United Nations A/CN.9/700/Add.7

General Assembly

Distr.: General
26 March 2010

Original: English

United Nations Commission on International Trade Law
Forty-third session
New York, 21 June-9 July 2010

Draft Supplement to the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property: Annex I

Note by the Secretariat

Addendum

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V.10-52244 (E) 300310 310310

Annex I

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

A. Terminology[1]

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

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

"Inventory" includes intellectual property or a licence of intellectual property held by the grantor for sale or licence in the ordinary course of the grantor's business.

B. Recommendations 243-248

Security rights in tangible assets with respect to which intellectual property is used[2]

243. The law should provide that, in the case of a tangible asset with respect to which intellectual property is used, a security right in the tangible asset does not extend to the intellectual property and a security right in the intellectual property does not extend to the tangible asset.

Impact of a transfer of encumbered intellectual property on the effectiveness of the registration[3]

244. The law should provide that the registration of a notice of a security right in intellectual property in the general security rights registry remains effective notwithstanding a transfer of the encumbered intellectual property.

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

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

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

Priority of rights of certain licensees of intellectual property[4]

245. The law should provide that the rule in recommendation 81, subparagraph (c), applies to the rights of a secured creditor under this law and does not affect the rights the secured creditor may have under the law relating to intellectual property.

Right of the secured creditor to preserve the encumbered intellectual property[5]

246. The law should provide that that the grantor and the secured creditor may agree that the secured creditor is entitled to take steps to preserve the encumbered intellectual property.

Application of acquisition security right provisions to security rights in intellectual property[6]

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

(a) Intellectual property or a licence of intellectual property:

(i) Held by the grantor for sale or licence in the ordinary course of the grantor's business is treated as inventory; and

(ii) Used or intended to be used by the grantor for personal, family or household purposes is treated as consumer goods; and

(b) Any reference to:

(i) Possession of the encumbered asset by the secured creditor does not apply;

(ii) The time of possession of the encumbered asset by the grantor refers to the time the grantor acquires the encumbered intellectual property or licence of intellectual property; and

(iii) The time of the delivery of the encumbered asset to the grantor refers to the time the grantor acquires the encumbered intellectual property or licence of intellectual property.

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[4] If it could be included in the *Guide*, this recommendation would be placed in chapter V, Priority of a security right, as recommendation 81 bis. As an asset-specific recommendation, this recommendation would replace the general recommendation 81, subpara. (c), to the extent that it applies to the priority of the rights of a non-exclusive licensee of intellectual property as against the rights of a secured creditor of the licensor.

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

[6] If it could be included in the *Guide*, this recommendation would be placed in chapter IX, Acquisition financing, as recommendation 186 bis.

Law applicable to a security right in intellectual property[7]

Option A

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

Option B

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

Option C

248. The law should provide that:

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

(b) Where the intellectual property may not be registered in a specialized registry, the law applicable to the creation and enforcement of a security right in intellectual property is the law of the State in which the grantor is located. However, the law applicable to the effectiveness against third parties and priority of such a security right is the law of the State in which the intellectual property is protected.

Option D

248. The law should provide that:

(a) The law applicable to the creation and enforcement of a security right in intellectual property is the law of the State in which [the intellectual property is protected] [the grantor is located], except to the extent that the security agreement provides that these matters are to be governed by the law of the State in which [the grantor is located] [the intellectual property is protected];

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

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

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

[*Note to the Commission: The Commission may wish to consider adopting the lex protectionis approach (option A), the first hybrid approach (option B) or both for States to choose from. In that regard, the Commission may wish to note that, even if it adopted option B, the lex protectionis could still apply in the following situations: (a) as provided in option B; and (b) even to matters beyond those mentioned in option B, in accordance with recommendation 4, subparagraph (b). In essence, under option B, it would be left to secured creditors to determine whether to meet the third-party effectiveness requirements of the law of the grantor's location (if they wanted to protect themselves essentially against the insolvency representative) or the lex protectionis (if they wanted to protect themselves against all possible competing claimants).*

The Commission may also wish to consider that, while all options have advantages and disadvantages and no option is perfect, any positive elements of the hybrid approaches in options C and D, are either already covered by or may be covered in options A and B, without multiplying the options and creating an additional level of complexity, which may undermine the certainty and predictability sought to be achieved by a conflict-of-laws rule.

More specifically, to the extent that options A and B refer to the lex protectionis, whether directly or indirectly through recommendation 4, subparagraph (b), they both sufficiently address any registration requirements under national, regional or international law. In addition, the second subparagraph of option C essentially reflects option B. Moreover, the application of the rule in subparagraph (a) of option C would depend on whether intellectual property registration regimes permit the registration of a security right in intellectual property with third-party effects (which is currently the exception rather than the rule). Finally, option C has a number of other disadvantages (see paras. 26 and 27 above). As to option D, the Commission may wish to consider that referring third-party effectiveness and priority to one law and enforcement to another law may create serious problems (see paras. 30, 46 and 52 above). In addition, if option D were revised to ensure that third-party effectiveness, priority and enforcement would be referred to the same law, as option B addresses in the same way matters addressed in subparagraphs (b) and (c) of option D, the only difference between options B and D would be the party autonomy permitted by option D with respect to creation.

If the Commission wishes to retain some reference to party autonomy with respect to the creation of a security right in intellectual property, the Commission may wish to consider adding a reference to party autonomy in option A (or B), preserving any specialized registration requirements. Language along the following lines could be considered with respect to option A: "However, the grantor and the secured creditor may agree that the law applicable to the creation of a security right in intellectual property is the law of the State in which the grantor is located, except if the security right in intellectual property may be registered in an intellectual property registry, in which case the law applicable to the creation of the security right is the law of the State under whose authority the registry is maintained." In option B, similar language may need to be inserted to limit its application to

security rights that are not capable of being registered in an intellectual property registry of the State in which the intellectual property is protected.

Irrespective of the approach taken to the law applicable to security rights in intellectual property, the Commission may wish to consider adding in the commentary a reference to a so-called "accommodation rule" followed in some States with a view to enhancing the cross-border recognition of security rights in cases where they would not be recognized in the forum, whose law would be applicable. Under such a rule, if the forum, whose law is applicable, does not recognize, for example, an assignment of a copyright made under a foreign law, the assignment of a copyright under the foreign law may still be "salvaged" and recognized in the forum as an exclusive licence, which is recognized in the forum. Similarly, if a non-possessory security right is not effective in the forum, whose law is applicable, the non-possessory security right may still be "salvaged" in the forum and recognized as a transfer for security purposes, which is a device known in the forum. This is not an asset-specific issue, but it could arise in an intellectual property context and, in view of the prevalence of the lex protectionis, enhance the cross-border recognition of security rights in intellectual property created under a law other than the lex protectionis.

In addressing these matters, the Commission may finally wish to take into account the work of other organizations, such as the European Max-Planck-Group for Conflict of Laws in Intellectual Property (CLIP) on Principles for Conflict of Laws in Intellectual Property (http://www.cl-ip.eu/).]