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Eslam Shaaban and Janice Denoncourt

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Capitalizing Trademarks as Security: The Canadian Trademark Finance Perspective

Eslam Shaaban [1] **and Janice Denoncourt** [2,*]

[1] Faculty of Law, University of Ottawa, Ottawa, ON K1H 8M5, Canada; eslam.shaaban@gmail.com
[2] Nottingham Law School, Nottingham Trent University, Nottingham NG1 4FQ, UK
* Correspondence: janice.denoncourt@ntu.ac.uk

Abstract: Canada's world-renowned banking sector is well- regulated, capitalized and one of the world's most stable. It meets the essential pre-conditions for intellectual property (IP) finance methods such as a strong IP regime and a pool of firms with registered trademarks. In 2018 Canada launched its National IP Policy followed by certain IP finance initiatives led by the Canadian Business Development Bank (BDC) in 2019. However, it is not well understood how the Canadian Constitution structures economic relations. Certain longstanding federal and provincial issues remain to be addressed if trademark-backed finance is to become part of mainstream commercial lending in Canada. This article contributes to the nascent academic interdisciplinary trademark law and finance literature. An in-depth literature review highlights the existing gaps between the Canadian federal and provincial legal frameworks that govern security interests in trademarks, and market needs. The traditional legal research methodology evaluates the impact of relevant case law, public policies and law practice, adopting finance, economic and IP rights theory perspectives. A digital shared ledger system technology law solution is proposed to enhance registration of security interests with the aim of making trademark finance in Canada more effective and efficient. This article is foundational in the sense that it paves the way for recommendations for new policies with a view to normalising trademark-backed debt finance processes in Canada.

Keywords: block chain; capital adequacy; collateral; constitution; finance; intangibles; intellectual property; personal property security register; shared ledger technology; trademarks

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1. Introduction to International Developments in IP-Backed Finance

In a world economy that relies increasingly upon intangibles as assets (Government of Canada Intellectual Property Strategy 2018), it is important to create efficient legal frameworks to deal with intangible intellectual property (IP) assets such as trademarks equally as well as tangible assets for example, buildings and machinery, with which banks and lenders have significantly more experience.

Access to finance was formally recognised as an issue of pressing importance at the G20 summit held in Pittsburg, USA over a decade ago in 2009 (G20 Leaders' Statement: The Pittsburg Summit 2009). Compared with other financing alternatives such as angel finance and venture capital, debt finance has the advantage of much greater credit supply without ownership dilution. Debt finance is regarded as being suitable for lending to intellectual property (IP)-rich technology-intensive firms, especially in the countries such as Canada with well-established bank-based financial systems where sufficient collateral (also known as 'security') exists (Seeing the Potential in your Intellectual Property (IP) n.d.).

Trademarks are arguably the most common form of intangible asset, an IP right that has potential for use as collateral in lending transactions. The characteristics of certain trademark rights make them good security as they are often registered property rights (as opposed to unregistered IP rights) which have national government-sanctioned records of their existence and ownership in Canadian federal IP rights registries. Providing a trademark (or portfolio of marks) as loan security sends an effective 'good quality' signal to the lender, reducing the *ex ante* information asymmetries. The ability to offer trademark rights as security for loans may help financial institutions select borrowers with better brands, more sophisticated management capability and stronger commitment to perform successfully in the prevailing business environment. Access to collateral is important, as banks are unwilling to lend significant sums of money to companies on an unsecured basis. The distinction between secured and unsecured lending is vital due to the enhanced legal rights afforded the secured creditor relative to an unsecured creditor. The legal focus of this research examines continuing difficulties arising when taking security over trademarks which is a barrier to the normalization of trademark finance in Canada. A lender contemplating a trademark-backed loan transaction will carry out certain actions to protect its position as a creditor. Secured creditors are those who, in addition to having a contractual right to sue the borrower for the return of any money owed, have taken a property interest in one or more items of the company's property (such as a portfolio of trademarks for house brands) as security for the credit they have made available to the borrower. In a trademark-backed finance context, registering security interests in this category of intangible personal property rights is important for a positive lending decision as it will give notice to third parties of the security interest; establish the lender's legal priority over other secured creditors; and make enforcement of the security more efficient for the lender. This law article will identify gaps in existing Canadian legislation, and advocate for the development of specific digital shared ledger block chain solution to facilitate trademark finance.

1.1. Significance of the Research

There is an economic vision underlying the Canadian foundational constitutional order that structures how the division of federal and provincial powers should operate (Lavoie 2023). The Canadian legal system is a common-law jurisdiction with federal trademark legislation, whereas the *Personal Property Security Acts* (PPSA)—the laws regulating security interests in Canada—are provincial laws.[1] Thus the Canadian legal system contains a constitutional paradigm that serves to regulate the limits of establishing a federal framework for security interest creation and registration. The legal structuring of economic relations is coherent for many purposes however, it is problematic for the development of trademark finance. The obstacles and deficiencies of the related regulatory frameworks will be examined highlighting recent changes and developments in Canada's trade and strategic agenda that triggered trademark reform, and the effect of these changes on the registration of lenders' security interests in a trademark paradigm. This study will allow law and finance academics and legal practitioners gain a deeper understanding of the gaps in current Canadian legislation, enabling them to better advocate for potential digital solutions. For policymakers, insights from this research can inform the development of new approaches to address emerging challenges in the digital age, ensuring that Canada's legal framework is effective and updated. For individual or corporate trademark owners and lenders, this research raises awareness about the economic potential of trademark finance. Lastly, Canada's approach as a common law country with federal system could serve as a model for other common law countries dealing with comparable issues, advancing legal research and policy change internationally.

The primary research question is how to overcome the problem of dual registration of security interests and the lack of a unified Canadian system of registration which affects the proper perfection of security interests in trademarks. The second research question investigates the potential for digital technology registration solutions to enhance the Canadian legal framework where the registration of trademarks is federal, whilst provincial laws regulate security interest perfection. The final research question investigates

[1] The acronym PPSA is the name given to each of the statutes passed by all Canadian common law provinces, as well as the territories, that regulate the creation and registration of security interests in all personal property within their respective jurisdictions.

the extent to which the current Canadian legal frameworks are compatible with market practices and needs, domestically and internationally, analysed in the wider Canadian and international contemporary context.

There are two important reasons to focus on trademarks as a form of collateral to back loans. First, trademarks are IP assets that commonly exist in all businesses, small or large in the form of product or service names, brands and the like. Second, in general, a trademark is a form of intangible IP asset that is more accessible and more easily understood by business owners and financiers than copyright, patents or other types of IP rights. As it stands in Canada there is no full effective or efficient legal and procedural framework to facilitate the process of taking security interest in IP assets. As a result, the Canadian economy could be missing opportunities for economic growth. This research identifies the gaps between the existing legal frameworks related to security interests in trademarks in Canada on the one hand, and market practice and needs, on the other. It will address raising capital through security interests in trademarks by granting lenders direct recourse to the secured trademarks in case the borrower fails to pay their debts as they fall due.

In practical terms, lenders much check the security register(s) for competing interests as part of its due diligence strategy which involves legal fees, human resources and time, all of which contribute to the transaction costs for the trademark-backed loans. Such costs are passed on to the borrower in one form or another, usually resulting in a higher loan interest rate being applied. In finance practice, simplifying and streamlining the procedure for recording security interests in IP assets is needed in Canada to reduce lending transaction costs and improve access to trademark and other IP-backed debt finance techniques. It came to light that while taking security over trademarks does take place in Canada in practice, there is little specific interdisciplinary trademark finance academic literature on the subject, a research gap this article seeks to address. In this research, the focus is on Canadian jurisdictions that follow the common law including all provinces and territories, except Quebec. Every reference to the Canadian legal framework shall mean the legal framework of the Canadian common-law provinces and territories, unless otherwise specified. The existing literature related to security interests in trademarks in common-law Canada is examined below, including legal frameworks, case law, academic and professional reviews, and the proposed legal, technology and policy solutions to address the legal barriers. The useful 'reveal' of the main pitfalls in the Canadian regulatory and practical frameworks provides the basis for shaping more realistic and holistic recommendations to make trademark-back finance more efficient. The overarching research objective is to elicit rational policy recommendations to reform Canadian legal frameworks to support trademark finance law and practice. In this regard, a key recommendation is a proposal to create appropriate and adequate digital databases for recording trademark security interests in Canada that will provide accurate, reliable and digitally secure information. Additional recommendations relate to increasing IP literacy and knowledge in the Canadian business and banking communities, and the importance of creating a consolidated digital identification system for IP owners.

1.2. Methodology and Article Structure

The methodology is doctrinal and involves traditional legal research of the primary and secondary sources of law to systematically analyse relevant Canadian common law, federal and provincial legal rules. It studies the causal relationships between the disciplines of law, finance and economics with a view to seeking answers and developing a consensus as to the best approach to solve legal theory and practice issues. The research challenge involves evaluating the nature of the Canadian policy considerations that will shape and influence a pathway for trademark-backed debt finance norms to emerge. There is occasional functional comparative law reference to other common law jurisdictions such as the United Kingdom, with which Canada has for centuries shared its common law legal history, heritage, economic tangible and intangible property rights culture and trade.

Following the chronology of the development of IP finance set out below, a comprehensive literature review generates a discussion of the extent of interdisciplinary knowledge needed to understand the dimensions of trademark finance security issues. The Canadian system for registering lender security interests introduced above are analysed in greater detail in Section 2 below. Section 3 elaborates the extent to which the current Canadian legal frameworks are compatible with market practices and needs and proceeds to present a possible digital trademark security register solution. The proposed solution contemplates shared-ledger technology, such as blockchain, as an innovative method to avoid the federal-provincial dual filing issue. The final Section 4 makes policy recommendations for reform to Canadian legal frameworks and practices and future legal and interdisciplinary research. The chronology and literature view are set out below.

1.3. Chronology of IP-Backed Finance Developments and Integrated Literature Review

Trademarks are a category of intellectual property (IP) right. In 2018, Canada launched its comprehensive National Intellectual Property (IP) Strategy to help Canadian businesses, creators, entrepreneurs and innovators understand, protect, access IP and leverage IP rights as business assets. Until recently, most Canadian lenders and banks did not have a terribly good understanding of what IP-backed financing was as mainly IP litigation financing was commercially available. Even though companies owned patents, copyright and trademarks, the capital markets did not attribute significant financial value to these intangible IP rights. Since then, many developed and lesser-developed countries are keenly aware of the importance of effective IP finance frameworks. For example, in 2014 the Intellectual Property Office of Singapore (SIPO) announced a S$100 million IP financing scheme to support local businesses to use their granted IP rights as collateral for bank loans (Brassell and King 2013). For a detailed review of IP finance policy initiatives in Asia, see Denoncourt's reviews (Denoncourt 2015, 2017, 2018). The Government of India's 2016 National IP Rights policy report outlines the objectives the Indian government will use to develop the Indian IP and innovation frameworks. Likewise, in 2015 the Egyptian parliament legislated law no. 115/2015 regulating security interests in immovable and intangible assets. This law and its executive bylaw represent a significant change in the Egyptian legal system (Shaaban 2019).

The rationale behind these public policy projects is the recognition by diverse international governments that there is no efficient legal framework to facilitate lenders to take security interests in IP rights. Consequently, financiers will search for any available brick-and-mortar assets to use as collateral, commonly, the personal homes of the entrepreneurs and business owners.

The United Kingdom's Intellectual Property Office (UKIPO) and Department for Business Innovation and Skills (BIS) commissioned the report *Banking on IP* (Brassell and King 2013) and the UK developments have been pithily summarised and updated in an Editorial published in 2023 entitled, 'Banking on IP?' (Heley and Joseph 2023).

Returning to Canada, in light of the emerging research a scheme to support IP-backed finance was launched by the Canadian Intellectual Property Office (CIPO) entitled, 'Financing for Your Intellectual Property' in 2016. It reported that since 2020, Canada's Business Development Bank (BDC) IP Finance initiatives have gained significant momentum. The BDC has a CAD$160m patient capital fund available to support IP development and made its first financing transaction under this fund in 2021 (Seeing the Potential in your Intellectual Property (IP) n.d.). Recognising the increasing importance of the role of Canadian IP to Canada's economy, in 2021 its federal government budget introduced the country's largest investment to date. Significantly, this included proposals to amend the *Canada Small Business Financing Act* (CSBF Act) and its regulations to expand loan class eligibility to include lending against IP.[2] The CSBF Act is designed to augment the availability of financing to create, expand and modernize Canadian small businesses with a new Canada Small Busi-

[2] Canada Small Business Financing Act (S.C. 1988, c 36) as amended 7 April 2022.

ness Financing (CSBF) program. The Act sets out the procedures and conditions for lenders who make and administer CSBF loans and for submitting claims for loan losses under the program. CSBF Act loans may be used to fund intangible assets which can be financed up to $150,000CAD under the intangible asset loan class. The internationally-leading proposed amendments also include lending against IP, funding start-up assets and expenses, increasing the maximum loan amount, and extending the loan coverage period. In 2024, the CSBF Program Guidelines were published to guide borrowers and lenders (Canada Small Business Financing Guidelines 2024). In 2024 *ElevateIP*, a freely accessible online platform and program to help accelerators and incubators provide start-ups with access to expert IP services was also launched (ElevateIP, https://ised-isde.canada.ca/site/elevateip/en). In summary, the Canadian government's support for IP finance is a momentous step forward in the global knowledge-intensive economy. The strategic aim is for these initiatives to position Canada as a legal and financial jurisdiction that engages in, supports and welcomes IP finance. However, taking security over IP rights and trademarks is a barrier remains to be lowered if Canada's national IP finance goals are to be achieved.

At the international level, the purpose of the World Intellectual Property Organization's (WIPO) involvement in IP financing to date has been to raise awareness among its member states' IP offices, and the wider IP community of the current international policy development. WIPO held its inaugural Information Meeting on IP Financing on 10 March 2009 in Geneva, Switzerland (Tuncak 2009). Denoncourt tracked information regarding the WIPO IP Financing Initiatives from 2009–2015 (Denoncourt 2015). WIPO has taken on a global leadership role in this regard. In 2022, WIPO launched its IP Finance Project with the publication of the *WIPO and Intangible Asset Finance Moving Intangible Asset Finance from the Margins to the Mainstream* (WIPO 2022). This document sets out the WIPO's Action Plan to make intangible asset finance more accessible and form part of WIPO's commitment to support to IP-driven economic growth. To date, WIPO has produced a Report Series entitled 'Unlocking IP-backed Finance: Country Perspectives'. Country level reports from Singapore, Japan and the UK have since published to capture those nations' IP finance journeys, however, no Canadian country level report has been published to date. In 2024 WIPO co-published the first *World Intangible Investment Highlights: Better Data for Better Policy* report in partnership with the *Luiss* University Business School (Italy) (World Intellectual Property Organization 2024). The report confirms that during the 15year period between 2008–2023 intangible investments grew at three times the rate of tangible investments, remaining resilient despite economic uncertainty and stricter monetary conditions. First, the research reveals that investment in intangible assets including brands and trademarks has consistently outpaced investment in tangible assets, such as machinery and equipment, since 2008. Second, the research confirms that brands (potentially trademark-protected) and data and software (potentially copyright-protected) are the two fastest growing types of intangible asset, both growing three times faster than R&D between 2011–2021. The analysis provides compelling evidence of the growing importance of intangible trademark rights as economic assets of considerable importance in modern economies. Note that the status of Canadian investment in intangibles assets did not feature in the WIPO report.

The UNCITRAL Legislative Guide on Secured Transactions ('LGST') and the Supplement on Security Rights on IP ('The Supplement') are the most important international endeavors to improve existing secured transaction legal frameworks to support the development of IP finance. However, paragraph 49 of the Supplement's guiding principle provides that the objective of a secured transaction law shall be achieved without undermining the objectives of IP rights laws to "prevent unauthorized use of IP, to protect the value (Intellectual Property Institute of Canada 2021) of IP and thus to encourage further innovation and creativity."[3] Thus, the Supplement prioritizes the IP licensor's control over the IP to the licensee's need for credit and chooses not to interfere with the licensor's deci-

[3] UNCITRAL Legislative Guide on Secured Transaction Supplement on Security Rights in Intellectual Property United Nations.

sion by simply enforcing contractual restrictive clauses (Denoncourt 2025). Note, however, the UNCITRAL Supplement is not compulsory and would need to be introduced into a country's domestic law to have force. UNICITRAL and WIPO play vital roles as facilitators to the international debate on IP finance, signaling the credibility and need for additional research in the field.

1.4. Interdisciplinarity and Trade Mark-Backed Finance

Security interests in trademarks fall between the academic disciplines of IP rights and finance law. The interdisciplinary complexity of this topic is such that it requires not only legal background in both domains, but also policy and practice understanding. Knowledge of trademark law and practice is necessary to analyse trademark validity and the potential for use as security based on their legal characteristics as intangible assets. Further, capitalizing IP rights requires understanding finance legal and practical frameworks. This includes, for example, understanding banking and finance law and lending paradigms, the differences between secured and unsecured lending, and the rules of creation and perfection of security interests.

Any research that focuses on only one perspective will be dealing with only one side of the story. Examinate relevant literature in Canada shows that there is a lack of such comprehensive inter and multi-disciplinary research. To date, most of the studies on security interests in trademarks, or IP assets in general, have approached the issue from a single point of view, either IP or finance. No significant research analyses security interests in trademarks from both IP and finance law viewpoints. Here, both theoretical and practical frameworks are examined as a starting point, moving to investigate the relevant market practice.

1.5. Literature Review

The literature search strategy included three academic databases for relevant scholarly publications: Hein Online, Westlaw Canada, and Scopus. The rationale is that Hein Online and West Law are specialized legal sources while Scopus has business and corporate finance resources. The review focused on peer-reviewed articles published between 2000 and 2024. A range of search terms, including plural and singular words and "trademark" for each database, as noted in Table 1 below.

Table 1. Systematic literature review: data sources and search strings.

Data Sources	Search String Used	Number of Studies Retrieved with Searc Strings	Number of Studies Fitting with Search String
Hein Online	("security interest in trademarks") OR ("security interest in trade-mark") OR ("security interest in trade mark") AND ("Canada") in Law Journal Library.	25	13
Westlaw Canada	"Trademarks" OR "trademark" OR "trademark" OR "trade mark" & "Security interest"	41	12
Scopus	"Trademarks" OR "trademark" OR "trademark" OR "trade mark"& "Security interest"	4	3
Total		70	28

The Social Sciences Research Network (SSRN, https://www.ssrn.com/en/) includes the most recent writings related to security interests in trademarks. Its importance stems from the fact that it is mostly an open-access database. In SSRN different search terms such as "security interests in trademarks", "security interests in trademark", "security interests in trademark" "security interests in IP", "capitalizing IP" and capitalizing trademarks" were used. During the search in SSRN different formats of the search string included plural or singular words to ensure that the outcomes were accurate. The search outcomes revealed approximately a third of the publications were directly relevant. For the most part, finance scholars and professionals do not discuss capitalizing IP in general or trademarks in particular as part of the secured lending literature. In the authors' view finance scholars and professionals tend to be unfamiliar with the legal characteristics of IP rights. This was evident when analysing the finance-related literature related to secured lending highlighting the general rules governing the use of different kinds of assets as securities. Cieri and Morgan's (1999) paper noted the implications and applications of having proper security interests in trademarks in Canada. A preliminary conclusion is that a lack of trademark finance transaction data exists in Canada. This would be a helpful information point to provide an overview of the number of transactions, whether they are increasing or declining and which economic sectors access trademark finance.

1.6. Canadian Finance Literature

In the Canadian context, the number of articles that appeared in the literature searches is low. One of the most comprehensive writings in Canada from a secured finance perspective is by Siebrasse and Walsh (2002), they offer recommendations for legal framework reform to support IP finance, however, they do not conduct a detailed analysis of security interests in trademarks. Siebrasse and Walsh investigated the common barriers to a more reliable framework and proceed to identify five main points that negatively affect the disposition of financial institutions to accept IP assets as collateral. These are: (1) the risk of valuation of IP assets associated with security interests in IP assets; (2) the lack of certainty in the legal framework governing security interests in IP assets; (3) reform of the ambiguity related to the IP ownership title; (4) the law of debtor and the choice of applicable law; and (5) the federal registration of IP security interests as an alternative to the choice of law. The Siebrasse and Walsh report makes a significant contribution to the Canadian literature.

The extant article continues their investigation in the Canadian trademark context updating the chronology of Canadian and international IP finance developments that have taken place in the two decades since it published. The remaining finance literature also covers the dual filing issue in Canada as a continuing problem. For example, Duggan et al. (2002) provide a comprehensive study of the PPSA and the main pitfalls. The authors compare the *Ontario Personal Property Security Act*[4] with the Quebec *Civil Code*[5]. The significance of this research is that it provides proposals and recommendations for reform, but not specifically issues related to security interests in IP or trademark assets. The same is noted in Cumming's (1995) paper with more emphasis on studies related security interests in patents in accordance with Canada's *PPSA*. The authors recommend that security interests in patents be governed solely by the provincial securities act (*PPSA*). As will be discussed later, in our view it is not feasible to rely only on the provincial *PPSA* as the sole register of security interests as this would mean the federal patent file will lack any annotation of the security in question. Dual registration raises constitutional conflicts between the federal and provincial powers; the most significant legal issue regarding the process for taking a security interest in trademarks. It relates to the research question of how to ensure that a simple system for registering security interests in trademarks should exist without prejudice to any constitutional rules while appearing in the Canadian federal IP registry. The literature review shows that the finance-based research regarding capitalizing IP (but not trademarks *per se*) is slowly emerging in Canada.

1.6.1. Canadian IP Finance Literature

IP finance is a category of debt finance methodology. The number and quality of writings related to capitalizing IP from an IP perspective exceeds that written from a finance

4 *Personal Property Security Act*, R.S.O. 1990, c. P.10.
5 Civil Code of Québec, CQLR c CCQ-1991.

perspective. Sweeney (2013) focuses on the securitization of patents and patent-backed securities in Canada. Tawfik (2016) is also an esteemed Canadian legal scholar whose research focuses on the commercialization of IP assets. Her comprehensive study provides a thorough analysis of the relevant Canadian paradigm from both the theoretical and empirical perspective. Professor Tawfik conducted interviews with 25 stakeholders from all over Canada regarding their insights on IP commercialization providing in-depth insights regarding the level of knowledge and awareness of IP among, for example, small and medium size enterprises (SMEs) and Canadian universities. However, Tawfik's research does not focus on security interests in IP, nor trademark backed finance *per se*.

Duggan's (2002) paper examines the Canadian context of taking security interests in patents using hypothetical cases. He proposes the whole process of security interests be governed by the PPSA only. However, we hold the view is necessary to build a registration system for security interests in IP assets that accepts annotation of security interests in the IP asset registration file and not be a system isolated from the IP records. Second, Duggan proposed enacting new federal legislation to govern security interests in general on a federal level instead of the current provincial PPSA regimes. Enacting new federal security legislation to govern only security interests in IP assets only is problematic as this will not solve the problems of dual registration and lending transaction due diligence costs. One of the main pitfalls in the current Canadian system is that it does not provide a level of certainty in the security registration process, as no 'syncing mechanism' between the PPSA registers and the IP registers currently exists to allow the notice of security to appear in the trademark file. In our view, there is little benefit to enacting a new IP specific federal security statute if this problem is not fixed.

In terms of technology and IP-backed finance literature, certain writings on domain names and software security interests deal with the aftermath of e-commerce and internet companies' bankruptcy. Geist (2002) examines the Canadian legal system with respect to e-commerce bankruptcy. He highlights the idea of security interests in domain names. Similar arguments arise in relation to developing a legal regime to govern security interests in trademarks. In the same context Hatzikiriakos (2006) probes the Canadian context with respect to security interests in IP assets with more emphasis on security interests in software which is largely legally protected by unregistered copyright. Hatzikiriakos (2006) publication is a good reference text; it brings together most of the regulatory provincial frameworks governing security interests in IP across Canada. Published four year earlier, Knopf's book *Security Interests in Intellectual Property* (2002) is a seminal work now over two decades old. It is possibly the most cited text within the body of Canadian literature on the topic. Knopf's key recommendation is to create a 'one-stop shop' for the registration of security interests—a system to consolidate the process of registering security interests in trademarks to overcome the dual registration problem. Evidently, the idea of a 'one-stop shop' for registration has yet to be resolved. The constitutional conflict between the Canadian federal and provincial powers as will be critically examined in detail in Section 2 below.

1.6.2. Analysis of the Literature Review

In summary, the literature provides clear evidence of the academic consensus that the dual filing regime is a barrier to having proper security interests in IP, and thus trademarks in Canada. This problem cannot be solved simply by granting the right of security registration to the federal government as it would raise Canadian constitutional dilemmas. Therefore, Knopf's solution is endorsed in this article, as the 'one-stop-shop' option would avoid any breach of either provincial or federal constitutional powers. Later in Section 3, the new potential technical solution involving shared-ledger technologies as the most promising way to avoid the constitutional conflict between Canada's federal and provincial powers will be discussed. The application of new and innovative ideas such as block chain to support recordal of trademark and IP security interests and obviate the problem of dual filing by establishing Knopf's 'one-stop shop' idea, with no need of a federal registration of security will be progressed.

It is safe to say the IP finance literature is light compared with other legal domains. For example, the search term "security interest in trademarks" on Westlaw yielded no articles. While the search string "Trademarks" & "Security interest" produced 13 results, a deeper analysis of the outcomes revealed an array of topics related to banking, finance, trade, property and IP laws. The number of studies that focus specifically on security interests in trademarks is low. The literature review suggests that the Canadian banking culture takes a conservative approach in accepting trademarks or any IP asset as collateral. A closer look at the Canadian literature and studies shows that not a single study focused specifically on security interests in trademarks. This article makes an original contribution to knowledge is this regard.

Further, building an acceptable model for taking security interests in trademarks will be both the motivation and the engine to potentially apply the same rules to other IP assets. This should be possible with some customization of the rules to fit each type of IP rights asset independently. While literature examined mainly studies the dual filing of security interests' registrations, very few provide any realistic practical solution. This research builds on previous literature in the field, but it does so in ways that are distinct from earlier contributions. As this article progresses, a plan will be presented that covers key legal and policy aspects that concludes by proposing to use shared-ledger blockchain technology to avoid the dual filing issue.

2. The Canadian Legal Framework for Taking Security Interests in Trademarks

This section addresses the primary research question of how to overcome the problem of dual registration of security interests and the lack of a unified Canadian system of registration which affects the proper perfection of security interests in trademarks. Although trademarks are intangible IP assets, they are unique in nature compared to other IP assets. They do not legally protect a new invention or original creation such as a work of literature, drama, music or art. Rather, trademarks can be in the form of a word or logo and may even be the owner's thought or have originated from someone else's ideas. The creative agencies that design trademarks for their clients do not usually own the mark and trademark ownership is retained by the client. The client who uses the trademark to mark her goods is the owner and can register it under the name of her business. The Supreme Court of Canada stated in *Mattel, Inc. v. 3894207 Canada Inc.* 'Trademarks are something of an anomaly in IP law. Unlike the patent owner or the copyright owner, the owner of a trademark is not required to provide the public with some novel benefit in exchange for the monopoly'. In the same case, the court also stated:

> The trade-mark owner, by contrast, may simply have used a common name as its 'mark' to differentiate its wares from those of its competitors. Its claim to monopoly rests not on conferring a benefit on the public in the sense of patents or copyrights but on serving an important public interest in assuring consumers that they are buying from the source from whom they think they are buying and receiving the quality which they associate with that particular trade-mark. Trademarks thus operate as a kind of shortcut to get consumers to where they want to go, and in that way perform a key function in a market economy. Trademark law rests on principles of fair dealing. It is sometimes said to hold the balance between free competition and fair competition.[6]

Accordingly, a trademark by its very nature differs from other monopolistic IP rights assets, because the core function of a mark is consumer protection and ensuring consumers receive a certain level of quality of the product or service. In addition, the trademark is used to protect the fundamental rights of the manufacturer of the product. By way of illustration,

[6] *Mattel, Inc. v. 3894207 Canada Inc.* [2006] 1 SCR 772, 2006 SCC 22, pp. 16–17.

the famous McDonald's trademark connotes a minimum expectation as to the level of food quality and service. Building a brand with a certain level of quality and consumer satisfaction requires significant investment (Menell 2007). Historically, trademarks were used to identify the owner of certain goods; this evolved into the identification of the source and origin of the product (Scassa 2015). The Supreme Court of Canada in the *Ciba Geigy Canada Ltd. v. Apotex Inc.*[7] noted that the common law action of passing off aims to protect both the consumer and the manufacturer. The common law passing off action is used to enforce unregistered trademark rights. This review of the legal framework will focus only on registered trademarks. Reaching a common ground of interest between as between trademark law and finance law will help achieve a shared understanding of the economic benefits that accrue from capitalizing trademarks among all concerned. Once a trademark exists and is registered, the *Trade-marks Act*, the *Personal Property Security Act* (PPSA) and the *Bank Act* triad provide the intertwining legal framework that supports trademark finance activities.

2.1. The Canadian Legal Framework: Division of Federal and Provincial Powers

In Canada, the legal frameworks governing security interests in trademarks consists of the *Trade-marks Act*, which covers most of the legal and regulatory aspects related to trademarks, and the *PPSA*, which covers the security process at the provincial level. However, there is another important legal framework considered here as an alternative for IP security perfection—namely, the *Bank Act.* The *Bank Act* is the legal and regulatory framework that governs federal banks' operations and some secured credit transactions.[8] On the other hand, the *PPSA* is the legal framework that regulates security interests in personal assets in the common-law provinces of Canada for bank and non-bank creditors. The Canadian federal *Bank Act* does not apply to non-bank creditors or provincial credit unions, and they are not able to benefit from this Act. The *PPSA* and the *Bank Act* are two distinct pieces of legislation, and each relies on a completely different set of legal principles and priority rules (Bangsund 2011). Each piece of legislation is reviewed further below to better understand how they differ. However, before investigating the *PPSA*, the *Trade-Marks Act* and the *Bank Act* it is important to analyse certain constitutional aspects of the federal and provincial powers in order to understand the rationale behind the dual filing process for security interests in trademarks. Note that when a question is raised as to whether certain legislation is considered as part of provincial or federal powers, the Supreme Court of Canada is responsible for settling the matter.

Security interests in trademarks raises the issue of division of powers between the federal and provincial legislative authorities that is governed by s. 91 and 92 of the *Constitution Act, 1867*.[9] The idea that the trademark is one of the federally regulated IP assets could lead to confusion about the proper process to create a security interest thereon, especially, as discussed further below, because security interests in personal assets are regulated according to the provincial *PPSA*. The *Trade-Marks Act* lacks any direct or indirect reference to the mechanism and process of creating security interests in trademarks. Therefore, security interests in registered trademarks—which are federally regulated assets—are governed by the provincial *PPSA* in common-law Canada or the *CCQ* in Quebec.[10] There is no constitutional objection to applying the provincial personal property security laws on a federally regulated intangible asset, especially in the absence of a

[7] [1992] S.C.J. No. 83, [1992] 3 S.C.R.120, 44 C.P.R. (3d) 289 (S.C.C.).

[8] The *Bank Act* 1991 (Canada).

[9] The *Constitution Act*, 1867, 30 & 31 Vict, c 3.

[10] In the matter of a Reference by the Governor in Council pursuant to section 53 of the *Supreme Court Act*, R.S.C. 1985, c. S-26, as set out in Order in Council P.C. 2010-667, dated 26 May 2010, concerning the Proposed *Canadian Securities Act*, the Supreme of Canada ruled that: To determine the constitutional validity of legislation from a division of powers perspective, the pith and substance analysis requires the courts to look at the purpose and effects of the law. The inquiry then turns to whether the legislation falls under the head of power said to support it. If the pith and substance of the legislation is classified as falling under a head of power assigned to the adopting level of government, the legislation is valid. When a matter possesses both federal and provincial

federal statute governing security interests in trademarks. In fact, this shows that the criteria for deciding whether the jurisdiction is federal or provincial can be subtle. For example, if the legislation that falls under the double aspect doctrine, it may be controversial to decide depending on the context and facts. The double aspect doctrine is a tool of Canadian constitutional interpretation used when both levels of government have an equally valid constitutional right to legislate on a specific issue or matter (Hogg and Wright 2021). Double aspect represents the modern notion of co-operative federalism, which abandons the outdated idea that every subject matter falls under the exclusive control of either the federal or provincial government. Applying this rule to security interests in trademarks that involve a federal asset, it is evident that there will likely be an ensuing debate about the validity of security under the provincial legislation. The current legal framework governing security interests in trademarks is mainly governed by the *PPSA* in common law Canada and the *CCQ* in Quebec. Any possible action to withdraw this authority from the Canadian provinces could raise constitutional challenges (Fuhrer and Bourne 2002).

2.2. Canadian Constitutional Overview of Taking Security Interests in Trademarks

An important case that adjudicated the issue of the division of powers between the federal and provincial governments is Reference Re *Securities Act.*[11] The *Securities Act* was supposed to create a single regulator of Canadian securities which might have facilitated IP and trademark security registration. The proposed Act did not impose itself as a sole regulator of Canadian securities, but it allowed the provinces to opt in, so as to create a unified system for securities. While Canada, Ontario and other interveners argued that this Act falls under the general branch of Parliament's power to regulate trade and commerce under s. 91(2) of the *Constitution Act*, *1867*, Alberta, Quebec, Manitoba, New Brunswick and other interveners argued that this scheme falls under the provincial powers under s. 92(13) and s. 92(16) of the *Constitution Act*, *1867.*

However, the court must conduct the pith and substance analysis by examining the purpose and effect of the law to be able to decide the constitutional validity of legislation from the perspective of the division of powers. 'Pith and substance' is the first tool that Canadian courts use to determine which level of government has authority over a certain matter or issue—it asks what the essential character, or 'matter', of a law is (Hogg and Wright 2021). The goal is to determine what the most basic purpose and effect of the law is, and then to determine the appropriate jurisdiction based on those characteristics. If this examination shows that an issue falls under the powers of the enacting level of government, then the legislation will be valid. If the examination shows that the issue falls under both federal and provincial powers, the double aspect doctrine will be applied, which allows the application of legislation from both levels at the same time.[12] In its ruling the Supreme Court of Canada stated:

> [7] It is a fundamental principle of federalism that both federal and provincial powers must be respected, and one power may not be used in a manner that effectively eviscerates another. Rather, federalism demands that a balance be struck, a balance that allows both the federal Parliament and the provincial legislatures to act effectively in their respective spheres. Accepting Canada's interpretation of the general trade and commerce power would disrupt rather than maintain that balance. Parliament cannot regulate the whole of the securities system simply because aspects of it have a national dimension.[13]

When analysing the above statement, it appears that the Supreme Court of Canada in this judgment emphasized a very important rule. This rule is that the separation of

aspects, the double aspect doctrine may allow for the concurrent application of both federal and provincial legislation Reference re *Securities Act*, [2011] 3 SCR 837, 2011 SCC 66 (CanLII).

11 *Securities Act*, 2011 SCC 66, [2011] 3 S.C.R. 837.

12 See Footnote 16.

13 See Footnote 16, para 7.

powers between the federal and provincial governments is a tool to create a balance in the federal system. This separation helps to ensure a high level of efficiency in both federal and provincial legislation. Meanwhile, the application of the federal government's interpretation of the general trade and commerce powers could have a negative effect in maintaining the balance between both powers. In addition, the Supreme Court of Canada stipulated that the national dimension of any proposed legislation shall not be the basis for granting the legislative powers to the federal government. This elaborated an important rule on how to determine whether the legislation falls under federal or provincial powers by applying the pith and substance analysis. In the authors' view, the security interests in trademarks in specific and in IP in general fall in the intersection between the federal and provincial powers of legislation. With respect to relevant constitutional powers related to security interests in trademarks, it is important to confirm the legislative powers related to security interests in personal assets. In Canada, trademarks are not mentioned explicitly in the *Constitution Act*, *1867*. The Canadian Constitution assigns legislative authority over patents and copyrights to the federal government.[14] However, in Canada trademark laws are a federal power. Both registered and unregistered trademarks as well as trade names fall under Canadian federal parliamentary powers "Regulation of Trade and Commerce" (Vaver 2011). In fact, this began after confederation as Canada continued the trademark registers created by the Province of Canada. In 1937, the Privy Council commented that "[t]here could hardly be a more appropriate form of the exercise of [the trade and commerce] power than the creation and regulation of a uniform law of trade marks."[15] In 2005, in the *Kirkbi* case, the Supreme Court of Canada commented on the Privy Council decision stating,

> [T]he federal government's power to legislate with respect to trade-marks has never been the target of a direct constitutional challenge. The issue was raised in the Privy Council in a 1937 decision examining the constitutionality of federal trade-mark legislation.[16]

Further, the Supreme Court of Canada stipulated that the current *Trademarks Act is valid legislation that governs not only registered trademarks but even unregistered trademarks*. One of the most important concepts stated is that there is no evidence that the registration regime of the trademarks under the *Trade-marks Act* was planned to provide two distinct enforcement regimes, as the *Trade-marks Act* was created to regulate both registered and unregistered trademarks. In the authors' view, security interests in trademarks should fall in the intersection between federal and provincial powers. Specifically, security interests in personal assets fall under the provincial powers, while registered trademarks are regulated by federal legislation. This article studies registered trademarks only and not unregistered trademarks, which are beyond the scope of the legal research. Accordingly, proposing federal legislation to govern security interests in trademarks in particular and IP in general, could raise a constitutional conflict between the federal and provincial powers. Proposed new federal legislation could eviscerate some of the powers granted by the Canadian Constitution to the Canadian provinces.

2.3. Canada's Personal Property Security Act (PPSA) 1990

The acronym *PPSA* refers to a type of a provincial statute that exists in each of the Canadian common-law provinces. Generally, the provincial statutes differ only slightly, except for the *PPSA*.[17] There are no major differences with respect to security interest creation and perfection processes (Sandrelli et al. 2002). In this research the focus is mainly on the Ontario *PPSA* (OPPSA). According to the PPSA, creditors are not limited to federal banks; it covers other categories of creditors like provincial credit unions, venture capitals or even any other creditors.

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14 *Constitution Act*, 1867 (UK), 30 & 31 Vict, c 3].
15 As above.
16 *Kirkbi AG v. Ritvik Holdings Inc.*, [2005] 3 SCR 302, 2005 SCC 65.
17 See Footnote 9.

Enacted in 1976, the OPPSA was the first of its kind in Canada. By 2001, each Canadian province had its own *PPSA*, except for Quebec. Before enacting *PPSA* legislation, the Canadian common-law provinces applied the common law security interest rules of England. This included the classic chattel mortgage, the fixed equitable mortgage, floating charges and the unpaid seller's reservation of ownership. The latter was not a standard security interest as it was considered a conditional sale of the asset (Clark 2003). The innovation of the *PPSA* was in unifying the legal framework governing security interest in personal property across most of Canada. This happened through implementing independent statutes in each province, which were similar, to a great extent.

The *OPPSA* defines *collateral* as "personal property that is subject to a security interest", while the security interest is defined as "*an interest in personal property that secures payment or performance of an obligation*". Personal property is defined as 'chattel paper, documents of title, goods, instruments, intangibles, money and investment property, and includes fixtures but does not include building materials that have been affixed to real property.' (Hayne 2011). These definitions show that according to OPPSA nothing prevents obtaining security interests in intangible assets as personal property owned by the debtor. Intangible assets include the IP rights owned by the debtor (e.g., includes copyrights, patents and trademarks). A security interest in any collateral, including a trademark, must be registered, otherwise it will be considered not to exist (Troicuk 2012). Nothing prevents the registration of a security interest in a trademark according to the rules of the *PPSA* or the *Trade-marks Act*, as there is no contradiction between the two registrations. In other words, the security interest in common-law Canada is governed by the *PPSA*, which regulates all elements of the creation, attachment and perfection of security. While there is no legal obligation in the *Trade-marks Act* or even the Trademark Regulations[18] to register a security interest or even to annotate the trademark registration to note the security interest, any creditor who wishes to annotate the security interest in the trademark file must register the security agreement with the CIPO. This amounts to the dual registration of security interests to be discussed later. Thus, the registration of security interests in trademarks will remain a barrier to the progress of trademark finance in Canada if the dual registration of security interests in trademarks is necessary to ensure its proper perfection. In fact, Siebrasse and Walsh (2002) state that there is a problem of uncertainty in the legal system governing security interests in IP. They proposed the creation of a federal security registration system to govern security interests in IP. Knopf (2002) analysed the whole system governing security interests in IP assets and proposed the creation of a 'one-stop shop' to govern the registration process of these securities. The dilemma of dual registration of security interests in trademarks is very common in Canada, the US and elsewhere in the common law countries such as in the UK although the latter does not have the added complexity of a federal system (Denoncourt 2018). In many cases, creditors opt for dual filing of security interests in trademarks as a best practice. However, as noted earlier this procedure raises the lending transaction cost accordingly. In fact, dual registration is a pre-emptive measure to ensure that the security interest appears in the trademark register with no real added economic value. There are some counterarguments that refute dual filing and cite evidence that suggests single filing is sufficient.

2.4. The Canadian Trade-Marks Act (TMA 1953)

Section 91 of the *Constitution Act, 1867* sets out the distribution of federal legislative powers in Canada.[19] The list of legislative powers clearly mentions patents and copyrights, but there is no explicit inclusion of trademarks. However, jurisdiction over trademarks is grounded in section 91.2, 'The Regulation of Trade and Commerce.' (Bereskin 1987). This is evident in the case of *Kirkbi AG v. Ritvik Holdings Inc*. It was noted that the federal government's power to legislate with respect to trade-marks has never been the

18 Trade-marks Regulations (SOR/96-195).
19 See footnote 14.

target of a direct constitutional challenge. The issue was raised in the Privy Council in a 1937 decision examining the constitutionality of federal trade-mark legislation. The Privy Council judgment relies, albeit implicitly, on the second branch of the trade and commerce powers under s. 91(2) to confirm Parliament's jurisdiction to enact trade-mark legislation: *Attorney-General for Ontario v. Attorney-General for Canada*, [1937] A.C. 405. Lord Atkin for the Privy Council commented as follows (at p. 417): "No one has challenged the competence of the Dominion to pass such legislation. If challenged one obvious source of authority would appear to be the class of subjects enumerated in s. 91(2), the Regulation of trade and commerce, referred to by the Chief Justice. There could hardly be a more appropriate form of the exercise of this power than the creation and regulation of a uniform law of trademarks." Canada's *Trade-marks Act* is federal legislation enacted in 1953. The *Act* sets out all the legal and technical aspects related to trademarks, including the application for registration, assignment, unfair competition and many other regulatory issues related to trademarks in Canada. In Canada, protection of trademarks is provided to both registered and unregistered trademarks. The protection scheme for registered trademarks is stated clearly in the *Trademarks Act*: upon registration, the owner is granted 15 years of protection throughout Canada, however, this changed to ten years in June 2019.[20] Protection for unregistered trademarks—what is known as the common-law trademark protection—is based on evidence as to the scope and extent of the goodwill in the mark. It is therefore risky to rely on passing-off action and prior use as a basis for protection. This means that the registration of trademarks in Canada is the most efficient method of legal protection. Further, trademark registration offers Canada-wide protection.

Unregistered trademarks in Canada rely on the tort of passing off. The common law tort of passing-off provides a legal remedy for harms and losses suffered by a trader through the creation of consumer confusion between their products and services and those of a rival. Over time, passing off grew to protect traders from unfair competition rather than consumer protection. The Canadian courts were pushed to apply passing off in three situations summarized as follows: (1) cases where the consumer is initially misled, as in instances where advertising is used to mislead customers to deal with competitors; (2) when the consumer is not misled; and, (3) the post-sale confusion, which takes place when the customer intentionally decides to buy a fake luxury or expensive product that can be mistaken for an original. The three situations apply to any passing-off action brought in the federal and provincial courts. Hence, businesses that are keen to ensure a high level of protection for their brands will prefer the legal protection granted by trademark registration rather than passing off as a sole tool for support. As Vaver (2011) remarks on the reasons why it is better to register, "Registration does cost money up front and in renewal fees, but infringement actions require less proof than passing-off actions and may be cheaper in the end".

2.5. Security Interests in Trademarks

An examination of the *Trade-marks Act* (TMA) shows that there are no direct references to the procedures and requirements for creating security interests in trademarks. Section 26(2)(c) TMA 1953 stipulates that the following must be stated in the trademark register: "*a summary of all documents deposited with the application or subsequently thereto and affecting the rights to the trademark*." Although the TMA 1953 makes no reference to security interests in trademarks, this section refers to a summary filed or to be filed with the trademark application reflecting rights that affect the trademark, which certainly includes any security agreements. Meanwhile, in January 1987 CIPO issued a Practice Notice titled *Security Agreement*[21] which states:

> The Registrar of Trademarks will permit the placement of 'Security Agreements' on the files of trade-marks in the circumstances where such trade marks have

[20] 1985, c. T-13. (see footnote 28).

[21] Practical notices, CIPO, Security Agreements, 1987-04-084.

> been put up as security. Notes to this effect may be entered on the register on payment of the prescribed amendment fee. An example of the note places on the register in a recent case was 'Security Agreement Placed on File—Jan. 1987'.

Analysis of this note and section 26(2) of the *TMA 1953* reveals that the placement of the security agreement of secured trademarks on the file is optional; it is not a requirement for the validity of the security interest. Therefore, there might be a security interest in a trademark that does not appear in the trademark register. This Practice Notice does not elaborate whether the creditor has the power to place the security agreement on the debtor's trademark file or whether it will be the sole right of the trademark owner. In addition, nothing in this note shows the minimum prerequisites of the security agreement and whether or not this placement is considered to be an attachment. Also, it does not show the mechanism of recording or removing the security from the trademark file. This is a fundamental legal issue. It is expected that the bottom line needed to develop the regulatory framework governing security interests in trademarks will require a mechanism to ensure the security interest is recorded in the trademark register on creation. The rationale is to require that all transactions involving security over trademarks are recorded in the trademark register. This will provide a high level of certainty in the Canadian Intellectual Property Office (CIPO) data records, especially given that the current *PPSA* system of security interest is provincial, and in some cases the debtor may operate their business in more than one province. In short, reliance on provincial records alone for registration of security interests in trademarks is not efficient because the trademark record could lack relevant information related to the security interest. The CIPO announced amendments to the Practice Notice on security agreements:

> Where a trademark has been put up as security, the Registrar of Trademarks will, upon written request, record a security agreement on the file of an application for the registration of a trademark or a trademark registration. A note to this effect will be placed on the trademarks database (for example, 'Security Agreement placed on file—1 June 2018').
>
> Where a trademark is no longer the subject of a security agreement previously placed on file, the Registrar of Trademarks will, upon written request, record the removal of the security agreement. A note to this effect will be placed on the trademarks database (for example, 'Security Agreement removed—15 April 2019').[22]

The amendments to the Practice Note make it more developed than the former version. The main progress in the current wording is that it provides a clearer road map on how to record the security agreement and on the trademark registration file. It shows the mechanism for removing the record of a security agreement. In our view, this amendment is a step in the right direction to give greater confidence in the trademark register. It could encourage more concerned parties to create security interests in trademarks. Hence, it is important to have a dataset that shows changes in the number of security interests in trademarks before and after the new rules were applied. This dataset analysis will provide evidence as to whether the rules stated in the Practice Note positively affect the number of security interests in trademarks. An additional step could help to build a more reliable database that ensures that any security interest in trademarks appears in the trademarks records. As explored in Section 3 to follow, this step involves creating a kind of auto-synchronization system between the federal and provincial governments that flags secured trademarks upon the creation of security interests with the provincial authority. On the other hand, section 48(1) of the *TMA 1953* states:

> A trade-mark, whether registered or unregistered, is transferable, and deemed always to have been transferable, either in connection with or separately from

[22] Draft—Practice notice on security agreements, (2019).

> the goodwill of the business and in respect of either all or some of the goods or services in association with which it has been used.[23]

In the analysis, nothing prevents the transfer of ownership of the trademarks, whether associated with the goodwill of the business or independently. When discussing the use of an intangible asset such as a trademark as a form of security or collateral for debt finance, it is most important to highlight certain key associated risks. Among these risks are the trademark's invalidity for loss of distinctiveness as stated in paragraph 18 (1)b of the *Act.* A trademark is a tool used to distinguish goods and services in the market by certain producer or service provider from other products or services (Scassa 2015). In *Labatt Brewing Co. v Molson Breweries*,[24] the court stipulated a legal test to determine how the trademark is distinctive. First, a mark and a product must be associated; second, the owner uses the association between the mark and its product and is manufacturing and selling this product, and third, this association enables the owners to distinguish its product from that of others. The criteria show that there must be a clear link and association between the mark, the products and the producer. This link or association will enable the public to distinguish the source of the products with certain level of quality. Consequently, the application of rules regarding security interests in trademarks show that in case of a debtor's default and selling the secured trademark to a third party, there are certain risks that may exist with respect to the trademark and the producer that could lead to trademark invalidity. This may arise especially if the trademark in question was sold to a third party who does not provide the same level of quality as the original producer, thus negatively affecting the distinctiveness of the mark, potentially leading to invalidity. Such a scenario would not only impact the lender, but also adversely impact on the borrower's business.

Paragraph (3) of the same section states that: 'The Registrar shall register the transfer of any registered trademark on being furnished with evidence satisfactory to him of the transfer and the information that would be required by paragraph 30(g) in an application by the transferee to register the trade-mark.' This paragraph stipulates as a condition that the transferee must provide sufficient evidence of the transfer of ownership. However, there is nothing that stipulates that a security interests in a trademark(s) in fact be registered in the trademark register. Thus, the TMA 1953 of itself does not provide a comprehensive and efficient method to protect creditors or third parties. If we compare this system to the regulatory system governing security registration of other assets, we see that more adequate measures apply. For example, when someone buys a car in Ontario, the seller is obliged to provide the buyer with the used vehicle information package (UVIP), which contains all the information related to the vehicle's history. This includes whether there are any debts or outstanding amounts owing on the vehicle (Buy or Sell Used Vehicles 2024). However, no similar rules or prerequisites exist to help the transferee of a trademark to ensure that there is no outstanding security interest in the trademark. In practice, the transferee's lawyer will do due diligence, including a search on the PPSA register of the transferor's domicile—as discussed below—to make sure that there is no outstanding security interest in the trademark in question.

One of the most important issues to be addressed regarding security interests in trademarks according to the *PPSA* is the effect of the debtor's place of business operations on the perfection process. For example, a debtor may operate his business in more than one location—in Toronto, Ontario, and Montreal, Quebec. If the debtor and creditor choose to have their agreement governed by laws of Ontario, in the case of an enforcement proceeding the Ontario court will first make sure the chief executive officer (CEO) of the debtor is located in Toronto (Hatzikiriakos 2006). If the CEO of the debtor is located in Montreal, the CCQ will determine the validity of the security interest.[25] On the other hand, if the debtor and creditor agreed that the laws of the state of New York will govern their agreement, if

[23] R.S.C., 1985, c. T-13.

[24] *Labatt Brewing Co. v Molson Breweries* (2000) Can LII 17105.

[25] PPSA R.S.O 1990, c. P10, s.7(1).

the creditor decides to start enforcement proceedings in the New York courts, this will be a different situation. *Sections 1–301* of Article 9 of the UCC states that the law of the agreement is the governing law of the security interest. Therefore, the New York law will apply. This means that security interests in trademarks could be perfected in accordance with any provincial laws or even other jurisdictions, while nothing in the trademark record shows that the security exists. In fact, although the perfection of security interests as discussed above aims to notify third parties of its existence, it remains a very important tool to protect the creditor's rights on the security in question. Thus, the perfection of security interests should alert any *bone fide* purchaser that a certain asset is subject to security interest. This mechanism prevents transactions that could negatively affect the value of the secured asset. The next legal dimension to be considered arises under Canada's *Bank Act 1991*.

2.6. Canada's Bank Act 1991

Although security interests in trademarks are not governed by the *Bank Act*, it is important to highlight certain legal issues arising in relation to the creation of security. The *Bank Act* is federal legislation that regulates all aspects of the banking business in Canada, including the incorporation and registration of banks as well as their capital structure and ownership arrangements. The *Act* also regulates corporate governance issues and the requirements for foreign banks to operate in Canada. The *Bank Act* regulates some cases of security interest.[26] Here we are only focusing on security interests and their perfection and therefore to what extent this Act provides the bank's priority over a secured property. Accordingly, it is important to understand how the terms "security" and "security interest" are defined in C46 of the Bank Act:

> 'Security' means (a) in relation to a body corporate, a share of any class of shares of the body corporate or a debt obligation of the body corporate, and includes a warrant of the body corporate, but does not include a deposit with a financial institution or any instrument evidencing such a deposi. . . etc.
>
> 'security interest' means an interest in or charge on property by way of mortgage, lien, security interest or otherwise taken by a creditor or guarantor to secure the payment or performance of an obligation.

Security is defined as 'a debt obligation of the body corporate and includes a warrant of the body corporate.' One may conclude that a security as an obligation on the borrower guarantees the payment of the outstanding debts. In the case of a debtor's failure to pay, the security will warrant payment of the debt by liquidating said security granting the lender direct recourse thereon. Nevertheless, the definition of security interest states that such security may be in the form of a mortgage, lien or security interest. It was kept open to include any future development in the form of security interest. It is worth highlighting that the security may be taken by the creditor to secure the payment of any debts due. Therefore, if the original debtor fails to pay any of the debts due, the creditor will have a direct recourse to the secured asset. Similarly, as stated in Section 428(13) of the *Bank Act*, 'Subrogation of security,' (C428) the guarantor shall subrogate the original creditor in case the guarantor has paid all the amounts due on the original debtor. This means that the guarantor shall have all rights and powers granted to the original creditor to be able to call for the subrogated debt. From this point, we may conclude that the guarantor, which in most cases is not a bank, may subrogate the original creditor (the bank). We can conclude from this section that nothing prevents non-banks as guarantors from benefitting from the security scheme set out in the *Bank Act*.

It is pertinent to inquire whether the collateralization of trademarks and having security interests in trademarks are valid under the *Bank Act*. In fact, on reviewing the whole *Act*, no reference was found to any clear restriction against using trademarks as collateral for financial indebtedness. As stated above, reference to the security does not

[26] Canadian *Bank Act* 1991.

limit collateral to a certain kind of asset. Rather, the *Bank Act* extends the bank security so as to include the 'put and call options' on securities, while this in fact is not a regular security and includes a high degree of uncertainty. Therefore, nothing in the *Bank Act* prohibits having a security interest in trademarks. However, it is stated in Section 427 of the *Bank Act* under the heading 'Loans to certain borrowers and security' that 'A bank may lend money and make advances...' This section lists various fields of manufacturing and agriculture and the securities to be taken by the bank in each case. Intangible IP rights assets are not listed among other assets. However, if we are to interpret the exact wording of this section and try to analyse its scope, we notice that what is stated in this section is not obligatory for the banks. Banks may decide whether or not to proceed with the loan transaction and whether to take IP and/or trademark assets as security. The bank may accept a security as listed above or accept any other type of security, which will be based on the sole discretion and appraisal of each bank's creditworthiness assessments.

In 2012 the *Bank Act* was amended by adding the following definition:

> 'unperfected', in relation to a security interest, means that the security interest has not been registered in a public register maintained under the law under which the security interest is created, or has not been perfected or published by any other means recognized by that law, where the registration or other means of perfection or publication would have made the security interest effective against third parties or would have determined priorities in rank in respect of rights in, on or in respect of the property that is subject to the security interest.[27]

This amendment is significant as it altered the legal situation in a major way with respect to the priority of a bank's security interest legal rights. Before the amendment, a bank had priority over any other rights of any third party on the secured property. However, such wording did not mention the situation of other rights acquired on the secured interest, and nothing in the legislation stipulated how to deal with such secured interest and how to deal with such interest if it was not perfected. The case *Bank of Montreal v. Innovation Credit Union*[28] raised the issue of priority dispute between the security interest accorded by the *PPSA* and that accorded by the *Bank Act*, and the court granted a priority right to the *PPSA* security over the *Bank Act* security. In this case the competition was between the unperfected prior *PPSA* security and a later *Bank Act* security. The court held that the non-perfection of the *PPSA* security interest does not lead to the subordination of said security under the *Bank Act* security (Wood 2012). The court highlighted that the criteria of determining the priority of security are based on the *Bank Act* priority rules. These rules also stipulated that the bank cannot acquire greater interest in the collateral than the debtor. In addition, the court emphasized the common-law principal *nemo dat*, which ranks the security according to the date and time of its creation. A similar case, *Royal Bank of Canada v. Radius Credit Union Ltd.*,[29] also examined priority rights on security interest in after-acquired property by Radius Credit Union, and in parallel the same assets were used as collateral to the bank according to the *Bank Act*. The court held that both the bank and the credit union held incomplete security interests. However, the new amendment stipulated that the bank's right of priority over any other third party's rights on the secured property, including '*any person who has a security interest in that property*,' is subject to the fulfilment of two conditions: (a) The security was unperfected at the time the bank acquired its security in the property,[30] and (b) the bank was not aware of such unperfected security at the time the bank acquired its security.

Therefore, we may conclude that the rules stipulated in the two cases of *Bank of Montreal v. Innovation Credit Union* and *Royal Bank of Canada v. Radius Credit Union Ltd.* are now not applicable. In the first case the priority of the unperfected security of Innovation

27 Canadian *Bank Act*, S 425 (1), 2012, c.5, s. 36.
28 *Bank of Montreal v. Innovation Credit Union*, 2009 CanLII 44635 (SCC).
29 *Royal Bank of Canada v. Radius Credit Union Ltd.*, 2010 SCC 48 (CanLII), [2010] 3 SCR 38.
30 Canadian *Bank Act*, S 428 (1), 2012, c.5, s. 38.

Credit Union was of high importance, although the security of the Bank of Montreal was registered and perfected according to the rules applied then under the *Bank Act*. Thus, if the amendments to the *Bank Act* were applicable before the issuance of this judgment, then it was most likely to favour the Bank of Montreal, subject to the fulfilment of the two conditions stated above. The second case is somewhat different, as the Royal Bank of Canada was granted the security in all the present properties and those acquired after, while the security interest of Radius Credit Union was prior to the bank's security and was unperfected. In fact, the judgment of Supreme Court of Canada was a motive for the call for legislative reform that resulted in the above-mentioned amendments (Redican 2012).

The new definition of unperfected security in the new amendment states that "the security interest has not been registered in a public register maintained under the law under which the security interest is created."[31] If this rule is applied to security interests in trademarks in Canada, we will find that perfection as per the PPSA will be sufficient. Nevertheless, in our view this should be amended as the core function of perfection is to appear in a public register accessible by concerned parties. There is no requirement of registration in the trademark office register. Even if security interests in trademarks are registered in the trademark register, that will still not be the end of the problem as the issue of dual security registration will remain. For these reasons, the best option for resolving the current problem is to have a 'one-stop shop'.

The *Bank Act* as the regulatory framework governing the banking industry at the federal level regulates, among other things, security interests. However, it is applicable when the creditor is a federal bank. Therefore, the *Bank Act* could be applied on any security interests where credit unions or non-bank entities are creditors. Thus, federal banks are eligible to create security according to the *Bank Act* or to the provincial *PPSA* or CCQ. In some cases, federal banks create security interests on a certain asset according to both the *Bank Act* and *PPSA*, which is known as the "Dual Documentation Issue". In respect of security interests in trademarks, there is nothing in the *Bank Act* that would prevent accepting trademarks as a security. Hence, creation of security interests in trademarks according to the *Bank Act* will be a right for federal banks alone. This means that other creditors, whether credit unions or any other sort of lender, will remain subject to provincial *PPSA*s. The lack of any registration of security interests in trademarks in CIPO's trademark registers, may increase the ambiguity and uncertainty in the legal framework governing security interests in same. Therefore, any proposed federal legislation to regulate security interests in trademarks will need to ensure that it is applicable to any creditor. In other words, any changes in the current legal framework governing the creation and perfection of security interests in trademarks must simplify and increase consistency and confidence in the whole process.

2.7. The Basel Accords and Canadian Banking Capital Adequacy Rules

At the international level, Canada must also be cognizant of the research into the role of banking capital adequacy rules surrounding intangible IP assets that explains why intangible assets struggle to meet the legal criteria for eligible security, namely, because they are regarded as 'illiquid' from the lender's perspective. Founded in 1974, the Basel Committee on Banking Supervision (BCBS) and the Basel I-IV accords comprise international rules on capital requirements applicable to banks and depository institutions voluntarily adopted by Canada to strengthen monitoring and measurement of the capital held by banks. Banks apply the rules when lending against all types of loan security (tangible or intangible) to calculate their capital adequacy ratios (CARs). The minimum capital ratio framework is now applied by all member countries and across the globe. Basel I Accord introduced in 1988, created a classification system for assets. Denoncourt (2021) noted that while the IPR legal framework has significantly evolved since 1988, the capital adequacy regulation applied to intangibles assets (a class that includes unregistered and registered IPRs) re-

[31] Canadian *Bank Act* at C. 46. Definitions.

mained static and has not yet been altered to accommodate the magnitude of intangibles, IP and trademark assets that form the modern knowledge economy. The increase in economic investment in intangibles in Canada and internationally, Denoncourt (2021) opines 'supports a re-think on the relationship between banking CAR buffers and their impact on intangibles and IPRs as loan security and as an important component of sustainable [finance] innovation'. Although the way countries have implemented Basel III vary, in Canada the security that banks are legally permitted to rely on under these rules is limited to financial collateral including cash, shares, bonds and covered bonds etc. Consequently, they are zero-rated as there is no capital benefit for banks when using IP or trademarks as collateral. The economic implication is that the transaction would be priced as if the IP or trademark was an unsecured asset. Capital adequacy rules are another aspect that show how banks are not being incentivized to provide either IP or trademark-backed debt finance. However, earlier in Section 1.1 we noted that Canada's new *Canada Small Business Financing Act* and its regulations have expanded loan class eligibility to include lending against IP. Together with Canada's new Small Business Finance programme they provide certain means to reduce the capital adequacy barrier for small business and startups by decreasing the costs for IP financing. Nevertheless, the issue of banking capital adequacy norms vis-à-vis intangibles needs to evolve further, both in Canada and at the international level, as the status quo negatively impacts the potential to normalise IP and trademark-backed lending. Denoncourt (2021) suggests that one way to improve the banking capital adequacy situation and system would be to 'unbundle the wide category of intangible assets' into more granular categories of types of intangibles whereby more appropriate risk weightings could be assigned, rather than treat all intangibles as zero-rate through lack of awareness of their finance potential. While such an analysis is beyond the scope of this article, it is a topic ripe for further interdisciplinary research. At a policy level, it is positive that the Government of Canada has recognised the need to develop its national finance and IP systems and that it is taking important steps to advance practical and educational frameworks to support the finance potential of IP rights.

2.8. The Unsuccessful Intellectual Property Security Act (IPSA)

The idea of having a unified federal law in Canada, the IPSA, that governs security interests in IP assets, seemed to be the desired solution from a theoretical point of view. To this end, in the early 2000s there was considerable effort to enact a unified act to govern security interests in IP right in Canada, namely, the *Intellectual Property Security Act* (IPSA). The Canadian Bar Association (CBA) was involved in this law reform project, and many IP scholars and lawyers in Canada participated in the related meetings and discussions (Fuhrer and Bourne 2002). However, in practice the approach raised many constitutional conflicts. The proposed unified security interest Act was not completed. Fortunately, given technology developments other alternatives might now be used to overcome the dual filing problem, enabling the creation of a new system that automatically notifies CIPO upon registration of security interests in trademarks by provincial authorities. This proposal will be discussed further next.

3. Barriers to Trademark-Backed Finance: A Shared Ledger Blockchain Proposal

The second research question investigates the potential for digital technology registration solutions to enhance the Canadian legal framework where the registration of trademarks is federal, whilst provincial laws regulate security interest perfection. An effective and efficient system for taking security interests in trademarks in Canada requires innovative ideas to create a level of conformity and consistency in the governing legal framework. However, in practice the issue of dual filing and constitutional controversy between federal and provincial powers acts as a barrier to the reform of the current legal framework. It is important that any proposed reforms take this legal dilemma into consideration and be consistent with federal and provincial powers. Second, economic factors to reduce the costs of registering security interests in trademarks is a consideration. As explained in Section 2 above there is no specific legal provision that prohibits using trademarks as collateral, but neither are their specific provisions that regulate security interests in trademarks. The Canadian legal paradigm does not require notation of the lender's security interest in a trademark to appear in the trademark registry file. Accordingly, a trademark might be collateralized, while nothing appears in the trademark file. This results in a high level of information uncertainty regarding the system and the accuracy of the information recorded in the trademark file. Creditors will likely proceed with the dual filing of security interest according to the provincial *PPSA* and the federal CIPO system. The cost factor could discourage parties from filing with CIPO due to the absence of negative legal implications for either the debtor or the creditor. In our view, the main beneficiary of dual filing are third parties dealing with trademark owners and due diligence of licence or franchise agreements. Broadly speaking, in practice Canadian lenders have less experience lending against intangible assets, trademarks in particular and IP assets in general. Consequently, for the most part, the required internal banking procedures are less developed, vague and uncertain. The final research question investigates the extent to which the current Canadian legal frameworks are compatible with market practices and needs, analysed in the wider Canadian and international context. Certain new developments in relation to valuation, will likely have positive impact on lender risk tolerance for trademark-back loan transactions discussed below.

3.1. New IP Finance Due Diligence Tool Launched by the American Bar Association IP Financing Subcommittee of the Commercial Finance Committee

Developed by experts, including Canadian members of the ABA's Intellectual Property Financing Subcommittee of the Commercial Finance Committee of the Business Law Section of the American Bar Association (ABA), the new Secured Lender's IP Cheat Sheet: Intellectual Property Due Diligence Done Right was formally launched in April 2024. This new tool is designed to assist lenders and borrowers to assess the risks and opportunities of using IP rights including copyright, trademarks and patents as collateral. The concept for the Guide is based on carrying out a due diligence review of borrower-owned or licensed IP rights and comprises a four-stage assessment: (1) identification; (2) jurisdiction; (3) valuation and (4) scope (Haztikiriakos 2024). The initiative has the support of the CIPO in Canada. The new Secured Lender's IP Cheat Sheet will be a valuable addition to support banks and lenders to position themselves to pursue IP-backed commercial lending opportunities. In time, the new tool could be expanded to cover additional types of IP rights beyond the core copyright, trademarks and patents and used as a model for lenders in other jurisdictions, especially those with federal systems of governance.

3.2. New Valuation Standards: ISO 10668: Brand Valuation and IVS 210: Intangible Assets

For banks and lenders, trademark valuation is a fundamental aspect of the loan transaction. Fortunately, there have been positive developments in respect of valuation of intangible trademark as financial assets. Two new valuation standards have issued from two of the most important standardizing entities, the International Organization for Standardization (ISO) and the International Valuation Standards Council (IVSC). The two valuation standards are ISO 10668: Brand Valuation (ISO 2010), and IVS 210: Intangible Assets (IVS 2016). In this article we consider the former. The 11-page ISO 10668: Brand Valuation Requirements for Monetary Brand Valuation specifies requirements for procedures and methods of monetary brand value measurement. It specifies a framework and includes relevant objectives, bases, approaches and methods of valuation, the sourcing of trademark data and relevant assumptions and how to report the valuation. However, it is not specifically tailored for lenders, nor trademark-backed finance. Nevertheless, the fact that there is now an ISO standard is useful in valuation practice with respect to trademarks and its existence should be made known to lenders and more widely disseminated in the debt finance sector. The use of accepted IP valuation and due diligence methods is the next stage on the journey to IP-backed lending maturity. Next, we turn to the potential of modern digital technology which now has the capability to improve the procedures for recording security interests in intangible assets such as trademarks and could lead to an important step change in trademark-backed finance.

3.3. New Technology Solutions for Recording Security in IP and Trademarks at the Provincial Level: A Proposal to Create a Digital Shared Ledger System with CIPO

As explained in Section 2, CIPO does not currently hold accurate records of all security interests in trademarks. We noted that the dual filing issue is a common problem identified in the majority of the Canadian literature on the subject. All the writings proposed a unified system of registration, or a 'one-stop shop' for registration. In theory this approach could be a solution, however in practice the constitutional dilemma, the cost efficiency and the length of the process to make this change may prevent implementation of a unified registration system. Another approach may be notifying CIPO of any security interest transactions in IP in general, including trademarks, with no legal requirement for the transaction to be perfected by CIPO. However, the authors propose an original solution for a new system that notifies CIPO of any IP security created at the provincial level. Sharing provincial security records with CIPO could be a welcome legal and practical solution to overcome the problem of the need for dual filing, especially when record sharing of this nature is unlikely to raise constitutional concerns. Creating a shared ledger between the provincial security records and CIPO would be sufficient in terms of digital recordal of security interests. Ideally, having a digital open access register of all security interests in trademarks and in IP assets in general would assist banks, lenders, borrowers, third party licensees and stakeholders to perform different kinds of due diligence, analysis and research. There could provide an abundance of data to support new analyses to answer fresh research questions such as: (1) which size of business is more involved in trademark or other IP-backed transactions; (2) what is the ratio of foreign banks to Canadian banks as creditors and security holders of security interests in trademarks, other IP rights or intangibles; and/or (3) how does the number of security interest transactions varies over time? New data would assist to shape the historical records and future development of security interests in trademarks and IP rights in Canada, highly useful information for an increasingly intangibles-dependent economy. The question is how should such a digital solution be designed?

3.4. Designing a Digital Technology Solution: A Block Change Shared-Ledger System

If a digital shared-ledger system is successfully developed for Canada it could purpose block chain technology to capture security interests in IP and trademarks and create relevant IP-backed security records that show the number of security interests in a mark. Blockchain's distributed ledger technology is regarded in the finance sector as being a safe and secure method to catalogue or record data. A blockchain is in essence a database enabling records of asset ownership (such as a trademark or other intangible IP right) to be recorded and updated via a network of computers. One advantage is that the new recordal data could be analysed to help the Canadian government better understand market movement towards or away from capitalizing trademarks and then focus on how to design future research to solve any relevant legal issues. Another key component of the perfection of legal security interests and publicly accessible recordals is to notify third parties that this asset is being used as a security. It is expected that this information will appear in the asset registration file, as is the case with other tangible assets such as vehicle registrations. This is especially important because some debtors may operate their business in more than one location. As a result, if a third party wants to check whether a trademark is being used as a security, they first need to verify where the debtor is located. This is arguably, not efficient, nor best practice. As noted in Section 2, if one is purchasing a used vehicle in Ontario, the seller is obliged to provide the buyer with the Used Vehicle Information Package (UVIP) containing all information related to the vehicle's history. The UVIP specifies whether there are any debts or outstanding amounts owing on the vehicle (https://www.ontaria.ca/faq/

how-do-i-find-out-if-money-owed-vehicle (accessed on 28 November 2024)).[32] In contrast, with respect to security interests in trademarks, there is no such rule to protect third parties when dealing with trademarks. However, when discussing the potentially higher costs and vague procedures associated with security interests in trademarks, it is not practical to propose that dual registration of security interests in trademarks be a prerequisite. Thus, a 'one stop shop' is recommended. However, here the difference is that it would not be based on having dual registrations, e.g., one provincial and one federal. Rather, the proposed digital 'one stop shop' system will require that a security appear in the trademark file upon its registration with the provincial government. The requirement is for a system that synchronizes data related to the registration of security interests in trademarks between the PPSA or CCQ registration and the national Canadian trademarks office. This process would be possible while the registration of security interests in trademarks will take place according to the provincial legal framework. The only change will be that such security interests would then also appear in the federal trademark file. There would be no need to re-register security interests in the trademark file as they will be registered simultaneously upon creation of the provincial security. This is a rational solution given digital technology now exists to create a shared ledger that overcomes the problem of dual filing of security interests that did not exist when Knopf first published his ideas in 2002 (Knopf 2002). The digital ledger could include all transactions related to the trademark(s). This ledger would be shared with the company registration authorities, the PPSA office or any other related authorities. This original approach would ensure lower-cost registration of security interests because it would be a single event, rather than give rise to the need for dual registration and two sets of registration fees adding to loan transaction costs. In addition, security interests would appear in the trademark ledger, so any third party dealing with the trademark, or its owner, would have access to its full history. The benefits of investing in blockchain technology digital registers are numerous. They include increasing trust, security and transparency by improving the traceability of data shared across a network, as well as delivering cost savings through new efficiencies. Replacing old processes and paperwork with blockchain, could remove the identified legal friction and transaction due diligence delays in IP and trademark-backed finance. Achieving the creation of a new digital security interest recordal system could be an important stage of development to facilitate the normalistion of trademark-backed finance in Canada. Meanwhile, further steps have been actioned via the Canadian government's Business Development Bank of Canada (BDC) which has developed and implemented, with a fair degree of success, bespoke IP financing programs for small and medium-sized businesses (SMEs).

3.5. Canada's Business Development Bank (BDC) for Entrepreneurs

It could be appropriate for the *Banque de développement du Canada (BDC: French)* BDC to become involved in spearheading the implementation of the new digital shared ledger technology given its experience intangibles debt finance lending. The BDC is rather distinctive among Canadian banks as it is wholly owned by the Government of Canada and headquartered in Montreal, Quebec.[33] It is the 'first and only Canadian bank to receive Beneficial Corporate (B Corp) certification' which enables it to operate its banking business in ways that benefit society as a whole rather than simply focus on profit.[34] Third, and most importantly for the subject matter of this article, the BDC is active in IP-backed finance and lending—however, the BDC's lending is secured by the Government of Canada.[35] As at 2024, the BDC has over 100,000 clients with $52.1billion CAD committed to SMEs. The BDC's activities include finance, IP-backed finance, advisory services to entrepreneurs and

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32 'How do I find Out if money owed on vehicle?' (2024).

33 Business Development Bank (BDC); Business Development Bank of Canada Act (S.C 1995, c. 28).

34 'BDC is a BCorp' (2021).

35 'World IP Day: BDC Capital's IP-Backed Financing Fund celebrates a busy year helping Canadian companies grow' (26 April 2022) Business Development Bank (BDC).

SMEs and capital across all industries and every stage of development.[36] According to their webpage:

> . . .the BDC complements the role played by private-sector financial institutions and [has served] Canadian entrepreneurs since 1944. We are a financially sustainable Crown corporation and we operate at arm's length form our sole shareholder, the Government of Canada.

The BDC's lending is designed to be 'patient and flexible' lending so that entrepreneurs and SMEs can access more capital, and the bank structures bespoke debt, convertible debenture or equity funding. Further, the BDC has acknowledged that accessing capital is even more difficult for those from diverse communities (women, LGBTQ and indigenous communities) and other underserved backgrounds who may face additional barriers. Isabelle Hudon, the BDC's President and CEO says, 'Without understanding unique cultural contexts, it's increasingly difficult for us to deploy the capital that we have available for all of Canada's entrepreneurs.' (Gilfoy 2024). The question is: is the BDC successful in the IP and trademark-backed debt finance field? While it is financially self-sustaining and has been profitable for over three decades having paid a total of $746 million CAD in dividends to its sole shareholder the Government of Canada, the grey literature concerning its IP-backed lending programme signifying a successful trajectory is less evident.[37] Our research reveals the BDC itself publishes little specific public information regarding its IP and trademark-financing activities, nor its approach to taking security over trademarks and other IP rights, other than its corporate annual reports and webpages. A short article published by the *WIPO Magazine* in 2022 sheds light on some of its IP-backed finance activities (Nurton 2023). Publishing more high-quality information on the Bank's approach to and experience with IP and trademark-backed finance would augment the grey literature in future and the BDC's involvement with the WIPO IP finance initiatives is to be commended. Nevertheless, Canada owes much to its rich tapestry of banking, a national strength firmly woven into the economic fabric of financing entrepreneurs and SMEs via the BDC.

Collectively, enhancements such as the new ABA Due diligence tool (Section 3.1), new Valuation Standards: ISO 10668: Brand Valuation (Section 3.2) and the proposed new digital shared ledger system with CIPO (Sections 3.3 and 3.4) could substantially lower the barriers trademark-backed finance practice and we recommend they should be seriously considered. However, these new developments need to be introduced, promoted and embraced within financial institutions. Financial institutions, including the BDC, should be included in future discussions so that they can tailor intangible asset collateral developments and subsequently recommend amendments to banking practice to meet their requirements. In addition, the involvement of both federal and provincial governments is necessary to ensure such valuation methods are compatible with relevant financial and banking regulations.

4. Final Conclusions and Policy Recommendations

Canada evinces an ambitious desire and the political will to improve access to IP and trademark-backed finance. The country meets the essential pre-conditions for IP finance such as a strong IP regime, a pool of firms with registered marks and a world-leading, stable financial sector. Our interdisciplinary research sheds light on how Canada is making active progress to remove barriers to support intangibles, IP and trademark finance within its borders, by working with IP owners, banks, the BDC, and the wider financial sector. It is evident however, that there are certain key issues that will need to be addressed to create a successful trademark-backed finance ecosystem in Canada. CIPO, WIPO and other IP institutions around the globe are also driving increased awareness. This interdisciplinary study has provided a deeper understanding of the legal history for the gaps in current Canadian legislation and advocated for potential new digital solutions to

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36 *BDC 2024 Annual Report*.

37 *BDC 2019 Annual Report 2019*, p. 35.

make the registration of security interests more effective and efficient. For policymakers, insights from this research can inform the development of new approaches to address emerging challenges in the digital age, ensuring that Canada's legal framework is effectual and updated to benefit the national economy and international trade.

The literature review in Section 1 revealed a lack of interdisciplinary knowledge regarding the potential to use trademarks as collateral as a common problem in the business, financial, IP rights and banking sectors. Most of the academic literature references innovation and patent-backed finance, with little focus on trademark-backed finance. This manifests a level of unfamiliarity on the part of Canadian financial institutions in evaluating the benefits and risks of IP and trademark-backed financing as an aspect of their lending business. The scale of the modern Canadian economy's value dependency on intangibles has been recognised in many reports cited. In the Canadian context, Knopf's seminal work *Security Interests in Intellectual Property* published in 2002 advocated for a 'One stop shop' solution to overcome the complex Canadian constitutional problem of dual registration of security interests which this research article has further advanced in a contemporary context.

Section 2 carried out a traditional legal analysis of the legal framework that currently exists in Canada for taking security over intangibles and trademark assets in particular examining the triad of relevant legislation (*Canadian Personal Property Security Act*, the *Trade-marks Act* and the *Bank Act*) and relevant caselaw (see Sections 2.3–2.5). The legal framework for recording security interests raises constitutional problems, which will require consideration as to whether material changes are needed to reform the Canadian PPSA, or the *Trade-marks Act* to better accommodate IP rights and other intangible assets. In Canada, there is limited exposure to trademark-backed lending transactions, despite the good economic potential that exists in trademarks associated with successful Canadian and international brands.

In Section 3, the authors advocated for procedural changes to the current system to create a 'one-stop shop' for the creation and registration of security interests in trademarks and other types of intangible IP rights, that are effective against third parties and assist to confirm priority, thereby enhancing lenders' ability to enforce and/or deal with the security. Building a unified system that consolidates all IP assets held by the same owner in one publicly available online register to facilitate the due diligence processes would be the holy grail of IP-backed finance. The complexity of the legal framework at the intersection of federal and provincial systems and the possible constitutional issues it might raise is a legal obstacle for proceeding with amendments to the current secured transactions legal framework. Be that as it may, there are rational arguments and a compelling need for the proposal to design and introduce a modern digital blockchain shared ledger system that guarantees the accuracy of the trademarks' chain of title. The proposed digital 'one stop shop' system would ensure that the full history of the trademark, including any action taken, also appears in the trademark register. Collectively, the enhancements outlined in Sections 3.1 and 3.4 above could substantially lower the barriers trademark-backed finance practice. However, they need to be introduced, promoted and embraced within financial institutions. It is recommended that CIPO, the Canadian government and the BDC and debt finance institutions within the banking sector work together to consider creating a modern digital shared ledger block chain registration system. Such a recommended policy initiative to reduce barriers to trademark-backed finance is arguably in their shared interest as the proportion of businesses that are digital with fewer tangible assets to rely on as collateral rises.

Canadian financial institutions will need develop effective policy responses to support the increasing number of entrepreneurs and businesses that own trade marks including the development of appropriate trademark due diligence tailored for lending purposes. Accurate chain of title information that can be included in a shared digital blockchain register can feed into the lender's calculations as to their degree of risk tolerance for trademarks as collateral. However, Canadian lenders will also have to engage with international capital adequacy rules which continue to act as a barrier to such transactions according to Denoncourt (2021) and potentially carve out certain registered IP rights to be treated more favourably than other intangibles (Section 2.7). Commercial lenders have a role in developing or upgrading their existing strategies, policies, practices and technology to enhance their trademark-backed lending business including the employment of trademark attorneys with the skill to assess trademark risks.

In conclusion, virtually every Canadian entrepreneur and business has rights in product and service names and house brands that may be eligible for legal protection as registered trademarks. Intangible assets such as brands interact with trademarks in some form and have the power to create immense financial value for companies, economies, societies and individuals alike. Potential trademark finance borrowers may access the Canada Small Business Financing Program and CIPO's free *ElevateIP* online platform (Section 1). The role of the Canadian government, as facilitator and policy coordinator, was re-examined and we derived policy recommendations regarding how to enhance information efficiency that will benefit external stakeholders such as lenders and investors. While there is significant potential to develop successful trademark-back lending in Canada, there remains a lack coordination of the components needed to coordinate an effective system. How best to design Canada's legal framework for taking security interests in trademarks is the new legal territory we comprehensively researched and examined. The current obstacles that exist are not insurmountable, however they require a coordinated multidisciplinary plan. We recommend CIPO prioritize as part of its corporate plan, a comprehensive policy that commits to multidisciplinary co-ordination to ensure an appropriate level of prudence and that integrates digital block chain shared-ledger technology (Sections 3.3 and 3.4). There is a role for the publicly funded BDC to share their IP and trademark-backed lending experience to educate other Canadian lenders by way of knowledge exchange, perhaps through sharing good practice via successful and unsuccessful IP and trademark-backed finance case studies (Section 3.5). Finally, several sharply pragmatic recommendations are set out below.

First, it is recommended that Canada establish an advisory working group to bring together experts from academia, trademark attorney profession and experienced intangibles, finance experts from the BDC and the financial sector to help shape Canada and CIPO policy in the globally developing area of finance.

Second, Canada needs an evidence base to confirm the current status of Canadian investment in intangibles assets and could introduce measures to capture the data necessary to obtain a better overview of the number of finance transactions involving security interests in trademarks. The lack such data is a barrier to understanding the intangibles funding landscape and whether these transactions are increasing or in decline in Canada. In an annual report, CIPO may publish a set of regular and consistent metrics to improve market insight into use IP and trademarks to access debt finance.

Third, CIPO is recommended to liaise with WIPO who could commission a new Canadian country level IP Finance report as part of their wider compendium of "country reports" WIPO' s IP Finance Dialogue initiative launched in 2024, a Canadian report would be a welcome addition to the existing reports WIPO has already published on Singapore, Japan and the UK (Section 1). Joining the international community working to solve intangible finance issues would be an important next step. New research would also ensure Canada obtained better data and evidence to inform its multi-disciplinary IP finance policy making with new insights for jurisdictions that operate with federal and provincial governments and/or federal and state governments.

Finally, this article has elaborated important and meaningful recent developments in IP and trademark-backed finance that have the potential to stimulate Canada's policy makers to consolidate knowledge with respect to this underexploited financing method. Yet, despite the magnitude of Canada's economic intangible economy, the complexity of banking and the imposition of prudential norms like international capital adequacy rules with respect to intangible assets, demands a carefully drawn up Canadian banking policy framework to normalize trademark and IP-backed lending activities. New technologically innovative solutions such as a digital shared ledger block chain technology (see Sections 3.3 and 3.4) are recommended to execute this vision and may provide a model for other common law countries with federal systems. A transformation of the trademark-backed debt finance capitalization ecosystem may be close to the tipping point in Canada, as CIPO, the BDC and other finance actors and stakeholders take further steps to advance trademark-backed lending as a viable finance option.

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