Chapter 8

The English Dual Registration System for Taking Security over Patents and the Pathway to Reform

Janice DENONCOURT

1 Introduction

Intellectual property (IP) assets and patents in particular, are increasingly reshaping the landscape of modern business. IP rights are a bundle of legally created rights that arise through law.[1] The term IP itself refers to creations of the mind, such as scientific inventions; literary and artistic works; designs; and commercially employed symbols, names and images.

IP assets fall within the context of the wider term 'intangible assets'[2] that include such things as goodwill or intellectual capital. IP is like any other property, allowing the creators, inventors or owners of IP rights to benefit from their own work or investment in a creation by licensing or selling their IP rights. [3] As such, in commercial terms they

*Dr J Denoncourt (BA McGill, LLB West. Australia, LLM Bournemouth, PhD Nottingham) is a Senior Lecturer in Law at the Nottingham Law School, UK. This article was written in connection with Janice's participation in INSOL Warsaw 2017. A more in depth article will be published in 2018.

[1] IP rights are intangible assets are assets that do not have a physical or financial embodiment. They have also been referred to as knowledge assets or intellectual capital in other non-legal disciplines.

[2] In accounting, banking and finance and company law terms, intangible assets are those whose value equals the aggregate market share value less the portion that can be explained by tangible assets.

[3] See World Intellectual Property Organisation (WIPO) (2011) <http://www.wipo.int/publications/en/details.jsp?id=99&plang=EN> accessed 13 May 2017. IP rights are confirmed in Article 27 of the Universal Declaration of Human Rights and their importance was first recognized in the Paris Convention for the Protection of Industrial Property (1883) and the Berne Convention for the

are assets which can be used to generate additional value or provide liquidity and in accounting terms, assets are credits to the balance sheet. IP-backed debt finance simply involves using a portfolio of IP rights as security for a loan.[4] The internationalization of the debate over the viability of IP-backed debt finance is due in part to the increasing economic importance of IP. IP and specifically patent-backed financing is a growing trend. Research commissioned by the UK Intellectual Property Office (UK IPO) published in autumn 2016, concluded that investment in UK intangibles such as inventions, brands, content, code, data, knowhow and confidential information reached an incredible £133 billion. This is 9% higher than traditional "tangible" investment such as such as real estate, machinery and IT hardware. The research confirmed that 53% of intangible investments are protected by intellectual property (IP) rights, the most economically important of which are patents, followed by copyright and trade marks, highlighting their critical role in the UK and global "knowledge economy".[5] To illustrate direction of international travel and the financial importance of IP rights beyond the UK, in 2014 the largest-ever IP-backed debt finance loan emerged in the People's Republic of China's (PRC) State IP Office (SIPO) patent-backed debt finance initiatives.[6] A trade publication, *China Paper* reported[7] that Quanlin Paper, a Shandong province-based company, secured a loan of approximately £78 million GPB (RMB 7.9 billion) against a small portfolio of 110 patent and 34 trademark rights from a lending

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Protection of Literary and Artistic Works (1886). Both treaties are administered by the WIPO.

[4] In many OECD countries, investment in intangible assets is growing rapidly. In some cases, this investment matches or exceeds investment in traditional capital. Intensified global competition, ICTs, new business models, and the growing importance of the services sector have all amplified the importance of intangible assets to firms, industries and national economies.

[5] P Goodridge, J Haskell, and G Wallis, *UK Intangible Investment and Growth: New Measures of UK Investment in Knowledge Assets and Intellectual Property Rights* (September 2016) Independent Report commissioned by the UK Intellectual Property Office.

[6] See IP China News (2014) <http://www.chinaipr.gov.cn/article/nocategory/201403/1801673.html> accessed 14 May 2017.

[7] The original report was in Mandarin and was translated into English.

consortium led by the China Development Bank (CDB).[8] Although the quality of Quanlin's patent and trademark portfolio is indeterminate, the scale of the loan speaks for itself, and for that reason alone, is worthy of attention. The loan was reportedly recorded on 21 February on SIPO's IP asset register. The CDB is a PRC government-owned financial institution created in 1994 by the Policy Banks Law of 1994.[9] At its head is a cabinet minister level Governor, under the direction of the State Council. It is one of three policy-making banks in the PRC primarily responsible for raising finance for large infrastructure projects. The CDB was involved in financing the Three Gorges Dam and the Shanghai Pudong International Airport and is described as 'the engine that powers the national government's economic development policies'.[10] Most of Quanlin Paper's small portfolio of patent and trade marks rights is limited to China.[11] The portfolio was valued at £600 million GPB (RMB 6 billion)[12] but details as to the valuation process for credit purposes has not been officially reported to date. This would assist to confirm if the sale of Quanlin's portfolio would enable the CDB to recoup its loan in the event it defaults. In a public statement, Jiang Lurong, general manager of the Shandong branch of Bank of Communications (part of the consortium that syndicated the loan) said

> "…IP seems intangible, but it reflects the ability of value creation and sustainable operation of enterprises. Banking risk is not increased, but may be able to get a hold of high-quality customers early and improve the structure/makeup of the client base."[13]

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[8] See International Property Office of Singapore (IPOS) (2014) <https://www.ipos.gov.sg/MediaEvents/Readnews/tabid/873/articleid/249/category/Press%20Releases/parentId/80/year/2013/Default.aspx> accessed 14 May 2017.

[9] See <http://www.cdb.com.cn/web/> (no English translation).

[10] See Forsythe and Sanderson (2011) <https://www.bloomberg.com/markets/markets-magazine> accessed 14 May 2017

[11] See IAM Magazine (2014) 5-6 <www.iam-media.com/ctredir.ashx?g=cc6edf40-3f31-4157-b1aa-0cb886775091> accessed 14 May 2017.

12 See IPOS (2014) <https://www.ipos.gov.sg/MediaEvents/Readnews/tabid/873/articleid/249/category/Press%20Releases/parentId/80/year/2013/Default.aspx> accessed 14 May 2017.

[13] See IPOS (2014)

The amount of funding Quanlin secured against its IP portfolio signals the substantial support for IP-backed debt finance initiatives in the PRC.

As it stands, the modern reality of the economic inversion from tangible to intangible assets underlines why patent applications, granted patents, patent licences and mixed patent portfolios will increasingly be used to secure credit by lenders with the ensuing need to register security interests.[14] Secured creditors enjoy a priority status in insolvency situations and are repaid ahead of both unsecured creditors and company shareholders. This development also reflects the increased sophistication of financial institutions themselves with respect to corporate IP assets. For example, the term 'fin-tech' covers the software programs and other technology used to enable banking and financial services that are disrupting sectors such as mobile payments and money transfers. As financial institutions begin to realize the value of their own e-commerce patent portfolios, they are creating internal IP teams to more effectively manage their own internal patent strategies.[15] This increased level of awareness and knowledge base, is beginning to cross over into secured lending practice. At the end of the corporate lifecycle, corporate insolvencies demonstrate that a failing firm's IP assets may nevertheless be valuable to competitors or investors, and if sold, swell the insolvent company's finances enabling lenders to be repaid and funds to be returned to unsecured creditors and ordinary shareholders. Legal practitioners, the UK government, international institutions are beginning to play a more active role in the development of a new secured lending regime that will facilitate the use of patents as security, typically only exercised on insolvency.

<https://www.ipos.gov.sg/MediaEvents/Readnews/tabid/873/articleid/249/category/Press%20Releases/parentId/80/year/2013/Default.aspx> accessed 14 May 2017.

[14] See Andrea Tosato, 'Secured Transactions and IP licenses: Comparative Observations and Reform Suggestions' (2018) 81(1) LCP 155.

[15] See Lloyd, 'New Banking Group Launches with Focus on Improving Patent Quality' (IAM Magazine 2014) <http://www.iam-magazine.com/blog/detail.aspx?g=972D0D5D-D116-42FD-945D-82AC28C33B3A> accessed 14 May 2017.

1.1 The English Dual Security Registration System for Patents

Currently however, in order to gain effective security over patent assets financiers and lenders in the UK need to deal with the cumbersome dual security registration system that exists in this jurisdiction. Both patent-specific provisions and general principles concerning personal property comprise the English legal framework. From a legal perspective however, the dual registration systems does not offer adequate legal means for patent-backed financing, a concept which refers using patent rights to obtain or secure finance. We should first specify what is meant by 'security'. In Anglo-American law secured finance provides asset-based priority credit. A secured debt has full priority over any unsecured claim on insolvency. Certain academic fields such as law, economics, accounting and finance are increasingly aware of these deficiencies, and the issue of IP financing is the subject of policy development at the international level.

1.2 The Secured Transactions Law Reform (STR) Project

In the UK, the Secured Transactions Law Reform (STR) Project was established due to "serious shortcomings in the current law of England and Wales as it relates to security over personal property". The STR advises that it is "time for major change" and the "secured transactions regime under English law needs to be 'best in class' if we are to compete in today's global markets. This means that the regime needs to be modern, efficient and as forward-looking as possible."[16] In relation to patent assets, a key problem is that registration of security at Companies House applies only to English companies and operates independently from specialist patent registers and international patent registers. Other common law countries have already reformed and arguably adopted a more modern approach to registering security in a

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[16] STR General Policy Paper April 2016 at para 1.1 <https://securedtransactionslawreformproject.org/draft-policy-paper/> accessed on 23 April 2018. On 27 March 2015 the STR held a conference on security interests over IP rights which centred on the legal and practical difficulties encountered when taking security interests in IP rights.

single register which increased transparency and acts as a one-stop shop. Several other key common law jurisdictions have already introduced such an all-inclusive style regime that has functioned successfully for decades. The PPSA system originated with Article 9 of the US Uniform Commercial Code (extensively revised in 2002). The US is a key global player, has one of the largest economies in the world and has steadily advanced patent-backed finance agenda over the past two decades. Legislation based on the US regime is now in force in Canada, Australia and New Zealand known this those jurisdictions as a Personal Property Security Act (PPSA) regime. A PPSA style register is being introduced in Channel Island of Jersey.[17]

1.3 The Draft Secured Transactions Code

The UK the Financial Law Committee of the City of London Law Society (CLLS) has been considering the reform of the law of secured transactions many years and has issued a Discussion Draft of a new Secured Transactions Code.[18] One key area for reform has been the focus of its work– the distinction which insolvency law requires to be drawn between fixed and floating charges. In essence, the Committee proposes: (1) the creation of a single security interest – based on the charge- to update and replace the array of existing security interests; and (2) that the law on secured transaction be codified so that it can largely be found in one place. The Committee issued a Draft Secured Transactions Code for discussion which in summary, covers security over all types of property including patents, other IP rights and land, mirroring the way in which security is taken in practice.

Secured transactions law reform to simply taking security over IP and

[17] Jersey is not part of the United Kingdom, and has an international identity separate from that of the UK, but the UK is constitutionally responsible for the defence of Jersey. The EU's Tax Haven Blacklist 2017 listed 17 countries in its first ever tax haven blacklist and put a further 47 on notice, including British overseas territories and the crown dependencies of Jersey, Guernsey and the Isle of Man. Jersey has committed to reform its tax structures to ensure, for example, that firms are not simply using their 0% corporate tax rates to shield their profits.

[18] Richard Calnan, 'A Draft Security Transactions Code' (2015) J Int'l Banking and Finance L 473.

patent assets is the subject of debate and interest in financial circles the world over. Many jurisdictions have already enacted wide scale reform and the STR and CLLS initiatives indicate a concerted commitment to evaluate and reform the UK law of secured transactions. Given that security is rarely enforced outside an insolvency proceeding, this article brings patent, company and insolvency law to the same table connecting the disciplines in pursuit of an increased understanding of taking effective security over patents. It introduces and critically engages with the challenges posed by the dual security registration system in England and Wales and the pathway to reform.

2 The Status Quo: Patents and IP-Backed English Secured Lending Transactions

Out of all of the various forms of IP rights, patents are the key driving force behind high tech companies and research-intensive sectors, the most important to the national economy. To exist, a patent must be registered with the relevant national statutory registry.[19] In the UK, this is the UK Intellectual Property Office.[20] This is in contrast with certain other IP rights which subsist even as unregistered rights (e.g. copyright and confidential information). A patent is a form of personal property protected in law, which enables its owner to earn recognition or financial benefit from the patent invention. Although using patents and other forms of IP as security in finance transactions has a long history dating back to the late19th century in the United States, it is hardly commonplace, especially in the UK. However, patent-backed lending is becoming normalised in the United States at least. According to research by Relecura, Inc., a patent research and analysis firm based in California, United States (U.S.)[21] in the current

[19] In the UK, a patent application must comply with the provisions of the Patents Act 1977 for the inventor or corporate patent holder to be granted a potential monopoly of up to 20 years.

[20] The Intellectual Property Office of the United Kingdom is, since 2 April 2007, the operating name of The Patent Office (see www.ipo.gov.uk)

[21] 'IP-backed Financing: Overview of Trends' (Relecura May 2015) <https://www.relecura.com/reports/IP_Backed_Financing.pdf>.

commercial environment IT and web-based firms have grown. Relecura reports that the finance institutions with the greatest market share in IP-backed finance transactions in the U.S. are the Bank of America with 16.78% market share, JPMorgan with 12.72% and Morgan Stanley with 6.80%. Across the globe, the mainstream commercial actors are now more aware of the value of IP assets as a core component of business strategy. It is not only the lenders recognizing the financial value stored in borrower's patent portfolios. In the advent of insolvency, insolvency professionals need to maximize the return to creditors from as many avenues as possible. In the past, corporate patent and IP portfolios may have been overlooked. This is no longer the case. Insolvency practitioners are identifying potentially significant stores of financial value in off-balance sheet, internally created and acquired corporate patent portfolios, the value of which often surpasses a firm's tangible asset value. The value of patent portfolios is the value of supra-normal profits earned from exploiting the innovation, compared with what could be earned without the IP right. The commercialization of innovations and the patent rights that protect them are therefore two different issues. For example, if a patent is declared invalid, the IP owner may still beat other competitors to market and thus earn revenue from the invention. Conversely, if that owner fails to develop the invention, a revenue stream can still be earned from the patent by licensing out to others the right of its use.

2.1 Corporate Insolvency and IP Assets

Corporate insolvencies have demonstrated that a failing firm's IP assets may nevertheless be valuable to competitors or investors, and if sold, swell the insolvent company's finances enabling lenders to be repaid and funds to be returned to unsecured creditors and ordinary shareholders. There is also the issue of asset partitioning by means of IP rights, which is gaining traction in insolvency law practice. Asset partitioning is a strategy in preparing for insolvency by acquiring the assets cheaply out of the insolvency estate, either through an asset sale, i.e. pre-pack, or through a formal reorganisation. The underlying problem firms can take steps to depress the value of the enterprise by removing key assets, notably IP rights. Without IP rights, the going

concern value is significantly reduced compared to the setting within which the IP rights would form part of the estate. In the case of reorganisation, the method of valuation adopted is key. If a reorganisation plan can be offered under which the creditors receive the liquidation value with a bonus of for example 20%, the cash offered might be considered too low if the IP rights have been extracted.

At its core, a key objective of taking security over patents is to enable secured creditors to obtain a security interest in a patent right, determine its priority and enforce it within the limits of patent law. Two factors underpinning the need to develop an improved regime for taking security over patents are first, the increase in technological innovation and the ensuing growth in corporate patent assets; second, the growing realization that patent portfolios when viewed as financial assets, can greatly swell the value of the pool of assets on insolvency.

2.2 Registering a Charge over a UK Patent

In this article, we will assume that the creation of an equitable charge is the most efficient security device to protect the lender in a patent-backed secured transaction involving UK patents and innovating companies.[22] Once security is validly created by the security agreement, it is binding as between the chargor (the security provider – the borrower) and the chargee (the secured party - the lender) and no transfer of title to the relevant patents or patent applications is required. The lender should then proceed to 'perfect' the security. The registration and priority of security interests in patents and patent applications, the provisions relating to the specialist Patent Register and their interaction with sections 860, 861 and 869 of the *Companies Act 2006* which comprise the dual UK registration framework, will be

[22] In principle, in the UK a patent can be mortgaged, however, a mortgage requires an assignment of the patents to the charge, subject to the chargor's right to have the patents re-assigned on repayment of the loan and a licence back to the charge, a burden for lenders. The situation may differ for international patents as the relevant jurisdiction may not permit equitable charges, only mortgages or may have other security device regimes in place.

now be examined.

2.3 The Specialist UK Patent Register

The Patents Act 1977 (PA 1977) and the Patents Rules 2007 (SI 2007/3291) govern the security interest registration regime for UK granted patents, patent applications, licences and is a voluntary regime. The law creates a specialist register known as the UK Register of Patents (the Patents Register). The Patents Register is maintained by the Comptroller-General of Patents, Designs and Trade Marks (the Comptroller) at the Patent Office of the UK IPO. In addition to documents that constitute a transfer or change of title, other documents relating to interests in patents or applications will generally be recorded, typically these are agreements which convey a security interest and licence agreements. Relevant documents are recorded in the public interest in order to give third parties notification of equitable interests or other matters relevant to the ownership of a patent or application.

Typically taking security by registered a charge over a UK patent will be registered at the UK IPO first. This is because the granting of security over a UK patent or patent application is a registrable 'transaction, instrument or event' under s.33 PA 1977. A failure to register the charge at the UKIPO would mean that a subsequent assignee, licensee or chargee of the patent would take free of charge if they were not aware of the charge. In other words, they would have priority to the secured patents or patent applications. A security interest in respect of a patent or an application for a patent is registrable in the Patent Register under ss 32(2), 33(3) PA 1977 using Form 21 which should contain: the patent number or patent application number; the security provider(s) and the secured party (i.e. names, addresses and patent ADP numbers if known); the nature of the security; the date of the security document and the name of the applicants' agent and their address for service.[23] The application to register a security interest in a patent can simply be posted to the UK IPO and should

[23] See Chapter 31 *Manual Patent Practice*, UKIPO available at <https://www.gov.uk/government/publications/patents-manual-of-patent-practice>.

contain a copy of the security document (an original is not required) if the Form 21 is not signed by the security provide or its representative.

There is no time limit for registration of the security on the Patent Register but as a matter of best practice the security should be registered as soon as possible because as noted above, registration in the specialist Patent Register has an important effect on priorities. The Patent Rules also provide that notice of any security interest should be entered in the Patent Register as soon as possible after the security interest is granted.[24] The most important outcome of registering a security interest in a patent(s) in the Patent Register is on priority between competing security interests.[25] Thus, when a security interest in respect of a patent is registered on the Patent Register, it will bind any party which acquires a security interest in the same patent at a later date. If a security interest in respect of a patent is not registered, it will not bind another secured creditor which later acquires a conflicting security interest without knowledge of the existing unregistered security interest.[26] There also certain practical administrative benefits of registration on the Patent Register that flow to the chargee where it becomes owner of the patent by virtue of the security (e.g. by an assignment by way of security). The chargee will receive patent renewal notices (to ensure that patent does not lapse)[27] and notices of proceedings concerning the patent.[28] Further, the chargee (as registered owner of the patent) will be entitled to be awarded costs in any proceedings.[29] Whereas, if the chargee has not registered its security on the Patent Register, it will only be entitled to be awarded costs in any proceedings for infringement of the patent if:

(1) it was not practicable to register its security within the six-month period beginning on the date of the security document; or

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[24] The Patents Rules 2007, SI 2007/3291, r 44(6) (Patents Rules).
[25] Supra LexisPSL.
[26] PA 1977 s 33(1).
[27] Patents Rules, r 39.
[28] Patents Rules, r 77.
[29] PA 1977, s 68.

(2) if the court or Comptroller is satisfied that it was not practicable to register the security before the end of the six-month period but the security was registered as soon as practicable thereafter.

2.4 The Register of Companies at Companies House

The registration regime for security created by a UK company is mandatory and is governed by CA 2006, Pt 25.[30] Part 25 of the Companies Act 2006 (the primary source of UK company law) provides that a company registered in England, Wales or Northern Ireland can grant a charge, including a mortgage, over its assets - expressly including any patent, trade mark or registered design (s860). The Act also establishes a system for the recordal on the charges register of any charge granted over a company's assets (including, but not limited to, IPRs). The register is maintained by the Registrar of Companies at Companies House. In the context of a patent-backed lending transactions, where a UK company creates security of a patent right, the security is perfected by registration at Companies House under s859A(1) CA 2006 within 21 days of its creation. Section 860(7)(j) CA 2006 makes it clear that a charge over an IP right should be registered. Under s 861(4) CA 2006 an IP right includes any patent or any licence under or in respect of any such right. The process of registering a charge at Companies House simply involves submitting the prescribed form together with a certified copy of the security agreement (charging document) which can be done online through the Companies House portal.[31] Failure to register security over a patent right at Companies House in the correct way and on time within 21 days of its creation will mean that the security is void against a liquidator, an administrator or a creditor of the security provider (the

[30] As amended by the Companies Act 2006 (Amendment of Part 25) Regulations 2013, SI 2013/600.

[31] J Denoncourt, 'Reform to the UK Company Registration of Charges Scheme, The Companies Act 2006 (amendment of Part 25) Regulations 2013 (SI 2013/600)' (2013) 22 NLJ 138.

innovating company): section 874 CA 2006.[32]

2.5 The Relationship between the Two Registers

In summary, it is best practice to register a security interest in a patent as soon as possible on firstly on Patent Register, for the reasons set out above, as well as at Companies House. The relationship between the two registers in respect of patent-backed security can be explained by concluding that registration operates to achieve different aims with respect to each register. Where security over a patent is created registration of the security on the Patent Register ensures that the priority of the security, whereas the security is perfected by registration of the security at Companies House. This ensures that the security will be valid in the event of the innovating company's insolvency and against other creditors of the company.

Failure to register on the UKIPO's Patent Register does not make the security interest void in the event of the innovating company's insolvency. Rather, it only puts the security at a disadvantage to competing security which is taken by a competing security creditor without notice of the existing security.[33] In other words, the UK law which governs registered patents establishes a special priority rule under which the priority of security taken over a patent is established by registration. Under s33 PA 1977 until a transaction which creates a security interest has been recorded, it is ineffective against a person acquiring a conflicting interest in or under the relevant patent in ignorance of it.

Where the security interest in a patent is granted by way of a fixed charge, there is no transfer of title to the charged patent from the chargor to the chargee. The chargor remains legally capable of transferring title to the charged patent to a third party. Where that third party is a *bona fide* purchaser for value without notice of the chargee's patent security interest, it could acquire the charged patent free from

[32] 'Perfecting Security over Intellectual Property Rights and Registering Security at an Intellectual Property Register' LexisPSL Banking & Finance.
[33] The priority of perfected security is always determined by the normal English legal rules on priority.

the encumbrance represented by the charge. However, if it had notice of the security interest, it would acquire the patent subject to it. This position is varied to some extent by the statutory rules relating to registration and priority. If the earlier security interest is unregistered, the position stays the same in respect of any later third parties acquiring a conflicting interest, including assignees. However, if the security interest is recorded on the relevant IP register, that recordal provides constructive notice to the world, meaning that no third party purchaser can be in the position of a *bona fide* purchaser for value without notice. All third parties assignees would therefore acquire the charged property subject to the charge.

Where the security interest is granted by way of a floating charge, the charge does not crystallise over the pool of charged assets until an event of default. As such the charger is capable of assigning, and entitled under the security agreement to assign, the charged patent portfolio at any time (prior to its default) during the term of the security arrangement, and the assignee will acquire title to the relevant patent free from the security interest.

In contrast, failure to register security at Companies House seriously undermines the value of that security for many practical purposes because it will be void against the liquidator, an administrator or a creditor of the company: s859H CA 2006. Note that civil law system *Usus fructus*[34] rights are not recognised under UK law and an equitable charge is not characterised by a right for the security taker to use and/or realize proceeds from the exercise of the patent during the term of encumbrance.

3 The Australian PPSA Regime

In contrast to the UK's dual registration system, Australia has a

[34] *Usufruct* is a limited right *in rem* found in civil law countries and mixed jurisdictions that unite the two property interests of *usus* and *fructus*. *Usus* (*user*) is the right to use or enjoy a thing possessed, directly and without altering it. *Fructus* (*fruit*, in a figurative sense) is the right to derive profit from a thing possessed. For example, patents are capable of comprising an asset pool that generates cashflow (e.g. patents licensed to third parties in return for an annual fee).

Personal Property Securities Act 2009 (PPSA 2009) which came into effect in 2012 and has been subject to a review of its effectiveness.[35] At its heart, the PPSA 2009 is about the law of secured finance. The PPSA 2009 does not separately define "property", but leaves its meaning to general Australian law. For security registration purposes, patent rights and licences fall under the collateral class "other intangible property" in the Australian national Personal Property Securities Register (PPSR). Further, the term "personal property" is widely defined in s10(b) PPSA 2009 to include a "an intellectual property licence". The PPSR is overseen by the Australian Financial Security Authority, a government agency and replaces various national, state and territory registers to consolidate information about valuable personal property ownership in a single database.

The PPSA 2009 established a centralised electronic public register to reduce the uncertainties in creating, registering and searching for security interests held over personal property (including patents and patent licences) in that jurisdiction. The PPSR has some significant comparative system implications for the UK.[36] The PPSR supersedes a number of overlapping legal frameworks and specialist registers. The impact of Australia's PPSA 2009 on finance and security is broad, and applies to all types of personal property and uses a 'substance over form' approach.[37] In addition to creating a national register of personal property securities, the PPSA 2009 sets out rules regarding the creation, enforcement and priority of securities, which are significantly different from the rules under previous legal

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[35] See L Gullifer and V Barns-Graham, 'The Australian PPS Reforms: What Will the New System Look Like' (2010) 4 LFMR 394. The Statutory Review of the Personal Property Securities Act 2009 is available at the Australian Attorney General's website <https://www.ag.gov.au/consultations/pages/StatutoryreviewofthePersonalPropertySecuritiesAct2009.aspx>.

[36] 'Ensuring creditor protection is Asia-Pacific construction projects Part II: Property Securities law in the Asia-Pacific Region' (2013) *DLA Piper* <https://www.dlapiper.com/~/media/Files/Insights/Publications/2013/02/Ensuring%20creditor%20protection%20in%20construction%20pro__/Files/propertysecuritieslawasiapacific/FileAttachment/propertysecuritieslawasiapacific.pdf>.

[37] ibid

frameworks.[38] Recordals on IP Australia's[39] patent register no longer have legal priority. This is said to provide Australian secured creditors with more certain and less costly arrangements for personal property security through: (1) its application to any interest in personal property, whether tangible or intangible, that secures payment of a debt or the performance of an obligation, regardless of the form of the transaction; and (2) the introduction of a single online register dealing with registration of all security interests over personal property in Australia, with the implication that parties need only review one register in order to understand what registered security interests exists over the collateral. For example, any type of personal property can be listed on the PPSR. Assets that are considered personal property include tangible items like art, boats, recreational vehicles, cars, crops, livestock, inventory, plants and machinery, and shares as well as intangible items such as bank accounts, investments, IP rights and licences. There is a small fee to conduct a search of the Australian national PPSR. There are also fees to register a new financing statement or amend an existing one; the fees vary by contract length.

3 Concluding Remarks

Against the dramatic rise of IP value as a percentage of corporate value the developments in patent-backed finance and taking security over patents discussed in this article indicate that IP assets and patents in particular, will play a greater part in the financial calculations of insolvency practitioners in the future than they have in the past. In conclusion, using granted patents, patent applications and licences and mixed patent portfolios as security is viable, provided the lender is cautious when creating the security interests. Registering the charge over the UK patent rights on both registers is a straightforward exercise in practice. However, potential problems may arise if the lender has to confirm whether competing interests encumber the patents as the Patent Register alone cannot be considered a one-stop

[38] C Macneil 'Personal Property Securities and Intellectual Asset Management: Thinking Outside the Box' (27 August 2014) Intellectual Asset Management.
[39] The equivalent of the UKIPO in Australia.

source of information and there is a degree of legal uncertainty.[40] This means that lenders need to carry out preliminary due diligence and subsequently, over the course of the negotiations, monitor both registers. Once the security agreement with the innovating company has been finalized, the lender must register it on the Patent Register and on the Company Register. Certainly, added layers of costs will apply to perfecting security interests over an innovating company's intangible patent assets. Further, lenders are not especially familiar with the dual registration procedure. Yet, despite the disadvantages UK lenders such as the Clydesdale Bank[41] and the UK branch of the Silicon Valley Bank in London[42] recognize the security value of patent assets and are quietly yet confidently expanding the patent finance market.

This article has brought patent law and company law to the same table with the aim of connecting the disciplines in pursuit of an increased understanding of taking effective security over patent assets. The English law for the taking and provision of security has a long historical basis and, generally, well-developed case law. However, the law is not readily accessible to non-lawyers or those in other jurisdictions. As described above, there are important difficulties inherent in the existing English system. These are namely the lack of clarity regarding the overlapping rights of the parties to take steps to maintain the value of the secured IPR (e.g. by pursuing infringers). Second, the potential uncertainty and inconsistency caused by the special priority rule for registered IP rights (where registered interests are favoured over earlier unregistered interests). Finally, the dual registration systems for IPRs (the charges register maintained by Companies House and the specialist IP registers). In case of the latter, the existing registration system does not make it easy for interested parties to ascertain whether a debtor's assets are already subject to any relevant prior encumbrances, nor to secure priority against possible

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[40] Tosato (n 14) 99.

[41] Clydesdale Bank is owned by the National Australia Bank.

[42] S Shead, 'Silicon Valley Banks is Expanding in the UK' (22 February 2016) Business Insider UK see <http://uk.businessinsider.com/silicon-valley-bank-hiring-in-the-uk-london-tech-scene-2016-2>.

competitors.

Turning to the pathway for reform, in the words of Lord Saville, Chair of the STR Project:

> "Trade and commerce (and indeed individuals) rely to a great extent on obtaining finance or credit from others, who not unreasonably generally require security, in other words protection against the risk of failure to repay. I take the view that our laws relating to such transactions are in need of reform, by being brought up to date, simplified and made easier to understand and operate. In recent years other common law countries have introduced welcome and successful reforms and I believe that we should follow their lead."

In terms of best practice in registering security of patent assets, an important issue going forward is whether the UK legal framework and dual registration system for recording security interests over patents provides sufficient certainty and predictability to the parties. In theory, if the dual registration process was better understood, less complex and more stream-lined, would it help to normalise patent-backed debt finance? The research and evaluation currently being undertaken by the STR and CLLS projects should be encouraged and supported by the insolvency profession. There is much to learn from the longstanding PPSA regimes that exist in the US, Canada, New Zealand and more recently Australia about security over intangibles, IP rights and patents to inform much-needed reforms in to the UK's cumbersome dual registration system. PPSA security registration systems now operate in most major Anglo-legal markets. Currently, the reformers in the UK are interested in evaluating how an electronic personal property security register (PPSR), a written, public, online record of legal claims to all types of personal property used as security for a lending, could operate in the UK with respect to patent IP rights. Such reform initiatives could have enormous impact when dealing with patent-rich companies on insolvency. In conclusion, corporate IP assets exist in every insolvent company and may have significant

financial value.[43] In distress situations, companies may seek to restructure their debt by offering security over their patent portfolios and other intangibles and IP, which increasingly have a secondary market value. The key is to create a structure in which a lender can take security over the patent or other IP assets. If an patent-rich company's competitive advantage is adequately protected by its registered patents and it can be demonstrated that they underpin revenues and forecasts (and that competitors lack equivalent IP assets), lenders or investors will consider taking security over them. Furthermore, lenders in particular, are more inclined to take security over IP assets when they identify potential recovery value from the sale of these assets in a distressed or insolvency scenario. Circulation of money, especially on insolvency, will benefit secured creditors, supporting the health of the insolvency law framework which needs to evolve to cope with IP-rich firms.

6386 words

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

(1) Numbered list
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1 Main Heading 2

2 Subheading 1

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[44] OSCOLA

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2.2.2 Subheading 3

[45] OSCOLA
[46] OSCOLA

The Rise of Preventive Restructuring Schemes