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

**Note by the Secretariat**

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

[*Note to the Working Group: For paras. 1-9, see A/CN.9/WG.VI/WP.37/Add.2, paras. 1-9, A/CN.9/670, paras. 56-61, A/CN.9/WG.VI/WP.35/Add.1, paras. 1-14, A/CN.9/667, paras. 55-63, A/CN.9/WG.VI/WP.33, paras. 137-145, and A/CN.9/649, paras. 29-31.*]

### A. The concept of third-party effectiveness

1. As already noted, the *Guide* distinguishes between the creation of a security right (effectiveness of the security right as between the parties) and its effectiveness against third parties. Subject to recommendation 4, subparagraph (b), this distinction applies equally to security rights in intellectual property (see A/CN.9/WG.VI/WP.39/Add.2, paras. 1-3).

2. In some States, there are no special rules governing the creation and third-party effectiveness of security rights in intellectual property and those issues are governed by the same rules that apply to security rights in other types of intangible asset. In other States, however, law relating to intellectual property may provide for particular methods in which a security right in some types of intellectual property may be created and made effective against third parties. The rules often differ for rights in intellectual property that are subject to a specialized registration system (such as patents, trademarks and, in some States, copyrights), and rights in intellectual property that are not subject to such registration (such as trade secrets, industrial designs and, in some States, copyrights). These matters are addressed in sections B and C below.

3. In the *Guide*, the concept of “effectiveness against third parties” refers to whether a security right in an encumbered asset as a property right is effective against parties other than the grantor and the secured creditor that have at that time or may acquire in the future a security or other right in that encumbered asset. Such third parties (“competing claimants”) include creditors of the grantor, the insolvency representative in the insolvency of the grantor, as well as transferees, lessees and licensees of the encumbered asset. In law relating to intellectual property, by contrast, the phrase “third-party effectiveness” is often used to refer to the effectiveness of ownership or other similar rights in intellectual property itself, rather than to the effectiveness of a security right. These two sorts of references should not be confused. While effectiveness of a security right in intellectual property as against competing claimants is a matter of secured transactions law, effectiveness of ownership rights or rights of a licensor or licensee against transferees of those rights is a matter of law relating to intellectual property. In this context, it should be noted that, for purposes of secured transactions law, infringers are not competing claimants. Thus, the *Guide* does not apply to a “conflict” between a secured creditor and a purported infringer and, if, for example, the infringer asserts as a defence against a secured creditor that the infringer is a transferee or a licensee of the encumbered intellectual property, the matter is to be determined in accordance with the law relating to intellectual property.

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

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

*[Note to the Working Group: At its fifteenth session, the Working Group considered that: "With respect to paragraph 4, it was suggested that it should be revised to clarify that only registries that ensured third-party effectiveness of security rights qualified as specialized registries under the Guide. There was support for the principle reflected in that suggestion. However, it was widely felt that it should be expressed not in narrow technical terms of third-party effectiveness but broader notions of public accessibility of registered information so as to ensure, for example, that specialized ship, aircraft or intellectual property registries that provided for effectiveness in general were not undermined, while registries serving purely administrative purposes would not qualify as specialized registries under the Guide." (see A/CN.9/670, para. 57)*

*The Working Group may wish to note that the preparatory work of the Guide (reports of the Working Group and the Commission, and the various drafts of the Guide) and the Guide (commentary and recommendations, in particular recommendation 38) do not define a specialized title registry. Nor do they require that the legal consequence of registration in a specialized title registry under specialized registration law has to be third-party effectiveness of a security right. Nor, finally, do they address the question whether a document or a notice has to be registered. The Guide does not do so as the approaches taken to all these issues vary widely from State to State and, in any case, these are all matters of specialized registration law. The only reference that the Guide makes in this regard is the following: "Consequently, the Guide assumes that where a State maintains a specialized registry, it will permit registration of a notice of a security right as a method of achieving third-party effectiveness of the security right (see recommendations 34, subparagraph (a) (iii), and 38, subparagraph (a))." (see chapter V on third-party effectiveness of a security right, para. 70 at the end)*

*This sentence was added in paragraph 4 above. The Working Group may wish to consider that it does not need an elaboration or explanation in particular as to whether the third-party effects have to be provided in the specialized registration law or in the law recommended in the Guide that would be applicable unless specialized registration law provided otherwise. The Working Group may thus consider that the Supplement is not the appropriate place to explain or interpret the Guide, unless an issue arises that is specific to intellectual property or a different approach is to be taken with respect to intellectual property. In any case, paragraph 69 of the commentary of chapter V makes clear that immovable property, ship and aircraft registries, many of which do not distinguish between general effectiveness and third-party effectiveness, are specialized registries under specialized registration law and thus under the Guide.]*

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

6. For example, under law relating to intellectual property, in some States, a security right is not created or made effective against third parties, unless and until a document or notice of it is registered in the relevant intellectual property registry. In other States, law relating to intellectual property provides that a security right is created and, at the same time, becomes effective against third parties when the security agreement is entered into between the parties, even without registration. In these cases, registration in the relevant intellectual property registry allows certain third parties (typically transferees that are not aware that the asset is encumbered; “good faith transferees”), to invoke a priority rule, according to which a registered security right takes precedence over an unregistered prior security right, but the unregistered security right still remains effective against other third parties. In still other States, a security right is created when the security agreement is entered into between the parties, but registration in the relevant intellectual property registry is necessary to make the security right effective against third parties, for example, by way of an evidentiary rule that prohibits evidence of unregistered security rights. In still other States, the registration system does not readily accommodate registration of documents or notices of security rights, and creation and third-party effectiveness of security rights must be achieved outside the intellectual property registration system. Finally, in some States that distinguish between creation and third-party effectiveness, it is possible to achieve third-party effectiveness of a security right by using either the intellectual property registry or an available general security rights registry. If any of these methods existing under law relating to intellectual property is intended to be the exclusive method of obtaining effectiveness of a security right against third parties, in accordance with recommendation 4, subparagraph (b), it takes precedence over any of the methods provided in the law recommended in the *Guide*.

7. The *Guide* recommends a general security rights registry and, where specialized registries exist that permit registration of a notice of a security right as a method of achieving third-party effectiveness of the security right, avoids undermining them by accepting registration in such registries as method of achieving third-party effectiveness of a security right and attributing priority results to such a registration (see recommendations 38, 77 and 78). As this matter is beyond the scope of secured transactions law and, in any case, would require additional effort and expense by States, the *Guide* does not recommend that States that currently do not have a specialized registry for certain types of intellectual property create such registries in order to permit the registration of a notice of a security right in intellectual property. For the same reason, the *Guide* does not recommend that States that currently do not permit the registration of a notice of a security right in an intellectual property registry amend their laws to permit such registrations. Finally, to avoid duplication of effort and expense, the *Guide* does not recommend a rule that requires registration of a notice of a security right in both the relevant intellectual property registry and in the general security rights registry. However, if

States enacting the recommendations of the *Guide* have specialized intellectual property registries and wish to use them for registration of security rights in intellectual property, making use of the options offered in recommendation 38 of the *Guide*, they may wish to review their law relating to intellectual property and consider whether to permit the registration of notices of security rights with third-party effects in such already existing intellectual property registries. States that do not have specialized intellectual property registries or have such registries but do not wish to use them for registration of security rights in intellectual property, may always use the general security rights registry for registration of notices of security rights in all types of movable asset, including intellectual property.

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

8. As already mentioned, under the *Guide*, a security right in intellectual property may become effective against third parties by registration of a notice in the general security rights registry (see recommendation 32). This is possible even if the encumbered intellectual property rights may not be registered in an intellectual property registry (as is typically the case, for example, with copyrights, industrial designs or trade secrets). The same rule would apply in cases where a document or notice of a security right in intellectual property may be registered in an intellectual property registry but it is not actually registered. In these cases, registration of a notice in the general security rights registry is sufficient and the legal consequence of registration is to make the security right effective against third parties (see recommendations 29, 32, 33 and 38). However, in the particular case where law relating to intellectual property provides that a security right in intellectual property may be made effective against third parties only by registration in an intellectual property registry, a security right cannot not be made effective against third parties by registration in the general security rights registry (see recommendation 4, subparagraph (b)).

9. As already mentioned, there are different approaches in law relating to intellectual property to the question of registration of a document or notice of a security right in intellectual property. In some States, often those whose secured transactions law derives from non-possessory pledge concepts, either no rights at all may be registered in some types of intellectual property or only outright transfers of intellectual property may be registered. This means that a security right in such intellectual property cannot be made effective against third parties by registration in an intellectual property registry. In other States, often those whose secured transactions law utilizes mortgage concepts, a security right is treated as another type of (outright or conditional) transfer and is, therefore, created and made effective against third parties to the same extent as any other transfer. Consequently, in those States, a document or notice of title-based security rights must often be registered in the relevant intellectual property registry in order for it to be created and made effective against third parties, but non-title-based security rights cannot be so registered. In some of those States, such registration has third-party effects. Finally, in a few States, there are additional requirements. These commonly include payment of a stamp duty or other transaction tax, or a requirement to give notice to an administrative body, such as a national authors association or collecting society.

If States enacting the recommendations of the *Guide* harmonize their secured transactions laws and their laws relating to intellectual property, replacing all existing security devices with an integrated notion of a security right, or, at least, subjecting title-based security rights to the same rules that are applicable to security rights (see A/CN.9/WG.VI/WP.39/Add.2, para. 4), in those jurisdictions that permit registrations of transfers of intellectual property, it would be possible to register a security right in intellectual property.

## V. The registry system

[*Note to the Working Group: For paras. 10-42, see A/CN.9/WG.VI/WP.37/Add.2, paras. 10-42, A/CN.9/670, paras. 62-72, A/CN.9/WG.VI/WP.35, paras. 15-31, A/CN.9/667, paras. 64-85, A/CN.9/WG.VI/WP.33, paras. 149-161, and A/CN.9/649, paras. 32-40.*]

### A. The general security rights registry

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

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

## B. Asset-specific intellectual property registries

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

13. While some States have notice-based intellectual property registries, a larger number of States use recording act structures or “document registration” systems. In those systems, it is necessary to record the entire instrument of transfer, or, in some cases, a memorandum describing essential terms of the transfer. A more modern approach is to simplify the registration process by registering a limited amount of information (such as the names of the parties and a general description of the encumbered assets). For example, the registration requirements for trademarks are simplified by the Trademark Law Treaty (1994), the Singapore Treaty on the Law of Trademarks, as well as by the Madrid Agreement (1891), the Madrid Protocol (1989) and the model international registration forms attached to both treaties. Similarly, the Patent Law Treaty (Geneva, 2000) and the Council Regulation (EC) No. 40/94 of 20 December 1993 on the Community Trademark simplify registration requirements. The reason for requiring registration of the transaction document or a memorandum stating the essential terms of the transaction is the need for transparency. Thus, it is essential for a transfer instrument or memorandum to identify the precise right being transferred in order to give effective notice to searchers and to allow efficient utilization of assets. In addition, the intellectual property registries sometimes index registrations by the specific intellectual property, and not by the grantor’s identifier. This is because the central focus is on the intellectual property itself, which may have multiple co-owners or co-authors and may be subject to multiple changes in ownership as transfers are made.

14. In addition to national registries, there are a number of international intellectual property registries and registration in these registries is subject to relatively modern treaties or other international legislative texts that simplify the registration process. For example, under the Community Trademark regulation, a statement may be registered referring not only to ownership but also to security rights with third-party effects. Another example is the treaty on the International Registration of Audiovisual Works (“Film Register Treaty”), adopted at Geneva on April 18, 1989, under the auspices of WIPO. The Film Register Treaty creates an international registry, which permits the registration of statements concerning audiovisual works and rights in such works, including, in particular, rights relating to their exploitation (the records of the diplomatic conference indicate statements concerning security rights were also contemplated). The Film Register Treaty provides an evidentiary presumption of validity for registered statements. The international registry allows two types of application. A work-related application identifies an existing or future work at least by title or titles. A “person-related application” identifies one or more existing or future works by the natural person or

legal entity that makes or owns, or is expected to make or own, the work or works. The international registry maintains an electronic database that allows cross indexing between the different types of registrations. There is also a procedure to request removal of contradictory filings.

### C. Coordination of registries

15. As already mentioned (see paras. 4 and 5 above), the *Guide* neither recommends the creation of a specialized registration system (for intellectual property or for other assets), if one does not exist, nor interferes with existing specialized registration systems. However, where, under law relating to intellectual property, a document or notice of a security right in intellectual property may be registered in an intellectual property registry and, at the same time, under the law recommended in the *Guide*, that security right may also be registered in the general security rights registry, there is a need to address the issue of coordination between these two registries. In order to avoid interfering with law relating to intellectual property, the *Guide* addresses it through the general deference to law relating to intellectual property (see recommendation 4, subparagraph (b)) and appropriate priority rules.

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

17. However, the *Guide* does make recommendations concerning the registration of a notice of a security right in intellectual property in the general security rights registry. For this reason, to the extent that law relating to intellectual property addresses the effects of registration of security rights in an intellectual property registry in a way that would be inconsistent with the third-party effects given to such registration by the *Guide* (see recommendation 38), the *Guide* defers to that law (recommendation 4, subparagraph (b)). By contrast, if law relating to intellectual property does not address these issues, there is no overlap or conflict with law relating to intellectual property, the issue of deference to law relating to intellectual property will not arise and thus the *Guide* will apply giving such specialized registration third-party effects.

18. In addition, the *Guide* addresses the issue of coordination between a specialized registry (including an intellectual property registry) and the general security rights registry recommended in the *Guide* through appropriate priority rules. Thus, in order to preserve the reliability of intellectual property (and other specialized) registries (in particular, in cases where law relating to intellectual property provides no rule for determining priority), the *Guide* provides that a security right in intellectual property, a document or notice of which is registered in



the relevant intellectual property registry, has priority over a security right in the same intellectual property, a notice of which is registered in the general security rights registry (see recommendation 77, subparagraph (a)). For the same reason, the *Guide* provides that a transferee of intellectual property acquires it, in principle, free of a previously created security right in that property, unless a document or notice of the security right is registered in the intellectual property registry (see recommendations 78 and 79). Under recommendation 4, subparagraph (b), this rule would apply only if it was not inconsistent with a rule of law relating to intellectual property (see A/CN.9/WG.VI/WP.39/Add.4, paras. 12-15).

19. If States enacting the recommendation of the *Guide* have specialized intellectual property registries and wish to use them for registration of security rights in intellectual property, making use of the options offered in recommendation 38 of the *Guide*, they may wish to consider ways aimed at coordinating their existing intellectual property registries with the general security rights registry introduced by the *Guide*. For example, States may wish to consider permitting the registration of a notice of a security right in intellectual property in an intellectual property registry with third-party effects. In addition, States may wish to consider whether asset-based intellectual property registries should also have a debtor-based index (and vice versa). Moreover, States may wish to consider requiring the transmission of a notice about a registration in an intellectual property registry to the general security rights registry (or vice versa). Of course, coordination of registries in this way would be easier, simpler, quicker and less expensive in an electronic registration system rather than in a paper-based registration system.

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

#### **D. Registration of notices about security rights in future intellectual property**

21. An essential feature of the general security rights registry recommended in the *Guide* is that a notice of a security right can refer to future assets of the grantor. This means that the security right can cover assets to be later produced or acquired by the grantor (see recommendation 17) and the notice may cover assets described in a manner that allows their identification (see recommendation 63). Thus, if the encumbered assets are described in the security agreement as all existing and future inventory, the notice may so identify such inventory. Since priority is determined by date of registration, the priority of the security rights extends to future inventory.

This approach greatly facilitates revolving credit arrangements, since a lender extending new credit under such a facility knows that it can maintain its priority position in new assets that are included in the borrowing base.

22. Existing intellectual property registries, however, in many States, do not readily accommodate registration of rights in future intellectual property. As transfers of or security rights in intellectual property are indexed against each specific intellectual property right, they can only be effectively registered after the intellectual property is first registered in the intellectual property registry. This means that a blanket registration of a security right in future intellectual property in an intellectual property registry would not be effective and a new registration of the security right would be required each time new intellectual property is acquired.

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

## **E. Dual registration or search**

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

25. Before a security agreement is entered into, a secured creditor exercising normal due diligence will typically conduct a search to determine whether there are prior competing claimants that have priority over the proposed security right. As a first step, the secured creditor will search the chain of title to identify prior transfers and to determine whether the grantor actually has rights in the intellectual property so that the security right can become effective in the first instance (this due diligence requirement applies to all movable assets). Unlike intellectual property registries, the general security rights registry does not record title and, as a result, a search of the chain of title will involve a search of the relevant intellectual property registry, provided that rights in intellectual property may be registered in that registry. As a next step, the secured creditor will search to determine whether each prior party in the chain of title has granted a security right which might have priority over the proposed security right. Finally, the secured creditor will determine the applicable priority as between rights registered in one of the two registries. In cases where the priority is determined solely by registration in the relevant intellectual property registry, as provided in the *Guide*, a search of only that registry may be sufficient. Otherwise, a secured creditor may have to search in both registries.

26. Under the *Guide*, it is envisaged that the general security rights registry will be electronic and will accept registration of notices of possible security rights with third-party effects at a nominal cost (based on cost recovery), if any, for registration and searching (see recommendation 54, subparagraph (i)). This means that, in States that enact the recommendations of the *Guide*, registration and searching in the general security rights registry is likely to be simple, quick and inexpensive. However, under law relating to intellectual property, registries may not necessarily be fully electronic (although an increasing number of intellectual property registries allow online searching for a small fee). In addition, the document of a transaction or a summary thereof may need to be filed (instead of a notice). Moreover, the document filed may have to be checked by the registry staff at least to the extent that the legal consequence of registration may be conclusive or presumptive evidence of the existence of a right in intellectual property.

27. Thus, while the relevant fees vary widely from State to State, the cost of registration of a document of a security right in an intellectual property registry may reasonably be assumed to be higher than the cost of registration of a notice of a security right in the general security rights registry. As to the cost and time of searching, again searching in a document registry (whether electronic or not) is likely to be more time-consuming and costly than searching in an electronic notice-based general security rights registry. These differences, of course, will be minimized to the extent that an intellectual property registry permits the online registration of a notice of a security right, for a nominal fee, with third-party effects by and is organized in a way that also permits searching in a time- and cost-efficient way. At the same time though, registration in the relevant intellectual property registry would provide more information (for example, because of the specific description of the encumbered assets and the information about transfers) and probably more certain information (for example, because registration may constitute or provide firm evidence as to the existence of a right).

*[Note to the Working Group: At its fifteenth session, the Working Group agreed that, to assess the impact of registration in an intellectual property registry or in a*

general security rights registry, it could consider an analysis of costs involved in the registration of a security right in one or the other type of registry (see A/CN.9/670, para. 69). The Working Group may wish to consider that paragraphs 26 and 27, which discuss the cost of registering and searching in one or the other registry, may be usefully supplemented by the text below.

*“The differences in cost of registration and searching may be illustrated by the following examples (which are based on the assumption that there is an intellectual property registry that accepts registration of security rights in intellectual property):*

- 1. A grantor, who is the initial owner of an intellectual property right, grants a secured creditor a security right in that intellectual property right. Whether registration is made in the general security rights registry or in the relevant intellectual property registry, the secured creditor needs to register only one notice. A searcher though may need to search in both registries. Of course, the intellectual property registration system may require registration of a document and the registrar may have to check the document and issue a certificate that may constitute evidence of the existence of the security right. These characteristics are likely to affect the time- and cost-efficiency of the registration process. On the other hand, while the notice-based registration system of the general security rights registry may be more protective of the confidentiality of a transaction than the document-based registration system of the intellectual property registry, it will not provide a searcher as much information as a document-based registration system.*
- 2. A grantor, who is the initial owner of 10 intellectual property rights, grants a secured creditor a security right in all 10 intellectual property rights. If registration is made in the general security rights registry, the secured creditor needs to register only one notice and a searcher needs to conduct only one search against the name of the grantor to find competing security rights (although it may be necessary to search against each intellectual property right to find other competing claimants). However, if registration is made in an intellectual property registry for each intellectual property right (although if all intellectual property rights are of the same type, for example, patents, it may be possible to register one document that refers to all 10 patents). Similarly, the secured creditor may need to register a document or notice for each intellectual property right and a searcher needs to conduct a search against each intellectual property right to find both prior security rights and other competing claimants. In this case too, both registration and search in the general security rights registry would be more efficient in terms of time and cost involved.*
- 3. In the example under paragraph 2 above, if the grantor is not the initial owner but a transferee in a chain of transferees, registration in the general security rights registry may still be more efficient than registration in an intellectual property registry, if the secured creditor need not register an amendment notice each time the intellectual property right is transferred. However, the situation may be different with respect to searching. If each of the 10 intellectual property rights has 10 prior owners, a searcher would have to conduct 10 searches outside the security rights registry to identify the transferees of each intellectual property right and then 100 searches (10 owners x 10 intellectual property rights) to identify all prior security rights. If a security right is registered in an intellectual property registry, the secured creditor need only conduct 10 searches, that is, one for each intellectual property right. In this case, the efficiency of the registration in the general security*

rights registry will depend on the approach taken in the relevant State to the issue of the effectiveness of registration in the case of a transfer of the encumbered intellectual property. As to searching, it would seem that searching in the intellectual property registry would be more cost-efficient.

4. Again in example 2, the secured creditor need register only one notice in the general security rights registry. Moreover, if a security right granted by a prior party is not effective against the grantor unless there is a specific notice registered in the name of the grantor as a transferee of the encumbered intellectual property, the secured creditor need conduct only one search in the general security rights registry. If a document or notice is registered in an intellectual property registry, however, the secured creditor must make 10 registrations and 10 searches for each intellectual property right in each intellectual property registry. In this case, registration and searching in the general security rights registry should be more cost-efficient than registration in the intellectual property registry.

5. However, the situation may be different if a grantor is a start-up company that seeks to earn income from exploiting its intellectual property rights through transfers (for example, an entertainment company that makes numerous exclusive licences each of which is treated as a “transfer”). The grantor intends to grant 5 exclusive licences. The secured creditor wants its security right to be effective against each of the exclusive licensees and their potential secured creditors. If registration is made in the intellectual property registry, the secured creditor needs to make only 10 registrations, one for each intellectual property right. If registration is made in the general security rights registry, however, the secured creditor must register one notice against its grantor and one notice against each of the 5 licensees for each of the 10 intellectual property rights (that is,  $5 \times 10 = 50$  notices). This may require that a secured creditor make a substantial effort to monitor not only the actions of its grantor, but also exclusive licensees and sub-licensees with whom the secured creditor may not have any direct contractual relationship. This situation might discourage secured financing for start-up companies.

6. These examples indicate that, while the general security rights registry in the Guide may better accommodate some types of intellectual property financing, this may not always be the case and would depend on the circumstances of each case and the law applicable (see section G below).

7. The law applicable to third-party effectiveness and priority will also have an impact on the time- and cost-efficiency of registration. If the law applicable to these matters is the law of the State in which the encumbered intellectual property is protected, in the case of a portfolio of intellectual property rights, registration and searching will involve several States. The result would be different if third-party effectiveness and priority were to be governed by the law of the State in which the grantor is located. However, in any case, the main cause of the difference would be the applicable law and not the type of registration. Therefore, this matter is discussed in chapter X on the law applicable to a security right in intellectual property.”

The Working Group may also wish to consider that the above-mentioned analysis is useful in cases where registration or search take place in one or the other registry. The Working Group may also wish to consider, however, that, in view

*of the priority of a security right registered in an intellectual property registry and the need to establish a chain of transferees, registration and search may need to take place in the intellectual property registry in most cases (of course, where registration of a security right in an intellectual property registry is possible).]*

## **F. Time of effectiveness of registration**

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

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

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

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

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

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

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

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

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

32. With respect to subparagraph (a) in the preceding paragraph, it should be noted that, if the secured creditor did not authorize a licence (that is, if the licensee did not acquire the asset free of the security right) and enforced its security right enforcement would amount to termination of the licence and any sub-licence, which would make all the “licensees” infringers. Thus, the secured creditor could disregard security rights granted by unauthorized licensees. With respect to subparagraph (d), it should be noted that recommendation 62 might apply to a licence, if, under law relating to intellectual property, it is treated as a transfer of ownership (although, under the *Guide*, a licence is not a transfer).

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

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

35. States enacting the *Guide* will have to consider the relative advantages and disadvantages of these different approaches mentioned above and, in particular, their impact on rights in intellectual property. For example, under the first approach, a secured creditor extending credit against the entire copyright in a movie would need to make continuous registrations against tiers of licensees and sub-licensees (if the applicable law relating to copyrights treated a licence as a transfer that may be registered) to maintain its priority against them or their own secured creditors. This would be a significant burden on such lenders and might discourage credit against such assets. On the other hand, such an approach would make it easier for a lender

to a sub-licensee to find a security right created by its sub-licensor by a simple search only against the identifier of the sub-licensor. Here, the trade-off is between the relative costs of monitoring and multiple registrations by the lender to the “upstream” party as against the costs of conducting a search of the entire chain of title for security rights created by the “downstream” party. In this regard, it should be noted that typically under law relating to intellectual property a prior transfer retains its priority over later transfers without the need for an additional registration in the name of a transferee of an encumbered asset.

36. As already mentioned, if a State does not follow the third option, a secured creditor would have to register a notice of amendment in the general security rights registry each time the encumbered intellectual property became the subject of an unauthorized transfer, licence or sub-licence (if licences are treated as transfers under the relevant law relating to intellectual property), at the risk of losing its priority if it were not informed and had not acted promptly.

*[Note to the Working Group: At its fifteenth session, the Working Group requested the Secretariat to prepare and place within square brackets a recommendation implementing the third way in which a State might address the matter covered in recommendation 62, providing that a registration is effective without the need for a new registration in the case of a transfer of the encumbered assets (see A/CN.9/670, para. 71).*

*Such a recommendation could read as follows: “The law should provide that the transfer of intellectual property that is subject to a security right does not affect the third-party effectiveness of the security right. As a result, the secured creditor does not have to register an amendment notice indicating the name of the transferee of the encumbered intellectual property.”*

*In considering this recommendation, the Working Group may wish to take into account the following examples:*

- 1. If a grantor of a security right in an intellectual property right is not the initial owner but a transferee with 10 prior transferees and if a secured creditor need not register an amendment notice in the name of each transferee of the encumbered intellectual property right, the secured creditor need only register one notice in a general security rights registry (however, a searcher would have to conduct 10 searches outside the security rights registry to identify each owner and any security right granted by any owner).*
- 2. If, however, the law requires a new notice each time the encumbered intellectual property is transferred, the secured creditor must register one notice against its grantor and one for each of the 10 prior owners. This may require that the secured creditor make a substantial effort to monitor not only the actions of its grantor, but also transferees (and licensees, if a licence is treated as a transfer).*
- 3. These examples indicate that, if the law requires the secured creditor to register a new notice each time the encumbered intellectual property is transferred or licensed, intellectual property financing would be discouraged or become more expensive.]*



## H. Registration of security rights in trademarks

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

38. The main features of such best practices are the following:

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

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

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

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

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

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

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<sup>1</sup> See [http://www.inta.org/index.php?option=com\\_content&task=view&id=1517&Itemid](http://www.inta.org/index.php?option=com_content&task=view&id=1517&Itemid).

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

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

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

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

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

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

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

39. Recommendations (a), (b), (f) and (g), dealing with third-party effectiveness of a security right in a mark, are compatible with the *Guide* in that they promote the objectives of certainty and transparency (see recommendation 1, subparagraph (f)).

40. Recommendation (c), providing that the creation of a security right in a mark does not result in a transfer of the mark or confer upon the secured creditor the right to use the mark, is also compatible with the *Guide*. It should be noted that, under the *Guide*, the secured creditor has a right, but no obligation, to preserve an encumbered intangible asset (such an obligation is foreseen only for tangible assets; see recommendation 111). If, in the case of the owner's insolvency, neither the owner nor the insolvency representative nor the secured creditor takes the necessary steps to preserve the encumbered mark, the mark may still be preserved under law relating to intellectual property (for example, under the doctrine of the "excusable non-use" of a mark).

41. In addition, recommendation (d) is compatible with the *Guide* in that it sets forth a default rule for the rights of the parties within the limits of the applicable law. Recommendation (e) is also compatible with the *Guide* to the extent it emphasizes the importance of valuation of marks without suggesting any particular system of

valuation. Recommendation (h) is also compatible with the *Guide* in that it recommends notice filing even in relation to mark registries. It should be noted that the reference to “the date of the security right” is a reference to the time of effectiveness of the security right between the parties and not against third parties.

42. Moreover, recommendations (i), (j) and (k) are compatible with the *Guide* in the sense that they provide for efficient enforcement mechanisms and registration of court judgements or administrative enforcement decisions. Finally, recommendation (m), which is subject to approval by the appropriate Government authorities, is compatible with the *Guide’s* recommendations with respect to efficient registration procedures.

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