

Taking Security over IP

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Introduction

Increasingly, intellectual property represents a valuable part of the assets of a borrower group and therefore a valuable asset to be used as security for loans.

This briefing discusses the types of intellectual property rights that may be relevant to a business and the ways a lender can take – and subsequently enforce – its security over such rights. In doing so, the effects of including a negative pledge clause in a loan or security agreement where intellectual property is relevant will also be considered.

Types of Intellectual Property

The term Intellectual Property ("IP") covers a wide range of disparate rights and, at its most basic, is used to refer to intangible assets that are "creations of the mind". When considering taking security over IP, especially when (as in many cases) it could be the most valuable part of the security being obtained, it is necessary to consider the types of IP owned by the borrower group and how these fit within the proposed security structure.

It is likely that IP will be considered more valuable where such IP is long-lasting, easy to secure, registered, generates regular, if not constant, revenue and retains value independently of the business that owns and uses it.

Notwithstanding this, there are many different types of intellectual property, both registered and unregistered, over which security can be taken – the main categories of these are considered separately below.

Patents

Patents give protection for inventions (both products and processes). Patents must be registered in order to exist. Once granted, patents give a very clear proof of title and typically have a strong value independent of the business in which they are used. However, existing revenue streams are often uncertain as most patents are not licensed out (as the patent owner typically wants to maintain exclusivity in the marketplace).

It is necessary to apply for patent protection before the invention is "disclosed" to the public and if a disclosure is made then any subsequent patent application will be invalid. This means that if security is being taken over future patents it is necessary to ensure that the relevant processes are in place so that potential patents are not invalidated through inadvertent disclosure.

Patent rights last up to 20 years in the UK and so consideration should be given to how much of this period remains when taking security over a patent.

At the European Union level, recent legislation has been passed which will eventually enable a single unified patent registration and court system to operate in the European Union. This system is

not expected to come into operation in stages during the course of 2015. Once this system is in effect, care should be taken by lenders to check registration of a patent on the new unified patent register.

Trade marks

Trade marks give protection for words, logos and lots of other things such as colours, sounds, shapes and smells (in fact there is no technical limit on what can be protected as a trade mark).

There can be both registered and unregistered trade mark rights and these rights can last forever (although they must be renewed every 10 years). If trade marks are licensed they can give a very secure and consistent income. The downside of using trade marks as security is that they are often (and unregistered trade marks are almost always) business-dependent, so that if a business fails the value of the trade marks that business uses will fall (for example, consider the value of the RATNERS trade mark following the near self-destruction of that business).

Also, it is often difficult to register the trade marks being used by a business (following an application in the UK, the trade mark must be advertised for at least 2 months without opposition before registration can be effected). However, registered trade marks are a lot more valuable than unregistered trade marks (in a dispute between two holders of like trade marks, a registered trade mark owner will be able to claim ownership of the trade mark over an earlier unregistered trade mark owner of which the registered trade mark owner was unaware).

Notwithstanding this, trade marks can give very valuable security if a business is successful. By way of an example in the late 1990s both DreamWorks and the Tussauds Group granted security over their IP to secure around \$320 million - both grants of security covered both existing IP and future IP.

At the European Union level, trade marks can also be registered as "community trade marks" on the Community Trade Marks Register which, following registration, will take effect across the European Union.

Designs

Designs give protection for shapes, lines, patterns, texture and lots more. As with trade marks, there are both registered and unregistered design rights.

Registered designs can last for a period up to 25 years. It is relatively easy to secure design registration and, once registered, there is clear proof of title. Also, unlike trade marks designs typically have a value independent of a business.

Traditionally, design rights are very complicated and in the UK design rights can be afforded protection under a number of different mechanisms. For registered design rights, for example, these could be registered under the Registered Designs Act 1949 in the UK and also under the Regulation on Community Design 6/2002 across the European Union. A prudent design owner

operating in Europe in addition to the UK would register its design both at the European Union level and also at the national level for the UK and for each relevant country in which the design was used. This would be to guard against a successful claim being made against a design registered centrally only as such successful claim may invalidate the design registration across the whole of the European Union.

However under the Intellectual Property Act 2014 (which came into force on 1 October 2014) the UK Secretary of State is empowered to enter into relevant agreements to enable design owners simultaneously to register their design at the European Union level and also to effect multiple national registrations in designated countries (as opposed to filing separate applications in each relevant jurisdiction). This new system is expected to take effect in stages during 2015.

Unregistered designs may be protected by the Copyright, Designs and Patents Act 1988 in the UK and the Regulation on Community Design 6/2002 across the European Union. The Intellectual Property Act 2014 also narrows the definition of an unregistered design right in order to give greater certainty as to the scope of protection afforded to an unregistered design right. Care should therefore be taken in attributing value to unregistered design rights.

Copyright

Copyright gives protection for recorded material of whatever nature, including written and artistic works, sound and video recordings and broadcasts. Protection arises automatically, the benefit of which is that protection is very easy to secure – and in theory coverage worldwide can be obtained without cost. The downside is that it is often very difficult to prove ownership and infringement, which affects the value of many forms of copyright. Copyright cannot be registered.

In most cases, copyright lasts for up to 70 years after death (although there are some exceptions), so that once ownership and the value of copyright is proven, this can give good security and generate consistent and valuable revenue streams until it expires. For example, one of the first known security interests taken over IP in respect of copyright was when David Bowie sold "Bowie bonds" covering royalty payments for his back catalogue, which at that time gave him a regular income of more than \$1 million per year (the bonds raised David Bowie around \$55 million).

Given that copyright cannot be registered, a prudent lender placing value on copyright as security should check that the chain of title to the copyright verifies the security provider's interest in the copyright.

Confidential information

Confidential information gives protection in respect of trade secrets and, as a result, can potentially last forever. Confidential information can be very valuable, but it is also very fragile as it (obviously) only has a large value, if any value at all, while the information remains confidential. This makes this form of IP very

business-dependent and, because the information cannot be shared with many people, there is limited revenue potential through licensing. This also makes confidential information very difficult to value. By way of an example, it has often been stated that the most valuable individual piece of IP is the recipe for Coca-Cola, but this was apparently published on the internet without any noticeable effect on the value of that business, demonstrating that the recipe itself had over the years become less and less a vital part of Coca-Cola's offering.

Database rights

Database rights give protection for information compiled into and within databases and, in some cases, can be very valuable. An example well-known in legal circles (largely because of a high profile case against William Hill) of a valuable database is that operated by the British Horseracing Board containing information relating to races, horse registration details, jockeys, race conditions, entries and runners. There is a concern here though, in that databases like this are likely to include personal data and so there are potential issues with the transfer of such information to a lender in the case of default (as this may be prohibited by privacy and data protection laws in some circumstances).

As the above shows, IP can be a very valuable form of security, but if this is the main security to be relied on then very careful due diligence needs to be undertaken to ensure that the IP is valuable and secure. This can be very difficult when considering a business that operates in multiple jurisdictions, as IP (especially registered IP) is country-specific (although as noted above, is becoming increasingly unified at an EU level). Thought needs to be given as to the effect of default on the value of the IP, in particular the effect this will have on the value of the brand. It is also necessary to consider (especially in new, patent-heavy businesses) the costs that will be incurred to protect the IP assets over which security is being taken – both in terms of registration costs and litigation costs (which can be higher than the value of the security itself in some cases).

How to take security over IP

Although IP is intangible, taking security over IP rights uses similar concepts as taking security over other forms of property. There is no separate tool specifically designed to effect security over IP rights.

Factors relevant to choosing the security structure

There are a number of relevant factors that lenders may wish to consider prior to determining what type of security should be taken over IP rights, including:

1. What particular IP rights are relevant to the business of the security provider (the security provider may be the borrower or may be another member of the borrower group guaranteeing and providing security for the relevant loan)?
2. Are such IP rights registered or unregistered and if

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unregistered, are they capable of and should they be registered (eg. better to protect the security provider's rights to such IP as against its competitors)?

3. Is the security provider of the IP the legal owner of the relevant IP rights (as opposed to using them under a licence from the owner)?
4. Are the relevant IP rights otherwise up to date, valid and enforceable and do any expiry dates apply?
5. What is the value of the IP rights (specialist advice may be required)?

Depending on the importance of the IP rights as security, it may be prudent to seek independent valuations of the relevant IP both on the basis of their value within the business and also separate from the business. For example, if the IP rights are utilised for another purpose distinct from the business it is likely that this will increase the value of such IP.

6. Are the IP rights subject to any pre-existing mortgages or charges or any other claims of any kind?
7. Are there any restrictions on the ability of the lender (or a receiver) to assign or transfer the IP rights on enforcement?

Once the lender has determined the value in taking security over IP rights there are a number of ways in which the security can be effected.

Security Options

Legal owner of the IP

If the security provider is the legal owner of the relevant IP rights, the lender may:

1. take a mortgage over the relevant IP; or
2. take a fixed or floating charge over the relevant IP.

Licensors of the IP

If the security provider is not the legal owner of the relevant IP rights, but rather has a licence to use such rights, the lender may:

1. take a mortgage over the licence; or
2. take a fixed or floating charge over the licence,

and, in either case, require that the owner of the IP and the security provider to enter into a tripartite agreement under which, among other things, the owner consents to the security interest being granted by the security provider in favour of the lender. Legal mortgage of IP

In a legal mortgage, legal title to the IP is transferred to the lender, typically by an assignment by way of security, on the condition that the IP will be reassigned when the security obligations are discharged in full.

Licence back

If the security provider uses the IP in its day-to-day business, the lender will need to grant the security provider a licence back to use the IP. The security provider will normally expect the licence to be exclusive, not only to prevent the lender from granting the security provider's competitors a licence, but also because the holder of an exclusive licence can often bring infringement proceedings in its own name if the lender, which is also the IP owner and licensor, refuses to sue for infringement.

Registered vs unregistered IP

If the relevant IP is registered on any register then the assignment will need to be recorded on any such register. This will be the case for all patents, registered trade marks and registered design rights. A failure to record an assignment exposes the lender to the possibility that a later assignee of the relevant IP may take a valid assignment of the IP free on the lender's security interest in such IP (assuming the assignee registers its interest).

With respect to unregistered IP, whilst it is possible to take a legal mortgage (or charge) over unregistered trade marks such as names and logos to which the security provider's goodwill is attached, unregistered trade marks do not often make for good security as it is rarely possible to isolate them from the rest of the security provider's business and therefore such rights usually can only be assigned together with the business as a whole.

Advantages of taking a legal mortgage

The advantages of taking a legal mortgage are that:

1. The transfer of legal title in a legal mortgage means the lender's priority is preserved (for example, the lender cannot lose priority to a third party purchaser who did not have notice of the lender's interest), subject to registration of the security (where applicable).
2. The security provider as mortgagor is prevented from disposing of the secured asset as it does not have title to such asset.
3. The transfer of legal title in a legal mortgage means that when the lender (as mortgagee) exercises its power of sale, it can transfer the legal title without obtaining the co-operation of the security provider (mortgagor) (whereas with a charge, the lender could only transfer legal title by joining in the chargor or by utilising the power of attorney included in the charge document).

Disadvantages of taking a legal mortgage

The disadvantages of having IP transferred to the name of the lender are that:

The lender will need to be included as a party to infringement or other proceedings and may be liable for claims in respect of the IP (including product liability claims).

The lender will be liable for renewing and maintaining the IP, including any fees associated with renewal or maintenance (although the security provider will remain liable to indemnify the legal mortgagee for such fees).

The legal mortgage will not be an effective method of taking security over future IP rights (so a charge will be required in any event to cover future IP rights).

More complex documentation is involved (for example a licence of the IP back to the security provider will inevitably be required) and there may be resistance from the security provider to a transfer of legal title to the lender.

There are also substantial increased costs in preparing the necessary documentation to effect the transfer and then recording the transfer of the registered rights.

Equitable Mortgage of IP

If the transfer pursuant to a legal mortgage has not been completed or if the asset being mortgaged is only an equitable interest then the mortgage created will be an equitable mortgage only and the interest transferred will be a beneficial interest only (as opposed to legal title).

The benefits and disadvantages of an equitable mortgage are the same as for a fixed charge (refer below).

Fixed Charge

IP may be charged in favour of the lender by including the IP within one of the fixed charges contained in a debenture, or it could also be charged as a stand-alone fixed charge. This could include taking a fixed charge over present and future IP rights such as a patent, registered and unregistered trade marks, registered design, copyright, design right, or a licence in respect of any such right.

A fixed charge differs from a legal mortgage in that no transfer of title, whether legal or beneficial, takes place. Under a fixed charge the lender is simply granted certain rights over the charged IP (including the right to appropriate/dispose of it in the event of enforcement and to apply the proceeds of realisation in or towards the discharge of a loan).

A fixed charge should be coupled with relevant covenants in the loan and security documentation obliging the security provider to maintain the relevant IP, attend to renewals and claims of infringement and to use it in a manner consistent with the business of the security provider. The security provider should also warrant that there have been no prior dealings with the IP that may affect the security interest granted in favour of the lender.

Advantages and disadvantages of a fixed charge over a legal mortgage

There are many advantages to taking a fixed charge (rather than a legal mortgage), including:

1. The lender is able to obtain rights over, but not ownership of, the IP rights, so having the benefit of security for the loan (with priority over other creditors in a default situation) without the burden of maintaining the IP right itself.
2. Simpler documentation is used (for example, there is no need for the lender to grant a licence back to the security provider for use in the security provider's business).
3. A fixed charge can apply to future IP rights.
4. The lender still has control over the charged IP rights, as under the fixed charge:
 - following a default, the lender can appoint a receiver over the IP rights and collect the royalties or sell the IP rights and apply the proceeds in or towards the discharge of the loan;
 - the lender has priority over other creditors in respect of the IP rights (subject to compliance with relevant registration requirements (as applicable)); and
 - the lender can sell the IP rights to enforce its security (subject, as mentioned above, to the need to join the chargor or utilising the power of attorney contained in the charge document).

The key disadvantage of a fixed charge is that the fixed charge may be able to be defeated by a bona fide third party purchaser of the IP who does not have notice of the lender's fixed charge.

However, this disadvantage is mitigated where IP is registered as in such circumstances, a prudent lender would register its security interest in the relevant IP on each relevant register thereby giving notice to anyone searching any such register that the lender has an interest in the relevant IP.

This risk, however, still applies in relation to unregistered IP, although, in general, ascribing value to unregistered IP should be done with caution given that it is often intrinsically linked to the security provider's business.

A fixed charge is therefore often the most practical method of taking security over IP (particularly registered IP) – both for lenders and security providers.

Floating Charge

Floating charges can be taken over the same IP rights as a fixed charge, though usually a floating charge is purported to be taken in the case of IP rights that cannot be identified individually (this is most likely to apply to unregistered rights).

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Advantages and disadvantages of taking a floating charge

Many of the same advantages associated with taking a fixed charge apply to a floating charge, mainly that the lender is able to obtain rights over, but not ownership of, the IP assets, so has the benefit of security for the loan without the burden of maintaining the IP rights themselves.

However, the disadvantages of taking a floating charge are that:

1. The security provider can dispose of the IP rights in the ordinary course of its business (although there will be restrictions on its ability to do so in the loan and security documents).
2. The lender will get paid only after holders of fixed charges, other preferential creditors and expenses of the insolvent estate (this is the case even if the fixed charge was created after the floating charge).
3. The assets under the floating charge are ring-fenced in part to unsecured creditors (i.e. assuming the value of the security provider's property exceeds £10,000 it will be 50% of the first £10,000 of floating charge proceeds to be shared with the unsecured creditors and 20% of such proceeds thereafter up to a maximum payment to unsecured creditors of £600,000).

A floating charge should be coupled with relevant covenants in the loan and security documentation obliging the security provider to maintain the relevant IP, attend to renewals and claims of infringement and to use the IP in a manner consistent with the business of the security provider.

Tripartite Agreement with the owner of the IP rights where the security provider holds a licence only

Where the security provider holds a licence only, consideration should be given to whether the licence of IP is sufficiently important to warrant entering into a tripartite agreement with the owner of the IP rights.

A tripartite agreement, in this circumstance, is an agreement which gives the lender a direct relationship with the IP owner. Typically, the tripartite agreement would include provisions along the lines of the following:

1. The IP owner consents to the grant of security over the IP licence.
2. The IP owner allows the lender certain timeframes for remedying any breach of the IP licence agreement by the security provider.
3. The IP owner consents to a transfer of the licence to another party in the event of enforcement by the lender under the security.

4. If the IP is registered, the lender may also require the consent of the IP owner to note its interest as licensee chargee on the relevant Register.

In considering whether or not to enter into a tripartite agreement with an IP owner, thought should be given to the following relevant factors:

1. Whether the entity which owns the property is part of the same corporate group as the security provider (eg. if the IP owner is the parent company to the security provider) in such circumstances it is likely that a tripartite agreement will be more palatable to the security provider and the IP owner than if the IP owner is a third party.
2. Whether the licence of IP is exclusive. If so, it may be that a lender would be more likely to require a tripartite agreement.
3. How important the licence of the IP is to the security provider's business. If the licence is of critical importance or is a particularly unique form of IP (eg. it is a piece of software without which the security provider's business would cease to operate) the lender may be more interested in obtaining a tripartite agreement with the IP owner.

How to protect your security over IP

In order for a lender to take the benefit of any security over IP, the mortgage or charge over IP must be properly perfected.

Perfection – legal mortgage

For a legal mortgage, this means that:

1. Title to the IP must be transferred to the lender pursuant to the mortgage document, ensuring that all local formality requirements are met.
2. For registered IP, the transfer of title will need to be recorded at each relevant IP registry (in the UK, this is the Intellectual Property Office ("IPO")) refer below under the heading "Registration at IPO" for more details.
3. It will be the responsibility of the Lender to maintain the IP by renewing any necessary registrations, in order for its security to continue to be protected.

Perfection – equitable mortgage

For an equitable mortgage, this means that:

1. A lender (or a third party on behalf of the lender) should take possession of the relevant certificates and other title documents to the IP together with the mortgage instrument (although in most countries the certificates are not of any real value in themselves).
2. The mortgage instrument (or primary loan instrument)

should include the agreed terms as to any triggers for when further steps may be taken to perfect the security interest.

3. If possible, for the reasons set out below under the heading "Registration at IPO", the equitable mortgage should be recorded at the IPO.

Perfection – fixed and/ or floating charge

For a fixed or floating charge, this means that:

1. The lender's charge should be recorded at the IPO as soon as possible after the charge has been granted – see further below under the heading "Registration at IPO".
2. With respect to a charge over registered IP, it may also be prudent for a lender to obtain a blank transfer form for the IP signed by the transferor with the transferee details and date left blank – to be held in escrow and used in the event of enforcement of the relevant IP. However with an appropriately drafted power of attorney, such form is not strictly necessary.

Registration at IPO

Security over registered IP rights should be registered at the IPO as soon as possible once the relevant security interest has been granted. In particular, note that:

1. For a mortgage or charge over patents and registered trade marks, priority is determined by the date on which an application is made to the IPO (rather than the date of the charge or mortgage instrument).
2. For a legal mortgage of patents and registered trade marks, if a transfer is not registered within 6 months, then the transferee is not able to receive damages for any infringements committed whilst the transfer was unregistered.
3. For a mortgage or charge over registered designs, where a document is not referred to in the register, such document is not admissible in any court as evidence of the title of the mortgagee or chargee to the relevant interest.

Registration also acts as notice to a future transferee or chargee that someone other than the security provider has an interest in the relevant IP. This will guard against the lender losing its security interest to a subsequent transferee or chargee.

Registration at Companies House

In addition, where security taken over IP is granted by a company or a limited liability partnership registered in England and Wales, the mortgage or charge must also be registered at Companies House (in addition to being filed at the IPO).

If the security interest is not duly filed at Companies House within

21 days from the date of creation of the mortgage or charge, then that security interest will be void against any creditor, liquidator, or administrator of the security provider, and thus, ineffective (Note: The 21 day period is extended slightly for mortgages/ charges created outside the UK).

Foreign IP

If the relevant IP rights exist outside the UK or in multiple jurisdictions then consideration should be given to additional requirements for perfection of security for the particular IP in relevant foreign jurisdictions.

In particular, with respect to registered IP, lenders considering taking security over registered IP rights should check whether the relevant IP is registered, not only in the UK but in any other relevant jurisdictions (both at a national level (for all relevant nations) and also at a European Union level). As foreshadowed earlier in this briefing, increasingly steps are being taken to unify IP registration across the European Union and care need to be taken to ensure:

1. IP is registered in all appropriate jurisdictions (even if there is an overlap). If not registered, the value of the relevant IP as security will be diminished.
2. The lender's interest either as transferee (under legal mortgage) or as chargee should (to the extent possible) be noted on each register on which the IP is registered.
3. There may be additional jurisdiction-specific steps that need to be taken and which should be considered on a relevant country-by-country basis.

How to enforce your security over IP if the security provider defaults

In an enforcement scenario, there are numerous options available to a lender to enforce its security depending on what type of security was taken, including:

1. Transfer of legal title by a legal mortgage means a lender as mortgagee can sell and transfer the legal title to the IP and use the proceeds towards repayment of the loan.
2. A charge or equitable mortgage can also provide a lender with a power of sale exercisable under a power of attorney under the charging document.
3. A lender can also exercise its right to appoint a receiver, who will have the power to take possession of the IP and/ or sell the charged IP.
4. If a floating charge is taken, a lender may exercise its right to appoint an administrator (as long as the floating charge covers substantially all of the assets of the company and not just the IP), who will likely sell the business, which will include the IP, and use the proceeds towards loan repayment.

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5. Alternatively, a lender could exploit the IP rights by granting licences and collecting licence fees.

The method of enforcement will depend on the nature of the sale, the type of IP rights, and whether the IP rights are held in a separate IP holding company and therefore easily separable from the business as a whole, or whether the IP rights reside with the operating company and are not easily severed from the business (in which case the IP rights would be sold or dealt with as a package with the rest of the business).

Negative pledge undertakings, disposal undertakings and IP

The loan agreement and also the security agreement over a security provider's assets will typically include both:

1. A negative pledge clause, being a promise by the security provider not to create a security interest over its assets (including its IP assets) in favour of another party.
2. A clause prohibiting the disposal (by sale, lease, licence etc) of assets (which includes IP rights) without the Lender's consent.

These covenants are particularly important to:

1. A lender with a floating charge over IP only – such lender is at risk of having its security undermined by subsequent fixed charges of mortgages being granted by the secured party.
2. An unsecured lender - such lender is vulnerable to the security provider creating security in favour of another creditor which would position that other creditor ahead of the unsecured lender in the event that the security provider becomes insolvent.

Accordingly, it is important to consider the effect of a negative pledge clause in two distinct scenarios. Firstly, where a lender has a pre-existing security interest over the IP (Scenario 1) and secondly, where a lender is in fact an unsecured creditor (Scenario 2).

Scenario 1

As a general principle, if a subsequent creditor takes a security interest from the security provider in breach of a negative pledge given to the lender and the subsequent creditor has actual notice of the existence of the negative pledge in the earlier documents, that subsequent creditor will take its security interest subject to the lender's security (if any). This means that whilst the second security interest would be valid, it would rank behind a prior registered fixed and floating charge.

Registration of a charge or mortgage incorporating a negative pledge would act as effective actual notice to any subsequent

creditor who actually conducted a search at Companies House which revealed the existence of such registered interest. In registering a charge or mortgage at Companies House, a chargee or mortgagee must lodge a duly completed MR01 form. This form includes a space to indicate whether the charge or mortgage document has a negative pledge clause in it or not and attaches a redacted form of the charge or mortgage instrument which will reveal the negative pledge to any person searching the document.

However, it would not put third parties on notice who had not actually read the filed MR01 and redacted mortgage or charge, and therefore a subsequent fixed charge granted to a subsequent lender who had no notice of the negative pledge would take priority over the prior floating charge. Accordingly, if IP is an important part of the security being granted to a lender then care should be taken to ensure that either a fixed charge or a legal mortgage is granted and not just a floating charge.

Scenario 2

If the lender is an unsecured lender, and the security provider breaches or is about to breach a negative pledge clause, the lender's rights may be restricted to seeking a prohibitive injunction against the security provider preventing an impending breach of the negative pledge clause or, if the subsequent lender has notice of the negative pledge clause, the lender could consider claiming in tort for inducement to breach contract.

Unfortunately a standalone negative pledge clause is not able to be registered at Companies House. However, in interpreting whether a third party has knowledge of the negative pledge provision (such knowledge being an element of the proof required to establish this tort), the courts have shown a willingness to infer constructive notice in industries which can be deemed to know that the inclusion of a negative pledge clause is standard in an agreement, although this is still a debated topic within the courts.

Finally, in either scenario, a breach of a negative pledge is also likely to give rise to an event of default under the loan agreement containing the negative pledge entitling the lender to call in the loan and enforce against the secured party.

Conclusion

Although each case needs to be reviewed in light of the particular nature of the IP and the particular circumstances of the specific transaction, in most cases taking a fixed charge over the IP assets/rights of a security provider is likely the most practical method of taking security.

In particular, where IP is registered, a charge noted on the relevant IP register is sufficient to notify any subsequent parties interested in the relevant IP that someone other than the IP owner has an interest in the IP. Any subsequent transfer or charge would therefore be subject to the prior ranking charge of the lender.

For unregistered IP, it is difficult in any case for sufficient value to be placed on such IP as security, given its uncertain and unregistered nature. However, if such unregistered IP is considered to be of particular value then further consideration should be given to whether, in such circumstances a legal mortgage may be warranted.

In either case, where a fixed charge is granted (rather than a legal mortgage), the lender is alleviated from the burden of maintaining the IP and being liable to be joined in any proceedings concerning the IP which it would otherwise need to be as a legal mortgagee. This briefing is intended only as a guide and does not constitute legal advice. We would be pleased to provide more detailed advice if required.

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