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Annex I

Terminology and recommendations of the 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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Annex I

Terminology and recommendations of the draft Supplement to the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property

Terminology¹

“Acquisition security right” includes a security right in intellectual property or a licence of intellectual property, provided that the security right secures the obligation to pay any unpaid portion of the acquisition price of the encumbered asset or an obligation incurred or credit otherwise provided to enable the grantor to acquire the encumbered asset.

“Consumer goods” includes intellectual property or a licence of intellectual property used or intended by the grantor to be used for personal, family or household purposes.

“Inventory” includes intellectual property or a licence of intellectual property used or intended by the grantor to be used for sale or licence in the ordinary course of the grantor’s business.

Recommendations

Security rights in tangible assets with respect to which intellectual property is used²

243. The law should provide that, in the case of a tangible asset with respect to which intellectual property is used, unless otherwise agreed by the parties to a security agreement, a security right in the tangible asset does not extend to the intellectual property and a security right in the intellectual property does not extend to the tangible asset. However, to the extent permitted by law relating to intellectual property, nothing in this recommendation limits the enforcement remedies of a secured creditor with a security right in the tangible asset or in the intellectual property.

[Note to the Working Group: The Working Group may wish to consider whether the words “unless otherwise agreed by the parties to the security agreement”, included in the first sentence of this recommendation, should be retained. The Working Group may wish to note that recommendation 10 states that the law should provide that the grantor and the secured creditor may derogate by agreement from the provisions of the law relating to their respective rights and obligations, unless otherwise provided in the law. As a result, the reference to party autonomy in the first sentence of this recommendation may create doubt as to

¹ If it could be included in the *Guide*, this text would be included in the relevant terms in section B, terminology and interpretation.

² If it could be included in the *Guide*, this recommendation would be included in chapter II on the creation of a security right as recommendation 28 bis.

the application of the principle of party autonomy to other provisions of the law that do not include similar language and thus create problems of interpretation. The Working Group may also wish to consider whether the second sentence of this recommendation could be placed in the commentary as it addresses an issue discussed in the enforcement chapter (see A/CN.9/WG.VI/WP.42/Add.5, paras. 24-27).]

Impact of a transfer of encumbered intellectual property on the effectiveness of the registration³

244. The law should provide that the transfer of intellectual property that is subject to a security right does not affect the effectiveness of registration of the security right. As a result, the secured creditor does not have to register an amendment notice indicating the name of the transferee of the encumbered intellectual property.

[Note to the Working Group: The Working Group may wish to consider whether the second sentence of recommendation 244 should be moved to the commentary as it deals with the result of the application of this recommendation.]

Priority of rights of certain licensees of intellectual property⁴

245. The law should provide that the enforcement of a security right in licensed intellectual property created before the licence was granted does not affect the rights of an end-user licensee of the intellectual property under the licence agreement, provided that:

- (a) The licence is non-exclusive;
- (b) The licence covers [copyrighted or patented software] [one or any of the exclusive rights relating to copyrighted software];
- (c) At the time of the conclusion of the licence agreement:
 - (i) The licensor is generally in the business of granting non-exclusive licences in the intellectual property on substantially the same terms to any person that agrees to perform them in accordance with such terms, and the licence agreement is on such terms; and
 - (ii) The licensee does not have knowledge that the licence violates the rights of the secured creditor under the security agreement; and
- (d) The licensed intellectual property and the rights and obligations under the licence agreement are not customized for the licensee.

³ If it could be included in the *Guide*, this recommendation would be included in chapter IV on the registry system as recommendation 62 bis.

⁴ If this recommendation could be included in the *Guide*, it would be placed in the chapter on the priority of a security right as recommendation 81 bis. As an asset-specific recommendation, this recommendation would replace the general recommendation 81, subparagraph (c), to the extent it applies to intellectual property licences.

Right of the secured creditor to preserve the encumbered intellectual property⁵

246. The law should provide that it does not prevent the grantor of a security right in intellectual property and its secured creditor from agreeing that the secured creditor is entitled to take steps to preserve the encumbered intellectual property (for example, to deal with authorities, pursue infringers or renew registrations of the encumbered intellectual property).

[Note to the Working Group: The Working Group may wish to consider whether this recommendation is necessary, as it deals with an issue that will never arise under the law recommended in the Guide, as: (a) the law recognizes party autonomy; (b) does not include a limitation on the matter dealt with in this recommendation; and (c) defers to law relating to intellectual property to the extent that that law contains such a limitation (see recommendations 10 and 4, subparagraph (b)).

The Working Group may also wish to consider whether the recommendation could be retained if it were revised to:

(a) Limit party autonomy as enshrined in the law recommended in the Guide, stating that the secured creditor may exercise this right only if permitted under law relating to intellectual property; or

(b) Repeat the result of the application of recommendations 10 and 4, subparagraph (b), stating that the grantor and the secured creditor may agree that the secured creditor is entitled to take steps to preserve the encumbered intellectual property, unless otherwise provided by law relating to intellectual property.]

Application of acquisition financing provisions to intellectual property⁶

247. The law should provide that the provisions on acquisition security rights in a tangible asset also apply to an acquisition security right in intellectual property or a licence of intellectual property.

Acquisition security right in intellectual property held for sale or licence

248. The law should provide that, if intellectual property or a licence of intellectual property that is subject to an acquisition security right is held for sale or licence in the ordinary course of the grantor's business, the acquisition security right is treated as an acquisition security right in inventory.

Acquisition security right in intellectual property held for personal, family or household purposes

249. The law should provide that, if intellectual property or a licence of intellectual property that is subject to an acquisition security right is used or intended by the grantor to be used for personal, family or household purposes, the acquisition security right is treated as an acquisition security right in consumer goods.

⁵ If this recommendation could be included in the *Guide*, it would be placed in the chapter on the rights and obligations of the parties to a security agreement as recommendation 116 bis.

⁶ If recommendations 247-252 could be included in the *Guide*, they would be placed in the chapter on acquisition financing after recommendation 186.

Inapplicability of the concept of possession to an acquisition security right in intellectual property

250. The law should provide that, if intellectual property or a licence of intellectual property is subject to an acquisition security right, any reference in such provisions to possession of the encumbered asset by the secured creditor does not apply.

Relevance of time when the grantor acquires the encumbered intellectual property

251. The law should provide that, if intellectual property or a licence of intellectual property is subject to an acquisition security right, any reference in such provisions to the time of possession of the encumbered asset by the grantor refers to the time the grantor acquires the encumbered intellectual property or licence.

252. The law should provide that, if intellectual property or a licence of intellectual property is subject to an acquisition security right, any reference in such provisions to time of the delivery of the encumbered asset to the grantor refers to the time the grantor acquires the encumbered intellectual property or licence.

Law applicable to a security right in intellectual property⁷

253.

Alternative A

The law should provide that the law applicable to the creation, effectiveness against third parties, priority and enforcement of a security right in intellectual property is the law of the State in which the intellectual property is protected.

Alternative B

The law should provide that the law applicable to the creation, effectiveness against third parties, priority and enforcement of a security right in intellectual property that may be registered in an intellectual property registry is the law of the State under whose authority the registry is maintained. The law applicable to those matters with respect to a security right in intellectual property that may not be registered in an intellectual property registry is the law of the State in which the grantor is located.

Alternative C

The law should provide that the law applicable to the creation, third-party effectiveness, priority and enforcement of a security right in intellectual property is the law of the State in which the grantor is located. However, the law applicable to the third-party effectiveness and priority of a security right in intellectual property as against the right of a transferee or licensee of the encumbered intellectual property is the law of the State in which the intellectual property is protected.

⁷ If this recommendation could be included in the *Guide*, it would be placed in chapter X on conflict of laws as recommendation 214 bis.