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Draft Annex to the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property

Note by the Secretariat

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IV. Effectiveness of a security right in intellectual property against third parties

[*Note to the Working Group: For paras. 1-9, see A/CN.9/WG.VI/WP.35/Add.1, paras. 1-14, A/CN.9/667, paras. 55-63, A/CN.9/WG.VI/WP.33, paras. 137-145, and A/CN.9/649, paras. 29-31.*]

A. The concept of third-party effectiveness

1. As already noted, the *Guide* distinguishes between creation of a security right (effectiveness of the security right as between the parties) and its effectiveness against third parties. Subject to recommendation 4, subparagraph (b), this distinction applies equally to security rights in intellectual property (see A/CN.9/WG.VI/WP.37/Add.1, paras. 26-28).
2. In many States, there are no special rules governing the creation and third-party effectiveness of security rights in intellectual property and those issues are governed by the same rules that apply to security rights in other types of intangible asset. It is very common, however, for law relating to intellectual property to provide for particular methods in which a security right in some types of intellectual property may be made effective against third parties. The practices differ for rights in intellectual property that are subject to a specialized registration or recordation system (such as patents, trademarks and, in some countries, copyrights), and rights in intellectual property that are not subject to such registration (such as trade secrets, industrial designs and, in some countries, copyrights). These matters are addressed in sections B and C below.
3. In the *Guide*, the concept of “effectiveness against third parties” refers to whether a security right in an encumbered asset is effective against parties other than the grantor and the secured creditor that have (or may have in the future) a security or other right in that encumbered asset. Such third parties include creditors of the grantor, as well as transferees, lessees and licensees of the encumbered asset. In law relating to intellectual property, by contrast, the phrase “third-party effectiveness” is often used to refer to the effectiveness of ownership or other similar rights in intellectual property itself, rather than to the effectiveness of a security right. These two sorts of references should not be confused. While effectiveness of a security right in intellectual property as against persons that have a competing right in the encumbered intellectual property is a matter of secured transactions law, effectiveness of ownership rights or lesser rights, such as the rights of a licensor, in intellectual property against transferees or licensees is only a matter of law relating to intellectual property. In this context, it should be noted that infringers are not competing claimants or legitimate third parties. Thus, the *Guide* does not apply to a “conflict” between a secured creditor and an infringer and, if, for example, an infringer asserts as a defence against a secured creditor that the infringer is a transferee or a licensee of the encumbered intellectual property, the matter is to be determined in accordance with the law relating to intellectual property. Of course, if an alleged infringer is a legitimate transferee or licensee, the *Guide* will apply to that conflict.

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

4. Under the *Guide*, security rights in intangible assets may be made effective against third parties by registration of a notice in the general security rights registry or of a document or notice in a specialized registry if such registry exists for the relevant encumbered asset and accepts registrations of documents or notices of security rights (see recommendation 38).

5. Thus, under the *Guide*, if under law relating to intellectual property a document or notice of a security right is registrable in an intellectual property registry that provides for third-party effects or similar effects (e.g. effects against all parties), a security right in intellectual property may be made effective against third parties by registration of a document or notice in the intellectual property registry or of a notice in the general security rights registry (see recommendation 38). Consequently, should registration of a document or notice of a security right in an intellectual property registry not be possible or should such registration not produce third-party or similar effects, that registry would not be a specialized registry under the *Guide* and recommendations of the *Guide* relating to specialized registries would not apply (see also paras. 14-18 below).

6. Under law relating to intellectual property, in some States, a security right is not effective against third parties or even as between the parties (i.e. is not created), unless and until a document or notice if it is registered in the relevant intellectual property registry. In other States, law relating to intellectual property provides that a security right is created and becomes effective against third parties when the security agreement is entered into, even without registration. In these cases, registration in the relevant intellectual property registry allows certain third parties, typically bona fide transferees without notice, to invoke a priority rule to take precedence over unregistered prior security right, but the unregistered security right still remains effective against other third parties. In still other States, a security right is created when the security agreement is entered into, but registration in the relevant intellectual property registry is necessary to make the security right effective against any third parties, for example, by way of an evidentiary rule that prohibits evidence of unregistered security rights. In still other States, the registration system does not readily accommodate registration of documents or notices of security rights, and third-party effectiveness must be achieved outside the intellectual property registration system. Finally, in some States, it is possible to achieve third-party effectiveness of a security right by using either the intellectual property registry or an available general security rights registry. If any of these methods is intended to be the exclusive method of obtaining effectiveness of a security right against third parties, in accordance with recommendation 4, subparagraph (b), it takes precedence over any of the methods provided in the law recommended in the *Guide*.

7. The *Guide* does not recommend that States that currently do not have a specialized registry for certain types of intellectual property create such registries in order to permit the registration of a notice of a security right in intellectual property. Nor does it recommend that States that currently do not permit the registration of a notice of a security right in an intellectual property registry amend their laws to permit such registrations. Finally, the *Guide* does not recommend a rule that

requires registration of a notice of a security right in both the relevant intellectual property registry and in the general security rights registry. However, States enacting the recommendations of the *Guide* may wish to review their law relating to intellectual property and consider whether to permit the registration of notices of security rights in already existing intellectual property registries.

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

8. As already mentioned, under the *Guide*, a security right in intellectual property may become effective against third parties by registration of a notice in the general security rights registry (see recommendation 32). This is possible even if the encumbered intellectual property rights are not registrable in an intellectual property registry (e.g. copyrights, industrial designs or trade secrets). However, this is not possible if law relating to intellectual property provides that a security right in intellectual property may be made effective against third parties only by registration in an intellectual property registry. The same rule would apply in cases where a document or notice of a security right in intellectual property is registrable in an intellectual property registry but it is not actually registered and in cases where registration in an intellectual property registry produces no third-party or similar effects. In all of these cases, registration of a notice in the general security rights registry is sufficient and the effect of registration is to make the security right effective against third parties (see recommendations 29, 32-33 and 38).

9. Under law relating to intellectual property, there are different approaches to the question of registration of a document or notice of a security right in intellectual property. In some States, often those whose secured transactions law derives from non-possessory pledge concepts, the lack of a general registration system for specific types of intellectual property means that a security right cannot be made effective against third parties by registration under the currently existing secured transactions law, at least to the extent that there is no registration system available or only transfers are registrable. In other States, often those whose secured transactions law utilizes mortgage concepts, a security right is treated as another type of “title” transfer and is, therefore, made effective against third parties to the same extent as any other title transfer registrable in an intellectual property registry. Consequently, in those States, a document or notice of title-based security rights must be registered in an intellectual property registry in order to be effective against third parties, but non-title-based security rights cannot be so registered. Finally, in a few States, there are additional requirements. These commonly include payment of a stamp duty or other transaction tax, or a requirement to give notice to an administrative body, such as a national authors association or collecting society. States enacting the recommendations of the *Guide* may wish to consider harmonizing their secured transactions laws and their laws relating to intellectual property, replacing all existing security devices with an integrated notion of a security right, or, at least, subjecting title-based security rights to the same rules that are applicable to security rights.

V. The registry system

[*Note to the Working Group: For paras. 10-42, see A/CN.9/WG.VI/WP.35, 15-31, A/CN.9/667, paras. 64-85, see A/CN.9/WG.VI/WP.33, paras. 149-161, and A/CN.9/649, paras. 32-40.*]

A. The general security rights registry

10. As already noted, the *Guide* recommends that States establish a general security rights registry (see recommendations 54-75). In general, the purpose of the registry system in the *Guide* is to provide an efficient method for making a security right in existing or future assets effective against third parties, to establish an effective 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. 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 basic information concerning the security right (see recommendation 57).

11. The *Guide* provides precise rules for identifying the grantor of the security right, whether an individual or a legal person. This is because notices are indexed and can be retrieved by searchers according to the name or some other reliable identifier of the grantor (see recommendations 54, subparagraph (h), and 58-63). The *Guide* contains other recommendations to simplify the operation and use of the registry. For example, the *Guide* provides that, to the extent possible, the registry has to be electronic and permit registration and searching by electronic means (see recommendation 54, subparagraph (j)). The *Guide* also provides that fees for registration and searching, if any, should be set at a level no higher than necessary to permit cost recovery (see recommendation 54, subparagraph (i)).

B. Asset-specific intellectual property registries

12. As discussed above, many States maintain registries for registering (or recording) transactions (such as transfers) relating to intellectual property. In some of those registries, security rights may also be filed (i.e. an application for registration may be made) and registered. For example, patent and trademark registries exist in most States, but not all provide for the registration of a document or notice of a security right. In addition, in some States, the registration of a notice (whether of a security right or some other right) does not produce third-party effects. Moreover, a number of States have similar registries for copyrights, but the practice is not universal.

13. While some States have notice-based intellectual property registries, a larger number of States 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. A more modern approach is to simplify the registration process by registering a limited amount of information (such as the names of the parties and a general description of the

encumbered assets). For example, the registration requirements for trademarks are simplified by articles 10 and 11 of the Trademark Law Treaty (1994) and the Singapore Treaty on the Law of Trademarks, as well as by the Madrid Agreement (1891), and the Madrid Protocol (1989), and by the model international registration forms attached to both treaties. Similarly, the Patent Law Treaty (Geneva, 2000) and the Council Regulation (EC) No. 40/94 of 20 December 1993 on the Community Trademark simplify registration requirements. The reason for requiring registration of the transaction document or a memorandum stating the essential terms of the transaction is the need for transparency. Thus, it is essential for a transfer instrument or memorandum 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 registries sometimes index registrations by the specific intellectual property, and not by the grantor's/owner's identifier. This is because the central focus is on the intellectual property itself, which may have multiple co-inventors or co-authors and may be subject to multiple changes in ownership as transfers are made.

14. In addition to national registries, there are a number of international intellectual property registries and registration in these registries is subject to relatively modern treaties or other international legislative texts that simplify the registration process. For example, under the Community Trademark regulation, a statement may be registered referring not only to ownership but also to security rights with third-party effects. Another example is the treaty on the International Registration of Audiovisual Works ("Film Register Treaty"), adopted at Geneva on April 18, 1989, under the auspices of WIPO. The Film Register Treaty creates an international registry, which permits the registration of statements concerning audiovisual works and rights in such works, including, in particular, rights relating to their exploitation (the records of the diplomatic conference indicate statements concerning security rights were also contemplated). The Film Register Treaty provides an evidentiary presumption of validity for registered statements. The international registry allows two types of application. A work-related application identifies an existing or future work at least by title or titles. A "person-related application" identifies one or more existing or future works by the natural person or legal entity that makes or owns, or is expected to make or own, the work or works. The international registry maintains an electronic database that allows cross-indexing between the different types of registrations. There is also a procedure to request removal of contradictory filings.

C. Coordination of registries

15. As already mentioned (see paras. 4-5 above), the *Guide* neither recommends the creation of a specialized registration system (for intellectual property or for other assets), if one does not exist, nor interferes with existing specialized registration systems. However, where, under law relating to intellectual property, a document or notice of a security right in intellectual property is registrable in an intellectual property registry and, at the same time, under the law recommended in the *Guide*, that security right is registrable in the general security rights registry, there is a need to address the issue of coordination between these two registries. In order to avoid interfering with law relating to intellectual property, the *Guide*

addresses it through the general deference to law relating to intellectual property (see recommendation 4, subparagraph (b)) and appropriate priority rules.

16. Thus, the *Guide* does not address or purport to address in any way whether registration of a security right in intellectual property in an intellectual property registry is possible, the requirements for such registration (e.g. document or notice registration) or its effects (e.g. effectiveness or presumption of effectiveness against all parties or only against third parties). Even if an intellectual property registry does not provide for the registration of security rights, provides for the registration of a document rather than a notice thereof or, having provided for such registration, does not give registration third-party effects, the *Guide* provides no recommendation to the contrary and takes the specialized registration system, if any, as is.

17. However, the *Guide* does make recommendations concerning the registration of a notice of a security right in intellectual property in the general security rights registry. For this reason, to the extent that law relating to intellectual property addresses the effects of registration of security rights in an intellectual property registry in a way that would be inconsistent with the third-party effects given to such registration by the *Guide* (see recommendation 38), the *Guide* defers to that law (recommendation 4, subparagraph (b)). By contrast, if law relating to intellectual property does not address these issues, there is no overlap or conflict with law relating to intellectual property, the issue of deference to law relating to intellectual property will not arise and thus the *Guide* will apply giving such specialized registration third-party effects.

18. In addition, the *Guide* addresses the issue of coordination between an intellectual property (or other specialized) registry and the general security rights registry recommended in the *Guide* through appropriate priority rules. Thus, in order to preserve the reliability of intellectual property (and other specialized) registries (in particular, in cases where law relating to intellectual property provides no rule for determining priority), the *Guide* provides that a security right in intellectual property a document or notice of which is registered in the relevant intellectual property registry has priority over a security right in the same intellectual property, a notice of which is registered in the general security rights registry (see recommendation 77, subparagraph (a)). For the same reason, the *Guide* provides that a transferee of intellectual property acquires it, in principle, free of a previously created security right in that property, unless a document or notice of the security right is registered in the intellectual property registry (see recommendations 78 and 79).

19. States enacting the recommendation of the *Guide* may wish to consider ways aimed at coordinating their existing intellectual property registries with the general security rights registry introduced by the *Guide*. For example, States may wish to consider permitting the registration of a notice of a security right in intellectual property in an intellectual property registry with third-party effects. In addition, States may wish to consider whether asset-based intellectual property registries should also have a debtor-based index (and vice versa). Moreover, States may wish to consider requiring the transmission of a notice about a registration in an intellectual property registry to the general security rights registry (or vice versa). Of course, coordination of registries in this way would be easier, simpler, quicker

and less expensive in an electronic registration system rather than in a paper-based registration system.

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

20. An essential feature of the general security rights registry recommended in the *Guide* is that a notice of a security right can refer 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 future inventory, the notice may so identify such inventory. Since priority is determined by date of registration, the lender may maintain its priority position in future inventory. This approach 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.

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

22. If, under law relating to intellectual property, intellectual property may not be acquired, transferred or encumbered before it is actually registered in an intellectual property registry, the *Guide* does not interfere with that prohibition and does not make the grant of a security right in such future intellectual property possible. However, if the creation of a security right in future intellectual property is not prohibited under law relating to intellectual property (as is the case, for example, with a patent or trademark while the application for its registration in the patent or trademark registry is pending), a security right in such an asset could be created and made effective against third parties under the *Guide*. States enacting the recommendations of the *Guide* may wish to consider reviewing their law relating to intellectual property to determine whether a notice of a security right may refer to future intellectual property.

E. Dual registration or search

23. As already mentioned, the *Guide* leaves to law relating to intellectual property the details of registration of a document or notice of a security right in an intellectual property registry and expressly gives priority, as a matter of secured transactions law, to rights with respect to which a registration is made in such a registry. As also noted above, this means that the *Guide* often obviates the need for dual registration or search. In particular, registration only in the general security rights registry would seem to be necessary and useful for secured transactions

purposes: (a) where the encumbered asset is a type of intellectual property with respect to which no registration is required under law relating to intellectual property (e.g. copyrights or trade secrets in many States); (b) where a document or notice of security right in intellectual property is not registrable in an intellectual property registry; (c) where a notice of security right in intellectual property is registrable in an intellectual property registry, but such registration has effects that are inconsistent with third-party effects; and (d) where there are other secured creditors that register only in the general security rights registry. On the other hand, registration in the relevant intellectual property registry may be preferable, for example: (a) where the encumbered asset is a type of asset for which a registration system exists that produces third-party or similar effects and allows registration of documents or notices of security rights (e.g. patents or trademarks in many States); or (b) where the secured creditor needs to ensure priority over other secured creditors or transferees under the relevant law relating to intellectual property.

24. Before a secured transaction is entered into, a secured creditor exercising normal due diligence will typically conduct a search to determine whether there are prior competing claimants that have priority over the proposed security right. As a first step, the secured creditor will search the chain of title to identify prior transfers and to determine whether the grantor actually has rights in the intellectual property so that the security right can become effective in the first instance (this due diligence requirement applies to all movable assets). Unlike intellectual property registries, the general security rights registry does not record title and, as a result, a search of the chain of title will involve a search of the relevant intellectual property registry, provided that the relevant intellectual property is registrable. As a next step, the secured creditor will search to determine whether each prior party in the chain of title has granted a security right which might have priority over the proposed security right. Finally, the secured creditor will determine the applicable priority as between rights registered in one of the two registries. In cases where the priority is determined solely by registration in the relevant intellectual property registry, as provided in the *Guide*, a search of only that registry may be sufficient. Otherwise, a secured creditor may have to search in both registries.

25. Under the *Guide*, it is envisaged that the general security rights registry will be electronic and will accept registration of notices of possible security rights with third-party effects at a nominal cost (based on cost recovery), if any, for registration and searching (see recommendation 54). This means that registration and searching in the general security rights registry is likely to be simple, quick and inexpensive. However, under law relating to intellectual property, registries may not necessarily be fully electronic, documents filed may have to be checked by the registry staff as the legal consequence of registration may be conclusive or presumptive evidence of the existence of a right in intellectual property.

26. Thus, the cost of registration of a document of a security right in an intellectual property registry may be higher than the cost of registration of a notice of a security right in the general security rights registry. As to the cost and time of searching, again searching in a document registry is likely to be more time-consuming and costly than searching in an electronic notice-based general security rights registry. These differences, of course, will be minimized to the extent that an intellectual property registry permits the registration of a notice of a security right

with third-party effects by electronic means and is organized in a way that also permits searching in a time- and cost-efficient way.

F. Time of effectiveness of registration

27. Under the *Guide*, registration of a notice of a security right becomes effective against third parties 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 only some time after registration.

28. Specialized registration systems may have different rules with respect to the time of effectiveness of registration of a security right. For example, under law relating to patents and trademarks in many States, third-party effectiveness of a registered security or other right in a patent or a trademark dates back to the date of filing (i.e. submission to the registry of an application for registration), which is useful where the registry takes time to actually register the security right in the patent or trademark.

29. As already mentioned, the *Guide* deals with coordination issues by giving priority to a security right a document or notice of which is registered in a specialized registry (or with respect to which a notation is made on a title certificate) irrespective of the time of registration (see recommendations 77 and 78). Thus, the difference in the approach as to the time of effectiveness of registration may not cause any problems.

G. Impact of a transfer of encumbered intellectual property on the effectiveness of registration

30. The *Guide* recommends that the secured transactions law should address the impact of a transfer of an encumbered asset on the effectiveness of registration of a notice in the general security rights registry (see recommendation 62). This recommendation is equally applicable to security rights in intellectual property made effective against third parties by registration of a notice in the general security rights registry.

31. However, this recommendation is irrelevant if:

(a) The transferee of an encumbered asset acquires it free of the security right, as is the case, for example, where the transfer is authorized by the secured creditor free of the security right (see recommendation 80);

(b) A document or notice of the security right has been registered in an intellectual property (or other specialized) registry;

(c) The grantor has transferred all its rights in the encumbered asset before granting a security right in that asset (in such situations, under the *Guide*, no security right is created; see recommendation 13); and

(d) There is no security right, but a licence in intellectual property, unless a licence is treated as a transfer under law relating to intellectual property (under the *Guide*, licences are not transfers).

32. The commentary discusses three ways in which an enacting State may wish to address the matter. One way is to provide that, where the encumbered asset is transferred and the transferee does not acquire it free of the security right, the secured creditor must register an amendment identifying the transferee as a new grantor within a certain specified period after the transfer. If the secured creditor fails to do so, the original third-party effectiveness is maintained in principle. However, the security right is subordinated to intervening secured creditors and transferees whose rights arise after the transfer of the encumbered asset and before the amendment notice is registered. A second way in which enacting States may wish to address this issue is to provide that the grace period for the registration of an amendment is triggered only once the secured creditor acquires actual knowledge of the transfer of the encumbered asset by the grantor. A third way might be to provide that a transfer of an encumbered asset has no impact on the third-party effectiveness of a registered security right.

33. If an enacting State adopts the third approach, a secured creditor of the transferor need not register a notice of its security right again identifying the transferee. In such a case, the security right in the asset now owned by the transferee would remain effective against third parties. However, transferees down in the chain of title might not be able to discover, through a search in the general security rights registry, a security right granted by any person other than their immediate transferor. In such cases, they would still have to search the chain of title and status of an encumbered asset outside the general security rights registry. On the other hand, if an enacting State adopts the first or the second approach discussed above, a secured creditor will have to register a new notice identifying the transferee as the new grantor. In such a case, the secured creditor will have the burden of monitoring the status of the encumbered asset (to a different degree, depending on whether the first or the second approach is followed). At the same time, however, transferees down the chain of title will be able to identify a security right granted by a person other than their immediate transferor.

34. States enacting the *Guide* will have to consider the relative advantages and disadvantages of these different approaches and, in particular, their impact on rights in intellectual property. For example, under the first approach mentioned above, a secured creditor extending credit against the entire copyright in a movie would need to make continuous registrations against tiers of licensees and sub-licensees (if the applicable law relating to copyrights treated a licence as a transfer that could be registered) to maintain its priority against them or their own secured creditors. This would be a significant burden on such lenders and might discourage credit against such assets. On the other hand, such an approach would make it easier for a lender to a sub-licensee to find a security right created by its grantor by a simple search only against the grantor. Here, the trade-off is between the relative costs of monitoring and multiple registrations by the lender to the “upstream” party as against the costs of conducting a search of the entire chain of title for security rights created by the “downstream” party. In this regard, it should be noted that typically under law relating to intellectual property a prior transfer or security right retains its

priority over later transfers or security rights without the need for an additional registration in the name of a transferee of an encumbered asset.

35. As already mentioned, if a State does not follow the third option, a secured creditor would have to register a notice of amendment in the general security rights registry each time the encumbered intellectual property became the subject of an unauthorized transfer, licence or sub-licence (if licences are treated as transfers under the relevant law relating to intellectual property), at the risk of losing its priority if it were not informed and had not acted promptly.

36. This problem would not arise with respect to licences and sub-licences, if the secured creditor did not authorize a licence (i.e. if the licensee did not acquire the asset free of the security right) and enforced its security right. In this case, enforcement would result in termination of the licence and any sub-licence, which would make all the “licensees” infringers. Thus, the secured creditor could seek the cancellation of security rights granted by unauthorized licensees. In any case, the third-party effectiveness of a security right in intellectual property against infringers is a matter left to law relating to intellectual property. In addition, this problem would be minimized, if a security right relates to a type of intellectual property that is registrable in an intellectual property registry, at least to the extent that a secured creditor would be informed and could register an amendment notice, which in the case of registration in the general security rights registry could be registered easily, quickly and inexpensively.

H. Registration of security rights in trademarks

37. The International Trademark Association (“INTA”) issued a series of recommendations with respect to the registration of security rights in trademarks and service marks (collectively referred to a “marks”).¹ More specifically, INTA endorsed uniformity and best practice in registration mechanisms and methods regarding security rights in trademarks, 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 registration of security rights in marks fosters commercial uncertainty, and also poses a risk that a mark owner may forfeit or otherwise endanger its mark-related rights; many States have no recording mechanisms (or have insufficient mechanisms) for the registration of security rights in marks; 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. It should be noted that the recommendations do not address issues relating to the registration of security rights in marks that are not registrable in a trademark office, leaving those issues to domestic secured transactions law (including the law recommend in the *Guide*). In addition, the recommendations address third-party effectiveness issues but do not set out priority rules, leaving them to domestic secured transactions law (including the law recommended in the *Guide*).

¹ See http://www.inta.org/index.php?option=com_content&task=view&id=1517&Itemid.

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

(a) A security right in a mark covered by a pending application or registration should be registrable in the national Trademark Office;

(b) For purposes of giving notice of a 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 mark should not have the effect of a transfer of legal or equitable title to the mark that is subject to the security right, and should not confer upon the secured creditor a right to use the mark;

(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 mark registration;

(e) Valuation of marks 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 mark; 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 mark(s) involved by application and/or registration number, (iv) a brief description of the nature of the security right, and (v) the effective date of the security right, should suffice for purposes of making a security right effective against third parties;

(i) Regardless of the 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 mark owner is bankrupt or otherwise unable to maintain the marks 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 marks, provided that nothing shall confer upon the secured creditor the right to use the marks; 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.

39. Recommendations (a), (b), (f) and (g), dealing with third-party effectiveness of a security right in a mark, are compatible with the *Guide* in that they promote the objectives of transparency and registration in any existing specialized registry or a general security rights or other commercial registry (but the *Guide* does not recommend the establishment of such registries if they do not exist).

40. Recommendation (c), providing that the creation of a security right in a mark does not result in a transfer of the mark or confer upon the secured creditor the right to use the mark, is also compatible with the *Guide*. However, under the *Guide*, the secured creditor has a right, but no obligation, to maintain the mark, and the concept of the “excusable non-use” of a mark could result in the preservation of the mark in the case of non-use because of insolvency of the owner.

41. In addition, recommendation (d) is compatible with the *Guide* in that it sets forth a default rule for the rights of the parties within the limits of the applicable law. Recommendation (e) is also compatible with the *Guide* to the extent it emphasizes the importance of valuation of marks without suggesting any particular system of valuation. Recommendation (h) is also compatible with the *Guide* in that it recommends notice filing even in relation to mark registries. It should be noted that the reference to “the date of the security right” is a reference to the effectiveness of the security right between the parties and not against third parties.

42. Moreover, recommendations (i), (j) and (k) are compatible with the *Guide* in the sense that they provide for efficient enforcement mechanisms and registration of court judgements or administrative enforcement decisions. Finally, recommendation (m), subject to approval by the appropriate Government authorities, is compatible with the *Guide’s* recommendations with respect to efficient registration procedures.

VI. Priority of a security right in intellectual property

[*Note to the Working Group: For paras. 43-55 and paras. 1-23 of A/CN.9/WG.VI/WP.37/Add.3, see A/CN.9/WG.VI/WP.35/Add.1, paras. 33-61, A/CN.9/667, paras. 86-103, A/CN.9/WG.VI/WP.33/Add.1, paras. 1-25, and A/CN.9/649, paras. 41-56.*]

A. The concept of priority

43. Under the *Guide*, the concept of priority of a security right as against competing claimants refers to the question of who as between the secured creditor and each competing claimant (see para. 44 below) may receive payment first out of the proceeds of the disposition of an encumbered asset in the case of the debtor’s default. In law relating to intellectual property, by contrast, the notion of the priority of intellectual property rights may relate to notions of title and basic effectiveness. In many States, when intellectual property is transferred by the intellectual property owner once, a second transfer by the same person will normally transfer no rights to

the second transferee (subject to the parties' compliance with statutory recordation or knowledge requirements under law relating to intellectual property). In such a case, no issue of priority in the sense this term is used in the *Guide* arises. Accordingly, the *Guide* would not apply and this matter would be left to law relating to intellectual property. Likewise, under the *Guide*, a party that has no rights in, or the power to encumber, an asset may not create a security right in the asset (see recommendation 13).

B. Identification of competing claimants

44. Under the *Guide*, the notion of "competing claimant" with a right in an encumbered asset means another secured creditor with a security right in the same asset (which includes a transferee in a transfer by way of security), a transferee, lessee or licensee of the encumbered asset, a judgement creditor with a right in the encumbered asset or an insolvency representative in the insolvency of the grantor. Thus, the *Guide* applies to priority conflicts: (a) between a security right, a notice of which is registered in the general security rights registry, and a security right, a document or notice of which is registered in the relevant intellectual property registry; (b) between two security rights, a document or notice of which is registered in the relevant intellectual property registry; (c) between the rights of a transferee or licensee of intellectual property and a security right in that intellectual property; and (d) between two security rights in intellectual property, notice of which is registered in the general security rights registry (see recommendations 76-78).

45. In an intellectual property context, the notion of "conflicting transferees" is used instead and it includes transferees and licensees competing among themselves. As already mentioned, the *Guide* generally does not apply to a conflict between the rights of transferees or licensees, unless there is also a security right involved. However, the *Guide* does apply in such a case if one of the transferees took its right through a transfer of intellectual property by way of security under the secured transactions law recommended in the *Guide* and, under the principle enunciated in recommendation 4, subparagraph (b), there is no priority rule of law relating to intellectual property that applies specifically to that conflict. Similarly, the *Guide* does not apply to a conflict between a transferee of an encumbered asset that took the asset from a secured creditor upon the grantor's default and the secured creditor's proper enforcement and another secured creditor that later received a right in the same asset from the same grantor (that no longer had any rights in the encumbered asset), as this is not a real priority conflict under the *Guide* (this may well be a conflict addressed by law relating to intellectual property).

C. Relevance of knowledge of prior transfers or security rights

46. Under the *Guide*, knowledge of the existence of a prior security right on the part of a competing claimant is generally irrelevant for determining priority (see recommendation 93). However, knowledge that a transfer of an encumbered asset violates a security right in the asset may be relevant (see recommendation 81, subparagraph (a)). Thus, the security right of a secured creditor that has knowledge of a security right created earlier may nonetheless have priority over the earlier-created security right if a notice of the later-created security right was registered

(or was otherwise made effective against third parties) before the earlier-created security right was made effective against third parties (see recommendation 76, subparagraph (a)).

47. By contrast, many laws relating to intellectual property provide that a later conflicting transfer or security right may only gain priority if it is registered first and taken without knowledge of a prior conflicting transfer. The deference to law relating to intellectual property under recommendation 4, subparagraph (b), should preserve these knowledge-based priority rules to the extent they apply specifically to security rights in intellectual property.

D. Priority of a security right registered in an intellectual property registry

48. As already mentioned, if law relating to intellectual property has priority rules dealing with the priority of security rights in intellectual property that apply specifically to intellectual property and the priority rules of the law recommended in the *Guide* are inconsistent with those rules, the law recommended in the *Guide* does not apply (see recommendation 4, subparagraph (b)). However, if law relating to intellectual property does not have such rules or the priority rules of the law recommended in the *Guide* are not inconsistent with those rules, the priority rules of the law recommended in the *Guide* apply.

49. The *Guide* recommends that a security or other right with respect to which a document or notice was registered in a specialized registry should have priority over a security right with respect to which a notice was registered in the general security rights registry, regardless of the order of those registrations (see recommendations 77 and 78).

50. This recommendation is equally applicable to security rights in intellectual property. Thus, if there is a conflict between two security rights in intellectual property, one of which is the subject of a notice registered in the general security rights registry and the other is the subject to a document or notice registered in the relevant intellectual property registry, the *Guide* applies and gives priority to the security right that is the subject of the notice registered in the relevant intellectual property registry (see recommendation 77, subparagraph (a)). If there is a conflict between security rights that are the subject of documents or notices registered in the relevant intellectual property registry, the right that is the subject of the first document or notice registered has priority, and the *Guide* confirms that result (see recommendation 77, subparagraph (b)).

51. If there is a priority conflict between the rights of a transferee of intellectual property and a security right with respect to which, at the time of the transfer, a document or notice was registered in the relevant intellectual property registry, the transferee would take the encumbered intellectual property subject to the security right. However, if the secured creditor had not registered a document or notice of its security right in the relevant intellectual property registry, the transferee takes the encumbered intellectual property free of the security right (see recommendation 78). In some States, under law relating to intellectual property, a secured creditor would have priority in this case, if the transferee is not a bona fide purchaser. The *Guide* would defer to that rule if it applied specifically to intellectual property.

52. Thus, if A creates a security right in a patent in favour of B that registers a notice of its security right in the general security rights registry, and then A transfers title to the patent to C, which registers a document or notice of its transfer in the patent registry, under the *Guide*, C would take the patent free of the security right, because no document or notice of the security right was 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 a document or notice of the security right in the patent registry, under the *Guide*, C would prevail (see recommendation 77, subparagraph (a)). In either case, as registration of a document or notice in the patent registry gives superior rights, under the *Guide*, third-party searches could rely on a search in that registry and would not need to search in the general security rights registry. In all these examples, who is a transferee and what are the requirements for a transfer are matters of law relating to intellectual property. It should also be noted that registration in the intellectual property registry would normally refer only to a security right in intellectual property. It would not refer to a security right in tangible assets with respect to which intellectual property is used.

E. Priority of a security right that is not registrable or registered in an intellectual property registry

53. Under the *Guide*, if a document or notice of a security right is not registrable (or not registered) in a specialized registry, but a notice of it is registered in the general security rights registry, its priority will be determined by the order of registration in that registry (see recommendation 76, subparagraph (a)). In addition, a transferee, lessee or licensee of an encumbered asset, with respect to which a document or notice of a security right is not registrable (or not registered) in a specialized registry, will normally take the asset subject to such a security right (see recommendation 79).

54. These recommendations apply equally to security rights in intellectual property except if, under recommendation 4, subparagraph (b), there is a contrary priority rule of the law relating to intellectual property that applies specifically to intellectual property. Thus, if a document or notice of a security right in intellectual property is not registrable (or not registered) in an intellectual property registry, but a notice in respect of that security right is registered in the general security rights registry, its priority will be determined by the order of registration of the notice. Similarly, a transferee or licensee of intellectual property will take the encumbered intellectual property subject to the security right. If the intellectual property had been transferred by the grantor of the security right before the creation of the security right, the secured creditor will have no security right at all on the basis of the generally acceptable *nemo dat* property law rule, the application of which the *Guide* does not affect. This approach is reflected in the general rule in the *Guide* that a grantor can create a security right only in an asset in which the grantor has rights or the power to create a security right (see recommendation 13).

F. Rights of transferees of encumbered intellectual property

55. As mentioned above, under the *Guide*, a transferee of an encumbered asset (including intellectual property) normally takes the asset subject to a security right that was effective against third parties at the time of the transfer (see recommendation 79). There are two exceptions to this rule. The first exception arises where the secured creditor authorizes the disposition free of the security right (see recommendation 80, subparagraph (a) for sales of encumbered assets and subparagraph (b) for leases or licences of encumbered assets). The second exception relates to a transfer in the ordinary course of the transferor's, lessor's or licensor's business (see recommendation 81). It is important to note that, under the *Guide*, a licence of intellectual property is not a transfer of the licensed intellectual property. Thus, the rules of the *Guide* that apply to transfers of encumbered assets would not apply where there is a security right in intellectual property and then a licence of that intellectual property is granted. In any case, in view of the principle of deference to law relating to intellectual property embodied in recommendation 4, subparagraph (b), the *Guide* does not affect the characterization of a licence (in particular, of an exclusive licence as a transfer) under law relating to intellectual property.
