

TAKING SECURITY OVER IP RIGHTS UNDER ENGLISH LAW

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IPRS AND SECURITY INTERESTS

- Can IPRs be the object of a security interest?
 - Copyright, trade marks, patents and reg. design rights
 - Database, plant breeders' and topography rights
 - Confidential information/trade secrets
 - IP licences
 - Copyright licences: not personal property
 - *Heap v Hartley* (1889), *CBS Uk Ltd v Charmdale Record Distributors Ltd* [1980]
 - Trade mark licences
 - S.25(2)(c) TMA might be construed as implying the taking of security over licences
 - Non-exclusive licences: not personal property
 - Exclusive licences: contentious – commentators are divided on s.31 TMA
 - Patent licences
 - PA expressly states that licences “may be assigned or mortgaged” s.30(2), (4)(a)
 - Companies Act 2006
 - S.895d(5)(a)-(b) includes licences in the definition of “intellectual property”

SECURITY DEVICES

- Which consensual security devices are compatible with the legal nature of IPRs?

<ul style="list-style-type: none">■ Contractual lien■ Pledge	}	<i>IPRs cannot be reduced into possession</i>
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- Mortgage

- Charge

SECURITY DEVICES

■ Mortgage

- No legal impediments to mortgages over IPRs
- Assigning IPRs for security purposes creates difficulties
 - Transferring IPRs ‘cripples the property’
 - Administration, exploitation and enforcement of IPRs rely on title
- Possible solutions
 - Exclusive licence
 - For registered IPRs: *ad hoc* registration practice (*Van Gelder*)
- Viable but not ideal solution

■ Charge

- No legal impediments to charges over IPRs
- Absence of assignment simplifies matters considerably
- Can be created over existing and future IPRs

SECURITY DEVICES

- Alternative approach: **S**pecial **P**urpose **V**ehicle
 - Transfer IPRs into **SPV** and offer **shares** as collateral
 - **Advantages**
 - Law governing security interests over shares is ‘*tolerably settled*’
 - Flexibility
 - Functionally, almost a floating security
 - International IPR portfolio friendly – possibly tax efficient
 - **Disadvantages**
 - Transactional costs
 - Assignment of the rights can be costly – possibly tax inefficient
 - Operational costs
 - Managing and monitoring the SPV

REGISTERED IPRS - ATTACHMENT AND PERFECTION

- Registered IPRs (Patents and Trade Marks)
 - Attachment and perfection
 - **Legal mortgage**: assignment rules s.30(6) PA, s.24(3)TMA
 - Written agreement, bearing signatures of the parties
 - **Equitable mortgage/Charge**: s.30(6)PA, s.24(3)TMA
 - Written agreement, bearing signatures of the parties
 - Security interests **may** be registered in the specialist IPR registers but this is **not a requirement** for **either** attachment **or** perfection
 - IPR registers are exhaustive with regard to **existence**
 - They are **not** designed to provide a comprehensive picture with regard to dealings in registered IPRs

REGISTERED IPRS - PRIORITY

- Registered IPRs have a special priority rule
 - S.25TMA, s.33PA
 - A registered security interest has priority over earlier unregistered interests
 - Unless the party claiming under the later registered interest had knowledge of the existence of the previous unregistered interest
- Observations
 - This rule mirrors that for land, pre-1925 reform
 - Knowledge = actual or constructive?

REGISTERED IPRS - PRIORITY

- Shortcomings of this special priority rule
 - A priority rule based on knowledge leads to evidential disputes
 - **Circular priority**
 1. **A** acquires a security interest over a registered IPR but does not register it
 2. **B** subsequently acquires a security interest over the same IPR: registers it and has knowledge of **A**'s interest
 3. Later, **C** acquires a third security interest: registers it, yet has no knowledge of **A**'s interest

A -> B; B -> C; C -> A

REGISTERED IPRS - COMPANIES ACT 2006

- Companies Act 2006 (CA)
 - Attachment and perfection
 - Security interests over company-owned registered IPRs **must be registered** in the **Charges Registry** at Companies House (CR), within **21 days of creation**
 - Registration: perfection requirement for effectiveness against liquidators, administrators and creditors
- Thus, company-owned registered IPRs are subject to two registration systems: **CR + IPR register**
 - There are no provisions that effectively coordinate the CR rules and the IPR registers
 - S.893 CA could resolve this issue, yet no action taken as yet

REGISTERED IPRS - COMPANIES ACT 2006

- What if a secured creditor only registers on the IPR register and not on the CR?
 - S.859H CA leaves no margin of uncertainty
 - Problem: the IPR register becomes misleading

- What if **A** registers security interest on the CR but not on the IPR register, and then **B** registers a later security interest on both the IPR register and on the CR?
 - Is the priority point established by the PA or CA?
 - An issue of knowledge? IP priority rule = *lex specialis*?
 - “Intractable” priority conundrum (*Townend*) – a “Priority dilemma” (Davies)

COPYRIGHT

- Unregistered IPRs: copyright
 - Attachment and perfection
 - Legal Mortgage: s.90CDPA
 - Written agreement, bearing signatures of the parties
 - Equitable mortgage/Charge: s.90CDPA
 - Written agreement, bearing signatures of the parties
 - Priority
 - Rules generally applicable to security interests
 - *Nemo dat* (First in time) and relevant exceptions
 - Intangible nature + absence of a register renders due diligence for a potential secured creditor daunting
 - Chain of title, licences, competing claimants
 - Secured creditors have no instruments to give notice of their security interests to third parties

COPYRIGHT - COMPANIES ACT 2006

- Company-owned copyright
 - CA rules apply: security interests must be registered in the **CR** to be validly perfected
 - The **CR** provides a **relatively** comprehensive source of information with regard to security interests over company-owned copyrights
 - The 21-days rule creates **blind spots**
 - CR does **not** record other proprietary dealings or licences
 - The **CR** allows secured creditors to give notice of the existence of their interest to third parties
 - Does s.90(4) CDPA apply to security interests?
 - Absence of conflicts with a specialised register

TAKING SECURITY OVER IP AT PRESENT

- Security interests over IPRs, at present
 - According to some:
 - “*legally uncertain*” (Townsend)
 - “*a leap of faith*” (Davies)
 - According to others:
 - “*relatively pain free*” and “*straightforward*” (Bromfield & Runeckles)
- The effectiveness of the existing legal framework varies markedly depending on the transaction at hand

REFORM INITIATIVES

■ England

- Crowther report (1971), Cork report (1982), Diamond report (1989): IP rights not included in reform proposals
- Law Commission Report 296 (2005)
 - Perfection: security interests over IPRs to be registered in both IP specialised registers and in the newly-introduced general security interests register
 - Priority: “where the legislation that establishes the specialist registry contains rules determining the priority of competing charges, those should apply in place of the general rule of priority from date of filing”

■ Australia – Personal Property Securities Act 2009 (PPSA)

- IP rights and licences included in the scope of the reform
 - Licence agreements not re-characterised as security interests
- Security interests in tangibles extend to associated IP rights in limited circumstance
- IP rights subjected to PPSA perfection and priority rules
 - Pre-existing IP statutes amended accordingly

■ UNCITRAL Model Law on Secured Transactions (2016)

- Provides an exhaustive body of rules
 - Perfection and priority rules
 - Licences
 - PMSI
 - Special conflict of laws rule
- Defers to pre-existing IP legislation...

REFORM STRATEGY

■ Primary issues

- A. Should IP rights be included in the scope of an English PPSA-style reform?
 - Should licences be included? Applications?
- B. Should reformed perfection and priority rules apply to (registered) IP rights?
 - If yes, IP statutes would need to be amended
 - If no, extant rules would continue to apply...
- C. Coordination between general and IP registers
 - Flow of information between registers

■ Secondary issues

- A. Should security interests over tangibles ever extend to associated IP?
- B. PMSI for IP rights?
- C. Conflict of laws rule for security interests over IP?

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THANK YOU