



Response of United States Group
Security interests and intellectual property

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2016 – STUDY QUESTION (GENERAL)

SECURITY INTERESTS OVER INTELLECTUAL PROPERTY

AIPPI-US National Group: Study Committee Members:

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Summary:

The summary need only be submitted in English. The summary should state the main conclusion(s) and proposal(s) in the Report. The summary should not restate the issues raised by the Question nor the reasons for conclusion(s) and proposal(s). The summary should preferably not exceed 250 words.

Summary: In the United States, it is possible to obtain security interests over IPRs. Although there is no set of federal laws governing security interests across the country, each of the 50 states in the U.S. has enacted commercial laws governing security interests that generally follow model laws described in Article 9 of the Uniform Commercial Code (UCC). These laws are not specific to IPRs, but define conditions for security interests generally over all forms of property, and allow for creation of a general security interest over IPRs. For a security agreement to qualify as an enforceable security interest under the UCC, the security agreement must meet three requirements: (1) the security taker must give value; (2) the security provider must have rights in the secured IPR; and (3) the security provider must authenticate (e.g., sign) the security agreement. Each state also has its own system for registration of security interests. Registration is required, typically in the state where the IP owner is located, to perfect the security interest. Global harmonization is desirable to promote certainty and predictability over the regulation of security interests over IPRs.

I. Current law and practice

You are invited to submit a Report addressing the questions below. Please refer to the 'Protocol for the preparation of Reports'.

*You are reminded that **IPRs** refers to patents, trademarks and registered designs only.*

If more than one type of security interest is available under your Group's current law, please answer the questions for each type of security interest, as applicable.

Availability of security rights

- 1) Does your Group's current law provide for the possibility of creating security interests over IPRs?

Answer: Yes.

If yes, please answer Questions 2) to 14) inclusive before proceeding to question 15) and following.

If no, please proceed directly to question 15).

- 2) Are the available types of security interests defined by specific provisions relating to security interests over IPRs or by general commercial law principles (e.g. specific provisions in your Group's patent legislation rather than general commercial provisions that are applicable to tangible personal property as well as to patents)?

Answer: The available types of security interests over IPRs are defined by general commercial law principles described in [Article 9 of the Uniform Commercial Code \(UCC\)](#), which has been adopted as state law in some form by all 50 states in the U.S. There is no federal law in the U.S. governing the types of security interests.

- 3) Under your Group's current law, what types of security interests are available for IPRs? In addressing the questions in sub-paragraphs a) to c) below, please specify briefly the main characteristics and differences of the available types of security interests.

Answer: A security agreement defines the type of security interest in the IPR. Historically, different types of security interests may have been known as, for example, a mortgage, an equitable charge, a pledge, a lien, or an hypothecation, depending on the terms, conditions and types of collateral. However, under current laws, the UCC does not require any particular type of interest to be used as a security agreement for IPRs, and current practice is to grant a general "security interest." Therefore, the labels of the different types of interests historically known are not now relevant to this question. For a security agreement to qualify as an enforceable security interest under the UCC, the security agreement must meet

three requirements. (1) the security taker must give value; (2) the security provider must have rights in the secured IPR; and (3) the security provider must authenticate (e.g., sign) the security agreement. See [UCC Article 9-203\(b\)](#). At a minimum, regardless of the type of security agreement, the agreement must describe the debt and state that the debt is secured by the IPR as collateral.

- a) Does your law provide for security interests which are characterized by the full assignment of the underlying IPR to the security taker? For example, an assignment of the IPR for the purpose of security or authorization to dispose/use fully in the event of default.

Answer: Yes. Although not expressly defined by the law, a security agreement that provides for an assignment of IPR in the event of default would meet the requirements of an enforceable security interest.

- b) Does your law provide for security interests that authorize the security taker to realize the security interest only in the event of default? For example, a pledge over an IPR that authorizes the pledgee to liquidate the pledged IPR in the event of default (but not to otherwise dispose of the IPR).

Answer: Yes. Although not expressly defined by the law, a security agreement that authorizes the security taker to realize the security interest only in the event of default would meet the requirements of an enforceable security interest.

- c) Does your law provide for security interests that authorize the security taker to use the underlying IPR? For example, *usus fructus* rights that authorize the creditor to use and/or realize proceeds from the exercise of the IPR only during the term of encumbrance. Is any right to use the encumbered IPR conditional upon default of the security provider?

Answer: Yes. Although not expressly defined by the law, a security agreement that expressly authorizes the security taker to use the underlying IPR during the term of encumbrance prior to default would meet the requirements of an enforceable security interest.

- 4) If more than one type of security interest is available under your Group's current law, what types are commonly used for IPRs? Please also specify if certain types of security interests are exclusively used

for certain types of IPRs in your country. For example, patents may commonly be encumbered with pledges, while trademarks may commonly be assigned to the security taker.

Answer: The UCC does not expressly provide for different types of security interests for IPRs. A general “security interest” is commonly used for IPRs.

Effects of security interests

- 5) Is the security provider restricted in their right to use their IPR after providing a security interest over that IPR? For example, in respect of their right to grant licenses, or the right to use the protected subject matter. Please answer for each available type of security interest.

*Answer: No. The security provider may use their IPR, subject to the security interest over that IPR. See [UCC 9-205\(a\)\(1\)\(A\)](#). Federal law does not cover security interests over patents and trademarks and thus we look to the UCC as enacted as state law in each state rather than federal law. The UCC does not prevent the security provider from using its IPR due to a security interest over that IPR. *Id.* For example, the security provider may license their IPR to others despite the existence of the security interest.*

- 6) May encumbered IPRs be assigned to third parties by the security provider?

Answer: Yes. The security provider may assign encumbered IPRs to third parties. See [35 U.S.C. 261](#) (patent); [15 U.S.C. 1060\(a\)](#) (trademark). However, many security agreements will contain provisions restricting assignment to third parties.

- 7) If yes:

- a) under what conditions may an IPR be assigned (e.g. obligation to obtain consent from the security taker, public notification or registration)?

Answer: Generally, an IPR may be assigned subject to any existing security interests. Section 261 of the Patent Act, [35 U.S.C. 261](#), allows assignment of patents (including design patents) and patent applications and does not restrict the assignment of an encumbered patent or patent application. See [Holt v. United States](#), 73-2

U.S.T.C. P9680, 1973 WL 614 (D.D.C. 1973) (not publically available on the web). To assign a trademark, the security provider must assign both the trademark and the “goodwill” associated with the trademark. See [15 U.S.C. 1060\(a\)\(1\)](#). Security interests affecting applications, patents, and registrations may be recorded in the USPTO. See [37 C.F.R. 3.11\(a\)](#). However, parties may negotiate provisions in security agreements that require notice or consent by the security taker prior to assignment.

- b) does the IPR remain encumbered with the original security interest for the benefit of the security taker?

Answer: Yes. A security interest attaches to the IPR when it is properly perfected under state law and becomes enforceable against the security provider with respect to the IPR. See [UCC 9-203\(a\)](#); [WIPO Information Paper on Intellectual Property Financing – Annex I: WIPO Questionnaire on Security Interests in Intellectual Property, page 157 \(Oct. 9, 2009\)](#).

- 8) What are the rights of the security taker before default (e.g. entitlement to damages, injunctions against infringers, or license fees)?

*Answer: Generally, a party with “all substantial rights” of a patent has standing to bring suit. See [Aspex Eyewear, Inc. v. Miracle Optics, Inc., 434 F.3d 1336 \(Fed. Cir. 2006\)](#). Unless a security taker contracts to acquire “all substantial rights” in a patent, or at least the ability to bring suit, the security taker will not have standing to independently bring a patent suit. Under trademark law, typically the owner of the trademark has standing to bring suit to enforce and defend its trademark. However, a security taker may take legal action to preserve the value of its security without the security provider. See [WIPO Information Paper on Intellectual Property Financing – Annex I: WIPO Questionnaire on Security Interests in Intellectual Property, page 139 \(Oct. 9, 2009\)](#). It is common practice for the security taker, as part of the security contract, to obtain rights in the collateral with respect to damages, injunctions against infringers, and so forth. See *id.* at 157.*

- 9) Who of the security provider or the security taker is responsible for maintenance and defence of the IPR provided as collateral?

Answer: Generally, the security provider is responsible for maintaining and defending the IPR provided as collateral, subject to

contract. See [UCC 9-205\(a\)\(1\)](#). While the IPR is encumbered, the security provider continues to own the rights to the IPR. However, while the security provider has the right to maintain and defend the IPR collateral, the security provider does not necessarily have a legal obligation to maintain and defend the IPR.

- 10) What are the legal consequences if the underlying IPR expires or is revoked? For example, the security right lapses simultaneously; the creditor has a compensation claim against the security provider.

Answer: Unless otherwise specified in the contract granting the security interest in the IPR, the security taker will have no claim against the security provider if the underlying IPR expires or is revoked through no fault of the security provider. However, the security provider in this instance remains liable for any loans or other performance for which the security interest in the IPR was given as collateral.

On the other hand, if the expiration or revocation of the IPR is the fault of the security provider, e.g., the security provider does not pay the necessary maintenance fees, the legal consequences are the same as if the security provider intentionally destroyed the collateral underlying the debt. Under the UCC [9-601](#) and [9-610](#), the legal consequences can include foreclosure and, ultimately, the sale of remaining collateral to fulfill the security agreement obligations.

- 11) Can any of these effects of security interests over IPRs before default be modified by contractual provisions between the parties? If so, which effects?

Answer: Yes. The parties are free to contractually specify and/or limit how the IPR in which a security interest is granted may be exercised and/or alienated. Such contractual agreements are governed by the law of the particular applicable U.S. state if one is specifically designated by a choice-of-law provision in the contract.

Applicable law

- 12) Does your Group's current law provide for conflicts of laws as to the availability and effect of security interests over IPR portfolios containing foreign as well as national IPRs?

Answer: No. Absent a clause stipulating the applicable law, the rights and obligations of the parties are determined by the law that

would be selected by application of the particular U.S. state's conflict of laws principle. Section 9-301 of the UCC provides, as a default, that the governing law is the law of the state of the security provider.

- 13) Which national law applies as to creation, perfection and effect of security interests over foreign IPRs? For example, where a US patent is provided as collateral in respect of a financial transaction in Europe.

Answer: NOTE: This answer is presented not from the perspective of the above example, but rather for the reverse situation, i.e., where a security interest is applied in the U.S. for a non-U.S. IPR as collateral.

Absent a clause in a contract stipulating the applicable law, the rights and obligations of the parties are determined by the law that would be selected by the applicable U.S. state's conflict of laws principle.

Regarding perfection of the interest, the law of the security provider's jurisdiction, i.e., the jurisdiction in which the security provider is domiciled, applies. If there is no recording system in the security provider's jurisdiction, perfection can be performed in Washington D.C.

- 14) Can a choice of law provision in a security interest agreement over IPRs overrule the applicable law as to availability and effect?

Answer: Yes. The parties are free to specify which law applies to the contract. However, when foreign law is involved, the result depends on the specific policies involved. U.S. Courts have on occasion, in the past, shown some reluctance to give effect to some foreign laws specified in contracts, for example.

Additional question

- 15) Regardless of your Group's current law relating to security interests over IPRs, is it possible to create a solely contractual regime for security interests over IPRs (i.e. beside the types of security interests defined by law) that is enforceable between the contracting parties?

Answer: Yes, but only between the contracting parties. As described above, for a security agreement to qualify as an enforceable security interest under the UCC, the security agreement must meet three requirements. (1) the security taker must give value; (2) the security provider must have rights in the secured IPR; and (3) the security provider must authenticate (e.g., sign) the security agreement. At a minimum, regardless of the type of security agreement, the agreement must describe the debt and state that the debt is secured by the IPR as collateral. By satisfying 1, 2, and 3, a party effectively “attaches” a security interest to the IPR, making it enforceable in “contractual regime” against the other contracting party. Without perfection of the IPR, which involves some form of filing (depending on the IPR), these agreements would be difficult to enforce against subsequent third parties.

II. Policy considerations and possible improvements to your current law

- 16) Is your Group's current law regarding security interests over IPRs sufficient to provide certainty and predictability to the parties?

Answer: The current laws are sufficient if they are closely followed, yet there may be room for improvement.

- 17) Under your Group's current law, is there an appropriate balance between the rights between security takers and security providers?
For example:

Answer: Likely yes. The security taker has the burden of navigating the inconsistent process of perfecting their security interest in an IPR, yet, at the same time, the security provider has the burden of ensuring the maintenance and defense of the IPR (unless otherwise negotiated by contract) during the period of time in which the IPR is considered to be collateral. This is likely an appropriate balance.

- a) are there situations in which the rights of security takers should be limited or extended (e.g. if assignment of an encumbered IPR is possible by the security provider without involvement of the security taker)?

Answer: Yes. The limitations or extensions of rights may be created through contractual provisions between the parties.

- b) are there situations in which the rights of security providers should be limited or extended (e.g. if the security taker is

authorized to dispose of existing licenses without involvement of the security provider)?

Answer: Yes, but these limitation or extensions may be created through contractual provisions. (See above).

- 18) Are there any aspects of these laws that could be improved? Are there any other changes to your Group's current law that would promote transactions involving IPRs as collateral? If yes, please briefly explain.

Answer: Yes. There should be further study into uniform rules for creating and perfecting security interests specifically over IPRs regardless of the type of IPR.

III. Proposals for harmonisation

- 19) Does your Group consider that harmonization of laws concerning security interests over IPRs is desirable?

Answer: Yes.

If yes, please respond to the following questions without regard to your Group's current law.

Even if no, please address the following questions to the extent your Group considers your Group's laws could be improved.

Security system regarding IPRs

- 20) Should there be specific provisions regulating security interests over IPRs (i.e. separate from security interests over tangible property) generally?

Answer: It depends. Further study would be necessary to compare specific provisions for security interests over IPRs with improvements to general commercial law principles that also apply generally to IPRs.

- 21) If no, should there be general commercial law principles that also apply to IPRs? If not, why?

Answer: see question 20.

- 22) What types of security interests should be available as minimum standard in all countries?

Answer: A general security interest should be available as a minimum standard in all countries.

- 23) Should the law be applied differently depending on the type of IPR? For example, should patents be encumbered exclusively with pledges, should trademarks be assigned to the security taker for the purpose of security?

Answer: The law should be applied the same regardless of the type of IPR.

Effect of security interests

- 24) Should the security provider be restricted in their right to use their IPR after providing a security interest over that IPR (e.g. in respect of their right to grant licenses, or to use the protected subject matter)? If so, how?

Answer: There should not be an automatic restriction on the right of a security provider to use their IPR after providing a security interest over that IPR.

- 25) Should the security provider be able to assign encumbered IPRs to third parties?

Answer: The right of the security provider to assign encumbered IPR to third parties should not be removed.

- 26) What should the rights of the security taker be before default (e.g. entitlement to damages, injunctions against infringers, or license fees)?

Answer: The security taker should not be provided with any substantive rights before default, unless contractually agreed.

- 27) Should the security provider or the security taker be responsible for maintenance and defence of the IPR provided as collateral?

Answer: The security provider should not be discharged from the responsibility for the maintenance and defense of the IPR provided as collateral.

- 28) What should the legal consequences be if the underlying IPR expires or is revoked (e.g. the security right lapses simultaneously; creditor gains a compensation claim against security provider)?

Answer: If the underlying IPR expires or is revoked, the legal consequences should vary depending upon the circumstances of the expiration or revocation. Further study of this issue should be undertaken to consider monetary and equitable relief under various regimes for breach of commercial rights and IPRs in coordination with harmonization of other rights for relief.

- 29) Should it be possible to modify these effects of security interests over IPRs before default by contractual provisions?

Answer: Contractual provisions should be available to modify the effects of security interests over IPRs.

Applicable law

- 30) Which law should apply as to the availability and the effects of security interests where a foreign IPR is provided as collateral? Why?

Answer: It should be a subject of further study whether, under a globally harmonized system of security interests over IPRs, a coherent choice of law regime can be determined that would promote certainty and predictability..

- 31) Should a choice of law provision in a security interest agreement over IPRs overrule the applicable law? If yes, why?

Answer: It should be the subject of further study whether, under a globally harmonized system of security interests in IPRs, allowing a choice of law provision in an agreement would promote certainty and predictability.

Additional considerations and proposals

- 32) To the extent not already stated above, please propose any other standards your Group considers would be appropriate to harmonize laws relating to security interests over IPRs.

Answer:

- 33) Please comment on any additional issues concerning any aspect of security interests over IPRs you consider relevant to this Study Question.

Answer: