

International Laws on Security Interests

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A summary of international laws dealing with perfecting security interests in intellectual property

The impending arrival in Western Europe of 1993, and with it the elimination of trade barriers, is accelerating the pace of mergers and acquisitions in the European Economic Community. In the first quarter of 1992, a large number of European companies were acquired by other European concerns and by businesses in the United States and Japan. The total value of these transactions in which a prize was reported was \$5.4 billion dollars. The high level of acquisitions results both from the elimination of national barriers to acquisitions, and from the fact that as 1993 approaches, business concerns must have a larger European presence if they are not to be left out in the cold by "business Europe."

Despite the fact that merger and acquisition activity for the third quarter of 1992 fell below expectations because of a slow-down in the global economy, the value of this activity at \$3.4 billion for reported transactions is still significant. Indeed, for the second quarter, 708 transactions with a value of \$5.1 billion were reported.

As with the case in the 1980s in the United States, we anticipate that as the high rate of acquisitions continues, particularly in the EEC, financial institutions will increasingly look to intellectual property rights — patents, trademarks, and copyrights — as valuable assets in which to take "security interests" in order to better collateralize their transactions. Indeed, in many countries intellectual property laws to increase the value of enterprises because intellectual property is recognized as an asset

upon which additional financing may be obtained.

The purpose of this article is to summarize international law on security interests in intellectual property in illustrative jurisdictions.

DEFINITIONS

A "security interest" is a lien or claim on property, including trademarks, which serves as collateral for repayment of a debt. The financial practice of taking security interests in trademarks is an increasing international phenomenon, particularly in nations that are witness to growing activity in mergers, acquisitions, leveraged buy-outs and business expansion requiring additional capitalization. Nevertheless, despite the significant importance of intellectual property in the world business community, substantial uncertainty prevails as to the manner of obtaining and "perfecting" security interests in trademarks.

One way of obtaining a security interest in trademarks is by execution of a "Trademark Security Agreement" between a creditor and its debtor giving the creditor a present lien on the debtor's trademarks, patents, in the event of a loan default, opens into an assignment. To "perfect" a creditor's security interest in its debtor's trademarks, i.e. to create a lien senior to other creditors, the trademark security agreement should be recorded, where possible, on a registry creating the presumptive legal effect of offering notice to the relevant public.

THE EEC

Statutes and case law are relatively undeveloped in the EEC regarding the creation, "perfection" by means of recording and enforcement of security interests in trademark prop-

erty rights. Nevertheless, in the vast majority of jurisdictions in Western Europe, a security interest in some, if not all, varieties of intellectual property is recognized. Moreover, in those jurisdictions in which a security interest is not recognized for a particular intellectual property right such as a trademark, a security interest in other intellectual property, such as patents and copyrights, may be recognized. This is the case in Germany, Greece and Italy.

In Italy, for example, the country's patent law provides that a security interest agreement, with or without consideration, may establish, modify or assign secured rights in a patent through recordation at the Patent Office. Italian trademark law, however, does not presently recognize security interests in trademarks. In fact, recognition of security interests in trademarks is currently a subject of substantial debate in Italy. Italian copyright law, on the other hand, prohibits pledging "the right of publication of an intellectual work and the right of utilization of a published work." However, the proceeds and revenues from the exploitation of a copyrighted work may be so pledged.

The laws in certain EEC jurisdictions make problematic the creation of a security interest in a trademark, since existing trademark law in those countries provides that a pledge of a trademark can only be accomplished when the entire business associated with the mark is transferred. This is the case in newly unified Germany. German trademark law, unlike trademark law in the United States, holds that the creation of a pledge of a trademark would separate the trademark from the

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business associated with the mark. Accordingly, it is not possible to pledge a trademark as security for a debt. However, such obstacle does not exist in Germany respecting a security interest in a patent, and secured rights on patents can be obtained pursuant to regulations in the Patent Register.

← Denmark →

In contrast to Germany, Denmark recognizes security interests in trademarks. Under Danish law "the proprietor of a trademark of the party who claims the mark as security may request the recording thereof in the Trade Mark Register, if the rights in a registered trademark have been pledged or divested upon." Enforcement of a security interest in a Danish trademark, however, might be illusory, since recording of a security interest in Denmark does not automatically create an enforceable security right in favor of the secured party. Notwithstanding the recording of interest of a secured party, under Danish law the owner of a secured trademark will be permitted to transfer the trademark rights to a third party, and such assignment will be approved and recorded.

In the United Kingdom, it appears that a security interest in trademarks would be recognized. However, there is little authority to support this conclusion. In discussions with representatives of the Trademark Registry, we are advised that a properly drawn conditional assignment would be kept in the files of the Trade Marks Registry and would be open to public inspection. Furthermore, after filing with the Trade Marks Registry, a notice of such security interest would be published approximately a month later in the Trade Marks Journal. Conversely, a security interest in patents has been recognized and developed under U.K. law and practice. To create such interest and render it enforceable against a subsequent bona fide purchaser, a security interest agreement must be recorded at the British Patent Office. In the case of a European patent application, an appropriate

security interest agreement must be filed at the European Patent Office.

← France →

France recognizes security interests in trademarks, patents, design patents and copyrights. Under Denmark, recording in France of a security interest agreement on the French Trademark Register at the French Intellectual Property Office will prevent a borrower's subsequent assignment of its pledged trademarks to a third party. Regarding copyrights, for purposes of recording friendly law differentiates the nature of the copyrighted work which is the subject of the security interest. For example, when a security interest is taken in a motion picture, registration is required in the National Center of Cinematography. For all other copyrighted works, registration at the Fiscal Administration is sufficient to ensure that the security agreement is valid and enforceable.

EASTERN EUROPE

Bulgarian intellectual property law does not expressly provide for recording of a security interest in intellectual property. However, under the Bulgarian Civil and Code of Civil Procedure, courts are empowered to issue injunctions if a borrower pledges his intellectual property as collateral. Under such circumstances, the Patent Office should not refuse to record a security interest assignment to a third party if a duly notational and legal assignment deed is submitted.

Czechoslovakia does not recognize a financial or legal device similar to a security interest.

Although Hungarian law does not expressly address the issue of security interests in intellectual property, the Hungarian Civil Code seems to permit a pledge on rights obtained in intellectual property. However, it would seem possible to record at the Patent and Trademark Office all material facts or circumstances that relate to the protection of such rights. Accordingly, to create a security interest, we recommend that the parties

draft an agreement that contains the pledge of collateral and the borrower's intent to assign or mortgage the collateral.

While Soviet intellectual property law does not expressly refer to "security interests" in such property, Soviet civilian would appear to permit the creation of obligations by the pledge of intellectual property. Legislation in this area remains undeveloped, and there have been no reported court decisions on this matter.

THE FAR EAST

The Republic of China (Taiwan) Patent Law contains no express provision permitting pledges of patents or patent applications. Nevertheless, by construction of the Patent Law and the ROC Civil Code, such pledges are recognized. The Patent Law makes patent applications and patents eligible for assignment or inheritance, while the ROC Civil Code provides that an assignment may be the subject of a pledge. Association of the creation of a pledge of a patent or patent application at the Patent Office will permit enforcement of the pledge. The Republic of China Trademark Law expressly provides that "The right of exclusive use of a trademark shall not be made an object of a pledge." Accordingly, lenders are unable to use trademarks as collateral for loan obligations.

In the Philippines, it is possible to record a lien against intellectual property by filing a legalised copy of the security agreement with the Registry of Deeds. A copy of the agreement is then submitted to the Bureau of Patents, Trademarks & Technology Transfer for retention in the file wrapper of the particular trademark/patent involved, or with the National Library in the case of copyrights.

← South Korea →

South Korea recognizes security interests in patents and certain categories of copyrights. Under the new Trademark Act (effective September 3, 1986), trademarks in fact are also permitted to pledge

their trademarks as collateral or security. However, the Enforcement Clause of the new Trademark Act, which prescribes the procedural guidelines as well as requirements respecting the recording of pledges, has not yet been promulgated. The Korean Patent Act provides that a borrower may pledge his patent right as security for a loan. However, the pledge will not be deemed effective until after registration at the Patent Office. Registration provides priority to the lender over any subsequent assignees of the collateral, as well as providing notice to third parties that the collateral has already been pledged.

Hong Kongian assignees secure by interests in patents, and although untested, probably in trademarks as well. Respecting patents, because Hong Kong patent rights essentially diverge upon corresponding United Kingdom rights, a security interest in a Hong Kong patent should be recorded at the Hong Kong Patent Office, in addition to the United Kingdom Patent Office. Although untested, it is believed that an application for a security interest in a registered trademark would be accepted by the Hong Kong Trademark Office.

Under Japanese trademark and patent law, both trademarks and patents can be pledged. However, the official fees incurred in recording security interests in trademarks and patents are substantial, if not excessive, and can be as high as 8% of the loan or obligations being secured. This circumstance alone discourages the use in Japan of trademarks and patents as collateral for loans. In addition, a unique problem in Japan regarding trademarks is that under Japanese law there is

a specific legal prohibition against banks acting as secured parties of trademark rights.

SOUTH AND CENTRAL AMERICA

There are no provisions in the Brazilian Industrial Property Law relevant to the use of patents and trademarks to collateralize loans. Brazilian Civil Law, however, permits the pledge of intellectual property rights as loan collateral. To protect a lender's security interest, in intellectual property the relevant security interest agreement must be recorded at the Registry of Deeds and Documents. Therefore, the agreement should be deposited with the Brazilian Patent and Trademark Office.

In Argentina, intellectual property rights regarding "artistic or literary" marks can be pledged. These rights may be subject to "prenda-con registro" (i.e., a pledge of registration). A condition for the pledge's validity is that the pledge be recorded at the Argentine National Registry. Thereafter, the pledge is reported to the Registry of Trademarks, Patents or Copyrights for appropriate notation on the official records. This dual means of registration is to ensure that third parties receive constructive notice of the security interest.

Under Colombian civil and commercial law, a security interest in trademarks, patents and copyrights may be obtained through a pledge agreement. To enforce the pledge agreement and provide public notice, the commercial law requires registration of the pledge agreement at the Commercial Registration Office.

Similar to the experience in many other countries, in Peru the

industrial property laws do not recognize security interests in trademarks, patents and copyrights. Nevertheless, it is possible to pledge these rights under a security interest agreement pursuant to the Peruvian Civil Code. Registration of the security interest agreement is required to preclude subsequent assignment of the collateral to a third party, and to provide constructive notice to the public.

CONCLUSION

It is clear that the laws in the majority of prominent and developing nations recognize a "security interest" in some form of intellectual property. Unfortunately, there has been little, if any, case law to clarify borrowers' and lenders' rights when using intellectual property as collateral in financing. Indeed, there is almost universal need to establish procedures for creation of liens on intellectual property so as to permit the transformation of this property into collateral. Statutory law, although present in most jurisdictions, is underdeveloped and limited to a patchwork of civil and commercial codes. Accordingly, most, if not all, jurisdictions will need to create additional legislation or amend existing laws to adequately provide for the creation, perfection and enforcement of security interests in intellectual property.

We suggest laws that would be similar in all jurisdictions, so as to provide protection in specific jurisdictions, while — consistent with the current movement in international practice — being in harmony with the laws and practices of other countries.