

16 Basic Study on the Intellectual Property Security System in Germany – Security Systems as Distribution and Management Schemes for Intellectual Property Rights – (*)

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In recent years, we have seen many disputes arise over intellectual property rights. An increasing number of those disputes have made headlines due to their important social implications. These disputes clearly indicate that people have started recognizing the social value of intellectual property rights. Those who have recognized the financial value of the rights have been demanding permission to make financial use of those rights. For example, the use of intellectual property as collateral to raise funds would benefit both the fund receiver and the fund provider because the fund receiver can raise enough funds in spite of being a new company without sufficient properties to secure a loan, while the fund provider can broaden the range of assets that can be used to secure its loans. This paper aims to reveal the structure of the intellectual property security system in Germany and to analyze problems associated with the system. A comparison between the German law and the Japanese law would be insightful for our study of the Japanese intellectual property security system. The following sections first provide the outlines of the intellectual property systems under the German law. Each of the systems is examined with a focus on the historic background and characteristics. Second, the intellectual property security system in Germany is briefly described. Third, a study is conducted as to whether the insolvency of either of the parties concerned would affect the effect of collateral. Finally, insights gained from this study are discussed in association with the Japanese intellectual property security system.

Introduction

In recent years, we have seen many disputes arise over intellectual property rights. An increasing number of those disputes have made headlines in media coverage due to their important social implications. These disputes clearly indicate that people have started recognizing the social value of various types of information and the necessity to protect such information asset as soon as possible. Those who have recognized the financial value of such information have been demanding permission to make financial use of information in the course of creation and distribution of the information. The use of intellectual property as collateral to raise

funds would benefit both the fund receiver and the fund provider because the fund receiver can raise enough funds in spite of being a new company without sufficient properties to secure a loan while the fund provider can broaden the range of assets that can be used to secure its loans.

This paper aims to reveal the structure of the intellectual property security system in Germany and analyze the problems associated with the system. There are two reasons for choosing the German law as a study subject. First of all, the German law is similar to the Japanese law in terms of basic legal system. Secondly, despite the similarity, the two legal systems have many minor differences. A comparison between the German law and the Japanese law would be

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insightful for our study of the Japanese intellectual property security system.

The following sections first provide the outlines of the intellectual property systems under the German law. Each of the systems is examined with a focus on the historic background and characteristics. In the examination, a comparison with the tangible entity doctrine of the Civil Code is made whenever possible. Second, the intellectual property security system in Germany is briefly described. The characteristics of the system are examined in comparison with those of the Japanese system. Third, a study is conducted as to whether the insolvency of either of the parties concerned would affect the effect of collateral. This study emphasizes the case where a person who had deposited the collateral went bankrupt because this is a typical case where the effect of collateral becomes an issue. Finally, insights gained from this study of the intellectual property security system of the German law are discussed in association with the Japanese intellectual property security system.

I Basics and characteristics of intellectual property rights

This chapter examines the historic background and characteristics of intellectual property rights. While there are many types of intellectual property rights, this chapter focuses on patent rights, trademark rights and copyrights. In addition, this chapter separately discusses license agreements that are concluded based on such intellectual property rights.

1 Intellectual property rights

(1) Patent rights

A patent right is granted on an invention (PatG § 1), while a patent right is not automatically established upon invention. A patent is granted only to an invention that has passed an examination conducted by the German Patent and Trade Mark Office (DPMA). In other words, an inventor is not

entitled to justify the exclusive use of his invention just because he made the invention. After the DPMA's examination, the grant of a patent shall be publicized in the Patent Gazette (Patentblatt). The legal effects of the patent shall come into force upon publication of the Patent Gazette (PatG § 58(1)). The DPMA is also authorized to record in the Patent Register (Patentregister) the grant of a patent made based on a patent application that was filed by a patentee or patent applicant (PatG § 30). The registration of the establishment of a patent right in the Patent Register merely has the function of publication (deklaratorisch). The substantive change in the right has nothing to do with the registration. This view has been supported by the court.

In principle, the grant of a patent authorizes the patentee to work the patented invention exclusively (PatG § 9, the first sentence) and prohibits any third party from working the patented invention without the consent of the patentee (the second sentence of said Section). Unlike the "ownership of a thing" specified in the Civil Code, a patent has a limited effective period of 20 years, in principle (PatG § 16(1), the first sentence). During that period, the patentee is required to pay a patent registration fee (Jahresgebühren) (PatG § 17). If the patentee fails to pay the fee in due time, the patent will lapse (PatG § 20(1)(iii)).

In the meantime, a patent may be assigned to others as a pure property right (PatG § 15(1)), whereas any assignment or renunciation of an inventor's personal right (Erfinderpersönlichkeitsrecht) is prohibited. Since there are no particular provisions about assignment methods, an assignment of a patent is conducted in accordance with the relevant provisions of the Civil Code, which is a general law that governs assignment of rights (BGB § 398 and § 413). In connection with a patent assignment, the change of the patentee may be registered in Register. However, such registration is not a requirement for the assignment of the right to be valid (PatG §

15(3), the third sentence). The current consensus between the court and the dominant academic circle on this issue is that the registration serves functions only under the procedural law and does not have any effect under the substantive law. This is why a bona fide acquisition is not recognized in the case of a patent transaction. Each patentee is allowed to license its patent, either exclusively (*ausschliesliche Lizenz*) or nonexclusively (*nicht ausschliesliche Lizenz*) (PatG § 15(2)). In principle, the decision as to which type of license, whether exclusive or nonexclusive, has been granted may be made between the licensor and the licensee. After the grant of an exclusive license or a nonexclusive license on a patent, even if said patent is assigned or licensed to any third party, it would not affect any license previously granted (“previous license protection” (*Sukzessionsschutz*), PatG15 (3)).

(2) Trademark rights

A right granted on a trademark is an exclusive right on a mark designed to distinguish the goods or services of one company from those of others (MarkenG § 3(1)). Each trademark holder has the right to use the trademark to promote its business and to prohibit a third party from using the trademark without its consent (MarkenG § 14(1)). While no restrictions were initially imposed on the assignment of a trademark itself (WZG § 8(1), the first sentence), a trademark must have been assigned as a part of a business transfer (the second sentence of said Section). This is why people did not put much importance on using a trademark itself as collateral. In contrast, it is currently permissible to assign or transfer a trademark right independently and to create a pledge and other real rights thereon. A trademark is subject to a compulsory execution and regarded as an asset of the trademark holder in the case of insolvency (MarkenG § 27(1) and § 29). Each trademark holder may license its trademark right either exclusively or nonexclusively (MarkenG § 30). As is the case with the Patent Law, the Trademark Law has a provision stating that

any grant of a license on a trademark right shall not affect licenses previously granted to third parties (MarkenG § 30(5)).

Any assignment or transfer of a trademark right or any establishment of a real right shall be registered in an appropriate register upon request of a party concerned (MarkenG § 27(3) ,§ 29(3)). The decision as to whether such request should be made is left to the parties concerned. The legal effect of the registration in a register is limited to the presumption that the person registered as a proprietor in the Register is entitled to the right recorded in the registration (MarkenG § 28(1)). In other words, the registration is not a requirement for trademark transfer and does not have the effect of establishing a right. The purpose of the registration is limited to the presumption of the proprietorship of a right. The practical purpose of the presumption is to facilitate the certification of the acquisition of a right and, more specifically, to transfer the burden of proof. The bona fide acquisition of a trademark is not recognized.

In Germany, a trademark right can be established by either of the following three manners (MarkenG § 4): (1) by registering a sign as a trademark in the Trademark Register of the DPMA (Item 1), (2) by using a sign that has acquired distinctiveness as a trademark within the relevant trade circles (Item 2), or, (3) by achieving and maintaining a high level of prominence and reputation of a sign as a trademark (Item 3). In the case of any sign that has been established as a trademark through registration by use of the first manner, the use of the sign prior to the registration is not required. As long as the sign fulfills the substantive requirements, a trademark right on the sign can be established by registration. The registration of any trademark that has not been used for at least five years may be deleted from the Register upon request (MarkenG § 49(1), the first sentence). In this sense, a registered trademark must be used to be considered valid (*Benutzungszwang*). The provisions concerning a registered trademark right

apply *mutatis mutandis* to any person who has filed a trademark application (MarkenG § 31). This provision indicates that the trademark applicant has a right of expectation (Anwartschaftsrecht) on a trademark right. In addition, as is the case with a trademark right, it is allowed to assign or transfer a right of expectation, establish a real right such as a pledge on a right of expectation, or enforce compulsory execution on a right of expectation (said Section).

(3) Copyrights

Copyrights are defined as rights of protection granted to authors of literary, scientific and artistic works (UrhG § 1). It is understood that a copyright is a single right that has the element of personal right (urheberpersönlichkeitsrechtliche Element) and the element of property right (vermögensrechtliche Element). A copyright consists of individual rights that can be classified into two groups: a group of rights that have the element of personal right and a group of rights that have the element of property right. It is the latter group that is mainly studied in this paper. In the meantime, the element of property right is embodied in the author's exploitation right (UrhG § 15 and subsequent Sections). This exploitation right entitles the author to use his work comprehensively, generally and exclusively. This means that Section 15 of the Copyright Law allows the author to exploit his work not only by the existing means but also by any means that will be invented in the future. This author's general exploitation right allows the author to exploit his work by new means when such new means of exploiting copyrighted works are made available thanks to technological development. Further details are set forth in Section 16 and subsequent Sections. A copyright is automatically established upon the act of creation by an author (UrhG § 7). It is not necessary to obtain the copyright from the nation or to register the copyright in an appropriate register under the jurisdiction of public authorities. The length

of the period of protection for a copyright is 70 years, in principle (UrhG § 64).

To protect the ties between a work and its author, it is explicitly specified that an individual exploitation right as well as a copyright itself are unassignable (UrhG § 29(1)). Since it is necessary to expand the author's potential for exploitation, the author may grant a right to a third party to use the work in a particular manner or in any manner (UrhG § 29(2), § 31). There are two types of license: a nonexclusive license (einfaches Nutzungsrecht) and an exclusive license (ausschließliches Nutzungsrecht). Section 398 and Section 413 of BGB apply *mutatis mutandis* to the grant of a license. The right to use a future work may be granted in advance as long as the granting of the right is carried out in writing (UrhG § 40(1)). Moreover, it is interpreted that the bona fide acquisition of a license is not recognized under the German Law. This is because a license lacks the external appearance of a right that can provide grounds for bona fide acquisition. This appearance consists of such features as the exclusive possession and registration of movables.

2 A license as a derivative right or a license granted under the Copyright Law

A license on a patent right or a trademark right may be granted by the patentee or the trademark holder to a third party under a license agreement (PatG § 15, MarkenG § 30). License agreements are interpreted to be unique agreements (Vertrag sui generis) that are different from sales agreements, use-lease agreements or usufruct-lease agreements. This interpretation has been supported by the court. A license agreement may be concluded on the right to seek the grant of a patent in a case where a patent has not been granted but the patent application has already been filed (PatG § 15(2), the first sentence). When an exclusive license has been granted on a patent right, the grant does not need to be

registered in the Patent Register. The grant of a license on a right means that the holder of the right authorizes the licensee to use the right while the licensee is obliged to pay a license fee to the licensor. The licensor is obliged to allow the licensee to exercise the right. Specifically, there are nonexclusive licenses and exclusive licenses. First of all, the grantee of a nonexclusive license that has been granted on an intellectual property right is merely entitled to use the intellectual property right and is not allowed to prohibit a third party from using the right. Second, the grantee of an exclusive license that has been granted on an intellectual property right is entitled to use the intellectual property right exclusively. This means that the holder of the intellectual property right has the obligation of inaction, which prohibits the holder of the intellectual property right from granting a license to any third party. The holder of an intellectual property right is not allowed to use the intellectual property right as long as the holder of an exclusive license uses the intellectual property right.

While there have been different views on the assignability of licenses excluding the case of a copyright, it has been argued that an exclusive license in particular should be considered assignable. This argument is currently in the mainstream. On the other hand, a license granted under the Copyright Law is assignable regardless of whether or not it is exclusive (UrhG § 34) as long as the consent of the author is obtained on the assignment (Subsection 1 of said Section, the first sentence).

3 Eligibility of intellectual property rights as collateral

The following section examines how the eligibility of intellectual property rights as collateral is interpreted in Germany.

As described earlier, intellectual property rights are roughly classified into two groups. The first group includes patent rights that are established after passing due examination. The second group includes

copyrights that are established automatically upon its creation. A patent is generally considered to be more appropriate as collateral from the perspective of stability because a patent right is established only after passing a certain examination. However, some people think that a patent right, which is limited in terms of the protection period, is not so appropriate. The most important element of the eligibility of a right as collateral is assignability. There has been a consensus on the assignability of a patent right and a trademark right. A license granted on such right has also been widely considered assignable as long as the license is exclusive. In contrast, in the case of a copyright, the nonassignability is explicitly specified (UrhG § 29(2)). This means that a copyright alone cannot be used as collateral. Despite this provision, the assignment of a copyright is allowed to some extent in the sense that the grant of a license is permitted as long as the consent of the author has been obtained (UrhG § 34 and § 35). In this way, a license granted under the Copyright Law is assignable under certain conditions and should be considered eligible as collateral in that sense.

It is necessary to study the economic assessment methods of intellectual property rights in order to determine eligibility as collateral. There are three assessment methods of collateral as follows. The first method is the price-comparison method (Vergleichspreismethode), which allows a creditor to calculate the value of the intellectual property right in question by making a comparison to the price of a similar intellectual property right in a similar transaction. The second method is the license-fee-comparison method (Lizenzgebührenvergleich), which uses as a base value the license fee that is or can be generated from the intellectual property right in question. The third method is the contribution-assessment method (Ergebnisbeitragsmethode), which intends to assess how much the corporate value has increased thanks to the use of the intellectual property right. The calculation

will be conducted by comparing the income that was earned by the company with the use of the intellectual property right with the income that would have been gained if the intellectual property right had not been used. Other methods include the cost method (Kostenmethode). This method intends to calculate the value of the intellectual property right in question by determining the cost of re-procuring the intellectual property, the use of which is permitted by the intellectual property right. These methods possess their own distinct limitations. Some people have pointed out that intellectual property should be assessed not only independently but also comprehensively.

II The development of the intellectual property security system

Under the German law, there are two means of putting up collateral, i.e., creation of a pledge on a right (Pfandrecht an Rechten) and assignment of a right for collateral (Sicherungsabtretung), regardless of whether it is an intellectual property right that is deposited as collateral or a license granted on the intellectual property right by a concerned party. The following section briefly explains how an intellectual property right is deposited as collateral by each of these means.

1 Pledge created on a right

Under the German law, creation of a pledge over a right is considered to be typical collateral (BGB § 1273 and subsequent Sections). A pledge may be created on a right by an act of law conducted between the creditor (i.e., the pledgee) and the debtor (i.e., the holder of the right). A pledge is created in accordance with the procedure to assign the right in question (BGB § 1274). This interpretation is supported by the court as far as patent rights are concerned (RG Urt.v.13.02.1911, RGZ 75,225,227). The currently dominant view is that the establishment of a patent right in that case

would not require registration in the Patent Register. Currently, registration may be made at the discretion of the parties concerned (DPMAV § 29). Most judicial precedents and theories agree on the point that such registration does not have the effect of establishing a right and that the registration only has the function of publication. On the other hand, in the case of a trademark right, the Trademark Law has a provision concerning the creation of a pledge (MarkenG § 29(2)). However, the registration is discretionary and only allows the presumption about the proprietorship of a right. As a result, the possibility of acquiring a pledged patent right or trademark right without recognizing the existence of the pledge is excluded. In recent years, however, an increasing number of people have demanded wide recognition of bona fide acquisition as “what the law ought to be (de lege ferenda)” to lay the groundwork for safer use of intellectual property rights as collateral. In the case of a copyright, it is interpreted that a pledge may be created on an individual license with the author’s consent (UrhG § 34(1), the first sentence). A pledge may be created on a nonexclusive license as long as the license is assignable.

As a general theory, it is possible to create a pledge on a right that is scheduled to be established in the future. In order for such creation to be permitted, the requirements for an ordinary pledge on a right must be satisfied. In addition, the right must be sufficiently and undoubtedly identifiable at the time of its establishment. This means that it must be identifiable from the viewpoint of a third party as well.

The holder of an intellectual property right who has created a pledge on the right would not lose the right even after the pledge creation. On the other hand, a holder of a pledge on a right does not have the right to gain earnings from the use of the right (BGB § 1273(2), § 1213). However, there are no provisions that prohibit the parties concerned to conclude an agreement that allows the pledgee to gain such earnings. In other words, unless such an agreement has

been concluded, a pledge on a right remains to be a mere right of conversion. In general, a person who has created a pledge on an intellectual property right is prohibited from extinguishing the right by an act of law or from making any change to the right in question that might infringe on the pledge (BGB § 1276) without the pledgee's consent.

Any infringement of an intellectual property right by a third party is expected to be dealt with by the holder of the right. This section focuses on the issue of whether a pledgee has the authority to remove such an act of infringement and to demand compensation for the infringement. In the case of either a patent right or a trademark right, a pledgee may exercise the right of defense based on his legal status under BGB § 1227 concerning the protection of a pledge that is applied *mutatis mutandis* to BGB § 1273(2). It is also interpreted that, if a pledge created on a trademark right has been infringed, the pledgee is authorized to exercise a right to claim an injunction and a right to demand damages while those rights originally belong to the trademark holder under Section 14 of the Trademark Law.

Regarding a pledge created on an intellectual property right and other rights created on the right, the priority is determined depending on the order of the establishment of those rights in accordance with the priority principle (*Prioritätsprinzip*) of the German law. In particular, BGB § 1209 plays an important role in determining priority among pledges.

If a right is established on an intellectual property right on which a pledge has already been created, it would give rise to an issue of the scope of effect of the pledge. In other words, if a license is granted, there is an issue of whether the effect of the pledge extends to the license fee paid to the holder of the intellectual property right. There are no provisions that directly define the scope of the effect of a pledge created on a right. BGB § 1212, which specifies that the effect of a pledge on movables shall extend to any separated product, is not applied *mutatis mutandis* to a pledge created on a right. A

scholar who takes the stance that the effect of a pledge extends to a license fee argues that, if BGB § 1123(1) is applied *mutatis mutandis*, the effect of a pledge created on a right extends to a license fee that is generated from a nonexclusive license.

In principle, a pledge on a right may be realized under BGB § 1277 by means of compulsory execution. The conversion of value by means of compulsory execution is a more complicated and costly procedure. As mentioned earlier, in the case of an intellectual property right, the calculation of the average market value is more difficult than the case of movables, which are more commonly used to create a pledge. This is why it is difficult to calculate the value of a pledged right when the pledge is realized by means of compulsory execution. In this way, the execution of a pledge created on an intellectual property right is a hard task itself.

2 Collateral provided by assignment of a right

In Germany, as is the case with movables, it is more common to provide collateral by assigning a right than by creating a pledge on a right.

As is the case with the creation of a pledge on a right, a right may be assigned as collateral (*Sicherungsabtretung*) as long as the right is assignable. Therefore, licenses granted on a patent right, trademark right or copyright can become collateral. A creditor gives credit in exchange for the collateral provided by assignment of such right (BGB § 413, § 398 and subsequent Sections). In principle, the provision of collateral by assignment of a right is carried out by conclusion of an informal agreement. As mentioned earlier, while there are registration systems for patent rights and trademark rights, the registration is not a requirement for the completion of the provision of collateral by assignment of such right. The same applies to the case of a license granted on a copyright and an exclusive license.

A right may not be assigned as collateral unless the right is identified or sufficiently identifiable. This is called the “principle of identification (Bestimmtheitsgrundsatz).” This principle, which is applicable to rights, is established under the Real Right Law. The time of identification is the time of assignment of the right in question. It has been interpreted that, in a case where a right has already been assigned, the right is only required to be identifiable at the time of the conclusion of an agreement to assign the right. Therefore, if an intellectual property right that is scheduled to be established in the future is assigned as collateral, the right is only required to be identifiable at the time of the conclusion of an assignment agreement. However, the right needs to be identified at the time of the actual assignment. With regard to this principle of identification and identifiability, in the case of an intellectual property right, it is necessary to present indications to distinguish such intellectual property right from other similar intellectual property rights.

The relationship between the party secured by collateral provided by assignment of a right and the party providing that collateral is generally referred to as an internal relationship (Innenverhältnis). Such an internal relationship is basically governed by the agreement concluded between the parties concerned, which can be considered to be an agreement concerning a claim. Even if the secured party assigns the right to a third party in violation of this agreement, the assignment itself is completely legitimate. However, the securing party considers it to be a nonfulfillment of an obligation. In most cases, the parties concerned specify in their agreement who has the authority to use the right provided as collateral. In this respect, it would be enough for the secured party to allow the securing party to use the right unless the securing party fails to fulfill its obligations. If nonperformance occurs, the secured party would, as preparation for realization of the collateral, prohibit any further use of the

right by the securing party. In the meantime, with regard to the possibility of granting a license by a securing party, if a right has been assigned as collateral to the secured party, the effect against third parties would depend on whether the assigned right permits the grant of a license in general.

If a license has been granted on a right since before the right has been assigned as collateral, such case would involve the broader issue of previous license protection. Therefore, even if the previously granted right is a nonexclusive it would be subject to previous license protection. There would be another case where a party that has been secured by assignment of a right as collateral grants an exclusive license on the right. In most cases, such grant of a license may constitute a violation of the security agreement on the part of the secured party. If this is the case, even though an obligation to pay damages may arise between the parties concerned, the grant of such a license itself will be protected because, from the viewpoint of third parties, it is the right holder who has made the grant of the license.

Another issue related to the effectiveness of a right against third parties arises when an intellectual property right that has been assigned as collateral is further assigned or assigned as collateral. If the right in question has been assigned completely, it would be impossible for the securing party to further assign the right or assign it as collateral. Even if the securing party has the authority to dispose of a right, as is the case with “collateral provided by assignment of a merchandise warehouse (Sicherungsübereignung vom Warenlagern),” in the case of an intellectual property right such as a patent right, it is not essential for the securing party to be able to dispose of the right itself in order to continue its business. The securing party would rather like to continue its business by exploiting the right, as is the case with a mortgage. If this is the case, it seems difficult to interpret that the grant of authority to dispose of collateral provides grounds for assignment of

collateral or provision of collateral by assignment.

In the case of collateral provided by assignment of a right, the secured party is entitled to realize the collateral at the time of default by the borrower. Since, from the viewpoint of third parties, the secured party (i.e., the creditor) has already obtained the right with restrictions imposed by the purpose of security, the secured party is entitled to satisfy his claim by realizing the collateral provided by assignment of the right. For such collateral realization, the secured party may take such measures as selling the collateral to a third party within the restrictions imposed by the purpose of security. In this case, it is interpreted that the secured party is obliged to realize the collateral in full consideration of the interests of the securing party.

3 Other methods

There are other methods such as the grant of a collateral-purpose license (Sicherungslizenz) and the establishment of a usufruct (Nießbrauch).

III Effect of an intellectual property collateral at the time of bankruptcy

In order to examine the effect of a security right, it is important to analyze the effect at the time of bankruptcy of either of the parties concerned.

1 Treatment of an intellectual property right at the time of bankruptcy

This section first examines whether an intellectual property right would be subject to compulsory execution and how the right would be treated at the time of the insolvency of the right holder. In general, a seizable property is considered enforceable. The decision as to whether a certain property is seizable is based primarily on whether it is assignable. Patent rights and trademark rights are enforceable because they are assignable. On the other hand,

copyrights are unassignable themselves (UrhG § 29) and therefore unenforceable. Copyrights are not included in the insolvency estate. Only individual exploitation rights granted on works are subject to compulsory execution (UrhG §112 and subsequent Sections). In this case, the author's consent is necessary (UrhG § 113).

2 The treatment of a security right at the time of bankruptcy of the securing party

If a securing party goes bankrupt, each of the general creditors of the securing party can conduct a compulsory execution (ZPO § 857). Against the seizure, a holder of a pledge on a right is permitted to make a claim for preferential repayment under ZPO § 805 (Vorzugsklag). On the other hand, in the case of the commencement of an insolvency procedure on a securing party, the holder of a pledge on a right is permitted under Section 50 of the Insolvency Law to obtain separate satisfaction (abgesonderte Befriedigung). Again, the pledgee is not permitted to oppose the commencement of the procedure for insolvency itself. The pledgee is merely permitted to obtain satisfaction from immediate realization of the pledge. Needless to say, the pledge on a right must have been created before the commencement of the insolvency procedure. Collateral provided by assignment of a right is considered to have the same legal effect as a pledge created on a right. As mentioned earlier, in the case of collateral provided by assignment of a right, a secured party is considered to be the holder of the assigned right as far as the legal formality is concerned. From an economic viewpoint, the assignment is, in substance, carried out for the purpose of providing collateral. Thus, it would be appropriate to consider a pledge to be the same as collateral provided by assignment of a right in terms of legal effect. For this reason, both pledge and collateral by assignment are treated in the same manner as a security right in the procedure for insolvency. The holder of collateral

provided by assignment and the holder of a pledge created on a right could obtain separate satisfaction by individually exercising its right (InsO § 173). In this case, Section 166 of the Insolvency Law, which is designed to apply to movables and monetary claims, is not applicable. Since the insolvency administrator is not authorized to realize the collateral or distribute dividends, such exercise of a right would be carried out outside the framework of the insolvency procedure, which gives due consideration of the continuation and recovery of the debtor's business management.

3 Problems unique to the case of a license

This section examines how a license will be treated in the case of bankruptcy of a securing party. In the case of such continuous contract as a license agreement, it is up to the insolvency administrator to decide whether to continue insolvency procedure (InsO § 103). The point at issue is how the decision made by the insolvency administrator would influence the security right established on a license. There are two different views depending on whether to adopt the non-cause principle. From the perspective of non-cause principle, the termination of a license agreement that provides the legal grounds for the grant of a license would not influence the effect of any license already granted. On the other hand, from a perspective different from that of a non-cause principle or from the standpoint that allows the parties concerned to conclude an agreement for a wide range of issues, it can be said that the termination of a license agreement would automatically extinguish any license previously granted. As a result, such extinguishment of an underlying license would cause the secured party to lose the security regardless of whether he has a pledge or collateral provided by assignment.

4 The treatment of a security right at the time of bankruptcy of the secured party

If a secured party, especially the holder of collateral provided by assignment, goes bankrupt, the creditor is allowed to conduct a seizure on the holder of collateral provided by assignment. In the case of such a seizure, it is interpreted that the provider of collateral by assignment is allowed to file an opposition as a third party as long as the conditions for the realization of the assigned collateral have not been satisfied. Once the conditions for the realization of the assigned collateral are satisfied, the collateral provided by assignment would be considered to be owned by the holder of collateral provided by assignment. If the value of the collateral provided by assignment is over that of the secured claim, the excess value may be owned by the provider of collateral by assignment. If a holder of collateral provided by assignment goes insolvent, the provider of collateral by assignment is permitted to exercise the right to separation (Aussonderungsrecht) on the right that the collateral provider had assigned as collateral (InsO § 47). In order for the collateral provider to exercise the right, he needs to repay or to have already repaid the secured claim.

Conclusion

The following is the summary of the above-described examination of the intellectual property security system established under the German Law.

First, the findings about the intellectual property system itself are as follows. Intellectual property rights are established in different ways depending on the purpose of each intellectual property system. None of the systems requires registration of a transfer of a right even if the transferor intends to make commercial use of the right that has already been established. The same applies to a patent right that cannot be established until it has been granted by the governmental authorities and also to a

trademark right that has been established on the condition that the trademark will be registered in the Register. It is interpreted that the function of the Registers is limited to publication. An exclusive license itself can be subject to a transaction despite many restrictions. The above-mentioned discussions in Germany on the establishment of intellectual property rights and their assignability reveal the fact that, while a right should fulfill various requirements in order to be considered established, it is more important to examine how to prove the effect and existence of a right that has been established by satisfying those requirements. Such examination is necessary before analyzing an assignment of a right as a precondition for depositing the right as collateral. In this respect, the German law seems to be insufficient because the Germany system treats an intellectual property right in the same way as an ordinary right established under the law of obligations. Furthermore, the appropriateness as collateral depends partly on the necessity or lack of necessity of examination and the length of a period of effectiveness. It is difficult to assess the value of the intellectual property right provided as collateral under the German law as well. It should be noted that some people point out the necessity of conducting a comprehensive study on the collateral in question, including the structure of the relevant market, and the price trends, such as the trend of loan costs.

The German intellectual property security system can be summarized as follows. In Germany, there are two ways of depositing an intellectual property right as collateral: the creation of a pledge on a right or the provision of collateral by assignment of a right. Under the German law, the registration system plays a minor role in the assignment of an intellectual property right. Similarly, the registration system has no useful function in providing collateral. Since the provision of collateral, whether by creating a pledge on a right or by assigning a right, is carried out within the legal

framework of assignment of a right, the agreement of the parties concerned would be enough for the assignment to take effect. On the other hand, a pledge may be created on a right that is scheduled to be established in the future. Such a right may also be assigned as collateral. Similarly, some people point out the importance of allowing the use of future intellectual property rights as collateral. In the meantime, regarding expansion of the scope of effect, the German law lacks such a provision applicable to a pledge created on a right that explicitly specifies the use of the system of extension of security interest to the proceeds of the collateral. Under the German law, it is interpreted that such a system should not be used casually unless it is explicitly permitted by law. These facts suggest that Germany has been rather restrained from expanding the scope of effect. This reveals that the German law permits an individual right, whether it is an existing right or a future right, to be used as collateral, while paying little attention to the possibility of expanding the effect to other rights derivative from the individual right or the possibility of grasping the right in a comprehensive manner. When a debtor goes insolvent, the current German law regards both a pledge created on a right and collateral provided by assignment of a right as security rights. A secured party, is permitted to exercise his right in his own way. Some people point out that such permission reflects a defect of the law and that the insolvency administrator should realize a claim and make preferential repayments so that liquidation can be carried out with due consideration for the continuation and recovery of the debtor's business management.

In addition to the issues about the intellectual property security system discussed in this paper within the framework of the German law, there are other points that remain unaddressed, as follows. First of all, this paper did not examine what financing methods or financing frameworks are in use outside the

individual security systems. This issue needs further study from the perspective of how to design loans for intellectual property rights since it is very difficult to assess the values of individual rights. Furthermore, this paper relies solely on literature study, which has provided only an indirect insight into the current situation of the German intellectual property security system. The next goal is to gain a direct insight to conduct a more detailed analysis of the current situation.