



**C L I F F O R D**  
**C H A N C E**

Global Intellectual Property Newsletter  
Issue 09/15

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# Introduction

We welcome you to the September 2015 issue of Clifford Chance's quarterly Global Intellectual Property Newsletter which provides an update on recent IP developments in major jurisdictions around the world. The current issue focuses on the possibilities of using IP as security and helps to unmask potential associated pitfalls.

We present articles from China/Hong Kong, Germany and Italy that provide an overview of how IP rights can serve as security in their respective jurisdictions. Additionally, our UK colleagues present a synopsis of the legally admissible types of security interests that exist with regard to UK IP assets, and outline which corresponding considerations companies should bear in mind. The current issue also highlights pledges on IP assets in various jurisdictions. For example, our Warsaw office provides certain background regarding the national regime of pledges on IP rights, which is the most common form of security over registered IP in Poland. Furthermore, our French colleagues outline the impact of its national system in seeking IP securities, and set forth advice regarding the drafting of pledge agreements. In addition, an overview of the national legal standards of registering trademark pledges in the international trademark registers is provided by our Czech colleagues. In conjunction with discussions regarding pledges on IP assets from numerous offices, our Spanish colleagues provide further insight regarding how IP rights can be subject to chattel mortgages in Spain.

To provide a more comprehensive view of IP rights that are used as security, this issue also provides an article that analyses the ABN AMRO v. Berzona judgment's possible effects on IP licenses in the Netherlands.

**Our prior issues of the Global Intellectual Property Newsletter can be retrieved by clicking [here](#)**

## China/Hong Kong: Taking Security over IP – a perspective from China

**China's attempt in promoting the use of intellectual property ("IP") as security is not yet reflected in existing legislation and mechanisms for protection and enforcement of security of IPs are not well-developed in China.**

In China, IP holders are able to pledge the property rights of their IPs (e.g., non-personal alienable IP rights) as security for financing and other forms of transactions.

Under PRC law, an IP pledge is subject to a written agreement between an IP holder and a pledge holder and will not become valid without being duly registered with an appropriate governmental authority. For example, the court in Jiangsu held in a 2014 case<sup>1</sup> that the pledge of 3 patents by Zhu Hongwei was deemed invalid since both parties (i.e., Jiangsu Jinmao and Zhu Hongwei) failed to jointly register such pledge with the PRC Patent Office.

Moreover, in China, IP holders are not free to assign or license any pledged IPs without the pledge holder's consent. For example, a case<sup>2</sup> in Fuzhou, Jiuxing Henglong, the patent owner entered in a patent license agreement with Fuzhou Nashida pursuant to which Jiuxing Henglong granted a license of the pledged patents to Fuzhou Nashida. However, this patent license agreement was held void by the Fuzhou High Court on the grounds that the patent owner Jiuxing Henglong failed to obtain consent from the pledge holder Ye Jinxing

### Key Issues

- In China, an IP pledge is subject to compulsory official registration. An IP holder is not free to assign or license any pledged IPs without a pledge holder's consent.
- Lacking sufficient legislative protection and guidance, the parties to an IP pledge are advised to agree in writing regarding the specifics of the rights and obligations of each party and any available remedies in relation to the enforcement/realization of the rights in any pledged IP.

when granting this patent license to the licensee, Fuzhou Nashida.

In addition to the above statutory requirements on security of IPs, when using an IP as security for a transaction in China, some practical issues in relation to the enforcement and/or realization of rights in a pledged IP should be taken into consideration:

1. The PRC law on IP pledges provides little guidance and/or remedies in respect of:

- when the validity of a pledged IP has been challenged or when an IP holder has failed to maintain the validity of a pledged IP (although the PRC Patent Office shall notify a pledge holder when the relevant pledged patent has been invalidated or expired or when the relevant patent owner has failed to pay annual fees timely for maintenance of the pledged patent);
- when a pledged IP has been infringed upon by a third party or when an IP holder has failed to actively enforce its IP rights against any possible infringers;
- when there is an ownership dispute concerning a pledged IP; or
- when the value of a pledged IP has been diminished.

In light of the vagueness of the PRC law in this regard, the parties to an IP pledge are advised to consider and

set out in detail in the relevant transactional agreement (e.g., an IP pledge agreement) the rights and obligations of each party and any available remedies in connection with the above mentioned circumstances.

2. Before entering into an agreement concerning the use of an IP as security for a transaction, the relevant contracting parties are also advised to consider the feasibility and/or difficulty in fulfilling or realizing the rights in a pledged IP. So far, China has not yet developed a nationwide and sophisticated platform for IP trading. In case of a default in the payment by an IP holder/debtor, it would not be easy for a pledge holder/creditor to locate an appropriate buyer for a pledged IP. Moreover, when pledging or selling off an IP, the evaluation and determination of the real value of a pledged IP is still challenging given that China currently lacks sufficient institutions and/or professionals to provide a reliable IP evaluation.

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## China/ Hong Kong: Taking Security over IP – a perspective from Hong Kong

Traditionally lenders tend to favour companies using tangible rather than intangible assets as security, as realising the value of tangible assets has been more certain. However, as knowledge-driven businesses start to dominate Hong Kong's economies, intellectual property ("IP") increasingly represents valuable assets for borrowers and has become more important than ever as a valuable asset to be used as security for loans.

Since 2013, the Hong Kong government has been promoting Hong Kong as an IP trading hub, with the development of local IP intermediary services (such as IP valuation) as one of its initiatives, which will be useful for enforcing IP security. It is expected that IP will become more prevalent as a security asset going forward. This briefing discusses the types of IP that may be relevant to businesses and the way a lender can take, and subsequently enforce, its security over such rights in Hong Kong.

### Considerations before taking IP security

If IP is the main security to be relied on, careful due diligence needs to be conducted to ascertain the value and validity of the IP, especially for businesses that operate in multiple jurisdictions (as IPs are territorial in nature). The effect of any depreciation on the value of IP should also be considered. It is likely that IP will be

considered more valuable where such IP is perpetual (by being renewable), easy to secure, registered, regular revenue-generating and able to retain value independently of the business that owns and uses it.

### How to take security over IP in Hong Kong

Although IP is intangible, taking security over IP rights uses similar concepts to taking security over other forms of property. Generally, security over IP can be taken by a charge (fixed or floating charge) or mortgage (assignment).

If the security provider is not the legal owner of the relevant IP rights, but merely a licensee, the lender may still take a mortgage or a fixed or floating charge over the licence. In either case, the lender will require the owner of the IP and the security provider to enter into a tripartite agreement under which, among others, the owner gives consent to the security interest being granted in favour of the lender.

### Legal Mortgage

If a mortgage (assignment) is taken (in which legal title of the IP is transferred to the lender), usually the security provider will ask for a licence-back if it uses the IP in its day-to-day business. The security provider will usually also ask for an exclusive licence in order to prevent the lender from licensing to the security provider's competitors and to facilitate taking infringement proceedings in its own name.

There are, however, some disadvantages of taking a mortgage. In the first place, it will not be effective over future IP rights. Also, it will impose stringent obligations on the lender to: (i) renew and maintain the IP; (ii) be included as a party to infringement or other proceedings; and (iii) be liable

for claims in respect of the IP (including product liability claims).

### Fixed Charge

On the other hand, a fixed charge differs from a mortgage in that no transfer of title takes place. The charge is usually coupled with relevant covenants in the loan and security documentation obliging the security provider to maintain the relevant IP, attend to renewals and claims of infringement and to use it in an appropriate manner.

A fixed charge is usually preferable to a mortgage because:

- the lender has the benefit of security with priority over other creditors but with no burden of maintaining and defending the charged IP;
- the fixed charge can apply to future IP rights; and
- the lender still retains control over the charged IP rights because, following a default, the lender can appoint a receiver over the IP rights and sell the IP and apply the proceeds to discharge the loan.

The only key disadvantage is that it may not be effective against a bona fide third party purchaser of the IP without notice. However, this can be easily mitigated where the IP and the security interest are registered with the relevant register.

### Floating Charge

Floating charges can be taken over the same IP rights as a fixed charge, though usually it is only taken in the case of IP rights that cannot be identified individually.

Most of the advantages of taking a floating charge are the same as that of a fixed charge, namely that the lender is able to obtain rights over the



charged IP rights without the burden of maintaining the IP assets. However, the lender for the floating charge will only get paid after holders of fixed charges, other preferential creditors and settlement of expenses of the insolvent estate.

A fixed charge is, therefore, often the most practical method of taking security over IP.

## Perfection of security over IP

In order for a lender to reap the benefit of any security over IP, the mortgage or charge over the IP must be properly perfected.

For a legal mortgage, title to the IP must be transferred to the lender pursuant to the mortgage document. For registered IP, the transfer of title needs to be recorded at each relevant IP register.

For fixed and/or floating charges, they should be registered at the relevant IP register as soon as possible (and in any event within six months from the date the security is created). Failure to register within such a period can limit the remedies available to the lender if the IP is infringed. Also, until an application has been made for registration of the security, the grant of the security is ineffective against a person acquiring a conflicting interest in the IP without knowledge of the grant.

Also, for charges, it may be prudent for the lender to obtain a blank transfer form for the IP signed by the transferor with the transferee details left blank. The form should be held in escrow for use in the event of enforcement. Alternatively, if an appropriately drafted power of attorney for sale is in place, such form may not be strictly necessary.

## Enforcement of IP Security

In an enforcement scenario, options available to a lender would depend on what types of security were taken. In particular:

- for a legal mortgage, the lender can sell the IP and use the proceeds towards repayment of the loan;
- for a charge, the lender has powers of sale exercisable under a power of attorney under the charging document, together with rights to appoint a receiver, who will have the power to take possession of the IP and/or sell the charged IP; and
- if a floating charge is taken, a lender may exercise its rights to appoint an administrator (as long as the floating charge covers substantially all of the assets of the company and not just the IP), who will likely sell the business (including the IP) and use the proceeds to satisfy the loan/debt.

## Conclusion

While each case needs to be reviewed on its own in light of the particular nature of the IP and the particular circumstances in determining how IP security should be taken, in most cases, a fixed charge is likely the most practical method as discussed above.

Unlike China, Hong Kong's legal regime in respect of taking security over IP is well established. Although IP has not been extensively used as security as other tangible assets have in the past, with the gradual change of Hong Kong into a more knowledge-based economy, IP assets have become more valuable as security. With the hopeful expansion of IP intermediary services in Hong Kong as part of the government's initiative of promoting Hong Kong as an IP trading hub, it is envisaged that taking security over IP will become more prevalent in the near future.

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## Key Issues

- Hong Kong has an established legal regime for taking security over IP.
- A fixed charge is often preferred (over a mortgage and a floating charge) as the more practical method of taking IP security, particularly since the lender may not have the expertise, nor desire, to take on the burden of maintaining the IP itself.



## Germany: A textbook approach is not enough – Intellectual property as security in corporate transactions

The fact that intellectual property qualifies as an object to secure a loan or to form part of a complex financial security transaction has become common knowledge. Nevertheless, recent practice has shown an increasing interest in custom made legal solutions and tools to make use of intellectual property as collateral. The reason for this is that intellectual property and particularly patents, trademarks and copyrights can have substantial value. The demand for tailored security solutions does not only derive from the monetary value of the intellectual property, but is also driven by the essential character intellectual property has for many businesses.

### Various interests in legal options

Lending parties in a finance project often consider intellectual property to be much the same as any other collateral. This applies to most corporate transactions wherein intellectual property is of a minor importance. Unless intellectual property is of an outstanding importance for the busi-

ness or the only valuable asset(s), the approach to include intellectual property as an object of security follows standardized textbook procedures. In the event intellectual property plays a more prominent role in the transaction, the method of granting security is chosen more carefully. And indeed, the legal system provides for a basket of options ranging from the predominant security mechanisms of the transfer of security to pledges, the granting of rights to use the intellectual property and the granting of a usufruct.

### Security transfer of intellectual property

The transfer of title by way of a security transfer accompanied by the granting of a back license to the transferring party is still a popular practice. The reason for the popularity is the strong position of the secured party. The secured party becomes legal owner and obtains direct control to realize the security. Legal ownership ensures that the secured party has legal control on the asset and can sell the asset without greater obstacles. In particular, in relation to a third party the secured party is fully entitled to dispose of the IP rights and therefore can directly realize the security.

The secured party's benefit comes at the expense of the grantor's flexibility to use and dispose of the intellectual property. By transferring the right, the collateral provider gives up its ownership and its rights to use the intellectual property. To compensate this loss, the transferring party is granted a back license to use its former intellec-

tual property in the ordinary course of business. In particular, the latter can become the stumbling block. The back license requires a careful balance between the security grantor's interest to use and exploit the intellectual property and the secured party's security interest in receiving ownership and maintaining the value of the intellectual property.

The security transfer has two elements: the security agreement and the transfer of rights. Whereas the transfer of rights, in principle, requires a degree of certainty with regard to the intellectual property to be transferred, the security agreement requires more attention. The security agreement stipulates the utilization of the collateral, the realization of the collateral and the re-transfer of the intellectual property in case of the fulfillment of all contractual obligations. It has become the balancing element between the security interest of the secured party and the collateral provider.

Such balancing of the security transfer on the basis of a back license works for many businesses. In particular, if a company's intellectual property is of a rather passive nature – for example as measure of protection for a successful brand, the company name or specific products – the security transfer will not affect the conduct of business and the business operations in a way that requires specific attention.

Other business models, however, are more focused on the use, disposal and development of intellectual property. While a company developing a

specific product is likely to agree to a security transfer, a high-tech company or development service provider will have more issues in transferring its intellectual property. The task becomes even more complicated, if the intellectual property portfolio is particularly complex and the intellectual property is used for various purposes and is actively pursued, such as in litigation, licensing and/or cooperative ventures. In such situations a security transfer of intellectual property can have an impact on relationships and obligations with third parties because it can trigger termination rights as a result of a change in ownership or may entitle a third party to exercise a first right of refusal.

## Pledging intellectual property

The complexity and interests of the parties involved in security transactions results in an increase of security pledges. As opposed to and distinct from a security transfer, the pledge of intellectual property has no effect on the ownership of the rights. The creation of a pledge does not result in a transfer of ownership.

The secured party only obtains the right to receive satisfaction arising from the proceeds of the realization of the security. The pledger retains the intellectual property and in particular the right to use its intellectual property. If the intellectual property has been pledged, it is not necessary to agree on a back-license. This is an important difference to the security transfer for the security provider.

The interests of the collateral provider and of the secured party can be summed up as follows: On the one hand, the collateral provider does not

## Key Issues

- Unless intellectual property is of an outstanding importance for the business or the only valuable asset(s), the approach to include intellectual property as an object of security follows standardized textbook procedures.
- In the event intellectual property plays a more prominent role in the transaction, the method of granting security is chosen more carefully. The legal system provides for a basket of options ranging from the predominant security mechanisms of the transfer of security to pledges, the granting of rights to use the intellectual property and the granting of a usufruct.
- In a more complex transaction scenario, a schematic textbook approach no longer lives up to the expectations and demands of complex business models and, hence, to balance the parties' interests, the structure of the transaction to supply collateral requires a combination of different tools.

wish to transfer the ownership of the intellectual property right but to retain the full control and authorization to enforce and apply the intellectual property. On the other hand, the secured party is interested in maintaining the pledged rights and the value of the collateral. Such issues can be addressed as obligations in the security agreement itself.

An obstacle for the secured party is the realization of the security pledge. The parties are not entirely free to stipulate how to realize a pledged right. According to Sec. 1277 para. 1 of the German Civil Code (*Bürgerliches Gesetzbuch*, or BGB), *“the pledgee may seek his satisfaction from the right only on the basis of an enforceable judgment in accordance with the provisions governing execution, unless otherwise provided.”* The parties may, however, agree to another type of realization, but they are always bound by mandatory statutory law. Therefore, a direct sale would not be possible until the maturity of the pledge arises.

## Grant a right of usufruct

The granting of a right of usufruct is another option of security. The creation of a usufruct is applicable if the usufruct is granted to a right that is transferable. By way of creation of the usufruct, the collateral taker is entitled to the emoluments of the right.

If a right of usufruct is granted for an intellectual property right, the usufructuary would be obliged to maintain the right. This means that the secured party would be responsible to pursue legal actions against infringements of the intellectual property, to defend it against actions and to pay charges and fees. Such obligations for maintaining secured rights or defend them against third party attacks are beyond the expectations of a party requesting security. Therefore, the parties can and will agree to alter these obligations in favor of the secured party.

The benefit of the usufruct is that the secured party is entitled to directly take the emoluments of the right. Therefore, in particular in a situation wherein the security grantor is engaged in generating royalties from

licenses, the usufruct might be a good option for the secured party. It obtains the right to collect the license fees for licenses already granted and allows the secured party the right to grant new ones as well. However, the party granting the right of usufruct retains – at least on the basis of the security agreement – the flexibility and ownership in the intellectual property.

### Granting of rights to use intellectual property

In some constellations, the parties could also consider the granting of a license to the secured party. The secured party receives a right to use the intellectual property that is usually accompanied with the right to transfer the license and to grant sublicenses. The secured party can participate in the economic benefits of the intellectual property on the basis of such a license. If the exclusivity of the license excludes the right of use by the security grantor – at least conditionally in the event that the security provider is in default of its payment obligations – the exclusive license can provide a security position that prove as commercially strong as a security transfer. Obviously, granting a license for security purposes will only be useful if it is granted as an exclusive license. The exclusivity of the license, at least to a certain extent, provides the secured party the freedom to realize the intellectual property.

### Combining different options to achieve balanced security mechanisms

Currently, most security transactions involving intellectual property apply, to a greater extent, one of the aforementioned tools to supply collateral in intellectual property. The increase of complexity in the application, use and

adaption of intellectual property, however, requires a more comprehensive and flexible approach. To reflect and balance the parties' interests, the structure of the transaction to supply collateral requires a combination of different tools. A schematic textbook approach no longer lives up to the expectations and demands of complex business models. The combination of security tools provides for a greater extent of flexibility and satisfies the parties' security interests. If carefully chosen, the combination of different security tools provides a strong position for the secured party as well as a fair and suitable position of the party providing such security.

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## Italy: Intellectual property rights as security in Italy

**In Italy, IP rights can be used to enable businesses to access credit, however a number of issues have to be addressed.**

### Introduction: general overview of the main issues

IP rights can assist businesses to access credit, because cash receivables (*crediti di denaro*) can be secured by IP rights under Italian law (Italian Legislative Decree No. 30 of 10 February 2005, Italian Code of Intellectual Property, "CPI"); however, statistics clearly show that IP rights are relatively seldom used to access credit by Italian small and medium enterprises.

One of the main reasons may well be that very few Italian enterprises hold significant trademark and patent portfolios.

Furthermore, even enterprises that do hold significant IP portfolios are seldom in a position to assess the IP rights' value reliably for prospective lenders. In addition, the value of IP portfolios largely depends how they are managed and exploited by their owner. Furthermore, IP rights are at high risk for obsolescence, especially when the IP portfolio is formed by patents.

The insolvency of the owner of the IP rights itself can also adversely affect the value of the IP rights.

To defend against the risk of mismanagement of the IP portfolio, the actions permissible to the own-

er/debtor must be contractually limited, which is another reason why security over IP portfolios becomes less appealing.

From a legal perspective, the relevant provisions of Italian law (see below) do not clarify whether security interests over IP rights give rise to a peculiar form of 'pledge' – to be perfected by way of the relevant registration – or rather to a form of 'mortgage' over 'movable assets'. It is in any event clear, however, that security interests over IP rights may not be relied upon by third parties – including a trustee in bankruptcy – unless the security interests have been registered.

From a tax perspective, as long as the security interest secures only the obligations of the relevant grantor (i.e., the debtor's own obligations) a nominal fixed stamp duty amount will apply.

Under Article 6 of Part I appended to Legislative Decree 131/1986, a proportional stamp duty (0.5%) applies on security interests/guarantees granted to secure third parties' obligations; this appears to apply both to intragroup transactions and to personal guarantees. There is therefore a risk, in these circumstances, of significant disbursements.

### Italian legislative framework and legal nature of the security over IP rights

Article 140 of the CPI provides that security rights over intellectual property can be created only for cash receivables, and Article 138 of the CPI also requires *inter vivos* deeds that "create, amend or transfer [...] special privileges or security rights created under Article 140" over intellectual property to be registered formally with the Italian Trademarks and Patents Office, the Ufficio Italiano dei Brevetti e dei Marchi ("UIBM").

## Key Issues

- Security is not frequently created over IP rights, mainly because it is often difficult to determine the actual value of IP rights both initially and throughout the full term of the loan, given the rapid change in value that IP rights can sometimes have.
- Security over IP rights is atypical in the context of the Italian legal framework; security interests over IP rights may not be enforced by third parties – including a trustee in bankruptcy – unless they have been registered with the Italian Trademarks and Patent Office.
- To take advantage of IP rights to access credit, it is necessary to create contractual constraints that limit any actions by the owner that may affect the value of IP rights. However such limitations may not be excessive, as the owner of the IP rights must continue to be able to economically exploit the IP rights.
- Another type of security, i.e., the special privilege under Article 46 of the Italian Consolidated Banking Act, can be created only over non-registered assets; therefore the more valuable IP rights, such as registered marks and patents, which would offer greater security, fall outside the scope of application of this special provision.

Article 138 of the CPI speaks in relation to industrial inventions, trademarks and all other intellectual property rights (except copyright), which are all subject to the same law for this purpose. If more than one security rights are registered, they will be ranked accordingly to the transcription date.

Security rights that are not transcribed will be unenforceable towards third party purchasers, creditors and also any trustees in bankruptcy.

The issue of what the nature of such security is, i.e., whether a pledge or a mortgage, remains open under Italian law.

According to the prevailing Italian jurisprudence, real rights of security over intellectual property should be deemed to be a pledge, and specifically the special type of pledge over "rights other than receivables" (*diritti diversi dai crediti*) envisaged under Article 2806 of the Italian Civil Code.

A different current of jurisprudence, however, underscores that the legal framework applicable to pledges over intellectual property is closer to the legal framework applicable to mortgages over personal property, which must be registered to be effective.

According to supporters of the first view, the reference to "special laws" in Article 2806 of the Italian Civil Code, and therefore in the CPI, would allow derogation from the provisions of the Civil Code that govern the ordinary creation of a pledge, namely the delivery of physical possession. This works to allow the creation of a pledge over IP rights by way of transcription and without any transfer of physical possession.

Supporters of the second view, however, see the requirement for transcription in the public records (also with different rankings) as an element that renders security over IP rights more similar to mortgages than to traditional pledges (which is based on transfer of physical possession).



Thus, if it is a pledge, it is an "anomalous" pledge, and it is especially a "transcribed" pledge that, in terms of formalities requested and rights attributed to creditors, is in practice very similar to a mortgage over personal property.

In conclusion, it is indeed clear that such security is atypical and *sui generis*, for which gaps in the applicable law will need to be addressed from time to time applying by analogy the rules and principles of the Italian Civil Code to the extent compatible.

### Contractual obligation of the owner of IP rights

The grantor of the special pledge or mortgage must have contractual obligations to preserve the intellectual property right, such as to pay all related taxes and to implement all necessary renewals. The grantor must also have contractual restrictions that prohibit it from transferring the IP right, without however being restricted with regards to ordinary acts of "disposal", such as granting a license for a patent, which increase the value of the intellectual property.

The grantor is required not to act so as to prejudice the value of the IP rights, pursuant to provisions that can be more or less specific on a case by case basis. The grantor is not required to use the IP right, even if use is a necessary condition for the right to continue to exist (such as for trademarks); such obligation will need to be contractual, because the obligation to preserve the security does not include the obligation to exploit the right (a contractual solution, which takes into account the grantor's business needs, must be reached in good faith).

Finally, the contract should provide for periodic reporting obligations as well as obligations for the grantor to keep

suitable documentation, which may also be reviewed periodically by the beneficiary creditor.

### The special privilege and the provisions of the Italian Consolidated Banking Act

The Italian Legislative Decree 1 September 1993, No. 385 (Italian Consolidated Banking Act, "TUB") sets forth a uniform set of laws to govern special privileges as security for medium- or long-term bank loans to businesses, providing that they can cover exclusively "movable assets, to be used in the business activity of the company, that are not enrolled in public registers" (Article 46 of the TUB). Applied to IP rights, this means that a special privilege can be created only over non-registered IP rights, such as non-registered trademarks, distinctive signs other than trademarks, non-patented inventions, copyrights and related rights.

The consequence of this choice to limit the security rights only to registered assets is that the more valuable IP rights – such as registered marks and patents, which would offer greater security – fall outside the scope of application of Article 46 of the TUB.

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## UK: Taking security over UK IP assets

UK IP assets are commonly used as security in large scale financings. The UK Intellectual Property Office ("UKIPO") operates an easy to use register and the official fees charged to record a security interest are relatively low, and are charged by proprietor and not by numbers of IP assets against which a charge is to be recorded (unlike the Office for Harmonization in the Internal Market).

Under English law it is possible to grant security over both registered and unregistered IP rights: copyright works, trade marks, patents, registered design rights, database rights, plant breeders' and topography rights. As copyright licences and non-exclusive trade mark licences are not considered personal property it is not possible to grant security interests over these. Legal commentators are divided over whether an exclusive trade mark licence can be the subject of a security interest, but patent licences can be assigned or mortgaged (if this is not prohibited by the terms of the licence). However, it is only possible to *record* a security interest against registered IP rights. Grant of security over co-owned rights requires the consent of all the co-owners.

### Legal nature of different types of security interest

As IPRs are intangible rights it is not possible under English law to grant security which requires the lender to have physical possession of the relevant right (such as contractual liens or pledges). However, in some cases, a

## Key Issues

- Advantages of legal charges over other types of security interest
- Nature of trade mark rights means security interests which involve transfer of title are risky for the trade mark owner
- Ensure prompt recordal of the security interest so the interest has priority over interests created later in time
- Efficient IP portfolio management (in both recording and releasing security interests) pays dividends in context of corporate transactions

lender may take security over a chattel, where the chattel's value is related to IP (e.g. a master recording). The typical mechanisms used are mortgages and charges.

Security can be taken by way of a mortgage, but requires a transfer of title of the asset from the rights-holder to the lender. This option is usually perceived as unattractive by both the IP rights-holder and the lender. The rights-holder will not typically want to cede ownership to a lender (even on a temporary basis, during the life of the security interest) and with it, responsibility for maintenance and enforcement of the rights. A lender will not wish to assume responsibility for the rights and may not have the necessary expertise in any event to manage these types of asset. It also requires the lender to license use of the rights back to the rights-holder and also to arrange for re-transfer of the rights on release of the security interest. All of these steps will involve both official fees (registration of the change of ownership, recordal of the

security interest and licence, release of the security interest, re-transfer of ownership) and legal fees, which can be disproportionate to the advantage the lender is trying to achieve by means of the security interest and this security structure is not advised for IPR, especially trade marks.

An alternative is to create a special purpose vehicle to hold the IP rights and then grant security over the shares in that entity to the lender. This model also entails some costs (transfer of the IP rights to the SPV, recordal of the security interest and setting up an intra-group licensing structure) and will likely also involve careful consideration being given to the tax consequences, to ensure the transfer of the rights is managed appropriately. The location of the rights-holder SPV is also important, as some lenders may be unwilling to take security over the shares of an off-shore SPV.

Lenders therefore usually create legal charges (which can be fixed or floating) in respect of IP assets.

## Provisions in security documents

Security documents will usually contain the following types of provision relating to IP assets:

- Negative covenants – obliging the rights-holder not to dispose of, or grant further security over, the IP assets. These protections are aimed at preserving the position of the lender in relation to the IP assets.
- Positive covenants – obliging the rights-holder to maintain the IP, renew the rights at the relevant time (and not to let rights lapse), monitor potential infringements and take steps to enforce rights against third parties and preserve the validity and enforceability of

the rights. Some lenders also ask to receive an update of all IP owned by the rights-holder each year, to enable further security recordals to be made over any new IP, thereby enabling a lender to ensure it has security over the most valuable IP assets (e.g. a new brand identity or a patent for a commercially valuable invention). These provisions are aimed at preserving the value of the underlying assets, so that the value of the lender's security interest is preserved.

- Further assurance – obliging the rights-holder to assist the lender with the recordal process by executing any documents required by an IP registry (including any local law forms of a global security agreement).

## Recordal process

Whilst there is no strict legal requirement in the relevant English IP statutes that a security interest be recorded (and no time limit within which the interest should be recorded), if a charge is not recorded: (i) a good faith acquirer of the IP asset who pays value for the asset and who has no notice of the earlier security interest will not be bound by that earlier security interest; and (ii) any other party taking security who is able to register their later security interest ahead of an earlier interest will have priority over the later one. It is therefore advisable to record the security interest as soon as possible after its creation. Use of the relevant UKIPO form for that particular IP asset class, signed by the rights-holder, is usually sufficient, and avoids the need to submit documentary evidence of the security interest itself, which will then become publicly accessible.



## Interplay with the Companies House register

English company law requires debentures to be registered at Companies House, within 21 days of grant. It is not clear how this requirement interacts with the recordal process provided for in the English IP statutes, which provides that recordal at the IP asset register serves as notice of an earlier interest (and a purchaser without notice will not be bound by the interest). It is therefore currently unclear whether registration of the interest at Companies House is sufficient to serve as notice to a purchaser.

## Best practice guidance

A company should:

- ensure when a security is released, that the necessary records of that release are also made at the relevant asset registry. It is very common for security interests to remain on the IP register, even though the interests have been discharged and it is often very difficult to locate signatories and arrange documents for release of extinguished security interests. This issue is commonly encountered on M&A transactions;
- ensure timely review of the IP register relating to the relevant assets to see if there are any existing security interests which will be released and will therefore need to be removed prior to (or upon) entry into the new security documents. This will usually require a letter of consent from the earlier lender and payment of the official fee to the UKIPO to record the release. If the earlier security document is still in place, the later lender will be taken to have notice of it, and therefore be

aware that its later security interest will rank behind the earlier interest;

- arrange for prompt filing of the security interest at both Companies House and the IPR asset register; and
- ensure that the rights holder has sufficient ability to manage its IP during the period of the security interest (i.e. that it is able to manage it in the ordinary course of business and does not have to seek consent from the security holder to every type of dealing with the relevant IP).

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## Poland: Pledge on industrial property rights in Poland

The most common form of security over registered IP in Poland is a pledge. With some exceptions, the pledged collateral may consist of movables and transferable property rights. A pledge entitles the creditor to enforce its rights regardless of who has become the owner of the pledged asset and with priority over the personal creditors of the owner of the asset (i.e. generally, creditors whose receivables have not been secured with a pledge).

## Types of pledges in Poland

Without a doubt industrial property rights such as patents, exclusive rights to trademarks, utility models or industrial designs may be subject to a pledge. Polish law stipulates two types of pledges: an ordinary pledge and a registered pledge.

The main difference between these types of pledges is the manner of establishment of a pledge – apart from execution of a pledge agreement (which is sufficient itself in the case of an ordinary pledge), the registered pledge needs to be entered into the register of pledges. Moreover, in a registered pledge agreement, the creditor may prevent the owner of the pledged asset from disposing of that asset without the creditor's consent (disposal without such consent is invalid), whereas no limitations on the transfer of an object of an ordinary pledge are allowed.

## The establishment of an ordinary pledge

An ordinary pledge is established on the basis of a contract which should be made in written form with a certified date (usually the date is certified by a public notary). Although the Polish Industrial Property Law might suggest that a pledge over a patent (as well as trademark, utility model, etc.) needs to be entered into the patent register in order to be effective vis-a-vis third parties, legal theorists generally agree that such entry into the patent register is of informative nature only. From a practical point of view, this means that a patent, trademark or a design might be encumbered with a pledge even if the patent register does not contain any reference to that encumbrance.

## The establishment of a registered pledge

Unlike an ordinary pledge, an agreement on establishment of a registered pledge should not only be made in writing (although for registered pledges, no certification of the date is required), but should also be entered into the register of pledges; the establishment of a registered pledge is effective on entry into the register of pledges. The register of pledges is a public register; therefore, anyone can verify whether a person or an entity has established any registered pledge over its industrial property rights.

A court recording a registered pledge on industrial property rights in the register of pledges is obliged to forward a copy of its decision to the Patent Office. However, similarly as with respect to an ordinary pledge, registration in the patent register is merely for informational purposes.

## Pledge on other rights connected with Industrial Property Rights

A pledge (both ordinary and registered) may also be established over rights deriving from an application filed with the Patent Office for grant of a patent, design registration or protection right to a trademark. While it is widely agreed that such a right may be subject to a pledge, certain doubts may arise regarding the status and a possible expiration of the pledge if a patent, design or protection right to a trademark is successfully granted.

Though the Polish Industrial Property Law doesn't contain any specific provisions in this regard, the dominating view among legal theorists is that the registration of a patent or other exclusive industrial property rights leads to a conversion, which means that a pledge on a particular application converts into a pledge on a granted right without any additional actions being taken. Nevertheless, in order to avoid any confusion, we recommend addressing this matter expressly in the pledge agreement.

## Pledge on IP licenses

An analysis of a license's transferability leads to the general conclusion that the licensee may only grant further licenses (sub-licenses) with the consent of the proprietor of an exclusive right. Therefore, on the basis of the Polish Civil Code, a pledge on intellectual property license requires the licensor's consent, which can be obtained either before or after the conclusion of the pledge agreement. Such consent should be given either in writing (in the case of a registered pledge) or in writing with a certified date (in the case of an ordinary pledge) in order to be valid. A pledge on intellectual property licenses is not recorded in the patent register.

## Key Issues

- Provisions on the transfer of a right apply according to the establishment of a pledge on that right.
- The establishment of a registered pledge requires entry in the Register of Pledges.
- The recording of a pledge in the patent register has no additional implications, and its role is merely informational.
- The Polish Civil Code and Industrial Property Law do not provide sufficient protection for creditors; therefore it is recommended to address the specific issues arising in connection with industrial property rights in the pledge agreement.

## Expiration

Considering that the pledge obligation itself is not fundamental, but supplementary, the main cause of its expiration is the expiration of the receivable which it secures. However, in the context of industrial property rights, the limited period of protection is another important factor which should be taken into consideration, in particular if the repayment term of a receivable exceeds the protection term.

Furthermore, industrial property rights may expire or be revoked for reasons other than those mentioned above. Due to the fact that some of them may be caused by actions of the pledgor, Polish law aims to protect creditors' rights.

Firstly, even if the pledgor fails to pay a renewal fee within the prescribed time limit, the pledgee has the right to make such a payment, because according to Polish Civil Code *the pledgee may carry out all acts and*

*pursue all claims which are aimed at preserving the right encumbered with the pledge.*

Secondly, according to the Polish Industrial Property Law the surrender of the exclusive right by its proprietor is only possible with the consent of the pledgee.

Although the Polish Industrial Property Law contains some provisions with regard to the pledgee's rights, its limited scope and the specific nature of industrial property rights lead rather to the simple conclusion that most of these issues should be addressed in the pledge agreement in order to avoid any unnecessary disputes.

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## France: The specificities of the pledge of intellectual property rights under French law

**The pledge of IPR under French law has a number of specificities, some of which can be contractually determined.**

Under French law, all IPR can be used as collateral security.

Though the provisions relating to the pledge of industrial property rights are scattered throughout the Intellectual Property Code (IPC), these provisions are not very precise. The rules laid down in the IPC contain two sine qua non conditions for the pledge of industrial property rights: a written document and its registration with one or more industrial property offices. In this respect, these requirements make pledges of copyrights irrelevant, except when a register is available, as is the case for software or motion pictures.

The pledge of IPR is substantially governed by the rules of the French Civil Code. The lack of dispossession of the grantor, a French specificity, has direct consequences over the settlor's obligations (see Section i) and the enforcement of the pledge (see Section ii).

### The consequences over the obligations of the settlor of an IPR pledge

The settlor's lack of dispossession has a major consequence: the duty for the settlor to preserve the value of

## Key Issues

- The settlor must preserve the value of the pledged IPR and is consequently bound by a number of duties.
- Where the settlor does not comply with contractual undertakings, the creditor can either ask for legal granting or use his right of priority to retrieve the selling price of the IPR.
- The parties to the pledge agreement may use their freedom to contract for greater flexibility.

the pledged IPR<sup>3</sup>. The objective is to maintain the pledged IPR in the settlor's estate so that the creditor can exercise its rights on it on the date of realization of the pledge. Thus, the settlor has the duty to pay his patent fees, trademark or registered design renewal fees to maintain its value<sup>4</sup>.

The second consequence is the obligation to obtain the consent of the creditor when taking an action for patent claim limitations. Without this consent, the action is inadmissible<sup>5</sup>.

The last consequence of the duty to maintain the pledged IPR in the settlor's estate is the obligation to make use of it in order to preserve the value of the IPR<sup>6</sup>. Legal doctrine recognizes however the absence of obligation for the settlor to make use of an IPR lacking commercial interest; this cannot be held against the settlor when the absence of exploitation results from its obsolescence or its outdated nature<sup>7</sup>.

Any breach of these duties may lead to the award of contractual damages to the other party and accelerate the maturity of the secured claim, according to article 2344 of the French Civil

Code. Ultimately, criminal sanctions may sanction either the destruction or diversion of the property given as collateral<sup>8</sup>.

Where the collateral right would constitute a counterfeiting infringement, courts refuse to grant the creditor the benefit of an indirect action<sup>9</sup>.

Nevertheless, legal doctrine considers that freedom to contract may play a role in the determination of the parties' respective duties, such as the payment of registration fees or use of the IPR during the pledge, provided that such arrangements are expressly stipulated in the contract<sup>10</sup> in compliance with the legal provisions governing intellectual property.

As for a potential change of ownership, the courts held that the consent of the secured creditor is necessary and could expose the settlor to contractual liability if bypassed<sup>11</sup>.

### The consequences in terms of the pledge enforcement

In case of breach of the settlor's obligations, the lack of dispossession of the settlor gives rise to an option to the creditor's benefit when enforcing the pledge agreement.

The first possibility is the right to bring an action before the judge and claim legal ownership of the pledged IPR, in accordance with article 2347 of the French Civil Code. This action, if successful, would amount to a transfer of ownership and would discharge the settlor of his debt. Unless the IPR has a specific value set contractually between the parties<sup>12</sup>, an expert would be required to determine its value. In this case, the creditor would benefit from a right of preference over the other creditors, if any, of the settlor. It was ruled, notably in trademark cases<sup>13</sup>, that the lack of dispossession of the grantor and the lack of

detention of the good by the creditor do not constitute obstacles to the implementation of the judicial award.

The second option is the forced sale of the pledged IPR. The secured creditor has the right to force the sale of the IPR in order to get paid on the price of the sale. In this case, the creditor would compete with other creditors, if any, of the settlor. The French Civil Code imposes two conditions, for which violation is sanctioned by the nullity of the sale: prior judicial permission and sale by auction<sup>14</sup>.

Despite the laconism of legal provisions in this field, the existing system seems to guarantee the balance of rights involved, reinforced by the parties' ability to fix some of their own contractual duties.

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## Czech Republic: Practical issues of registering a trademark pledge in the international trademark registers

**A trademark pledge is created by the signing of a pledge agreement and perfected upon its registration in the relevant trademark register. Under Czech and applicable international law, there are several methods of how to proceed with the registration of a trademark pledge in international trademark registers.**

### Introduction

According to Czech law, intellectual property rights may generally serve as security (a pledge). However, the various special acts on intellectual property rights are not uniform in the way that they address the question of pledging different types of intellectual property rights. Nevertheless, the Act no. 441/2003 Coll., on trademarks (the "Czech Trade Marks Act"), is unequivocal that a trademark may serve as a pledge.

The Czech Trade Marks Act clearly provides that a pledge is perfected upon its registration in the respective trademarks register. However, it is not explicit in terms of what is meant by "trademarks" and "register of trademarks". These terms may apply to the national trademarks and the Czech register of trademarks (in Czech *rejstřík ochranných známek*) only, maintained by the Industrial Property Office (in Czech *Úřad průmyslového vlastnictví*) (the "Czech Office"), on the other hand they may also apply to the community trademarks (the "CTM") and the register of the Office for Harmonisation in the Internal Market ("OHIM"), and to the international trademarks and the register of the World Intellectual Property Organization ("WIPO").

With reference to the Czech civil code, which states generally that anything that can be traded (i.e. also intellectual property rights) may also serve as a pledge, together with the Madrid Agreement of 14 April 1891 (the "Madrid Agreement"), the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks of 27 June 1989 (the "Protocol") (for international trademarks), and the Council Regulation (EC) No 207/2009 of 26 February 2009 (the "Regulation") (for community trademarks), it may be concluded that Czech law can be stipulated as the governing law of a pledge agreement in relation to any (national, international or community) trademark protected within the Czech Republic.

As for the creation of a pledge of an international trademark or a CTM itself, there are several ways to proceed.

## Registering a trademark pledge in the OHIM Register

A CTM pledge arises upon its registration in the register of Community Trademarks maintained by OHIM in Alicante, Spain, in accordance with the Regulation (the "CMT Register").

The application must be filed directly with OHIM. It can be submitted electronically on OHIM's website (e-filing), by fax or by post. No document relating to a registration is accepted via e-mail.

The application for a pledge registration must evidence the right in rem. It is sufficient if the application is accompanied by e.g. (i) a declaration, signed by the CTM owner, agreeing to the registration of the right in rem, or (ii) an application submitted either jointly by the CTM owner and the pledgee or by the pledgee alone and signed by both parties.

The CTM application can be filed in any of the 23 official languages of the European Union. A second language must also be included, and in accordance with the following rules this second language must be: (i) different from the first language, and (ii) one of the five OHIM languages, i.e. Spanish, German, English, French or Italian.

A fee of EUR 200 per charged trademark (with EUR 1,000 as the maximum fee payable per application) is payable to OHIM.

Provided that the application is complete and the fee is paid, the registration of the CTM pledge may usually be expected to be completed within one month of the submission of the application (subject to any individual requirements or the overall amount of applications submitted to OHIM in a particular time period). However, no fixed time limits for the completion of the registration are provided by OHIM.

## Key Issues

- The international trademark pledge may be registered with the respective international register directly, but it may also be registered through the national office that administers the intellectual property.
- The differences between registering the pledge directly or through the relevant national office are primarily that there are different fees and different application processing times.

## Registering a trademark pledge in the WIPO Register

An international trademark pledge arises upon its registration in the register (the "WIPO Register") maintained by the international bureau of WIPO in Geneva (the "Bureau"), as envisaged by the Madrid Agreement.

Applications for the registration of a pledge may be submitted (i) through the appropriate office in a state that has contracted to the Madrid Agreement or to the Protocol (i.e. in case of the Czech Republic, the Czech Office), or (ii) directly to the Bureau. For a registration through the Czech Office, a prescribed form is required (the form used for the registration of a pledge over a national trademark is sufficient). The application shall be in English, French or Spanish.

There is no requirement as to the form of the application submitted directly to the Bureau, and therefore a simple letter would be sufficient. However, forms prepared by the Bureau are also available.



A fee of CZK 600 (approximately EUR 22) is payable for every trademark when registering a pledge through the Czech Office. There are no fees payable when registering the pledge directly with the Bureau.

There are no specific time limits given by either the Czech Office or the Bureau as to when the registration of a pledge over a trademark will take place after the submission of an application. For this reason, as the application can be held by the Czech Office for a certain time period before being handed over to the Bureau (a period of two months is usual), it is advisable to avoid such a delay and submit the application directly to the Bureau.

## Conclusion

From the above description of the process of registering a trademark pledge with the OHIM and WIPO registers, it is clear that no particular difficulties usually arise when communicating with the relevant office directly. However, submitting the application for the registration of an international trademark pledge to the Czech Office (instead of approaching WIPO directly) may lead to unnecessary delays. This option is therefore not recommended.

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## Spain: Intellectual Property Rights Chattel Mortgage in Spain

**The rights protected by the laws on intellectual and industrial property in Spain may be mortgaged and a chattel mortgage of the main right is understood to include, as accessories, unless stipulated otherwise: 1. adaptations, reworkings, translations, reprints, new editions or additions to the mortgaged work (in the case of copyright, for example) and 2. any addition, modification or perfection of the main right (in the case of patents, trade marks, models and other industrial property rights).**

**We recommend establishing certain provisions and guarantees in the deed creating the chattel mortgage to ensure that the parties' rights are protected and that the value of the intellectual property right is maintained until the credit is settled.**

### Publicity of Chattel Mortgages

In addition, in order to ensure maximum publicity for the charge, the registration of the mortgage in the corresponding intellectual or industrial property registries is envisaged, not for constitutive purposes, but purely for reasons of information and in order to rule out the existence of good faith on the part of a third party acquiring or seizing the mortgaged patent, trade mark or intellectual property right.

With regard to patents, both the pat-

ent application and the patent itself (together with the profits they generate) can be used as a guarantee by means of the creation of a chattel mortgage. This must be established in writing in order to be valid, by means of a public deed registered at the Moveable Property Registry and notice of the creation of the same must be sent to the Spanish Patent and Trade Mark Office, which will take note of the charge in order to publicise it to third parties; this does not represent a problem in the case of patents, as the grant of the same is always subject to registration at the Spanish Patent and Trade Mark Office.

Chattel mortgages over copyright are a different matter, as we will now see. The right to exploit works protected by copyright can also be mortgaged. The copyright protection covers all original literary, artistic or scientific creations, expressed through any means or in any medium, be it tangible or intangible.

The exploitation rights that are eligible to be mortgaged will be the rights to exploit the work in any manner and, in particular, the rights of reproduction, distribution, public communication and transformation.

The two substantive requirements for a work to enjoy copyright protection are a form of expression and the originality of that work. There are no formal requirements for the protection of copyright works. Therefore, the recording of a work at the Intellectual Property Registry is always declaratory (voluntary) and does not constitute a requirement for protection. However, the holder of a copyright intending to create a chattel mortgage over said right will have to record its rights at the Intellectual Property Registry prior to creating the mortgage in the form of a public deed and subsequently record the mortgage at



the Moveable Property Registry, as the mortgaged assets must be duly identified at the corresponding registry and comply with the registry publicity requirements in order to protect the mortgage creditor and third parties acting in good faith. Prior registration at the Intellectual Property Registry must be stated in the public deed creating the chattel mortgage.

### Creation of the mortgage by the licensee or assignee of the intellectual property rights

With the currently applicable rules, it is unclear whether the licensee, of a patent right for example, can create a chattel mortgage over its patent licence. However, this possibility has clearly and expressly been introduced by the new Spanish Patents Act which has been in the process of being drafted by the relevant Spanish legislative authorities since 2013 and which, after several amendments, much discussion and finally approval, was just published on Saturday 25 July 2015 and will enter into force in April 2017.

The new Spanish Patents Act amends the Spanish Mortgage Act, clearly allowing rights protected by industrial property legislation such as patents, topographies of semiconductor products, trade marks, commercial names, industrial designs or plant varieties to be mortgaged by the holder or licensee with the power to assign the right to a third party. With regard to the rights to exploit a copyright, they can be used as a guarantee by either the holder or the assignee, on an exclusive basis or as partial assignee, provided that the assignee is entitled to transfer its right to a third party.

### Prohibition on waivers of intellectual property rights or assignments of the use or exploitation thereof

Once a chattel mortgage has been created over an intellectual or industrial property right, the holder of the right will not be entitled to transfer the mortgaged assets without the consent of the creditor.

Moreover, the holder of the mortgaged right will not be able to waive its right or assign use or exploitation thereof, in full or in part, without the consent of the creditor. The exception is the holder of a motion picture, whose exploitation right may be partially assigned, limited to certain Spanish cinematographic regions, following partial cancellation of the mortgage credit for the proportion set in the deed establishing the mortgage.

Assignments made without the prior partial cancellation will not harm the creditor's rights and will render the assignor and assignee liable up to the amount of the proportion indicated.

### Transfer or assignment of secured credits

A credit secured with a chattel mortgage may be transferred or assigned in full or in part. The assignment will have to be in public deed form, be registered at the Moveable Property Registry and the debtor will have to be notified via a notarial certificate.

However, assignment cannot alter the conditions of the obligation assumed by the debtor or holder of the intellectual or industrial property rights. The effects of the assignment are limited to the assignee subrogating to the position of the assignor, with the regime and conditions of the debt and the guarantee remaining unaltered.

### Cancellation of the chattel mortgage

The option to foreclose on the mortgage will expire within three years of when it could have been exercised. Moreover, the creditor may consider the mortgage obligation to have expired before it runs its term: 1) due to non-payment of the charge for ensuring maintenance of the intellectual property right in question; 2) due to a failure to work the patent in a period of more than six months; or 3) due to non-use of the trade marks for four consecutive years, unless the parties had agreed otherwise.

A chattel mortgage is a commonly used guarantee in Spain when the transaction to be secured is related to a company whose industrial property rights have significant market value, for example as a result of the renown of the trade mark or the market success of the product protected by the patent (chattel mortgages over copyright are not as common). In recent years, there have been important financings and refinancing in which the debtor's trade mark has been one of the most significant assets and whose debt has been guaranteed by means of a chattel mortgage over said trade marks.

It is true that a failure to use the trade mark for four consecutive years can entitle the creditor to consider the mortgage obligation due and enforceable before it has run its term, but other mechanisms for ensuring this use of the trade mark can perhaps be more beneficial for the creditor and should be envisaged from the outset when the chattel mortgage is created, thus guaranteeing that there is a mechanism for controlling maintenance of the industrial property right for such time as the secured credit remains outstanding.

## Key Issues

- In Spain, the creation of a chattel mortgage over an intellectual property right (copyright) or an industrial one (patents, trade marks, models, etc.) requires a public deed and registration at the Moveable Property Registry in the Commercial Registry. Registration of the mortgage at the Moveable Property Registry is a constitutive act, meaning that it can only be invoked vis-à-vis third parties once registered in this way. A failure to register the mortgage will deprive the creditor of the rights granted by the mortgage.
- The possibility to assign the right to a third party is something that should be contemplated in the patent or trade mark licence agreements, for example, or agreements for the assignment of copyrights, so that it is clear whether or not the licensee or assignee is entitled to create a chattel mortgage over the patent or trade mark licence, or over the copyrights assigned.
- We consider that this prohibition in relation to the assignment of use or exploitation includes the possibility to grant contractual licences for patent. Therefore, what we recommend in the event the mortgage debtor intends to grant contractual licences during the term of the chattel mortgage, is that it include the consent of the creditor in the deed establishing the chattel mortgage, authorising the holder to grant licences to third parties, within certain limits, in such a way that it also ensures that the mortgage creditor is protected.
- We recommend establishing guarantees in the deed creating the chattel mortgage that the industrial property right will be maintained until the secured credit has been settled, as the mere lack of use of the trade mark for a period of five years in Spain, for example, would entail expiry of the trade mark and cancellation thereof at the Spanish Patent and Trade Mark Office, rendering the content of the right on which the chattel mortgage is based null and void.

Furthermore, not just the lack of use can impact the effectiveness of a chattel mortgage; the loss of market value of the intellectual property right can also represent an issue in the enforcement of the guarantee and, as such, a risk for the mortgage creditor. Therefore, we recommend that the deed creating the chattel mortgage establish mechanisms that monitor the intellectual property right and ensure it does not lose value (for example, monitoring the sales of the product protected by the patent or trade mark in question) and in the event it is considered that the loss in value has exceeded certain thresh-

olds, establish it as an event of default of the credit with the possibility to foreclose on the chattel mortgage and collect on the credit.

As we have seen, there are several risks and issues not contemplated in the Spanish legislation that should be taken into account when creating a chattel mortgage to ensure that the parties' rights are protected and that the value of the intellectual property right is maintained until the credit is settled.

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## The Netherlands: The effects of the Berzona judgment for intellectual property licenses

Further to the judgment of the Supreme Court of the Netherlands (the "Supreme Court") in the Nebula case in 2006<sup>15</sup> ("Nebula"), the situation for licenses in case of insolvency became uncertain. This uncertain situation seems to have been clarified by the Supreme Court in its judgment in the Berzona case<sup>16</sup>.

### Background

Under Dutch bankruptcy law<sup>17</sup>, a declaration of insolvency does not influence existing agreements and, therefore, rights and obligations in contractual agreements are not affected by an insolvency order. This would, in principle, also mean that existing licenses remain unaffected in case of insolvency of a licensor of intellectual property rights.

However, the conclusion was drawn from the Nebula case that the receiver in insolvency would have the right to terminate existing (license) agreements in case of insolvency of the licensor.

In Nebula, the situation related to the lease agreement of a property. The facts were as follows: firm (A) acquired the economic ownership of a property which was legally owned by Nebula B.V. Firm (A) then transferred its economic ownership to yet another firm (B). After Nebula B.V. was declared bankrupt, firm (B) decided to

rent out the property's upstairs apartment to a third party. The receiver of Nebula B.V. required the third party to evacuate the upstairs apartment. The question before the Supreme Court was whether the receiver was entitled to do so. The Supreme Court held that the principle that existing agreements would remain unaffected<sup>18</sup> does not mean that an economic owner can exercise its rights as if no insolvency has been declared if this would lead to the unequal treatment of creditors in the insolvency.

Therefore, this ruling of the Supreme Court seemed to permit receivers to in fact breach existing agreements e.g. by terminating a rental agreement and evicting a tenant. It therefore caused much uncertainty for other rights of use laid down in contractual agreements, including the rights of use in license agreements and the position of the licensee.

### The Berzona ruling

The Nebula case caused licensees to better protect their continued right to use intellectual property, as the possibility existed that their license would be terminated in the case of insolvency of the licensor. This was for instance done by replacing their license with a right of usufruct, or by strengthening their license with a pledge.

In the Berzona case, the Supreme Court clarified that a receiver is allowed to "passively" default an agreement to the extent that the continued performance under such agreements would negatively affect the insolvent's assets. This means that the receiver may for instance refrain from making a payment or granting a right. However, the receiver is not allowed to "actively" default existing agreements by evicting tenants or terminating agreements,

## Key Issues

- As a result of the Berzona ruling, a receiver may not actively breach existing contracts entered into before the insolvency of a licensor;
- It is still advisable to register a license in the relevant intellectual property registers for the license rights to have effect on third parties; and
- A tacit renewal of a license agreement may be considered as a new agreement, which provides the receiver with the opportunity to decide not to continue such license after the license has expired.

if such action is not explicitly granted by the relevant contract or by law. This would violate the principle following from the Dutch Bankruptcy Act that insolvency does not affect existing contractual agreements. When specifically applied to license agreements, this means that a licensee may continue to exercise its rights under the license agreement as if no insolvency has occurred.

### Uncertainty remains

While the Berzona ruling clarified the situation for licensees in the case of insolvency of the licensor, there are still some aspects that remain uncertain. The fact that the receiver may not actively default an existing license agreement, does not mean that the receiver is not still entitled to sell and assign the intellectual property rights for which the license is granted. If a license agreement is not registered in the relevant registers, it is not effective given that the agreement lacks third-party effect. Therefore, by selling and assigning the intellectual property rights to a third party, the licensee

remains empty-handed. Such action could qualify as a breach of contract by the receiver. However, the potential compensation provision of the licensee arising out of this breach will probably qualify as an unsecured debt. It is therefore important to have a license registered in the relevant registers for it to have third-party effect. It should also be considered that the rule only applies to existing agreements. After expiration of the term of the agreement, the receiver is free to do what he deems most fit. As licenses are often entered into for a limited period of time and renewed tacitly, a receiver may argue that a renewal may qualify as granting a new right to the licensee and choose not to agree to such renewal.

While the Berzona judgment creates more clarity for licensees in The Netherlands, the judgment does not deal with all potential issues that may arise for licensees after insolvency of the licensor.

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## References

- <sup>1</sup> Jiangsu Jinmao v. ZHU Hongwei and Suzhou Anding, Nanjing Gulou District Court [2014] 551.
- <sup>2</sup> Fuzhou Nashida, Jiuxing Henglong v. YE Jinxing, Fuzhou High Court [2007] 460.
- <sup>3</sup> Article 2344 of the French Civil Code.
- <sup>4</sup> It is the prerogative of the trademark or domain name owner (i.e. the settler) as indicated by Articles R.513-1 and R 712-24 of the IPC, however nothing excludes a contractual arrangement as regards patents fees.
- <sup>5</sup> Article R. 613-45 of the IPC.
- <sup>6</sup> Article L. 714-5 of the IPC for trademarks.
- <sup>7</sup> N. MARTIAL in Droit des sûretés réelles sur propriétés intellectuelles, PU d'Aix-Marseille 2007, n°216.
- <sup>8</sup> Article 314-5 of the French Criminal Code.
- <sup>9</sup> French Supreme Court, Commercial Chamber, 8 July 1958, JCP G, 1959, n°10981.
- <sup>10</sup> P. Crocq, in JCL Civil n°20, 12/2010. Legal provisions on pledges are not public order and can therefore be contractually arranged. The competence of the judge is however public order and the parties cannot derogate.
- <sup>11</sup> M. Cabrillac, C. Mouly, P. Petel, Droit des sûretés, Litec, 9<sup>e</sup> éd., 2010, n°763
- <sup>12</sup> M. Cabrillac in JCP G 2006, I, 139, n°13.
- <sup>13</sup> Montpellier Court of Appeal, 13 February 1996, n°94/6430.
- <sup>14</sup> Article 2346 of the French Civil Code.
- <sup>15</sup> Supreme Court 3 November 2006, ECLI:NL:HR:2006:AX8838, NJ 2007/155 (*Nebula*).
- <sup>16</sup> Supreme Court 11 July 2014, ECLI:NL:HR:2014:1681, NJ 2014/407 (*Berzona*).
- <sup>17</sup> See article 37 of the Dutch Bankruptcy Act (*Faillissementswet*).
- <sup>18</sup> Pursuant to article 37 of the Dutch Bankruptcy Act (*Faillissementswet*).

## Acknowledgements

We would like to thank the following people for their contributions to this publication:

**Petra Belova**

**Anna Blest**

**Christoph Crützen**

**Marcin Czarnecki**

**Fabio Guastadisegni**

**Krzysztof Hajdamowicz**

**Ling Ho**

**Nadia Jagusiak**

**Michal Jasek**

**Alvin Khodabaks**

**Diego de Lammerville**

**Emmanuelle Levy**

**Montserrat Lopez-Bellosta**

**Vanessa Marsland**

**Sonia Masco**

**Claudia Milbradt**

**Miquel Montana**

**Josep Montefusco**

**Sara van Mourik**

**Haruka Okihara**

**Florian Reiling**

**Monica Riva**

**Konrad Rominkiewicz**

**Shila Ruff**

**Ludvik Ruzicka**

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