised.

34. Yet another suggestion was that best practices should be discussed in the commentary of the Annex along with the impact of the application of the recommendations of the Guide to specific transactions.

2. Registration of notices about security rights in future intellectual property rights

35. It was noted that the commentary of the Annex could explain that, if, under intellectual property law, future intellectual property rights were not transferable, the Guide would not interfere with that prohibition. At the same time, it was noted that the commentary could explain that, in the absence of such a prohibition, the Guide would apply and allow the registration of notices about security rights in future intellectual property rights in the general security rights registry.

3. Dual registration or search

36. The Working Group considered the question of dual registration or search with regard to security rights in intellectual property rights. In order to avoid the inefficiencies and costs of dual registration and search, the suggestion was made that, if there was an intellectual property rights registry, registration of a security right in that registry should be mandatory. It was stated that such an approach would be easier to implement for States that did not have a general security rights registry. It was also observed that, in States that had a general security rights registry, registration in that general registry would be possible but would take place only rarely. That suggestion was objected to. It was stated that, depending on the type of competing claimant over whom a potential secured creditor would need to obtain priority and the cost- and risk-assessment made by a potential secured creditor in each case, registration would take place in one or the other registry or both (see para. 30 above). It was also observed that such an approach would run counter to the permissive rather than prescriptive character of the Guide. In addition, it was pointed out that the Guide provided for a balanced approach avoiding any interference with specialized registries that normally evidenced title, involved document registration, had not only third-party effectiveness but also creation or declaratory effects and were asset-based registries.

37. In the discussion, the suggestion was made that the Guide should discuss security rights in intellectual property rights that were not registrable (e.g. trade secrets), but for which another system of verification existed (e.g. a technology escrow-based system).

38. After discussion, it was agreed that, while the current approach of the Guide should be maintained, the commentary of the Annex should be developed to discuss the issue without referring to “dual” registration.

4. Time of effectiveness of registration

39. As to the issue whether, in the case of a priority conflict between two security rights, one of which was registered in the relevant intellectual property registry and the other in the general security rights registry, the time of effectiveness of registration had an impact on third-party effectiveness and priority differing views were expressed. One view was that the time of effectiveness was relevant and would be different (i.e. the time of creation for security rights registered in an intellectual property registry and the time when the registered notice became available to searchers in a general security rights registry). Another view was that, once it was provided that a security right registered in the relevant intellectual property registry would prevail, even if it was registered later than a right registered in the general

security rights registry, the time of effectiveness of the two registrations would be irrelevant for the purposes of third-party effectiveness and priority.

5. Registration of security rights in trademarks

40. The Working Group noted with appreciation best practices recommended by the International Trademark Association (INTA) with respect to the registration of security rights in trademarks.

E. Priority of a security right

1. Identification of competing claimants

41. The Working Group noted that, while the notion of “competing claimant” in a secured financing context meant a secured creditor, a transferee of an encumbered asset, a judgement creditor or an insolvency representative, in an intellectual property context it also included other third parties such as infringers of an intellectual property right. It was widely felt that the matter needed to be explained in the commentary of the Annex.

42. It was also stated that a conflict between a transferee of an encumbered asset, who took the asset from a secured creditor upon default and enforcement and another secured creditor, who received a right in the same asset from the same grantor, was not a real priority conflict. It was also observed that the commentary should clarify that the Guide would not apply to a priority conflict between transferees or licensees of intellectual property rights if there was no conflict with a security right granted by the immediate or previous transferor or licensor.

43. The suggestion was made that the Annex should make it clear that, with respect to security rights in intellectual property rights, the only mode of third-party effectiveness was registration.

2. Relevance of knowledge of prior transfers or security rights

44. It was noted that knowledge of the existence of a prior transfer of an encumbered asset or of a prior security right was irrelevant for the purposes of determining priority under the Guide. By contrast, it was also noted that, under intellectual property law, a later transfer or security right could often gain priority if it was registered first and taken without knowledge of a prior conflicting transfer. It was stated that the commentary could usefully test whether the deference to intellectual property law under recommendation 4, subparagraph (b), would be sufficient to preserve such a knowledge-based priority rule of intellectual property law.

3. Priority of a right registered in an intellectual property rights registry

45. The Working Group noted that, under the Guide, in a priority conflict between a security right registered in an intellectual property rights registry and a security right registered in the general security rights registry, the former would prevail (see recommendation 77). There was general agreement that the rule was appropriate even in the case of security rights in intellectual property rights.

46. A question was raised as to whether registration in an intellectual property rights registry in the case of tangible assets, with respect to which an intellectual property right was used, referred to the intellectual property right only or also to the tangible asset. In response, it was observed that that was a matter of the law governing the relevant registry, but that such registration would normally refer only to the intellectual property right. The Secretariat was requested to study the matter and report at a future meeting.

47. It was widely felt that the Guide neither encouraged nor discouraged registration of security rights in intellectual property rights in the relevant intellectual property registry. The Guide simply accommodated such registries where they already existed with a view to preserving their reliability. Thus, it was generally thought that the Guide did not preclude the possibility of registration of security rights in all types of tangible and intangible assets in the general security rights registry.

48. In that connection, the suggestion was made that the Annex might recommend a priority rule that a security right in an intellectual property right that was described specifically in a notice registered in the general security rights registry would have priority over a security right in an intellectual property right that was not described specifically in a notice registered in the general security rights registry. That suggestion was objected to. It was stated that there was no good policy reason to introduce such an exception to the first-to-register priority rule that would be based on the specificity of the description of the encumbered asset in the registered notice. It was also observed that, in the case of rights registered in specialized registries, the reason for the priority rule was the need to preserve the reliability of specialized registries. In addition, it was pointed out that the approach of the Guide was coherent and should not be understood as the second-best approach compared with an approach based on one registry, since title registries were necessary to serve the useful function of determining ownership, while the general security rights registry had a different function.

4. Priority of a right that is not registrable in an intellectual property rights registry

49. It was noted that, if a security right in an intellectual property right was not registrable in the relevant intellectual property rights registry, in the absence of another priority rule of intellectual property law, the priority of that right would be determined according to the order of registration in the general security rights registry.

5. Rights of transferees of encumbered intellectual property rights

50. It was noted that a transferee of an encumbered asset (including an intellectual property right) would normally take the asset subject to security rights that were effective against third parties (see recommendation 79). In that connection, the suggestion was made that the commentary of the Annex should clarify whether, for a security right to remain effective against third parties, an amendment notice should be registered in the general security rights registry. It was noted that such analysis should take into account any relevant intellectual property law rule and, in the absence of such a rule, the various possibilities under recommendation 65 (impact of a transfer of an encumbered asset on the effectiveness of registration).

6. Rights of licensees in general

51. It was noted that intellectual property rights were routinely licensed and that the retained rights of a licensor such as the ownership right or the right to receive royalties, as well as the rights of a licensee to use the intellectual property under the terms of the licence agreement, could be used as collateral for credit. It was also noted that a licensee of an encumbered intellectual property right would in principle take its rights subject to a security right that was effective against third parties at the time of the license agreement (see recommendation 79).

7. Rights of ordinary-course-of-business non-exclusive licensees

52. It was noted that, under the Guide, a non-exclusive licensee, who took a licence in the ordinary course of business of the licensor without knowledge that the licence violated a security right, would take the licence free of a security right previously granted by the licensor (see recommendation 81, subparagraph (c)). It was also noted that that rule would apply only if the security agreement neither authorized nor prohibited the granting of a licence by the licensor.

53. The concern was expressed, however, that the mere use of the term “ordinary-course-of-business licensee” might inadvertently give the impression that the Guide justified unauthorized or compulsory licences. It was also observed that, under intellectual property law, a licence would be either authorized by the secured creditor who would normally be the rights holder and thus the licensee would take the licence free of the security right or unauthorized and thus the licensee would take the licence subject to the security right.

54. In response, it was pointed out that the rule in recommendation 81, subparagraph (b), was a default rule that would apply only if the security agreement was silent as to an authorization or a prohibition of licences. It was also said that the secured creditor could prevent the application of the rule in recommendation 81, subparagraph (b), by including appropriate language in the security agreement. In addition, it was stated that the focus should be not on the terminology used but rather on the actual result of the application of the rule.

55. As a technical matter, it was suggested that a clear distinction should be drawn between the licence agreement and the licence, and reference should be made to exclusive or non-exclusive licences (not licence agreements).

56. The Working Group noted the concerns and views expressed and requested the Secretariat to provide in the commentary of the Annex a detailed analysis of the issue.

F. Rights and obligations of the parties to a security agreement

1. Application of the principle of party autonomy

57. It was widely felt that the application of the principle of party autonomy to secured transactions relating to intellectual property rights should be explained in the commentary of the Annex along with any specific limitations. It was stated that one possible limitation that would need to be discussed was that the right to sue infringers could be exercised only by a rights holder or an exclusive licensee.

2. Obligation of the secured creditor to pursue infringers or renew registrations

58. It was widely felt that the secured creditor should not be obliged to pursue infringers or renew registrations of an encumbered intellectual property right, but that the matter should be left to intellectual property law and to the agreement of the parties if permitted by intellectual property law.

3. Right of the secured creditor to pursue infringers or renew registrations

59. It was generally felt that, as a matter of secured transactions law, the secured creditor should have the right to pursue infringers and renew registrations of an encumbered intellectual property right, if so agreed between the grantor (rights holder) and the secured creditor. There was also agreement that such a rule would apply only in the absence of rule of intellectual property law to the contrary.

G. Rights and obligations of third-party obligors

60. It was noted that, in cases where a licensor assigned its claim against a licensee for the payment of royalties under a licence agreement, the licensee (as the debtor of the assigned receivable) would be a third-party obligor under the Guide. It was stated that, if the licensee assigned its claim for the payment of royalties under a sub-licence agreement, the sub-licensee would be the debtor of the assigned receivable and thus a third-party obligor under the Guide.

H. Enforcement of a security right

1. Deference to intellectual property law

61. It was stated that, while there was no objection to the principle of deference to intellectual property law (see recommendation 4, subparagraph (b)), it might not need to be repeated in each chapter of the Annex, in particular since the principle of deference to general property law applied equally to types of asset other than intellectual property rights. It was noted, however, that reference to that principle in the chapter on enforcement should serve as an introduction to a more detailed discussion of the intellectual property law and practice in accordance to which the commercial reasonableness of an enforcement action would be determined.

2. Taking “possession” of an encumbered intellectual property right

62. The question was raised whether the notion of “control”, used in the Guide with respect to other intangible assets (e.g. rights to payment of funds credited to a bank account), should also be used with respect to an encumbered intellectual property right. In response, it was stated that such an approach would not be necessary as the remedies given to a secured creditor would be sufficient. It was also observed that, if a secured creditor wished to obtain control over an encumbered intellectual property right, the secured creditor could obtain a security right in the rights of the rights holder.

63. The Working Group next considered the question whether a creditor with a security right in an intellectual property right used with respect to a tangible asset

(e.g. a patent used in a piece of equipment) should have a right to take possession of the tangible asset. It was widely felt that the matter should be left to the security agreement and the description of the encumbered asset therein. In the absence of a specific provision in the security agreement, it was stated that such a secured creditor should not have the right to take possession of the tangible assets (with the exception of tangible assets that embodied only the encumbered intellectual property right, such as compact discs or digital video discs).

64. As to the question whether the secured creditor should be able to obtain possession of any documents necessary to enforce its right in the encumbered intellectual property right, it was widely felt that that matter also should be left to the security agreement. It was also stated that the secured creditor should be able to take possession of documents that were accessory to the intellectual property right, whether those documents were mentioned in the security agreement or not.

3. Disposition of an encumbered intellectual property right

65. Differing views were expressed as to the requirements for the secured creditor to have the right to dispose of an encumbered intellectual property right either by transferring it or by granting a licence in it.

66. One view was that, under intellectual property law, the secured creditor would have the right to dispose of an encumbered intellectual property right either if the secured creditor was a rights holder (i.e. had received a transfer of the rights of the rights holder) or if the secured creditor was acting as an agent on behalf of the rights holder. It was stated that, for the secured creditor to be entitled to sell or license an encumbered intellectual property right, the secured creditor's rights as a rights holder should be registered in the relevant intellectual property rights registry.

67. Another view was that, under secured transactions law, the secured creditor would be entitled to dispose of an encumbered intellectual property right by virtue of the application of secured transactions law. It was stated that the secured creditor's rights in the encumbered asset would be limited to the value of the secured obligation. It was also observed that, under the Guide, even a transfer of ownership for security purposes would be treated as a secured transaction. In addition, it was pointed out that the same principles applied not only to security rights in tangible assets but even to encumbrances to immovable property.

68. In response to a question whether, for a security right in an intellectual property right to be enforceable against competing claimants with rights acquired under intellectual property law (e.g. transferees and licensees), it should be registered in the relevant intellectual property registry, it was stated that registration was a matter of third-party effectiveness and priority, but not a matter of enforcement.

4. Proposal by the secured creditor to accept an encumbered intellectual property right

69. It was noted that the remedy of a proposal by the secured creditor to accept an encumbered asset in total or partial satisfaction of the secured obligation would apply in cases where the encumbered asset would be an intellectual property right. It was widely felt that the matter should be discussed in the commentary of the Annex in a way that would be consistent with the Guide.

5. Collection of royalties

70. It was noted that, in cases where the encumbered asset was the licensor's right to receive payment of royalties under a licence agreement, the secured creditor would be entitled to collect payment of the royalties. It was also noted that the rights of the licensor, for example to terminate the licence, under the intellectual property law, would not be affected by the secured creditor's rights in the royalties.

6. Enforcement of a security right in a tangible asset related to an intellectual property right

71. It was widely felt that a security right in a tangible asset with respect to which an intellectual property right was used could be enforced either if the rights holder authorized the enforcement or the intellectual property right was exhausted under the applicable intellectual property law (see para. 27 above). While some concern was expressed about the term "exhaustion", it was stated that it was widely used in various texts, including the Agreement on Trade-related Aspects of Intellectual Property Rights ("TRIPS"), and well understood. At the same time, it was widely felt that, as the meaning of the "exhaustion doctrine" was neither clear nor uniform, the Annex should refrain from attempting to define it, but limit itself to simply referring to national law in that regard. The suggestion was made that the commentary of the Annex could encourage States to clarify their law with regard to the "exhaustion doctrine".

7. Rights acquired through disposition

72. It was noted that, if a secured creditor sold or licensed an encumbered intellectual property right in a judicial or other officially supervised process, rights acquired by a transferee or licensee would be regulated by the relevant law applicable to the enforcement of court judgements. It was also noted that, in the case of extrajudicial enforcement, a transferee or licensee would take the intellectual property right subject to rights that had priority as against the right of the enforcing secured creditor but free of the right of the enforcing secured creditor and any competing claimant with lower priority ranking (see recommendations 161-163). It was also stated that whether the security right could be enforced in subsequent enhancements of the encumbered intellectual property right was a matter of the description of the encumbered asset in the security agreement.

8. Enforcement of a security right in a licensee's rights

73. It was noted that the commentary of the Annex might need to address situations where the encumbered asset was a licensee's right to use the encumbered intellectual property or to claim payment of royalties from a sub-licensee.

I. Acquisition financing

74. The Working Group considered the question whether, in cases where a licensor "financed" the acquisition of a licence by a licensee in the sense that payment was made in future royalty instalments, the licensor's right in the royalties should have priority over a security right granted by the licensee in all its present and future

assets (including royalty payments from sub-licensees with which the licensee would pay the royalties owed to the licensor).

75. Differing views were expressed as to how that result might be achieved. One view was that that result could be achieved without a special priority rule in view of the fact that the licensor could protect its rights by: (a) prohibiting the licensee from assigning its claim against sub-licensees for the payment of royalties owed under sub-licence agreements; (b) terminating the licence in cases where the licensee assigned its royalty claims against sub-licensees; or (c) obtaining a security right in royalty claims of the licensee against sub-licensees.

76. Another view was that the right of the licensor for the payment of royalties should have the super-priority recognized to an acquisition security right under the Guide. It was stated that the ways for the licensor to protect its rights just mentioned might not be sufficient, as: (a) it was not clear whether anti-assignment provisions would be upheld by the Guide; (b) the licensor could not terminate the licence in the case of the insolvency of the licensee; and (c) even if the licensor obtained a security right, it might not be protected as the priority of that right would be determined by the order of registration and thus another security right might gain priority (e.g. if a licensee created a security right in all its present and future assets before it obtained the licence). It was agreed that the right of a licensor with respect to a licensee's claim for royalties under a sub-licence agreement was not an acquisition security right.

J. Law applicable to a security right

1. Law applicable to proprietary matters

77. It was noted that intellectual property law was based on the principle of territoriality and that, as a result, the law applicable to a transfer of an intellectual property right was the law of the State in which protection of the right was sought (*lex protectionis*). It was also stated, however, that the application of the *lex protectionis* to the proprietary aspects of a security right was not generally accepted. It was observed, for example, that, in some States, the law of the grantor's location was the law applicable to a security right. In that connection, it was noted that a variation of the approach based on the *lex protectionis* would be to apply the law of the grantor's location generally, with the exception of priority conflicts in which a competing claimant had obtained a security right under the *lex protectionis*. A further variation of that approach, it was noted, would be to limit the application of the *lex protectionis* to security rights that could be created by registration in an intellectual property rights registry.

78. A further variation of the *lex protectionis* was proposed. According to that variation, the *lex protectionis* would apply to a security right in a single intellectual property right, while the law of the grantor's location would apply to a security right in various assets of a grantor (including intellectual property rights) located in various countries. Doubt was expressed with regard to the efficiency of such an approach, as, in the case where rights such as the ones just described were competing between themselves, two different conflict-of-laws rules would apply to the priority conflict.

79. At the conclusion of the discussion, it was suggested that the efficiency of one or the other approach should be tested against various fact patterns, taking into account the cost of registration and search. Two fact patterns were mentioned as examples: (a) situations where a security right was registered in a general security rights registry and in an intellectual property registry, and the grantor was located in another country; (b) situations in which the owner was in country A, while licensees and sub-licensees were in different jurisdictions. There was broad support for the suggestion to test the various applicable law approaches against specific fact patterns.

2. Law applicable to contractual matters

80. It was noted that the mutual rights and obligations of the grantor and the secured creditor could be left to the law of their choice and, in the absence of a choice of law, to the law governing the security agreement (see recommendation 216).

K. Scope of application and other general rules

1. Outright assignments or transfers of intellectual property rights

81. The Working Group recalled its working assumption that outright assignments or transfers of intellectual property rights would not be addressed in the Guide (see para. 17 above). It was widely felt that such transfers were already sufficiently covered and, in the case of some types of intellectual property right, made subject to registration in specialized registries.

2. Rights arising under licence agreements

82. It was noted that a licensor could grant a security right in its right to claim payment of royalties or in any other contractual right of value. It was also noted that the Guide's provision on anti-assignment agreements applied only to an agreement between the licensor and the licensee prohibiting the licensor from assigning its royalty claims against the licensee. It did not apply to an agreement between the licensor and the licensee prohibiting the licensee from assigning its royalty claims against sub-licensees or to an agreement prohibiting the licensee from granting a sub-licence.

83. It was also noted that, under intellectual property law, a licensee could grant with the permission of the licensor a security right in its right to use the intellectual property or in its royalty claims against sub-licensees. It was stated that the permission of the licensor was necessary under intellectual property law to ensure that the licensor would maintain its control over the licensed intellectual property, as well as protect the confidentiality and the value of the information associated with the intellectual property right.

3. Claims against infringers of intellectual property rights

84. It was noted that, in some jurisdictions, under intellectual property law, claims against infringers were transferable and could be used as collateral for credit, while, in other jurisdictions, such claims were not transferable and thus could not be

encumbered by a security right independent of the ownership right. It was also noted that whether such claims were part of the encumbered intellectual property right was a matter of the description of the encumbered asset in the security agreement. In any case, under secured transactions law, claims would be proceeds of the encumbered intellectual property right and thus the secured creditor could exercise the grantor's rights to sue infringers.

4. Right to register an intellectual property right

85. It was noted that whether the right to renew a registration was a transferable right or an inalienable right of the owner was a matter of intellectual property law. It was also noted that, if that right was transferable, whether the secured creditor acquired it or not was a matter of the description of the encumbered asset in the security agreement.

5. Intellectual property rights related to tangible assets

86. It was noted that a security right in a tangible asset, with respect to which an intellectual property right was used, did not extend to the intellectual property right, unless the description of the encumbered asset included the intellectual property right. Still, it was noted, the secured creditor could enforce its security right in the tangible asset, provided that the rights holder authorized such enforcement or the rights of the rights holder in the intellectual property right related to the tangible asset were exhausted (see paras. 27 and 71 above).

6. Application of the principles of party autonomy and electronic communications to security rights in intellectual property rights

87. The Working Group recalled its assumption that the principle of party autonomy and appropriate limitations would be discussed in the Annex to the Guide (see para. 57 above).

L. Key objectives and fundamental policies

1. Application of the key objectives and fundamental policies of the Guide to intellectual property financing transactions

88. It was widely felt that the commentary of the Annex could discuss the impact of the application of the key objectives and fundamental policies of the Guide to intellectual property financing transactions giving practical examples. It was stated that such analysis would be particularly useful for States, in which the law did not allow intellectual property rights to be used as collateral for credit or in which such practices were very limited.

89. It was noted that an example of such analysis might be to explain that the key objective of the Guide to promote secured credit, in an intellectual property financing context, might be achieved if unauthorized use of intellectual property were discouraged and innovation were protected. Differing views were expressed in that regard. One view was that it was not for secured financing law to discourage unauthorized use of intellectual property or to protect innovation. It was stated that those objectives were objectives of intellectual property law, but not of secured

financing law. Another view was that secured financing law could, for example, avoid rules that could inadvertently result in justifying compulsory licences or even piracy. It was also stated that rules on the enforcement of security rights could protect the deterioration of the value of intellectual property rights.

2. Additional key objectives and fundamental policies

90. The Working Group engaged in a discussion about possible additional key objectives and fundamental policies of a regime on intellectual property financing such as the one envisaged in the Guide. Several examples were given.

91. One example of a possible additional fundamental policy mentioned was to ensure coordination between secured financing and intellectual property law, so as to preclude any conflicts from arising. It was stated that no assumptions should be made as to whether there were conflicts between secured financing and intellectual property law, but that conflicts should be addressed, if and when any were identified. On the other hand, it was observed that the tension between currently existing secured financing law and intellectual property law that was identified in chapter III of the working paper before the Working Group (see A/CN.9/WG.VI/WP.33) was the reason why recommendation 4, subparagraph (b), provided that the Guide would not apply to the extent of any inconsistency with intellectual property law. It was also pointed out that the whole purpose of the Guide was to ensure effective coordination between the secured financing regime envisaged in the Guide and intellectual property law.

92. Another example mentioned related to the question whether a secured creditor needed to be also a rights holder under intellectual property law. It was stated that the secured creditor should have the right to preserve the value of an encumbered intellectual property right, for example, by suing infringers and renewing registrations. On the other hand, it was observed that those were matters of intellectual property law and no assumptions should be made as to whether intellectual property law associated those rights with ownership. Recalling its earlier discussion of that matter (see paras. 24, 58-59 and 65-67), the Working Group decided to revisit it at a future meeting.

93. Yet another example mentioned related to the fact that the Guide deferred to general property law principles, such as the principle that nobody could grant to another person more rights than he or she had (*nemo dat quod non habet*). It was noted that the commentary could explain the relationship between the *nemo dat* principle and priority rules of the Annex. While there was no objection to the application of those principles to secured financing transactions related to intellectual property rights (or to appropriate explanations in the commentary), the concern was expressed that treating those principles as key objectives or fundamental policies of the Annex might inadvertently give the impression that they did not apply to security rights in other types of asset.

94. Yet another example mentioned related to the question whether a security right in an intellectual property right would be effective against a transferee or a licensee of that intellectual property right. It was widely felt that that matter should be discussed in the section of the Annex dealing with priority.

95. Yet another example mentioned was the relationship of financing devices under intellectual property law (involving a transfer of ownership or a licence) and

financing devices under the Guide. It was widely felt that, if financing devices were part of intellectual property law, the Guide would not apply. If, however, such devices were part of general property law, the Guide would apply. It was also stated that the commentary could draw the attention of States to the need to adjust their intellectual property law.

96. Other examples mentioned included that: (a) 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 on goods or services or to maintain adequate quality control might result in loss of value or even abandonment); (b) in the case of trademarks, consumer confusion should be avoided (e.g. where a secured creditor removed trademarks from goods and sold them); and (c) secured transactions law should 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.

97. Differing views were expressed as to the possible key objectives or fundamental policies mentioned in the preceding paragraph. One view was that they should not be mentioned as key objectives or fundamental policies, as they gave the impression that there was a conflict between secured financing and intellectual property law. It was stated that they could be mentioned in the commentary on specific issues or recommendations. Another view was that the protection of the value of intellectual property rights, the need to avoid consumer confusion and the assignment of personal licences only with the consent of the owner were of sufficient general importance to be cast as general principles or policies of the Annex.

M. The impact of insolvency on a security right

1. The treatment of security rights granted by the licensee in the insolvency of the licensor

98. It was noted that, under chapter XII of the Guide (which was consistent with the *UNCITRAL Legislative Guide on Insolvency Law*), in the case of the insolvency of a licensor, the insolvency representative had the right to continue the licence agreement, performing it, or to reject it. It was also noted that some insolvency laws dealt with the issue by allowing the licensee to continue using the intellectual property, provided that the licensee complied with all the terms of the licence agreement. While it was stated that such an approach would preserve the licence agreement and any security rights granted by the licensee in its rights under the licence agreement, it was also observed that that was a matter of insolvency law.

99. In response to a question, it was noted that, if the licensee paid the royalties upfront, the agreement would be fully performed (i.e. there would be no executory contract) and thus the insolvency representative could not terminate the licence agreement (see recommendation 70 of the *UNCITRAL Legislative Guide on Insolvency Law*).

2. The treatment of security rights granted by the licensor in the insolvency of the licensee

100. It was noted that, in the insolvency of the licensee, any termination or acceleration clause would be unenforceable (see recommendation 70 of the *UNCITRAL Legislative Guide on Insolvency Law*). It was also noted that the insolvency representative could continue performance of the licence agreement, provided that any past-due royalties were paid or any other breach was cured, the non-breaching counter-party (the licensor) was returned to the economic position it was before the breach and the estate could perform under the continued licence agreement (see recommendation 79 of the *UNCITRAL Legislative Guide on Insolvency Law*).

101. The Working Group considered the situation where a licensor granted a licence to a licensee, the licensee granted a sub-licence to a sub-licensee, and the licensee (or both the licensor and the licensee) granted security rights to secured creditors. It was stated that, under the *UNCITRAL Legislative Guide on Insolvency Law*, that fact pattern would be addressed as follows:

“In the case of the insolvency of the licensee of intellectual property, the insolvency representative of the licensee is empowered to elect to continue the contract (notwithstanding any automatic termination-upon-bankruptcy clause in the contract). If continued, the payments provided for by the licence agreement must be made on an ongoing current basis (and a mere promise of an administrative payment in the future would not suffice). Thus, if the insolvency representative elects to continue the contract, the obligation to make the royalty payments provided for by the contract is an ongoing obligation of the insolvency estate of the licensee. If the licensee did not make current payments post-continuation, that would be grounds for the licensor to go into the insolvency court and seek termination of the license for non-performance of the post-insolvency obligation to pay.

If the licensee had sublicensed the intellectual property and had also entered into a financing arrangement pursuant to which the licensee/sub-licensor granted a security right in its right to receive sub-royalty payments, the payments to the licensor under the continued prime licence agreement out of the sub-royalties would be free and clear of any claim of the secured creditor of the licensee/sub-licensor. Any authorization to use a secured creditor's cash collateral would be subject to the normal applicable insolvency rules, including notice to the secured creditor and its right to be heard and protection of the economic value of the security interest. If there were sub-royalty payments under a sub-licence agreement in excess of those utilized in making payments under the prime licence agreement, that excess would be retained in the insolvency estate of the licensee/sub-licensor, the insolvency stay against creditor actions would apply to the secured creditor, and the secured creditor's rights to those excess monies would be determined by the normal insolvency rules applicable to cash proceeds of collateral.

If subsequent to the continuation of the prime licence agreement by the insolvency representative of the licensee there were a breach of the prime licence agreement by the licensee (e.g. a sub-licence to a non-permitted third

party), the licensor's claim for damages arising from the breach would be an administrative claim against the licensee's insolvency estate."

102. There was support for that analysis. It was stated that it would be useful to include it in the Annex to the *UNCITRAL Legislative Guide on Secured Transactions* as a supplement to the insolvency discussion in chapter XII that would be consistent with the *UNCITRAL Legislative Guide on Insolvency Law*. However, a note of caution was struck in that regard. It was stated that that analysis had to be considered and confirmed by insolvency experts and perhaps Working Group V (Insolvency Law). It was also observed that the analysis involved issues of insolvency law that did not belong in a secured transactions regime.

3. Conclusion

103. As the Working Group was not able to reach agreement as to whether the above-mentioned matters (see paras. 98-102) were sufficiently linked with secured transactions law so as to justify their discussion in the Annex to the *UNCITRAL Legislative Guide on Secured Transactions*, it decided to revisit those matters at a future meeting. The Working Group recommended to the Commission that Working Group V (Insolvency Law) might be asked to consider those matters.

N. Terminology

1. "[Assignment] [Transfer] of an intellectual property right"

104. Recalling that it had adopted the working assumption that outright assignments or transfers of intellectual property rights would not be covered by the Annex (see para. 17 above), the Working Group agreed that an explanation of the term assignment or transfer of an intellectual property right would not be necessary. In response to a question as to the treatment of an outright assignment for security purposes, it was stated that it would be covered in the Annex as a security device, irrespective of how it was denominated.

2. "Intellectual property right"

105. Several suggestions were made. One suggestion was to retain the term "intellectual property right" limiting its scope to ownership rights and use other terms to express other rights (e.g. rights under licence agreements). Another suggestion was to retain the term "intellectual property" to refer to ownership rights and use the term "intellectual property rights" to refer to all other rights. It was stated, however, that there was no real distinction between intellectual property and intellectual property rights, as intellectual property rights were exclusive rights to permit or prevent the use of intellectual property. It was widely felt, therefore, that only the term "intellectual property" should be retained with appropriate explanations in the commentary with respect to the bundle of rights covered by that term.

3. "Claims", "receivables" and "licence"

106. Similarly, it was widely felt that the terms "claims", "receivables" and "licence" should be explained in the commentary but did not need to be defined.

With respect to receivables, the Working Group recalled its earlier decision (see para. 22 above) that, for the purposes of secured transactions law, they formed an asset that was separate from the intellectual property from which they flowed, without prejudice, however, to their possibly different treatment for the purposes of other law such as intellectual property law (see recommendation 4, subparagraph (b)).

4. “Competing claimant”

107. While some doubt was expressed as to whether the different meaning of the term “competing claimant” under intellectual property law should be explained in the Annex, it was agreed that such explanation would be useful, but should not be expanded to a discussion of priority issues.

O. Examples of intellectual property financing practices

108. It was widely felt that a discussion of the practices to be covered in the Guide was useful and should be expanded to cover practices in which different rights were used as collateral for credit, including the licensor’s rights under a licence agreement.

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

109. It was widely felt that the discussion of the relationship between secured financing and intellectual property law should be retained with a view to indicating how the various issues were addressed in the Annex. Some doubt was expressed as to whether the discussion of the different security devices under intellectual property law should be retained in view of the understanding of the Working Group that the background of the Annex should be the secured financing regime in the Guide. It was widely felt, however, that in the Annex the options available to States enacting the Guide in that regard should be discussed. It was stated that those options would be: (a) to harmonize intellectual property law governing security devices relating to intellectual property (e.g. mortgages or pledges in intellectual property registered in the relevant intellectual property registry); or (b) to retain security devices under currently existing intellectual property law with the understanding that the Guide would defer to such law (see recommendation 4, subparagraph (b)) and provide appropriate coordination through its priority rules (see recommendations 77 and 78).