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

Note by the Secretariat

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VI. Priority of a security right in intellectual property

[*Note to the Working Group: For paras. 1-15 below and paras. 1-22 of A.CN.9/WG.VI/WP.39/Add.5, see A.CN.9/WG.VI/WP.37/Add.2, paras. 43-55, A.CN.9/WG.VI/WP.37/Add.3, paras. 1-23, A/CN.9/670, paras. 73-95, 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

1. Under the *Guide*, the concept of priority of a security right as against competing claimants refers to the question of whether the secured creditor may derive the economic benefit of its security right in an encumbered asset in preference to a competing claimant (as to the meaning of the term “competing claimant”, see A/CN.9/WG.VI/WP.39, paras. 19-20, and para. 3 below). It should also be noted that a conflict between two persons, neither of whom is a secured creditor, is not a priority conflict under the *Guide*.

2. By contrast, in law relating to intellectual property, the notion of the priority of intellectual property rights may relate to notions of title and basic effectiveness. In most States, once intellectual property is transferred by the intellectual property owner, a second transfer by the same person will normally transfer no rights to the second transferee (except if the first transferee does not comply with statutory registration requirements or the second transferee is a good faith purchaser; for the relevance of knowledge of prior transfers, see paras. 5-6). In such a case, the issue of priority in the sense that this term is used in the *Guide* does not arise. Accordingly, the *Guide* would not apply and this matter would be left to law relating to intellectual property. In any case, it should be noted that, 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

3. 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 and an insolvency representative in the insolvency of the grantor. In particular, the *Guide* applies to priority conflicts: (a) between two security rights in intellectual property, notices of which are registered in the general security rights registry (see recommendation 76, subparagraph (a)); (b) 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 (see recommendation 77, subparagraph (a)); (c) between two security rights, documents or notices of which are registered in the relevant intellectual property registry (see recommendation 77, subparagraph (b)); (d) between the rights of a transferee or licensee of intellectual property and a security right in that intellectual property that may be registered in an intellectual property registry (see recommendation 78); (e) between the rights of a transferee or licensee

of intellectual property and a security right in that intellectual property that may not be registered in an intellectual property registry (see recommendations 79-81); and (f) between two security rights, one of which is granted by the grantor and the other is granted by the transferee, lessee or licensee of the encumbered asset (see recommendations 31, 79 and 82). The last conflict is addressed in the sense that the transferee takes the asset subject to the security right (see recommendations 79 and 82) and the secured creditor of the transferee takes no more rights than the transferee had (see recommendation 31).

4. In an intellectual property context, the notion of “conflicting transferees” is used instead and it includes transferees and licensees competing among themselves. If no conflict with a security right in intellectual property (which includes the right of a transferee by way of security) is involved, the law recommended in the *Guide* does not apply and the matter is left to law relating to intellectual property. If a conflict with such a security right is involved, the law recommended in the *Guide* does not apply insofar as its provisions are inconsistent with the enacting State’s law relating to intellectual property (see recommendation 4, subparagraph (b)). Furthermore, the *Guide* does not apply to a conflict between a transferee of an encumbered asset that acquired the asset from a secured creditor enforcing its security right 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). This is not a real priority conflict under the *Guide* (but it may well be a conflict addressed by law relating to intellectual property).

C. Relevance of knowledge of prior transfers or security rights

5. 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 violates the rights of a secured creditor 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 before the earlier-created security right was made effective against third parties (see recommendation 76, subparagraph (a)).

6. By contrast, in many States, law relating to intellectual property provides 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 security rights in intellectual property that are not registered in an intellectual property registry

7. 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.

8. Under the *Guide*, priority between security rights granted by the same grantor in the same encumbered asset that were made effective against third parties by registration in the general security rights registry is determined by the order of registration of a notice in that registry (see recommendation 76, subparagraph (a)). This rule applies if a notice or document of a security right may not be registered or is not registered in a specialized registry. If such a notice or document may be registered and is registered in a specialized registry, different rules apply (see recommendation 77 and paras. 9-11 below). In addition, if a security right is granted by a different grantor (for example, a transferee of the initial grantor), different rules apply (see recommendation 79-83 and paras. 12-15 below and A/CN.9/WG.VI/WP.39/Add.5, paras. 1-14). All these rules apply equally to security rights in intellectual property.

E. Priority of security rights in intellectual property that are registered in an intellectual property registry

9. The *Guide* recommends that a security right with respect to which a document or notice may be registered and is registered in a specialized registry and thus is effective against third parties (see recommendation 38) 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 recommendation 77, subparagraph (a)). It also recommends that a security right, with respect to which a document or notice may be registered and is registered in a specialized registry, has priority over a security right that was subsequently registered in the specialized registry (see recommendation 77, subparagraph (b)). In addition, if an encumbered asset is transferred, leased or licensed and, at the time of the transfer, lease or licence, the security right has been made effective against third parties by registration in the relevant intellectual property registry, the transferee or licensee takes its rights subject to the security right. If a security right may be registered but is not registered in a specialized registry, a transferee, lessee or licensee of an encumbered asset will take the asset free of the security right, even if a notice of the security right was registered in the general security rights registry (see recommendation 78). If the security right may not be registered in a specialized registry, a transferee of the encumbered asset takes it subject to the security right, unless certain exceptional conditions are met (see recommendations 79-81). A secured creditor of a transferee takes subject to a security right created by a transferor (see recommendations 31 and 82).

10. These recommendations are 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 of a document or notice registered in the relevant intellectual property registry, the *Guide* applies and gives priority to the latter security right (see recommendation 77, subparagraph (a)). If there is a conflict

between security rights with respect to which documents or notices are registered in the relevant intellectual property registry, the right a document or notice of which is registered first has priority, and the *Guide* confirms that result (see recommendation 77, subparagraph (b)). If there is a 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 could be registered and was registered in the relevant intellectual property registry, the transferee would take the encumbered intellectual property subject to the security right. However, if a security right in intellectual property may be registered but is not registered, the transferee or licensee of the encumbered intellectual property takes the encumbered intellectual property free of the security right, even if the security right was registered in the general security rights registry (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 good faith purchaser. Following recommendation 4, subparagraph (b), the *Guide* would defer to that rule if it applied specifically to intellectual property. Finally, a secured creditor of a transferee of intellectual property takes the intellectual property subject to the security right of the transferor (see recommendations 31 and 82).

11. For example, 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 searchers could rely on a search in that registry and would not need to search in the general security rights registry. In all these examples, the questions of 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.

F. Rights of transferees of encumbered intellectual property

12. 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 seller's, lessor's or licensor's business where the buyer, lessee or licensee has no knowledge that the sale, lease or licence violates the rights of the secured creditor under the security agreement (see recommendation 81,

subparagraph (a) for sales of encumbered assets, subparagraph (b) for leases and subparagraph (c) for licences). If a security right may be registered (whether registered or not) in an intellectual property registry, as already mentioned (see paras. 9-11 above), a different rule applies (see recommendation 78).

13. Recommendation 79 applies equally to security rights in intellectual property that may not be registered (whether registered or not) in an intellectual property registry (and recommendation 78 applies to security rights in intellectual property that may be registered (whether registered or not) in an intellectual property registry). Thus, if a notice in respect of a security right is registered in the general security rights registry, a transferee or licensee of intellectual property will take the encumbered intellectual property subject to the security right, unless one of the exceptions set out in recommendations 80-82 applies (with respect to recommendation 81, subparagraph (c), see A/CN.9/WG.VI/WP.39/Add.5, paras. 7-14). These recommendations do not apply, under recommendation 4, subparagraph (b), if there are contrary priority rules of the law relating to intellectual property that apply specifically to intellectual property.

14. It is important to note that, if intellectual property is transferred before the creation of a 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). This rule would be displaced though by a rule of law relating to intellectual property giving priority to a good faith purchaser of the encumbered intellectual property (see recommendation 4, subparagraph (b)).

15. It is also important to note that, as already mentioned (see A/CN.9/WG.VI/WP.39/Add.3, paras. 31-36), 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 do not apply to licences. However, the *Guide* would defer to law relating to intellectual property treating certain licences (in particular, exclusive licences) as transfers (see recommendation 4, subparagraph (b)).