

UNCITRAL focuses on intellectual property financing

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Intellectual property financing was at the heart of the United Nations Commission on International Trade Law's (UNCITRAL) recent colloquium held in Vienna on Jan. 18-19, 2007. The colloquium assembled many leading legal practitioners, academic experts and international organization representatives from the fields of secured transactions and intellectual property law. Its objective was to provide the UNCITRAL's Working Group VI, which is currently in the final stages of drafting of the Legislative Guide on Secured Transactions, with useful feedback on how to treat security interests in intellectual property.

The substance of the Guide's recommendations was approved in principle at UNCITRAL's 39th session in New York, June 19-July 6, 2006. During that session, the Commission considered that future work may be necessary for security interests in intellectual property and proposed that a colloquium be organized by the Secretariat to discuss this matter.

The colloquium's discussions began with the premise that intellectual property assets are gaining tremendous importance in financing transactions. There was consensus that it is crucial that a general secured transactions regime provide a legal framework to assist in facilitating intellectual property secured transactions. Efficiency, predictability, and clarity in this economic sphere will likely result in changing lenders' perception in lending against intellectual property and heighten credit availability for this type of collateral. In fact, this rationale would fit perfectly within the Guide's stated purpose, as noted by the Secretariat¹:

The purpose of the UNCITRAL Legislative Guide on Secured Transactions is to assist States in the development of modern secured transactions laws with a view to promoting the availability of low-cost secured credit. It is intended for both states that do not have efficient and effective secured transactions laws, and states that do have such laws, but want to review or modernize them, or harmonize them with the laws of other states.

The colloquium was organized as a series of panels with open discussions at the end of each panel. It began with an overview of the economic and commercial background of lending against intangible assets and the importance of intellectual property financing transactions, followed by a summary of the Guide's objectives, scope and its basic structure (creation and third-party effectiveness, registration, priority, rights and obligations of the parties involved and third-party rights, default, enforcement, conflict of laws).

The colloquium then brought forth panelists discussing specific intellectual property rights as collateral: trademarks, patents, copyrights, trade secrets and other categories of intellectual property (i.e. software, domain names, industrial designs). At the end of all presentations, an open discussion of all the topics resulted in creating a list of issues raised by the speakers and attendees during the colloquium relating to areas of the Guide requiring some clarification as they apply to intellectual property. Finally, the colloquium ended with a summary of the recurring issues and recommendations made by panelists and attendees during the course of the colloquium in the areas of creation, third-party effectiveness, priority and enforcement remedies, third-party rights (i.e. licensor/licensee) and conflict of laws.

A detailed analysis of the Guide is beyond the scope of this paper. However, a few remarks on the Guide's provisions dealing with intellectual property rights and the discussions to which they gave rise are warranted.

¹ 1 A/CN.9/WG.VI/WP.31/Add. 1, para. A.1. All papers relating to the colloquium are available on the UNCITRAL's website at www.uncitral.org, under "Working Group VI – Colloquia" (<http://www.uncitral.org/uncitral/en/commission/colloquia/2secint.html>)

The Guide's scope of application includes intellectual property rights. However, the Guide provides that it should not apply to intellectual property rights "to the extent that the recommendations of [the Guide] are inconsistent with existing laws or international obligations of the state relating to these assets."²

The Guide deals with intellectual property rights in a few recommendations. "Intellectual property rights" are defined as including "patents, trademarks, service marks, trade secrets, copyright and related rights and designs [... including] rights under licenses of such rights."³

Many speakers and attendees expressed the view that this definition should be reformulated to capture a broader spectrum of intellectual property rights, as may be found in international intellectual property agreements (such as the *Agreement on Trade-Related Aspects of Intellectual Property Rights*) and national laws.

Intellectual property rights are also mentioned in a note to the recommendation dealing with the effectiveness of an assignment made despite an anti-assignment clause.⁴ Various attendees expressed the view that the assignment contemplated in this recommendation should apply to "receivables," which would include a licensor's right to assign its royalties, and not to any other right arising under a licence.

Finally, in the Guide's conflict-of-laws provisions on the law applicable to a security right in intangible property, there is a note relating to intellectual property rights. For these rights, a qualification is made to the general rule that the law applicable to a security right in intangible property is the law of the state in which the grantor is located; a different law may apply to rights that are subject to title registration, such as intellectual property rights.

Evidently, the Guide does not deal with many issues that are likely to arise in an intellectual property-based transaction due to the specific features of intellectual property rights. A topic of great discussion at the colloquium was the proper method for making a security right in intellectual property rights effective against third parties. It is safe to say that the desire of a clear, predictable and efficient registry for intellectual property based secured transactions was near-unanimous.

Reconciling the objectives, structure and terminology of secured transactions law with the intellectual property law framework was avidly debated. Many speakers highlighted the differences which exist, for example, in the filing approaches taken by intellectual property and secured transactions laws. On the one hand, intellectual property law aims to protect creators' rights in their work. Hence, intellectual property registries are "title" based (the goal being to evidence ownership). In contrast, secured financing laws are "debtor-specific," since secured financing laws seek to provide a predictable framework for both lenders and debtors involved in transactions where personal property is used as collateral.

The Guide provides that the general method for rendering security rights effective against third parties would be through the registration of a notice of the security right in the "general security rights registry" created under the Guide.⁵ However, the Guide also indicates that a security right may be rendered effective by other methods, such as "registration in a specialized registry or notation on a title certificate."⁶ Would this method apply to security rights registered against

² A/CN.9/WG.VI/WP.29, s. 4 (b).

³ A/CN.9/WG.VI/WP.29, s. 3 (ii).

⁴ A/CN.9/WG.VI/WP.29, s. 23 (a) reads: "An assignment is effective as between the assignor and the assignee and as against the debtor of the receivable notwithstanding an agreement between the initial or any subsequent assignor and the debtor of the receivable or any subsequent assignee limiting in any way the assignor's rights to assign its receivable."

⁵ A/CN.9/WG.VI/WP.29, s. 33.

⁶ A/CN.9/WG.VI/WP.29, s. 35(c).

intellectual property rights? The proper method of registering security rights against intellectual property rights raised important discussions because of its effect in determining a secured creditor's priority rights in an enforcement context.

Finding ways to balance intellectual property-holders' interests with those of secured creditors was an issue continuously harped upon during the colloquium. This issue is particularly relevant in the context of priority disputes. The Guide provides for a "first-in time" to register priority rule. However, the Guide includes a note that between a security right registered in the general security rights registry and a security right registered in a specialized registry, the latter wins.⁷ This rule is relatively simple, but not necessarily in line with the laws of many countries. Intellectual property and secured transactions priority rules may not lead to the same result if applied to the resolution of a dispute involving a secured creditor and a third party (licensor/licensee).

The colloquium was a very useful exercise in canvassing the issues relating to intellectual property financing. This forum unraveled the intricacies involved in taking security in intellectual property. UNCITRAL's next step is to put together a paper outlining the various issues raised during the colloquium and submit it to the Working Group VI.

⁷ A/CN.9/WG.VI/WP.29, s. 76.