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## **Report of Working Group VI (Security Interests) on the work of its seventeenth session (New York, 8-12 February 2010)**

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## I. Introduction

1. At its present session, Working Group VI (Security Interests) continued its work on the preparation of an annex to the UNCITRAL Legislative Guide on Secured Transactions (hereinafter referred to as “the Guide”)<sup>1</sup> specific to security rights in intellectual property, pursuant to a decision taken by the Commission at its fortieth session, in 2007.<sup>2</sup> The Commission’s decision to undertake work on security rights 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.<sup>3</sup>

2. At its thirty-ninth session, in 2006, the Commission considered its future work on secured financing law. It was noted that intellectual property rights (e.g. copyrights, patents and trademarks) were 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.<sup>4</sup>

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 colloquiums as necessary.<sup>5</sup> 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.<sup>6</sup>

4. Pursuant to those requests, the Secretariat organized in cooperation with WIPO a colloquium on security rights in intellectual property rights (Vienna, 18 and 19 January 2007). The colloquium was attended by experts on secured financing and

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<sup>1</sup> Currently available on the UNCITRAL website (<http://www.uncitral.org/pdf/english/texts/security-1g/e/final-final-e.pdf>). To be issued as a United Nations sales publication.

<sup>2</sup> *Official Records of the General Assembly, Sixty-second Session, Supplement No. 17 (A/62/17 (Part I))*, para. 162.

<sup>3</sup> *Ibid.*, para. 157.

<sup>4</sup> *Official Records of the General Assembly, Sixty-first Session, Supplement No. 17 (A/61/17)*, paras. 81 and 82.

<sup>5</sup> *Ibid.*, para. 83.

<sup>6</sup> *Ibid.*, para. 86.

intellectual property law, including representatives of Governments and national and international, governmental and non-governmental organizations. At the colloquium, several suggestions were made with respect to adjustments that would need to be made to the draft Guide to address issues specific to intellectual property financing.<sup>7</sup>

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 rights. 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 rights.<sup>8</sup>

6. At the 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 rights would subsequently be prepared.<sup>9</sup>

7. At its thirteenth session (New York, 19-23 May 2008), 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). At that session, the Working Group requested the Secretariat to prepare a draft of the annex to the Guide on security rights in intellectual property rights (“the draft Annex”) reflecting the deliberations and decisions of the Working Group (see A/CN.9/649, para. 13). As the Working Group was not able to reach agreement as to whether certain matters related to the impact of insolvency on a security right in intellectual property (see A/CN.9/649, paras. 98-102) were sufficiently linked with secured transactions law as to justify their discussion in the draft annex, it decided to revisit those matters at a future meeting and to recommend that Working Group V (Insolvency Law) be requested to consider those matters (see A/CN.9/649, para. 103).

8. At its forty-first session (New York, 16 June-3 July 2008), the Commission noted with satisfaction the good progress achieved by the Working Group. The Commission also noted the decision of the Working Group with respect to certain matters related to the impact of insolvency on a security right in intellectual property and decided that Working Group V should be informed and invited to express any preliminary opinion at its next session. It was also decided that, should any remaining issue require joint consideration by the two working groups after that session, the Secretariat should have discretion to organize a joint discussion of the impact of insolvency on a security right in intellectual property.<sup>10</sup>

9. At its fourteenth session (Vienna, 20-24 October 2008), the Working Group continued its work based on a note prepared by the Secretariat entitled “Annex to

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<sup>7</sup> See <http://www.uncitral.org/uncitral/en/commission/colloquia/2secint.html>.

<sup>8</sup> *Official Records of the General Assembly, Sixty-second Session, Supplement No. 17 (A/62/17 (Part I))*, paras. 156, 157 and 162.

<sup>9</sup> *Ibid.*, *Sixty-second session, Supplement No. 17 (A/62/17 (Part II))*, paras. 99-100.

<sup>10</sup> *Ibid.*, *Sixty-third session, Supplement No. 17 (A/63/17)*, para. 326.

the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property” (A/CN.9/WG.VI/WP.35 and Add.1). At that session, the Working Group requested the Secretariat to prepare a revised version of the draft annex reflecting the deliberations and decisions of the Working Group (see A/CN.9/667, para. 15). The Working Group also referred to Working Group V (Insolvency Law) certain matters relating to the impact of insolvency on a security right in intellectual property (see A/CN.9/667, paras. 129-140). In that connection, it was widely felt that every effort should be made to conclude discussions of these matters as soon as possible, so that the result of those discussions could be included in the draft annex by the fall of 2009 or the early spring of 2010 and the draft annex could be submitted to the Commission for final approval and adoption at its forty-third session in 2010 (see A/CN.9/667, para. 143).

10. At its fifteenth session (New York, 27 April-1 May 2009), the Working Group continued its work based on a note by the Secretariat entitled “Draft Annex to the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property” (A/CN.9/WG.VI/WP.37 and Add.1-4). At that session, the Working Group requested the Secretariat to prepare a revised version of the draft Annex reflecting the deliberations and decisions of the Working Group (see A/CN.9/670, para. 16). In addition, the Working Group, having taken note of a note by the Secretariat entitled “Discussion of intellectual property in the Legislative Guide on Insolvency Law” (A/CN.9/WG.V/WP.87), approved the substance of the discussion of the impact of insolvency of a licensor or licensee of intellectual property on a security right in that party’s rights under a licence agreement (see A/CN.9/WG.VI/WP.37/Add.4, paras. 22-40) and referred it to Working Group V (see A/CN.9/670, paras. 116-122). Moreover, the Working Group had a preliminary discussion about its future work programme (see A/CN.9/670, paras. 123-126).

11. At its thirty-sixth session, Working Group V (Insolvency Law) considered the insolvency-related issues referred to it by Working Group VI on the basis of documents A/CN.9/WG.V/WP.87 and A/CN.9/WG.VI/WP.37/Add.4 and an extract from the report of the Working Group (see A/CN.9/670, paras. 116-122). At that session, Working Group V approved the contents of those parts of the draft Annex dealing with the impact of insolvency of a licensor or licensee of intellectual property on a security right in that party’s rights under a licence agreement, as set forth in document A/CN.9/WG.VI/WP.37/Add.4, paragraphs 22-40, and the conclusions and revisions of Working Group VI reached at its fifteenth session (see A/CN.9/670, paras. 116-122).

12. At its forty-second session (Vienna, 29 June-17 July 2009), the Commission expressed its appreciation to the Working Group and the Secretariat for the progress achieved thus far and emphasized the importance of the draft Supplement (referred to above as the “draft Annex”). The Commission also noted with appreciation the results of the coordination efforts of Working Groups V and VI on insolvency-related matters in an intellectual property context. Noting the interest of the international intellectual property community, the Commission requested the Working Group to expedite its work so as to finalize the draft Supplement in one or two sessions and submit it to the Commission for finalization and adoption at its forty-third session, in 2010, so that the draft Supplement might be offered to States for adoption as soon as possible. In addition, the Commission noted with interest the

future work topics discussed by the Working Group at its fourteenth and fifteenth sessions and agreed that, depending on the availability of time, preparatory work could be advanced through a discussion at the sixteenth session of the Working Group. As to the process for the preparation of a future work programme for the Working Group, the Commission agreed that the Secretariat could hold an international colloquium early in 2010 with broad participation of experts from Governments, international organizations and the private sector. It was generally agreed that, on the basis of a note to be prepared by the Secretariat, the Commission would be in a better position to consider and make a decision on the future work programme of the Working Group at its forty-third session, in 2010.<sup>11</sup>

13. At its sixteenth session (Vienna, 2-6 November 2009), the Working Group continued its work based on a note by the Secretariat entitled “Draft Supplement to the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property” (A/CN.9/WG.VI/WP.39 and Addenda 1 to 7) and a proposal by the Permanent Bureau of the Hague Conference on Private International Law (A/CN.9/WG.VI/WP.40). At that session, the Working Group requested the Secretariat to prepare a revised version of the draft Supplement reflecting the deliberations and decisions of the Working Group (see A/CN.9/685, para. 19). In addition, the Working Group approved the substance of the discussion of automatic termination and acceleration clauses contained in intellectual property agreements in the case of insolvency of a licensor or licensee of intellectual property and referred it to Working Group V (see A/CN.9/685, para. 95).

## II. Organization of the session

14. The Working Group, which was composed of all States members of the Commission, held its seventeenth session in New York from 8 to 12 February 2010. The session was attended by representatives of the following States members of the Working Group: Belarus, Cameroon, Canada, China, Colombia, Egypt, France, Germany, Greece, Guatemala, India, Iran (Islamic Republic of), Italy, Japan, Kenya, Madagascar, Mexico, Morocco, Norway, Pakistan, Poland, Republic of Korea, Russian Federation, Spain, Switzerland, Thailand, Uganda, United Kingdom of Great Britain and Northern Ireland, United States of America and Venezuela (Bolivarian Republic of).

15. The session was attended by observers from the following States: Bangladesh, Belgium, Ghana, Indonesia, Panama, Philippines, Qatar, Romania and Turkey. The session was also attended by observers from the following non-member State and Entity: Holy See and Palestine.

16. 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) *Intergovernmental organizations*: Caribbean Community Secretariat (CARICOM) and Hague Conference on Private International Law (HCCH);

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<sup>11</sup> Ibid., *Sixty-fourth session, Supplement No. 17* (A/64/17), paras. 317-319.

(c) *International non-governmental organizations invited by the Commission:* American Bar Association (ABA), American Intellectual Property Organization (AIPLA), Commercial Finance Association (CFA), European Communities Trade Mark Association (ECTA), European Law Students' Association (ELSA), Forum for International Conciliation and Arbitration (FICACIC), Independent Film and Television Alliance (IFTA) and International Trademark Association (INTA).

17. The Working Group elected the following officers:

*Chair:* Ms. Kathryn SABO (Canada)

*Rapporteur:* Mr. Léopold Noel BOUMSONG (Cameroon)

18. The Working Group had before it the following documents: A/CN.9/WG.VI/WP.41 (Annotated provisional agenda) and A/CN.9/WG.VI/WP.42 and Addenda 1 to 7 (Draft supplement to the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property).

19. 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 interests in intellectual property.
5. Other business.
6. Adoption of the report.

### **III. Deliberations and decisions**

20. The Working Group considered a note by the Secretariat entitled "Draft Supplement to the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property" (A/CN.9/WG.VI/WP.42 and Addenda 1 to 7). The deliberations and decisions of the Working Group are set forth below in chapters IV and V. Subject to changes mentioned in chapter IV, the Working Group adopted the recommendations and the substance of the commentary of the draft Supplement. The Secretariat was requested to prepare a final version of the draft Supplement to be submitted to the Commission at its forty-third session (New York, 21 June-9 July 2010) for finalization and adoption.

## **IV. Security rights in intellectual property**

### **A. Preface and introduction (A/CN.9/WG.VI/WP.42)**

21. With respect to the preface and the introduction, it was agreed that paragraph 29 should clarify that, upon default, the secured creditor had a right to dispose of the encumbered asset and the transferee acquired the rights of the grantor free of security rights with a lower priority ranking than that of the security right of

the enforcing secured creditor. In addition, it was agreed that, in paragraph 29, appropriate cross-references to the relevant part of chapter VIII of the Guide and the draft Supplement on the enforcement of a security right should be included. Moreover, it was agreed that paragraph 51 should include an example of consumer confusion with respect to trademarks replacing the current example, which referred to plain infringement. Subject to those changes, the Working Group adopted the substance of the preface and the introduction.

## **B. Scope of application and party autonomy (A/CN.9/WG.VI/WP.42/Add.1)**

22. With respect to chapter I on the scope of application and party autonomy, it was agreed that the last sentence of paragraph 11 should clarify that the list of issues that followed was indicative and thus law relating to intellectual property could also deal with issues that were not included in that list. In addition, it was agreed that paragraph 19 should avoid referring to voluntary registration of a security right in a copyright, which as a matter of law relating to copyright was dealt with differently from State to State. Moreover, it was agreed that paragraph 22 should clarify that the notion of “possession” could not apply to intangible assets, because it was defined in the Guide to mean “actual possession”. Subject to those changes, the Working Group adopted the substance of chapter I on the scope of application and party autonomy.

## **C. Creation of a security right in intellectual property (A/CN.9/WG.VI/WP.42/Add.2)**

23. With respect to chapter II on the creation of a security right in intellectual property, it was agreed that:

(a) Paragraph 2 should clarify that, under the Guide, a security right in intellectual property could be created by a written agreement between the grantor and the secured creditor;

(b) The fifth sentence of paragraph 4 should clarify that, in some cases, the secured creditor was the transferor of an asset, while, in other cases, the secured creditor was the transferee and that, in either case, a security right was created to secure the unpaid portion of the purchase price;

(c) Paragraph 7 should clarify that the requirement of specific identification of the encumbered assets in the security agreement applied to types of intellectual property other than copyright (e.g. patents) as well and that, under law relating to intellectual property, the parties could simply encumber the exclusive rights under a copyright separately;

(d) Paragraphs 17 and 18 should be reviewed to avoid any inconsistency with paragraphs 23 and 24 of chapter I;

(e) At the end of paragraph 27, reference should be added to the possibility that the secured creditor might seek to control by agreement the flow of royalties, not only by prohibiting the licensee from sublicensing the encumbered intellectual

property, but also by prohibiting the assignment of the right to payment of sub-licence royalties; and

(f) In the same paragraph, it should be clarified that breach of any of the above-mentioned agreements by the licensee could make the licensee liable to damages but not invalidate any security right created by the licensee in breach of an agreement with the licensor.

24. Subject to those changes, the Working Group adopted the substance of chapter II on the creation of a security right in intellectual property.

25. The Working Group next considered recommendation 243. It was agreed that the words “unless otherwise agreed by the parties to the security agreement” were superfluous, as recommendation 10 of the Guide was sufficient in enshrining party autonomy, and should thus be deleted. It was also agreed that the second sentence of recommendation 243 should be moved to the commentary as it dealt with a matter addressed in chapter VIII on the enforcement of a security right in intellectual property. In response to a question, it was noted that the “exhaustion” doctrine was irrelevant to recommendation 243. Subject to the above changes, the Working Group adopted recommendation 243.

#### **D. Effectiveness of a security right in intellectual property against third parties (A/CN.9/WG.VI/WP.42/Add.3, paras. 1-10)**

26. With respect to chapter III on the effectiveness of a security right in intellectual property against third parties, it was agreed that paragraph 4 should be revised to refer to the possibility that not only a notice but also a document about a security right could be registered in a specialized registry. Subject to that change, the Working Group adopted the substance of chapter III on the effectiveness of a security right in intellectual property against third parties.

#### **E. The registry system (A/CN.9/WG.VI/WP.42/Add.3, paras. 10-54)**

27. With respect to chapter IV on the registry system, it was agreed that:

(a) Paragraph 19 should explain that the issue of coordination with a general security rights registry would arise even if an international or regional specialized registry was involved;

(b) Paragraphs 26 and 27 should avoid making general assumptions about the cost of registration in a specialized registry as it varied from State to State and the development of electronic registries tended to reduce costs associated with registration;

(c) Paragraphs 28 to 36 should clarify the assumptions on which those paragraphs were based; and

(d) Paragraph 48 should explain why recommendation 244 took a different approach with respect to the impact of a transfer of an encumbered asset on the effectiveness of registration of a security right in intellectual property from the approach followed in recommendation 62 with respect to security rights in other

types of asset (for example, multiplicity of licences and frequency of transfers of intellectual property).

28. Subject to those changes, the Working Group adopted the substance of chapter IV on the registry system.

29. The Working Group next considered recommendation 244. It was agreed that the first sentence of recommendation 244 should be reformulated to read as follows: “The law should provide that the registration of a notice of a security right in intellectual property in the general security rights registry remains effective notwithstanding a transfer of the encumbered intellectual property.” With respect to the second sentence of recommendation 244, the Working Group agreed that it should be placed in the commentary and revised to refer to its objective of ensuring that the effectiveness of registration of a notice in the general security rights registry would be maintained. Subject to those changes, the Working Group adopted recommendation 244.

## **F. Priority of a security right in intellectual property (A/CN.9/WG.VI/ WP.42/Add.4, paras. 1-49)**

30. With respect to chapter V on the priority of a security right in intellectual property, it was agreed that:

(a) Paragraph 28 should be revised to explain that:

(i) “Ordinary course of business” was a concept of commercial or secured transactions law and was not drawn from law relating to intellectual property;

(ii) Law relating to intellectual property did not distinguish among different types of non-exclusive licences but addressed the issue whether they were authorized or not and thus whether a secured creditor, if it were a right holder under intellectual property law, could pursue a purported licensee as an infringer; and

(iii) Recommendation 81, subparagraph (c), did not affect the rights of the secured creditor, if it were a right holder under law relating to intellectual property (for example, to pursue infringers);

(b) Paragraph 40 was ambiguous and should be clarified;

(c) The commentary should generally clarify that:

(i) Recommendation 81, subparagraph (c), applied to situations in which the security right was created before the conclusion of the licence agreement; and

(ii) If the security right was created after the conclusion of the licence agreement, the secured creditor would have no greater rights than the grantor (in accordance with the *nemo dat* principle; see also recommendation 13); and

(d) The commentary should list examples to explain the impact of recommendation 81, subparagraph (c), in an intellectual property context, one of which could reflect the matter covered by the current formulation of recommendation 245.

31. Subject to those changes, the Working Group adopted the substance of chapter V on the priority of a security right in intellectual property.

32. The Working Group next considered recommendation 245. It was widely felt that, in its current formulation, recommendation 245 was too restricted in its scope, if compared with recommendation 81, subparagraph (c). Therefore, the suggestion was made that the recommendation should be reformulated to provide that the rule in recommendation 81, subparagraph (c), did not affect the rights of the secured creditor, if it were a right holder under the law relating to intellectual property. Some doubt was expressed as to whether such a revised recommendation would be useful as it merely restated the principle enshrined in recommendation 4, subparagraph (b), and was based on the mistaken assumption that there was a rule of law relating to intellectual property that would displace the rule in recommendation 81, subparagraph (c). However, the prevailing view was that the suggested formulation would appropriately address the problems raised by recommendation 81, subparagraph (c). It was stated that the principle of recommendation 4, subparagraph (b), was so important that its restatement in that context was beneficial. It was also observed that no general statement could be made about the contents of law relating to intellectual property in that respect, as it differed from State to State. After discussion, it was agreed that recommendation 245 should be reformulated to read as follows: “The law should provide that the rule in recommendation 81, subparagraph (c), applies to the rights of a secured creditor under this law and does not affect the rights the secured creditor may have under the law relating to intellectual property.” Subject to those changes, the Working Group adopted recommendation 245.

**G. Rights and obligations of the parties to a security agreement relating to intellectual property (A/CN.9/WG.VI/WP.42/Add.5, paras. 1-5)**

33. The Working Group adopted the substance of chapter VI on the rights and obligations of the parties to a security agreement relating to intellectual property unchanged.

34. The Working Group next considered recommendation 246. It was widely felt that in its current formulation the recommendation was not useful, since the law recommended in the Guide recognized party autonomy did not include a limitation with respect to the preservation of encumbered assets and deferred to law relating to intellectual property to the extent that that law contained a limitation of party autonomy. At the same time, it was agreed that, in certain cases (for example, insolvency of the grantor, see A/CN.9/WG.VI/WP.42/Add.3, subpara. 1), it was important to permit the secured creditor to take steps to preserve the encumbered intellectual property. After discussion, it was agreed that recommendation 246 should be reformulated to read as follows: “The law should provide that the grantor and the secured creditor may agree that the secured creditor is entitled to take steps to preserve the encumbered intellectual property.” Subject to those changes, the Working Group adopted recommendation 246.

## **H. Rights and obligations of third-party obligors in intellectual property financing transactions (A/CN.9/WG.VI/WP.42/Add.5, paras. 6-7)**

35. The Working Group adopted the substance of chapter VII on the rights and obligations of third-party obligors in intellectual property financing transactions unchanged.

## **I. Enforcement of a security right in intellectual property (A/CN.9/WG.VI/WP.42/Add.5, paras. 8-32)**

36. With respect to chapter VIII on the enforcement of a security right in intellectual property, it was agreed that the last sentence of paragraph 30 should clarify that in case of a breach of a licence agreement: (a) the licensor retained all its contractual rights, including the right to terminate the licence agreement; and (b) the secured creditor of the licensee with a security right in the licensee's right to payment of sub-royalties retained its right to collect the sub-royalties. Subject to that change, the Working Group adopted the substance of chapter VIII on the enforcement of a security right in intellectual property.

## **J. Acquisition financing in an intellectual property context (A/CN.9/WG.VI/WP.42/Add.5, paras. 33-58)**

37. With respect to chapter IX on acquisition financing in an intellectual property context, there was broad support in the Working Group for a regime that would transpose the commentary and recommendations of the Guide with respect to tangible assets so that they would become applicable in an intellectual property context. With regard to the terminology used, it was agreed that, rather than referring in an intellectual property context to consumer goods, equipment or inventory, reference should be made to intellectual property held by the grantor for personal, family or household use, business use or sale and licensing respectively (see Introduction, section C, terminology). Some doubt was expressed as to whether reference could be made to intellectual property held by the grantor for sale or licence in the grantor's ordinary course of business, in view of the fact that the notion of "ordinary course of business" was not drawn from law relating to intellectual property. It was stated, however, that use of that concept in the acquisition financing chapter of the draft Supplement represented an acceptable compromise to establish a regime of acquisition financing rights in intellectual property that would be parallel to the acquisition financing regime with respect to tangible assets.

38. As to the criterion that should be used for determining whether a transaction was in the ordinary course of business, differing views were expressed. One view was that a transaction based on standard terms agreed upon without negotiation would typically be an ordinary-course-of-business transaction, while a customized transaction concluded after negotiation would be a transaction outside the ordinary course of business. Another view was that emphasis should be placed on the primary purpose of the use of the intellectual property by the grantor. It was stated that, if

intellectual property was held by the grantor for sale or licence, a transaction relating to such intellectual property would typically be a transaction in the grantor's ordinary course of business. However, it was observed that intellectual property could be used for multiple purposes (for example, a patent could be used by a manufacturer in its business and by other persons to whom the manufacturer licensed it). For that reason, it was pointed out that, reference should be made to the primary purpose of the relevant intellectual property. After discussion, it was agreed that the commentary of chapter IX on acquisition financing in an intellectual property context should clarify that the distinctions made among various types of intellectual property should be based on the primary purpose of their use.

39. Subject to those changes, the Working Group adopted the substance of chapter IX on acquisition financing in an intellectual property context.

40. The Working Group then considered recommendations 247-252. It was agreed that those recommendations could be presented as one recommendation stating how the acquisition financing recommendations of the Guide would apply to an intellectual property context. It was also agreed that, in recommendation 248, reference should be made to the purpose for which the intellectual property was held by the grantor. Subject to those changes, the Working Group adopted recommendations 247-252.

## **K. Law applicable to a security right in intellectual property (A/CN.9/WG.VI/WP.42/Add.6, paras. 1-40)**

41. With respect to chapter X on the law applicable to a security right in intellectual property, it was agreed that:

(a) Paragraph 10 should clarify that, where the grantor of a security right in intellectual property was located in a State other than the State in which the intellectual property was protected, the security right might not be effective under the law of the protecting State;

(b) The commentary should reflect the fact that, in some States, enforcement issues were regulated by law relating to intellectual property, meaning that the law of the protecting State would be applicable to those issues; and

(c) The reference to the change of location of "the encumbered asset" should be deleted in paragraph 36 and its heading, since an intellectual property right as an intangible right had no location.

42. Subject to those changes and on the understanding that, depending on its decision with respect to recommendation 253, it might have to revert to chapter X, the Working Group approved the substance of chapter X on the law applicable to a security right in intellectual property.

43. The Working Group then considered recommendation 253. In addition to the three options presented at the end of chapter X, a fourth option was proposed that read as follows:

"Within the limits of the law relating to the transferability of intellectual property, the law should provide that:

(a) Where the intellectual property is registered in a specialized registry, the law applicable to the creation, effectiveness against third parties and priority of a security right in intellectual property is the law of the State under whose authority the registry is maintained. However, the law applicable to the enforcement of such a security right is the law of the State in which the grantor is located; and

(b) Where the intellectual property is not registered in a specialized registry or where no specialized registry exists, the law applicable to issues of creation, effectiveness against third parties and enforcement of a security right in intellectual property is the law of the State in which the grantor is located, whenever possible. However, the law of the State in which the intellectual property is protected is the law applicable to priority as against competing claimants and, in particular, the priority of a security right in intellectual property as against the right of a transferee or a licensee of the encumbered intellectual property.”

44. It was explained that the proposed text was based on options B and C of recommendation 253 presented at the end of chapter X (A/CN.9/WG.VI/WP.42/Add.6) and that it would apply to the extent its application was not inconsistent to law relating to intellectual property (see recommendation 4, subparagraph (b)). It was also explained that reference was made to registration of an intellectual property right (and not a security right in intellectual property) in an intellectual property registry on the assumption that law relating to intellectual property allowed the registration of a notice or document of a security right in an intellectual property registry with third-party effects (see A/CN.9/WG.VI/WP.42/Add.3, para. 4).

45. A number of suggestions were made. One suggestion was that, if the chapeau referring to the law applicable to transferability were retained, it should be accompanied by an explanation in the commentary that none of the applicable law recommendations of the Guide addressed issues of transferability; otherwise, it should be deleted. Another suggestion was that reference should be made to whether an intellectual property right might be registered, and not whether it was actually registered. Yet another suggestion was that issues of third-party effectiveness and priority should be referred to the law of the same State. Yet another suggestion was that the words “whenever possible” undermined the certainty sought to be achieved as to the law applicable and should be deleted. There was support for all those suggestions.

46. The concern was expressed, however, that an approach based on whether an intellectual property right might be registered or not in an intellectual property registry for determining the applicable law might run counter to the requirement for the equal treatment of right holders under constitutional law in certain States and the approach taken in Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights (also known as “(IPR) Enforcement Directive” or “IPRED”). In response, it was stated that the concern about equal treatment of right holders was not valid, since: (a) the rule under discussion addressed the issue of the law applicable to security rights and not the substantive rights of right holders; (b) European Union Member States already followed that approach and there was no issue of them being in violation of the IPR Enforcement Directive; (c) such an approach would be justified on the basis of expectations of the parties to security agreements (not intellectual property right

holders) associated with existing intellectual property registries; and (d) the Guide already followed that approach with respect to tangible assets (see recommendations 203 and 205).

47. However, to address the concern expressed above and to assist the Working Group in reaching agreement on a so-called “mixed” or “blended” approach that would combine the law of the protecting State and the law of the State of the grantor’s location, a fifth option was proposed. According to that option, the creation and enforcement of a security right in intellectual property could be referred to the law of the State in which the intellectual property was protected, unless the parties chose the law of the grantor’s location; and the third-party effectiveness and priority of such a security right would be referred to the law of the State in which the intellectual property was protected.

48. While some support was expressed with respect to the fifth option, a number of concerns were also expressed. One concern was that, by referring matters of property law and civil procedure law to party autonomy, it went far beyond generally accepted conflict-of-law principles and the general approach of the Guide, which referred only the mutual rights and obligations of the grantor and the secured creditor to the law chosen by them (see recommendations 10 and 216). Another concern was that, by making it possible that creation issues might be referred to the law of one State and third-party effectiveness issues to the law of another State, the proposed text limited its usefulness to States that had implemented the substantive law recommendations of the Guide that treated creation and third-party effectiveness as two distinct issues.

49. In order to assist the Working Group in reaching consensus, a sixth option was proposed to replace all other options, which read as follows:

“The law should provide that the law applicable to the creation of a security right in intellectual property is the law of the State in which the grantor is located unless the parties to the security agreement select the law of the State in which the intellectual property is protected as the law applicable to such issue.

The law should provide that the law applicable to the effectiveness and priority of a security in intellectual property as against the rights of a transferee, licensee or another secured creditor is the law of the State in which the intellectual property is protected.

The law should provide that the law applicable to the effectiveness and priority of a security in intellectual property as against all other competing claimants is the law of the State in which the grantor is located.

The law should provide that the law applicable to the enforcement of a security right in intellectual property is the law of the State in which the grantor is located unless the parties to the security agreement select the law of the State in which the intellectual property is protected as the law applicable to such issue.”

50. While some support was expressed for that proposal, several concerns were also expressed. The concerns mentioned above with respect to the fifth option were reiterated. In addition, the concern was expressed that the proposed rule might be

too complex and difficult to apply. In that connection, it was suggested that the proposed rule could be simplified along the following lines:

“The law should provide that:

(a) Unless the parties to the security agreement select the law of the State in which the intellectual property is protected, the law applicable to the creation and enforcement of a security right in intellectual property is the law of the State in which the grantor is located;

(b) The law applicable to the effectiveness and priority of a security right in intellectual property as against the right of a transferee, licensee, or another secured creditor is the law of the State in which the intellectual property is protected; and

(c) The law applicable to the effectiveness and priority of a security right in intellectual property as against all other claimants is the law of the State in which the grantor is located.”

51. It was stated that the rule mentioned above could be re-formulated to have the law of the protecting State apply to creation and enforcement issues in the absence of an agreement by the parties to the contrary. While some support was expressed for that proposal, the concerns mentioned above about referring creation and third-party effectiveness to the laws of different States and about referring creation and enforcement issues to party autonomy were reiterated. In that connection, reference was made to the possibility that the law chosen by the parties on matters relating to creation and enforcement of a security right might be set aside as manifestly contrary to the public policy or through the application of mandatory law provisions of the forum State (see recommendation 222). In addition, the concern was expressed that the creation of a security right in a patent or trademark registered in a national patent or trademark registry could be referred to the law of the grantor’s location. Moreover, it was observed that the proposed rule should be first tested against specific examples. It was also stated that adoption of such a rule would require substantial changes in the commentary. It was also pointed out that, if agreement could not be reached on one recommendation, it would be better to present options for the Commission to make a final decision. In that connection, it was stated that, in particular in the area of conflicts of laws, it was important to reach agreement on one recommendation, since otherwise a different rule would apply depending on the conflict-of-laws rule of the forum State, a situation that would perpetuate the currently prevailing uncertainty and have a negative impact on the cost and the availability of credit.

52. In the discussion, the view was expressed that the law of the protecting State was generally enshrined in intellectual property law treaties and could not be ignored. In response, it was stated that, while the importance of an approach based on the law of the protecting State could not be ignored, not all intellectual property law treaties led to that result at the level of domestic law relating to intellectual property.

53. Support was expressed for all of the three options presented at the end of chapter X (A/CN.9/WG.VI/WP.42/Add.6). Support was also expressed for the fourth option mentioned above (see para. 43). In that regard, it was agreed that the fourth

option was an improved version of option B set out in chapter X and should replace option B.

54. However, as the Working Group was not able to reach consensus on any of those options and in an effort to reach consensus on one recommendation, the Working Group engaged in a discussion of a combined version of the fifth and sixth options (see para. 50) that read as follows:

“Version A: The law should provide that the law applicable to the creation and enforcement of a security right in intellectual property is the law of the States in which the intellectual property is protected, except to the extent that the security agreement provides that these matters are to be governed by the law of the State in which the grantor is located. The law should provide that the law applicable to the effectiveness against third parties and priority of a security right in intellectual property as against the rights of a transferee, licensee or another secured creditor is the law of the State in which the intellectual property is protected. The law should provide that the law applicable to the effectiveness against third parties and priority of a security right in intellectual property as against all other claimants is the law of the State in which the grantor is located.”

“Version B: The law should provide that the law applicable to the creation and enforcement of a security right in intellectual property is the law of the State in which the grantor is located, except to the extent that the security agreement provides that these matters are to be governed by the law of the State in which the intellectual property is protected. The law should provide that the law applicable to the effectiveness against third parties and priority of a security right in intellectual property as against the rights of a transferee, licensee or another secured creditor is the law of the State in which the intellectual property is protected. The law should provide that the law applicable to the effectiveness against third parties and priority of a security right in intellectual property as against all other claimants is the law of the State in which the grantor is located.”

55. It was stated that the difference between the first and the second version lay in the fact that, in the absence of an agreement of the parties, under the first version, the creation and enforcement of a security right in intellectual property would be governed by the law of the protecting State, while, under the second version, those matters would be governed by the law of the State of the grantor’s location. Several delegations observed that, to the extent that the proposed text appropriately combined the law of the protecting State with the law of the grantor’s location, it constituted an acceptable compromise. In addition, it was pointed out that the proposed text would be acceptable, in particular, if the reference to party autonomy with respect to the law applicable to the creation and enforcement of a security right were omitted. As a matter of drafting, it was noted that the two versions could be combined with the first sentence of each of them being presented within square brackets.

56. While support was expressed for both versions of the above-mentioned “compromise” proposal, preference was express for version A. However, as the Working Group was not able to reach consensus, it decided that the three options presented at the end of chapter X, with the substitution of the second option by the

text mentioned above (see para. 43), and the two versions of the compromise proposal mentioned above should be retained for further consideration by the Commission. It was widely felt that, in order to ensure certainty as to the law applicable to security rights in intellectual property, it would be essential that every effort be made for consensus to be reached on one recommendation at the Commission session. In that regard, it was stated that, in the absence of an intellectual-property specific recommendation, the general recommendations of the Guide as to the law applicable to security rights in intangible assets would apply (see recommendations 208 and 218, subpara. (b)).

#### **L. Transition (A/CN.9/WG.VI/WP.42/Add.6, paras. 41-45)**

57. The Working Group adopted the substance of chapter XI on transition unchanged.

#### **M. The impact of insolvency of a licensor or licensee of intellectual property on a security right in that party's rights under a license agreement (A/CN.9/WG.VI/WP.42/Add.6, paras. 46-67)**

58. The Working Group adopted the substance of chapter XII on the impact of insolvency of a licensor or licensee of intellectual property on a security right in that party's rights under a license agreement unchanged.

#### **V. Future work**

59. The Working Group noted that the draft Supplement would be considered by the Commission at its forty-third session, which was scheduled to take place in New York from 21 June to 9 July 2010.

60. The Working Group also noted that, in line with a decision taken by the Commission at its forty-second session<sup>12</sup> the Third International Colloquium on Secured Transactions was scheduled to take place in Vienna from 1 to 3 March 2010. The Working Group also noted that the purpose of the Colloquium was for the Secretariat to obtain the views of experts from Governments, international organizations and the private sector in order to prepare a note to the Commission as to possible future work in the area of secured transactions.

61. The Working Group engaged in a preliminary discussion of future work. A suggestion was made that issues pertaining to a possible international registry on security rights in intellectual property should also be included in the future work topics. In response, it was noted that such a project would need to be closely coordinated with WIPO as that topic, as well as the topic of intellectual property licensing, would generally fall under the mandate of WIPO. With regard to the topics that had already been presented as possible future topics, some support was expressed for work on regulations on registration of security rights and a model law on secured transactions based on the recommendations of the Guide. With regard to

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<sup>12</sup> Ibid., *Sixty-third Session, Supplement No. 17* (A/63/17), para. 319.

a supplement to the Guide on certain types of securities not covered by the Unidroit Convention on Substantive Rules for Intermediated Securities, it was observed that that work would have to be limited to non-intermediated securities as much work had already been done by Unidroit and the Hague Conference on intermediated securities.

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