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Eva-Maria Kieninger *Editor*

Security Rights in Intellectual Property

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Eva-Maria Kieninger
Editor

Security Rights in Intellectual Property

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Editor
Eva-Maria Kieninger
Faculty of Law
University of Würzburg
Würzburg, Germany

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Contributors

Venetia Argyropoulou European University of Cyprus, Faculty of Law, Nicosia, Cyprus

Nicolas Binctin Université de Poitiers, Poitiers, France

Jan Jakob Bornheim University of Canterbury, Christchurch, New Zealand

Moritz Brinkmann Institut für deutsches und internationales Zivilverfahrensrecht, Rheinische Friedrich-Wilhelms-Universität Bonn, Bonn, Germany

Iván Heredia Cervantes Universidad Autónoma de Madrid, Madrid, Spain

Élise Charpentier Faculté de droit, Université de Montréal, Montréal, QC, Canada

Andreas Chr. Christoforou Nicosia, Cyprus

Răzvan Dincă University of Bucharest, Law School, Bucharest, Romania

Christian Dorfmayr University of Vienna, Department of European, International, and Comparative Law, Vienna, Austria

Th. C. J. A. (Dick) van Engelen Maastricht University, Maastricht, The Netherlands

Hano Ernst University of Zagreb, Faculty of Law, Zagreb, Croatia

Beata Giesen Faculty of Law and Administration, University of Lodz, Department of Civil Law, Lodz, Poland

Igor Gliha University of Zagreb, Faculty of Law, Zagreb, Croatia

Yuriko Haga Kanazawa University, Kanazawa, Japan

Megumi Hara Gakushuin University, Tokyo, Japan

Robert G. Howell Faculty of Law, University of Victoria, Victoria, BC, Canada

Teemu Juutilainen Faculty of Law, University of Turku, Turku, Finland

Dionysia Kallinikou National and Kapodistrian University of Athens, Athens, Greece

Sadulla Karjiker Anton Mostert Chair of Intellectual Property Law, Stellenbosch University, Stellenbosch, South Africa

Eva-Maria Kieninger Julius-Maximilians-Universität Würzburg, Würzburg, Germany

Pierrina Koriatopoulou National and Kapodistrian University of Athens, Athens, Greece

Pavel Koukal Masaryk University, Faculty of Law, Brno, Czech Republic

Su-Hua Lee College of Law, National Taiwan University, Taipei, Taiwan

Gea Lepik University of Tartu, School of Law, Department of Private Law, Tartu, Estonia

Jasmine Malekzadem University of Ghent – UGent, Gent, Belgium

Patrick Masiyakurima University of Leicester, Leicester, UK

Sheelagh McCracken University of Sydney Law School, Sydney, NSW, Australia

Laura Murguía-Goebel Faculty of Law of the Julius-Maximilians-Universität Würzburg, Würzburg, Germany

Simone Lahorgue Nunes Levy and Salomão Advogados, Rio de Janeiro, Brazil

Ergun Özsunay Istanbul University Law Faculty (Em.), Istanbul, Turkey

Murat R. Özsunay Istanbul Bar Assoc. Apprentice Training Center (SEM), Istanbul, Turkey

Helena Pullmannova Masaryk University, Faculty of Law, Brno, Czech Republic

David Rüther Institut für deutsches und internationales Zivilverfahrensrecht, Rheinische Friedrich-Wilhelms-Universität Bonn, Bonn, Germany

Marco Ricolfi Turin University, Department of Law, Torino, Italy

Radu Rizoiu University of Bucharest, Law School, Bucharest, Romania

Michel Séjean Université Bretagne Sud, Lorient, France

Bianca Scraback Institut für deutsches und internationales Zivilverfahrensrecht, Rheinische Friedrich-Wilhelms-Universität Bonn, Bonn, Germany

Matthias E. Storme Catholic University of Leuven – KU Leuven, Leuven, Belgium

Tatiana Eleni Synodinou Law Department, University of Cyprus, Nicosia, Cyprus

Romana Matanovac Vučković University of Zagreb, Faculty of Law, Zagreb, Croatia

Security Rights in Intellectual Property: General Report

Eva-Maria Kieninger

Abstract The general report gives an insight into the main legal and economic challenges for the creation and perfection of security rights in intellectual property rights. It highlights the differences among legal systems in relation to the transferability of those rights and their collateralisation. An overview of the creditor's remedies in the event of the debtor's default and insolvency as well as some basic information on the costs of creating security rights in IPR's complete the comparative survey.

1 Introduction

1.1 Economic Importance

In 2002, introducing his seminal comparative work on security interests in intellectual property, *Howard Knopf* noted that "not long ago, intellectual property was seen as a footnote, a mere boiler plate or other afterthought aspect of most corporate transactions. Often now, it is the whole point of the most important deals taking place. [. . .] The mergers of AOL and Time-Warner, Seagram and Vivendi, and BCE and CTV are all about intellectual property." However, he continued: "odd as it seems in the face of the staggering sums of money being paid essentially for patents, copyright and trademarks through share prices, the use of intellectual property as collateral in what should be routine exercises in corporate finance, is beset with structural uncertainty."[1] The literature that has been published since 2002 and the

[1] Knopf (2002), pp. 1 and 3 *et seq*.

E.-M. Kieninger (✉)
Julius-Maximilians-Universität Würzburg, Würzburg, Germany
e-mail: kieninger@jura.uni-wuerzburg.de

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national reports prepared for this project[2] both show that not much has changed. As a conclusion to a recently published 600-page monograph, *Peter Picht* states that intellectual property rights are still only used as collateral reluctantly and on a small scale.[3] If they are used, then this is mostly done in the context of an "all-asset" security right.

On the other hand, there is unanimous support for the proposition that security rights in intellectual property (IP) rights[4] could be economically valuable, if not even crucial, for SMEs.[5] This is particularly true for start-ups, which are often very innovative and creative, but have limited access to corporate financing, relying instead on capital markets. Therefore, they need to focus on bank loans; however, they do not own traditional collateral such as land or equipment.[6] For Germany, *Maximilian Decker* has noted that 60% of technology-driven SMEs finance themselves with private equity and have very limited access to bank loans, which are the traditional means of corporate financing in Germany. In over 70% of the cases in which banks refused to lend money to SMEs in the area of research and development, the reason was a lack of collateral. *Decker* concludes that the market for IP rights as collateral is dramatically underdeveloped.[7]

1.2 Main Legal and Economic Challenges

The following paragraphs set out some of the main legal and economic obstacles to taking security interests in IP rights. Whereas some could be overcome or at least mitigated by law reforms and international standardization (see below, Sects. 1.2.1 and 1.2.3), others are inherent in the subject itself (Sects. 1.2.2 and 1.2.4) and are therefore hardly susceptible to reform.

1.2.1 Secured Transactions Law Not Sufficiently Adapted to IP Rights

As will be shown in greater detail in Sect. 3, the question whether it is at all possible to transfer or collateralize IP rights is, in most jurisdictions, governed by IP law,

[2]The national reports (except the report on the United States of America) will be published in Kieninger E-M (ed) (2019), Security Rights in Intellectual Property. The information on US law in the present general report relies on the unpublished report prepared for this project by *Neil Cohen*.

[3]Picht (2018), p. 602.

[4]In this contribution, the notion of intellectual property (IP) is used in a broad sense, including not only copyright (= intellectual property in a narrow sense), but also industrial property, such as patents, designs, and trademarks. Many jurisdictions have separate enactments for these different types of IPRs and may also use different (i.e. broader or narrower) terminology.

[5]Small and medium-sized enterprises.

[6]See Denoncourt (2017), pp. 1, 4 *et seq*. Knopf (2002), pp. 1, 5.

[7]Decker (2012), pp. 2 *et seq*.

which is mostly statutory law (see Sect. 3.1.2). Only in some jurisdictions do the general principles of property law or even secured transactions law also play a role (see for greater detail Sects. 3.1.1 and 3.1.3 below).

On the other hand, it is mainly secured transactions law that governs the question which security rights can be created (see for details Sect. 3.2). However, in general, secured transactions law has not been specifically designed for or adapted to IP rights. In most jurisdictions, it has been developed for tangible assets and has only been extended to intangible assets like receivables. The fact that IP rights are very often registered and are limited in territorial scope to the jurisdiction for which they have been created and in which protection is sought (*lex protectionis*) has so far not been taken into account in the development of secured transactions law. Also, IP registration might take place at a different level of the state structure than notice filing under secured transactions law: IP registries may be organized federally or even supranationally (e.g. EU), whereas notice filing or registration as a mode of perfection under secured transactions law may have to be carried out at the level of the individual state or province. Tensions, uncertainties, and high transaction costs might be the result.[8] A notable exception is Australia, whose secured transactions law is one of the most modern and advanced in the world.

With respect to unregistered rights such as copyright or unregistered trademarks, registration as a means of perfecting security rights might not even be available, which is an obvious hindrance in legal systems that, as a matter of principle, require registration for the effectiveness of security rights *erga omnes*; see, for example, the Italian[9] and Finnish reports in this project.[10]

An inherent difficulty lies in the fact that IP rights might prove unreliable: third parties may successfully challenge the very existence of the IP right. The grantor may prove not to be the owner and thus, given the fact that legal systems regularly do not provide for a bona fide acquisition of security rights in IP rights,[11] the secured party will have acquired nothing at all.

The shortcomings of unreformed and unmodern national secured transactions law may add further difficulties.[12] For instance, in systems that use ownership as security, no junior security right can be created. The rules relating to pledges and usufruct are also often outdated, especially when it comes to enforcement.[13] In many jurisdictions, the legal characterization of licences as either mere obligatory rights or

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[8]See Ballagh (2017) Secured Financing with Intellectual Property: Managing Uncertainties, www.ballaghedward.ca (Law Office, Hamilton, Ont.) noting: "The standard legal advice is sometimes called the 'belts and suspenders' approach. Where feasible, parties are advised to register their security interests on both the federal and the provincial registers in *all* the relevant jurisdictions [i.e. provinces]," cited in Howell (2019), Section 2.2.

[9]See in this volume Ricolfi (2019), Section 2.2.

[10]See in this volume Juutilainen (2019), Section 4.3.

[11]But see in this volume Storme and Malekzadem (2019), Section 27, on the possibilities of bona fide acquisition.

[12]On the following, see in this volume Brinkmann et al. (2019), Section 5.

[13]See, for example, Dorfmayr (2019), Section 7.1.1 on judicial enforcement.

absolute rights is unresolved, creating difficulties when it comes to the use of licences as collateral and their classification for the purposes of secured transactions law. In sum, the English reporter describes secured transactions law over IP rights as "complex and disadvantageous" due to the double registration system and to the distinction and unclear relationship between legal and equitable interests.[14]

The fact that IP rights have hitherto only rarely been used as collateral, resulting in a lack of case law in this area, further adds to the legal uncertainty.[15]

1.2.2 Life Cycle of an IP Right

IP rights are time-limited rights and can lose their value rather fast, especially in the technology sector. While this is generally also true for tangible property such as inventory, security rights over inventory tend to be created over a certain class of goods (rather than specific pieces), so that more modern species of the same kind of product can be covered by a single security agreement over time. In contrast, the life cycle of a loan may easily surpass the life cycle of an IP right.[16]

1.2.3 The Problem of Evaluation

Another problem lies in the difficulty of evaluating IP rights and—consequently—the value of a security right over an IP right. Obviously, such an evaluation is necessary in order for the parties to assess the economic impact of a potential security right: To what extent will the sale or use of the IP right cover the advanced credit? Is the security right worth the transaction costs? Can it have any influence on the interest rate?

As the national reports in this project prove once more, the problem of evaluation is central to the use of IP rights as a basis for obtaining credit. With respect to nearly all jurisdictions covered, this difficulty is mentioned as one of the main reasons why IP rights are not used more regularly as collateral. Not only is there an inherent difficulty in fixing a certain sum of money to an IP right, given the great variety of these rights, but there is also no widely recognized—let alone internationally standardized—method of evaluation. For Germany alone, *Decker*[17] counts no less than 30 different procedures for evaluating IP rights and laments the lack of any standards. According to the Australian reporter for the present project,[18] "leading practitioners, pointing to difficulties inherent in valuing intellectual property given in

[14] See in this volume Bornheim (2019), Sections 9 and 10.

[15] Cf. Dorfmayr (2019), Section 10; see in this volume Karjiker (2019), Section 3.1.1.

[16] See in this volume Brinkmann et al. (2019), Section 1, citing Bill Gates: "Intellectual property has the shelf life of a banana."

[17] Decker (2012), p. 486.

[18] For the following, see McCracken (2019), Section 4.4. *et seq.*

particular the lack of a standard market, observe that there are differing valuation methods for intellectual property, that can produce vastly different valuations."

Presently, three main approaches to evaluation can be distinguished: (i) the cost approach, which looks at the cost of creating the IP; (ii) the market approach, which, for its practical application, requires an active marketplace (which is often lacking) for the relevant kind of IP right; and (iii) the income approach, which looks at the estimated financial benefits that the IP right can produce.[19]

Considering the variety here, it comes as no surprise that the different methods lead to huge differences in outcome. One obvious way forward would be the development of at least national (better: international) standardized methods of evaluation.[20]

An even more pressing problem involving evaluation arises when a jurisdiction adopts a very strict view on excessive collateralization or oversecurity. This used to be the case in Germany (prior to 1997, when a particular judgment of the united civil law chambers of the BGH was passed)[21] and still seems to be the case in Estonia.[22] If courts hold that a security agreement is void in its entirety once the collateral's value exceeds the amount of the debt by a certain percentage, correct evaluation of the collateral becomes crucial for the whole transaction. It is not surprising if parties refrain from including a type of collateral that carries such a fatal risk in their security arrangement.

1.2.4 Problems Connected to Enforcement

Decreasing Value of the Collateral

Another difficulty lies in the fact that the parties need to evaluate the collateral at the time of (or immediately prior to) the conclusion of the security agreement; however,

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[19]See Howell (2019), at fn. 53, citing Weston Anson, *Want to Value Your Intellectual Property? Here are Three Approaches*. Available at www.ipinbrief.com/three-approaches-to-value-IP/. Weston Anson is the Chairman of CONSOR, *Ibid*. Howell (2019), continues on to discuss the pros and cons of the different approaches and their suitability for secured transactions, citing David Ullmann (lawyer) and Sheldon Title (accountant), "How to Seize Something You Can't Touch: A Review of Issues and Process with the Foreclosure of Intellectual Property Assets", *Annual Review of Insolvency Law 2014* ed. Janis P. Sarra, available on *WestlawNext*, Canada. In the same vein, see in this volume Brinkmann et al. (2019), Section 4.1; Decker (2012), pp. 490 *et seq*.; Argyropoulou et al. (2019), at fn. 36. The French report makes a twofold distinction between static and dynamic approaches; see in this volume Séjean and Binctin (2019), Section 3.1.2.1 and Section 3.1.2.2. See in this volume Murguía-Goebel (2019), Section 3.3, listing an "option-based method" as an additional, fourth method.

[20]See in greater detail Decker (2012), pp. 490 *et seq*. See also in this volume Murguía-Goebel (2019), Section 3.3, pointing to the OECD guidelines for the valuation of intangible assets.

[21]See in greater detail in this volume Brinkmann et al. (2019), Section 3.2.1.

[22]See in this volume Lepik (2019), Section 9.

the value may differ greatly at the time of enforcement.[23] For example, if the business is insolvent, its trademark may decrease in value or even become worthless.[24] With tangible property or intangibles, this difficulty may also exist (e.g. the inventory or the equipment of an insolvent company may also be worth less than that of a going concern), but generally speaking, the receivables of a company, its immovable property, and, to a certain extent, its movables are not as directly dependent on the commercial soundness of the company as a whole as its IP rights are. In sum, there is a danger that a security right in IP rights may be worth the least when it is needed the most (i.e. upon the insolvency of the grantor).[25]

Liquidity of the Market

Another problem is the frequent lack of a liquid market for IP rights once enforcement is sought through sale or licensing.[26] Often, there are very few businesses which can possibly make use of the patent, design, or trademark. Trademarks are often only of interest to the direct competitor. But, of course, more liquid markets may develop in the future.[27]

2 The Limited Role of International Uniform Law for Security Rights in IP

2.1 Uniform Law on Intellectual Property

There is a wealth of international treaties in the area of IP rights[28]; for patents, these include the Paris Convention for the Protection of Industrial Property of 1883 (as amended by the Stockholm Act of 1967; 195 contracting parties) and the Patent Cooperation Treaty of 1970 (last amended in 2001; 152 contracting parties); for trademarks, these include the "Madrid System," consisting of the Madrid Agreement Concerning the International Registration of Marks of 1891 (last amended in 1979; 55 contracting parties) and the Madrid Protocol of 1989 (101 contracting parties); and for copyright, these include the Berne Convention for the Protection of Literary and Artistic Works of 1886 (last amended in 1971; 185 contracting parties).[29] The

[23]Decker (2012), pp. 497 *et seq*.

[24]Cf. Dorfmayr (2019), Section 10.

[25]See in this volume Brinkmann et al. (2019), Section 1.

[26]Decker (2012), pp. 489 *et seq*.

[27]Decker (2012), pp. 503 *et seq*. with examples.

[28]See the list of administered treaties on the website of the World Intellectual Property Organization, http://www.wipo.int/treaties. Accessed May 8, 2018.

[29]See on these texts Dorfmayr (2019), Section 1.2 with further references.

effect of these treaties and of the TRIPS Agreement is that the structure of IP law, at least, is rather uniform around the world.

At a regional level, the European Patent Convention has existed since 1973 (EPC),[30] but so far, it has only unified the procedure leading to the granting of the European patent. Once such a patent has been created, its content, the remedies for its infringement, its transferability, etc. continue to be governed by national Member States' laws; therefore, this type of patent only creates a so-called "bundle of national patents." The Community Patent Convention, which would have created a uniform and autonomous European patent, is no longer on the political agenda. Instead, the European Union has created the "European unitary patent" through secondary legislation based on so-called "enhanced collaboration" (Arts. 326 ff TFEU).[31] With its ratification of the Unified Patent Court Agreement, which forms part of the European Patent Package, on April 26, 2018, the UK has only very recently paved the way for the European unitary patent to become operational in the first half of 2019.[32]

The EU has created a number of genuinely supranational "Community" or "European Union" IP rights through regulations, most notably the European Union trademark and the Community design, which are administered by the European Union Intellectual Property Office in Alicante, Spain.[33]

Yet these instruments, as far as our topic is concerned, at most provide uniform substantive rules on the transferability of IP rights and formal requirements for the effectiveness of transfers (e.g. writing or registration). These issues will be examined in greater detail in Sect. 3.2 ("Transferability and Collateralization of IP Rights Under Supranational Law"). Examples are the EU Trade Mark Regulation,[34] which, in its Art. 22, explicitly states that "(1) An EU trade mark may, independently of the undertaking, be given as security or be the subject of rights in rem" and "(2) At the request of one of the parties, the rights referred to in paragraph 1 or the transfer of those rights shall be entered in the Register and published"; and the Community Design Regulation (CDR), which contains an almost identical provision in Art. 29 CDR: "(1) A registered Community design may be given as security or be the

[30]The revised texts of the Convention and its protocols, which entered into force on December 13, 2007, and the Implementing Regulations, in force since May 1, 2016, are available on the website of the European Patent Office: http://www.epo.org/law-practice/legal-texts/html/epc/2016/e/ma0.html. Accessed May 8, 2018. See the detailed treatment on the European Patent Convention in Dorfmayr (2019), after fn. 19.

[31]Reg. (EU) No. 1257/2012 and Reg. (EU) No. 1260/2012, in force since January 20, 2013. Yet, their applicability depends on the entering into force of the Convention on a European Patent Court; see Art. 18 section 2 of the Reg. (EU) No. 1257/2012.

[32]See www.epo.org/law-practice/unitary/unitary-patent/start.html. Accessed June 19, 2019.

[33]Regulation (EU) 2017/1001 of the European Parliament and of the Council of June 14, 2017 on the European Trade Mark (codification), OJ L 154, 16.6.2017, p. 1; Council Regulation (EC) No. 6/2002 of December 12, 2001 on Community Designs, OJ L 3, 5.1.2002, p. 1.

[34]Regulation (EU) 2017/1001 of the European Parliament and of the Council of June 14, 2017 on the European Union Trade Mark (Codification), OJ L 154, 16.6.2017.

subject of rights in rem. (2) On request of one of the parties, the rights mentioned in paragraph 1 shall be entered in the register and published."

Otherwise, the international instruments do not contain specific substantive rules on security rights in IP rights, which is, of course, a direct consequence of the lack of internationally uniform or harmonized secured transactions law. The only international instrument providing for a uniform international security interest, i.e. the Cape Town Convention together with its asset-specific protocols,[35] does not touch upon IP rights.

2.2 *Soft Law on Secured Transactions*

There are many international and supranational efforts to promote the modernization and harmonization of secured transactions law; see foremost the UNCITRAL Legislative Guide on Secured Transactions, as well as the UNCITRAL Model on Secured Transactions and its supplement on security rights in IP.[36] In addition, there are also regional projects, such as the Model Inter-American Law on Secured Transaction, the OHADA Uniform Act on Security Interests, and the Model Law of the European Bank for Reconstruction and Development (EBRD) for Central and Eastern European states. Last but not least, the academic project of a Draft Common Frame of Reference (DCFR) for European private law contains draft rules on secured transactions in its Book IX. Some of these texts have been quite influential for law reform in some countries around the world,[37] but they have not yet led to a harmonized approach to secured transactions law in general, or, more specifically, to the use of IP rights as collateral.

3 IP Rights as Collateral: Transferability in General

The most fundamental question is whether the different IP rights existing in each jurisdiction are at all capable of being the subject-matter of a security interest. In other words, can a party with an interest in or ownership of the IP right create a consensual right[38] to secure an obligation? If yes, which type(s) of security rights are

[35] For the texts of these instruments, see www.unidroit.org.

[36] See below Section 6.2, with references.

[37] See generally Macdonald (2009), p. 745. See in this volume Murguía-Goebel (2019), Sections 2.1 and 2.3; see also in this volume Shieh and Lee (2019), Section 5 (on a bill introducing the floating charge following the recommendations in the UNCITRAL texts). For Belgium, see Dirix (2015), p. 273.

[38] Meaning a right created by way of a transaction between the creditor and the debtor, as opposed to a right which arises by operation of law without any agreement between the parties, such as a statutory lien or a privilege.

available (e.g. security interest, pledge, mortgage, security ownership, charge, lien, etc.)? The following chapters try to summarize the national answers and to highlight some peculiarities. In general, they focus on rights in patents, design rights, trademarks, and copyright. National rights are contemplated under Sect. 3.1, while genuinely supranational rights such as the EU trademark and the Community design are covered in Sect. 3.2. The types of security rights available are set out in Sect. 4.

3.1 Collateralization of IP Rights Under National Law

Whether IP rights can be used as collateral depends first on their classification as transferable property. For the most part, IP rights, especially registered rights such as patents and trademarks, are considered to be transferable or assignable and therefore are able to be collateralized.

3.1.1 General Taxonomy of Property Law

The possibility of using an IP right as collateral can flow from its general classification as personal, movable, or intangible property in the sense of the general principles of property law. Thus, in Belgium, IP rights are considered to be "movable and intangible assets," and as such are capable of being the subject of those security rights that exist for movable, intangible assets.[39] In Brazil, the collateralization of IP rights flows from their characterization as "movable assets."[40] In South Africa, there is a debate about whether IP rights should be classified as moveable or immoveable property, but with respect to most IP rights, statutory law explicitly characterizes them as moveable property.[41]

The classification as possible collateral can also rest on more specific provisions that are to be found in secured transactions law. Thus, in the Common Law provinces of Canada, the decisive definition is contained in the Personal Property Security Acts (PPSAs) of each province, typically using expressions such as "intangibles, meaning personal property other than goods" or "personal property, including choses in action, that is not goods."[42] These provisions are interpreted as including the usual IP rights, such as patents, copyright, industrial designs, and trademarks, and might even extend to domain names, but do not include trade secrets, whose proprietary nature is doubted.[43]

[39]Storme and Malekzadem (2019), Section 6, at fn. 13.

[40]Lahorgue (2019), Section 2.

[41]See in this volume Karjiker (2019), Section 2.

[42]See Howell (2019), Section 2.1.

[43]See Howell (2019), Section 2.1.

Transferability or assignability might in some jurisdictions be accorded to IP rights even though they do not fit well into the general taxonomy of property law. A notable example is English law,[44] where, generally speaking, property is divided into "choses in possession" and "choses in action," and where it must therefore be discussed how IP rights can be accommodated within this dichotomy in view of the fact that the Patent Act explicitly states that patents are *not* choses in action. A pragmatic approach simply adds IP rights as a third category under the name of "other incorporeal property." In any event, it is not subject to doubt that IP rights can be collateralized under English law.[45] A second example for this kind of difficulty is Cypriot law, where the category of movables under which IP rights are to be subsumed seems to be unclear.[46] A third example is Austrian law, where IP rights are difficult to classify within the dichotomy of "true property rights," which as a matter of principle can only exist in tangible goods, and "relative rights" (claims). As the Austrian reporter points out, patents are seen as being equivalent to "true property rights" but, in contrast, trademarks are considered to be mere claims.[47]

3.1.2 Specific Statutory Provisions

Mostly, however, the transferability and suitability of IP rights to be used as collateral flows from specific statutory provisions, typically to be found in respective IPR acts. This is the case for example in Australia,[48] Germany,[49] France,[50] the United States, South Africa,[51] Mexico,[52] Spain,[53] Taiwan,[54] Japan,[55] Turkey,[56]

[44]For the following, see in this volume Bornheim (2019), Section 2.4.1.

[45]See in this volume Bornheim (2019), Section 2.4.1.

[46]See Argyropoulou et al. (2019), Section 2.

[47]Dorfmayr (2019), Section 2.1. See also McGuire (2008), pp. 219 *et seq*. McGuire's conclusion (at p. 222) is that "the determination of the legal nature of intellectual property rights according to the dichotomy 'property' or 'right' does not solve the problem of determining the proper transfer rules."

[48]McCracken (2019), Section 3.1.

[49]See in this volume Brinkmann et al. (2019), Section 2.

[50]See in this volume Séjean and Binctin (2019), Section 2.1 and the references to incorporeal intellectual property.

[51]See in this volume Karjiker (2019), Section 2. In addition, South African law allows the common law "cession" of IP rights; see in this volume Karjiker (2019), Section 2.

[52]See in this volume Murguía-Goebel (2019), Section 3.1.

[53]See in this volume Heredia Cervantes (2019), Section 2.

[54]See in this volume Shieh and Lee (2019), Section 2.1.1.

[55]See in this volume Hara and Haga (2019), Section 3.1.

[56]See in this volume Özsunay and Özsunay (2019), Section 1.2.

Greece,[57] and Finland.[58] In the Netherlands,[59] the general rule on transferability in Article 3:83(1) Burgerlijk Wetboek (B.W.) is limited to "ownership rights, limited property rights and claims"; this means that IP rights are only transferable pursuant to Article 3:83(3) B.W. if the law specifically provides for it. Therefore, under Dutch law, only IP rights that have a statutory basis may be transferred. Those which are only recognized by courts, such as certain rights to publicity, cannot be subject to a proprietary transaction.

3.1.3 Interplay Between Secured Transactions Law and IP Law

Ideally, statutory sources on secured transactions law and on IP rights should be in harmony concerning the possibilities and different ways of using IP rights as collateral. However, in some federal states such as the US and Canada, the existence of detailed and sophisticated rules in both areas of the law, which, however, are placed on different jurisdictional levels (i.e. state/provincial and federal) can create considerable legal uncertainties and give rise to litigation. The reports on Canadian law[60] give a thorough insight into these complexities. At the other end of the spectrum, Australia has successfully avoided these difficulties by enacting the Personal Property Security Act (PPSA) at the federal level.

3.1.4 Preliminary Rights

Transferability is not necessarily linked to the IP right having finally come into existence (e.g. through registration). In some instances, proprietary rights may already exist when the process leading up to the registration of the IP right has not yet fully been completed. These preliminary stages may already carry considerable value and hence may be able to be used as collateral. For example, the German Patent Act, § 6, mentions the right to the patent and the right to have the patent granted as preliminary rights which exist at least once an application has been filed with the Patent Office. These preliminary rights are hence able to be used as collateral.[61] In Australia, applications for the registration of a patent or trademark are not considered property under general principles, but in practice, they are nonetheless treated as such by parties to secured transactions.[62] In contrast,

[57] See in this volume Kallinikou and Koriatopoulou (2019), Section 2.

[58] See in this volume Juutilainen (2019), Section 3.

[59] For the following, see in this volume van Engelen (2019), Section 2.1.

[60] See report on Howell (2019), after fn. 26; Charpentier (2019), after fn. 32 and after fn. 56.

[61] See in this volume Brinkmann et al. (2019), Section 3; Decker (2012), pp. 18 *et seq*. In the same vein, see in this volume Heredia Cervantes (2019), Section 2; Matanovac Vučković et al. (2019), Section 2.3.

[62] McCracken (2019), Section 4.

legislation in Taiwan explicitly prohibits the use of “the right to apply for IP protection” as collateral, since it is not certain that the application will be successful.[63] Japanese law distinguishes between different types of security rights: while a patent application may be the subject of a security assignment, using the creation of a pledge in such a way is legally prohibited.[64]

3.1.5 Exceptions to the General Transferability of IP Rights

There are a number of notable exceptions to the general proposition that classic IP rights such as patents, trademarks, and copyright are transferable and capable of being collateralized: under German law, copyright cannot be transferred according to sec. 29 subsec. 2 German Copyright Act. The same is true for Austria (pursuant to Article 23 Austrian Copyright Act),[65] the Czech Republic,[66] and Croatia.[67] With this rule, these jurisdictions are out on a limb compared to the other jurisdictions covered in this general report.[68] However, there are still various ways to use copyright as the basis for secured financing: the claims (e.g. royalties) stemming from a licence can be subjected to a security assignment[69]; a security right can be created in the licence of the IP right[70]; or a security licence can be given to the lender, who will in turn sublicense the copyright back to the borrower—see Sect. 5 below for more detail.

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[63] See in this volume Shieh and Lee (2019), Section 2.1.2.1.

[64] See in this volume Hara and Haga (2019), Section 3.1(1).

[65] Dorfmayr (2019), Section 2.1.

[66] See in this volume Koukal and Pullmannova (2019), Section 1.1, referring to Art. 26 Czech Copyright Act.

[67] Matanovac Vučković et al. (2019), at fn. 58.

[68] Copyright can be assigned as “personal or moveable property” under English law—see in this volume Bornheim (2019), Section 2.4.2. Under French law: *Le droit d’auteur* is subject to the general rules on proprietary security; see in this volume Séjean and Binctin (2019), Section 2.1. South Africa: The Copyright Act explicitly provides that copyright is transmissible as movable property; see in this volume Karjiker (2019), Section 2.4. Japan: see in this volume Hara and Haga (2019), Section 3.2. Finland: Copyright may theoretically be used as collateral, but since Finland does not have a register for copyright and yet nevertheless requires some sort of publicity (either through registration, dispossession, or notification) for a security right to be perfected, it is argued that, consequently, copyright cannot be used as collateral; see in this volume Juutilainen (2019), Section 4.3.

[69] In this case, the grantor of the security right is the holder of the IP right and the licensor.

[70] See in this volume Brinkmann et al. (2019), Section 3, and, from a comparative point of view, Koziol (2011), passim. In this case, the grantor of the security right is the licensee.

3.2 Transferability and Collateralization of IP Rights Under Uniform Supranational Law

The following chapter only covers genuinely uniform supranational IP rights, such as the EU trademark. It does not cover IP rights where only some aspects are unified or harmonized, such as the European patent or copyright under the Berne Convention.

3.2.1 EU Trade Mark Regulation

The European Union Trade Mark Reg.[71] in part provides for uniform rules on transferability and collateralization in its Arts. 19 ff. Following subsection 1 of Art. 20, an EU trademark can be transferred separately from any transfer of the undertaking, but under subsec. 2, a transfer of the whole of the undertaking will usually include the trademark if there is no agreement to the contrary. Subsection 3 requires the assignment of the trademark to be in writing, otherwise the transfer will be void. Finally, Art. 22(1) explicitly states that an EU trademark may be given as security, independently of the undertaking. Transfers of or security rights in trademarks shall be entered in the register and published pursuant to Art. 20 (5) and Art. 22(2), respectively. Third-party effects depend on registration according to Art. 27. An application for an EU trademark can already be treated as transferable property and as collateral—see Art. 28.

Obviously, these rules do not cover every aspect of a transfer or grant of a security right in an EU trademark. Hence, as a fallback rule, Art. 19 EU Trade Mark Reg. contains a conflicts rule providing for the application of the national law of the Member State in which the proprietor has his seat or domicile on the relevant date, or, if he has no seat, the national law of the Member State where he has an establishment.[72] Whether this rule refers to the substantive law of the relevant Member State or to its conflicts rules is subject to debate.[73] Another difficulty and possible source of legal uncertainty lies in the fact that the proprietor's seat may

[71] Regulation (EU) 2017/1001 of the European Parliament and of the Council of June 14, 2017 on the European Trade Mark (codification), OJ L 154, 16.6.2017, p. 1.

[72] See Art. 19 EU Trade Mark Reg.: "Unless Articles 20 to 28 provide otherwise, an EU trade mark as an object of property shall be dealt with in its entirety, and for the whole area of the Union, as a national trade mark registered in the Member State in which, according to the Register: (a) the proprietor has his seat or his domicile on the relevant date; (b) where point (a) does not apply, the proprietor has an establishment on the relevant date. 2. In cases which are not provided for by paragraph 1, the Member State referred to in that paragraph shall be the Member State in which the seat of the Office is situated. 3. If two or more persons are mentioned in the Register of EU trade marks as joint proprietors, paragraph 1 shall apply to the joint proprietor first mentioned; failing this, it shall apply to the subsequent joint proprietors in the order in which they are mentioned. Where paragraph 1 does not apply to any of the joint proprietors, paragraph 2 shall apply."

[73] See McGuire (2008), p. 230, in whose view the rule refers to the conflicts rules at the seat.

change.[74] Therefore, this conflicts solution is regarded as being less satisfactory in comparison with uniform European rules on the transfer and collateralization of EU trademarks (which, however, do not yet exist).[75]

3.2.2 Community Design Regulation

The Community Design Regulation (CDR)[76] follows two different concepts of design protection. First, a Community design might be filed and subsequently registered with the EUIPO ("registered Community design," Art. 1 para 2 (b) CDR).[77] In this case, an examination that confirms compliance with formal requirements (Art. 45 *et seq.* CDR) is followed by registration in the Community design register (Art. 48 CDR) and publication in the Community design bulletin (Art. 49 CDR). On the other hand, the Community Design Regulation accords limited protection to designs that are not registered with the EUIPO and are only made available to the public within the Community ("unregistered designs," Art. 1 para 2 (a) and Art. 11 CDR).[78]

Registered Community designs can be transferred and collateralized; see Art. 27 ff. Community Design Regulation (CDR). Some general issues are regulated in the CDR itself, such as the possibility of transferring a registered Community design or of creating a security right over it. For issues that are not regulated in the CDR, Art. 29 CDR provides for the applicability of the national law of the Member State in which the holder of the Community design has his seat or domicile, or, failing this, an establishment. This conflicts rule is identical to Art. 19 EU Trade Mark Regulation, discussed above at the end of Sect. 3.2.1.

Given the fact that both genuinely supranational IP regulations fail to provide substantive rules on the kinds of security rights available and on the creation and perfection of these rights, instead merely calling for the application of the national law at the holder's seat, the discussion in Sect. 4 and following will only give an overview of national secured transactions law as relating to national IP rights. Unless stated otherwise, this information also applies to European Union IP rights.

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[74] McGuire (2008), p. 230.

[75] McGuire (2008), pp. 230 *et seq.*

[76] Council Regulation (EC) No. 6/2002 of December 12, 2001 on Community Designs, OJ L 3, 5.1.2002, p. 1.

[77] A registered Community design may also be obtained on the grounds of an international application subject to the rules of the Hague Agreement Concerning the International Deposit of Industrial Designs, which has not been ratified by Austria, but has been ratified by the European Union; see Horn and Grünwald (2015), p. 187.

[78] Dorfmayr (2019), after fn. 26.

4 IP Rights as Collateral: Which Security Rights Are Available?

As stated earlier, the answer to the question which types of security interests can be taken in IP rights mainly depends on secured transactions law, which is not unified or harmonized internationally and which in most cases is not specially designed to cover IP rights. While some jurisdictions apply the rules relating to security rights over tangibles, others follow the rules on security over intangibles in general or on security over claims. A third group of states has specific provisions on security interests in IP rights in some or all of the states' statutes on general IP law (e.g. England and Wales).[79]

However, the main difference lies between those jurisdictions that are based on a uniform, functional approach and employ notice filing as the most important method of perfection (Art. 9 UCC-type secured transactions law, such as in—obviously—the United States of America, Canada, and Australia), and those jurisdictions that do not follow a functional and uniform approach, but instead know different types of security rights, some of which are based on the model of a limited real right (i.e. pledge, charge, and mortgage) and some of which are based on ownership (i.e. security ownership, security assignment, and retention of title). Under the second, non-functional approach, the classification of different types of collateral is typically of greater importance when it comes to the possibility of creating a security right than it is under the functional approach.

4.1 Jurisdictions with a Functional Approach to Security Rights

In the US, there is only one type of security right available: the "security interest" as defined in state law enacting Art. 9 UCC § 1-201(b)(35). The definition is functional and covers all interests in any personal property "that secures payment or performance of an obligation," regardless of its form. A growing number of jurisdictions around the world have shaped their secured transactions law along the lines of the American model.

In the course of the 1990s, the Common Law provinces and territories of Canada all enacted their PPSAs, modelled after Art. 9 UCC.[80] The respective definitions of "intangibles" or "personal property" that can become the subject of a functionally defined "security interest" all include IP rights such as patents, copyright, industrial

[79] See in this volume Bornheim (2019), Section 2.4.2.

[80] See Howell (2019), at fn. 17; in Québec, the relevant provisions are to be found in the Civil Code. They are likewise inspired by Art. 9 UCC; see Charpentier (2019), after fn. 5.

designs, trademarks, etc.[81] The Australian PPSA 2009 likewise follows a functional approach and defines "security interest" as "an interest in personal property provided for by a transaction that, in substance, secures payment or performance of an obligation". Therefore, any property interest having a security function is reclassified as an "in substance security interest," regardless of whether it is treated as a charge, mortgage, conditional sale, or assignment under general law.[82]

Belgium has only recently seen a major reform of its secured transaction law (i.e. the Pledge Act, in force since January 1, 2018). It has been inspired by the UNCITRAL Legislative Guide on Secured Transactions and by Book IX of the DCFR, which are in turn both basically modelled on Art. 9 UCC. Yet the functional approach as pursued by the Belgian legislator is somewhat attenuated.[83] Retention of title is still kept as a separate category, partly following its own rules. Likewise, the system of so-called "privileges" (a kind of statutory lien) has been retained. Therefore, there are still a variety of different security rights, each following its own rules (e.g. retention of title, termination with proprietary effect, seller's lien, and fiduciary transfer).[84] Security rights in IP rights, which were difficult to create under the old law, have now received a more favourable legal basis.

4.2 Jurisdictions Without a Functional Approach to Security Rights

Within this group, a further distinction can be made between jurisdictions that have recently undergone a major reform of secured transactions law (Sect. 4.2.1) and those that have not (Sect. 4.2.2).

4.2.1 Modernized Systems

French law regards IP rights as intangibles (*bien incorporels*), but due to the fact that the *Code civil* only contains specific provisions on charges over claims (*créances*), charges over IP rights are treated as charges over tangibles.[85] Since the *Code de la propriéte intellectuelle* declares copyright, designs, trademarks, etc. to be transferrable (*transmissible*), these rights are also regarded as being transferrable by way of a pledge or charge (*nantissement*). In addition, full ownership of an IP right can be used as security if it is either retained (*réserve de propriété*) or transferred as a

[81]Howell (2019), at fn. 19.

[82]For details, see McCracken (2019), Section 3.2. *et seq.*

[83]The Belgian report itself calls the new system "functional"—see Storme and Malekzadem (2019), at para 6—and so this characterization is followed here.

[84]See Storme and Malekzadem (2019), para 7 *et seq.*

[85]See in this volume Séjean and Binctin (2019), Section 2.1.

fiduciary security (*fiducie-sûreté*). Thus, the full range of security devices created or reformed through the new French secured transactions laws of 2006 and 2009 is also available for IP rights.

The Netherlands stands somewhat in between the groups under Sects. 4.1 and 4.2, since it has not opted for a functional approach in its general secured transactions law, but, due to the fact that Dutch courts have denied the possibility of mortgaging IP rights and due to the abolition of the security transfer of ownership in the 1992 Dutch Civil Code (Burgerlik Wetboek, B.W.), the only security right available for IP rights is in fact the pledge (Art. 3:227 B.W.).[86] Thus, with respect to security rights in IP, Dutch law can be described as following at least a unitary approach.

Mexico underwent a series of reforms between 2000 and 2014 that left the country with one of the most modern secured transactions registry systems. However, the substantive law has not developed into a similarly functional system. This is partly because Mexico is a federation in which large areas of private law are left to the legislative power of the 32 individual states.[87] In addition, although it has adopted a notice filing system, Mexico has not opted for a functional and unitary approach; instead, it has retained the distinction between commercial pledges (possessory and non-possessory) and security trusts, with each following its own rules.[88] IP rights can be the subject of either a non-possessory pledge or a security trust.

In the Czech Republic, security rights over IP rights are regulated by the law on security rights in movables, which forms part of the new Civil Code that entered into force on January 1, 2014. The Civil Code has not adopted a functional/unitary approach, and it adheres to the traditional dichotomy between pledges (liens) and security transfers. In this respect, it resembles the traditional systems; however, with respect to enforcement, it is modern insofar as it allows out-of-court enforcement through the sale of the collateral.[89]

Croatian law has undergone various reforms[90] that have left it with a functional[91] but non-unitary system. With the exception of copyright, IP rights can be encumbered either through a charge or by way of a security assignment; these two are treated equally as a matter of principle.

4.2.2 Traditional Systems

German secured transactions law has mostly been created through court practice and academic literature. The Civil Code and the Insolvency Act only provide for a handful of rather general rules, none of which are specifically adapted to creating

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[86] See in this volume van Engelen (2019), Section 2.2.1.

[87] See in this volume Murguía-Goebel (2019), Section 2.

[88] See in this volume Murguía-Goebel (2019), Section 3.1.

[89] See in this volume Koukal and Pullmannova (2019), at fn. 62.

[90] See the critical appraisal by Matanovac Vučković et al. (2019), at fn. 31, with further references.

[91] Matanovac Vučković et al. (2019), at fn. 56.

security rights in IP. The pledge is the only security right in movable (tangible and intangible) property that the German Civil Code regulates in detail. However, due to the fact that a pledge in corporeal movables necessitates a transfer of possession that cannot be replaced by mere constructive possession, fiduciary ownership and retention of title are used in practice. IP rights are regarded as intangibles, and thus they can be assigned as security or pledged. With general intangibles such as claims, the pledge is hardly used due to the requirement of giving notice to the account debtor. The security assignment, for which no notice is necessary, is preferred in practice. However, with respect to IP rights, it seems that both the pledge and the security assignment are used. Usufruct, which otherwise only plays a minor role in secured transactions law, is also an option with respect to IP rights.

Japanese law resembles German law in that case law has come to recognize the security assignment as a second proprietary security right in addition to the pledge, which is regulated by the Civil Code.[92]

In Austria,[93] IP rights that are transferable (which is the case for all IP rights except copyright) can be pledged or be the subject of a security transfer of ownership or a security assignment, depending on whether they are regarded as tangible or intangible movable property. Since both transactions follow the same rules, the distinction is of merely theoretical interest.

In Taiwan, only the pledge (which is regulated by the Civil Code) is available.[94] It is created through a simple agreement between the parties, without any further formal requirements. For its effectiveness against third parties, it needs to be registered in the relevant IP registries. The date of registration will also determine priority.

In Brazil, the parties have the choice between a pledge, a fiduciary transfer, and a usufruct, each of which follow its own specific rules.[95]

4.3 Jurisdictions with Specific Statutory Provisions for Security Over IP Rights

Under English law, IP rights are considered to be pure intangibles; thus, only non-possessory security rights such as charges or mortgages can exist. While the Copyright, Designs and Patents Act 1988 (UK) declares such rights to be assignable, they are also regarded as "mortgageable by way of assignment."[96] However, there are also a number of statutory provisions which specifically mention the possibility

[92] See in this volume Hara and Haga (2019), Section 3.1(2).

[93] See Dorfmayr (2019), Section 2.2.2.

[94] See in this volume Shieh and Lee (2019), Section 3.1.1.

[95] Lahorgue (2019), Sections 2 and 3.1.

[96] See in this volume Bornheim (2019), Section 2.4.2.

of charging or mortgaging IP rights, such as the Trade Marks Act and the CDPA 1988 in relation to registered designs.[97]

Cypriot law resembles English law in that its enactments on IP law recognize the transferability of IP rights and that, therefore, even if their status within the different categories of property law is somewhat unclear, IP rights can in fact be used as collateral. Possible security rights include the Common Law lien (a right to retain possession), the security assignment of the IP right (which seems to be theoretically possible but is not practised because, inter alia, the Cypriot IP registries do not allow for the registration of security rights), and the charge (which in practice mostly takes the form of a floating charge). A pledge can only be constituted by granting possession, which, under Cypriot law, cannot (like in many other jurisdictions) be substituted by registration. As a result, the pledge is not a suitable security right for IP rights.[98]

Italian law provides an interesting example of a jurisdiction where security rights in registered IP rights are specifically provided for—see Art. 140 Italian Industrial Property Code (IIPC) (Legislative Decree No. 30 of 2005), which states that "security rights over industrial property titles may be created only as collateral for money credits."[99] However, since the rule does not specify the kind of security right that can be created (i.e. whether it is a pledge pursuant to Art. 2784 ff. *Codice civile* or a mortgage under Art. 2808 ff. *Codice civile*), it is debated which kind of security right is meant in Art. 140 IIPC.[100] The question has not yet been settled by the courts as IP rights are only rarely used as security in practice outside of the special field of movie financing. Moreover, Art. 140 IIPC only relates to registered IP rights. Unregistered copyright, which can be assigned under Italian law, can nevertheless not be transferred by way of security, since this kind of transaction is generally prohibited by Art. 2744 *Codice civile* (the ban on the so-called *pactum commissorium*). Therefore, one must resort to the pledge of rights pursuant to Art. 2806 *Codice civile*. However, pledges of unregistered copyright or of other unregistered rights such as trademarks and designs can only take effect *inter partes* since no mode of perfection is available. As the Italian reporter notes, it is therefore unsurprising that "secured financing based on specific copyright protected works has not taken off in this country."

South African law is particularly complex, as there are several ways to create security rights in IP. In the first way, the respective IP statutes (relating to trade-marks, patents, and designs) provide for the "hypothecation" of these rights as the result of a "pledge" in which physical transfer of possession is replaced by registration. A second manner involves a possible security cession of the IP right, which has the advantage of not requiring registration. A third method is the creation of a

[97]See in this volume Bornheim (2019), Section 2.4.2.

[98]Argyropoulou et al. (2019) (after fn. 23) gives a detailed account of how this problem can be circumvented through the creation of a special purpose vehicle and a pledge of the shares.

[99]See in this volume Ricolfi (2019), fn. 4, with translation into English.

[100]For the detailed analysis, see in this volume Ricolfi (2019), Section 2.1.

"notarial bond," which does have to be registered and can be created either over specific assets (a "special bond") or over all of the movable property of the debtor (a "general bond").[101]

In Spain, the relevant IP acts explicitly state that IP rights can be given as security. However, according to the predominant view, the parties can nevertheless only create a chattel mortgage (*hipoteca mobiliaria*).[102]

In Estonia, the Law of Property Act explicitly states that all registered IP rights (i.e. patents, trademarks, designs, etc.) can be subjected to a registered security right.[103] As an alternative, the respective IP enactments also allow for the security transfer of these rights.[104]

5 Licences and Royalties as Collateral

First, one needs to distinguish between the use of licences and royalties as collateral on the one hand and the use of a licence as a substitute for a security right (strictly speaking) on the other. In the latter scenario, instead of granting a security right in the IP right, the grantor/holder of the IP right might grant the secured party a "security licence," which gives the secured party the ability to use the IP right only in case of default. In order to enable the grantor to continue to exploit the IP right before default, the secured party will sublicense his rights back to the grantor. This scheme is primarily used where IP rights cannot be transferred or collateralized, as is the case in Germany and Austria in relation to copyright,[105] but it is also used elsewhere, such as in Cyprus.[106]

However, licences can also be used as collateral by the licensee.[107] There are two main issues connected to this kind of secured transaction. The first involves the fact that the licence will be created through a contract between the holder of the IP right (the licensor) and the licensee, who receives a right to use/exploit the IP right. The holder of the IP right is the debtor of the licensee, who in turn becomes the grantor of the security right. Jurisdictions may require the consent of the licensor (as a

[101] Karjiker (2019), under Section 3 contains a detailed account of all three kinds of security rights in all types of IP rights that can exist under South African law.

[102] See in this volume Heredia Cervantes (2019), Section 2.

[103] Lepik (2019), at fn. 7.

[104] See in this volume Lepik (2019), Section 2.2.

[105] See in this volume Brinkmann et al. (2019), Section 3.5.1; Koukal and Pullmannova (2019), Section 2; Matanovac Vučković et al. (2019), at fn. 59 *et seq.* Furthermore, see Koziol (2011), *passim* (covering Germany, Austria, and Japan).

[106] See Argyropoulou et al. (2019), text before fn. 33.

[107] For example, see in this volume Heredia Cervantes (2019), Section 2; Hara and Haga (2019), Section 3.1(1); Dincă and Rizoiu (2019), Section 2.

third-party debtor) for the transfer or creation of a security right in the licence.[108] Also, the terms of the licensing agreement might restrict or even prohibit the (security) transfer or creation of a security right in the licence.[109]

The second issue relates to the question if and under what conditions a licence or certain kind of licence can be classified as a proprietary right so that, in terms of secured transactions law, it should be treated as intangible property rather than as a mere claim or obligatory right. In Canada, the proprietary nature of a licence was recognized in the famous *Contech* case, which opened up the possibility of characterizing this security right as a Purchase Money Security Interest (PMSI), giving it so-called "super-priority."[110] In Germany, there is a (mainly academic) debate whether exclusive licences amount to a right in rem.[111]

Royalties stemming from a licence are usually claims for the payment of money and may thus be used as collateral in the same way as other receivables.[112] The French report stresses that creating a security right in the income generated by the exploitation of IP rights might be economically more attractive and legally more common than creating a security right in the IP right itself.[113] In Belgium, the creation and perfection of a security right in royalties is possible without any registration: "control" of the grantee is sufficient and already flows from the grantee's entitlement to notify the debtor.[114]

In systems where the security right is automatically extended to the proceeds of the collateral, conflicts of priority can arise between a security right in royalties and a security right in the respective IP right from which the royalties flow as "proceeds." Belgian law solves this conflict by referring to the time at which the respective rights were created.[115]

[108] See in this volume Brinkmann et al. (2019), fn. 235 with further references; Dorfmayr (2019), Section 2.2.5 with further references.

[109] See in this volume Brinkmann et al. (2019), Section 2.5.

[110] *Contech Enterprises, Inc.* v. *Vegherb, LLC* (2015) (*Contech*), see Howell (2019), at fn. 23.

[111] See in this volume Brinkmann et al. (2019), Section 2.5; Picht (2018), pp. 158 *et seq*.

[112] See Dorfmayr (2019), Sections 2.4 and 3.2.7; Storme and Malekzadem (2019), Section 23; see in this volume van Engelen (2019), Section 2.3; see in this volume Ricolfi (2019), Section 3.1.1; McCracken (2019), Section 4.1; see in this volume Hara and Haga (2019), Section 3.1.(1); Matanovac Vučković et al. (2019) , text before fn. 64.

[113] See in this volume Séjean and Binctin (2019), Section 2.5. See also Charpentier (2019), at fn. 45.

[114] Storme and Malekzadem (2019), Section 23 at the end.

[115] See Storme and Malekzadem (2019), Section 28.