

Title:	Security interests over intellectual property
Contributors:	Geoffrey Froidbise, Dominique Kaesmacher, Sophie Lens, Jasmine Malekzadem, Annick Mottet, Pierre-Yves Thoumsin, Bernard Vanbrabant, Sarah van den Brande, Simone Vandewynckel

Questions

I. CURRENT LAW AND PRACTICE

Availability of security rights

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

Until recently, it was debatable whether registered IPR's could be pledged according to common legislation. This uncertainty arose from former Article 2076 of the Belgian Civil Code,⁽¹⁾ which required dispossession of the encumbered goods. With respect to immovable assets such as IPR's, this condition was problematic. Indeed, it is not possible to simply hand over IPR's to a creditor (see the Belgian reports on Q190 and Q241). Some legal scholars suggested that the registration of a pledge in the relevant intellectual property registries was to be considered as a kind of dispossession, as it can be argued that when a certain formality can meet the objectives of the requirement to hand over the encumbered good, such formality should suffice and there is no further need to hand over the concerned good to the creditor.⁽²⁾ Nevertheless, there is no

(1) http://www.ejustice.just.fgov.be/cgi_loi/loi_a1.pl?DETAIL=1804032135%2FF&caller=list&row_id=1&numero=6&rech=14&cn=1804032135&table_name=LOI&nm=1804032155&la=F&dt=CODE+CIVIL&language=fr&fr=f&choix1=ET&choix2=ET&fromtab=loi_all&trier=promulgation&chercher=t&sql=dt+contains++%27CODE%27%26+%27CIVIL%27and+actif+%3D+%27Y%27&tri=dd+AS+RANK+&imgcn.x=39&imgcn.y=7#LNKR0013.

(2) See J. MALEKZADEM, "Beslag en inpandgeving van onlichamelijke roerende goederen, in het bijzonder de intellectuele eigendomsrechten", in M. E. STORME (red.), *Themis 2012*, Leuven, Acco, 2012, 81 and 87.

certainty in this respect, in particular because nothing prevents the right holder to continue exploiting – and thus possessing – its IPR’s following such registration.

However, the provisions of the Belgian Civil Code on pledges were recently reworked by the Belgian Act of 11 July 2013 regarding security interests over movables (as published in the *Belgian Official Gazette* on 2 August 2013). These new provisions are contained in a new Title XVII of Book III of the Belgian Civil Code, which is hereinafter referred to as the “*New Pledge Act*”.⁽³⁾

Article 7 of the New Pledge Act now expressly provides the right to grant pledges over IPR’s. More generally, dispossession is not anymore a validity requirement; it is only an alternative way of rendering the pledge enforceable towards third parties. However such *erga omnes* effect will also be created by registering the pledge in the new Belgian general registry for pledges on movables. This registry is still to be created.

The entry into force of the New Pledge Act has been postponed several times and it is now foreseen on 1 January 2017. Therefore, the current legislation and the future legislation are both analyzed in this report.

For the sake of clarity, the following terms will be consistently used below:

- “pledge” refers to the security interest (unless otherwise specified);
- “pledger” refers to the security provider; and
- “pledgee” refers to the security taker.

2) Are the available types of security interests defined by specific provisions relating to security interests over IPR’s 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)?

A. Current legislation

Under the current legislation no general (commercial) provision defines specifically any security interest over IPR’s. Even more, it is debatable whether registered IPR’s could be pledged according to common legislation, as mentioned here above (see question 1, § 1).

(3) http://www.ejustice.just.fgov.be/cgi_loi/loi_a1.pl?DETAIL=2013071119%2FF&caller=list&row_id=1&numero=2&rech=4&cn=2013071119&table_name=LOI&nm=2013009377&la=F&chercher=t&dt=LOI&language=fr&fr=f&choix1=ET&choix2=ET&fromtab=loi_all&sql=dt+contains++%27LOI%27+and+d+%3D+date%272013-07-11%27and+actif+%3D+%27Y%27&ddda=2013&tri=dd+AS+RANK+&trier=promulgation&dddj=11&dddm=07&imgcn.x=11&imgcn.y=15#texte.

Nevertheless, we do have specific legislation providing a system of registration for pledges relating to patent, trademark or design, in particular: (i) the specific legislation on IPR's under A.1 below, and (ii) the specific legislation on pledge on the business under A.2 below. However, these specific legislations only relate to the registration of the pledge, but do not determine the regime of the pledge. The registration based on these specific legislations is not required for the validity of the (pledge) agreement, but only for its enforceability towards third parties.

A.1. *Pledge over specific registered IPR's: registration in the relevant intellectual property registry*

The pledge over a *Belgian patent* needs to be registered with the Belgian Office for Intellectual Property (*Dienst voor de Intellectuele Eigendom* or *DIE v. L'Office belge de la Propriété intellectuelle* or *OPRI*) in order to be enforceable towards third parties. Hereto, a certified copy of the written agreement needs to be notified to the Belgian Office for Intellectual Property (Article XI.52, § 1, of the Code of Economic Law – hereinafter “CEL”),⁽⁴⁾ that will enter such information in its registry according to the receipt date (Article XI.50 CEL *juncto* Article XI.52, § 2, CEL). The Belgian Patent Act does not determine who is liable to make such notification (the pledger, the pledgee or both of them). The notification occurs by providing: (i) a copy of the pledge agreement, or (ii) any other official document regarding the pledge, or (iii) an extract of these documents, together with (iv) a proof of payment of taxes (Article XI.50, § 3, of the CEL). It must be noticed however that the pledge over a patent will also be enforceable towards a third party without registration in the case such third party has acquired his rights while knowing of the existence of said prior agreement (Article XI.50, § 6, of the CEL). Conflicts with third parties, within insolvency procedures, will be settled according to the principle of anteriority (“*anterioriteitsbeginsel/principe d'antériorité*”) (Article XI.50, § 5, of the CEL).

Regarding *Benelux trademarks*, Article 2.33 of the Benelux Convention for Intellectual Property of 25 February 2005 (BCIP)⁽⁵⁾ states that, in order for a pledge over a Benelux trademark to be enforceable towards third parties, the deed or a declaration containing the pledge needs to be registered with the Benelux Office for Intellectual Property. This means that conflicts with third par-

(4) http://economie.fgov.be/fr/modules/publications/general/code_de_droit_economique.jsp.

(5) <https://www.boip.int/wps/wcm/connect/www/8e563086-0af6-4839-a639-3b39ead93fc1/01-BCIP-na+protocol2010+EN-clean.pdf?MOD=AJPERES&CACHEID=8e563086-0af6-4839-a639-3b39ead93fc1&lmd=20140311101726>.

ties, within insolvency procedures, will be settled according to the principle of anteriority.

With regards to *EU trademarks*, Articles 22 and 23 of the Regulation No. 207/2009 of 26 February 2009 on the EU trademark (as amended by Regulation 2015/2424)⁽⁶⁾ provide for similar provisions. The registration has to be made in the registry administered by the EUIPO (previously OHIM).

Regarding *Benelux designs*, Article 3.27 of the BCIP states that, in order for a pledge over a Benelux design to be enforceable towards third parties, the deed or a declaration containing the pledge needs to be registered with the Benelux Office for Intellectual Property. This means that conflicts with third parties, within insolvency procedures, will be settled according to the principle of anteriority.

With regards to *Community designs*, Articles 32 and 33 of the Regulation No. 6/2002 of 12 December 2001 on Community designs⁽⁷⁾ provide for similar provisions. The registration has to be made in the registry administered by the EUIPO (previously OHIM).

A.2. *Pledge on the business: registration at the local mortgage registry office*

Pledges on trademarks are often granted as a part of general pledge on the business (“*pand op de handelszaak/gage sur fonds de commerce*”), which can be described as a floating charge. A business is considered as a whole of assets that the businessman uses to run out his business, to create and to preserve clients. This type of pledge on the business is fixed by the Belgian Act on granting a pledge on the business of 25 October 1919 (the “*Business Pledge Act*”).⁽⁸⁾ Article 2, § 1, of the Business Pledge Act lists up the “assets” of the business that are automatically pledged by granting a pledge on the business, i.e.: “*the clients, the signboard, the business house, the trademarks, the leases, the moveable and the equipment of the storehouse*”. This enumeration is not limitative, so that the contracting parties can provide a larger enumeration of assets including e.g. patents and designs.

(6) <http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1462346977378&uri=CELEX:02009R0207-20160323>.

(7) <http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1462347079385&uri=CELEX:02002R0006-20130701>.

(8) http://www.ejustice.just.fgov.be/cgi_loi/loi_a1.pl?DETAIL=1919102531%2FF&caller=list&row_id=1&numero=3&rech=4&cn=1919102531&table_name=LOI&nm=1919102550&la=F&chercher=t&dt=LOI&language=fr&fr=f&choix1=ET&choix2=ET&fromtab=loi_all&sql=dt+contains+%27LOI%27+and+d+d+%3D+date%271919-10-25%27and+actif+%3D+%27Y%27&ddda=1919&tri=dd+AS+RANK+&trier=promulgation&dddj=25&dddm=10&imgcn.x=24&imgcn.y=5#texte.

The owner of the business may only grant a pledge on the business in favor of an acknowledged credit institution/bank within the EU (Article 7 of the Business Pledge Act). The pledge is granted on the business as an universality (Article 1 of the Business Pledge Act). The pledge on the business is granted without dispossession of the pledged business. This means that the businessman can continue to run out his business, despite of the pledge. The security right of the pledgee must be registered at the local mortgage registry office (“*hypotheek-kantoor/bureau de conservation des hypothèques*”) – where the pledged business is located – to be enforceable towards third parties in the case of insolvency procedures (Articles 3 and 4 of the Business Pledge Act). This concerns thus a “registry pledge”.

B. Future legislation

The specific legislation providing a system of registration for pledges relating to patent, trademark or design will not be affected by the new regime. In addition, however, the New Pledge Act will apply, including its Article 7 regarding a pledge over IPR’s.

As far as pledges on the business are concerned, the Business Pledge Act will be repealed as from 1 January 2017. Pledges on the business will then be conducted by the new regime of a uniform registry pledge on all movable assets (“*roerende goederen/biens mobiliers*”) without dispossession. Article 7, § 2, of the New Pledge Act states that: “*the pledge that is subject to a business contains the entirety of all the goods that constitute the business, except for restrictive clauses in the pledge agreement*”. This implies that when a pledge is granted on the business, this pledge also covers IPR’s, unless agreed otherwise.

Under the future legislation, the relevant provisions regarding the pledge over IPR’s will be the following:

- Patent:
 - Articles XI.50 and XI.52 CEL,
 - Article 7, § 6, of the New Pledge Act of 11 July 2013 (pledge on IPR’s),
 - Article 7, § 2, of the New Pledge Act (as a part of the pledged business, unless contracting parties agreed differently).
- Trademark:
 - Article 2.33 of the Benelux Convention for Intellectual Property of 25 February 2005 (BCIP),
 - Articles 22 and 23 of the Regulation No. 207/2009 of 26 February 2009 on the EU trademark (as amended by Regulation 2015/2424),

- Article 7, § 6, of the New Pledge Act (pledge on IPR's),
Article 7, § 2, of the New Pledge Act (as a part of the pledged business, unless contracting parties agreed differently).
- Design:
 - Article 3.27 of the Benelux Convention for Intellectual Property of 25 February 2005 (BCIP),
 - Articles 32 and 33 of the Regulation No. 6/2002 of 12 December 2001 on Community designs,
 - Article 7, § 6, of the New Pledge Act (pledge on IPR's),
 - Article 7, § 2, of the New Pledge Act (as a part of the pledged business, unless contracting parties agreed differently).

It is not clear how the existing specific legislation on IPR's must be combined with the New Pledge Act.

Article 7, § 6, of the New Pledge Act states that the new regime: “*is only applicable to pledges which are subject to IPR's as far as they are not inconsistent with the other legislations where such pledges on IPR's are regulated*”. The preparatory works of the New Pledge Act does not clarify how the reader should interpret this Article 7, § 6, of the New Pledge Act.

Therefore, the safest way seems to be to registry the pledge on the IPR's in both: (i) the Benelux/European IP registry and (ii) the new Belgian general registry for pledges on movables. Nonetheless, the existence of two independent registries might in some cases lead to difficulties because the registrations will not necessarily occur simultaneously, i.e. at the same date. Indeed, the date of registration is qualifying for the settlement of conflicts according to the anteriority principle.

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

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

There are no such provisions under current statutory law. However, parties could agree to apply to IPR's a mechanism similar to the “fiduciary assignment”, which is commonly used for receivables (see question 15). There is however no case law in this respect.

- 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).**

Generally speaking, the pledgee can only take action in the event of default.

If the pledger does not meet the guaranteed obligations, self-realization by the pledgee-creditor is however not allowed under *current legislation*. The intervention of the court is necessary.

Under the *New Pledge Act*, the pledgee will be entitled to request a bailiff to auction, sell, or lease the underlying IPR (Article 51). In the case of private sale, however, the pledgee will not be allowed to acquire the right himself (Article 52). Before requesting the sale of the underlying IPR, the pledgee should verify that his security right is effective and enforceable against third parties. If not, there is a risk that the purchaser of the IPR will be entitled to ignore his rights. If the pledgee wishes to secure the ownership of the underlying IPR in the event that the pledger does not perform his obligations, this may be agreed, provided an express provision is included in the pledge agreement or in a later agreement; the clause should specify that the value of the encumbered IPR will be estimated by an expert (Article 53).

In view of the aforementioned, it is advisable to carefully draft the pledge agreement, in order to accurately define the rights of the pledgee in the event that the pledger would not fulfill his obligations, including in the case of an insolvent pledger.

- 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?**

Article 578 of the Belgian Civil Code provides a *usus fructus right*. It can apply to IPR's.

Nevertheless, *usus fructus* does not qualify as a security right under statutory law and it does not seem to be used as a security right in contracts. It is therefore likely that a the *usus fructus* right will be of limited value in case of insolvency of *concursum creditorum* (“*concursum/samenloop*”).

Indeed, the Court of cassation recently held that the trustee in bankruptcy could terminate a contract pertaining to a right *in rem*.⁽⁹⁾

Regarding the *pledger*, it should be noted that according to the New Pledge Act, the pledger is allowed to a reasonable use of the encumbered goods in conformity with their destination (Article 17).

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

Under *current legislation*, and to the best of our knowledge, only the common pledge, as well as the pledge on the business are used regarding IPR's (see question 3). All kind of IPR's may be – and are effectively – pledged under both systems, although trademarks are expressly mentioned by statutory law as an element of the pledge on the business (see question 2, § A.2).

Under *future legislation* there will remain only one type of security interest regarding IPR's, i.e. the pledge as provided under the New Pledge Act. It will be applicable to all IPR's, including not-registered IPR's, without distinction.

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. *Current legislation*

- *Pledge*: In theory, yes (i), but in practice, no (ii).
 - (i) In theory, a (common) pledge implies dispossession of the encumbered good in the hands of the pledgee. Thus, letting aside the ques-

(9) Cass., 3 december 2015, http://jure.juridat.just.fgov.be/pdfapp/download_blob?idpdf=N-20151203-12,nrs.5-6.

tion whether dispossession of an IPR is technically effectively possible (see question 1), the pledger should in principle no longer be able to use its IPR.

- (ii) Yet, the theory runs up against the practice and the very nature of IPR's that are in principle intended to be used. Indeed, this is in the interest of both the pledger (for example, to get revenue and to reimburse his debt) and of the pledgee (who is in principle not allowed, and in general not able, to use the encumbered IPR, see below). Therefore, in practice, the pledger will continue to use the encumbered IPR (possibly subject to contractual provisions that the parties would have agreed on).

For the sake of completeness, if a pledge agreement does generally not contain any provision prohibiting the pledger to use the encumbered IPR, it is however common to encounter restrictions regarding the extent to which the pledger can use and/or dispose of the encumbered IPR (for example a provision prohibiting the pledger to grant a licence or to assign his IPR without the pledgee's prior consent – see questions 6 and 7). It is also common to find specific provisions which will not only provide for the *possibility* for the pledger to use the encumbered IPR, but for the *obligation* to use it (for example a trademark which is subject to forfeiture in case of prolonged non-use) and/or to accomplish specific acts to maintain, to renew and/or to defend it.

- *Pledge on the business*: No.

Unlike the pledge, a pledge on the business implies neither dispossession nor unavailability of the encumbered goods. Except in case of fraud⁽¹⁰⁾ and subject to contractual provisions to the contrary, the pledger can thus freely use and/or dispose of the goods constituting the pledged business, including its IPR's. In other words, the pledger can in principle continue to use the IPR's included in its business and to perceive the possible revenues generated by said IPR's,⁽¹¹⁾ as long as he acts reasonably and in compliance with its business destination.

(10) Art. 8 of the Act of 25 October 1919: “*The fraudulent disposition or removal of all or part of these elements is liable to the penalties provided by Article 491 of the Penal Code*”.

(11) The pledger can thus in principle perceive the royalties due by licensees. The pledger can even grant new licenses or assign its IPR's (the pledge, which has previously been registered in the corresponding IP registry, will follow the transferred IPR), unless the parties have specifically limited his freedom in this respect in the pledge agreement.

- *Fiduciary assignment*: In theory, yes (i), but in practice, not so clear (ii).
 - (i) If used as a security (subject to the qualifications made under question 3.a), the fiduciary assignment of IPR's would imply the transfer by the debtor of the full ownership of his IPR's to the security taker, until full payment of his debt. In return, the secured creditor would agree to transfer the IPR's back to the debtor upon full payment of the secured debt. Given the very nature of the fiduciary assignment, the security provider could in principle no longer use his IPR's since they would have been transferred to the secured creditor.
 - (ii) This being said, just as for the pledge, in practice, it is usually in the interest of both parties that the security provider can continue to use his IPR's. Therefore, it would be in the parties' interest to provide for specific provisions in the assignment agreement reserving the right to use and/or granting a license to the security provider. Yet, such provisions could be perceived as going against the nature of the fiduciary assignment, and the risk cannot be excluded that third parties would request the reclassification of the contract. In practice, the fiduciary assignment mechanism is of little interest compared to the pledge: in a decision of 3 December 2010, the Belgian Supreme Court ruled that in fact “*the assignee of the secured debt will not be able to exercise more rights than those available to a pledge holder*” (see question 15).

B. Future legislation

- *Pledge*: No.

After the entry into force of the New Pledge Act, the Business Pledge Act will be repealed. The same provisions will thus apply to all pledges. Contrary to the current regime, Articles 17 and 22 of the New Pledge Act expressly provide for the possibility for the pledger to (i) use and (ii) freely dispose of the encumbered goods, yet adding that (i) the use should be “*reasonable*” and “*in conformity with the [goods'] destination*” of the encumbered goods; and (ii) the right of disposal must be exercised “*in the ordinary course of business*”.

These precisions somehow echo the obligation prescribed to the pledger “*to take care of the encumbered goods as a good pledger would*” (“*en bon constituant*”, referring to the common French expression “*en bon père de famille*”⁽¹²⁾ – cf. Article 16 of the New Pledge Act).

- *Fiduciary assignment*: see above under current legislation.

(12)Projet de loi modifiant le Code civil en ce qui concerne les sûretés réelles mobilières et abrogeant diverses dispositions en cette matière, 24 October 2012, Ch. Rep., DOC 53-2463/001, p. 43.

6) May encumbered IPR's be assigned to third parties by the security provider?

A. Current legislation

- *Pledge*: In theory, no (i) but in practice, yes (ii).
 - (i) In theory, dispossession of the encumbered good is required. Therefore, this good could no longer be assigned to third parties by the pledger.
 - (ii) However, as explained above, according to legal literature, effective dispossession could be replaced by a registration of the pledge in the relevant IP registry. From this perspective, it is thus possible to assign an encumbered IPR to third parties. However, assuming the pledge is registered with an earlier date than the assignment, the IPR would remain encumbered with the security despite the assignment, and the pledge hence enforceable against the assignee.
- *Pledge on the business*: yes. A pledge on business covers, subject to certain restrictions, all movable assets that constitute the pledger's business. This does not require a dispossession and therefore an encumbered IPR covered by a pledge on business could be assigned to a third party.
- *Fiduciary assignment*: no. By definition, the IPR has already been assigned to the security taker and cannot be assigned again by the security provider.

B. Future legislation

Yes, according to Article 21 of the New Pledge Act, the pledger is authorized to assign the encumbered goods to a third party in the normal course of his business.

As explained above, a diligent third party should have consulted the relevant registries and should therefore be aware of the existence of the pledge before acquiring the encumbered IPR.

This is at least implicitly confirmed by Article 25 of the New Pledge Act which provides that in case the acquisition of an encumbered good takes place in the framework of the acquirer's professional activity, then the basic rule of Article 2279 of the Civil Code – according to which possession of a movable good equals property – is not applicable.

Following the entry into force of the New Pledge Act, the Business Pledge Act will be repealed. The same provisions will thus apply to all pledges.

7) If yes:

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

As explained above, there are conditions to be met in order for the pledge to be valid and to be enforceable towards third parties.

The fact that the IPR is encumbered with a pledge does not change the requirements for the validity or enforceability of the assignment of the IPR (See also AIPPI Question 190).

The consent from the pledgee is not required and the pledger does not have to inform the pledgee.

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

Yes, provided the pledge is duly registered. This solution applies under the current regime and is confirmed by the New Pledge Act, at Article 24 which provides the following:

“The pledge follows the encumbered goods, no matter in whose hands they are. The assignee is considered to be the pledger as from the moment of the assignment.

The first paragraph is not applicable if the pledger had the right to dispose of the encumbered goods according to Article 21, if such dispossession had been authorized by the pledgee [...]”.

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

A. Current legislation

- *Pledge/Pledge on the business*: Before default, the pledgee cannot exercise (i.e. enforce/exploit) the encumbered IPR's (see Articles 2078 and 2079 of the Belgian Civil Code).

What concerns more specifically the right to take legal action and/or to obtain damages for the infringement to the encumbered IPR's, the intervention of the pledgee is not provided by statutory law. Indeed, the legal texts reserve the right to exercise the infringement action to the IPR owner, possibly accompanied by the licensee and/or, in some cases, the usufructuary,⁽¹³⁾ but do not expressly address the situation of the pledgee.

(13) Cf. Art. 2.32.4-5 of the Benelux Convention on Intellectual Property (“BCIP”) for Benelux trademarks; Art. 22.3-4 of Regulation No. 207/2009 for EU trademarks; Art. 3.26.4-5 for Benelux designs; Art. 3.23-4 of Regulation 6/2002 for Community designs Art. XI.60, § 2, Code of Economic Law for Belgian patents.

Besides, it must however be noted that as long an IPR is encumbered, the pledgee has somehow the *right* to not see this IPR disappear. In this sense, each specific IPR regulation expressly provides that the owner of an IPR which has been encumbered may not waive his IPR, or request revocation of its registration, without the pledgee's prior consent.⁽¹⁴⁾

- *Fiduciary assignment* (subject to the qualifications made under question 3.a): the fiduciary assignment implies the transfer of the full ownership of the encumbered IPR's until full payment of the secured debt. Thus, until full payment, the assignee, secured creditor, must be considered as the owner of the encumbered IPR's and can basically use them as he wants, subject to possible contractual restrictions and, of course, to the fact that he must be able to transfer the encumbered IPR's back to the debtor if the payment of the secured debt is made within the agreed delay.

B. Future legislation

A priori, the pledgee has no more right under the (future) new regime than under the current one. Indeed, Article 42 of the New Pledge Act provides that “*the pledgee may not use the encumbered goods unless and to the extent that it is necessary for their preservation*”.

In addition, the two following points can be made:

- Article 16, al. 2, of the New Pledge Act expressly provides that “*the pledgee has the right to inspect the pledged goods at any time*” and that, in particular, to ensure that “*the pledger takes care of the pledged goods as a good pledger would*” (al. 1). This “*right of inspection*” will thus enable the pledgee to ensure that the pledger respects, for example, his obligations to maintain and/or renew the encumbered IPR (see question 9). In case of failure of the latter, it is accepted that the pledgee must be allowed to pay the maintenance fees instead of the pledger (and ask for reimbursement later).

(14) Cf. Art. 50.3 of Regulation No. 207/2009 for EU trademarks and Art. 51.4 of Regulation No. 6/2002 for Community designs (“*Surrender shall be entered only with the agreement of the proprietor of a right relating to the EU trade mark/Community design and which is entered in the Registry*”).

Cf. Art. 2.25.2 BCIP for Benelux trademarks and Art. 3.21.3 BCPI for Benelux designs (“*If a license has been registered, cancellation of the trademark/design registration can only be done at the joint request of the trademark/design holder and the licensee. The preceding sentence also applies in case of registration of a pledge*”).

Cf. Art. XI.55, §§ 6-8, of the Code of Economic Law for Belgian patents (“*If rights of usufruct, pledge or license have been registered, the patent cannot be surrendered, in whole or in part, without the consent of these rights holders*”).

- Article 9 provides that “*unless otherwise agreed, the pledge extends to the proceeds produced by the encumbered goods*”.

According to the preparatory work of the New Pledge Act,⁽¹⁵⁾ it appears that this provision was adopted with reference to Recommendation 19 of the UNCITRAL Legislative Guide on Secured Transactions:

“The law should provide that, unless otherwise agreed by the parties to a security agreement, a security right in an encumbered asset extends to its identifiable proceeds (including proceeds of proceeds)” (p. 98).

The word “proceeds” referred to in Recommendation 19 is defined as follows:

“whatever is received in respect of encumbered assets, including what is received as a result of sale or other disposition or collection, lease or licence of an encumbered asset, proceeds of proceeds, natural and civil fruits or revenues, dividends, distributions, insurance proceeds and claims arising from defects in, damage to or loss of an encumbered asset” (pp. 11-12).

If it seems clear that royalties from licenses granted on the encumbered IPR will in principle be covered by the pledge, many questions remain however unanswered as to the exact scope of the above-mentioned Article 9: Since royalties are also covered by the pledge, does that mean that during the agreed duration of the pledge, the pledger cannot use (spend) them and must keep them for the future disinterestedness of the pledgee or, to the contrary, can the pledger make reasonable use thereof, in order, for example, to pay the maintenance and/or renewal fees of the encumbered IPR and/or to reimburse the secured debt (see also questions 18 and 26)? To date, in the absence of a clear answer to this question, it is recommended that the parties expressly settle the fate of the current and future royalties which will be perceived by the pledger during the duration of the pledge.

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

A. Current legislation

In Article 2080 Belgian Civil Code, reference is made to the rules regarding contractual obligations pursuant to which, on the one hand, the pledgee

(15) *Projet de loi modifiant le Code civil en ce qui concerne les sûretés réelles mobilières et abrogeant diverses dispositions en cette matière*, 24 October 2012, Ch. Rep., DOC 53-2463/001, p. 20.

will be responsible for the loss or damage of property arising from its negligence and, on the other hand, the pledger must compensate the pledgee's useful and necessary expenses incurred to maintain the property. However, those rules assume that the possession of the encumbered good has been effectively transferred to the pledgee. Hence, when dispossession is only symbolic, or replaced by registration, it is fair to consider that it is in the first place up to the pledger to maintain and defend the IPR. Only if he fails to do so, the pledgee could step in.

This solution should also apply to pledges on the business, since the pledger qualifies as the guardian of the encumbered goods (Article 8 of the Business Pledge Act).

B. *Future legislation*

In principle, the pledger can be considered to be responsible for the maintenance and defence of the encumbered IPR.

Indeed, according to Article 16 of the New Pledge Act, the pledger must take care of the encumbered property as a decent pledger and the pledgee is entitled to inspect the encumbered property at all times. Even though the scope of obligations of a “decent pledger” is neither specified nor clear, one might assume that a decent pledger is responsible to actively maintain the IPR and, hence, to pay all taxes regarding its patents validity, to renew its trade mark and to actively use it in order to avoid revocation as long as the pledge is in force. However, there is no explicit provision regarding the following duties of a decent pledger: should he actively protect its IPR's' against (threats) of infringements or should defend its IPR's' against infringement or invalidity claims.

Notwithstanding the foregoing, the pledgee shall not be entirely exempted from any responsibility regarding the encumbered IPR. Pursuant to Article 9 of the New Pledge Act the pledger and, where appropriate, the pledgee are accountable to each other regarding the claims which can subrogate the encumbered property and regarding the proceeds issuing from the encumbered goods. Even though this provision might seem difficult to apply on IPR, it confirms the assumption that the pledger is responsible for the maintenance and defence of the IPR but that the pledgee, were appropriate, can also be held accountable.

For the sake of clarity, it is recommended that both the pledgee and the pledger enter into an agreement in which they specify their rights and obligations regarding the encumbered property, e.g. regarding renewal, defence,

expiration, revocation etc. in order to avoid that the pledgee loses his security. It should however be noted that such agreement would not be enforceable towards third parties.

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. Current legislation

As indicated under question 9, in Article 2080 Belgian Civil Code, reference is made to the rules regarding contractual obligations pursuant to which, on the one hand, the pledgee will be responsible for the loss or damage of property arising from its negligence and, on the other hand, the pledger must compensate the pledgee's useful and necessary expenses incurred to maintain the property.

There are no other legal disposition specifying the legal consequences if the underlying IPR expires or is revoked.

B. Future legislation

As indicated under question 9, the New Pledge Act only provides for a general obligation for the pledger to take care as a decent pledger of the encumbered property. There is no specific legal obligation for the pledgee to safeguard and defend its IPR at all costs. The general liability principles seem to be applicable: the creditor will only have a compensation claim against the pledgee for all damages incurred, upon the condition that he can prove that the pledgee committed a fault or negligence that caused the specific damage incurred by the creditor.

By lack of legal provisions specifying the obligations for the pledger, it will be difficult to demonstrate a fault or negligence on its behalf. Once again, well drafted legal contracts are therefore recommended in order to specify one's obligations and to identify who is responsible and to what extent and against what costs the pledgee or pledger shall take care of the IPR. Such contracts will allow one party to put the other one responsible for breach of contract, which can avoid discussions regarding fault or minimum compensation. It should however be noted that such agreement would not be enforceable towards third parties.

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

A. Current legislation

As we have seen in question 5, if, in theory, the pledgee should not be able to use the encumbered IPR for the time of the pledge, in practice, the parties can (and generally do) modulate the effects of the pledge; expressly providing the possibility (and sometimes the obligation) for the pledger to use the encumbered IPR.

Given the nature of the pledge and considering the answer to question 8 above, the parties will in most cases not entitle the pledgee to exploit the encumbered IPR, but could agree to entitle him with the proceeds of the IPR. It is also advisable for the parties to agree on the payment of the maintenance or renewal fees when necessary.

B. Future legislation

Several provisions of the New Pledge Act expressly state that they will only apply “*unless otherwise agreed*”. It is therefore not unreasonable to think that all, or most of the other provisions are imperative and that they can in principle not be waived.

In casu, Article 9 of the New Pledge Act provides the possibility for the parties to not extend the pledge to the proceeds produced by the encumbered IPR or to modulate the effects of such an extension. As already stated in question 8 *in fine*, it is highly recommended that the parties contractually agree on the fate of the proceeds produced by the encumbered IPR (and, by doing so, that they expressly provide the possibility for the pledger to reasonably use the proceeds produced by the encumbered IPR).

Article 21 of the New Pledge Act also provides that the pledger will freely dispose of the encumbered IPR “*unless otherwise agreed*”. The parties may therefore agree, for example, that the pledger cannot grant a license or cannot assign the encumbered IPR to a third party without the pledgee's prior consent.

For the sake of completeness, it must be noted that if the parties may contractually agree to depart from the pledger's free disposal principle inscribed in Article 21, they can however not depart from the pledger's free use principle inscribed in Article 17. This Article indeed stipu-

lates that “*the pledger is allowed to a reasonable use of the encumbered goods in conformity with their destination*”, without providing the possibility for the parties to contractually agree otherwise.

Finally, it is not clear whether the parties could conventionally grant the right for the pledgee to intervene in defence of the encumbered IPR, alone or together with the right owner. The regulations in this respect seem indeed drafted in a relatively restrictive manner which seem to prohibit such contractual provision (see footnote 13 – *cf.* Article 7, al. 6, of the New Pledge Act).

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 IPR’s?

The law applicable to IPR’s is determined by Article 93, § 1, of the Belgian Code of International Private Law (hereafter “BCIPL”). The IPR’s will be governed by the national laws of the State for which protection is requested. Article 93, § 1, BCIPL applies the “*lex loci protectionis*”. In other words, if a patent is granted under US law, the (US) patent will be governed by US law as the “*lex loci protectionis*”.

If protection is requested in several countries, e.g. through an international trademark application, a distributive application will have to be made of the separate national legal systems and separate national rules of law.⁽¹⁶⁾

As far as pledges on the business are concerned, pursuant to Article 87, § 2, BCIPL, the applicable law will be that of the State with which the business has the closest links.

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

In accordance with Article 93, § 1, BCIPL, the IPR’s will be governed by the national laws of the State of which protection is requested.

Article 94, § 1, 2°, BCIPL explicitly clarifies that the national law that is applicable in accordance with Article 93, § 1, BCIPL also applies to questions related to the existence, nature and the scope of security interests that can be established over the IPR’s.

(16) K. ROOX, “Intellectuele eigendom in het nieuwe wetboek I.P.R.”, *IRDI* 2005, 154.

A combination of Articles 93, § 1, and 94, § 1, 2°, BCIPL therefore implies that the national law applicable to the IPR's will also apply to the questions related to the creation, perfection and effect of security interests. US law will therefore apply to security interests over a US patent.

However, purely contractual questions will be governed by the *lex contractus*, which to a large extent can be chosen by the parties.

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

Article 98, § 1, BCIPL states that the applicable law to agreements, such as security interest agreements, is determined by the Rome I-Regulation of 17 June 2008 on the law applicable to contractual obligations (hereafter the "Rome I-Regulation").

Article 3.1 of the Rome I-Regulation puts forward the supremacy of the freedom of choice of the contracting parties. Only if the contracting parties have not determined the applicable law themselves, the rules of Articles 4 up to and including Article 8 of the Rome I-Regulation will apply.⁽¹⁷⁾

The law applicable to the security interest agreement will only determine questions related to contract law, in particular but not only the content of the parties' contractual obligations. The availability and effects of the security interests in the IPR's, though, will remain mainly governed the *lex loci protectionis*.

The *lex contractus* will not determine the availability and effect of neither the IPR's themselves, nor all pledgee's rights.

Additional question

15) Regardless of your Group's current law relating to security interests over IPR's, is it possible to create a solely contractual regime for security interests over IPR's (i.e. beside the types of security interests defined by law) that is enforceable between the contracting parties?

Yes, taking into account the two basic principles of freedom to contract and "*pacta sunt servanda*" (Article 1134 Civ. C.), parties may certainly agree to grant each other a security over IPR's, and such agreement will be valid and enforceable between the contracting parties, and hence useful (at least) in absence of bankruptcy of the indebted IPR holder, or other *concursum creditorum*.

(17) J. DE MEYER, "De Rome I-Verordening in een notendop: Nieuwe verwijzingsregels voor het recht dat van toepassing is op verbintenissen uit overeenkomst", *Cah. jur.* 2009, nr. 3, 72.

What is questionable is whether such security, though not defined by statutory law, might be opposed, and to what extent, to third parties. In this respect, Belgian (case) law has evolved remarkably.

In a judgment of 17 October 1996, the Belgian Supreme Court (Cour de cassation) held that a security that is not foreseen by statutory law (*in casu* the fiduciary assignment of a credit) cannot be opposed to third parties.⁽¹⁸⁾ In other words, other creditors of the indebted assignor can ignore the assignment and attach the credit as if it was still in the patrimony of their debtor. However, in a later judgment, of 3 December 2010, the Court softened the sanction attached to the non-existence of the security under statutory law, and held that the agreement providing for the assignment of a credit as a security “can never bring more to the creditor, in case of *concursum creditorum*, than a pledge right on such credit, and that the assignee of the credit can therefore not exercise (enjoy) more rights than those enjoyed by the holder of a pledge”.⁽¹⁹⁾ This solution is taken over by the Future Pledge Act: Article 62 thereof provides that “the assignment of a credit as a security vests the assignee only with a pledge on the assigned credit”.

Although there is no case law in this respect, we do not see why these principles would not apply, *mutatis mutandis*, to the fiduciary assignment of IPR’s. Hence, the fiduciary assignment of an IPR will have just the same effect as a pledge.

Another useful contractual tool to provide security in the realm of information technology, consists in giving computer programs source codes to an escrow agent, who undertakes to make the code available to the beneficiary in case the licensor is insolvent or in breach of contract. However, IPR’s are not, properly speaking, the subject matter of such agreements (though the assignment of rights may be agreed separately).

(18) Cass., 17 October 1996, concl. PIRET, *Bull.* 1996, 992; *Rev. banq.* 1997, 114, note PEETERS; *JLMB* 1997, 520, note; *Pas.* 1996, I, 992; *Rev. prat. soc.* 1997, 145, note BOSLY; *RW* 1996-1997, 1395, note STORME.

(19) Cass., 3 December 2010, concl. DUBRULLE, *Pas.* 2010, 3094; *Dr. banc. fin.* 2011, 120, note PEETERS; *NjW* 2010, 834, note SAGAERT; *RW* 2010-2011, liv. 28, 1177, note FRANSIS; *RGDC* 2011, 497, note GEORGES; *RDC* 2011, 866, note GRÉGOIRE and CZUPPER.

II. POLICY CONSIDERATIONS AND POSSIBLE IMPROVEMENTS TO YOUR CURRENT LAW

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

No, see a.o. question 10 and our recommendation to draft clear contracts.

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

Overall, there is an appropriate balance between the pledger and the pledgee. However, the situation could be improved as explained hereafter.

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)?

To date (both under the current and the future legislation), unless otherwise agreed, the pledger may freely dispose of, thus also freely assign, the encumbered IPR without the pledgee's consent. We think that the situation should be balanced a little and that the pledger should at least have to notify the assignment to the pledgee, where possible and unless otherwise agreed. By doing so, the pledgee would be informed of any possible change in the person of the IPR owner,⁽²⁰⁾ while the pledger's freedom to exploit and assign its IPR will be maintained.

Additionally, we think that the law should expressly provide the right for the pledgee to defend and maintain the encumbered IPR in justice if the IPR holder (pledger) fails to do so for any reason whatsoever (e.g. insolvency) (similarly to a licensee and/or an usufruct for some IPR – see question 8.A, footnote 13). This possibility should however be limited to conservatory actions only like defence of the encumbered IPR and should exclude any right to damages (unless the law would provide that the damages earned by the pledgee would amount to reimbursement of the pledge).

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 dis-

(20) The value of an IPR also depends on the way it is effectively used (for example for a trademark) and/or defended (when contested) or taken care of (if need to pay maintenance or renewal fees) so that the person of the holder can be of importance. The pledgee should have the possibility, if not to oppose the intended IPR assignment, at least to be informed thereof.

pose of existing licenses without involvement of the security provider)?

In our view, the pledger should have the right to use the proceeds from the encumbered IPR to maintain, renew or defend them. However, if the pledgee does not use the proceeds to maintain or defend the rights, the pledger should be allowed to challenge the use of the proceeds.

As explained above, we also think that the pledger's right to assign the encumbered IPR should be subject to the pledgee's prior information, unless otherwise agreed.

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 IPR's as collateral? If yes, please briefly explain.

Yes, reference is made to the points raised under the following questions:

- Question 1: The entry into force of the New Pledge Act will banish the uncertainty whether IPR's could be pledged under Belgian law, including not-registered IPR's.
- Question 2: We have specific legislation providing a system of registration for pledges relating to patent, trademark or design, in particular: (i) the specific legislation on IPR's under Question 2.A.1 and (ii) the specific legislation on pledge on the business under Question 2.A.2. But, these specific legislations only relate to the registration of the pledge, and do not determine the regime of the pledge. By determining the specific regime of the pledge (including legal conditions and consequences) this uncertainty can disappear.
- Question 3: It is not clear how (i) the existing specific legislation on IPR's must be combined with (ii) the New Pledge Act. Nonetheless, the existence of two independent registries might in some cases lead to difficulties because the registrations will not necessarily occur simultaneously, i.e. at the same date. Indeed, the date of registration is qualifying for the settlement of conflicts according to the anteriority principle. It will be useful that the legislator prescribes whether: (i) registration in both registries is necessary, and if this is the case (ii) which date of registration is decisive regarding the anteriority principle.
- [...]
- Question 5: As stated in question 17.B it could be advisable to subject the pledger's assignment right to the pledgee's prior information, while allowing the parties to contractually agree otherwise. A pledge could

also be more appealing for the pledgee if the law provided the obligation for the pledger to use the encumbered IPR where it is subject to forfeiture in case of prolonged non-use.

- Questions 6-7: the pledger should only be able to assign the encumbered IPR subject to the pledgee’s prior consent, unless otherwise agreed.
- Question 8: As stated in question 17.A it could be advisable for the law to expressly provide the possibility for the pledgee to defend the encumbered IPR if the IPR holder (pledger) fails to do so.

It could also be advisable for the law to clarify the fate of the proceeds in such a way that the pledger might use them to maintain, renew and/or defend the encumbered IPR and/or to reimburse the pledgee.

- Question 9: It could be advisable for the law to expressly identify who is responsible to pay the maintenance or the renewal fees, subject to the possibility for the parties to decide otherwise, as well as to oblige the pledger to use the encumbered IPR when it is subject to forfeiture in the absence of effective use.

In all cases, the improvements suggested above should be provided for “unless otherwise agreed”.

III. PROPOSALS FOR HARMONISATION

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

Yes.

Security system regarding IPR’s

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

Yes, because of the specific nature of IPR’s – in particular their intangible character.

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

N.A.

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

A pledge.

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.

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?

The right to use should not be restricted as a matter of principle, as long as the pledger acts reasonably and in compliance with the IPR's business destination.

25) Should the security provider be able to assign encumbered IPR's to third parties?

The pledger should at least notify the assignment of an encumbered IPR to the pledgee, unless otherwise agreed by the parties (see questions 17.b and 18).

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

The law should provide the right for the pledgee to defend and maintain the encumbered IPR in justice if the IPR holder (pledger) fails to do so for any reason whatsoever (e.g. insolvency). This possibility should be limited to conservatory actions only like defence of the encumbered IPR and should exclude any right to damages.

The license fees should remain for the pledger unless otherwise agreed.

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

We are of the opinion that both should have a responsibility in this respect. We consider it to be fair that it is in the first place up to the pledger to maintain and defend the encumbered IPR. Only if he fails to do so, the pledgee could step in.

However, we suggest to clearly stipulate the specific conservatory duties of a decent pledger and, by default, the rights of the pledgee at the pledger's expense, in harmonized legislation e.g. regarding maintenance and defence etc. in order to avoid that the pledgee loses his security.

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)?

As indicated above, we suggest to clearly stipulate the specific duties of a decent pledger and the rights of the pledgee in case of default of the pledger, e.g. regarding renewal, defence, expiration, revocation, etc., in order to avoid that the pledgee loses his security.

If the pledger fails to maintain or defend the encumbered IPR, the pledgee should be allowed to step in on time in order to avoid that the IPR expires or be revoked.

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

Yes. In Belgium, as seen in question 11, several statutory provisions are provided "*unless otherwise agreed*". That allows the parties to take into account the specificities of the circumstances while organizing their relation so as to ensure, hopefully, increased effectiveness and security for both parties.

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?

The law applicable to each IPR should in principle apply to the availability and the effects of security interests. This may nevertheless create difficulties, where a portfolio containing IPR's which are subject to various laws is encumbered.

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

Choice of law provisions should only overrule the law that is normally applicable as *lex contractus*. It should not be a way to circumvent the (un)availability and effect of security interests as they are defined under the *lex loci protectionis*.

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 IPR's.**

N.A.

- 33) Please comment on any additional issues concerning any aspect of security interests over IPR's you consider relevant to this Study Question.**

We understand that in most jurisdictions there are specific IP registries, which may coexist with a general security registry. In such cases, it would be useful to have harmonised guidelines as to the way those two kind of registries interact (e.g. is registration in both registries required; which date of registration should prevail; etc.).