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2016 – Study Question (General)

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Security interests over intellectual property

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I. Current law and practice

You are reminded that **IPRs** refers to patents, trademarks and registered designs only.
If more than one type of security interest is available under your Group's current law, please answer the questions for each type of security interest, as applicable.

Availability of security rights

1) Does your Group's current law provide for the possibility of creating security interests over IPRs?
yes
Please explain:

If yes, please answer Questions 2) to 14) inclusive before proceeding to question 15) and following.
If no, please proceed directly to question 15).

2) Are the available types of security interests defined by specific provisions relating to security interests over IPRs or by general commercial law principles (e.g. specific provisions in your Group's patent legislation rather than general commercial provisions that are applicable to tangible personal property as well as to patents)?
yes
Please explain:

Patents and trademarks (both granted and applications for such rights) with relevance for Sweden may be pledged by registration of a written pledge agreement submitted by either the pledgor or the pledgee to the Swedish Patent and Registration Office. A pledge becomes effective in relation to third parties (i.e. creditors or anyone who later acquires the patent or other right to the property) upon the date of filing for registration, and is only valid between the parties prior to registration.

Since the Design Right Act does not contain any corresponding rules on pledges, the prevailing view is that it is not possible to pledge Swedish national design rights. Rules on pledge of design rights have been proposed, but have not yet been decided by the legislator.

Also European Union Trademarks (EUTMs) and Community Design Rights (CDRs) (both granted and applications for such rights) – valid throughout the EU, including Sweden – may be pledged by recording such rights in rem in the IPRs with the European Union Intellectual Property Office (EUIPO).

The prevailing view is that all IPRs can be covered by floating charges – a form of general security in business assets. However, a creditor and holder of a floating charge cannot based on such right alone prevent the debtor from later pledging the underlying IPRs to another creditor. The aforesaid rights may also be used as security by way of a transfer of title for security purposes.

- 3) Under your Group's current law, what types of security interests are available for IPRs? In addressing the questions in sub-paragraphs a) to c) below, please specify briefly the main characteristics and differences of the available types of security interests.

a) Does your law provide for security interests which are characterized by the full assignment of the underlying IPR to the security taker? For example, an assignment of the IPR for the purpose of security or authorization to dispose/use fully in the event of default.

yes

Please explain:

Yes. It is possible to make a transfer of title for purpose of providing security. The agreement on transfer is then sufficient in itself to give the transferee protection against the transferor's creditors. The parties are in principle free to agree on the terms and conditions in such agreement, but contractual provisions providing the right for the transferee (pledgee) to forfeit a pledge or other security interest in case of non-fulfilment of the undertaking (default) are void according to a general provision concerning pledges in the Swedish Act on Contracts (*Sw. förfallopant*), which is considered to apply also to security transfers. The transferee must thus realize the economic value of a transferred IP right by a diligent sale (normally a public sale where the transferee may also bid) and use such proceeds in order to satisfy the debt in question.

b) Does your law provide for security interests that authorize the security taker to realize the security interest only in the event of default? For example, a pledge over an IPR that authorizes the pledgee to liquidate the pledged IPR in the event of default (but not to otherwise dispose of the IPR).

no

Please explain:

The core function of a pledge agreement is to provide the right to realize the economic value of the pledged object in case of a default on the underlying obligation. In case the pledgee wishes to have any other and/or further rights to the pledged object this can be agreed between the parties, provided, however, that provisions giving the right to forfeit the pledge in case of a default are void and, thus, unenforceable (see the answer to Question 3 a) above).

c) Does your law provide for security interests that authorize the security taker to use the underlying IPR? For example, *usus fructus* rights that authorize the creditor to use and/or realize proceeds from the exercise of the IPR only during the term of encumbrance. Is any right to use the encumbered IPR conditional upon default of the security provider?

yes

Please explain:

The right to use and/or receive the proceeds from the exploitation of a pledged IPR would not automatically follow from the pledge of such right in itself. However, a pledge agreement concerning the IPR can be combined with a pledge or security transfer of e.g. the right to royalties from third party licensees (in which case such licensees must be notified of the pledge/transfer) and/or a license to use the IPR in question.

- 4) If more than one type of security interest is available under your Group's current law, what types are commonly used for IPRs? Please also specify if certain types of security interests are exclusively used for certain types of IPRs in your country. For example, patents may commonly be encumbered with pledges, while trademarks may commonly be assigned to the security taker.

Floating charges are a common way of providing security to creditors and, as noted above in the answer to Question 2, this type of security should also cover all IPRs. The advantages of floating charges are that also other related assets may then be covered by the security interest. The otherwise available specific pledges of patents and trademarks are used to a not insignificant extent, with some 40-120 patents and some 50-200 trademarks being registered as pledged each year (at least during the last ten years). The remaining answers of this study question will focus on the specific rules on pledges of patents and trademarks, unless otherwise noted.

Effects of security interests

- 5) Is the security provider restricted in their right to use their IPR after providing a security interest over that IPR? For example, in respect of their right to grant licenses, or the right to use the protected subject matter. Please answer for each available type of security interest.

no

Please explain:

No. The security provider is not restricted in their right to grant licenses or in their right to use the protected subject matter, unless otherwise agreed by the parties.

- 6) May encumbered IPRs be assigned to third parties by the security provider?

yes

Please explain:

- 7) If yes:

- a) under what conditions may an IPR be assigned (e.g. obligation to obtain consent from the security taker, public notification or registration)?

There is no need to obtain consent from the security taker, unless otherwise agreed by the parties.

- b) does the IPR remain encumbered with the original security interest for the benefit of the security taker?

yes

Please explain:

Yes. However, the pledge ceases to have effect in case it is determined that the security provider was

not the rightful owner of the IPR when the security interest was provided, e.g. if the IPR is transferred to another (rightful) owner due to a claim of better right. This is in line with the general principles of applying strict priority between competing interests, which does not protect any good-faith acquisitions.

8) What are the rights of the security taker before default (e.g. entitlement to damages, injunctions against infringers, or license fees)?

A security taker of Swedish patents and trademarks may bring legal action for damages against an infringer of the patent, subject to sending the patent owner prior written notice. However, the security taker can only be compensated for any "additional damages" caused by the infringement, e.g. if the infringement has resulted in a decreased value of the patent as security. In relation to Swedish trademarks, a security taker may independently bring action with regard to a declaratory judgement in the case of infringement (under general rules of court procedures). According to a recent proposal to a new Swedish Patents Act, the same is proposed to apply also to Swedish patents.

There are no other rights of a security taker of a Swedish national IPR, other than the rights of receiving notice described in the answer to question 9. It can be noted that in comparison with security takers of property other than IPR, the security takers of Swedish national IPR have very limited rights to take actions before default.

Regarding EUTMs and CDRs for which the security interest has been recorded in the register, the security taker has a right to be informed in advance by the security provider if the security provider intends to voluntarily surrender the IPR and registering authority (EUIPO) will also notify the security taker of the expiration of such IPR at least six months before the expiry.

9) Who of the security provider or the security taker is responsible for maintenance and defence of the IPR provided as collateral?

The main responsibilities lie with the security provider. The security provider should abide to a general principle of loyalty under the contractual relationship with the security taker to uphold the value of the security, and should therefore not act in any way which destroys the security or causes it to decrease in value. The security provider is not restricted under statutory law to voluntarily surrender the underlying IPR, but anyone, including a security taker, has the possibility to maintain the IPR by paying any applicable fees. The security taker however cannot stop the security provider from renouncing a pledged patent.

Furthermore, anyone who desires to bring action for invalidating a patent, or transferring the same based on a claim of better right or obtaining a compulsory license to the same, shall notify any registered security takers of the patent. The notice requirement is formally fulfilled after a letter has been sent to the registered address of the security taker by prepaid mail. This serves to give notice to the security taker and the security taker may under general rules of court procedures request the court to allow the security taker to intervene as a third party to the case. The rights of a third party intervening in a case are, however, very limited and the security taker may not independently defend the patent but may only support the patent owner's defence. While no such notice is mandatory to a security taker in other IPRs, also such security takers may request the court to allow the security taker to intervene as a third party to a revocation case.

10) What are the legal consequences if the underlying IPR expires or is revoked? For example, the security right lapses simultaneously; the creditor has a compensation claim against the security provider.

The security right lapses if the underlying IPR no longer is in effect, e.g. if the underlying IPR expires or is revoked. Any claim for compensation would have to be based on negligence or agreement.

11) Can any of these effects of security interests over IPRs before default be modified by contractual provisions between the parties? If so, which effects?

yes

Please explain:

Yes, but only with effect between the parties. The parties can agree on any modifications.

Applicable law

12) Does your Group's current law provide for conflicts of laws as to the availability and effect of security interests over IPR portfolios containing foreign as well as national IPRs?

no

Please explain:

There are no special provisions under Swedish law regulating conflicts of laws regarding security interests over IPRs. Neither is there, to our knowledge, any case law dealing directly with this issue.

13) Which national law applies as to creation, perfection and effect of security interests over foreign IPRs? For example, where a US patent is provided as collateral in respect of a financial transaction in Europe.

As stated in the answer to Question 12 above, there are no explicit rules regarding these types of conflicts under Swedish law.

It could, however, be argued that according to general principles, conflicts of laws regarding security interests over IPRs should be solved according to *lex loci protectionis*. At least as far as questions regarding third party protection goes. *Lex loci protectionis* is the common rule for solving conflicts of laws problems when it comes to non-contractual aspects of IPRs. For example, the pledge of a US patent by a Swedish debtor to a Swedish creditor would, thus, entail fulfilling the US requirements for perfecting the security interest in the patent. *Contractual* questions regarding the security should, however, be at the parties' disposal with regard to choice of law.

14) Can a choice of law provision in a security interest agreement over IPRs overrule the applicable law as to availability and effect?

no

Please explain:

The contractual questions regarding e.g. a pledge agreement can be governed by a choice of law clause. Questions regarding creditor's protection (perfection) and other third party conflict matters are not possible to decide by contract. Those questions would be decided by the law of the country of protection, in accordance with *lex loci protectionis*.

Additional question

15) Regardless of your Group's current law relating to security interests over IPRs, is it possible to create a solely contractual regime for security interests over IPRs (i.e. beside the types of security interests

defined by law) that is enforceable between the contracting parties?

yes

Please explain:

Yes, with the exception that contractual provisions whereby a pledge or other security interest shall be forfeited in the event of non-fulfilment of the undertaking (*Sw. förfallopant*) are void.

II. Policy considerations and proposals for improvements of the current law

16) Is your Group's current law regarding security interests over IPRs sufficient to provide certainty and predictability to the parties?

no

Please explain:

No, see the answer to Question 18 below.

17) Under your Group's current law, is there an appropriate balance between the rights between security takers and security providers? For example:

a) are there situations in which the rights of security takers should be limited or extended (e.g. if assignment of an encumbered IPR is possible by the security provider without involvement of the security taker)?

yes

Please explain:

Generally there is satisfying contractual freedom, although, the security provider's possibility to voluntarily renounce a pledged patent without notifying the security taker is an apparent imbalance in relation to which the security takers' rights should be extended.

b) are there situations in which the rights of security providers should be limited or extended (e.g. if the security taker is authorized to dispose of existing licenses without involvement of the security provider)?

yes

Please explain:

Generally there is satisfying contractual freedom, although, the security provider's possibility to voluntarily renounce a pledged patent without notifying the security taker is an apparent imbalance in relation to which the security providers' rights should be limited.

18) Are there any aspects of these laws that could be improved? Are there any other changes to your Group's current law that would promote transactions involving IPRs as collateral? If yes, please briefly explain.

yes

Please explain:

The Swedish law regarding security interests over IPRs is lacking in some aspects.

- It is not possible to effectively rely on any register regarding third party rights to IPR (a strict principle of priority applies, which does not allow for any good faith acquisitions).

- There are limited rights for a security taker to defend the pledged IPR before default.
- A security provider can voluntarily renounce a pledged patent, without consequence under statutory law.
- Contractual provisions whereby a pledge or other security interest shall be forfeited in the event of non-fulfilment of the undertaking are void.

There is a need for a reliable public register that communicates any third party rights regarding IPR. Furthermore, a patent that is pledged should not be able to be voluntarily renounced and declared terminated as long as the pledge is in effect (as is already the case under Swedish law for patents i.a. subject to seizure, charged with liens or if a dispute concerning transfer for the patent is pending before a court). Parties should also be able to agree that a pledge or other security interest shall be forfeited in the event of non-fulfilment in certain cases that provide reasonable protection of the security provider's interest, since such limitation forces default proceedings to be handled by way of public auctions (i.e. preventing security takers to agree with a new buyer in private or more time efficiently).

III. Proposals for harmonisation

19) Does your Group consider that harmonization of laws concerning security interests over IPRs is desirable?

yes

If yes, please respond to the following questions without regard to your Group's current law. Even if no, please address the following questions to the extent your Group considers your Group's laws could be improved.

Security system regarding IPRs

20) Should there be specific provisions regulating security interests over IPRs (i.e. separate from security interests over tangible property) generally?

no

Please explain:

It is in general desirable that harmonization of secured credit law according to the UNCITRAL Guide also apply to security interests in IPRs. However, until such harmonization may be achieved and in order to progress on harmonized rules regarding security interests in IPRs, AIPPI should aim at harmonization by specific provisions in IP laws. Recommending a digital notice-filing system, as envisaged in the UNCITRAL Guide, for security interests in IPR would facilitate this.

21) If no, should there be general commercial law principles that also apply to IPRs? If not, why?

yes

Please explain:

As envisaged in the UNCITRAL Guide, it is desirable to have digital notice-filing systems for registration of security interests in general, including such interest in IPRs. Until this may be achieved, harmonized rules on registration of security interests over IPRs should, however, rely on national, regional and/or bilateral registers for patents, trademarks and registered designs. There could also be a need for certain specific provisions regarding perfection of a pledge.

22) What types of security interests should be available as minimum standard in all countries?

IPRs as part of floating charges and pledge of specific IPRs.

23) Should the law be applied differently depending on the type of IPR? For example, should patents be encumbered exclusively with pledges, should trademarks be assigned to the security taker for the purpose of security?

no

Please explain:

Effect of security interests

24) Should the security provider be restricted in their right to use their IPR after providing a security interest over that IPR (e.g. in respect of their right to grant licenses, or to use the protected subject matter)? If so, how?

no

Please explain:

No, subject to agreement and the general principle of loyalty to maintain the value of the contractual relationship.

25) Should the security provider be able to assign encumbered IPRs to third parties?

yes

Please explain:

Yes, subject to agreement and the general principle of loyalty to maintain the value of the contractual relationship.

26) What should the rights of the security taker be before default (e.g. entitlement to damages, injunctions against infringers, or license fees)?

In general it should be subject to agreement. Thus, UNCITRAL's Recommendation 246, should be followed, which provides that "[t]he law should provide that the grantor and the secured creditor may agree that the secured creditor is entitled to take steps to preserve the encumbered intellectual property." It should be possible for the security taker to have the same rights as the security provider.

27) Should the security provider or the security taker be responsible for maintenance and defence of the IPR provided as collateral?

yes

Please explain:

As a starting point it should be the responsibility of the security provider. However, in general, it should be subject to agreement. The security taker should be able to take the place of the security provider if the security provider does not maintain the IPR and to otherwise have far reaching rights to defend the IPR and its value, unless otherwise has been agreed.

28) What should the legal consequences be if the underlying IPR expires or is revoked (e.g. the security right lapses simultaneously; creditor gains a compensation claim against security provider)?

The security must also expire. Any compensation claim could only be allowed to be made on the basis of agreement or negligence.

29) Should it be possible to modify these effects of security interests over IPRs before default by contractual provisions?

yes

Please explain:

Yes, although certain mandatory third party protection effects (e.g. in case of insolvency) fall outside the parties' right of disposal.

Applicable law

30) Which law should apply as to the availability and the effects of security interests where a foreign IPR is provided as collateral? Why?

Lex loci protectionis. This is also in accordance with the main rule for security interest over IPRs proposed in UNCITRAL's Recommendation 248. With any other solution, there is a risk of having too complex situations and many times getting unenforceable judgements. Any option for the parties to designate any other applicable law, would have to wait until full harmonization with respect to perfection of security interests and enforcement of the same.

31) Should a choice of law provision in a security interest agreement over IPRs overrule the applicable law? If yes, why?

no

Please explain:

Only with regard to contractual matters. Regarding the validity of the IPR it should be *lex loci protectionis*, otherwise there is a risk of having too complex situations, and many times getting unenforceable judgements.

Additional considerations and proposals

32) To the extent not already stated above, please propose any other standards your Group considers would be appropriate to harmonize laws relating to security interests over IPRs.

If the laws relating to security interests over IPRs are harmonized, the laws for security interests over unregistered intellectual property rights should also be harmonized. It is even so that it would be beneficial if also other types of intangible assets, at least to some extent, would be available as security, e.g. a complete technology as security (e.g. patents, software copyright, blueprints, know-how, etc.).

33) Please comment on any additional issues concerning any aspect of security interests over IPRs you consider relevant to this Study Question.

N/A.

Please indicate which industry sector views are included in part “**III. Proposals for harmonization**” of this form:

Summary

Swedish law regarding security interests over IPRs is not sufficient to provide certainty and predictability to the parties. When a pledge is in effect, it should not be possible for the security provider to voluntarily renounce a pledged IPR without notifying the security taker. There is a need for a public register that communicates third party rights regarding IPR. Parties should be able to agree that a pledge or other security interest shall be forfeited in the event of non-fulfilment if reasonable protection of the security provider's interest can be provided.

Harmonization of secured credit laws shall ultimately apply to IPR, this should be done by using i.a. a digital notice-filing system. However, firstly, harmonization by specific provisions in IP laws, through national, regional and/or bilateral registers for IPR, should be the aim. IPRs as part of floating charges and pledge of specific IPR, should be available in all countries.

Subject to agreement, the security provider should not be restricted in their right to use their IPR after providing a security interest, and should be able to assign this IPR to third parties. The rights of the security taker before default and the responsibilities for maintaining the IPR should be subject to agreement. It should be possible to modify effects of security interests over IPRs before default by contractual provisions, subject to third party rights.

Lex loci protectionis should be the applicable law in relation to validity of IPR, for contractual matters there should be a possibility to choose law.