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Report of Working Group VI (Security Interests) on the work of its fifteenth session (New York, 27 April-1 May 2009)

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I. Introduction

1. At its present session, Working Group VI (Security Interests) continued its work on the preparation of an annex to the UNCITRAL Legislative Guide on Secured Transactions (hereinafter referred to as “the Guide”)¹ specific to security rights in intellectual property, pursuant to a decision taken by the Commission at its fortieth session, in 2007.² The Commission’s decision to undertake work on security rights in intellectual property was taken in response to the need to supplement its work on the Guide by providing specific guidance to States as to the appropriate coordination between secured transactions and intellectual property law.³

2. At its thirty-ninth session, in 2006, the Commission considered its future work on secured financing law. It was noted that intellectual property rights (e.g. copyrights, patents and trademarks) were becoming an extremely important source of credit and should not be excluded from a modern secured transactions law. In addition, it was noted that the recommendations of the draft Guide generally applied to security rights in intellectual property to the extent that they were not inconsistent with intellectual property law. Moreover, it was noted that, as the recommendations of the draft Guide had not been prepared with the special intellectual property law issues in mind, enacting States should consider making any necessary adjustments to the recommendations to address those issues.⁴

3. In order to provide more guidance to States, the suggestion was made that the Secretariat should prepare, in cooperation with international organizations with expertise in the fields of secured financing and intellectual property law and, in particular the World Intellectual Property Organization (WIPO), a note for submission to the Commission at its fortieth session, in 2007, discussing the possible scope of work that could be undertaken by the Commission as a supplement to the draft Guide. In addition, it was suggested that, in order to obtain expert advice and the input of the relevant industry, the Secretariat should organize expert group meetings and colloquiums as necessary.⁵ After discussion, the Commission requested the Secretariat to prepare, in cooperation with relevant organizations and in particular WIPO, a note discussing the scope of future work by the Commission on intellectual property financing. The Commission also requested the Secretariat to organize a colloquium on intellectual property financing ensuring to the maximum extent possible the participation of relevant international organizations and experts from various regions of the world.⁶

4. Pursuant to those requests, the Secretariat organized in cooperation with WIPO a colloquium on security rights in intellectual property rights (Vienna, 18 and 19 January 2007). The colloquium was attended by experts on secured financing and

¹ Currently available on the UNCITRAL website (<http://www.uncitral.org/pdf/english/texts/security-1g/e/final-final-e.pdf>). To be issued as a United Nations sales publication.

² *Official Records of the General Assembly, Sixty-second Session, Supplement No. 17 (A/62/17 (Part I))*, para. 162.

³ *Ibid.*, para. 157.

⁴ *Official Records of the General Assembly, Sixty-first Session, Supplement No. 17 (A/61/17)*, paras. 81 and 82.

⁵ *Ibid.*, para. 83.

⁶ *Ibid.*, para. 86.

intellectual property law, including representatives of Governments and national and international, governmental and non-governmental organizations. At the colloquium, several suggestions were made with respect to adjustments that would need to be made to the draft Guide to address issues specific to intellectual property financing.⁷

5. At the first part of its fortieth session (Vienna, 25 June-12 July 2007), the Commission considered a note by the Secretariat entitled “Possible future work on security rights in intellectual property” (A/CN.9/632). The note took into account the conclusions reached at the colloquium on security rights in intellectual property rights. In order to provide sufficient guidance to States as to the adjustments that they might need to make in their laws to avoid inconsistencies between secured financing and intellectual property law, the Commission decided to entrust Working Group VI (Security Interests) with the preparation of an annex to the draft Guide specific to security rights in intellectual property rights.⁸

6. At the resumed fortieth session (Vienna, 10-14 December 2007), the Commission finalized and adopted the Guide on the understanding that an annex to the Guide specific to security rights in intellectual property rights would subsequently be prepared.⁹

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

8. At its forty-first session (New York, 16 June-3 July 2008), the Commission noted with satisfaction the good progress achieved by the Working Group. The Commission also noted the decision of the Working Group with respect to certain matters related to the impact of insolvency on a security right in intellectual property and decided that Working Group V should be informed and invited to express any preliminary opinion at its next session. It was also decided that, should any remaining issue require joint consideration by the two working groups after that session, the Secretariat should have discretion to organize a joint discussion of the impact of insolvency on a security right in intellectual property.¹⁰

9. At its fourteenth session (Vienna, 20-24 October 2008), the Working Group continued its work based on a note prepared by the Secretariat entitled “Annex to the UNCITRAL Legislative Guide on Secured Transactions dealing with security

⁷ See <http://www.uncitral.org/uncitral/en/commission/colloquia/2secint.html>.

⁸ *Official Records of the General Assembly, Sixty-second Session, Supplement No. 17 (A/62/17 (Part I))*, paras. 156, 157 and 162.

⁹ *Ibid.*, Sixty-second session, Supplement No. 17 (A/62/17 (Part II)), paras. 99-100.

¹⁰ *Ibid.*, Sixty-third session, Supplement No. 17 (A/63/17), para. 326.

rights in intellectual property (A/CN.9/WG.VI/WP.35 and Add.1). At that session, the Working Group requested the Secretariat to prepare a revised version of the draft annex reflecting the deliberations and decisions of the Working Group (see A/CN.9/667, para. 15). The Working Group also referred to Working Group V (Insolvency Law) certain matters relating to the impact of insolvency on a security right in intellectual property (see A/CN.9/667, paras. 129-140). In that connection, it was widely felt that every effort should be made to conclude discussions of these matters as soon as possible, so that the result of those discussions could be included in the draft annex by the fall of 2009 or the early spring of 2010 and the draft annex could be submitted to the Commission for final approval and adoption at its forty-third session in 2010 (see A/CN.9/667, para. 143).

II. Organization of the session

10. The Working Group, which was composed of all States members of the Commission, held its fifteenth session in New York from 27 April to 1 May 2009. The session was attended by representatives of the following States members of the Working Group: Algeria, Australia, Benin, Cameroon, Canada, Chile, China, Colombia, Czech Republic, Ecuador, Egypt, El Salvador, Fiji, France, Gabon, Germany, Greece, Guatemala, India, Iran (Islamic Republic of), Italy, Japan, Kenya, Madagascar, Mexico, Morocco, Nigeria, Norway, Pakistan, Paraguay, Republic of Korea, Russian Federation, South Africa, Spain, Switzerland, Thailand, Uganda, United Kingdom of Great Britain and Northern Ireland, United States of America and Venezuela (Bolivarian Republic of).

11. The session was attended by observers from the following States: Bangladesh, Belgium, Ghana, Indonesia, Kuwait, Kyrgyzstan, Libyan Arab Jamahiriya, Mauritania, Netherlands, Philippines, Qatar, Romania and Slovenia.

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

(a) *United Nations system*: World Bank and World Intellectual Property Organization (WIPO);

(b) *Inter-governmental organizations*: European Space Agency (ESA) and European Union (EU);

(b) *International non-governmental organizations invited by the Commission*: American Bar Association (ABA), Center for International Legal Studies (CILS), Commercial Finance Association (CFA), European Law Student's Association (ELSA), Independent Film and Television Alliance (IFTA), International Trademark Association (INTA), New York City Bar Association and Union internationale des avocats (UIA).

13. The Working Group elected the following officers:

Chairperson: Ms. Kathryn SABO (Canada)

Rapporteur: Ms. Carolina SEPULVEDA V. (Chile)

14. The Working Group had before it the following documents: A/CN.9/WG.VI/WP.36 (Annotated provisional agenda) and A/CN.9/WG.VI/WP.37

and Addenda 1 to 4 (Draft Annex to the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property).

15. The Working Group adopted the following agenda:
 1. Opening of the session and scheduling of meetings.
 2. Election of officers.
 3. Adoption of the agenda.
 4. Security interests in intellectual property.
 5. Other business.
 6. Adoption of the report.

III. Deliberations and decisions

16. The Working Group considered a note by the Secretariat entitled “Draft annex to the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property” (A/CN.9/WG.VI/WP.37 and Addenda 1 to 4). The Working Group also took note of a note by the Secretariat entitled “Discussion of intellectual property in the Legislative Guide on Insolvency Law” (A/CN.9/WG.V/WP.87). The deliberations and decisions of the Working Group are set forth below in chapters IV and V. The Secretariat was requested to prepare a revised draft of the annex reflecting those deliberations and decisions.

IV. Security rights in intellectual property

A. Introduction (A/CN.9/WG.VI/WP.37)

1. Background

17. The Working Group approved the substance of section A of the Introduction, dealing with the background of the project, on the understanding that it would be completed to refer to every new step in the development of the draft annex.

2. The interaction between secured transactions law and law relating to intellectual property

18. The Working Group approved the substance of section B of the Introduction dealing with the interaction between secured transactions law and law relating to intellectual property.

3. Terminology

19. There was general agreement that section C of the Introduction, dealing with terminology, usefully elaborated on the meaning of the terms used in the Guide in an intellectual property context. At the same time, several comments and suggestions were made to refine the presentation of the terminology section, including the following:

(a) With respect to paragraph 15, the suggestion was made that, in order to ensure clarity and consistency with the terminology used in law relating to intellectual property, reference should be made, instead of to a “lesser rights holder”, directly to a “licensee” or “licensor”;

(b) With respect to paragraph 16, the suggestion was made that the first sentence and the remaining two sentences should be presented in two separate paragraphs as they dealt with two different issues, namely that an intellectual property right was distinct from the income streams that flowed from it and that a licence was not a security right;

(c) The suggestion was also made that the text of paragraph 16 should be amplified to clarify that, while the question of whether an intellectual property owner could grant a licence was a matter of intellectual property law, the question whether the parties to a security agreement could agree to the contrary was a matter that should be addressed in the Guide;

(d) The suggestion was also made that the references throughout the annex to recommendation 4, subparagraph (b), should be aligned with the substance of recommendation 4, subparagraph (b);

(e) With respect to paragraph 17, the suggestion was made that reference should also be made, in addition to patents, trademarks and copyrights, to “plant varieties”;

(f) With respect to paragraphs 19-21, the suggestion was made that the distinction between a “licence” as a right and a “licence agreement” as the agreement that created that right should be clarified, also by reference to statutory (or compulsory) licences and implied licences, which were not the product of an agreement;

(g) It was also suggested that reference should be made in paragraphs 19-21 to law relating to intellectual property in some States, under which a licence (such as an exclusive licence) might be treated as a property rather than as a personal right;

(h) With respect to paragraph 22, the suggestion was made that all the text after the first two sentences should be deleted as it contained unnecessary or not fully accurate references (e.g. to moral rights rather than author rights);

(i) With respect to paragraph 24, the suggestion was made that, in order to align it with the revised version of paragraph 15, language along the following lines should be included, replacing the wording after the first sentence: “Under intellectual property law, the rights of an intellectual property owner generally imply the right to prevent unauthorized use of its intellectual property and the right to transfer and conclude licensing contracts in relation to its intellectual property. For example, in the case of patents, a patent owner has exclusive rights to prevent certain acts, such as making, using, selling, in relation to the subject matter of a patent performed without his/her authorization. In that sense, it is an intellectual property owner who is considered to be a right holder. On the other hand, in the context of a secured transactions law, the term right holder is also used to refer to a lesser right holder, such as, for example, a licensee who may have the right to use IP vis-à-vis third parties. However, it is to be understood that the lesser right holders

may not necessarily enjoy exclusive rights in the meaning of intellectual property law”;

(j) With respect to paragraph 24, the suggestion was also made that the term “holder of intellectual property rights” might be used instead of the term “right holder”, as it was clearer;

(k) With respect to paragraph 25, the suggestion was made that it should emphasize the fact that the rights of the licensor and the licensee depended on the terms of the licence agreement (except in the case of compulsory or implied licences where there was no agreement) and that the right to collect royalties and to terminate the contract was usually part of that agreement; and

(l) With respect to paragraph 27, it was suggested that the term “transfer” be examined to ensure consistency of use throughout the draft annex.

20. While with respect to the suggestion referred to in paragraph 3, subparagraph (i), above, it was stated that the essence of an intellectual property right could be explained in a positive way, there was support for the suggestions mentioned in paragraph 19 above. With respect to the suggestion referred to in paragraph 19, subparagraph (c), above, the Working Group postponed its decision until it had an opportunity to consider the rights and obligations of the parties (see para. 96 below). Subject to the other changes referred to in paragraph 19 above, the Working Group approved the substance of section C of the Introduction on terminology.

4. Examples of intellectual property financing practices

21. There was broad support in the Working Group for section D of the Introduction on the examples of intellectual property financing practices. At the same time, a number of suggestions were made.

22. One suggestion was that examples 5 and 6 should be deleted. It was stated that they involved inventory, rather than intellectual property, financing. It was also observed that the fact that the value of inventory was enhanced by the intellectual property used with respect to the inventory was a practical or economic, but not a legal, matter. That suggestion was objected to. It was stated that, while tangible assets and intellectual property used with respect to those assets were two different types of asset, security rights could be created in both of those types of asset. It was also observed that security rights in inventory or equipment with respect to which intellectual property was used were sufficiently important to warrant reference in the examples section of the draft annex.

23. Another suggestion was that examples 5 and 6 should be placed in a separate section under a different heading and with a different introduction or the heading of that section and the introduction should be revised to clarify that examples 5 and 6 involved somehow different financing practices. While there was sufficient support for that suggestion, the way of its exact implementation was left to the Secretariat.

24. Yet another suggestion was that the examples should be supplemented by examples of acquisition financing practices. The Working Group postponed discussion of that suggestion until it had an opportunity to reconsider its decision that the principles of acquisition financing did not apply to intellectual property (see A/CN.9/649, paras. 74-76; see also paras. 91-93 below).

25. Yet another suggestion was that, in example 1, reference should be made to the bank's reliance on a prior check of the patent registry. While there was no objection as a matter of policy, it was widely felt that the matter was better discussed in the chapter on registration rather than in the section of the Introduction dealing with examples.

26. Subject to the changes referred to in paragraph 23 above, the Working Group approved the substance of section D of the Introduction dealing with examples of intellectual property financing practices.

5. Key objectives and fundamental policies

27. The Working Group approved the substance of section E of the Introduction, dealing with the key objectives and fundamental policies of the draft annex.

B. Scope of application and party autonomy (A/CN.9/WG.VI/WP.37/Add.1)

1. Broad scope of application

28. There was general support for a broad scope of application of the draft annex. However, with regard to the formulation of the text dealing with the scope of application of the draft annex, a number of suggestions were made, including the following:

(a) Paragraph 2 should refer in the second sentence to the possibility that a security right could be created in a patent, a trademark and the economic rights under a copyright "or other intellectual property right as defined under law relating to intellectual property", so as to avoid limiting the scope of intellectual property rights covered;

(b) Paragraphs 7 and 19 should clarify that they referred to true outright transfers and not to disguised secured transactions, reflecting the approach of the Guide that substance should prevail over form;

(c) The discussion on patents in section A.4 on limitations on scope should be revised to refer to a patent owner or co-owner, to registration or application for registration of a patent, and to protection being granted to the first person to invent the patent or the first person to file an application;

(d) A new section should be added to refer to neighbouring (allied or related) rights in section A.4 on limitations on scope;

(e) The examples in paragraphs 14-21 should be revised to clarify that they indicated the scope and the implications of the deference to law relating to intellectual property, setting out in an illustrative way the problems that might arise from the non-uniform approaches to intellectual property financing in law relating to intellectual property, rather than what the approach of law relating to intellectual property law should be;

(f) The references in paragraphs 16-20 to registration in an intellectual property registry of a security right in intellectual property should be revised to ensure that they were not unnecessarily inconsistent with each other; and

(g) The references in paragraph 17 to bona fide (good faith) purchasers of encumbered intellectual property should be deleted and the paragraph revised to avoid an implication that the law in all States was as described in that paragraph.

29. With respect to the examples in paragraphs 14-21, a number of additional suggestions were made.

30. One suggestion was that the examples in paragraphs 14-21 should be deleted. It was stated that the examples were not helpful in that they did not clarify the impact of the application of recommendation 4, subparagraph (b), or the problems that existed as a result of the non-harmonized or outdated approaches to intellectual property financing in the various laws relating to intellectual property. That suggestion was objected to. It was widely felt that, while the examples in paragraphs 14-21 could benefit from the clarifications mentioned in paragraph 28, subparagraph (e), above, they usefully clarified the scope and the impact of the application of recommendation 4, subparagraph (b), and should thus be retained. It was also stated that those examples were helpful in clarifying the limits of a harmonization or modernization of secured transactions law and in particular the need to harmonize or modernize law relating to intellectual property (which was said to be beyond the mandate of the Working Group) in order to achieve optimal results with respect to intellectual property financing.

31. Another suggestion was that the examples should be placed in the appropriate context in the draft annex (e.g. on third-party effectiveness, registration, priority or enforcement). There was no sufficient support for that suggestion. It was widely felt that the examples were appropriately placed to explain the limitations on scope and usefully supplemented the general discussion on the interrelationship between secured transactions law and law relating to intellectual property included in section B of the Introduction (see A/CN.9/WG.VI/WP.37, paras. 9-14).

32. Subject to the changes mentioned in paragraph 28 above, the Working Group approved the substance of section B.1 on the broad scope of application of the draft annex.

2. Application of the principle of party autonomy to security rights in intellectual property

33. While there was support for the principle of party autonomy in the Working Group, a number of suggestions were made, including the following:

(a) Paragraph 23 should be revised to refer to an example of the application of the principle of party autonomy in an intellectual property financing context, as a general introduction of the matters discussed in chapter VII on the rights and obligations of the parties (see A/CN.9/WG.VI/WP.37/Add.3, paras. 19-22);

(b) Paragraph 24 should be revised to deal with the question whether parties could agree that damages for infringement, as well as for lost profits and devaluation of the encumbered intellectual property, formed part of the original encumbered intellectual property, or were to be treated as proceeds under the Guide, provided that that was not inconsistent with law relating to intellectual property.

34. Subject to those changes, the Working Group approved the substance of section B on the application of the principle of party autonomy to security rights in intellectual property.

C. Creation of a security right in intellectual property (A/CN.9/WG.VI/WP.37/Add.1)

1. The concepts of creation and third-party effectiveness

35. The Working Group approved the substance of section A dealing with the concepts of creation and third-party effectiveness of a security right in intellectual property.

2. Unitary concept of a security right

36. The Working Group approved the substance of section B dealing with the unitary concept of a security right.

3. Requirements for the creation of a security right in intellectual property

37. Differing views were expressed with regard to the degree of specificity of the description of encumbered intellectual property in the security agreement.

38. One view was that intellectual property was different from tangible assets and copyrights, for example, included a bundle of rights that had to be described with precision in the security agreement. It was stated that such an approach would ensure certainty but also allow a copyright owner to use unencumbered parts of its bundle of rights to obtain credit from other sources. It was emphasized that that right was essential to the copyright owner's ability to obtain credit.

39. Another view was that, in view of the divisibility of intellectual property rights, parties could always divide their intellectual property rights and use them to obtain credit from different sources, while having some discretion as to how to describe encumbered assets in a security agreement. It was observed that the general description of encumbered assets facilitated their use as security for credit and was a minimum standard, always leaving it to parties to describe the encumbered assets specifically, if they so wished. It was also pointed out that, unless there was a need to protect certain parties (such as the debtor or third parties), there was no need for the law to interfere with the autonomy of the parties to the security agreement.

40. Yet another view was that, under recommendation 14, subparagraph (d), encumbered assets had to be described in the security agreement "in a manner that reasonably allowed their identification". It was widely felt that that standard (which was also the standard for the description of the encumbered assets in the notice registered under recommendation 63) was sufficiently flexible to allow a general or less general description of the encumbered assets, depending on what was a "reasonable" description of the assets under the relevant law and practice. It was also observed that recommendation 4, subparagraph (b), would be sufficient to preserve any contrary rules of law relating to intellectual property.

41. In the discussion, the suggestion was made that references in the draft annex to the law preserved under recommendation 4, subparagraph (b), should be standardized. In response, it was noted that the term "law relating to intellectual property" was intended to serve that purpose. While there was broad support for the suggestion and the response, it was agreed that the relevant discussion in the terminology section should be reviewed to ensure that that point was sufficiently clarified and that term was consistently used throughout the draft annex.

42. After discussion, it was widely felt that reference should be made to the concept of “reasonable identification” of the encumbered assets in the security agreement (see recommendation 14, subparagraph (d)) that could vary depending on what was reasonable under the relevant law or practice. Subject to those changes, the Working Group approved the substance of section C on the requirements for the creation of a security right in intellectual property.

4. Rights of a grantor with respect to the intellectual property to be encumbered

43. With respect to paragraph 33, the Working Group recalled that all references in the draft annex to the term “lesser rights holder” should be replaced by direct references to a “licensee or a licensor” (see para. 19 (a) above). Subject to that change, the Working Group approved the substance of section D on the rights of a grantor with respect to the intellectual property to be encumbered.

5. Distinction between a secured creditor and an owner with respect to intellectual property

44. The Working Group approved the substance of section E on the distinction between a secured creditor and an owner with respect to intellectual property.

6. Types of encumbered asset in an intellectual property context

(a) Rights of an owner

45. A number of drafting suggestions were made, including the following:

(a) The text in parenthesis at the end of paragraph 37 should be aligned with the revised version of section C (see para. 42 above);

(b) The words “in return for royalties” at the end of paragraph 39 should be deleted;

(c) Paragraph 41 should be revised to clarify that: (i) the question whether the right to sue infringers (seeking an injunction and compensation) was a movable asset was governed by law other than secured transactions law, and (ii) if that right was a movable asset, the question whether that asset could be subject to a security right was a matter of secured transactions law subject to recommendation 4, subparagraph (b);

(d) Paragraph 42 should be revised to clarify that the right of the secured creditor to sue infringers (in the name of the grantor) before default of the grantor was an elaboration of the right to protect the encumbered asset, a matter discussed in chapter VII of the draft annex on the rights and obligations of the parties to a security agreement (see A/CN.9/WG.VI/WP.37/Add.3, paras. 19-22); and

(e) Paragraph 43 should be revised to refer to the secured creditor dealing with national authorities during the various phases of the registration process rather than “to register” an already registered intellectual property right.

46. The suggestion was also made that paragraphs 41 and 42 should be deleted or placed elsewhere in the draft guide. It was stated that the right to sue infringers and possibly obtain compensation was an asset of uncertain value and could not be used as security for credit. It was also observed that typically the secured creditor could exercise that right only after the grantor’s default in the context of the enforcement

of its security right. There was no sufficient support for that suggestion. It was stated that the value of an encumbered asset and the risks involved were practical matters better left to parties. It was also observed that a secured creditor could also exercise the right to sue infringers if that right was given to the secured creditor by the grantor or the grantor failed to exercise that right.

47. Subject to the changes mentioned above (see para. 45), the Working Group approved the substance of section F.1 on the rights of an owner as an encumbered asset.

(b) Rights of a licensor

48. A number of drafting suggestions were made, including the following:

(a) The first two sentences of paragraphs 45 and 47 should be revised to clarify that the right to payment of royalties, referred to in those paragraphs, constituted the original encumbered asset where the grantor was a licensor, and not proceeds;

(b) The point that the right to payment of royalties could be proceeds of the original encumbered intellectual property should be made in the section discussing the rights of an owner as an encumbered asset;

(c) The reference to international accounting standards in paragraph 47 should be either supplemented with information as to why it was relevant for intellectual property or deleted;

(d) The references to the right to royalties in several paragraphs, including paragraphs 47 and 48, should be replaced by wording along the following lines “right to payment of royalties”; and

(e) The last two sentences of paragraph 51 should be revised to avoid inconsistencies and references to matters of insolvency law by referring to the fact that a licensor might not be able to control the flow of royalties by bilateral agreements but was owed payment of royalties.

49. Subject to those changes, the Working Group approved the substance of section F.2 on rights of a licensor as an encumbered asset.

(c) Rights of a licensee

50. A number of suggestions of a drafting nature were made, including the following:

(a) Paragraphs 53 and 54 should be revised to deal with the rights of a licensee, leaving issues arising where the licensee was a sub-licensor to the section on the rights of a licensor; and

(b) The second and third sentences of paragraph 54 should be revised to read along the following lines: “The reason is that it is important for the licensor to retain control over the licensed intellectual property and who can use it. If such control cannot be exercised, the value of the licensed intellectual property may be materially impaired or lost completely. If the rights of a licensee under a licence agreement are transferable and the licensee grants a security right in them, the

secured creditor will take the licensee's rights subject to the terms and conditions of the licence agreement."

51. Subject to those changes, the Working Group approved the substance of section F.3 on the rights of a licensee as an encumbered asset.

(d) Rights in intellectual property used with respect to a tangible asset

52. A number of drafting suggestions were made, including the following:

(a) The heading of the section should be revised to read "rights in tangible assets with respect to which intellectual property is used";

(b) Paragraphs 56 and 57 should be revised to distinguish situations, in which the manufacturer of the encumbered tangible assets was the intellectual property owner (in which case the encumbered asset was the intellectual property), from situations, in which the manufacturer was the licensee (in which case the encumbered asset was the licensee's rights);

(c) Paragraph 58 should refer to the exhaustion "doctrine" or "principle" with a cross-reference to the chapter on enforcement; and

(d) The recommendation in paragraph 59 should be revised to read along the following lines: "The law should provide that, in the case of a tangible asset with respect to which intellectual property is used, ...".

53. Subject to those changes, the Working Group approved the substance of section F.4 on rights in tangible assets with respect to which intellectual property was used (corrected heading).

7. Security rights in future intellectual property

54. The suggestion was made that the penultimate sentence in paragraph 63 should be revised to clarify the concept of "improvements", providing that, in some States, under law relating to copyright, a security right in an old version of software might extend to a new version of that software. In response, caution was advised in view of the fact that the approach to that issue differed from State to State. It was also observed that the discussion in section G was appropriate to the extent it emphasized that whether a security right extended to future intellectual property depended on the description of the encumbered asset, referred to legislative prohibitions emanating from law relating to intellectual property and explained that those prohibitions were not affected by the Guide. Subject to clarifying the concept of "improvements" under intellectual property law, the Working Group approved the substance of section G on security rights in future intellectual property.

8. Legal and contractual limitations on the transferability of intellectual property

55. The suggestion was made that the words "at least prior to actual receipt of payment by the author" in the third sentence of paragraph 65 were unnecessary and should be deleted. Subject to that change, the Working Group approved the substance of section H on legal and contractual limitations on the transferability of intellectual property.

D. Effectiveness of a security right in intellectual property against third parties (A/CN.9/WG.VI/WP.37/Add.2)**1. The concept of third-party effectiveness**

56. The suggestion was made that, to ensure consistency, the first sentence of paragraph 2 should refer to the law “in some States” and the second sentence should refer to the law “in other States”. The suggestion was also made that the last sentence of paragraph 3 was unnecessary and should be deleted. Subject to those changes, the Working Group approved the substance of section A on the concept of third-party effectiveness.

2. Third-party effectiveness of security rights in intellectual property that are registrable in an intellectual property rights registry

57. 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. It was also suggested that sections B and C, might be reorganized to reflect more clearly the three possible alternatives, that is, specialized registries with opposability results, specialized registries without such results and specialized registries with opposability results in which, however, the secured creditor did not register.

58. With respect to paragraphs 5 and 6, it was suggested that they should be revised to indicate that registration in a specialized registry produced different results from State to State and that, in many cases, the results of such registration were not clear.

59. With regard to paragraph 7, it was suggested that the sentences referring to what the Guide was not meant to do should be deleted or explained. While there was broad support for the suggestion to explain the reasons for the approach of the Guide, the suggestion to delete those sentences did not receive sufficient support. The suggestion was also made that the last sentence should be supplemented by an additional sentence providing that States might also wish to consider providing for registration of security rights in intellectual property exclusively in the general security rights registry. That suggestion did not attract sufficient support as it would appear as recommending an approach that would be contrary to the options offered in recommendation 38. However, there was broad support for a suggestion to make the last sentence of paragraph 7 conditional on the existence of a specialized intellectual property registry and a decision by a State enacting the law recommended in the Guide to make use of the options offered in recommendation 38.

60. Subject to those changes mentioned above that attracted sufficient support, the Working Group approved the substance of section B on the third-party effectiveness

of security rights in intellectual property that are registrable in an intellectual property registry.

3. Third-party effectiveness of security rights in intellectual property that are not registrable in an intellectual property rights registry

61. With respect to paragraph 8, it was suggested that the third sentence should be placed at the end as it applied to the whole paragraph. Subject to that change, the Working Group approved the substance of section C on the third-party effectiveness of security rights in intellectual property that are not registrable in an intellectual property registry.

E. The registry system (A/CN.9/WG.VI/WP.37/Add.2)

1. The general security rights registry

62. With respect to paragraphs 10 and 11, it was suggested that it should be possible to register in the general security rights registry a notice with a general or specific description of encumbered intellectual property. It was stated that the registry should also have an asset-based index for searchers to be able to identify a portfolio of encumbered intellectual property rights or specific intellectual property rights. It was also observed that consequent amendments should be made to the chapters on third-party effectiveness and priority. Differing views were expressed with regard to that suggestion. However, in view of the fact that that suggestion could have significant implications for the approaches recommended in several chapters of the Guide, the Working Group postponed its consideration until it had an opportunity to consider a comprehensive proposal in writing. Subject to its future decision on that proposal, the Working Group approved the substance of section A on the general security rights registry.

2. Asset-specific intellectual property registries

63. With respect to paragraph 13, it was suggested that, in line with its prior decision in the context of its discussion of limitations on the scope of the draft annex (see para. 28, subpara. (c), above), reference should be made to “co-owners” rather than “co-inventors”. Subject to that change, the Working Group approved the substance of section B on asset-specific intellectual property rights.

3. Coordination of registries

64. With respect to paragraph 15, it was suggested that it should distinguish between registries that qualified as specialized registries under the Guide and registries that did not qualify (see para. 57 above).

65. With respect to paragraph 18, it was suggested that the last sentence should refer to the preservation of different priority rules of law relating to intellectual property (e.g. a rule that provided that a purchaser of intellectual property that was aware of a prior security right did not acquire the intellectual property free of the security right).

66. With respect to paragraph 19, it was suggested that it should be revised to avoid the inadvertent implication that the draft annex recommended the use of multiple registries.

67. Subject to those suggestions, the Working Group approved the substance of section C on the coordination of registries.

4. Registration of notices about security rights in future intellectual property

68. The Working Group approved the substance of section D on the registration of notices about security rights in future intellectual property.

5. Dual registration or search

69. With respect to paragraph 23, it was suggested that it should refer to specialized registries producing the effects agreed upon by the Working Group in the context of its discussion on section B of the chapter on third-party effectiveness (see para. 57 above). It was also suggested that an analysis of costs involved in registration in intellectual property and general security rights registries might be helpful to assess the impact of registration and search in one or the other registry, or in both. It was agreed that the Working Group could consider such information at a future meeting. Subject to those changes, the Working Group approved the substance of section E on dual registration or search.

6. Time of effectiveness of registration

70. With respect to paragraph 28, it was agreed that the phrase “under the law relating to intellectual property law” should be added in the first sentence after “specialized registration systems” in order to clarify that the rules mentioned in that paragraph referred to rules of law relating to intellectual property, to which the law recommended in the Guide would defer under recommendation 4, subparagraph (b).

7. Impact of a transfer of encumbered intellectual property on the effectiveness of registration

71. With respect to paragraph 32, it was suggested that the third alternative should apply to intellectual property so that a transfer of encumbered intellectual property should have no impact on the third-party effectiveness of a security right in that intellectual property. Both support for and opposition to that suggestion were expressed. In support, it was stated that without such a rule 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 a licence was treated as a transfer under law relating to intellectual property). It was also observed that in such a case a significant monitoring burden would be imposed on intellectual property financiers that might discourage credit against such assets. In opposition, it was observed that there was no reason to follow a different approach from the approach followed in the Guide with respect to assets other than intellectual property. It was also pointed out that, with such an approach, lenders to a transferee or a licensee in a chain would not be able to discover a security right created by a person in the chain other than their grantor. Subject to the addition of a recommendation along the lines suggested within square brackets for consideration at a future session, the Working Group approved the substance of section G on the

impact of a transfer of encumbered intellectual property on the effectiveness of registration.

8. Registration of security rights in trademarks

72. The Working Group approved the substance of section H on the registration of security rights in trademarks.

F. Priority of a security right in intellectual property (A/CN.9/WG.VI/WP.37/Add.2 and 3)

1. The concept of priority

73. With respect to paragraph 43, it was suggested that it should be revised to align the references to the meaning of the term “priority” with its explanation in the terminology section of the Guide and to clarify that a conflict between two parties, neither of whom was a secured creditor, was outside the scope of the Guide, irrespective of the *nemo dat* rule (nobody gives rights that they do not have). Subject to those changes, the Working Group approved the substance of section A on the concept of priority of a security right in intellectual property.

2. Identification of competing claimants

74. With respect to paragraph 45, it was suggested that it should be revised to clarify that coverage of transfers of intellectual property for security purposes in the Guide was not an exception as such transactions were treated as secured transactions under the Guide and not as true transfers and to align the reference to recommendation 4, subparagraph (b), with its wording. Subject to those changes, the Working Group approved the substance of section B on the identification of competing claimants.

3. Relevance of knowledge of prior transfers or security rights

75. With respect to paragraph 46, it was suggested that the reference to recommendation 81, subparagraph (a), should track its language more closely (“sold in the ordinary course of the sellers’ business ... violates the rights of the secured creditor under the security agreement”) and to ensure a better flow between the second and the third sentence inverting their order. Subject to those changes, the Working Group approved the substance of section C on the identification of competing claimants.

4. Priority of a security right registered in an intellectual property registry

76. With respect to paragraph 49, it was suggested that the reference to the words “or other right” in the first sentence should be deleted as recommendations 77 and 78 referred only to a security right that was registered in the specialized registry or not. It was also suggested that the priority rule should be made subject to registration of a security right in a specialized registry that qualified as a specialized registry under the Guide.

77. With respect to the last sentences of paragraphs 50 and 51, it was suggested that they should be revised to avoid any inconsistency.

78. Subject to those changes, the Working Group approved the substance of section D on the priority of a security right registered in an intellectual property registry.

5. Priority of a security right that is not registrable in an intellectual property registry

79. The Working Group approved the substance of section E on the priority of a security right that was not registrable or registered in an intellectual property registry.

6. Rights of transferees of encumbered intellectual property

80. It was noted that, once the Working Group had reached a decision on recommendation 81, subparagraph (c), the references in paragraph 55 to recommendation 81 would need to be adjusted. Subject to that change, the Working Group approved the substance of section F on rights of transferees of encumbered intellectual property.

7. Rights of licensees in general

81. With respect to paragraph 3, it was suggested that it should be revised to clarify that:

(a) The secured creditor could not collect encumbered receivables before default of the grantor, unless the grantor and the secured creditor had agreed otherwise;

(b) The licensor's secured creditor enforcing its security right could sell the licence or grant another licence free of the pre-existing licence not as licensor but on behalf of the licensor.

82. Subject to those changes, the Working Group approved the substance of section G on rights of licensees in general.

8. Rights of certain licensees

83. The Working Group considered two alternatives for a recommendation dealing with the question whether a non-exclusive licensee in certain circumstances should take its licence free of a security right created by the licensor and whether, as a result, in the case of default of the owner, the licensee should be entitled to collect the royalties but not terminate the licence agreement (see A/CN.9/WG.VI/WP.37/Add.3, para. 10, Note to the Working Group).

84. Broad support was expressed for the substance of alternative A. It was stated that the recommendation should deal with the specific issue mentioned above in the relationship between the secured creditor as a secured creditor (and not as an owner or a person entitled to exercise the owner's rights) and the licensee under secured transactions law and not affect the relationship between the owner and the licensee or the rights and remedies of the owner or the secured creditor under intellectual property law. As to the particular formulation of alternative A, there was broad support for a narrow scope to cover transactions such as legitimate off-the-shelf purchases of copies of copyrighted software or patent pools used with respect to equipment. It was generally felt that such transactions involved the off-the-shelf

mass licensing of intellectual property and that there was no off-the-shelf mass selling of intellectual property. It was also pointed out that reference to the concept of ordinary course of business should be avoided, since that term was not commonly used in law relating to intellectual property.

85. Some support was also expressed for alternative B. It was stated that, to the extent that it referred to the requirement that the secured creditor authorize the owner to grant licences free of the security right, alternative B was more appropriate. It was also observed that protection of buyers in off-the-shelf transactions might be left to consumer protection law. However, it was widely felt that the reference to the licensee taking its licence free of the security right of the owner's secured creditor only if the secured creditor had authorized the owner to grant licences free of the security right was unnecessary as it formed already part of recommendation 80, subparagraph (b). It was also observed that, to the extent that the rest of alternative B created a rebuttable presumption that the secured creditor had authorized the owner to grant licences free of the security right could be detrimental to the rights of a secured creditor, a result that could have a negative impact on the ability of the owner to use its intellectual property in order to obtain credit. In addition, it was pointed out that, while consumer transactions would certainly be covered by alternative A, other transactions would also be covered and that, in any case, the matter was typically addressed in secured transactions law rather than in consumer protection law.

86. After discussion, the Working Group requested the Secretariat to prepare a revised version of alternative A with appropriate commentary, implementing the above-mentioned common understanding of the Working Group (see para. 84).

9. Priority of a security right granted by a licensor as against a security right granted by a licensee

87. It was noted that, in a priority conflict between a security right granted by a licensor and a security right granted by the licensee, the security right of the licensee's secured creditor would prevail over the security right of the licensor's secured creditor, unless the licensee's secured creditor registered a notice of its security right in the general security rights registry, while the licensor's secured creditor registered a document or notice of its security right in the relevant intellectual property registry. It was also noted that, where rights in the encumbered intellectual property were not registrable in an intellectual property registry that qualified as a specialized registry under the Guide, priority would be determined by the order of registration of a notice of the security right in the general security rights registry (see recommendations 76-78).

88. In addition, it was noted that the licensor could protect its rights, for example, by: (a) prohibiting the licensee from assigning or granting a security right in its claim against sub-licensees for the payment of royalties owed under sub-licence agreements; (b) terminating the licence in cases where the licensee assigned its royalty claims against sub-licensees in breach of such a prohibition; (c) agreeing that any sub-licensee pay its sub-royalties directly to the licensor; (d) requiring the secured creditor of the licensee to enter into a subordination agreement with the licensor's secured creditor; or (e) by obtaining a security right in royalty claims of the licensee against sub-licensees.

89. However, it was stated that none of the above-mentioned ways offered adequate protection, since: (a) prohibitions or terminations of contracts were contrary to the economic interest of the parties and were not sufficient when a violation of a licence agreement had taken place with the resulting damage to the relevant intellectual property; (b) “lock-box” arrangements did not constitute an efficient way of addressing the problem nor were easy for parties to agree upon; (c) similarly, subordination agreements were not easy to obtain; and (d) the priority of a security right of the licensor as against another security right granted by the licensee in those royalty claims would be subject to the general first-to-file priority rules.

90. In addition, it was observed that, where the encumbered asset was a tangible asset, a security right might qualify as an acquisition security right with the result that a seller, financial lessor or lender might obtain priority over a secured creditor of a buyer, financial lessee or borrower, even if the seller, financial lessor or lender registered second.

91. In that connection, the suggestion was made that acquisition financing transactions relating to intellectual property should be treated in a similar way as acquisition financing transactions relating to tangible assets. A number of transactions that should be covered were mentioned, including the following: (a) transactions in which a financier financed the research for the development of a drug taking a security right in the receivables from future sales of the patented drug; (b) transactions in which a financier financed the acquisition of intellectual property against a security right in the intellectual property and future royalty payments from licence agreements; and (c) transactions in which a financier financed the acquisition of a licence of intellectual property against a security right in future sub-royalty payments (that financier could be a third party or the licensor itself).

92. In all these transactions, it was suggested, the secured creditor of the owner or licensor should enjoy the special priority of an acquisition financier, provided that that secured creditor registered a notice of its security right in the general security rights registry within a short period of time after “delivery” of the intellectual property to the buyer or the granting of the licence to the licensee. In support of that suggestion, it was observed that the secured creditor of the owner or licensor deserved that treatment, since without that start-up financing no asset or value would be created for other financiers to take a security right in.

93. While some interest was expressed in that suggestion, it was widely felt that there was no complete analogy with acquisition financing relating to tangible assets; nor were there widely practiced intellectual property financing transactions such as retention-of-title sales or financial leases of tangible assets. It was also widely felt that, in any case, any analogy between intellectual property and tangible assets would result in special priority being extended to the security right in the original encumbered intellectual property and not its cash proceeds, since that was the rule for acquisition security rights in inventory. After discussion, the Working Group agreed to consider the merits of that suggestion at a future session based on a State’s written proposal to be prepared (see para. 24 above).

10. Priority of a security right in intellectual property as against the right of a judgement creditor

94. The Working Group approved the substance of section J on the priority of a security right in intellectual property as against the right of a judgement creditor.

11. Subordination

95. The Working Group approved the substance of section K on subordination.

G. Rights and obligations of the parties to a security agreement relating to intellectual property (A/CN.9/WG.VI/WP.37/Add.3)**1. Application of the principle of party autonomy**

96. There was broad support for the principle of party autonomy, subject to specific limitations introduced by law relating to intellectual property. As to the particular formulation of the relevant commentary, a number of suggestions were made. One suggestion was that further examples of the application of the principle of party autonomy in an intellectual property financing context should be given. Examples mentioned included: the right of the secured creditor to limit the right of the owner to grant licences (and in particular exclusive licences) without the consent of the secured creditor (see para. 20 above); and the right of the owner's secured creditor to collect royalties owed to the licensor even before default by the owner. There was sufficient support for that suggestion.

97. Another suggestion was to introduce rules to deal with those matters that would be applicable in the absence of contrary agreement of the parties. That suggestion was objected to. It was widely felt that it would be difficult to devise such rules that would be appropriate for all the different types of intellectual property financing transactions and, in any case, the matter should better be left to party autonomy.

98. Subject to the above-mentioned change that attracted sufficient support (see para. 96 above), the Working Group approved the substance of section A on the application of the principle of party autonomy.

2. Right of the secured creditor to pursue infringers or renew registrations

99. There was broad support for the right of the grantor and the secured creditor to agree that the secured creditor could pursue infringers and renew registrations, unless prohibited by law relating to intellectual property, as well as for including in the draft annex both commentary and a recommendation to deal with that matter. As to the particular formulation of that recommendation, differing views were expressed. One view was that the recommendation should be formulated in broad terms to permit the parties to agree as to who might pursue infringers and renew registrations, as well as under what circumstances the secured creditor might do so. Another view was that the recommendation should be formulated in narrower terms to provide that the law did not prevent the parties from agreeing that the secured creditor could pursue infringers and renew registrations, as well as under what circumstances the secured creditor might do so.

100. The suggestion was also made that the commentary should discuss patent revocation and limitation and the approach taken in many legal systems, under which the patent owner was not entitled to revoke or limit the encumbered patent without the consent of the secured creditor. There was sufficient support for that suggestion.

101. Furthermore, the Working Group considered commentary and recommendation relating to the issue whether a secured creditor could sue infringers if the intellectual property owner failed to do so within a reasonable period of time after a request by the secured creditor. There was no support for a recommendation along those lines. It was widely felt that such a recommendation could interfere with law relating to intellectual property. It was also stated that such a recommendation would be unclear and cause confusion as it would be difficult to determine what constituted a “reasonable” time period in the absence of an agreement of the parties.

102. However, there was sufficient support for discussing that matter in the commentary, provided that reference would be made to a request of the secured creditor to the grantor. It was stated that: (a) if the grantor accepted the request, the secured creditor would be entitled to exercise those rights of the grantor with the explicit consent of the grantor; (b) if the grantor did not respond, the secured creditor would be entitled to exercise those rights of the grantor with the implicit consent of the grantor; and (c) if the grantor rejected the request, the secured creditor would not be entitled to exercise those rights of the grantor. The suggestion was also made that the commentary should also discuss the possibility that, if the grantor failed to exercise its right to sue infringers or renew registrations, the secured creditor would consider that that failure constituted an event of default and would exercise its remedies in enforcing its security right in the encumbered intellectual property, rather than pursue infringers.

103. Subject to the above-mentioned changes, the Working Group approved the substance of section B on the right of the secured creditor to pursue infringers and renew registrations.

H. Rights and obligations of third-party obligors in intellectual property financing transactions (A/CN.9/WG.VI/WP.37/Add.3)

104. The Working Group approved the substance of chapter VIII on the rights and obligations of third-party obligors in intellectual property financing transactions.

I. Enforcement of a security right in intellectual property (A/CN.9/WG.VI/WP.37/Add.3)

1. Intersection of secured transactions law and law relating to intellectual property

105. With respect to paragraph 27, it was agreed that, in order to align the last sentence with recommendation 13 of the Guide, reference should be made to the time of conclusion of the security agreement, rather than to the time of enforcement of the security right. Subject to that change, the Working Group approved the substance of section A on the intersection of secured transactions law and law relating to intellectual property.

2. Enforcement of a security right in different types of intellectual property

106. The Working Group approved the substance of section B on the enforcement of a security right in different types of intellectual property.

3. Taking “possession” of encumbered intellectual property

107. It was agreed that the heading of the section should be changed to read along the following lines: “Taking possession of documents necessary for the enforcement of a security right in intellectual property”. It was also agreed that, in paragraph 30, reference should be made to documents “necessary to enforce a security right in the encumbered intellectual property”, rather than to “documents that are accessory to the encumbered intellectual property”. Subject to those changes, the Working Group approved the substance of section C on taking “possession” of encumbered intellectual property.

4. Disposition of encumbered intellectual property

108. The Working Group approved the substance of section D on the disposition of encumbered intellectual property.

5. Rights acquired through disposition of encumbered intellectual property

109. The Working Group agreed that the first sentence of paragraph 36 was unnecessary and confusing in referring to the “condition” of the encumbered asset and should thus be deleted. Subject to that change, the Working Group approved the substance of section E on rights acquired through disposition of encumbered intellectual property.

6. Proposal by the secured creditor to accept the encumbered intellectual property

110. It was agreed that, in line with the terminology used in the Guide, reference should be made to the right of the secured creditor to “acquire” rather than to “accept” the encumbered asset in satisfaction of the secured obligation. It was also agreed that a new sentence should be inserted after the second sentence of paragraph 37 to clarify that, as was the case with the acquisition of ownership or rights other than security rights in assets covered in the Guide, which was a matter of law other than secured transactions law, the acquisition of rights other than security rights in intellectual property was a matter of law relating to intellectual property. In addition, it was agreed that the wording in parenthesis in the penultimate sentence of paragraph 37 should be revised to read along the following lines: “assuming that such registration is required to make it effective”. Subject to those changes, the Working Group approved the substance of section F on a proposal by the secured creditor to accept the encumbered intellectual property.

7. Collection of royalties and licence fees

111. In line with the change made in paragraph 27 of section A of the enforcement chapter (see para. 105 above), the Working Group agreed that also in paragraph 38 reference should be made to the time of the conclusion of the security agreement, rather than to the time a security right in a receivable was enforced. Subject to that change, the Working Group approved the substance of section G on the collection of royalties and licence fees.

8. Licensor's other contractual rights

112. It was agreed that in the first sentence of paragraph 39, for reasons of clarity, reference should be made to "royalties", rather than to "receivables". It was also agreed that the last two sentences of paragraph 39 should be replaced by language along the following lines: "These rights will remain vested in the licensor if the security right is only in the royalties. However, if the secured creditor also wants to obtain a security right in these other rights of the licensor, they would have to be included in the description of the encumbered assets in the security agreement." Subject to those changes, the Working Group approved section H on the licensor's other contractual rights.

9. Enforcement of security rights in tangible assets related to intellectual property

113. It was agreed that, in order to avoid inadvertently creating the impression that there was a universal understanding of the "exhaustion doctrine" and otherwise clarify the second sentence of paragraph 41, the words "when specific conditions are met, such as the first marketing or sale of the product embodying intellectual property" should be inserted after the words "certain rights". It was also agreed that the last sentence of paragraph 41 was not accurate and should be deleted, since a trademark owner would typically request the removal of the trademark before the encumbered products bearing the trademarks were resold. It was also agreed that the last sentence of paragraph 42 should be revised to read along the following lines: "As a consequence, to enforce effectively its security right in the product, in the absence of prior agreement between the secured creditor and the licensor, the secured creditor would either need to obtain the consent of the owner/licensor or rely on the relevant law relating to intellectual property and the operation of the exhaustion doctrine". Subject to those changes, the Working Group approved the substance of section I on the enforcement of security rights in tangible assets related to intellectual property.

10. Enforcement of a security right in a licensee's rights

114. It was agreed that, to the extent it suggested that registration of licences was a universal practice, the penultimate sentence of paragraph 45 was unnecessary and confusing, and should thus be deleted. It was also agreed that the first sentence of paragraph 46 should make it clearer that, under the Guide, rights to payment of royalties, were receivables. Subject to those changes, the Working Group approved the substance of section J on the enforcement of a security right in a licensee's rights.

**J. Law applicable to security right in intellectual property
(A/CN.9/WG.VI/WP.37/Add.4)**

115. It was agreed that a variation of alternative A should be prepared and placed within square brackets for the consideration of the Working Group. It was stated that that variation should provide that the creation of a security right in intellectual property would be subject to a single law, namely, either the law of the grantor's location or the law chosen by the parties (the latter alternative should appear within separate square brackets as it departed from the general approach recommended in

the Guide). It was also agreed that the commentary should set out the advantages and disadvantages of all the alternatives. In addition, it was agreed that alternative C should be explained as being the only alternative, under which the law applicable to the effectiveness of a security right in intellectual property against an insolvency representative would be one law, that is, the law of the grantor's location. Moreover, it was agreed that the chapter should emphasize the importance of conflict-of-laws rules including examples and cross-references to the conflict-of-laws chapter of the Guide. Subject to those changes, the Working Group approved the substance of chapter X on the law applicable to a security right in intellectual property.

K. The impact of insolvency of a licensor or licensee of intellectual property on a security right in that party's rights under a licence agreement (A/CN.9/WG.VI/WP.37/Add.4)

1. General

116. The Working Group noted with appreciation a note by the Secretariat entitled "Discussion of intellectual property in the Legislative Guide on Insolvency Law (A/CN.9/WG.V/WP.87), setting out references to intellectual property law in the discussions of Working Group V (Insolvency Law), the consequences of rejection of a contract and provisions in the UNCITRAL Legislative Guide on Insolvency Law (hereinafter referred to as the "UNCITRAL Insolvency Guide") concerning the decision to continue a contract and protection of the value of the encumbered asset.

117. It was agreed that the note in the chapter on insolvency of the draft annex, describing the work done by Working Groups V and VI on the intersection of insolvency law, law relating to intellectual property and secured transactions law should be updated and placed in the introduction of the draft annex. It was also agreed that references to the right of the insolvency representative to reject a licence agreement only if it was not fully performed by the debtor and its counterparty were extremely important and should be retained.

118. In response to a question raised with regard to the treatment of personal service contracts in the case of insolvency, it was noted that the UNCITRAL Insolvency Guide addressed that question in paragraph 143 of part two, chapter II, which provided that: "Exceptions to the power to reject may also be appropriate in the case of labour agreements, agreements where the debtor is a lessor or franchisor or a licensor of intellectual property and termination of the agreement would end or seriously affect the business of the counterparty, in particular where the advantage to the debtor may be relatively minor, and contracts with government, such as licensing agreements and procurement contracts."

119. It was agreed that the draft annex should incorporate language along those lines. It was widely felt that that language would also provide some guidance as to the possible treatment of licence agreements in the insolvency of a licensor. It was also agreed that: (a) the phrase "the licence of" should be inserted before the words "subsequent sub-licensees and sub-licensors" at the end of paragraph 23; and (b) the word "one" after the word "a" in the second sentence of paragraph 26 should be deleted. Subject to those changes, the Working Group approved the substance of section A of the insolvency chapter of the draft annex and referred it to Working Group V.

2. Insolvency of the licensor

120. It was widely felt that paragraph 29 appropriately discussed the impact of the insolvency of the licensor on the security right of the secured creditor of the insolvent licensor or of a licensee or sub-licensee, explaining that, if the licensor's insolvency representative decided to reject the licence agreement, the secured creditors of both the licensor and the licensee would practically be deprived of their security rights and would be left with a claim for damages as unsecured creditors. On that basis, the Working Group agreed that the discussion in paragraphs 30-35 as to how a secured creditor could be protected in such circumstances was useful and should be retained. The Working Group also agreed that paragraph 36 should be retained outside square brackets as a modest suggestion for consideration by States. In addition, it was agreed that, inasmuch as paragraphs 30-35 referred not only to approaches taken in laws but also to commercial practices, language along the following lines should be inserted at the end of paragraph 36: "States might also wish to consider to what extent the commercial practices described in paragraphs 30 and 31 would provide adequate practical solutions". Subject to those changes, the Working Group approved the substance of section B of the insolvency chapter of the draft annex and referred it to Working Group V.

3. Insolvency of the licensee

121. It was agreed that the words "that the licensor" should be added before the words "or has a right to terminate the license agreement" in the first sentence of paragraph 40. Subject to that change, the Working Group approved the substance of section C of the insolvency chapter of the draft annex and referred it to Working Group V.

4. Appendix

122. The Working Group approved the substance of the appendix to the insolvency chapter of the draft annex and referred it to Working Group V.

V. Future work

123. The Working Group noted that its sixteenth and seventeenth sessions were scheduled to take place from 2 to 6 November 2009 and from 8 to 12 February 2010 respectively, those dates being subject to approval by the Commission at its forty-second session (Vienna, 29 June to 17 July 2009).

124. At the close of the present session, the Working Group considered its future work programme after completion of the draft annex. Several suggestions were made, including that the Working Group could prepare:

(a) A supplement to the Guide on security rights in securities not covered by the draft Convention on Substantive Rules regarding Intermediated Securities, being prepared by the International Institute for the Unification of Private Law ("Unidroit"), and the Convention on the Law Applicable to Certain Rights in Respect of Securities Held with an Intermediary, prepared by the Hague Conference on Private International Law;

(b) A legislative guide on registration of security rights;

- (c) A contractual guide on secured financing agreements;
- (d) A contractual guide on intellectual property licensing;
- (e) A model law on secured transactions, incorporating the recommendations of the Guide; and
- (f) A text on franchising.

125. With respect to security rights in securities, the Working Group noted the decision of the Commission that future work should be undertaken with a view to preparing an annex to the Guide on certain types of securities, taking into account work by other organizations, in particular Unidroit.¹¹ It was stated that work would depend on the scope of the Unidroit draft Convention and on whether Unidroit would be prepared to cover securities not addressed in that Convention. With respect to a legislative guide on general security rights registries, it was observed that work would appropriately supplement the work of the Commission on the Guide and preparatory work could be undertaken through a colloquium or discussion at the sixteenth session of the Working Group early in 2010, provided that the Working Group would have completed its work on the draft annex. With respect to a model law on secured transactions incorporating the recommendations of the Guide, it was pointed out that it would be an extremely useful text that would further enhance the work of the Commission on the Guide.

126. With respect to a contractual guide on secured financing agreements, it was mentioned that it would usefully provide assistance to parties to such transactions with a discussion of the issues that should be addressed in such agreements and a set of rules that would be applicable in the absence of contrary agreement of the parties. With respect to a contractual guide on intellectual property licensing, it was observed that it would be an extremely important project, which would address key issues of law relating to intellectual property, and thus the lead for such a project should be left to the World Intellectual Property Organization (“WIPO”) and other relevant organizations. In that connection, the Working Group noted that WIPO had prepared a number of guides on intellectual property licensing and was currently undertaking further work. It was also noted that WIPO would welcome suggestions by Member States for further work in that area of law and in that context would also welcome cooperation with UNCITRAL. With respect to the text on franchising, it was observed that would be a useful project that would address important practices including relating to trademarks. It was also pointed out that work of other organizations would have to be considered, including the Model Franchise Disclosure Law, prepared by Unidroit.

¹¹ Ibid., Sixty-second session, Supplement No. 17 (A/62/17), paras. 147 and 160.