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

Compilation of comments by Governments and international organizations*

Contents

* This document transmits comments by interested international organizations. It was submitted less than ten weeks before the opening of the session, upon receipt of the comments.

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I. Introduction

1. At the first part of its fortieth session (Vienna, 25 June-12 July 2007), the Commission, in order to provide sufficient guidance to States as to the adjustments necessary to be made to avoid inconsistencies between secured transactions law and intellectual property law, decided to entrust its Working Group VI (Security Interests) with the preparation of an annex (renamed "supplement" in 2009) to the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property (the "draft Supplement").[1]

2. At its forty-second session, in 2009, the Commission expressed its appreciation for the progress achieved thus far and emphasized the importance of the draft Supplement. Noting the interest of the international intellectual property community, the Commission requested the Working Group to expedite its work so that the draft Supplement could be submitted to the Commission for finalization and adoption at its forty-third session.[2]

3. Working Group VI completed its work on the draft Supplement at its seventeenth session (New York, 8-12 February 2010) after five one-week sessions beginning at the thirteenth session (New York, 19-23 May 2008).[3] In preparation for the forty-third session of the Commission (New York, 21 June-9 July 2010), the text of the draft Supplement (contained in documents A/CN.9/700 and Addenda 1-7) was circulated to all Governments and to international organizations for comment.

4. The present document reproduces the comments received by the Secretariat on the draft Supplement, in the form in which they were received by the Secretariat. Comments received by the Secretariat after the issuance of the present document will be published in addenda thereto in the order in which they are received.

II. Comments received from international organizations

A. United Nations system

1. The World Bank

[Original: English]
[27 May 2010]

Preliminary

We have received, for comment, the draft Supplement. The draft Supplement has been discussed in five one-week sessions, with the participation of recognized specialists and key international organizations in the field of intellectual property law. The draft Supplement is included in a Note by the Secretariat (A/CN.9/700 and

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[1] *Official Records of the General Assembly, Sixty-second Session, Supplement No. 17* (A/62/17 (Part I)), paras. 155-157 and 162.

[2] Ibid., *Sixty-fourth Session, Supplement No. 17* (A/64/17), paras. 312-317.

[3] The reports of the Working Group on its work during these five sessions are contained in documents A/CN.9/649, A/CN.9/667, A/CN.9/670, A/CN.9/685 and A/CN.9/689.

Addenda 1-7), dealing with the recommendations and commentaries needed to adapt the Guide to the regulation of security interests over intellectual property.

It is important to note that the draft Supplement has reached a high level of consensus, and a high degree of quality. Therefore, our comments are limited to a few specific formal and substantive points. The draft Supplement recognizes that each jurisdiction may have specific rules governing intellectual property and seeks to accommodate these regimes in addressing the issue of security interests; the draft Supplement thus offers a generally acceptable intellectual basis for the solution of a number of intricate legal problems in different legal systems.

Comments

The comments to the draft Supplement follow the sequence in which the document itself is organized, with the identification of the paragraphs to which commentaries refer.

A/CN.9/700

The new section A in the Introduction performs a useful function and it is a valuable addition. It is important to remind the reader of the draft Supplement of its purpose, namely, to make credit more available and at a lower cost to intellectual property owners and other intellectual property rights holders, thus enhancing the value of intellectual property. It is also important that the Introduction highlights the fact that the purpose of the draft Supplement is to be achieved without interfering with the fundamental policies of law relating to intellectual property.

In section E (Examples of financing practices relating to intellectual property), the draft Supplement states that there are two broad categories of secured transactions relating to intellectual property (para. 35). The first category involves transactions in which the intellectual property rights serve as collateral (examples 1-4). The second category includes financing transactions that involve intellectual property in combination with other movable assets (para. 36, with reference to example 5). This classification is extremely useful and very solid, from a conceptual point of view. However, examples 6 and 7 are not mentioned in the classification. In fact, examples 6 and 7 would be, in most situations, ordinary secured transactions, and not secured transactions over intellectual property (these are secured transactions over trademarked inventory). If the examples are to be kept, it would be very useful to explicitly highlight that these last two examples do not belong to any of the two categories involved and that, therefore, do not represent security interests over intellectual property in a strict sense. The omission of the two examples in the classification of transactions, and the inclusion of the examples in the list, without any qualification, could be misleading.

A/CN.9/700/Add.1

In paragraph 20, the draft Supplement states that “the rights and obligations flowing from a licence agreement is a matter of law…” The sentence should read “the rights and obligations flowing from a licence agreement *are* a matter of law…”, or, alternatively, “the determination of rights and obligations flowing from a licence agreement is a matter of law…”.

A/CN.9/700/Add.2

In paragraph 32, substitute "compact disc" for "compact disk", in coherence with A/CN.9/Add.5, paragraph 15.

In the same paragraph 32, the example of tangible assets connected to intellectual property rights include: "(b), jeans may bear a trademark or cars may contain a chip that includes a copy of copyrighted software". These examples are correct, however, the reference to cars is somewhat strange because cars are associated to multiple intellectual property rights, like trademarks, patents for components, and protected design. In a car, there are connections to intellectual property rights of a much greater importance than the chip with software.

Regarding recommendation 243, we think that the words "*unless otherwise agreed by the parties to a security agreement*" should be re-inserted. Recommendation 10 of the Guide affirms that the parties may derogate by agreement from the provisions of the law regarding their respective rights and obligations, unless otherwise provided in the law. However, retaining the words "*unless otherwise agreed by the parties to a security agreement*" is important in this context because otherwise the language in the recommendation is overly prescriptive, and may lead to the impression that the parties would be unable to derogate from this rule of separation between the tangible asset and intellectual property.

We agree with the deletion of the sentence stating that "However, to the extent permitted by law relating to intellectual property, this recommendation does not limit the enforcement remedies of a secured creditor with a security right in the tangible asset or in the intellectual property". This sentence could be included in the commentary, in the part related to enforcement of security rights.

A/CN.9/700/Add.3

The fourth sentence of paragraph 9 reads: "*In other States (often those whose secured transactions law utilizes mortgage concepts), a security right is treated as another type of (outright or conditional) transfer and is, therefore, created and made effective against third parties to the same extent as any other transfer*". In order to clarify the sentence, the following drafting is proposed: "*In other States (often those whose secured transactions law utilizes mortgage concepts), a security right in intellectual property is treated as another type of (outright or conditional) transfer and is, therefore, created and made effective against third parties to the same extent as any other transfer*".

In paragraph 29, there is an unnecessary duplication regarding the argument that a general security rights registry provides less information than an intellectual property registry. The last sentence of paragraph 29 reads: "While the notice-based registration system of the general security rights registry gives less information (…) it has the disadvantage that it may not provide a searcher as much information …" This duplication should be avoided.

Regarding recommendation 244, we agree with the placement of the sentence "*As a result, the secured creditor does not have to register an amendment notice indicating the name of the transferee of the encumbered intellectual property*" to the commentary. This sentence describes the logical and clear consequence that derives from the rule embodied in the recommendation.

A/CN.9/700/Add.4

In paragraph 6, there is no reference to the possibility that States could consider amending their intellectual property laws so as make them consistent with the law recommended in the Guide, if there is no specific intellectual property law policy conflicting with the law recommended in the Guide. This would accord this important priority question a symmetric treatment with many other points in the draft Supplement.

Paragraph 23 and many related paragraphs deal with the problem of end-user software licences. It would be useful to include some recognition, in any part of the draft Supplement, that this is a very specific problem of the software business, and that special rules are needed because end-user licences are functional equivalents of sales of merchandise subject to intellectual property rights. This would make the whole discussion more understandable, although it might be controversial.

A/CN.9/700/Add.5

The revised recommendation 246 is more consistent with the general approach taken in the draft Supplement.

A/CN.9/700/Add.6

In paragraph 8 it would assist in a proper understanding of the different policy options to state that, where a general registry of secured transactions exists, based on the person of the grantor, it is logical to opt for a personal criterion, such as the grantor's location.

In paragraph 9, the concept of COMI (center of main interests) should be mentioned.

Finally, recommendation 248 includes four different alternatives for the determination of applicable law. We understand that there is no consensus about this complex problem, but we also believe that the interplay among these four different alternatives can be very detrimental for international commerce. The commentary should include a case explaining the effects of different States taking different options regarding the recommendation on applicable law. Although that example could be enormously complicated, it would become a perfect illustration of the intricacies that will derive from the lack of harmonization in this important aspect.

2. World Intellectual Property Organization (WIPO)

[Original: English]
[1 June 2010]

A/CN.9/700

Preface

It is suggested to rephrase paragraph 3 where it reads "the Secretariat organized in cooperation with WIPO a colloquium", to provide instead "the Secretariat organized, with the cooperation of WIPO, a colloquium". If possible, we would also request that a reference be included at the appropriate point in the document to the fact that WIPO participated in the process as an observer. In this way, it is sought to

clarify that, while fully cooperative and supportive of UNCITRAL's work, WIPO's Member States have not endorsed the contents of the draft Supplement.

Paragraph 32, last sentence

It should be noted that a licensee does not have exclusive rights to a trademark, but only the right to use the trademark under the owner's control.

Paragraph 41

Although paragraph 57 mentions the necessity of the licensor's consent to create a security right in the rights of a licensee, such a necessity may be also explained in the example described in paragraph 41.

Paragraph 48, lines 4 to 6

The phrase "law relating to intellectual property accords certain exclusive rights to intellectual property owners, licensors or licensees" should be replaced by "law relating to intellectual property accords certain exclusive rights to intellectual property owners", because "laws relating to intellectual property" do not accord exclusive rights to licensors and licensees.

A/CN.9/700/Add.1

Paragraph 11, Patents

With respect to item (g), the word "patent" should be replaced by "invention". An inventor invents an "invention", not a "patent". Further, for the sake of completeness, item (h), "The transferability of patents and the right to grant a license" may be added.

A/CN.9/700/Add.3

Paragraph 13, 4th sentence

It is suggested to delete "as well as by the Madrid Agreement concerning the International Registration of Marks (1891) and the Madrid Protocol (1989)".

Paragraph 14, 2nd sentence

After the words "For example", it is suggested to insert the words "the Madrid Agreement concerning the International Registration of Marks (1891) and the Protocol Relating to that Agreement (1989) provides for the possibility to record a restriction of the holder's right of disposal in an international application or registration (see Form MM19 at http://www.wipo.int/madrid/en/forms/) and".

A/CN.9/700/Add.4

Paragraph 35, lines 6 to 7

According to the example in paragraph 34, Licensee L concludes a sub-licence with Sub Licensee S under the conditions which have not been authorized by Patent Owner O. Therefore, the phrase "If, under the law relating to intellectual property, the sub-licence to SL is not authorized …" may require alteration, since it is not a

matter of law relating to intellectual property but a matter of contractual arrangement.

A/CN.9/700/Add.6

Recommendation 248, options A, B, C and D

The draft Supplement proposes four options concerning the law applicable to a security right in intellectual property, which indicate different combinations of the elements covered by applicable law and, in particular, the creation of a security right in intellectual property, third-party effectiveness, priority and enforcement of a right. From an intellectual property perspective, Option A constitutes the guiding principle, as it provides that the law applicable to a security right is the law of the State in which the intellectual property is protected (*lex protectionis*), and this principle applies to all of the aspects of a security right mentioned above. However, given the history of negotiations on this issue in Working Group VI, it may be feasible to consider other hybrid options, so long as they do not unjustifiably deviate from procedures established under laws relating to intellectual property.

B. International non-governmental organizations

European Communities Trade Mark Association (ECTA)

[Original: English]
[20 May 2010]

The European Communities Trade Mark Association ("ECTA") is very pleased to be involved with the discussions relating to the draft Supplement.

We believe that the current draft of the Supplement is a great step forward and we believe that it is, subject to the comment we make below, largely acceptable.

We are still concerned about the position concerning choice of law.

We understand that there is the so-called German/Canadian proposal, recommendation 248, option D. While this proposal is somewhat complicated, we believe that it would be acceptable, although if it were possible to make it more simplified that would be advantageous.

It is certainly true that one fundamental issue is that the law applicable to the effectiveness against third parties and priority of a security right in intellectual property as against other secured creditors, transferees and licensees must be the law of the State in which the intellectual property is protected (*lex protectionis*).

We understand that there will be further discussion of the draft Supplement at the Commission session in New York and we look forward to being involved in those discussions.