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

Note by the Secretariat

Addendum

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III. Effectiveness of a security right in intellectual property against third parties

[*Note to the Commission: For paras. 1-9, see A/CN.9/WG.VI/WP.42/Add.3, paras. 1-9; A/CN.9/689, para. 26; A/CN.9/WG.VI/WP.39/Add.3, paras. 1-9; A/CN.9/685, paras. 36-38; A/CN.9/WG.VI/WP.37/Add.2, paras. 1-9; A/CN.9/670, paras. 56-61; A/CN.9/WG.VI/WP.35/Add.1, paras. 1-14; A/CN.9/667, paras. 55-63; A/CN.9/WG.VI/WP.33, paras. 137-145; and A/CN.9/649, paras. 29-31.*]

A. The concept of third-party effectiveness

1. As already noted (see A/CN.9/700/Add.2, paras. 1-3), the law recommended in the *Guide* distinguishes between the creation of a security right (effectiveness of the security right as between the parties) and its effectiveness against third parties. This distinction applies equally to security rights in intellectual property. However, to the extent that law relating to intellectual property makes no such distinction and this is an intellectual-property-specific approach, the law recommended in the *Guide* would defer to that law (see recommendation 4, subpara. (b)).

2. In addition, in some States, the creation and third-party effectiveness of a security right in intellectual property are governed by the same rules that apply to a security right in other types of intangible asset. In other States, however, law relating to intellectual property may provide for particular methods in which a security right in some types of intellectual property may be created and made effective against third parties. The rules often differ for security rights in intellectual property that are subject to a specialized registration system (such as patents, trademarks and, in some States, copyrights) and security rights in intellectual property that are not subject to such registration (such as trade secrets, industrial designs and, in some States, copyrights). These matters are addressed in sections B and C below.

3. In the law recommended in the *Guide*, the concept of “effectiveness against third parties” refers to whether a security right in an encumbered asset as a property right is effective against parties other than the grantor and the secured creditor that have at that time or may acquire in the future a security or other right in that encumbered asset. Such third parties (“competing claimants”) include creditors of the grantor, the insolvency representative in the insolvency of the grantor, as well as transferees, lessees and licensees of the encumbered asset (see A/CN.9/700, paras. 10 and 11). In law relating to intellectual property, by contrast, the phrase “third-party effectiveness” is often used to refer to the effectiveness of exclusive rights associated with ownership or rights of a licensor or licensee in intellectual property, rather than to the effectiveness of a security right. These two sorts of reference should not be confused. While effectiveness of a security right in intellectual property as against third parties is a matter of secured transactions law, effectiveness of exclusive rights associated with ownership rights or rights of a licensor or licensee against transferees of those rights is a matter of law relating to intellectual property. In this context, it should be noted that, for purposes of secured transactions law, infringers are not competing claimants. Thus, the law recommended in the *Guide* does not apply to a “conflict” between the rights of a

secured creditor and those of a purported infringer. In addition, if, for example, the purported infringer asserts as a defence against a secured creditor that the purported infringer is a transferee or a licensee of the encumbered intellectual property, the question of whether the purported infringer is in fact an infringer is to be determined in accordance with the law relating to intellectual property. Thereafter, if the purported infringer is proven to be a transferee or licensee (not an infringer) and a priority conflict arises between its rights and the rights of a secured creditor, the law recommended in the *Guide* applies to that priority conflict (see A/CN.9/700/Add.4, paras. 12-40).

B. Third-party effectiveness of security rights in intellectual property that are registered in an intellectual property registry

4. Under the law recommended in the *Guide*, security rights in intangible assets may be made effective against third parties by registration of a notice in the general security rights registry or of a document or notice in a specialized registry, if any. The law recommended in the *Guide* is based on the assumption that where a State maintains a specialized registry, it will permit registration of a document or notice of a security right as a method of achieving third-party effectiveness of the security right (see recommendations 34, subpara. (a) (iii), and 38, subpara. (a), and paras. 12-14 below).

5. Registration in an intellectual property registry differs from State to State in many respects, including: (a) whether transfers, licences or also security rights may be registered; (b) whether rights in patents, trademarks, copyrights or other types of intellectual property may be registered; (c) whether a document, a summary of a document or notice need be registered; and (d) what the legal consequences of registration are. In some cases, the answers to all these questions are not easy to obtain even in one and the same legal system.

6. For example, under law relating to intellectual property, in some States, a security right is not created or made effective against third parties unless and until a document or notice of it is registered in the relevant intellectual property registry. In other States, law relating to intellectual property provides that a security right is created and, at the same time, becomes effective against third parties when the security agreement is entered into between the parties, even without registration. In these cases, registration in the relevant intellectual property registry allows certain third parties (typically, transferees that are not aware that the asset is encumbered, or “good-faith transferees”) to invoke a priority rule, according to which a registered security right takes precedence over an unregistered prior security right, but the unregistered security right still remains effective against other third parties. In still other States, under law relating to intellectual property, a security right is created when the security agreement is entered into between the parties, but registration in the relevant intellectual property registry is necessary to make the security right effective against third parties, for example, by way of an evidentiary rule that prohibits evidence of unregistered security rights. In still other States, under law relating to intellectual property, the registration system does not readily accommodate registration of documents or notices of security rights, and creation and third-party effectiveness of security rights must be achieved outside the intellectual property registration system. Finally, in some States that distinguish

between creation and third-party effectiveness, law relating to intellectual property provides that it is possible to achieve third-party effectiveness of a security right by using either the intellectual property registry or an available general security rights registry. If any of these methods existing under law relating to intellectual property is intended to be the exclusive method of obtaining effectiveness of a security right against third parties, in accordance with recommendation 4, subparagraph (b), it takes precedence over any of the methods provided in the law recommended in the *Guide*.

7. The *Guide* recommends a general security rights registry (see chap. IV). In addition, where specialized registries exist that permit registration of a document or notice of a security right as a method of achieving third-party effectiveness of the security right, the *Guide* avoids undermining them. The *Guide* achieves that result by accepting registration in such a specialized registry as a method of achieving third-party effectiveness of a security right and attributing priority results to such a registration (see recommendations 38, 77 and 78). As this matter is beyond the scope of secured transactions law and, in any case, would require additional effort and expense by States, the *Guide* does not recommend that States that currently do not have a specialized registry for certain types of intellectual property create such a registry in order to permit the registration of a document or notice of a security right in intellectual property. For the same reason, the *Guide* does not recommend that States that currently do not permit the registration of a document or notice of a security right in an intellectual property registry amend their laws to permit such registration. Finally, to avoid duplication of effort and expense, the *Guide* does not recommend a rule that requires registration of a document or notice of a security right in both the relevant intellectual property registry and in the general security rights registry. However, if States enacting the recommendations of the *Guide* have specialized intellectual property registries and wish to use them for registration of security rights in intellectual property, making use of the options offered in recommendation 38 of the *Guide*, they may wish to review their law relating to intellectual property and consider whether to permit the registration of notices of security rights with third-party effects in such already existing intellectual property registries. States that do not have specialized intellectual property registries or have such registries but do not wish to use them for registration of security rights in intellectual property, may always use the general security rights registry for registration of notices of security rights in all types of movable asset, including intellectual property.

C. Third-party effectiveness of security rights in intellectual property that are not registered in an intellectual property registry

8. As already mentioned (see para. 4 above), under the law recommended in the *Guide*, a security right in intellectual property may become effective against third parties by registration of a notice in the general security rights registry (see recommendation 32). This is possible even if the encumbered intellectual property right may not be registered in an intellectual property registry (as is typically the case, for example, with copyrights, industrial designs or trade secrets). The same rule would apply in cases where a document or notice of a security right in intellectual property may be registered in an intellectual property registry but is

not actually registered. In these cases, registration of a notice in the general security rights registry is sufficient and the legal consequence of registration is to make the security right effective against third parties (see recommendations 29, 32, 33 and 38). However, in the particular case where law relating to intellectual property provides that a security right in intellectual property may be made effective against third parties only by registration in an intellectual property registry, a security right cannot be made effective against third parties by registration in the general security rights registry (see recommendation 4, subpara. (b)).

9. As also already mentioned (see paras. 5 and 6 above), there are different approaches in law relating to intellectual property to the question of registration of a document or notice of a security right in intellectual property. In some States (often those whose secured transactions law derives from non-possessory pledge concepts), either no rights at all may be registered, at least, in some types of intellectual property or only outright transfers of intellectual property may be registered. This means that a security right in such intellectual property cannot be made effective against third parties by registration in an intellectual property registry. 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. Consequently, in those States, a document or notice of a title-based security right must often be registered in the relevant intellectual property registry in order for it to be created and made effective against third parties, but a non-title-based security right cannot be so registered. In some of those States, such registration has third-party effects. Finally, in a few States, there are additional requirements. These commonly include payment of a stamp duty or other transaction tax, or a requirement to give notice to an administrative body such as a national authors' association or collecting society. States enacting the law recommended in the *Guide* may wish to harmonize their secured transactions laws and their laws relating to intellectual property by: (a) replacing all existing security devices with an integrated notion of a security right or, at least, subjecting title-based security rights to the same rules that are applicable to security rights (see A/CN.9/700/Add.2, para. 4); and (b) permitting the registration of a notice of a security right in intellectual property in the relevant intellectual property registry (at least for intellectual property rights that may already be registered therein) as a method of achieving third-party effectiveness.

IV. The registry system

[*Note to the Commission: For paras. 10-52 and recommendation 244, see A/CN.9/WG.VI/WP.42/Add.3, paras. 10-54, and recommendation 244; A/CN.9/689, paras. 27-29; A/CN.9/WG.VI/WP.39/Add.3, paras. 10-42; A/CN.9/WG.VI/WP.37/Add.2, paras. 10-42; A/CN.9/670, paras. 62-72; A/CN.9/WG.VI/WP.35, paras. 15-31; A/CN.9/667, paras. 64-85; A/CN.9/WG.VI/WP.33, paras. 149-161; and A/CN.9/649, paras. 32-40.*]

A. The general security rights registry

10. As already noted (see para. 7 above), the *Guide* recommends that States establish a general security rights registry (see recommendations 54-75). In general, the purpose of the registry system recommended in the *Guide* is: (a) to provide an efficient method for making a security right in existing or future assets effective against third parties; (b) to establish an effective point of reference for priority rules based on the time of registration; and (c) to provide an objective source of information for third parties dealing with a grantor's assets as to whether the assets may already be encumbered by a security right (see the purpose section of the recommendations in chapter IV of the *Guide* on the registry system). Under this approach, registration is accomplished through registration of a notice of a security right, as opposed to registration of the security agreement or other document (see recommendation 54, subpara. (b)). The notice need only provide basic information concerning the security right, that is: (a) the name or other identifier of the grantor and the secured creditor or its representative, as well as their addresses; (b) a description of the encumbered asset; (c) the duration of registration; and (d) a statement of the maximum amount for which the security right may be enforced, if so provided in a State enacting the law recommended in the *Guide* (see recommendation 57).

11. The law recommended in the *Guide* provides precise rules for identifying the grantor of the security right, whether an individual or a legal person. This matter is important because notices are indexed and can be retrieved by searchers according to the name or other identifier of the grantor (see recommendations 54, subpara. (h), and 58-63). In addition, the law recommended in the *Guide* contains a number of rules to simplify the operation and use of the registry. For example, the law recommended in the *Guide* provides that, to the extent possible, the registry should be electronic and permit registration and searching by electronic means (see recommendation 54, subpara. (j)). Moreover, the law recommended in the *Guide* provides that fees for registration and searching, if any, should be set at a level no higher than necessary to permit cost recovery (see recommendation 54, subpara. (i)).

B. Asset-specific intellectual property registries

12. As already mentioned (see paras. 4-7 above), many States maintain registries for registering (or recording) transactions (such as transfers) relating to intellectual property. In some of those registries, security rights may also be initially filed (that is, an application for registration may be submitted) and then actually registered. For example, patent and trademark registries exist in most States, but not all provide for the registration of a document or notice of a security right in a patent or a trademark. In addition, in some States, the registration of a notice (whether of a security right or some other right) does not produce third-party effects. Moreover, a number of States have similar registries for copyrights, but the practice is not universal.

13. While some States have notice-based intellectual property registries, a larger number of States use recording act structures or "document registration" systems. In those systems, it is necessary to record the entire instrument of transfer or, in some

cases, a memorandum describing the essential terms of the transfer. A more modern approach is to simplify the registration process by registering a limited amount of information (such as the names of the parties and a general description of the encumbered assets). For example, the registration requirements for trademarks are simplified by the Trademark Law Treaty (1994), the Singapore Treaty on the Law of Trademarks, as well as by the Madrid Agreement concerning the International Registration of Marks (1891), the Madrid Protocol (1989) and the model international registration forms attached to both treaties. Similarly, the Patent Law Treaty (Geneva, 2000) and the Council Regulation (EC) No. 207/2009 of 26 February 2009 on the Community Trademark simplify registration requirements. The reason for requiring registration of the transaction document or a memorandum stating the essential terms of the transaction is the need for transparency. Thus, it is essential for a transfer instrument or memorandum to identify the specific right being transferred in order to give effective notice to searchers and to allow efficient utilization of assets. In addition, intellectual property registries sometimes index registrations by the specific intellectual property and not by the grantor's name or other identifier. This is because the central focus is on the intellectual property itself, which may have multiple co-owners or co-authors and may be subject to multiple changes in ownership as transfers are made.

14. In addition to national registries, there are a number of international intellectual property registries and registration in these registries is subject to relatively modern treaties or other international legislative texts that simplify the registration process. For example, under the Community trademark regulation (see para. 13 above), a statement may be registered referring not only to ownership but also to a security right with third-party effects. Another example is the treaty on the International Registration of Audiovisual Works (the Film Register Treaty), adopted at Geneva on 20 April 1989, under the auspices of WIPO. The Film Register Treaty created an international registry that permits the registration of statements concerning audiovisual works and rights in such works, including, in particular, rights relating to their exploitation (the records of the diplomatic conference indicate that statements concerning security rights were also contemplated). Registration in this international registry creates an evidentiary presumption of validity for registered statements. This international registry allows two types of application: (a) a work-related application which identifies an existing or future work at least by title or titles; and (b) a person-related application which identifies one or more existing or future works by the natural person or legal entity that makes or owns, or is expected to make or own, each work. The international registry maintains an electronic database that allows cross-indexing between the different types of registration. There is also a procedure to request removal of contradictory filings.

C. Coordination of registries

15. As already mentioned (see paras. 4 and 5 above), the *Guide* neither recommends the creation of a specialized registration system (for intellectual property or for other assets), if one does not exist, nor interferes with existing specialized registration systems. However, where, under law relating to intellectual property, a document or notice of a security right in intellectual property may be

registered in an intellectual property registry and, at the same time, under the law recommended in the *Guide*, that security right may also be registered in the general security rights registry, there is a need to address the issue of coordination between these two registries. In order to avoid interfering with law relating to intellectual property, the law recommended in the *Guide* addresses it through the general deference to law relating to intellectual property (see recommendation 4, subpara. (b)) and appropriate priority rules.

16. Thus, the law recommended in the *Guide* does not address or purport to address the question whether a security right in intellectual property may be registered in an intellectual property registry, the requirements for such registration (for example, document or notice registration) or its legal consequences (for example, effectiveness or presumption of effectiveness against all parties or only against third parties). Even if an intellectual property registry does not provide for the registration of security rights, provides for the registration of a document rather than a notice thereof or, having provided for such registration, does not give registration third-party effects, the *Guide* provides no recommendation to the contrary and takes the specialized registration system, if any, as is.

17. However, the *Guide* does make recommendations concerning the registration of a notice of a security right in intellectual property in the general security rights registry. For this reason, to the extent that the law recommended in the *Guide* addresses the effects of registration of security rights in an intellectual property registry in a way that would be inconsistent with the effects given to such registration by the law relating to intellectual property, the law recommended in the *Guide* defers to that law (recommendation 4, subpara. (b)). By contrast, if the law recommended in the *Guide* addresses these issues in a manner that is consistent with the law relating to intellectual property, then the issue of deference to law relating to intellectual property will not arise and thus the law recommended in the *Guide* will apply, giving such specialized registration third-party effects.

18. In addition, the *Guide* addresses the issue of coordination between a specialized registry (including an intellectual property registry) and the general security rights registry recommended in the *Guide* through appropriate priority rules. Thus, in order to preserve the reliability of intellectual property (and other specialized) registries (in particular, in cases where law relating to intellectual property provides no rule for determining priority), the law recommended in the *Guide* provides that a security right in intellectual property, a document or notice of which is registered in the relevant intellectual property registry (see para. 4 above), has priority over a security right in the same intellectual property, a notice of which is registered in the general security rights registry (see recommendation 77, subpara. (a)). For the same reason, the law recommended in the *Guide* provides that a transferee of intellectual property acquires it, in principle, free of a previously created security right in that property, unless a document or notice of the security right is registered in the intellectual property registry (see recommendations 78 and 79). Under recommendation 4, subparagraph (b), this rule would apply only if it was not inconsistent with a rule of law relating to intellectual property (see A/CN.9/700/Add.4, paras. 12-15).

19. If States enacting the recommendation of the *Guide* have specialized intellectual property registries and wish to use them for registration of a security right in intellectual property, making use of the options offered in

recommendation 38 of the *Guide*, they may wish to consider ways aimed at coordinating their existing intellectual property registries with the general security rights registry recommended in the *Guide*. For example, States may wish to consider permitting the registration of a notice of a security right in intellectual property in an intellectual property registry that would be effective against third parties. In addition, States may wish to consider whether asset-based intellectual property registries should also have a debtor-based index (and vice versa). Moreover, States may wish to consider requiring the intellectual property registry to transmit a copy of each notice (or summary of a document) registered in that registry to the general security rights registry (and vice versa). Coordination of registries in this way would be easier, simpler, quicker and less expensive in an electronic registration system rather than in a paper-based registration system. Finally, it should be noted that the issue of coordination between a specialized registry and a general security rights registry would arise even if the specialized registry were an international or regional registry.

20. An alternative to a system permitting the forwarding of notices from one registry to the other might be a system implementing a common gateway to both the general security rights registry and to various specialized registries. Such a common gateway would enable registrants to enter the notice simultaneously in both registries. Several steps would have to be taken in order to ensure the efficiency and effectiveness of a common gateway, including that: (a) a simple notice should be enough; (b) the notice should include the identifiers of both the grantor and the secured creditor (or its representative) and an asset-specific description of the encumbered assets; (c) searches in both registries should be possible with a single request; and (d) both grantor-based and asset-based indexes should be maintained with cross references in each registry to the other registry (see the *Guide*, chap III, paras. 80-82).

D. Registration of notices of security rights in future intellectual property

21. An essential feature of the general security rights registry recommended in the *Guide* is that a notice of a security right can refer to future assets of the grantor. This means that the security right can cover assets to be later produced or acquired by the grantor (see recommendation 17) and the notice may cover assets described in a manner that reasonably allows their identification (see recommendation 63 and A/CN.9/700/Add.2, paras. 5-8 and 37-42). Thus, if the encumbered assets are described in the security agreement as all existing and future inventory, the notice may also describe the inventory in the same manner. Since priority is determined by date of registration, the priority of a security right extends to future inventory (see recommendation 99). This approach greatly facilitates revolving credit arrangements, since a lender extending new credit under such a facility knows that it can maintain its priority position in new assets that are included in the borrowing base.

22. Existing intellectual property registries in many States, however, do not readily accommodate registration of rights in future intellectual property. As transfers of or security rights in intellectual property are indexed against each specific intellectual property right, they can only be effectively registered after the

intellectual property is first registered in the intellectual property registry. This means that a blanket registration of a security right in future intellectual property in an intellectual property registry would not be feasible and a new registration of a security right would be required each time new intellectual property is created or acquired.

23. If, under law relating to intellectual property, an intellectual property right may not be created, acquired, transferred or encumbered before the intellectual property right is actually registered in an intellectual property registry, the law recommended in the *Guide* does not interfere with that prohibition and does not make the creation of a security right in such future intellectual property possible. However, if the creation of a security right in future intellectual property is not prohibited under law relating to intellectual property (as is the case, for example, with a patent or trademark while the application for its registration in the patent or trademark registry is pending), a security right in future intellectual property could be created and made effective against third parties under the law recommended in the *Guide* (see recommendations 17 and 63) States enacting the recommendations of the *Guide* may wish to consider reviewing their law relating to intellectual property to determine whether a notice of a security right may refer to future intellectual property and, if it does not, to consider permitting the registration of a security right in future intellectual property.

E. Dual registration or search

24. As already mentioned (see paras. 4, 17 and 18 above), the law recommended in the *Guide* gives priority, as a matter of secured transactions law, to rights with respect to which a registration is made in an intellectual property registry and defers to any rules of law relating to intellectual property governing the registry with respect to the details of registration of a document or notice of a security right. As also noted above, this means that the law recommended in the *Guide* often obviates the need for dual registration or search. In particular, registration only in the general security rights registry would seem to be necessary and useful for secured transactions purposes: (a) where the encumbered asset is a type of intellectual property with respect to which no registration system exists under law relating to intellectual property (for example, copyrights or trade secrets in many States); (b) where the encumbered asset is a type of intellectual property with respect to which ownership rights may be registered in an intellectual property registry, but not a document or notice of a security right; and (c) where a document or notice of security right in intellectual property may be registered in an intellectual property registry, but such registration has effects that are inconsistent with third-party effects. On the other hand, registration in the relevant intellectual property registry may be preferable, for example: (a) where the encumbered asset is a type of asset for which a registration system exists and allows registration of a document or notice of a security right (for example, patents or trademarks in many States); and (b) where the secured creditor needs to ensure priority over other secured creditors or transferees under the relevant law relating to intellectual property.

25. Before credit is extended or committed pursuant to a security agreement, a secured creditor exercising normal due diligence will typically conduct a search to determine whether there are prior competing claimants whose rights have priority

over the proposed security right. As a first step, the secured creditor will search the chain of title to identify prior transfers and to determine whether the grantor actually has rights in the intellectual property or other movable assets to be encumbered so that the security right can become effective in the first instance. For types of intellectual property as to which ownership transfers must be recorded in a specialized registry in order to be effective against third parties, this chain of title search will be easier than for types of encumbered asset for which no such registry exists (the general security rights registry does not record title). As a next step, the secured creditor will search to determine whether any prior party in the chain of title has granted a security right that might have priority over the proposed security right. If there are no such security rights, the secured creditor will be able to reliably extend or commit credit on the basis of that intellectual property as long as it takes the steps necessary under the law recommended in the *Guide* to achieve third-party effectiveness. Finally, in cases where a secured creditor has registered a document or notice of its security right in the relevant intellectual property registry, the secured creditor has a right to rely on that registration and on the priority attributed to that registration under the law recommended in the *Guide* (see recommendations 78 and 79). In such cases, a potential third-party creditor may need to search only in the relevant intellectual property registry. In other cases, a potential third-party creditor may need to search in both the relevant intellectual property registry (for ownership transfers) and in the general security rights registry (for security rights that may not be registered in the relevant intellectual property registry).

26. Under the law recommended in the *Guide*, it is envisaged that the general security rights registry will be electronic and will accept registration of notices of possible security rights with third-party effects at a nominal cost (based on cost recovery), if any, for registration and searching (see recommendation 54, subpara. (i)). This means that, in States that enact the recommendations of the *Guide*, registration and searching in the general security rights registry is likely to be simple, quick and inexpensive. However, under law relating to intellectual property, registries may not necessarily be fully electronic (although an increasing number of intellectual property registries allow online searching for a small or no fee). In addition, the document evidencing a transaction or a summary thereof may need to be registered (instead of a notice). Moreover, the document registered may have to be checked by the registry staff at least to the extent that the legal consequence of registration may be conclusive or presumptive evidence of the existence of a right in intellectual property.

27. Thus, to the extent that a document evidencing a transaction has to be registered in order to create a security right in intellectual property, the cost of registration in an intellectual property registry may reasonably be assumed to be higher than the cost of registration of a simple notice of a security right in the general security rights registry for the purpose of achieving third-party effectiveness (although more information may be obtained from an intellectual property document registry, which may justify the cost). Similarly, unless the document registry is fully electronic and has also a grantor-based index, the cost and time of searching in such a document registry for intellectual property rights of a certain grantor may be reasonably assumed to be more time-consuming and costly than searching in an electronic notice-based general security rights registry. However, the types of intellectual property registry vary widely from State to State. Modern intellectual property registries (national, regional or international) tend to permit the online

registration of a notice of a security right, for a nominal fee, with third-party effects and are organized in a way that also permits searching in a time- and cost-efficient way. Thus, registration and searching in such registries is also likely to be simple, quick and inexpensive. In addition, the time and cost required for registration in the relevant intellectual property registry may be justified since such registration would provide more information (for example, because of the specific description of the encumbered assets and the information about transfers) and probably more certain information (for example, because registration may constitute or be deemed to provide firm evidence as to the existence of a right).

28. The differences in cost of registration and searching may be illustrated by the following examples. For convenience, the examples assume that only the law of a single State applies, that the State has enacted the law recommended in the *Guide* and that (where applicable) the State also has an intellectual property registry that accepts registration of security rights in intellectual property with results that are consistent with those envisaged in the *Guide*.

29. A grantor that is the initial owner of a single intellectual property right creates a security right in that intellectual property right. Whether registration is made in the general security rights registry or in the relevant intellectual property registry, the secured creditor needs to register only one notice in order for the security right to be effective against third parties (unless the secured creditor prefers to register also in the relevant intellectual property registry, if any, because of the priority rules recommended in the *Guide*). A searcher that wants to extend credit on the basis of the encumbered intellectual property right will mainly need to search in the relevant intellectual property registry. The reason for this result is that by registering in that registry the searcher's security right would gain priority even over a security right, a notice of which was registered earlier in the general security rights registry. It should be noted, however, that, if the intellectual property registration system requires registration of a document, the registrar may have to check the document to ensure that it can be registered. These requirements may affect the time- and cost-efficiency of the registration process. While the notice-based registration system of the general security rights registry gives less information about the specifics of a transaction and thus has the advantage of providing greater confidentiality and simplicity than a document-based registration system of the intellectual property registry, it has the disadvantage that it may not provide a searcher as much information as a document-based registration system.

30. A grantor that is the initial owner of 10 intellectual property rights creates a security right in all 10 rights. If registration is made in the general security rights registry, the secured creditor needs to register only one notice, listing the grantor's name and indicating the intellectual property rights as encumbered assets. As the grantor is assumed to be the initial owner, a secured creditor need only be concerned about competing transfers made only by the grantor and not by any prior party in the chain of title. Thus, a searcher needs to conduct only one search in the general security rights registry against the name or other identifier of the grantor to find competing security rights.

31. However, a searcher will also need to conduct a separate search against each of the 10 intellectual property rights in the intellectual property registry to determine if there are other competing claimants such as outright transferees. If there is a specialized registry in which security rights in the intellectual property

may be registered and the secured creditor, cognizant of the priority advantages of registration in such a registry, decides to search that registry and register its security right there, the secured creditor may need to register a document or notice for each intellectual property right separately, although in some cases it may be possible to register a single document or notice that identifies some or all of the encumbered intellectual property (for example, if all the intellectual property rights are patents). In such a case, a searcher needs to conduct a search in the intellectual property registry against each of the 10 intellectual property rights to find both prior security rights and other competing claimants.

32. In the example just mentioned (see paras. 30 and 31 above), if the grantor is not the initial owner but a transferee in a chain of transferees and each of the 10 intellectual property rights has 10 prior owners, registration in the general security rights registry may still be more efficient than registration in an intellectual property registry. A secured creditor would only need to register one notice in the general security rights registry against the grantor, but, in any relevant intellectual property registry, the secured creditor would need to register a notice against each of the 10 intellectual property rights. However, with respect to searching, if a security right remains effective against transferees without the need for an amendment notice to be registered in the general security rights registry (see paras. 38-46 and recommendation 244 below), then a searcher would have to conduct 10 searches outside the security rights registry to identify the prior owners of each intellectual property right and then conduct a search of each prior owner in the general security rights registry to discover whether there are prior competing security rights, that is 100 searches (10 prior owners multiplied by 10 intellectual property rights) in the general security rights registry to identify all prior security rights. However, if a security right is registered in an intellectual property registry, if any, the secured creditor need only conduct 10 searches, that is, one for each intellectual property right, since the search in the intellectual property registry will disclose both prior competing security rights and other competing claimants. Thus, as to searching with respect to multiple intellectual property rights that have had many previous owners, it would seem that searching in the intellectual property registry, if any, would be more time- and cost-efficient.

33. The examples mentioned above indicate that, while the general security rights registry in the *Guide* may better accommodate intellectual property financing in some contexts, this may not always be the case and would depend on the circumstances of each case (see also paras. 38-46 below). They also indicate that, in view of the priority of a security right registered in an intellectual property registry and the need for the secured creditor to establish that the grantor has rights in the intellectual property to be encumbered, a registration or search may need to take place in the intellectual property registry in most cases (where registration of a security right in an intellectual property registry is possible).

34. The law applicable to third-party effectiveness and priority will also have an impact on the time- and cost-efficiency of registration. If the law applicable to these matters is the law of the State in which the encumbered intellectual property is protected, in the case of a portfolio of intellectual property rights, registration and searching will involve several States. The result would be different if third-party effectiveness and priority were to be governed by the law of the State in which the grantor is located (unless the grantor moves to another State or the encumbered

intellectual property right is transferred from a person in one State to a person in another State, in which the law of more than one State will be involved; see recommendations 45, 219 and 220). However, in any case, the main cause of the difference would be the applicable law and not the type of registration. Therefore, this matter is discussed in chapter X, on the law applicable to a security right in intellectual property.

F. Time of effectiveness of registration

35. Under the law recommended in the *Guide*, registration of a notice of a security right becomes effective against third parties when the information in the notice is entered into the registry records and becomes available to searchers (see recommendation 70). Where the registry is electronic, registration of a notice will become effective immediately upon registration. However, where the registry is paper-based, registration of a notice will become effective some time after registration.

36. Under law relating to intellectual property, specialized registration systems may have different rules with respect to the time of effectiveness of registration of a security right. For example, under law relating to patents and trademarks in many States, third-party effectiveness of a registered security or other right in a patent or a trademark dates back to the date of filing (that is, submission to the registry of an application for registration). Such an approach is useful where the registry takes time to actually register the security right in the patent or trademark, but may mislead a searcher as to whether specific intellectual property is encumbered.

37. As already mentioned (see paras. 18-20 above), the law recommended in the *Guide* deals with coordination issues by giving priority to a security right evidenced by a document or notice registered in a specialized registry (or a notation made on a title certificate) irrespective of the time of registration (see recommendations 77 and 78). Thus, the difference in the approach as to the time of effectiveness of registration may not cause any problems in determining the priority of a security right in intellectual property registered in the relevant intellectual property registry.

G. Impact of a transfer of encumbered intellectual property on the effectiveness of registration

38. The *Guide* recommends that the secured transactions law address the impact of a transfer of an encumbered asset on the effectiveness of registration of a notice in the general security rights registry (see recommendation 62). This recommendation is equally applicable to security rights in intellectual property made effective against third parties by registration of a notice in the general security rights registry. However, this recommendation is not relevant if:

(a) The transferee of an encumbered asset acquires it free of the security right, as is the case, for example, where the transfer is authorized by the secured creditor free of the security right (see recommendation 80);

(b) A document or notice of the security right has been registered in an intellectual property (or other specialized) registry;

(c) The grantor has transferred all its rights in the encumbered asset before granting a security right in that asset (in such situations, under the *Guide*, no security right is created; see recommendation 13); or

(d) There is no transfer of ownership, but only a licence in intellectual property.

39. With respect to subparagraph (a) in the preceding paragraph, it should be noted that, if the secured creditor did not authorize a licence (that is, if the licensee did not acquire the asset free of the security right) and enforced its security right, enforcement would amount to termination of the licence and any sub-licence, which would make all the “licensees” infringers upon completion of enforcement of the security right. With respect to subparagraph (d), it should be noted that recommendation 62 might apply to a licence, if, under law relating to intellectual property, it is treated as a transfer of ownership (while, under the *Guide*, a licence is not a transfer, the exact meaning of the term “licence”, including the question whether an exclusive licence is to be treated as a transfer, is a matter of law relating to intellectual property; see A/CN.9/700, paras. 23-25, and A/CN.9/700/Add.4, para. 15).

40. The commentary of the *Guide* discusses three ways in which an enacting State may wish to address the matter (see chap. IV, paras. 78-80). One way is to provide that, where the encumbered asset is transferred and the transferee does not acquire it free of the security right, the secured creditor must register an amendment notice identifying the transferee within a certain specified period after the transfer. If the secured creditor fails to do so, the original registration continues to be effective in principle. However, the security right is subordinated to intervening secured creditors and transferees whose rights arise after the transfer of the encumbered asset and before the amendment notice is registered. A second way in which enacting States may wish to address this issue is to provide that the grace period for the registration of an amendment notice is triggered only once the secured creditor acquires actual knowledge of the transfer of the encumbered asset by the grantor. A third way is to provide that a transfer of an encumbered asset has no impact on the effectiveness of registration of a security right.

41. If an enacting State adopts the third approach, a secured creditor of the transferor need not register a new notice of its security right identifying the transferee. In such a case, the original registration of a notice of security right in the asset now owned by the transferee would remain effective. However, transferees down in the chain of transferees might not readily be able to discover, through a search in the general security rights registry, a security right granted by any person other than their immediate transferor. In such cases, they would still have to search the chain of title and status of an encumbered asset outside the general security rights registry. On the other hand, if an enacting State adopts the first or the second approach discussed above, a secured creditor will have to register an amendment notice identifying the transferee. In such a case, the secured creditor will have the burden of monitoring the status of the encumbered asset (to a different degree, depending on whether the first or the second approach is followed). At the same time, however, transferees down the chain of title will readily be able to identify a security right granted by a person other than their immediate transferor.

42. States enacting the law recommended in the *Guide* will have to consider the relative advantages and disadvantages of the different approaches mentioned above and, in particular, their impact on rights in intellectual property. For example, under the first approach, a secured creditor extending credit against the entire copyright in a film would need to make continuous registrations against tiers of licensees and sub-licensees (if the applicable law relating to copyrights treated such an exclusive licence as a transfer that may be registered) to maintain its priority against them or their own secured creditors. This would be a significant burden on such lenders and might discourage the extension of credit based upon such assets. On the other hand, such an approach would make it easier for a lender to a sub-licensee to find a security right created by its sub-licensor by a simple search only against the identifier of the sub-licensor. Here, the trade-off is between the relative costs of monitoring and multiple registrations by the lender to the “upstream” party as against the costs of conducting a search of the entire chain of title for security rights created by the “downstream” party. In this regard, it should be noted that typically under law relating to intellectual property a prior transfer retains its priority over later transfers without the need for an additional registration in the name of a transferee of an encumbered asset.

43. As already mentioned (see para. 41 above), if a State does not follow the third option, a secured creditor would have to register an amendment notice in the general security rights registry each time the encumbered intellectual property became the subject of an unauthorized transfer, licence or sub-licence (if licences are treated as transfers under the relevant law relating to intellectual property), at the risk of losing its priority if it were not informed and had not acted promptly. The following examples may highlight the need for such an approach (see recommendation 244 below).

44. If a grantor of a security right in an intellectual property right is not the initial owner but the tenth in a series of 10 successive transferees and if a secured creditor need not register an amendment notice in the name of each transferee of the encumbered intellectual property right, the secured creditor need only register one notice in a general security rights registry. However, a searcher would have to conduct 10 searches outside the security rights registry to identify each owner and then search the general security rights registry for each of the 10 prior owners to determine if there are any prior security rights granted by any owner.

45. If, however, the law requires a new notice each time the encumbered intellectual property is transferred, the secured creditor must register one notice against its grantor and one for each of the 10 prior owners. This may require that the secured creditor make a substantial effort to monitor not only the actions of its grantor, but also transferees (and licensees, if a licence is treated as a transfer).

46. These examples indicate that, if the law requires the secured creditor to register an amendment notice each time the encumbered intellectual property is transferred or licensed (to the extent an exclusive licence is treated as a transfer under law relating to intellectual property), intellectual property financing would be discouraged or become more expensive. This is the reason why the draft Supplement recommends a different approach from that recommended in the *Guide* (see recommendation 62). According to this approach, the registration of a notice of a security right in intellectual property in the general security rights registry would remain effective notwithstanding a transfer of the encumbered intellectual property.

As a result, the secured creditor would not have to register an amendment notice indicating the name of the transferee of the encumbered intellectual property (see recommendation 244).

H. Registration of security rights in trademarks

47. The International Trademark Association (INTA) issued a series of principles with respect to the registration of security rights in trademarks and service marks (collectively referred to as “marks”) as “best practice” to be followed whenever and wherever possible.¹ More specifically, INTA endorsed harmonization recommendations regarding the registration of security rights in trademarks, recognizing that intellectual property rights, including marks, are a major and growing factor in commercial lending transactions; lack of consistency in the registration of security rights in marks fosters commercial uncertainty and also poses a risk that a mark owner may forfeit or otherwise endanger its mark-related rights; many States have no recording mechanisms (or have insufficient mechanisms) for the registration of security rights in marks; many countries apply different and conflicting criteria for determining what can and will be recorded; and international initiatives on security rights in intellectual property rights by organizations such as UNCITRAL will have broad implications for the way secured financing laws are implemented to deal with registration and other aspects of trademark security rights, especially in developing countries. It should be noted that the principles do not address issues relating to the registration of security rights in marks that may not be registered in a trademark office, leaving those issues to domestic secured transactions law (including the law recommended in the *Guide*). In addition, the principles address third-party effectiveness issues but do not set out priority rules, leaving them to domestic secured transactions law (including the law recommended in the *Guide*).

48. The main principles of such best practice are the following:

(a) A security right in a mark covered by a pending application or registration should be registrable in the national trademark office;

(b) For purposes of giving notice of a security right, registration in the applicable national trademark office or in any applicable commercial registry is recommended, with free public accessibility, preferably through electronic means;

(c) The grant of a security right in a mark should not have the effect of a transfer of legal or equitable title to the mark that is subject to the security right and should not confer upon the secured creditor a right to use the mark;

(d) The security agreement creating the security right should clearly set forth provisions acceptable under local law enabling the renewal of the marks by the secured creditor, if necessary to preserve the mark registration;

(e) Valuation of marks for purposes of security rights should be made in any manner that is appropriate and permitted under local law and no particular system or method of valuation is preferred or recommended;

¹ See www.inta.org/index.php?option=com_content&task=view&id=1517&Itemid.

(f) Registration of security rights in the local trademark office should suffice for purposes of perfecting a security right in a mark; at the same time, registration of a security right in any other place allowed under local law, such as a commercial registry, should also suffice;

(g) If local law requires that a security right be registered in a place other than the local trademark office in order to be perfected, such as in a commercial registry, dual registration of the security right should not be prohibited;

(h) Formalities in connection with registration of a security right and the amount of any government fees should be kept to a minimum; a document evidencing: (i) existence of a security right; (ii) the parties involved; (iii) the mark(s) involved by application and/or registration number; (iv) a brief description of the nature of the security right; and (v) the effective date of the security right, should suffice for purposes of making a security right effective against third parties;

(i) Regardless of the procedure, enforcement of a security right through foreclosure, after a judgement, administrative decision or other triggering event, should not be an unduly burdensome process;

(j) The applicable trademark office should promptly record the entry of any judgement or adverse administrative or other decision against its records and take whatever administrative action is necessary; the filing of a certified copy of the judgement or decision should be sufficient;

(k) In the event that enforcement is triggered by means other than a judgement or administrative decision, local law should provide for a simple mechanism enabling the holder of the security right to achieve registration, with free public accessibility, preferably through electronic means;

(l) In cases where the mark owner is bankrupt or otherwise unable to maintain the marks that are subject to a security right, absent specific contract provisions, the holder of the security right (or the administrator or executor, as the case may be) should be permitted to maintain the marks, provided that nothing shall confer upon the secured creditor the right to use the marks; and

(m) The relevant government agency or office should promptly record the filing of documentation reflecting release of the security right in its records, with free public accessibility, preferably through electronic means.

49. Principles (a), (b), (f) and (g) set forth in paragraph 48 above, dealing with third-party effectiveness of a security right in a mark, are compatible with the law recommended in the *Guide* in that they promote the objectives of certainty and transparency (see recommendation 1, subpara. (f)).

50. Principle (c) set forth in paragraph 48 above, providing that the creation of a security right in a mark does not result in a transfer of the mark or confer upon the secured creditor the right to use the mark, is also compatible with the law recommended in the *Guide*. It should be noted that, under the law recommended in the *Guide*, the secured creditor has a right, but no obligation, to preserve an encumbered intangible asset (such an obligation is foreseen only for tangible assets; see recommendation 111). If, in the case of the owner's insolvency, neither the owner nor the insolvency representative nor the secured creditor takes the necessary steps to preserve the encumbered mark, the mark may still be preserved under law

relating to intellectual property (for example, under the doctrine of the “excusable non-use” of a mark).

51. In addition, principle (d) set forth in paragraph 48 above is compatible with the law recommended in the *Guide* in that it sets forth a default rule for the rights of the parties within the limits of the applicable law. Principle (e) is also compatible with the law recommended in the *Guide* to the extent it emphasizes the importance of valuation of marks without suggesting any particular system of valuation. Principle (h) is also compatible with the law recommended in the *Guide* in that it recommends notice filing even in relation to mark registries. It should be noted that the reference to “the date of the security right” is a reference to the time of effectiveness of the security right between the parties and not against third parties.

52. Moreover, principles (i), (j) and (k) set forth in paragraph 48 above are compatible with the law recommended in the *Guide* in the sense that they provide for efficient enforcement mechanisms and registration of court judgements or administrative enforcement decisions. Finally, principle (m), which is subject to approval by the appropriate government authorities, is compatible with the law recommended in the *Guide* with respect to efficient registration procedures.

Recommendation 244²

Impact of a transfer of encumbered intellectual property on the effectiveness of the registration

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.

² If it could be included in the *Guide*, this recommendation would be placed in chapter IV, The registry system, as recommendation 62 bis.