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Security interests over intellectual property

REPORT OF SWISS GROUP*

Availability of security rights

I. Current Law and Practice

1. Does your Group's current law provide for the possibility of creating security interests over IPRs?

Yes, Swiss law provides for the possibility of creating security interests over IPR.

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)?

The body of Swiss intellectual property (IP) law is set out in a series of individual statutes that govern specific areas of IP: patents, trademarks, copyright, designs, semiconductor circuits and plant varieties. There is no comprehensive statute in Switzerland about security interests in IP in general. As will be explained in detail below, most provisions relating to security interests over IPR are defined in general commercial provisions of the Swiss Civil Code ("SCC") applicable to tangible personal property, whereas only a few specific rules are set out in the respective IP statutes. As a general rule, the provisions in the specific IP statutes take precedence over the general provisions of the SCC.

a) Pledge

The pledge of IPR is mentioned explicitly in the statutory provisions applicable to trademarks (Art. 19 para. 1 of the Swiss Trademark Act, "TA") and to designs (Art. 16 para. 1 of the Swiss Design Act, "DA"). These provisions however merely confirm that these IPR can be pledged and set out rules on the effect of the pledge on third parties.

The statutory rules on the pledge of IPR are set out in Art. 899 et seq. SCC. These – rather fragmentary – rules govern the pledge of "claims and other rights" and do not explicitly mention IPRs. Pursuant to Art. 899 para. 1 SCC, "other rights" can only be pledged if they are assignable. Since IPR are fundamentally assignable under Swiss law, they can be pledged pursuant to this provision. The rules set out in the SCC are, however, very short and, in the framework of IPR, only contain the most basic rules (admissibility, form, scope). The rules essentially refer to the statutory framework applicable to the pledge over movable property (Art. 899 para. 2 SCC), which, due to the nature of the rights involved, cannot always be applied *mutatis mutandis* to IPR.

b) Security assignment

The rules on the assignment of IPR are set forth in the specific individual statutes (Art. 33 para. 1 of the Swiss Patent Act, "PA"; Art. 17 TA; Art. 14 para. 1 DA). The assignment itself is governed by general contract law as set out in the Swiss Code of Obligations.

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c) *Usufruct*

The usufruct of trademarks (Art. 19 para. 1 TA) and designs (Art. 16 para. 1 DA) is explicitly mentioned in the respective statutes. Similarly to the pledge of these rights (above question 2a), the statute merely confirms that trademarks and designs can be subject to an usufruct.

The statutory rules on usufruct are set out in Art. 745 et seq. SCC. Similarly to what has been set forth with regard to the rules regarding pledge, the rules of the SCC about usufruct are fragmentary. Art. 745 para. 1 SCC merely sets forth that usufruct may be held over “rights or assets”. Even though the statute does not explicitly mention IPR, Swiss scholars agree that “rights” in Art. 745 para. 1 SCC also include IPR and that thus a usufruct can be established over IPR.

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.

Swiss law provides for the possibility to pledge IPR, to assign IPR for security purposes and to hold a usufruct over IPR (see below 3a–3c).

It should be noted that, in addition to these three main options, the parties can resort to other arrangements if they wish to use IPR as a security. Since these options are mainly of contractual nature and since the parties have a broad freedom to customize such solutions to each individual case, the working group will only briefly outline two of them below, without further analysis in the following questions.

- *Conditional License*: The security provider can grant a conditional (non-exclusive or exclusive) license to the creditor as a security. The parties would agree in this case that the creditor’s right to use the IPR pursuant to the license only starts upon the security provider’s default on the credit. It should be noted that such a conditional license would not survive the bankruptcy of the licensor and is thus of limited use as a security interest.
- *IP Securitization*: The security provider can incorporate a special-purpose vehicle (SPV) as an asset-detention vehicle to hold the IPR. The secured party would then take security over the interests (e.g. shares) of the SPV. This security could in turn be structured as a pledge or an assignment for security purposes. On the one hand, the main advantage of IP securitization is that, unlike in the case of the creation of a security interest into IPR, the rules on the use of shares as a security is largely settled, which increases legal certainty. On the other hand, IP securitization is more expensive, time-consuming and complex when compared to the creation of security interests into IPR.

a) *Does your law provide for security interests which are characterized by the full assignment of the underlying IPR to the security taker?*

Yes. IPR are fundamentally assignable under Swiss law and Swiss law accepts the assignment of IPR for security purposes. There is an exception to this principle for rights that are considered not assignable, which in the framework of patents, trademarks and designs is of very limited relevance. For example, Swiss scholars consider that the attribution right of the inventor (the right to be named inventor, see Art. 5 PA and Art. 62 and 81 of the European Patent Convention) cannot be assigned, but can be waived after the invention has been made (Art. 6 PA).

In case of an assignment for security purposes, the creditor (assignee) acquires full title to the IPR and its rights are restricted only in the contractual relationship with the debtor (assignor). The assignee holds the IPR in a fiduciary capacity and is under a contractual obligation vis-à-vis the assignor to dispose of the IPR only within the limits defined in the security agreement. The assignor retains no right in rem, but has a contractual claim for retransfer of ownership of the original collateral should the secured obligation be paid or otherwise discharged. As a result, a fiduciary assignment for security purposes results in an outright transfer of full ownership.

In order to allow the use of the IPR during the assignment period, the parties are free to agree that the assignee shall grant back an (exclusive) license to the assignor until the IPR is retransferred to the assignor or until the assignor defaults on its payments. An exclusive license also ensures that the assignor is allowed to sue third parties for infringement in Swiss courts, even though it is not the legal owner of the IPR.

IPR assigned to the creditor for security purposes does not form part of the bankruptcy estate of the security provider (assignor) and the liquidation of such assets would not be effected through the receiver in bankruptcy. The creditor would realize the collateral outside official realization proceedings through a private sale. However, the creditor needs to account for the sales proceeds and remit any excess sales proceeds to the receiver in bankruptcy.

If, on the other hand, the creditor files for bankruptcy, the security provider cannot claim the retransfer of the IPR, but has merely a monetary claim (damage) against the creditor's estate, corresponding to the value of the IPR.

Since the assignment for security purposes requires the full assignment of the IPR, such agreements must be made in writing, otherwise they are invalid (Art. 33 para. 2^{bis} PA; Art. 17 para. 2 TA; Art. 14 para. 2 DA). The registration of the assignment with the respective Registers of IPR (Patent Register, Trademark Register, Design Register) is not a condition of validity. However, the assignment is not effective vis-à-vis third parties who are acting in good faith (i.e. third parties who are unaware of the assignment) if it is not entered into the register.

Finally, it should be noted that the acquisition and holding of the assigned IPR among the assignee's own assets can have adverse tax consequences on the assignee.

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).

Yes. If the parties conclude a pledge over IPR, the pledgee can only liquidate the pledged IPR in the event of default. So-called "default agreements", i.e. agreements stipulating that the pledged IPR will automatically become the property of the pledgee in the event of the default of the debtor, are invalid (Art. 894 SCC).

Under Swiss law, a pledge constitutes an accessory security interest, that is to say (i) the pledge is dependent on the validity and enforceability of the secured claim and (ii) the pledgee must be the legal holder of the secured claim. Conversely, the pledger and the debtor do not need to be the same entity (e.g. two companies of the same group).

The pledge of IPR must be in written form to be valid (Art. 900 para. 3 SCC). The pledge can (but does not need to) be entered into the respective Registers of IPR (Patent Register, Trademark Register, Design Register; see Art. 105 para. 1 lit. d of the Swiss Patent Ordinance; Art. 30 lit. a of the Swiss Trademark Ordinance; Art. 25 para. 3 lit. e of the Swiss Design Ordinance). However, the pledge is not effective vis-à-vis third parties who are acting in good faith (i.e. third parties who are unaware of the pledge) if it is not entered into the register.

The pledged IPR would form part of the bankruptcy estate of the pledger. As a rule, the creditor is under an obligation to remit the pledged assets to the bankruptcy estate (Art. 198 of the Swiss Debt Collection and Bankruptcy Act, "DCBA"). The assets are liquidated by the receiver in bankruptcy in the same manner as the other assets of the bankruptcy estate, but the creditor retains its privilege to be satisfied from the proceeds of the liquidation of the assets pledged to it with priority over the unsecured creditors (Art. 219 para. 1 DCBA).

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. Swiss law allows usufruct over IPR (see above question 2c). Usufruct provides "complete enjoyment" of the underlying IPR to the usufructuary (Art. 745 para. 2 SCC), including the right to use and the right to keep all proceeds from the IPR, but without the right to dispose of the IPR. Usufruct is not conceived by Swiss law as a security interest and it is unusual (albeit not impossible) to resort to usufruct over IPR as a security. Thus, the rights of the usufructuary (creditor) are not conditional upon default of the security provider.

Similarly to the assignment for security purposes, if the parties establish a usufruct, the usufructuary (creditor) would have to license back the IPR to the debtor in order to enable the use of the IPR by the debtor.

Usufruct can be established over IPR by a written agreement (see Art. 746 SCC). The duration of the usufruct must be limited. If the usufructuary is a natural person, the usufruct ends upon the death of the usufructuary at the latest. If the usufructuary is a legal entity, the usufruct cannot be granted for more than one hundred years.

The usufructuary is liable for complete loss or deterioration of the IPR and is generally responsible for looking after the IPR. In other words, the usufructuary is responsible for e.g. renewing the IPR and paying the accrued renewal fees, but also for defending the IPR against third parties.

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.

In the experience of the members of the working group, usufruct over IPR is hardly ever used in Switzerland as a security interest. Parties generally conclude either a pledge or an assignment for security purposes. Pledge is the preferred security interest in the vast majority of the cases. The type of IPR (patents, trademarks, designs) does not seem to influence the choice of the type of security interest (pledge or assignment for security purposes).

For the reasons outlined above, the following statements are focused on pledges and security assignments only.

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.

a) Pledge

In case of a pledge the security provider is only restricted in the use of the pledged IPR insofar as such use would result in a reduction of the value of the pledged IPR. Therefore, the pledger must not waive and revoke the pledged IPR¹. According to some scholars, the pledger is also prevented from granting (further) licenses under the pledged IPR². The same would apply in respect to granting a usufruct. Otherwise, a pledger is not restricted in the use of the pledged IPR.

b) Security assignment

In case of a security assignment the security taker formally acquires full control over the respective IPR. Therefore, the rights of the security provider essentially depend on what has been contractually agreed upon between the parties in the respective security agreement. Typically, the agreements provide that the security provider remains (technically on the basis of a license) fully entitled to use and exploit the assigned IPR in the ordinary course of its business, but is excluded from transferring, licensing or encumbering it.

¹ R. VON BÜREN, SIWR I/1, Basel 2002, 290.

² G. BÜHLER; SHK Markenschutzgesetz, Bern 2009, MSchG 19 N 21.

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

a) Pledge

Legally, the security provider is not restricted in its right to assign a pledged IPR to a third party. However, pledge contracts usually prohibit assignments by the security provider made without the prior written consent of the security taker.

b) Security assignment

In case an IPR is assigned as a security to the security taker, the security provider is legally not in a position to assign the related IPR to a third party. An assignment would have to be effected by the security taker, who would, however, lose upon such assignment its security interest in the IPR.

7. If yes(not applicable to Security Assignments):

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

Unless otherwise provided for in the pledge agreement, no consent from the security taker is required for a transfer. A transfer can be effected by a written assignment, without any requirement to register or to publicly notify the transfer.

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

In principle, an assignment does not affect a pledge over an IPR and thus the IPR remains encumbered with the pledge for the benefit of the security taker following the transfer. However, as set out in the answer to question 3b above, any pledge or other security interest that is not recorded in the applicable IPR register may not be enforced against a bona fide acquirer of the respective IPR.

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

a) Pledge

Under Swiss law, the right of a pledgee is limited to the right to have the pledged IPR realized in an event of default. Therefore, the security taker has no rights under or in relation to a pledged IPR before an event of default other than the security interest as such.

b) Security assignment

If the security interest is provided by way of a security assignment, the security taker would, as holder of the respective IPR, be in principle legally entitled to any rights the assigned IPR entails. However, security assignment agreements typically provide that the security provider may continue to exercise all such rights, except for the right to transfer, license or encumber the related IPR. The security taker usually reserves the right to exercise any such rights to the extent this would be required to preserve the value of the assigned IPR and the security interest.

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

a) Pledge

With respect to pledged IPR, the responsibility for maintenance and defence lies with the security provider, who is exposed to liability for any damage the security taker suffers as a result of a reduction of the value or a loss of the pledged IPR due to the security provider's failure to duly maintain and defend

the respective IPR (see answer to question 5 above). However, if a pledge is recorded in the applicable register, the Swiss Federal Institute of Intellectual Property notifies the security taker when any renewal or extension fee becomes due and gives the security taker the possibility to pay annuities or other maintenance fees in case the security provider fails to do so in time.

b) Security assignment

In case of a security assignment, the security provider is typically put under a contractual obligation to maintain and defend the IPR provided as a collateral and bear all related costs respectively. Again, the security taker typically reserves the right to do so on its own in case the security provider fails to do so in time.

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.

a) Pledge

The security interest lapses in case the IPR expires or is revoked. The pledger is liable for any damage resulting from the loss of the IPR if the IPR expired or was revoked due to its fault.

b) Security assignment

The situation is the same in case of a security assignment, as security assignment agreements regularly put the security provider under an obligation to maintain the IPR.

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?

a) Pledge

As between the security provider and security taker, the above effects can be modified by contract, which is regularly done. As far as pledges are concerned, pledge agreements usually restrict the security provider's ability to assign or further encumber the pledged IPR. Further, pledge agreements often provide for an authorization of the security taker to maintain, defend and enforce the pledged IPR in case the security provider fails to do so in time. However, any such arrangements do not bind third parties, and thus a third party could, for example, validly acquire a pledged IPR from the security provider assigning it in breach of its contractual obligations against the security taker.

b) Security assignment

Also, in case of a security assignment, the parties are free to modify the effects of the security interest over the IPR before default. Contrary to a pledge, the rights of the security taker (who is the legal holder of the assigned IPR) are restricted in this case, and the position of the security provider against third parties is the one of a licensee rather than the one of the holder of the right.

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?

For determining the law applicable to security over IPR portfolios, the Swiss law on conflicts of laws distinguishes between the contractual obligation (in German "Verpflichtungsgeschäft") and the *in rem* act (in German "Verfügungsgeschäft"). The contractual obligation and the *in rem* act may be subject to different applicable laws.

Basically, a choice of law is possible under the Swiss Federal Code on Private International Law (CPIL, or IPRG). If no choice of law is made, for the contractual obligation the contract statute provides that the law of the state in which the security provider has its ordinary residence will apply (Art. 122 para. 1 CPIL). For the *in rem* act of the pledge, a choice of law is permitted but the choice of law cannot be asserted against third parties (Art. 105 para. 1 CPIL). Where no choice of law is made for the *in rem* act of pledge, or for the effect of the pledge towards third parties, or for the *in rem* act of an assignment in security, the IP statute provides that the law of the state where protection of the IPR is sought (i.e. where the IPR is registered) will apply (Art. 105 CPIL for pledges, Art. 110 CPIL for assignments in security).

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.

a) Pledge

For the *creation* of a *pledge over foreign IPRs*, i.e. the creation of the contractual obligation, the law chosen by the parties will apply. If no law is chosen, the law at the security provider's place of residence or seat will apply (Art. 122 CPIL).

For the *perfection* of a pledge, i.e. the *in rem* act, the parties may choose a governing law (Art. 105 CPIL). As noted in the response to question 12 above, if no applicable law is chosen, the law of the state where the IPR is registered will be applicable. The law applicable to the contractual obligation will apply in determining the consequences between the parties of a failure to perfect the pledge.

Regarding the *effect* of the pledge, as between the parties the law applicable to the contractual obligation will apply. Towards third parties the law(s) at the place of registration of the IPRs will apply. This will be the case in particular for issues regarding ranking of security rights and for transfer of the underlying assets. Finally, for the proceedings on enforcement of a pledge, the *lex fori* will apply³.

b) Security assignment

For an *assignment of IPRs in security*, the parties may agree on a contractual choice of law. If they do not do so, the law of the security provider's ordinary residence will apply. This law will apply to the *creation* of the assignment undertaking. However, the *perfection* of the assignment remains subject to the law at the place where the IPR is registered. No choice of law is permitted. The *effect* of the assignment as between the parties is governed by the law governing their contract, the effect as towards third parties is subject to the law at the place where the IPR is registered⁴.

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

As between the contract parties and for matters that can be regulated contractually, a choice of law may replace the otherwise applicable law. However, when interpreting the contractual obligations, there is an assumption that the security provider did not intend to commit itself further than would be permitted under the law(s) of the place(s) where the IPRs are registered⁵.

For perfection of a security, there may be considerations of *ordre public* that prevent a choice of law from overruling the otherwise applicable law. For a pledge, a choice of law will be upheld as between the parties but not towards third parties. A choice of law clause in a pledge agreement should refer to both the agreement and the underlying pledge⁶. For an assignment in security, a choice of law provision will not overrule the applicable law.

³ P. FISCH, in: H. Honsell/N.P. Vogt/A.K. Schnyder/S.V. Berti (eds.) Basler Kommentar IPRG, 3rd ed., Basel 2013, IPRG 105 N 4.

⁴ G. JEGHER/D. VASELLA, Basler Kommentar IPRG, IPRG 122 N 9.

⁵ JEGHER/VASELLA, Basler Kommentar IPRG, IPRG 122 N 13.

⁶ FISCH, Basler Kommentar IPRG, IPRG 105 N 11.

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?**

A solely contractual regime may be created that is enforceable between the contracting parties, but this will not affect the rights of third parties. So for example, a contractual arrangement cannot create a preferred ranking for the security created. Nor can a contractual agreement be made binding on third parties who are in good faith.

II. Policy considerations and possible improvements to your current law

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

Swiss law is generally perceived to provide a high degree of flexibility in the creation of security interests over IPRs, whereas certainty and predictability largely depend on the skills of the contract drafter. As outlined above, Swiss law allows for various possibilities of creating security interests over IPRs, including pledges, security assignments and other contractual arrangements. The corresponding rules in the SCC are rather fragmentary and are intended for tangible property rather than intangible property such as IPRs. As one consequence, these rules cannot always be applied *mutatis mutandis* to IPRs. As another consequence, Swiss law contains only few mandatory rules that must necessarily be observed when creating security interests over IPRs. On the one hand, this situation provides much flexibility for creating customized contractual regimes that are able to address the specific needs of the parties on a case-by-case basis. On the other hand, this large degree of flexibility requires that contracts regarding security interests over IPRs must be very carefully drafted. This is somewhat mitigated by the fact that a *de-facto* standard for such contracts seems to have emerged among the major Swiss commercial law firms.

On a different note, there is a gap concerning publicity of security interests over IPRs that are valid in Switzerland. Whereas it is possible to record security interests over most types of IPRs in the appropriate IPR-specific registers, this possibility does not exist for international design registrations designating Switzerland. This limits legal certainty for the security taker as well as for third parties as far as security interests in international design registrations are concerned. In practice, however, this appears to be a rather minor problem.

- 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)?*
- 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)?*

Under Swiss law, it is largely upon the parties to establish the rights and obligations of the security provider and of the security taker by contract. In the view of the working group, such flexibility is desirable and should not be limited unnecessarily by additional mandatory rules. However, some fallback positions that would apply in the absence of contractual provisions would be desirable, as outlined in more detail in the answer to question 18 below.

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.

The working group would welcome a few more specific provisions concerning security interests over intangible rights in general. This would include IPRs, but would also apply to monetary claims, membership rights, etc. Some additional rules should deal with the exact scope of security interests over IPRs in the absence of contractual provisions. Such rules should deal with some specific rights and obligations of the security holder and security provider, respectively, such as the obligation to maintain the encumbered IPR in force, to defend the encumbered right against nullity actions, the entitlement to start infringement actions, or the entitlement to receive royalty payments from licenses. Such rules should, however, not be mandatory rules, in order to maintain a large degree of flexibility for contractual regimes.

In addition, it would be desirable to establish a possibility to record security interests over international design registrations in a public register. However, the working group believes that it is not the task of the Swiss legislator to establish such a register, but that it should rather be the task of WIPO to establish a fully functional register for international design registrations, similar to the International Register for trademarks under the Madrid system.

III. Proposals for harmonization

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

Yes.

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?

General principles of security interest law should also apply to IPR. However, given the special nature of IPR, it seems desirable to the working group that separate provisions regulate the specific requirements and effects of security interest over IPR. Whether such provisions are formally incorporated into specific IP statutes or are drafted as special derogations to the security interest provisions of general commercial law, does not seem to be relevant.

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

n/a

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

In the view of the working group, all countries should recognize at least the validity of assignments for security purposes, as well as at least one form of *in rem* security interest into IPR (pledge or the like). The existence of such minimum standards seems necessary to ensure that security agreements made under a given national law (see question 13 above) are enforceable regarding IPR registered in all other countries.

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. In the view of the working group, the same rules should apply to all types of IPR.

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?

In general, the security provider should not be restricted in his or her right to use his or her own IPR after providing a security interest over such IPR, as the primary function of a security interest is safeguarding a claim of the security taker against the security provider. It is not about a complete limitation of the security provider's use of his or her IPR.

However, a more differentiated approach should be taken depending on the type of the security interest and furthermore the contractual provisions agreed between the party under the principle of freedom of contract.

a) *Pledge*

If the security provider pledges an IPR, he or she should be able to continue to make, have made, use and sell the subject matter protected by the IPR. Only if and when the security provider defaults, will the security taker be entitled to realize the pledge.

The security provider should therefore also continue to have the right to grant licenses under the pledged IPR, a usufruct or even a second pledge after having pledged an IPR. Nevertheless, the security provider must safeguard the pledged IPR's value. To protect all the creditors, not only the initial pledge, but also the additional rights granted should be permitted to be registered. Additional rights should also be accorded a rank of precedence. Should multiple pledges or rights need to be realized due to a default by the debtor, the group recommends that this should be done in the form of a public auction in order to realize the highest value for the IPR, much as would be the case in realizing a pledge or mortgage over real estate. An auction could also provide the opportunity of a double offer ("Doppelaufwurf"), according to which the IPR would first be offered including the burden of the existing licenses and usufruct. If the bids placed are not satisfactory for satisfying the secured claim, the IPR would be offered excluding the licenses or/and usufruct. Such a procedure would secure the maximum value from the secured IPR for a creditor. Third parties interested in a further license or in a further usufruct may also be interested in creating such additional rights after the security giver has pledged an IPR. Otherwise the pledged IPR is entirely blocked for third parties.

b) *Security assignment*

Where an IPR is assigned as a security, the ownership in the respective IPR is transferred from the security provider to the security taker. For this reason, the security taker formally acquires full control over the respective IPR, which leads to a general prohibition of the security provider to continue to use the IPR. However, the parties should be able to conclude an agreement which fully entitles the security provider to continue to use and exploit the assigned IPR in the ordinary course of its business (by means of a license back). From a commercial point of view, usually the security giver is better equipped to maximize the value of the IPR in the market, whereas the security taker typically only has a financial/fiduciary interest and is merely entitled to sell the IPR in the case of a security provider's default. The primary function of a security interest is maintained therewith.

However, the transfer of property is both complex and transfer fees usually accrue with the respective IPR registry. In addition, the terms of the license need to be negotiated for the continued use and exploitation of the IPR by the security giver. A typical security assignment generally requires two registrations (the transfer of property and also the back license) for clarifying the ownership and the right of utilization to third parties. Nevertheless, it is not apparent to third parties that the security taker only has a financial/fiduciary interest in the case of a typical security assignment. This uncertainty could be avoided and the two registrations could be limited to one, if a registration of (typical) security assignments be apparent to third parties were possible.

The security provider should be restricted in transferring, licensing or encumbering the IPR after a security assignment, on the grounds of missing ownership and a decrease in the value of the IPR. However, the parties could modify this principle in their contract.

25. Should the security provider be able to assign encumbered IPRs to third parties?*a) Pledge*

The security provider should be able to assign encumbered IPRs to third parties provided that they assume the IPR encumbered by pledge. Contractually, such an assignment could be prohibited.

b) Security assignment

The security provider may not further assign an IPR which has been encumbered subject to a security assignment. He or she has no ownership over the respective IPR. Only the security taker may assign the encumbered IPR further.

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

The security taker should be limited to having the pledged IPR realized in an event of default. Prior to default, revenues from commercialization of the IPR, such as license fees, should belong to the security provider as would be the right to enforce the IPR against third parties. Contractually, the parties may agree to provide the security taker with more rights.

b) Security assignment

As registered holder of the respective IPR, the security taker formally acquires full control over it. In practice, the parties would define by contract which rights they should have exactly.

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

The security provider should be responsible for maintaining and defending the IPR provided as collateral, because he or she is the owner of it. But the security taker should also be able to defend the IPR in case the security provider fails to do so in time or is not willing to or does not have the funds to. Generally, the pledger should be liable for any pledgee's damage, if he or she fails to defend the IPR.

The pledger should be responsible for the defence of the validity of an IPR. In the case of a third party's successful action for invalidation or annulment, the basis of the pledge no longer exists. The pledgee will therefore have a vested interest in defending the basis of the pledge, when there is a risk of the pledger's ability to meet his or her financial obligations.

b) Security assignment

As the security taker is the new (formal) owner of the IPR, he or she should be generally responsible for maintaining and defending the IPR and bear the cost therefore. However, contractually, the parties may agree that the security provider remains responsible for maintaining and defending the IPR. In fact, the security taker as well as the security provider have a vested interest in defending and maintaining the IPR. The parties should be free to allocate responsibilities and costs under the principle of freedom of contract.

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)?

a) Pledge

The security right lapses simultaneously because the basis of the pledge no longer exists. It should be noted that the (originally secured) claim of the security taker against the security provider will continue to exist.

b) Security assignment

Depending on which party is contractually responsible for maintaining and defending the IPR, the other party should be entitled to claim for damages. The security right lapses simultaneously because the legal validity of the IPR is the basis of the security interest itself.

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

Yes. See the answers above.

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?

A distinction should be made between the contractual obligation and the *in rem* act.

In the interests of efficiency and to simplify the securitisation of IPR by having just one applicable law for the grant of security interests over an international IP portfolio, the law chosen by the parties should be applied to their contractual obligations. In the absence of such choice of law, the law at the place of residence of the security provider should apply. The same should apply to the enforcement of the security interest as between the parties.

However, as the principle of territoriality is central to IPR, so that an IPR is protected and has effects only for the territory in which it is registered, the *in rem* act of perfecting security over an IPR, and the effects of the security towards third parties, should be subject to the law of the territory for which the IPR is registered.

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

A choice of law provision should be given overruling effect as between the parties to the security interest agreement, but not remove or restrict the rights of third parties. So, for example, a choice of law should be permitted to allow the security taker to take action against infringers, collect license fees and maintain or defend the IPR in place of the security provider. However, a choice of law should not allow a security to be ranked higher than would otherwise be permitted under the applicable law, or to override the laws concerning perfection of the security applicable at the place of registration of the IPR.

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

None.

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

None.

Summary

Swiss Law provides for the possibility of using registered IP rights (patents, trademarks and designs) as collateral to secure a debt. Certain norms in specialized IP laws provide for security rights. The pledge ("Pfandrecht") and the usufruct ("Nutzniessung") are institutions governed by the Swiss Civil Code (CC) and do not specifically mention IP rights. An agreement providing security by means of a (temporary) assignment of IP rights is not governed by specific laws, but only by the general principles of contracts of the Swiss Code of Obligations (CO). The parties are therefore free to contractually agree other means of utilizing IP rights to secure a claim or credit.

In practice, mainly the contractual assignment of IP rights and the pledge are used. Usufruct is not common.

In the event of a pledge, by law, the pledgee has an obligation to maintain the value of the pledged item. There are no explicit obligations to the same effect on the pledger. Contractual terms assigning the ownership in IP to the pledgee in the event of a default by the pledger are null and void. The pledger is responsible for maintaining and defending the IP rights. However, the Swiss Institute for Intellectual Property ("IGE") also notifies the pledgee when fees become due which have not been paid by the pledger.

In the event of a security assignment, the security interest giver may only use the IP rights as far as contractually agreed. As a rule, the security interest provider will require an exclusive license in return for the assignment. Formally, the security interest taker becomes full owner, albeit in trust. Typically, contractual arrangements are used to establish the responsibility of the parties for maintaining and defending the IP rights.

The Swiss Group favourably views the freedom of contract solution offered by Swiss law as very flexible. However, certain minimal standards in Swiss law should be established for security interests in IP rights, in the event the parties have not made explicit contractual arrangements.

In an international context, a distinction must be made between the creation of the contractual obligations ("Verpflichtungsgeschäft") and the performance ("Verfügungsgeschäft") and the effect. All countries should allow security assignment and pledge. As a rule, the security interest giver should not be restricted in the use of the IP as long as the value of the IP rights in question are not diminished. For this reason, not only pledges but also security assignments should be registered in the official IP registries.

Regarding the creation of the security interest (contractual aspects), the parties should be free in their choice of law. With regard to execution (rights in rem), the laws of the country where the IP rights are registered should be applicable.

Zusammenfassung

Das schweizerische Recht sieht die Möglichkeit vor, Patente, Marken und Designs als Sicherung einer Forderung zu nutzen. Obwohl es bestimmte sicherungsrechtliche Normen in den immaterialgüterrechtlichen Spezialgesetzen gibt, ist das Pfandrecht sowie die Nutzniessung im Schweizerischen Zivilgesetzbuch geregelt, ohne Hinweis auf das Immaterialgüterrecht. Die (vorübergehende) Sicherungsübereignung stellt einen Innominatsvertrag dar, der den allgemeinen Vertragsbestimmungen des Schweizerischen Obligationenrechts folgt. Neben diesen drei klassischen Sicherungsrechten können die Parteien auch andere Vereinbarungen zur Sicherung einer Forderung mithilfe eines Immaterialgüterrechts treffen.

In der Praxis werden hauptsächlich das Pfandrecht und die Sicherungsübereignung verwendet. Die Nutzniessung hat kaum praktische Bedeutung, um eine Forderung zu sichern.

Gibt der Sicherheitsgeber das Immaterialgüterrecht als Pfand, ist er in der Nutzung des Immaterialgüterrechts nicht eingeschränkt, solange er den Wert nicht vermindert. Demgegenüber ist der Sicherheitsnehmer (Pfandgläubiger) lediglich berechtigt, das Pfand zu verwerten (wobei Abreden, er würde automatisch Eigentümer werden, nichtig sind), wenn der Sicherheitsgeber (Pfandschuldner) seine Pflicht verletzt. Für den Unterhalt und die Verteidigung ist der Pfandschuldner verantwortlich, wobei das Schweizerische Institut für Geistiges Eigentum («IGE») dem Pfandgläubiger anzeigt, wenn Gebühren fällig werden und der Pfandschuldner diese nicht bezahlt.

Bei der Sicherungsübereignung kann der Sicherheitsgeber das Immaterialgüterrecht nur im Rahmen dessen nutzen, was vertraglich vereinbart wurde. In der Regel verlangt der Sicherheitsgeber, dass ihm im Gegenzug zur Übereignung eine Exklusivlizenz eingeräumt wird. Formell gesehen wird der Sicherheitsnehmer Eigentümer, wobei er lediglich treuhänderisches Eigentum hat. Typischerweise wird der Sicherheitsgeber vertraglich verpflichtet, das Immaterialgüterrecht zu erhalten und zu verteidigen.

Die Arbeitsgruppe empfindet die in der Schweiz herrschende vertragliche Freiheit der Parteien als äusserst positiv. Dennoch wäre es wünschenswert, wenn sicherungsrechtliche Bestimmungen geschaffen werden würden, die auf Immaterialgüterrechte ausgerichtet sind und zur Anwendung kommen, falls eine vertragliche Regelung fehlt. Die allgemeinen sicherungsrechtlichen Bestimmungen können nicht immer mutatis mutandis auf Immaterialgüterrechte angewendet werden.

Bei internationalen Verhältnissen muss in Bezug auf das anwendbare Recht unterschieden werden, ob das Verpflichtungsgeschäft, das Verfügungsgeschäft oder die Wirkung des Sicherungsrechts in Frage steht. Alle Länder sollten zudem die Zulässigkeit von Sicherungsübereignungen sowie zumindest von einer sachenrechtlichen Sicherung (Pfand oder Ähnliches) anerkennen. Grundsätzlich sollte der Sicherheitsgeber nicht im Gebrauch eingeschränkt werden, solange er den Wert des Immaterialgüterrechts und damit der Sicherung nicht vermindert. Aus diesem Grund sollte die Möglichkeit bestehen, sowohl die Sicherung als auch zusätzliche Rechte in ein Register einzutragen.

In Bezug auf das Verpflichtungsgeschäft sollten die Parteien eine Rechtswahl treffen können. In Bezug auf das Verfügungsgeschäft und die Wirkung sollte jenes Recht zur Anwendung gelangen, in welchem das Immaterialgüterrecht registriert ist.

Résumé

Le droit suisse prévoit l'utilisation des brevets, des marques et des designs pour garantir une créance. Les lois spéciales de propriété intellectuelle comportent certaines normes de garantie, cependant le droit de gage et l'usufruit sont réglés par le code civil suisse (CC), sans aucune indication concernant les droits de la propriété intellectuelle. À la remise d'un bien à titre de garantie en tant que contrat innomé, s'appliquent les dispositions contractuelles générales du Code des obligations suisse (CO). Les parties sont ainsi libres de parvenir à des accords individuels sur les droits intellectuels en tant que garantie.

En pratique, seulement le gage et la remise d'un bien en propriété à titre de garantie sont utilisés, la jouissance n'a pas grande importance.

Si le droit intellectuel est donné en gage, le constituant du gage sera obligé par la loi de protéger la valeur du droit intellectuel. Toutefois, il n'existe aucune obligation semblable pour le créancier gagiste. Une disposition contractuelle stipulant la propriété au constituant, en cas de défaut du créancier gagiste, est nulle. C'est le créancier gagiste qui est responsable pour l'entretien et la défense du droit incorporel. Néanmoins, l'Institut Fédéral de la Propriété Intellectuelle (IPI) informe le créancier gagiste quand des frais deviennent exigibles et que le constituant ne les a pas payés.

Avec la remise d'un bien en propriété à titre de garantie, le droit intellectuel ne peut être utilisé que dans les limites contractuelles. En général, le cédant réclame une licence, en contrepartie de la garantie. Du point de vue formel, le cessionnaire devient propriétaire, quoiqu'il soit propriétaire fiduciaire. Normalement, des dispositions contractuelles sont utilisées pour contraindre le cédant à conserver et défendre le droit intellectuel.

Le groupe de travail suisse considère la liberté contractuelle en droit suisse particulièrement positive. Comme les dispositions de garantie générales ne sont pas applicables mutatis mutandis aux droits intellectuels, il est néanmoins souhaitable que des règles de base seront élaborées pour l'application aux droits intellectuels en absence d'un accord contractuel.

En contexte international, il faut une distinction entre l'obligation contractuelle, l'acte de disposition et l'effet de la garantie. Tous les pays devraient permettre au moins la remise d'un bien en propriété à titre de garantie et de gage. En général, le cédant ne devrait pas être limité dans l'utilisation du droit intellectuel tant que la valeur du droit intellectuel n'est pas diminuée. Pour cette raison, il devrait être possible d'inscrire dans un registre officiel aussi bien le gage que des autres garanties.

*Concernant l'obligation contractuelle («*Verpflichtungsgeschäft*»), les parties devront choisir librement le droit applicable. À l'égard de l'acte de disposition («*Verfügungsgeschäft*»), les lois du pays dans lequel les droits incorporels sont enregistrés seront applicables.*