



Submission date: 1st June 2016

## 2016 – Study Question (General)

by Sarah MATHESON, Reporter General  
John OSHA and Anne Marie VERSCHUUR, Deputy Reporters General  
Yusuke INUI, Ari LAAKKONEN and Ralph NACK, Assistants to the Reporter General  
Security interests over intellectual property

Responsible Reporter: Ralph NACK

National/Regional Group

Philippines

Contributors name(s)

Arturo T. DEL ROSARIO and Rosalyn ANUNCIO

e-Mail contact

arturo.delrosario@delrosariolaw.com

Date

24-05-2016

### I. Current law and practice

You are reminded that **IPRs** refers to patents, trademarks and registered designs only.

If more than one type of security interest is available under your Group's current law, please answer the questions for each type of security interest, as applicable.

#### Availability of security rights

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

yes

Please explain:

**Yes. Although the Intellectual Property Code of the Philippines<sup>[1]</sup> does not explicitly provide for security interests over intellectual property rights, the law on chattel mortgages<sup>[2]</sup> and the general civil law on pledge and mortgage<sup>[3]</sup> may nevertheless be extended as to cover intellectual property rights.**

#### Footnotes

1. <sup>^</sup> Republic Act No. 8293 (1997).

2. <sup>^</sup> Act No. 1508 (1906).

3. <sup>^</sup> Civil Code of the Philippines, Republic Act No. 386 (1949).

If yes, please answer Questions 2) to 14) inclusive before proceeding to question 15) and following.

If no, please proceed directly to question 15).

2) Are the available types of security interests defined by specific provisions relating to security interests over IPRs or by general commercial law principles (e.g. specific provisions in your Group's patent

legislation rather than general commercial provisions that are applicable to tangible personal property as well as to patents)?

no

Please explain:

**No. Philippine law, as it presently stands, does not contain specific provisions on subjecting intellectual property to security interests. The most that is provided for under the current law is on the use of personal property as collaterals pursuant to the Chattel Mortgage Law and the Civil Code of the Philippines. Further, the Intellectual Property Code provides, insofar as hereto related, for a “technology transfer arrangement” which includes “the transfer, assignment or licensing of all forms of intellectual property rights.”<sup>[1]</sup> A perusal of the IP Code, particularly the portion concerning assignment and transmission of rights over patent,<sup>[2]</sup> reveals that the mortgage of patent has been contemplated, although the details thereof have not been set forth in the law. Nowhere else is the making of intellectual property subject of security interests contemplated under Philippine law, perhaps owing to the lack of widespread knowledge with respect thereto.**

#### Footnotes

1. <sup>^</sup> Section 4.2, RA 8293.
2. <sup>^</sup> Section 103, RA 8293.

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

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

no

Please explain:

#### **Pledge and chattel mortgage.<sup>[1]</sup>**

**Chattel Mortgage: No. The Chattel Mortgage Law and the Civil Code provides that personal property (which includes IPRs) may only be used to secure a principal obligation.<sup>[2]</sup> As such, in case of default by the debtor-mortgagor in the principal obligation, the creditor-mortgagee cannot appropriate the thing (IPR) pledged/mortgaged, a prohibited stipulation called *pactum commissorium*.<sup>[3]</sup> The mortgaged thing (IPR) may nevertheless be alienated through a sale at a public auction and the proceeds thereof shall be used to pay the creditor-mortgagee under the principal contract.<sup>[4]</sup> At most and as practiced, the debtor-mortgagor may include a stipulation in the principal contract constituting the creditor-mortgagee as attorney-in-fact, authorizing the latter to sell the mortgaged thing at a public auction in case of default by the former.**

**Pledge: As an exception, in the case of a pledge, if upon the conduct of a first and a second public auction the pledged thing is not sold, the pledgee may appropriate the thing pledged.<sup>[5]</sup>**

#### Footnotes

1. [^](#) Title XVI, Civil Code of the Philippines: “Pledge, Mortgage, and Antichresis.”
2. [^](#) Section 3, Chattel Mortgage Law; Article 2085, Civil Code.
3. [^](#) Article 2088, Civil Code: Art. 2088. “The creditor cannot appropriate the things given by way of pledge or mortgage, or dispose of them. Any stipulation to the contrary is null and void.”
4. [^](#) Article 2112, Civil Code: “The creditor to whom the credit has not been satisfied in due time, may proceed before a Notary Public to the sale of the thing pledged. This sale shall be made at a public auction, and with notification to the debtor and the owner of the thing pledged in a proper case, stating the amount for which the public sale is to be held. If at the first auction the thing is not sold, a second one with the same formalities shall be held; and if at the second auction there is no sale either, the creditor may appropriate the thing pledged. In this case he shall be obliged to give an acquittance for his entire claim.” ; Section 14, Chattel Mortgage Law: “Sale of property at public auction; Officer's return; Fees; Disposition of proceeds. — The mortgagee, his executor, administrator, or assign, may, after thirty days from the time of condition broken, cause the mortgaged property, or any part thereof, to be sold at public auction by a public officer at a public place in the municipality where the mortgagor resides, or where the property is situated, provided at least ten days' notice of the time, place, and purpose of such sale has been posted at two or more public places in such municipality, and the mortgagee, his executor, administrator, or assign, shall notify the mortgagor or person holding under him and the persons holding subsequent mortgages of the time and place of sale, either by notice in writing directed to him or left at his abode, if within the municipality, or sent by mail if he does not reside in such municipality, at least ten days previous to the sale. XXX”
5. [^](#) Article 2112, Civil Code: “XXX. If at the first auction the thing is not sold, a second one with the same formalities shall be held; and if at the second auction there is no sale either, the creditor may appropriate the thing pledged. In this case he shall be obliged to give an acquittance for his entire claim.”

b) Does your law provide for security interests that authorize the security taker to realize the security interest only in the event of default? For example, a pledge over an IPR that authorizes the pledgee to liquidate the pledged IPR in the event of default (but not to otherwise dispose of the IPR).

yes

Please explain:

**Yes, as discussed in (a) hereof.**

c) Does your law provide for security interests that authorize the security taker to use the underlying IPR? For example, usus fructus rights that authorize the creditor to use and/or realize proceeds from the exercise of the IPR only during the term of encumbrance. Is any right to use the encumbered IPR conditional upon default of the security provider?

no

Please explain:

**Chattel Mortgage: No.**

**Pledge: Yes. The Civil Code provides that the fruits/proceeds from the thing pledged may be used by the creditor-pledgee to satisfy the interests accruing from the principal obligation and the principal obligation itself.<sup>[1]</sup> This is not conditional upon default of the debtor-pledgor.**

#### Footnotes

1. [^](#) Article 2102, Civil Code: “If the pledge earns or produces fruits, income, dividends, or interests, the creditor shall compensate what he receives with those which are owing him; but if none are

*owing him, or insofar as the amount may exceed that which is due, he shall apply it to the principal. Unless there is a stipulation to the contrary, the pledge shall extend to the interest and earnings of the right pledged.”*

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

**Unfortunately, the use of IPRs as security for principal obligations is, in general, unusual in the Philippines.**

#### Effects of security interests

- 5) Is the security provider restricted in their right to use their IPR after providing a security interest over that IPR? For example, in respect of their right to grant licenses, or the right to use the protected subject matter. Please answer for each available type of security interest.

yes

Please explain:

**Chattel Mortgage: The law does not provide for any restrictions on the part of the mortgagor/owner with respect to the exercise of his/her rights over the mortgaged property but restrictions may be stipulated upon by the contracting parties.<sup>[1]</sup>**

**Pledge: Since the thing pledged is transferred to the possession of the creditor-pledgee, the debtor-mortgagor's use thereof is in this way restricted. Fruits and proceeds from the thing pledged may be appropriated by the creditor-pledgee to satisfy the principal obligation and its interests.<sup>[2]</sup>**

#### Footnotes

- <sup>[1]</sup> [Article 1306, Civil Code](#): “The contracting parties may establish such stipulations, clauses, terms and conditions as they may deem convenient, provided they are not contrary to law, morals, good customs, public order, or public policy.”
- <sup>[2]</sup> [Article 2102, Civil Code](#): “If the pledge earns or produces fruits, income, dividends, or interests, the creditor shall compensate what he receives with those which are owing him; but if none are owing him, or insofar as the amount may exceed that which is due, he shall apply it to the principal. Unless there is a stipulation to the contrary, the pledge shall extend to the interest and earnings of the right pledged.”

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

yes

Please explain:

**Chattel Mortgage: Yes, and the assignee takes such assignment subject to the encumbrance thereon, if the mortgage is recorded in the proper registry.<sup>[1]</sup>**

**Pledge: Yes, with the consent of the creditor-pledgee.<sup>[2]</sup>**

#### Footnotes

1. [^](#) Section 4, Chattel Mortgage Law: “Validity. — A chattel mortgage shall not be valid against any person except the mortgagor, his executors or administrators, unless the possession of the property is delivered to and retained by the mortgagee or unless the mortgage is recorded in the office of the register of deeds of the province in which the mortgagor resides at the time of making the same, or, if he resides without the Philippine Islands, in the province in which the property is situated: Provided, however, That if the property is situated in a different province from that in which the mortgagor resides, the mortgage shall be recorded in the office of the register of deeds of both the province in which the mortgagor resides and that in which the property is situated, and for the purposes of this Act the city of Manila shall be deemed to be a province.”
2. [^](#) Article 2097, Civil Code: “With the consent of the pledgee, the thing pledged may be alienated by the pledgor or owner, subject to the pledge. The ownership of the thing pledged is transmitted to the vendee or transferee as soon as the pledgee consents to the alienation, but the latter shall continue in possession.”

7) If yes:

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

**The IP Code provides that any assignment or transfer of rights over the IPR should be recorded with the IPO.<sup>[1]</sup>**

**Chattel Mortgage: Moreover, the Chattel Mortgage Law states that if the mortgage is not registered, it is only binding on the parties to said mortgage and their executors and administrators. If the same is registered with the register of deeds, it further binds third parties.<sup>[2]</sup>**

**The consent of the mortgagee is not required in the assignment of the mortgaged property (IPR) for the reason that the assignee will take the assigned property subject to the senior mortgage.**

**Pledge: The consent of the creditor-pledgee is required.<sup>[3]</sup> Furthermore, the thing pledged is retained by the creditor-pledgee even after assignment so long as the pledge is in effect.<sup>[4]</sup>**

#### Footnotes

1. [^](#) Section 106, Intellectual Property Code: “SECTION 106. Recording. — 106.1. The Office shall record assignments, licenses and other instruments relating to the transmission of any right, title or interest in and to inventions, and patents or application for patents or inventions to which they relate, which are presented in due form to the Office for registration, in books and records kept for the purpose. The original documents together with a signed duplicate thereof shall be filed, and the contents thereof should be kept confidential. If the original is not available, an authenticated copy thereof in duplicate may be filed. Upon recording, the Office shall retain the duplicate, return the original or the authenticated copy to the party who filed the same and notice of the recording shall be published in the IPO Gazette. 106.2. Such instruments shall be void as against any subsequent purchaser or mortgagee for valuable consideration and without notice, unless, it is so recorded in the Office, within three (3) months from the date of said instrument.”
2. [^](#) Section 4, Chattel Mortgage Law (see 14 supra).
3. [^](#) Article 2097, Civil Code (see 15 supra).
4. [^](#) Article 2098, Civil Code: “The contract of pledge gives a right to the creditor to retain the thing in his possession or in that of a third person to whom it has been delivered, until the debt is paid.” ; Article 2105, Civil Code: “The debtor cannot ask for the return of the thing pledged against the will

*of the creditor, unless and until he has paid the debt and its interest, with expenses in a proper case.”*

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

yes

Please explain:

**Chattel Mortgage: Yes. Even if the mortgaged property (IPR) is assigned after the execution of the mortgage (which has been registered with the proper authority), the mortgage stands and the assignee takes the assigned property subject to the pre-existing mortgage.**

**Pledge: Same as above, with the added fact that the creditor-pledgee continues to remain in possession of the thing pledged.**

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

**The law does not provide specifically for IPRs.**

**Pledge: Creditor-pledgee has the right to use the fruits and proceeds of the thing pledged during the effectivity of the pledge. Since the possession of the thing pledged is with the creditor-pledgee, he/she may bring the actions pertaining to the owner of the thing pledged in order to recover or defend it from a third person.<sup>[1]</sup>**

Footnotes

1. <sup>^</sup> *Article 2103, Civil Code: “XXX. Nevertheless, the creditor may bring the actions which pertain to the owner of the thing pledged in order to recover it from, or defend it against a third person.”*

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

**Chattel Mortgage: On the premise provided by law that the mortgagor continues to be the owner in possession of the mortgaged property despite the mortgage prior to default and transfer of ownership in accordance with law, it is the mortgagor who is responsible for the maintenance and defense of the IPR.**

**Pledge: Since the thing pledged is in the possession of the creditor-pledgee, he/she is the one responsible for taking care of said thing.<sup>[1]</sup>**

Footnotes

1. <sup>^</sup> *Article 2099, Civil Code: “The creditor shall take care of the thing pledged with the diligence of a good father of a family; he has a right to the reimbursement of the expenses made for its preservation, and is liable for its loss or deterioration, in conformity with the provisions of this Code.”*

10) What are the legal consequences if the underlying IPR expires or is revoked? For example, the security right lapses simultaneously; the creditor has a compensation claim against the security provider.

**The law does not specifically provide with respect to IPRs.**

**Chattel Mortgage: Since the thing mortgaged remains to be owned by the debtor-mortgagor, he/she bears the loss of the thing. The chattel mortgage nevertheless is extinguished and the principal obligation becomes unsecured.**

**Pledge: The creditor-pledgee is liable for the loss or deterioration of the thing pledged.<sup>[1]</sup>**

Footnotes

1. <sup>^</sup> *Id.*

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

yes

Please explain:

**By virtue of the principle of autonomy of contracts, the law allows the contracting parties to stipulate on the terms of the contract, provided the stipulations are not contrary to law, morals, good customs, public order and public policy.<sup>[1]</sup>**

**As previously mentioned, a *pactum commissorium* stipulation is prohibited by law and will be considered as null and void even if stipulated upon by the contracting parties.<sup>[2]</sup>**

Footnotes

1. <sup>^</sup> *Article 1306, Civil Code (see 12 supra).*

2. <sup>^</sup> *Article 2088, Civil Code (see 8 supra).*

Applicable law

12) Does your Group's current law provide for conflicts of laws as to the availability and effect of security interests over IPR portfolios containing foreign as well as national IPRs?

no

Please explain:

**No, Philippine laws do not provide.**

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

**The Civil Code of the Philippines provides that matters concerning personal property are governed by the laws of the country in which such property is located (*lex situs*).<sup>[1]</sup> With this, as a general rule, and subject to stipulation of the contracting parties, the law of the country in which the IPR subject of the security interest is located or registered shall govern said security interest arrangement.**

Footnotes

1. [^](#) Article 16, Civil Code: “Real property as well as personal property is subject to the law of the country where it is stipulated. XXX.”

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

yes

Please explain:

**Yes, pursuant to the Choice of Law doctrine recognized by Philippine law as an offshoot of the principle of autonomy of contracts,<sup>[1]</sup> the parties are at liberty to stipulate on the law which is to govern the security interest agreement.**

#### Footnotes

1. [^](#) Article 1306, Civil Code (see 12 and 23 supra); *Saudia v. Renesencio*, G.R. No. 198587, 14 January 2015; *Raytheon International, Inc. v. Rouzie*, G.R. No. 162894, 26 February 2008.

#### Additional question

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

yes

Please explain:

**Again, as previously stated, the law generally allows the contracting parties to stipulate on the terms of the contract, provided the stipulations are not contrary to law, morals, public order and public policy.<sup>[1]</sup>**

#### Footnotes

1. [^](#) *Id.*

## II. Policy considerations and proposals for improvements of the current law

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

no

Please explain:

**No. Considering the lack of provisions in the current law specifically providing for the mortgage of IPRs, the specificities of such arrangement are not concretely set forth, hence the need to refer to the general civil law on pledge and chattel mortgage. There are a lot of loopholes in the extension of application of the laws on pledge and chattel mortgage to cover IPRs and only a legislation addressing said loopholes will clarify the matters not provided for in existing laws.**



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

a) are there situations in which the rights of security takers should be limited or extended (e.g. if assignment of an encumbered IPR is possible by the security provider without involvement of the security taker)?

no

Please explain:

**The law as it stands now seems to strike an appropriate balance between the rights of the security takers and security providers.**

b) are there situations in which the rights of security providers should be limited or extended (e.g. if the security taker is authorized to dispose of existing licenses without involvement of the security provider)?

no

Please explain:

**The law as it stands now seems to strike an appropriate balance between the rights of the security takers and security providers.**

18) Are there any aspects of these laws that could be improved? Are there any other changes to your Group's current law that would promote transactions involving IPRs as collateral? If yes, please briefly explain.

yes

Please explain:

**Laws pertaining specifically to security interests over IPRs should be enacted so that a mere reference to a general law on chattel mortgage or pledge would no longer be necessary. It is important that rules custom-fit to IPRs being used as collaterals are concretely and clearly laid down to govern the contracting parties, leaving no room for interpretation or misinterpretation. The enactment of such laws would likewise promote transactions involving security interests over IPRs and further develop the field within the country.**

### III. Proposals for harmonisation

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

yes

If yes, please respond to the following questions without regard to your Group's current law. Even if no, please address the following questions to the extent your Group considers your Group's laws could be improved.

#### Security system regarding IPRs

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

yes

Please explain:

**Yes. This is because there are several characteristics unique to IPRs and which are not necessarily taken into account by the laws governing chattel mortgages and pledges. It is to be considered that IPRs are continuously developing and being developed and the existing general laws do not exactly capture this progress.**

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

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

### **Mortgage.**

23) Should the law be applied differently depending on the type of IPR? For example, should patents be encumbered exclusively with pledges, should trademarks be assigned to the security taker for the purpose of security?

yes

Please explain:

**Yes. Considering the varying physical nature and other characteristics of the different IPRs, some tangible and some not, the applicable security interests must likewise fit the specific IPR's nature.**

### Effect of security interests

24) Should the security provider be restricted in their right to use their IPR after providing a security interest over that IPR (e.g. in respect of their right to grant licenses, or to use the protected subject matter)? If so, how?

yes

Please explain:

**Yes, the security provider's right to use the encumbered IPR should be restricted insofar as notice of any transaction involving said encumbered IPR is given to the security taker.**

25) Should the security provider be able to assign encumbered IPRs to third parties?

yes

Please explain:

**Yes. After all, the security provider remains to be the owner of the encumbered IPR. As such, he retains the right to dispose of said owned property.**

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

**The rights of the security taker shall depend on the type of security interest involved and the grant of possession over the IPR. If the security taker is in possession of the IPR during the effectivity of the security, such as in a pledge, the rights granted by the current laws on pledge shall apply.**

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

yes

Please explain:

**He/She who is in possession of the collateral shall be responsible for the maintenance and defense thereof.**

28) What should the legal consequences be if the underlying IPR expires or is revoked (e.g. the security right lapses simultaneously; creditor gains a compensation claim against security provider)?

**The same shall entail the extinguishment of the security transaction, but not of the principal contract. However, the security taker shall have the right to require the security provider to provide a substitute security for the principal obligation.**

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

yes

Please explain:

**Yes, provided that the contractual stipulations are not contrary to law, morals, good customs, public order or public policy.**

#### Applicable law

30) Which law should apply as to the availability and the effects of security interests where a foreign IPR is provided as collateral? Why?

**The applicable law should be that of the country where the IPR is registered, unless the parties agree otherwise in their contract.**

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

yes

Please explain:

**Yes. The parties should have the right to stipulate on the terms of their contract, including the governing law, for their own convenience.**

#### Additional considerations and proposals

32) To the extent not already stated above, please propose any other standards your Group considers

would be appropriate to harmonize laws relating to security interests over IPRs.

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

Please indicate which industry sector views are included in part “**III. Proposals for harmonization**” of this form:

#### Summary

Owing to the limited transactions involving security interests over intellectual property rights (IPRs), the law has yet to develop to completely encompass every aspect of said dealings. The Philippine law on IPRs embodied in the Intellectual Property Code does not specifically provide for IPRs being made subject of security interests. By extension, nevertheless, the general and specific civil laws on chattel mortgage and pledge govern the same on the premise that IPRs are personal property. Such extended application of said laws may address much, yet not completely, the need for rules on security interests over IPRs. The law as it stands now may cover the general aspects of the use of IPRs as collateral, but the complexities of IPRs unique to them are not sufficiently accounted for, e.g. the permissibility and requirements of voluntary licensing of a patent subsequent to the security agreement. These loopholes may prove irresolvable by existing law and jurisprudence, and later on ripen into a source of conflict without a definite solution.

It is thus proposed that additions to the existing laws as discussed in the body of the report be made to fully shed light on the gray areas involving security interests over IPRs. Such action will clarify the rights and obligations of the parties in dealing with security interests over IPRs. It will also further encourage transactions of such nature, leading to a better understanding of the realm of intellectual property.