

SUMMARY¹ - UNCITRAL – INTELLECTUAL PROPERTY ISSUES – JANUARY
'08 EXPERTS MEETING

Neil Cohen and Steve Weise

Vienna – January 21 – 23, 2008 [updated May 6, 2008]

1. Purpose of expert groups

- 1.1 *Provide expert advice for Secretariat*
- 1.2 *Experts do not make decisions*
- 1.3 *Only Working Group can make decisions*

2. Status of Legislative Guide on Secured Transaction (the “Secured Transactions Guide”)

- 2.1 *Approved by UNCITRAL Commission in December 2007*

3. Purpose of review of intellectual property issues [WP.33, ¶ 1 – 2]

- 3.1 *Possible annex to Secured Transaction Guide to address IP-specific issues in the context of the framework established by the Secured Transactions Guide*
 - (a) Secretariat Working Paper 33 (WP 33) raises possible matters to consider for Annex
- 3.2 *WP 33 will be discussed at May 2008 Working Group meeting*
- 3.3 *Possibly will be other meetings*

4. Terminology

¹ This summary is not an official document. It is Neil’s and Steve’s personal “quick and dirty” summary of the discussions, often for “issue spotting” purposes. The summary often does not refer to matters in the same order as they were discussed; rather it attempts to summarize matters in a “logical” order. Because it is a summary, it does not refer to everything discussed over the three-day experts meeting. Moreover, because the discussions were wide ranging and did not always involve rigorous analysis of the Secured Transactions Guide, the summary should not be taken as our views as to the meaning of the Guide or of intellectual property law. The summary often states what someone said, so sentences that might appear to be declarative sentences are often only reporting. References to WP.33 and WP.33/Add.1 are to those documents dated 18 March 2008 and posted on the UNCITRAL web site.

4.1 *Meaning of “intellectual property” [WP.33, ¶ 39 – 40]*

- (a) Secured Transaction Guide refers to State laws, treaties, international instruments and the like for purposes of definition
 - (1) If TRIPS or other law treats royalties to some or full extent as “intellectual property” then royalties are “intellectual property” to that extent
- (b) Different rights – ownership of intellectual property is one and licensee’s rights are another
 - (1) Define infringement claim separately?
 - (2) Define “right to use” as a separate asset?
- (c) Secured transactions law does not make secured creditor an “owner” of any IP that is collateral prior to enforcement of security right
- (d) Secured creditor’s rights in IP that is collateral are no greater than those of the grantor

4.2 *“Assignment” [WP.33, ¶ 43]*

- (a) Avoid confusing use with use of “assignment” in intellectual property law
- (b) “Assignment” as used in Secured Transaction Guide refers to transfer of a receivable. Otherwise, not used to describe creation of security rights
- (c) “Receivable” is only right to payment of money [WP.33, ¶ 40]
 - (1) “Receivable” does not include licensee’s rights to use intellectual property

4.3 *License and license agreement [WP.33, ¶¶ 52 – 53]*

- (a) Distinguish “license” (package of rights) from the license agreement
- (b) The encumbered asset is the “right” to use the intellectual property

4.4 *Meaning of rights holder*

- (a) Is secured creditor a TRIPS “rights holder” solely by creation of the security right? [WP.33, ¶ 47]

- (1) TRIPS, and not Secured Transaction Guide, would answer this question
- (2) Expect that the answer is “no”
- (b) Secured Transaction Guide does not define “right holder”, it just gives certain rights to secured creditor to do things
- (c) Secured creditor needs to be right holder to license in a foreclosure disposition by a license
 - (1) Secured creditor not disposing of the property at foreclosure on its own, ownership goes from the grantor to the dispose

5. Scope of Secured Transaction Guide

5.1 *Guide sometimes applies to outright sales of asset*

5.2 *Guide applies to outright sales only if a sale of a receivable – a right to payment of money*

- (a) Thus, e.g., licensee’s obligation to advertise etc is not a “receivable” (nor intellectual property) [WP.33, ¶ 40]

6. General meaning of deferral to treaties and laws relating to intellectual property

6.1 *Recommendations of Secured Transactions Guide do not apply to intellectual property in so far as they are “inconsistent with ... law ... relating to intellectual property.” (Recommendation 4(b)) [WP.33, ¶ 77 – 78]*

6.2 *Evaluate inconsistency issue by issue*

6.3 *Not all laws that affect intellectual property are laws “relating to intellectual property.”*

- (a) How much broader than “intellectual property law” is “law relating to intellectual property”?
- (b) Is a business practice validated by case law a “law” for 4(b) purposes?
- (c) Law does not “relate” to intellectual property just because it applies a general rule to intellectual property. *E.g.*, if a State’s law recognizes transfer of title for security purposes for all property (including IP), this doesn’t mean that that law is a law “relating to intellectual property.”

7. Secured creditor’s rights to “intellectual property” that is collateral

7.1 *General approach: nemo dat (i.e., secured creditor steps into shoes of grantor)*

- 7.2 Thus, e.g., security right subject to “enforceable” terms and conditions
- (a) Distinguish priority rules (ranking of claims derived from grantor’s rights) from *nemo dat*
- 7.3 Secured transactions law does not interfere with intellectual property owner’s right to determine who can use the intellectual property
- 7.4 Analysis should clearly distinguish security right in intellectual property itself from security right in rights of licensee [WP.33. ¶ 86]
- 7.5 Example: Secured Creditor-1 has security right in intellectual property owner’s rights and Secured Creditor-2 has security right in licensee’s rights
- (a) Each secured creditor has a security right in a different asset
 - (b) If intellectual property law says that licensee loses its rights if intellectual property owner loses the intellectual property, then secured transactions law does not give the licensee or its secured party any greater rights

8. Substantive matters

- 8.1 Anti-assignment clauses [WP.33, ¶¶ 120 – 122]
- (a) Secured Transaction Guide anti-assignment override applies *only*:
 - (1) To agreement not to transfer receivable (right to payment (royalty))
 - (2) Agreement must be in agreement out of which receivable arises between the obligee and obligor. In other words, the override applies only to an anti-assignment term in an agreement between a licensor (or sublicensor) and a licensee (or sublicense) in which the licensor/sublicensor agrees not to transfer its right to collect royalties from the licensee/sublicense. Does not apply to other agreements not to transfer receivable.
 - (3) Does not apply to non-contractual, e.g. statutory, restrictions
 - (b) What if licensee agrees with licensor that licensee will not grant a security right in right to sub-royalties?
 - (1) Licensor can enforce licensee’s agreement not to assign right to sub-royalties (assuming agreement is enforceable under other law)

- (i) Guide does not affect that prohibition (if enforceable under other law)
- (2) What if licensee grants a security right anyway
 - (i) If other law (*e.g.* intellectual property law) says the grant is ineffective, then it's ineffective
- (3) Even if grant of security right is effective, licensor retains rights it otherwise has to:
 - (i) Terminate the license
 - (ii) Set off any claims it has against the licensee for breach (or otherwise)

8.2 *Creation of security right [WP.33, ¶¶ 95 – 99]*

- (a) Security right in infringement claim
 - (1) Guide does not affect ability to obtain security right in infringement claim
 - (2) Can secured creditor enforce against infringers?
 - (i) Standing question?
 - (ii) Intellectual property law answers that question
- (b) Would referring to “intellectual property” in the granting language pick up the infringement claim? Yes?
 - (1) Interpretation of grant language
 - (2) Lawsuit pending w/ or w/o judgment?
 - (3) Does not resolve question of standing under intellectual property law
- (c) For description purposes, reference to “inventory” includes limited rights to use any intellectual property related to the goods for those goods only (don't have to refer separately to “intellectual property” when, *e.g.*, granting a security right in a microwave oven) [WP.33/Add.1, ¶ 44]
- (d) Does secured creditor have right to protect grantor's right in intellectual property (*e.g.* make filings)? [WP.33, ¶¶ 100 – 102]
 - (1) No – leave to contract
 - (2) Mention as a good practice

- (3) Can the secured creditor take action as a default rule if nothing in the contract?
 - (i) Even if agreement, under intellectual property law the contract provision might not be enforceable
 - (ii) General Guide rule is that upon default secured creditor can take action

8.3 *Intellectual property relating to goods (See also 8.8) [WP.33, ¶¶ 102 – 106, 132 -133]*

- (a) “Intellectual property” not “embodied” in the goods
- (b) Example: goods sold with trademark on them pursuant to license from trademark owner
 - (1) If mark exhausted, secured party can sell with mark
 - (2) If mark not exhausted (license to bottler, but not sold to distributor), secured creditor can’t sell with trademark
- (c) Example: if manufacturer sells completed bottle (with trademark appropriately on the bottle) to distributor, then distributor is beneficiary of exhaustion and secured creditor can enforce
 - (1) If manufacturer sells completed bottle and restricts places that can be sold, as a matter of contract law
- (d) “Exhaustion” does not apply to licensor when licensee has done the manufacturing
 - (1) In the end other law (intellectual property or contract) determines the issue
- (e) If sell laptop with software on hard drive, and limitations on use of software, secured transactions law does not affect the result that would otherwise obtain under intellectual property law or contract law

8.4 *Effectiveness between the parties*

- (a) If there are intellectual property requirements for a transfer of ownership for security, effectiveness between the parties can occur both ways? [WP.33, ¶¶ 113 – 119]
 - (1) If intellectual property law says must register or do something to create the security right, then that rule applies

- (2) Guide's rule kicks in where intellectual property law does not provide a mandatory, specific rule

8.5 *Third-party effectiveness*

- (a) To promote transparency, Guide generally provides for registration of security rights for effectiveness against third parties
 - (1) Guide rule would be applicable unless affirmative rule in intellectual property that unregistered liens are favored

8.6 *Priority*

- (a) As to priority, if there is an applicable intellectual property priority rule that differs from the priority rule in the Guide, the intellectual property rule governs to that extent
- (b) Does not mean that Guide's third-party effectiveness rule is ineffective for purposes of registration to defeat insolvency administrator
 - (1) Nor would Guide be displaced if no intellectual property priority rule
 - (2) So Guide's registration system applicable unless clear that intellectual property system totally displaces the Guide's effectiveness rules

8.7 *Licensor retains ownership of intellectual property [WP.33/Add.1, ¶ 44]*

- (a) Licensor's ownership of intellectual property is different concept for different purpose of "retention of title" transactions involving goods
 - (1) "Retention of title" transactions in the Guide refer to sales of goods in which seller retains title to sold goods until buyer finishes paying, at which time title transfers to buyer – in other words, a purchase money security interest retained by the seller
 - (2) In intellectual property, licensor of course retains title to intellectual property by nature of transaction

8.8 *Intellectual property that relates to goods [WP.33, ¶¶ 102 – 106, 132 -133]*

- (a) "Intellectual property" *not* "embodied" in the goods
- (b) Security right in the goods extends, if at all, to rights associated with the particular goods

- (1) Does not create a right to manufacture other goods based on or relating to the intellectual property
- (2) But can't sell the intellectual property separately from the inventory
 - (i) Note that even with implied license, there could be a separate security right in the intellectual property itself with a conflicting claim in the intellectual property
- (c) Separate description/creation matters from enforcement (triggers intellectual property issues)
 - (1) Security right in patent does not extend to the pump manufactured based on patent
 - (2) Security right in the pump does include whatever right was involved in making that particular pump (with respect to that physical pump only)
- (d) Enforcement
 - (1) Generally secured creditor can enforce only if:
 - (i) Owner's intellectual property rights are "exhausted", or
 - (ii) Owner has consented
 - (2) Where grantor of the security right in goods is also the owner of the intellectual property, discussion over whether there needs to be an express consent
 - (3) Question of intellectual property law is can intellectual property owner prevent the grantor from selling – if yes, then can stop secured creditor

8.9 *Third-party effectiveness of security right [WP.33, ¶¶ 134 – 161]*

- (a) Priority between buyer that registers in intellectual property registry and secured creditor that registers in secured transactions registry with no registration in intellectual property registry
 - (1) If intellectual property buyer that plans to register purchase in intellectual property registry had to search secured transaction registries and there are many prior owners, does buyer have to search all secured transaction registries?

- (2) Where intellectual property registry provides ability to search chain of title (including security rights), buyer should not have to search secured transactions registry [WP.33, ¶ 136]
- (b) Guide would not change any intellectual property rule that does not require registration in intellectual property registry for effectiveness against third parties
- (c) Competing claimant does not include an infringer [WP.33/Add.1, ¶ 4 – 5]

8.10 Priority [WP.33/Add.1, ¶¶ 1 – 10]

- (a) What if no intellectual property registration system and under general property law, first in time wins, and there is registration in the secured transactions registry – who wins
 - (1) Be sure that ability to check with chain of title in intellectual property registry is not disrupted
 - (2) OK to apply Guide priority rule if there's no priority rule under intellectual property law (*e.g.* no registration in intellectual property registry available)?
 - (3) Think of the creation of the security right as the first “transfer” (a suspended transfer?)
 - (4) If state has a priority rule in under other law relating to intellectual property, can still use the Guide where it does not interfere
 - (5) If under intellectual property rules no specific priority rule exists, probably general priority of transfer rules apply
 - (i) If no specific intellectual property rule, then 4(b) does not apply

8.11 Licensee's rights

- (a) Licensee in ordinary course? [WP.33/Add.1, ¶¶ 16 – 25]
- (b) As matter of intellectual property law, secured creditor gives implied authorization to allow licenses?
- (c) Were licenses authorized by the secured creditor?
 - (1) If not prohibited by the secured creditor, would intellectual property law say OK?

(2) In many cases the intellectual property rule will get to the same result as the Guide rule?

(d) If security agreement does not have a prohibition on licensing, implied consent to licensing?

8.12 Enforcement [WP.33/Add.1, ¶¶ 33 – 44]

(a) A few countries may have a fair-value hearing in its intellectual property law

(1) 4(b) would cover it where there is a rule in a law relating to intellectual property

(2) Commercial reasonableness test in Secured Transaction Guide

(i) No requirement of fair value

(b) License created as part of foreclosure on intellectual property itself comes from the grantor via the secured creditor

8.13 Acquisition financing [WP.33/Add.1, ¶¶ 48 – 50]

(a) Guide provides for special priorities for acquisition financing of goods

(1) Should not be necessary for licensor

(b) Licensor can prohibit grant of security right in subroyalties

(c) Licensor can terminate license if licensee in bankruptcy (subject to insolvency law)

(d) Licensor can terminate license if other breaches

(e) Personal license does not go to insolvency administrator

8.14 Choice of law

(a) Freedom of contract for contractual elements

(b) Property aspects – state of origination [WP.33/Add.1, ¶¶ 53 – 56]