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Report of Working Group VI (Security Interests) on the work of its sixteenth session (Vienna, 2-6 November 2009)

Contents

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I. Introduction

1. At its present session, Working Group VI continued its work on the preparation of a Supplement to the UNCITRAL Legislative Guide on Secured Transactions (hereinafter referred to as "the Guide") specific to security rights in intellectual property pursuant to a decision taken by the Commission at its fortieth session, in 2007.[1] The Commission's decision to undertake work on security rights in intellectual property was taken in response to the need to supplement its work on the Guide by providing specific guidance to States as to the appropriate coordination between secured transactions and intellectual property law.[2]

2. At its thirty-ninth session, in 2006, the Commission considered its future work on secured financing law. It was noted that intellectual property rights (e.g. copyrights, patents and trademarks) were becoming an extremely important source of credit and should not be excluded from a modern secured transactions law. In addition, it was noted that the recommendations of the draft Guide generally applied to security rights in intellectual property to the extent that they were not inconsistent with intellectual property law. Moreover, it was noted that, as the recommendations of the draft Guide had not been prepared with the special intellectual property law issues in mind, enacting States should consider making any necessary adjustments to the recommendations to address those issues.[3]

3. In order to provide more guidance to States, the suggestion was made that the Secretariat should prepare, in cooperation with international organizations with expertise in the fields of secured financing and intellectual property law and, in particular the World Intellectual Property Organization (WIPO), a note for submission to the Commission at its fortieth session, in 2007, discussing the possible scope of work that could be undertaken by the Commission as a supplement to the draft Guide. In addition, it was suggested that, in order to obtain expert advice and the input of the relevant industry, the Secretariat should organize expert group meetings and colloquiums as necessary.[4] After discussion, the Commission requested the Secretariat to prepare, in cooperation with relevant organizations and in particular WIPO, a note discussing the scope of future work by the Commission on intellectual property financing. The Commission also requested the Secretariat to organize a colloquium on intellectual property financing ensuring to the maximum extent possible the participation of relevant international organizations and experts from various regions of the world.[5]

4. Pursuant to the decision of the Commission, the Secretariat organized in cooperation with WIPO a colloquium on security rights in intellectual property rights (Vienna, 18 and 19 January 2007). The colloquium was attended by experts on secured financing and intellectual property law, including representatives of Governments and national and international, governmental and non-governmental organizations. At the colloquium, several suggestions were made with respect to

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

[2] Ibid., para. 157.

[3] *Official Records of the General Assembly, Sixty-first Session, Supplement No. 17* (A/61/17), paras. 81 and 82.

[4] Ibid., para. 83.

[5] Ibid., para. 86.

adjustments that would need to be made to the draft Guide to address issues specific to intellectual property financing.[6]

5. At the first part of its fortieth session (Vienna, 25 June-12 July 2007), the Commission considered a note by the Secretariat entitled "Possible future work on security rights in intellectual property" (A/CN.9/632). The note took into account the conclusions reached at the colloquium on security rights in intellectual property rights. In order to provide sufficient guidance to States as to the adjustments that they might need to make in their laws to avoid inconsistencies between secured financing and intellectual property law, the Commission decided to entrust Working Group VI (Security Interests) with the preparation of an annex to the draft Guide specific to security rights in intellectual property rights.[7]

6. At its resumed fortieth session (Vienna, 10-14 December 2007), the Commission finalized and adopted the Guide on the understanding that an annex to the Guide specific to security rights in intellectual property rights would subsequently be prepared.[8]

7. At its thirteenth session (New York, 19-23 May 2008), the Working Group considered a note by the Secretariat entitled "Security rights in intellectual property rights" (A/CN.9/WG.VI/WP.33 and Add.1). At that session, the Working Group requested the Secretariat to prepare a draft of the Annex to the Guide on security rights in intellectual property reflecting the deliberations and decisions of the Working Group (see A/CN.9/649, para. 13). As the Working Group was not able to reach agreement as to whether certain matters related to the impact of insolvency on a security right in intellectual property (see A/CN.9/649, paras. 98-102) were sufficiently linked with secured transactions law so as to justify their discussion in the Annex to the Guide, it decided to revisit those matters at a future meeting and to recommend that Working Group V (Insolvency Law) be requested to consider those matters (see A/CN.9/649, para. 103).

8. At its forty-first session (New York, 16 June-3 July 2008), the Commission noted with satisfaction the good progress achieved by the Working Group. The Commission also noted the decision of the Working Group with respect to certain matters related to the impact of insolvency on a security right in intellectual property and decided that Working Group V should be informed and invited to express any preliminary opinion at its next session. It was also decided that, should any remaining issue require joint consideration by the two working groups after that session, the Secretariat should have discretion to organize a joint discussion of the impact of insolvency on a security right in intellectual property when the two Working Groups meet back to back in the spring of 2009.[9]

9. At its fourteenth session (Vienna, 20-24 October 2008), the Working Group continued its work based on a note prepared by the Secretariat entitled "Annex to the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property" (A/CN.9/WG.VI/WP.35 and Add.1). At that session, the Working Group requested the Secretariat to prepare a revised version of the draft

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[6] See http://www.uncitral.org/uncitral/en/commission/colloquia/2secint.html.

[7] *Official Records of the General Assembly, Sixty-second Session, Supplement No. 17* (A/62/17 (Part I)), paras. 156, 157 and 162.

[8] Ibid., *Sixty-second session, Supplement No. 17* (A/62/17 (Part II)), paras. 99-100.

[9] Ibid., *Sixty-third session, Supplement No. 17* (A/63/17), para. 326.

annex reflecting the deliberations and decisions of the Working Group (see A/CN.9/667, para. 15). The Working Group also referred to Working Group V (Insolvency Law) certain matters relating to the impact of insolvency on a security right in intellectual property (see A/CN.9/667, paras. 129-140). In that connection, it was widely felt that every effort should be made to conclude discussions of these matters as soon as possible, so that the result of those discussions could be included in the draft annex by the fall of 2009 or the early spring of 2010 and the draft annex could be submitted to the Commission for final approval and adoption at its forty-third session in 2010 (see A/CN.9/667, para. 143).

10. At its fifteenth session (New York, 27 April-1 May 2009), the Working Group continued its work based on a note by the Secretariat entitled "Draft Annex to the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property" (A/CN.9/WG.VI/WP.37 and Add.1-4). At that session, the Working Group requested the Secretariat to prepare a revised version of the draft Annex reflecting the deliberations and decisions of the Working Group (see A/CN.9/670, para. 16). In addition, the Working Group, having taken note of a note by the Secretariat entitled "Discussion of intellectual property in the Legislative Guide on Insolvency Law" (A/CN.9/WG.V/WP.87), approved the substance of the discussion of the impact of insolvency of a licensor or licensee of intellectual property on a security right in that party's rights under a licence agreement (see A/CN.9/WG.VI/WP.37/Add.4, paras. 22-40) and referred it to Working Group V (see A/CN.9/670, paras. 116-122). Moreover, the Working Group had a preliminary discussion about its future work programme (see A/CN.9/670, paras. 123-126).

11. At its thirty-sixth session, Working Group V (Insolvency Law) considered the insolvency-related issues referred to it by Working Group VI on the basis of documents A/CN.9/WG.V/WP.87 and A/CN.9/WG.VI/WP.37/Add.4 and an extract from the report of the Working Group (see A/CN.9/670, paras. 116-122). At that session, Working Group V approved the contents of those parts of the draft Annex dealing with the impact of insolvency of a licensor or licensee of intellectual property on a security right in that party's rights under a licence agreement, as set forth in document A/CN.9/WG.VI/WP.37/Add.4, paragraphs 22-40, and the conclusions and revisions of Working Group VI reached at its fifteenth session (see A/CN.9/670, paras. 116-122).

12. At its forty-second session (Vienna, 29 June-17 July 2009), the Commission expressed its appreciation to the Working Group and the Secretariat for the progress achieved thus far and emphasized the importance of the draft Supplement (referred to above as the "draft Annex"). The Commission also noted with appreciation the results of the coordination efforts of Working Groups V and VI on insolvency-related matters in an intellectual property context. Noting the interest of the international intellectual property community, the Commission requested the Working Group to expedite its work so as to finalize the draft Supplement in one or two sessions and submit it to the Commission for finalization and adoption at its forty-third session, in 2010, so that the draft Supplement may be offered to States for adoption as soon as possible. In addition, the Commission noted with interest the future work topics discussed by the Working Group at its fourteenth and fifteenth sessions and agreed that, depending on the availability of time, preparatory work could be advanced through a discussion at the sixteenth session of the Working Group. As to the process for the preparation of a future work programme for the

Working Group, the Commission agreed that the Secretariat could hold an international colloquium early in 2010 with broad participation of experts from Governments, international organizations and the private sector. It was generally agreed that, on the basis of a note to be prepared by the Secretariat, the Commission would be in a better position to consider and make a decision on the future work programme of the Working Group at its forty-third session, in 2010.[10]

II. Organization of the session

13. The Working Group, which was composed of all States members of the Commission, held its sixteenth session in Vienna from 2 to 6 November 2009. The session was attended by representatives of the following States members of the Working Group: Algeria, Australia, Austria, Belarus, Bolivia (Plurinational State of), Bulgaria, Canada, China, Colombia, Egypt, El Salvador, France, Germany, India, Iran (Islamic Republic of), Italy, Japan, Lebanon, Mexico, Norway, Poland, Republic of Korea, Russian Federation, Singapore, Spain, Switzerland, Thailand, Uganda, United Kingdom of Great Britain and Northern Ireland, United States of America and Venezuela (Bolivarian Republic of).

14. The session was attended by observers from the following States: Angola, Argentina, Belgium, Côte d'Ivoire, Croatia, Democratic Republic of the Congo, Dominican Republic, Georgia, Indonesia, Philippines, Qatar, Romania, Slovakia, Slovenia, Tajikistan, the Former Yugoslav Republic of Macedonia, Togo and United Republic of Tanzania. The session was also attended by the following Entity maintaining a Permanent Observer Mission: Palestine.

15. The session was also attended by observers from the following international organizations:

(a) *United Nations system*: The World Bank;

(b) *Intergovernmental organizations*: Hague Conference on Private International Law (HCCH);

(c) *International non-governmental organizations invited by the Commission*: American Bar Association (ABA), Association of European Trade Mark Owners (MARQUES), Commercial Finance Association (CFA), European Brands Association (AIM), European Communities Trademark Association (ECTA), Forum for International Conciliation and Arbitration (FICACIC), Fédération Internationale des Associations de Distributeurs de films (FIAD), Independent Film and Television Alliance (IFTA), Inter-American Bar Association (IABA), International Federation of Film Producers Association (FIAPF), International Federation of the Phonographic Industry (IFPI), International Insolvency Institute (III) and International Trademark Association (INTA).

16. The Working Group elected the following officers:

Chairman: Ms. Kathryn SABO (Canada)

Rapporteur: Mr. Magued Sobhy BOULOS (Egypt)

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[10] Ibid., *Sixty-fourth session, Supplement No. 17* (A/64/17), paras. 317-319.

17. The Working Group had before it the following documents: A/CN.9/WG.VI/WP.38 (Provisional Agenda), A/CN.9/WG.VI/WP.39 and Addenda 1 to 7 (Draft Supplement to the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property) and A/CN.9/WG.VI/WP.40 (Proposal by the Permanent Bureau of the Hague Conference on Private International Law).

18. The Working Group adopted the following agenda:

1. Opening of the session and scheduling of meetings.
2. Election of officers.
3. Adoption of the agenda.
4. Security rights in intellectual property.
5. Other business.
6. Adoption of the report.

III. Deliberations and decisions

19. The Working Group considered a note by the Secretariat entitled "Draft Supplement to the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property" (A/CN.9/WG.VI/WP.39 and Addenda 1 to 7) and a proposal by the Permanent Bureau of the Hague Conference on Private International Law (A/CN.9/WG.VI/WP.40). The deliberations and decisions of the Working Group are set forth below in chapter IV. The Secretariat was requested to prepare a revised version of the draft Supplement reflecting the deliberations and decisions of the Working Group.

IV. Security rights in intellectual property

A. Introduction (A/CN.9/WG.VI/WP.39, paras. 1-59)

1. Background (A/CN.9/WG.VI/WP.39, paras. 1-12)

20. The Working Group approved the substance of paragraphs 1-12 unchanged.

2. The interaction between secured transactions and law relating to intellectual property (A/CN.9/WG.VI/WP.39, paras. 13-18)

21. The Working Group agreed that the draft Supplement should state in a broad manner the general principle of property and secured transactions law that a security right in an encumbered asset was limited to the grantor's rights in the asset as those rights were determined by property or contract law. It was widely felt that, as a result of that principle, the secured creditor could acquire no greater rights in the encumbered asset than the grantor had, whether the encumbered asset was a tangible asset, a receivable or intellectual property (referred to as the "*nemo dat* principle"). Subject to that change, the Working Group approved the substance of paragraphs 13-18.

3. Terminology (A/CN.9/WG.VI/WP.39, paras. 19-39)

22. It was agreed that: (a) in the last sentence of paragraph 22, it should be clarified that the owner, licensor or licensee could encumber all or part of its rights, but only if they were transferable under law relating to intellectual property; and (b) in the second sentence of paragraph 36, reference should be made to an "outright transferee" rather than to a "transferee". Subject to those changes, the Working Group approved the substance of paragraphs 19-39.

4. Valuation of intellectual property to be encumbered (A/CN.9/WG.VI/WP.39, paras. 40-41)

23. The Working Group approved the substance of paragraphs 40-41 unchanged.

5. Examples of financing practices relating to intellectual property (A/CN.9/WG.VI/WP.39, paras. 42-52)

24. It was agreed that paragraph 43 and examples 5 and 6 could be retained for educational reasons, but placed at the end of the examples with additional wording explaining that they did not involve transactions in which a security right was created in intellectual property. It was also agreed that paragraph 44 did not need to refer to example 7 as reflecting a combination of other categories of transactions. Subject to those changes, the Working Group approved the substance of paragraphs 42-52.

6. Key objectives and fundamental policies (A/CN.9/WG.VI/WP.39, paras. 53-59)

25. The Working Group approved the substance of paragraphs 53-59 unchanged.

B. Scope of application and party autonomy (A/CN.9/WG.VI/WP.39/Add.1, paras. 1-24)

1. Broad scope of application (A/CN.9/WG.VI/WP.39/Add.1, paras. 1-21)

26. The Working Group considered the question whether the commentary should suggest that States enacting the recommendations of the Guide might consider permitting the registration of a notice of an outright transfer of intellectual property in the general security rights registry, so as to rationalize and harmonize the recordation of all transfers of intellectual property whether or not they were registered in an intellectual property registry. The Working Group confirmed its earlier decision (see A/CN.9/649, para. 81) that outright transfers of intellectual property should not be dealt with in the draft Supplement as they did not involve financing transactions. It was widely felt that outright transfers were matter of law relating to intellectual property, as they were not financing transactions, even in the case of securitization, in which typically securitization of receivables was involved, not of intellectual property. The Working Group approved the substance of paragraphs 1-21 unchanged.

2. Application of the principle of party autonomy to security rights in intellectual property (A/CN.9/WG.VI/WP.39/Add.1, paras. 22-24)

27. It was agreed that the last sentence of paragraph 24 should be separated into two parts and the first part should be revised to clarify that the right to pursue infringement claims could not be used as security for credit under law relating to intellectual property. Subject to that change, the Working Group approved the substance of paragraphs 22-24.

C. Creation of a security right in intellectual property (A/CN.9/WG.VI/WP.39/Add.2, paras. 1-43)

1. The concepts of creation and third-party effectiveness (A/CN.9/WG.VI/WP.39/Add.2, paras. 1-3)

28. It was agreed that, in the third sentence of paragraph 2, reference should be made to the registration of a notice of a security right as a method of achieving third-party effectiveness of the security right. Subject to that change, the Working Group approved the substance of paragraphs 1-3.

2. Functional, integrated and unitary concept of a security right (A/CN.9/WG.VI/WP.39/Add.2, para. 4)

29. The Working Group deferred its consideration of paragraph 4 until it had the opportunity to consider acquisition financing in an intellectual property context (see para. 70 below).

3. Requirements for the creation of a security right in intellectual property (A/CN.9/WG.VI/WP.39/Add.2, paras. 5-8)

30. It was agreed that paragraphs 5-8 should be recast to clarify that: (a) if law relating to intellectual property required a specific description of certain types of intellectual property, such as copyrights, recommendation 14, subparagraph (d), was sufficiently flexible to permit such a specific description; and (b) to the extent that in certain cases recommendation 14, subparagraph (d), was inconsistent with law relating to intellectual property, under recommendation 4, subparagraph (b), the latter prevailed. It was also agreed that, as a matter of drafting, paragraph 7 should be revised to refer to: (a) the nature of copyright as a bundle of rights and to the ability of a copyright owner to grant a security right in one or the other or all of the rights rather than to the divisibility of intellectual property rights, which was a different concept; and (b) the possibility that a copyright owner had the right to use rights to obtain credit from another creditor to the extent those rights were not encumbered. Subject to those changes, the Working Group approved the substance of paragraphs 5-8.

4. Rights of a grantor with respect to the intellectual property to be encumbered (A/CN.9/WG.VI/WP.39/Add.2, para. 9)

31. The Working Group approved the substance of paragraph 9 unchanged.

5. Distinction between a secured creditor and an owner with respect to intellectual property (A/CN.9/WG.VI/WP.39/Add.2, paras. 10-12)

32. The Working Group approved the substance of paragraphs 10-12 unchanged.

6. Types of encumbered asset in an intellectual property context (A/CN.9/WG.VI/WP.39/Add.2, paras. 13-36)

33. It was agreed that: (a) in the second sentence of paragraph 13, it should be clarified that a security right in a tangible asset with respect to which intellectual property was used did not automatically extend to the relevant intellectual property; (b) in the second sentence of paragraph 14, it should be clarified that, if the recommendations of the Guide were enacted in a particular State, there would be no obstacles to the assignability of future receivables, and, in the last sentence of paragraph 14, a reference should be made to paragraphs 22-29 dealing with the treatment of the right to the payment of royalties; (c) in the second sentence of paragraph 15 and in paragraph 17, it should be clarified that the right to sue infringers and the right to register intellectual property could, in certain circumstances, be exercised by a secured creditor but those rights were not part of the encumbered asset and that that issue should be dealt with in Chapter VII of the draft Supplement on the rights and obligation of the parties to a security agreement relating to intellectual property; (d) in paragraphs 19 and 21, it should be clarified that whether the right to pursue infringers and obtain an injunction and compensation could constitute proceeds of encumbered intellectual property was a matter of law relating to intellectual property; (e) in paragraph 28, the reference to "future" royalties was superfluous and should be deleted; and (f) the examples in paragraph 35 should be deleted and the paragraph should be recast to refer to the general or specific description of encumbered assets in line with paragraphs 5-8 of that section (see para. 30 above). Subject to those changes, the Working Group approved the substance of paragraphs 13-36, as well as recommendation 243.

7. Security rights in future intellectual property (A/CN.9/WG.VI/WP.39/Add.2, paras. 37-41)

34. It was agreed that: (a) the last two sentences of paragraph 39 should be revised so as not to describe the *nemo dat* principle as a statutory prohibition; (b) paragraph 40 should be revised to clarify how the concepts of "improvements" or "adaptations" related to limitations to the use of future intellectual property as security for credit. Subject to those changes, the Working Group approved the substance of paragraphs 37-41.

8. Legal or contractual limitations on the transferability of intellectual property (A/CN.9/WG.VI/WP.39/Add.2, paras. 42-43)

35. The Working Group approved the substance of paragraphs 42-43 unchanged.

D. Effectiveness of a security right in intellectual property against third parties (A/CN.9/WG.VI/WP.39/Add.3, paras. 1-9)

1. The concept of third-party effectiveness (A/CN.9/WG.VI/WP.39/Add.3, paras. 1-3)

36. The Working Group approved the substance of paragraphs 1-3 unchanged.

2. Third-party effectiveness of security rights in intellectual property that are registered in an intellectual property registry (A/CN.9/WG.VI/WP.39/Add.3, paras. 4-7)

37. The Working Group approved the substance of paragraphs 4-7 unchanged.

3. Third-party effectiveness of security rights in intellectual property that are not registered in an intellectual property registry (A/CN.9/WG.VI/WP.39/Add.3, paras. 8-9)

38. The Working Group approved the substance of paragraphs 8-9 unchanged.

E. The registry system (A/CN.9/WG.VI/WP.39/Add.3, paras. 10-42)

1. The general security rights registry (A/CN.9/WG.VI/WP.39/Add.3, paras. 10-11)

39. The Working Group approved the substance of paragraphs 10-11 unchanged.

2. Asset-specific intellectual property registries (A/CN.9/WG.VI/WP.39/Add.3, paras. 12-14)

40. The Working Group approved the substance of paragraphs 12-14 unchanged.

3. Coordination of registries (A/CN.9/WG.VI/WP.39/Add.3, paras. 15-20)

41. It was agreed that, in paragraph 18, reference should be made to paragraph 4. Subject to that change, the Working Group approved the substance of paragraphs 15-20.

4. Registration of notices about security rights in future intellectual property (A/CN.9/WG.VI/WP.39/Add.3, paras. 21-23)

42. The Working Group approved the substance of paragraphs 21-23 unchanged.

5. Dual registration or search (A/CN.9/WG.VI/WP.39/Add.3, paras. 24-27)

43. It was agreed that: (a) in paragraph 25, the last two sentences should be revised to provide that a secured creditor that registered a notice of its security right in a specialized registry had a right to rely on that registration and on the priority attributed to that registration under the recommendations of the Guide; and (b) in paragraph 26, a reference should be added to online searching in intellectual property registries for free. It was also agreed that the note to paragraph 27 should be retained, subject to the clarification of the examples in paragraphs 2, 4, 5 and the last two sentences of the note. Subject to those changes, the Working Group approved the substance of paragraphs 24-27 and the note to paragraph 27.

6. Time of effectiveness of registration (A/CN.9/WG.VI/WP.39/Add.3, paras. 28-30)

44. The Working Group approved the substance of paragraphs 28-30 unchanged.

7. Impact of a transfer of encumbered intellectual property on the effectiveness of registration (A/CN.9/WG.VI/WP.39/Add.3, paras. 31-36)

45. It was agreed that: (a) at the end of the first sentence of paragraph 32, words along the lines "upon the completion of enforcement by the secured creditor" should be added and the second sentence should be deleted; (b) the draft recommendation in the note after paragraph 36 should be recast to mirror recommendation 62, dealing with the impact of a transfer of an encumbered asset on the effectiveness of registration, as recommendation 31 was sufficient to deal with the continuity of third-party effectiveness of a security right after the transfer of the encumbered asset; (c) reference should be made in the commentary in the note after paragraph 36 to the fact that the examples dealt with transfers and that, under the Guide, a licence was not a transfer, although the Guide deferred to law relating to intellectual property as to the exact meaning of a licence (see A/CN.9/WG.VI/WP.39/Add.4, para. 15). Subject to those changes, the Working Group approved the substance of paragraphs 31-36, as well as the recommendation and the commentary contained in the note after paragraph 36.

8. Registration of security rights in trademarks (A/CN.9/WG.VI/WP.39/Add.3, paras. 37-42)

46. In response to a question, it was noted that, in the case of insolvency of the mark owner, the secured creditor or the insolvency representative should be able to take steps to maintain the mark when necessary. The Working Group approved the substance of paragraphs 37-42 unchanged.

F. Priority of a security right in intellectual property (A/CN.9/WG.VI/WP.39/Add.4, paras. 1-15 and A/CN.9/WG.VI/WP.39/Add.5, paras. 1-22)

1. The concept of priority (A/CN.9/WG.VI/WP.39/Add.4, paras. 1-2)

47. It was agreed that paragraph 2 should be revised to: (a) refer to language along the lines "the grant of exclusive rights, in particular in the case of patents and trademarks" rather than "to notion of title and basic effectiveness"; and (b) elaborate on the notion of priority under law relating to intellectual property, for example, by explaining that a conflict between two secured creditors might not be a priority conflict because of the application of the *nemo dat* rule. Subject to those changes, the Working Group approved the substance of paragraphs 1-2.

2. Identification of competing claimants (A/CN.9/WG.VI/WP.39/Add.4, paras. 3-4)

48. It was agreed that the first sentence of paragraph 4 should be reviewed to ensure that it covered all the possible conflicts. Subject to that change, the Working Group approved the substance of paragraphs 3-4.

3. Relevance of knowledge of prior transfers or security rights (A/CN.9/WG.VI/WP.39/Add.4, paras. 5-6)

49. The Working Group approved the substance of paragraphs 5-6 unchanged.

4. Priority of security rights in intellectual property that are not registered in an intellectual property registry (A/CN.9/WG.VI/WP.39/Add.4, paras. 7-8)

50. The Working Group approved the substance of paragraphs 7-8 unchanged.

5. Priority of security rights in intellectual property that are registered in an intellectual property registry (A/CN.9/WG.VI/WP.39/Add.4, paras. 9-11)

51. It was agreed that paragraph 9 should be aligned with recommendation 78, which referred to security rights that were registered in a specialized registry. Subject to that change, the Working Group approved the substance of paragraphs 9-11.

52. It was suggested that a new recommendation should be prepared to provide that a security right in intellectual property registered in an intellectual property registry should have priority only as against a transferee of intellectual property and not as against another secured creditor. In support, it was stated that the former priority conflict could be referred to the law of the State in which the intellectual property was protected, while the latter priority conflict could be referred to the law of the State in which the grantor was located. That suggestion was objected to. It was stated that issues of substantive law should be addressed separately from conflict-of-laws issues and the substantive recommendations of the Guide could not be changed to address conflict-of-law issues.

6. Rights of transferees of encumbered intellectual property (A/CN.9/WG.VI/WP.39/Add.4, paras. 12-15)

53. In response to a question, it was noted that the Guide did not contain a recommendation dealing with ordinary-course-of-business transfers of intangible assets (recommendation 81, subparagraph (a), dealt with such transfers of tangible assets only). With respect to paragraph 14, it was agreed that it should be revised to clarify that: (a) the preceding analysis dealt with a priority conflict between a security right and the rights of a subsequent transferee; (b) paragraph 14 dealt with a different situation that involved a transfer of an asset and the subsequent creation of a security right in the asset by the transferor; (c) the latter matter was dealt with by the *nemo dat* rule (and recommendation 13), but was not a priority issue under the Guide; and (d) in the last sentence reference should be made to a secured creditor that acquired its right in an encumbered asset without knowledge of a prior transfer of the encumbered asset. Subject to those changes, the Working Group approved the substance of paragraphs 12-15.

7. Rights of licensees in general (A/CN.9/WG.VI/WP.39/Add.5, paras. 1-6)

54. It was agreed that: (a) the first sentence of paragraph 2 should be split into two parts, the first part stating that, under the Guide, the secured creditor did not become an owner, and the second part stating that whether the intellectual property owner could still exercise the rights of an owner and, for example, grant a licence was a matter of law relating to intellectual property; (b) the first sentence of paragraph 3

should be revised to refer directly to the fact that, if the owner created first a security right in its rights and then granted a licence in breach of an agreement with the secured creditor, the granting of the licence by the owner would be an event of default; (c) the fourth sentence of paragraph 3 should be revised to read along the following lines: "If the encumbered asset is the owner's intellectual property right, the secured creditor may collect the royalties as proceeds of the encumbered asset." Subject to those changes, the Working Group approved the substance of paragraphs 1-6.

8. Rights of certain licensees (A/CN.9/WG.VI/WP.39/Add.5, paras. 7-14)

55. It was agreed that: (a) in the second sentence of paragraph 8, a reference should be added to the enforcement remedies of the secured creditor under the Guide to ensure that any remedies of the secured creditor under law relating to intellectual property would not be affected; (b) in the penultimate sentence of paragraph 8, reference should be made to the objective of recommendation 81, subparagraph (c), "to limit the enforcement remedies of the secured creditor under the Guide", rather than "to protect" everyday, legitimate transactions; (c) the second sentence of paragraph 11 should be revised to reflect the fact that the statement contained therein was not accurate in all cases; (d) the penultimate sentence of paragraph 11 should refer to "licences", rather than "copies", of copyrighted software. Subject to those changes and any consequential changes as a result of recommendation 244 and the relevant commentary, the Working Group approved the substance of paragraphs 7-14.

56. The Working Group considered a new draft recommendation 244 with two alternatives (A and B), which was intended to replace recommendation 81, subparagraph (c), as it applied to the rights of certain licensees of intellectual property as against the rights of a secured creditor of the licensor.

57. Some support was expressed for alternative B. It was stated that alternative B was simple and referred to notions used in law relating to intellectual property, namely, the notions of authorization of a licence by the secured creditor and party autonomy. It was stated, however, that alternative B failed to address the question whether certain licensees should be exempted from the obligation of having to check in the registry to determine whether the licensor had granted a security right in its rights, which was said to be the main objective of recommendation 244.

58. Some support was also expressed for the deletion of recommendation 244. It was observed that both alternatives A and B addressed the rights of certain licensees in terms that were unknown to intellectual property law. For that reason, it was suggested that the matter should be left to intellectual property law, which would prevail over the provisions of the law recommended in the Guide under recommendation 4, subparagraph (b). In that regard, reference was made to the notions of exhaustion and authorization of a licence by a secured creditor. That suggestion was objected to. It was recalled that a new recommendation was necessary to replace recommendation 81, subparagraph (c), which would apply in the absence of a contrary provision of law relating to intellectual property. It was also observed that the concept of exhaustion was not generally applicable to all types of intellectual property and, in any case, there was no universal understanding of its exact meaning.

59. However, the prevailing view was that recommendation 244, alternative A, should be retained and alternative B should be deleted. It was widely felt that alternative A was preferable as it addressed the issue of the rights of certain licensees as against the rights of a secured creditor of the licensor in a manner that was compatible with law relating to intellectual property, in particular, by avoiding any reference to the notion of ordinary-course-of-business licences. As to the exact formulation of alternative A, several suggestions were made, including that: (a) the reference within square brackets in the chapeau to recommendation 80, subparagraph (b), should be deleted and the matter should be explained in the commentary; (b) the reference in the chapeau to end-user licensees should be retained outside square brackets with an explanation in the commentary that it referred to both natural and legal persons; (c) subparagraph (a) should be placed in the commentary with appropriate explanation that the recommendation referred to legitimate, authorized licences; (d) subparagraph (c) or (e) (ii) should be deleted as they dealt with the same issues; (e) subparagraph (d) should be deleted as it unnecessarily limited the scope of recommendation 244.

60. There was sufficient support for suggestions (a), (b) and (c) above on the understanding that these matters would be addressed in the commentary. However, with respect to suggestion (b), the concern was expressed that, as in the chapeau of recommendation 244 reference was made to a security right "created by the licensor", limiting the scope of recommendation 244 to end-user licensees would result in such a licensee being exposed to security rights created by a person other than its immediate licensor. In order to address that concern, it was suggested that the words "by the licensor" should be deleted so that an end-user licensee would be protected against certain enforcement remedies of a secured creditor of a licensor higher in the chain of licensing. There was sufficient support for that suggestion on the understanding that the commentary would explain that recommendation 244 referred to enforcement of a security right under the law recommended in the Guide and did not affect the rights of a secured creditor under law relating to intellectual property law (for example, to pursue an unauthorized licensee as an infringer).

61. There was insufficient support for suggestion (d). It was explained that subparagraph (e) (ii) was necessary to deal with the non-customization of the initial licence, while subparagraph (c) was necessary to deal with the non-customization of subsequent adaptations. There was both support for and opposition to suggestion (e). In support, it was stated that the reference in subparagraph (b) to non-exclusive licences was sufficient to define the scope of recommendation 244. In opposition, it was observed that deletion of subparagraph (d) would broaden excessively the scope of application of recommendation 244, which would then cover licences such as theatrical motion picture licences, music performance licences, trademark licences and patent licences.

62. However, there was broad support for a revision of subparagraph (d). Several suggestions were made, including that it should read along the following lines: "the transaction involves a licence of copyrighted software and the delivery of tangible copies thereof", "the licence covers the right to use copyrighted or patented software" or "the licence covers one or any of the exclusive rights relating to copyrighted software". With respect to the first of those three drafting proposals, the concern was expressed that the paper or electronic character of the copy should not make a difference in the rule. However, there was sufficient support for the latter

two drafting proposals, although it was observed that the third one might inadvertently be overly broad as it appeared covering rights other than the right to use or exploit copyrighted software.

63. In the discussion, the concern was expressed that, as the scope of recommendation 244 was narrower than the scope of recommendation 81, subparagraph (c), the latter might still be applicable to intellectual property licences not covered in recommendation 244. In order to address that concern, it was agreed that the commentary should explain that recommendation 81, subparagraph (c), would not apply at all to any intellectual property licence and that recommendation 80, subparagraph (b) would apply to an intellectual property licence other than a software licence covered in recommendation 244. As a result, in order to be protected as against a secured creditor of the licensor, a person obtaining an intellectual property licence other than a software licence should ensure that the licensor was authorized by its secured creditor to grant such a licence unaffected by the security right.

64. After discussion, it was agreed that: (a) the reference within square brackets in the chapeau to recommendation 80, subparagraph (b), should be deleted; (b) the reference in the chapeau to end-user licensees should be retained outside square brackets and the words "by the licensor" should be deleted; (c) subparagraph (a) could be deleted, while all those matters should be discussed in the commentary as suggested above; (d) subparagraph (c) should be retained but placed after subparagraph (e); (e) the above-mentioned alternative wording (see para. 62 above) should be retained within square brackets in subparagraph (d) for further consideration by the Working Group; and (f) subparagraph (e) (i) should be revised to read along the following lines: "The licensor is generally in the business of granting non-exclusive licenses *of the kind referred to in (ii)*." Subject to those changes, the Working Group approved the substance of recommendation 244 and the commentary contained in the note after paragraph 14.

9. Priority of a security right in intellectual property granted by a licensor as against a security right granted by a licensee (A/CN.9/WG.VI/WP.39/Add.5, paras. 15-19)

65. It was agreed that paragraph 15 should be revised to clarify that, where the royalties payable by a licensee to a licensor took the form of a percentage of the sub-royalties payable to the licensee as a sub-licensor by sub-licensees: (a) in order to prevail over the secured creditor of the licensee with a security right in all present and future receivables of the licensee, the secured creditor of the licensor would need to either register a notice of its security right in the relevant intellectual property registry, register a notice thereof first in the general security rights registry or obtain a subordination agreement from the secured creditor of the licensee; and (b) the same rule would apply to a priority conflict between an outright assignee of the licensor and a secured creditor of the licensee, as outright assignments were subject, in particular with respect to registration and priority, to the rules applicable to assignments for security purposes. It was also agreed that paragraph 19 should be revised to clarify that the acquisition financing recommendations of the Guide applied to competitions between security rights created by the same grantor and not by different persons (for example, by the licensor and by the licensee). Subject to those changes, the Working Group approved the substance of paragraphs 15-19.

66. The Working Group proceeded to discuss a set of draft recommendations providing for an acquisition security right in intellectual property or a licence of intellectual property. There was broad support in the Working Group for an acquisition security right in intellectual property or a licence of intellectual property. It was widely felt that, for the same reasons the Guide provided for an acquisition security right in tangible assets, the draft Supplement should provide for an acquisition security right in intellectual property or a licence of intellectual property. However, differing views were expressed as to whether the draft Supplement should depart from the approach followed in the Guide and provide, for example, for an acquisition security right in proceeds of intellectual property or a licence of intellectual property, even if those proceeds took the form of cash proceeds (namely, receivables, negotiable instruments and the like).

67. One view was that intellectual property owners and licensors needed to be able to rely on their rights to payment of royalties so as to be to able to develop new ideas protected by intellectual property rights and give a licence to others to use them. It was stated that, if the general secured creditors of licensees had always priority over the secured creditors of intellectual property owners or licensors, owners or licensors would not be able to use their rights to payment of royalties as security for credit, a result that could limit their ability to create and licence new ideas protected by an intellectual property right. In addition, it was observed that the different nature of intellectual property rights warranted a different approach in that regard from the approach followed with respect to acquisition financing relating to tangible assets.

68. The prevailing view, however, was that intellectual property owners and licensors could achieve the result described in the preceding paragraph by ensuring that they or their secured creditors obtained: (a) a security right in or an outright assignment of a right to payment of a percentage of the sub-royalties payable to the licensee as a sub-licensor by sub-licensees and registered a notice thereof in the relevant intellectual property registry; (b) a security right in or an outright assignment of a right to payment of a percentage of the sub-royalties payable to the licensee as a sub-licensor by sub-licensees and registered first a notice thereof in the general security rights registry; or (c) a subordination agreement from the secured creditor of the licensee. It was stated that that result could not be achieved through the application of the acquisition financing recommendations of the Guide in an intellectual property context, since: (a) those recommendations dealt with priority conflicts between security rights created by the same grantor; and (b) the priority of an acquisition security right did not extend to cash proceeds of inventory and thus could not extend to proceeds of intellectual property or a licence of intellectual property held by the grantor for licensing or sub-licensing. In addition, it was observed that it was essential for the Guide to provide one acquisition financing regime for all types of asset and not to introduce several regimes depending on the type of asset involved, a result which would make the Guide very difficult to understand and apply. Moreover, it was pointed out that it would be too risky for the Guide to recommend an approach, which would change the balance established after discussions over a long period of time among the interests of the various credit providers and essentially was not followed in any legal system.

69. In response to a question, it was noted that, according to recommendation 181 of the Guide, an acquisition security right, a notice of which was registered in the

general security rights registry, did not have priority over a non-acquisition security right, a notice of which was registered in a specialized registry. As a result, by registering a notice of its security right in the specialized registry, the secured creditor of an intellectual property owner or licensor could always obtain priority over the general secured creditor of the licensee. It was agreed that the matter should be discussed in the commentary.

70. After discussion, the Working Group agreed that the Supplement should include new terminology and recommendations making the acquisition financing terminology and recommendations of the Guide (relating to tangible assets) apply to an intellectual property context. The Working Group also agreed that appropriate commentary should be included in the draft Supplement to explain the new terminology and recommendations. The Working Group also agreed that, as with the exception of conditional transfers (which, in some States, would include exclusive licences), there were no widely used devices to secure the purchase price of intellectual property, it would be sufficient to explain in the commentary that States that preferred to follow a non-unitary approach to acquisition financing would need to appropriately adjust the new terminology and recommendations. In addition, the Working Group agreed that paragraph 4 of document A/CN.9/WG.VI/WP.39/Add.2, dealing with the functional, integrated and unitary concept of a security right, should be adjusted accordingly.

10. Priority of a security right in intellectual property as against the right of a judgement creditor (A/CN.9/WG.VI/WP.39/Add.5, paras. 20-21)

71. The Working Group approved the substance of paragraphs 20-21 unchanged.

11. Subordination (A/CN.9/WG.VI/WP.39/Add.5, para. 22)

72. The Working Group approved the substance of paragraph 22 unchanged.

G. Rights and obligations of the parties to a security agreement relating to intellectual property (A/CN.9/WG.VI/WP.39/Add.6, paras. 1-5)

1. Application of the principle of party autonomy (A/CN.9/WG.VI/WP.39/Add.6, para. 1)

73. The Working Group agreed that paragraph 1 should be aligned with the text of recommendation 245. Subject to that change, the Working Group approved the substance of paragraph 1.

2. Preservation of the encumbered intellectual property (A/CN.9/WG.VI/WP.39/Add.6, paras. 2-5)

74. The Working Group agreed that paragraph 4 should be aligned with the text of recommendation 245. Subject to that change, the Working Group approved the substance of paragraphs 2-5.

75. The Working Group considered alternatives A and B of recommendation 245. It was noted that alternative A, combined with recommendation 4, subparagraph (b), would lead to the same result as alternative B. However, general preference was

expressed for alternative B referring party autonomy to law other than the law recommended in the Guide. It was generally understood that the intellectual property owner was the person responsible for the preservation of encumbered intellectual property and that the secured creditor's role in performing that function could be safely described in terms of an entitlement. After discussion, the Working Group decided that alternative B should be retained, subject to describing the role of the secured creditor in the preservation of encumbered intellectual property as an entitlement, and that alternative A should be deleted.

H. Rights and obligations of third-party obligors in intellectual property financing transactions (A/CN.9/WG.VI/WP.39/Add.6, paras. 6-7)

76. The Working Group agreed that the last sentence of paragraph 6 should be revised to read along the following lines: "Similarly, where a licensee assigned to *its secured creditor the licensee's* claim against a sub-licensee for the payment of royalties under a sub-licence agreement, the sub-licensee would be a third-party obligor *with respect to the licensee's secured creditor* in the sense of the Guide." Subject to that change, the Working Group approved the substance of paragraphs 6-7.

I. Enforcement of a security right in intellectual property (A/CN.9/WG.VI/WP.39/Add.6, paras. 8-32)

1. Intersection of secured transactions law and law relating to intellectual property (A/CN.9/WG.VI/WP.39/Add.6, paras. 8-11)

77. The Working Group approved the substance of paragraphs 8-11 unchanged.

2. Enforcement of a security right in different types of intellectual property (A/CN.9/WG.VI/WP.39/Add.6, paras. 12-13)

78. The Working Group approved the substance of paragraphs 12-13 unchanged.

3. Taking "possession" of documents necessary for the enforcement of a security right in intellectual property (A/CN.9/WG.VI/WP.39/Add.6, paras. 14-15)

79. The Working Group approved the substance of paragraphs 14-15 unchanged.

4. Disposition of encumbered intellectual property (A/CN.9/WG.VI/WP.39/Add.6, paras. 16-17)

80. The Working Group approved the substance of paragraphs 16-17 unchanged.

5. Rights acquired through disposition of encumbered intellectual property (A/CN.9/WG.VI/WP.39/Add.6, paras. 18-20)

81. It was agreed that, in paragraph 19, a clear distinction should be drawn between the secured creditor's enforcement rights under secured transactions law and the secured creditor's enforcement rights under law relating to intellectual

property. Subject to that change, the Working Group approved the substance of paragraphs 18-20.

6. Proposal by the secured creditor to acquire the encumbered intellectual property (A/CN.9/WG.VI/WP.39/Add.6, para. 21)

82. The Working Group approved the substance of paragraph 21 unchanged.

7. Collection of royalties and licence fees (A/CN.9/WG.VI/WP.39/Add.6, para. 22)

83. The Working Group approved the substance of paragraph 22 unchanged.

8. Licensor's other contractual rights (A/CN.9/WG.VI/WP.39/Add.6, para. 23)

84. The Working Group approved the substance of paragraph 23 unchanged.

9. Enforcement of security rights in tangible assets with respect to which intellectual property is used (A/CN.9/WG.VI/WP.39/Add.6, para. 24-27)

85. It was agreed that: (a) in the second sentence of paragraph 24, the word "only" should be inserted before the words "if there is an authorization from the intellectual property owner"; (b) at the end of the third sentence of paragraph 25, the phrase in parenthesis should be deleted because there were instances where an intellectual property right could be exhausted even prior to a sale (for example, where products bearing a trademark had passed the quality control of the trademark owner); (c) in the first sentence of paragraph 26, the reference to "the grantor" should be qualified by wording along the following lines "a grantor that attempts to grant a security right in that product, under law relating to intellectual property, …"; (d) in the second sentence of paragraph 26, the phrase "is in breach of the licence agreement" should be replaced with wording along the following lines "acts in a manner contrary to the limitations in the licence agreement", since the secured creditor would normally not be a party to the licence agreement and thus could not be in breach of that agreement; and (e) the third sentence of paragraph 27 should be revised to take into account that it would be unlikely that the secured creditor would be willing or able to continue production of partially completed products. Subject to those changes, the Working Group approved the substance of paragraphs 24-27.

10. Enforcement of a security right in a licensee's rights (A/CN.9/WG.VI/WP.39/Add.6, para. 28-32)

86. It was agreed that: (a) at the end of the second sentence of paragraph 28, words along the following lines could be added "or some combination of the foregoing" to cover all possibilities; (b) in the first sentence of paragraph 29, reference should be made to the licensee's rights under the licence agreement and, in the third sentence, reference should be made to the right of the grantor under the secured transactions law and rights of the licensor under law relating to intellectual property; (c) the last sentence of paragraph 30 should be revised along the following lines "If creation by the licensee-sub-licensor of a security right in its right to royalties from its sub-licensee constitutes a breach of an initial or intervening licence agreement, then enforcement of that agreement may prevent the secured creditor from collecting royalties from the sub-licensee or otherwise deprive it of the benefits of its agreement."; and (d) the third sentence of paragraph 32 should be revised to take into account that, in most States, exclusive licensees could sue

infringers on their own. Subject to those changes, the Working Group approved the substance of paragraphs 28-32.

J. Law applicable to a security right in intellectual property (A/CN.9/WG.VI/WP.39/Add.7, paras. 1-23)

1. Law applicable to property matters (A/CN.9/WG.VI/WP.39/Add.7, paras. 1-21)

87. Several drafting suggestions were made. One suggestion was that, to avoid giving prominence to one approach over the other, reference should be made early in the discussion to all possible approaches, while the detailed discussion should follow. A similar suggestion was that the commentary should follow the order of the alternatives. Those suggestions were objected to. It was widely felt that as each section of the draft Supplement the section on conflicts of laws should start with an explanation of the approach of the Guide. Another suggestion was that the commentary should set out examples explaining each of the proposed alternatives. Yet another suggestion was that the commentary should set out the advantages and disadvantages of each proposed alternative, without suggesting that any of those alternatives could not work at all. There was broad support for those suggestions.

2. Law applicable to contractual matters (A/CN.9/WG.VI/WP.39/Add.7, paras. 22-23)

88. There was broad support in the Working Group for referring the mutual rights and obligations of the grantor and the secured creditor to the law chosen by them and, in the absence of a choice of law, to the law governing the security agreement (see recommendation 216). The Working Group approved the substance of paragraphs 22-23 unchanged.

3. Recommendation 246

89. The Working Group considered the issue of the law applicable to the creation, third-party effectiveness, priority and enforcement of a security right in intellectual property on the basis of alternatives A to D. It also considered another alternative similar to alternative D (see A/CN.9/WG.VI/WP.40). It was noted that, to the extent that not all matters were referred to one and the same law, problems of qualification would arise, unless a State enacted also the substantive law recommendations of the Guide. Otherwise, it was noted, for example, creation could be referred to the law of one State and third-party effectiveness to the law of another State.

90. While there was broad support for referring issues related to the transferability of intellectual property rights to the law of the State in which the intellectual property was protected, diverging views were expressed as to the law applicable to security rights in intellectual property. One view was that the principle of national treatment embodied in international conventions protecting intellectual property implicitly imposed a universal applicable law rule referring all matters arising with respect to property rights in intellectual property to the law of the State in which the intellectual property was protected ("*lex loci protectionis*"). Reference was made in that regard to article 2(1) of the Paris Industrial Property Convention and article 5(2) of the Berne Intellectual Property Convention. On that basis, preference was expressed for an approach based on the law of the State where the intellectual

property was protected. It was stated that such an approach would result in applying one law to all property rights relating to intellectual property.

91. Another view was that the above-mentioned interpretation of intellectual property conventions was highly controversial. It was stated that those conventions simply provided that the extent of protection and the rights of redress of intellectual property owners was subject to the law of the State in which the intellectual property was protected, making no reference to the law applicable to security rights. It was also observed that, even if those conventions provided an applicable law rule for security rights, they did not cover all aspects of the creation, third-party effectiveness, priority and enforcement of a security right in intellectual property. On that basis, preference was expressed for an approach based on the law of the grantor's location, with the exception of a priority conflict between a security right and the rights of a transferee or licensee of the encumbered intellectual property, which could be referred to the *lex loci protectionis*. It was stated that an approach based on the law of the grantor's location would result in all matters with respect to security rights in intellectual property being referred to one law, which would have the additional advantage of being the law governing the grantor's insolvency proceedings (as location was defined by reference to the place where the grantor had its central administration).

92. Yet another view was that a different combination of the above-mentioned approaches might be more appropriate. Several suggestions were made in that regard. One suggestion was that, while the creation of a security right could be referred to the law of the State in which the grantor was located, the third-party effectiveness, priority and enforcement of such a security right should be referred to the law of the State in which the intellectual property was protected. Another suggestion was that security rights to intellectual property that could be registered in an intellectual property registry could be referred to the law of the State under whose authority the registry was maintained. It was observed that such an approach would be consistent with the approach followed in recommendation 205 of the Guide with respect to tangible assets, security rights in which were subject to registration in a specialized registry (such as ships or aircraft). It was also pointed out that such an approach appeared in a previous version of the draft Supplement, but was eliminated on the grounds that it could create uncertainty or increase the time and cost required to conclude a transaction (see A/CN.9/667, para. 124). Moreover, it was noted that, while language could be included in the commentary providing that reference to a State would apply equally to a regional economic integration organization, caution should be exercised not to refer to a regional law that had not provisions or had insufficient provisions on secured transactions. It was also noted that caution should be exercised not to refer to the law of an intellectual property registry, if the majority of laws did not allow registration of security rights in such a registry, because in such a case the approach suggested would simply lead to a legal vacuum.

93. Yet another suggestion was that, while the basic rule should refer to the law of the grantor's location, a priority conflict between a security right registered in the general security rights registry and a security right registered in an intellectual property registry could be referred to the law of the State under whose authority the intellectual property registry was maintained. It was observed that such an approach would be consistent with the approach followed in recommendation 209 of the

Guide with respect to receivables arising from a sale, lease or transaction secured by a security agreement. Yet another suggestion was the draft Supplement should make no recommendation at all, leaving the matter to enacting States that would take into account the commentary and the intellectual property conventions, or make more than one recommendation for States to choose from.

94. Several examples were mentioned, in which one or the other approach appeared to be more workable. It was widely felt that there was not one approach that could produce perfect results in all cases. Accordingly, the Working Group agreed that three alternatives should be retained in the draft Supplement. The first alternative should refer the creation, third-party effectiveness, priority and enforcement of a security right in intellectual property to the law of the State in which the encumbered intellectual property was protected. The second alternative should have two parts; the first part should refer all matters relating to intellectual property rights that could be registered in an intellectual property registry to the law of the State under whose authority the registry was maintained; the second part should refer all matters relating to intellectual property rights that could not be registered in an intellectual property registry to the law of the State in which the grantor was located. The third alternative should refer to the law of the State in which the grantor was located all matters except third-party effectiveness and priority of a security right in intellectual property as against the right of a transferee or a licensee of the encumbered intellectual property, which should be referred to the law of the State in which the intellectual property was protected. It was noted that issues relating to transferability would not be covered in any of the three alternatives (as they are not covered in the other conflict-of-laws recommendations of the Guide and the Guide specifically recommends that statutory limitations on transferability should not be overridden; see recommendation 18).

K. The impact of insolvency of a licensor or licensee of intellectual property on a security right in that party's rights under a license agreement (A/CN.9/WG.VI/WP.39/Add.7, paras. 24-42)

95. The Working Group approved the substance of paragraphs 24-42 unchanged. The Working Group also agreed that text along the following lines should be included in the draft Supplement to deal with automatic termination and acceleration clauses in intellectual property licence agreements and referred it to Working Group V (Insolvency Law):

> "The UNCITRAL Legislative Guide on Insolvency Law ("the Insolvency Guide") recommends that any contractual clauses that automatically terminate and accelerate a contract upon an application for commencement, or commencement, of insolvency proceedings or upon the appointment of an insolvency representative should be unenforceable as against the insolvency representative and the debtor (see recommendation 70). The Insolvency Guide also recommends that the insolvency law should specify the contracts that are exempt from the operation of this recommendation, such as financial contracts, or are subject to special rules, such as labour contracts (see recommendation 71).

The commentary of the Insolvency Guide states that some laws uphold these clauses in some circumstances and explains the reasons for this approach. These reasons include "the need for creators of intellectual property to be able to control the use of that property and the effect on a counterparty's business of termination of a contract, especially one with respect to an intangible" (see Part Two, chapter II, para. 115). For example, automatic termination and acceleration clauses contained in intellectual property licence agreements may be upheld as the insolvency of the licensee may have a negative impact not only on the licensor's rights but also on the intellectual property right itself. This is the case, for example, where the insolvency of a licensee of a trademark used on products may affect the market value of the trademark and the trademarked products. In any case, clauses included in intellectual property licence agreements that provide, for example, that a licence terminates after X years or upon material breach such as failure of the licensee to upgrade or market the licensed products on time (that is, where the event that triggers the automatic termination is not insolvency) are not affected (see footnote 39, recommendation 72 of the Insolvency Guide).

The commentary of the Insolvency Guide also states that other laws override these clauses and explains the relevant reasons (see Part Two, chapter II, paras. 116 and 117). The commentary further explains that, although some insolvency laws do permit these types of clause to be overridden if insolvency proceedings are commenced, this approach has not yet become a general feature of insolvency laws. In this regard, the commentary speaks of an inherent tension between promoting the debtor's survival, which may require the preservation of contracts, and affecting commercial dealings by creating a variety of exceptions to general contract rules. The commentary concludes by expressing the desirability that an insolvency law permit such clauses to be overridden (see Part Two, chapter II, para. 118)."

V. Future work

96. The Working Group noted that its seventeenth session is scheduled to take place in New York from 8 to 12 February 2010. The Working Group also noted the plans of the Secretariat to hold the Third International Colloquium on Secured Transactions in Vienna from 1 to 3 March 2010. In that regard, it was noted that, in line with the decision taken by the Commission at its forty-second session (see para. 12 above), the purpose of the Colloquium was for the Secretariat to obtain the views of experts from Governments, international organizations and the private sector on the future work programme of the Commission on security interests and to prepare a note to assist the Commission in its consideration of the matter at its forty-third session, in 2010.