

CONFERENCES MEREDITH LECTURES

May 3 and 4, 1996

VALUATION ISSUES:

INTELLECTUAL PROPERTY AS A SECURITY DEVICE

**David Allsebrook
Sonya Maestre
Fasken Campbell Godfrey
Barristers & Solicitors
Toronto Dominion Bank Tower
P.O. Box 20
Toronto-Dominion Centre
Toronto, Ontario
M5K 1N6
(416) 366-8381**

INTELLECTUAL PROPERTY

AS A

SECURITY DEVICE

David Allsebrook
Sonya Maestre¹

INDEX

	<u>Page</u>
A. Introductory Remarks	3
B. The Security Interest - Federal v. Provincial Registration	4
C. Where and How to Register Security Interests in Intellectual Property	9
(i) Ontario	
(ii) Québec	
(iii) British Columbia	
D. Cost of Registration Under PPSA and Federal Statutes	14
E. How to Enforce Security Interests in Intellectual Property	16
F. Precautionary Measures When Using Intellectual Property as Collateral	16
(a) Patents	
(b) Trade-marks	
(c) Copyright	
(d) Industrial Design	

¹ David Allsebrook is a partner of the law firms Fasken Campbell Godfrey and Fasken Martineau specializing in intellectual property law. Sonya Maestre is an articulated law student at Fasken Campbell Godfrey.

	(e)	Integrated Circuit Topography	
	(f)	Plant Breeders' Rights	
G.		Licences	21
	(i)	Security Interests in Intellectual Property Licences	
	(ii)	Pitfalls	22
H.		Closing Remarks	24

A. Introductory Remarks

It has been stated that “[l]enders feel most comfortable with security they can see, touch, or put in a vault”²; however, there has been a growing reliance upon ‘intangibles’ and ‘moveable properties’, for example, patents, trade-marks, trade names, industrial designs, copyrights, trade secrets, plant breeders’ rights and integrated circuit topography, as valuable forms of collateral for securing a debt. The law in Canada, from both a federal and provincial standpoint, is still developing with respect to the role of intellectual property in securing financing. Some significant uncertainties remain. This paper highlights the practical issues involved in using intellectual property as a security device in various provinces with particular emphasis on *Ontario’s Personal Property Security Act*³ as a guide to interpretation and application.

B. The Security Interest - Federal v. Provincial Registration

Intellectual property, a chose in action, has been classified as personal property of an intangible form at law⁴, and as such, the following types of intellectual property may be charged as collateral:

- (i) Patents;
- (ii) Copyright, whether registered or not;
- (iii) Registered Industrial Design;
- (iv) Registered Plant Breeders’ Rights;
- (v) Registered Topography;
- (vi) Trade-marks, whether registered or not; and
- (vii) Trade Secrets.⁵

² M. Erdle, (1988) *Security Interests in Intellectual Property: Part One*, 5 Can. Computer L. Rep. 43 at p. 43 taken from R.A. Kozlov, *Intellectual Property Licensing - Trademark. Patents. Copyright. Trade Secrets. Industrial Design: Secured Financing? Using Licences in Intellectual Property as Collateral in Secured Transactions* (CI, May ‘94) at p.2.

³ R.S.O. 1990, c. P. 10 [hereinafter referred to as the “PPSA”].

⁴ *PPSA*, s. 1.

⁵ K.R. Sim and Y. Kang, *Intellectual Property in Business Transactions - A Practical Course: Using Intellectual Property As Collateral In Securing Financing* (Infonex, Nov. ‘93) at p. 5.

In order to register a security interest in any of these types of intellectual property, both federal and provincial legislation must be taken into consideration.

The federal statutes governing the different types of intellectual property do not explicitly address registration of security interests in intellectual property; nevertheless, federal registries will accept filing of such security agreements.⁶ Despite the absence of express registration provisions for security interests in intellectual property statutes, the general acceptance of filing security agreements is propelled by the expectation that federal intellectual property legislation may render void unregistered assignments affecting intellectual property rights as against a subsequent assignee. For example, subsection 57(3) of the *Copyright Act*⁷ provides:

Any grant of an interest in a copyright, either by assignment or license, shall be adjudged void against any subsequent assignee or licensee for valuable considerations without actual notice, unless the prior assignment or licence is registered in the manner prescribed by this Act before the registering of the instrument under which the subsequent assignee or licensee claims.

This voidable grant provision appears to apply to security assignments. In the absence of judicial interpretation to the contrary, prudence dictates that security interest in copyright be registered under the Copyright Act.

In the provincial sphere, the legislatures of Ontario, British Columbia, Alberta, Saskatchewan, Manitoba, New Brunswick and the Yukon have enacted a *Personal Property Security Act* which creates a registration regime to secure financial obligations.

⁶ G.J. Zimmerman and D.J. Bennett (Student-at-law), *Changes Affecting Intellectual Property in Canada - A North American Perspective: An Overview of Canadian Law Relating to Security Interests and Intellectual Property*, (CBA, March '94) at p. 27.

⁷ R.S.C. 1985, c. C-42, amended by R.S.C. 1985, c. 10 (1st Supp.); c. 1 (3rd Supp.); c. 41 (3rd Supp.); c. 10 (4th Supp.); S.C. 1988, c. 65; 1990, c. 37; 1992, c. 1; 1993 c. 15; c. 23; c. 44. **Also see** s. 51 of *Patents Act*, R.S.C. 1985, c. P-4 and s. 31(3) of *Plant Breeders' Rights Act*, R.S.C. 1985 c. P-14. 6.

Provincially⁸

In order to determine the priority status of a security interest in collateral within PPSA-governed provinces, it must first be ascertained whether perfection has been achieved.

To perfect a security interest it must:

1. have attached⁹; and
2. all steps required for perfection under the particular Act have been completed.¹⁰

At this second step, perfection is ultimately achieved through outright possession of the collateral, or as would be the case of a security interest in intellectual property, by means of registration¹¹ in the appropriate jurisdiction.

However, perfection is not a guarantee that the given security interest will prevail over all other interests. The PPSA-governed provinces have a detailed code of priorities which addresses competing security interests. In general, a priority contest is dictated by the following considerations:

1. if both security interests have been perfected by registration the first to register, regardless of the order of perfection, will maintain priority;

⁸ Those provinces without specific legislation may secure intellectual property through a debenture or a chattel mortgage. In the article by K.R. Sim and Y. Kang entitled *Using Intellectual Property as Collateral in Securing Financing* (Infonex, November 1993), the authors express concern that registration of security interests through a debenture or a chattel mortgage “must be carried [out] in the district in which the property to be charged is located while there is no one location for intangible assets such as intellectual property. This leads to the necessity of having to register a security interest in intellectual property in all districts that compose the province.” (p. 13).

⁹ Aside from a slight variation in wording, the legislation of PPSA-governed provinces provides that attachment occurs when (a) value is given, (b) the debtor has rights in the collateral, and (c) the debtor executes a security agreement that contains a description of the collateral or the collateral is in the possession of the secured party. See *British Columbia*, s.12(1); *the Yukon Territory*, s. 11(1); *Alberta*, s. 12(1); *Saskatchewan*, s. 12(1); *Manitoba*, s. 12(1); *Ontario*, s. 11(2) and *New Brunswick*, s.12(1).

¹⁰ For provisions dealing with perfection, see *British Columbia*, s. 19; *the Yukon Territory*, s. 18; *Alberta*, s. 19; *Saskatchewan*, s. 19; *Manitoba*, s. 21; *Ontario*, s. 19 and *New Brunswick*, s.19.

¹¹ For provisions dealing with registration as the last step in perfecting a security interest, see *British Columbia*, s. 25; *the Yukon Territory*, s. 23; *Alberta*, s. 25; *Saskatchewan*, s. 25; *Manitoba*, s. 25; *Ontario*, s. 11(2) and *New Brunswick*, s. 25.

2. if one security interest has been perfected by registration and another security interest perfected by other means, priority will be determined by whether the registration occurred before perfection of the security interest; and
3. priority between two unperfected security interests is governed by the order in which attachment occurred.¹²

As a last point, the lender must preserve perfection, and consequently, its priority status, by renewing registrations, paying any maintenance fees and recording any changes or transfers of interest in the collateral.

¹² For priority rules, see *British Columbia*, S. 35(1); *the Yukon Territory*, s. 34(1); *Alberta*, s.35(1); *Saskatchewan*, s. 35(1); *Manitoba*, s. 35(1); *Ontario*, s. 30(1) and *New Brunswick*, s. 35(1).

Federally

The Federal Intellectual property offices will ‘accept and record’ security interests in registered trade-marks, patents; industrial designs, and registered or unregistered copyrights.¹³ Albeit the federal statutes do not explicitly address the effect of registration on the priority status of security interests in collateral, it appears that the *Patent Act*,¹⁴ the *Copyright Act*¹⁵ and the *Plant Breeders’ Rights Act*¹⁶ contain ‘voidable grant sections’ which would render a ‘grant of interest’ subordinate to a subsequent assignee unless it is in writing and registered first. Such wording may be interpreted as encompassing security interests, and as such, a security agreement should be registered under these Acts, as well as under the appropriate PPSA legislation, to preclude a subsequent assignee from claiming priority over the lender. Unfortunately, the *Industrial Design Act*¹⁷, the *Trade-Mark Act*¹⁸ and the *Integrated Circuit Topography Act*¹⁹ are silent on the issue of priority.

C. Where and How to Register Security Interests in Intellectual Property

There is ongoing uncertainty as to whether a security interest in intellectual property must be registered both federally and provincially. The intellectual property statutes which create the rights also create the transferability of the rights, deal with the formalities of transfer and provide for registration. They do not mention security interests. Security interests are expressly covered in statutes which do not refer to intellectual property. The safest course of action is to register the security agreement under the appropriate federal and provincial statutes regardless of the view that only secured transactions structured as an assignment should be registered under federal legislation.

¹³ *Supra* note 1 at p. 5.

¹⁴ R.S.C. 1985, c. P-4, amended by R.S.C. 1985, c. 33 (3rd Supp.); S.C. 1992, c. 1; 1993, c. 2; c. 15; c. 44; s. 51.

¹⁵ R.S.C. 1985, c. C-42, amended by R.S.C. 1985, c. 10 (1st Supp.); c. 1 (3rd Supp.); c. 41 (3rd Supp.); c. 10 (4th Supp.); S.C. 1988, c. 65; 1990, c. 37; 1992, c. 1; 1993, c. 15; c. 23; c. 44; s. 57(3).

¹⁶ R.S.C. 1985 c. P-14, s. 31(3).

¹⁷ R.S.C. 1985, c. I-9.

¹⁸ R.S.C. 1985, c. T-13, amended by S.C. 1990, c. 14; c. 20; 1992, c. 1; 1993, c. 15; c. 44.

¹⁹ R.S.C. 1985, c. I-14.6, amended by S.C. 1993, c. 15.

In the end, the number of registrations involved, and consequently, the cost, will be the dominating factors for the client to consider since “certainty, predictability and expediency”²⁰ in the law are not yet available to secured creditors.

(i) Ontario

Where?

To register security interest under the PPSA and thus perfect²¹ the interest, a financing statement must be registered with the PPS Registry²² which has been designated by the Minister of Consumer and Commercial Relations.²³ The central office for Ontario²⁴ is in Toronto with approximately 48 branch offices throughout the provinces.

How?

The financing statement is a standard document used for registering under the PPSA.²⁵ This document²⁶, known as Form 1C, must be completed in paper form or in an electronically prescribed format, and should contain all pertinent information including designation of the Act under which the registration is made, the names and addresses of the debtor²⁷ and secured party²⁸, the category/description of the collateral²⁹ secured in the security agreement, variable registration period and fee³⁰, credit information³¹ and the signature³² of the secured party.

²⁰ R.H. El Sissi, *Security Interests in Copyright* (1995) 10 I.P.J. 35 at p. 59.

²¹ *PPSA*, s. 19.

²² In Toronto: P.O. Box 21100, Station A, Toronto, Ontario M5W 1W6 (416) 325-8847.

²³ *PPSA*, s. 42(2).

²⁴ *PPSA*, s. 41.

²⁵ *PPSA*, s. 45(1).

²⁶ Form prescribed under s. 74(g) of the *PPSA*.

²⁷ *PPSA*, s. 16 of Regulations.

²⁸ *PPSA*, s. 3(2) of Regulations.

²⁹ *PPSA*, s. 3(1)(f) of Regulations.

³⁰ *PPSA*, s. 51(1).

There is no time limit by which a financing statement must be registered to perfect the attached security interest, but it should be done promptly to maintain priority over subsequent registrants.

(ii) Québec

General

Prior to January 1, 1994, intellectual property was given as security by a pledge of moveable property under the *Civil Code of Québec*. A pledge is a form of contract not subject to strict formalities. Trust deeds which can only be given by corporations pursuant to the provisions of the *Corporate Powers Act* were also used.³³

On January 1, 1994, the new *Civil Code of Québec* merged all previous security devices into one, the hypothec, allowing a secured creditor to charge any kind of property as security for a financial obligation. A hypothec allows the creditor “the right to follow the property subject to the hypothec into whomsoever’s hands it may go, to take possession of it or to take it in payment, or to sell it or cause it to be sold with a preference upon the proceeds of sale ranking as determined by the Code.”³⁴ Under article 2666, a hypothec is a “charge on one or several specific corporeal or incorporeal properties, or on all the properties included in a universality.” Under article 2681, a ‘conventional’ hypothec “may be granted only by a person having the capacity to alienate the property hypothecated. It may be granted by the debtor of the obligation secured or by a third person.”

Where?

For a hypothec on intellectual property to be enforceable it must be registered in the “proper” register.³⁵

How?

To register, a standard form is completed which sets out the particulars of the security transaction, identifies the holders and grantors of the rights, states the nature of the

³¹ *PPSA*, s. 3(1)(i) and (j) of Regulations.

³² *PPSA*, 3(1)(k) of Regulations.

³³ *Supra* note 4 at pgs. 13-14.

³⁴ *Civil Code of Québec*, art. 2660.

³⁵ *Civil Code of Québec*, art. 2711. In Montréal for moveable property: 255 Est Crémazie, 5th fl, Montréal, Québec H2M 2V3 (514) 864-4949.

rights, describes the property concerned and mentions any other act pertaining to publication.³⁶ A hypothec on intellectual property is valid for 10 years after its registration or renewal.

British Columbia

Where?

In this instance, a province-wide, centralized computer registration system exists with a central office in Victoria, British Columbia.³⁷ All B.C. registrations must be made at this office.

How?

Registration may be completed either in person, through an agent, by mail or courier, or by using the B.C. Online System (one must have an account to use electronic registration). The party registering an interest must use the financing statement prescribed by the registrar, Form 1 or Form 1.1 for printed registration, and Form 9 for electronic registration. Section 76(f)(i) of British Columbia's PPSA³⁸ authorizes the use of registration as a means to prescribe the form and content of a financial statement. The information needed on this form includes the type and length of registration (1 to 25 years inclusive or infinity), the name and address of the secured party, a description of the debtor, a collateral description, a description of proceeds, particulars regarding the registering party and the authorized signature of the secured party. It is the responsibility of the searcher to make further inquiries outside of notice as to the nature of the transaction.

³⁶ *Québec Civil Code*, article 2981.

³⁷ In Victoria: 940 Blanchard Street, Victoria, British Columbia, V8W 3E6 (604) 356-0143.

³⁸ S.B.C. 1989, c. 36.

C. Cost of Registration under PPSA Statutes (as of April 11, 1996)

	Fee for Registration	Fee for Registering Financing Change Statement	Fee for Registering Discharge	Fee for Registering Perpetual Period
Ontario	\$7.00 per year/\$175 for 25 year period plus \$5.00 administration fee for filing paper document (same for filing electronically but no administration fee	\$11.00 plus \$5.00 administration fee	\$5.00 administration fee	\$500 flat fee
Quebec	\$42.00 per document for 10 year period, certificate known as "l'attestation" is \$12.00 by mail and \$17.00 if by mail and fax for each company requesting	\$42.00	Free	-
British Columbia	\$5.00 per year plus \$5.00 processing fee	\$15.00	Free and partial discharge is \$15.00	\$500 plus \$5.00 for processing
Manitoba	\$12.00 for three years (add \$2.00 if by agent)	\$8.00 (add \$2.00 if by agent)	\$8.00 (add \$2.00 if by agent)	-
Saskatchewan	\$5.00 per year plus \$5.00 administration fee	\$6.00 per amended area plus \$5.00 administration fee	Free partial discharge \$6.00 plus \$5.00 administration fee	\$400 plus \$5.00 administration fee
New Brunswick	\$7.00 per year (can only register by computer)	\$10.00 (\$500 for global change)	Free	\$500
Alberta (privatized) A Plus Registry	\$7.21 per year	\$20.00	Free	\$407.00
Alberta (privatized) Calgary Registry Services Ltd.	\$9.00 first year \$6.00 for succeeding years	\$25.70	\$6.42	\$421.70
The Yukon Territory	\$7.50 for one to three years \$1.00 every year after up to 25 years	\$7.50 for each form	Free	-

Registration of Assignments- Federal Statutes (as of April 17, 1996)

	Registration of Assignments
copyright	first work assigned- \$35.00 each additional work - \$15.00
patents	For the first patent referred to - \$100.00 -Each additional patent - \$ 50.00
trade-marks	\$50.00 per trade-mark
plant breeders' rights	- no fee
industrial design	- first industrial design: \$35.00 - additional industrial design - \$15.00
integrated circuit topography	- transfer of interest or grant of licence entered in register - \$75.00

E. How to Enforce Security Interests in Intellectual Property:

A secured party may rely upon the rights, remedies and warranties set out under the security agreement. In Ontario, Part V of the PPSA gives secured parties additional rights.³⁹ Under the enforcement provisions of the PPSA, specifically subsection 59(2), the secured party “may enforce a security interest by any method permitted by law” upon default of the debtor. The options available to the secured party include transfer of the collateral to a third party and applying the proceeds accumulated to satisfy the debt or keep the intellectual property itself.

If the secured creditor decides to retain the collateral, the debt is then satisfied and the right to sue for the difference between the value of the collateral and the debt owing is vitiated.

F. Precautionary Measures When Using Intellectual Property as Collateral⁴⁰

(a) Patents

Lenders should ensure that the security agreement includes terms that provide that:

- (i) the borrower owns the patent;
- (ii) the patent is valid;
- (iii) the borrower is not infringing the rights of any third party by working the patent; and
- (iv) improvements and proceeds from any dealing with the patent should be addressed

and that the borrower/patentee will:

- (v) keep the patent in full force and effect by paying all maintenance fees;
- (vi) enforce the patent against infringers if necessary;
- (vii) work the patent in Canada to avoid the compulsory licence provisions of the Patent Act (s. 64-71);
- (viii) to refrain from granting licenses without the prior consent of the lender; and
- (ix) co-operate with the lender in disposing of the patent in the event of a default.

(b) Trade-marks

³⁹ PPSA, s. 59(1).

⁴⁰ The following guidelines for drafting a security agreement in the first four cases were taken from *Supra* note 4 at pgs. 8-11.

Lenders should ensure that the security agreement includes terms that provide that:

- (i) the borrower owns the trade-mark; and
- (ii) the trade-mark is either validly registered or valid and subsisting;

and that the borrower will:

- (iv) keep the trade-mark registration current by paying renewal fees;
- (v) enforce its trade-mark rights against infringers;
- (vi) protect the distinctiveness of the trade-mark through quality control (if the mark is licensed) and appropriate markings;
- (vii) use the trade-mark to avoid abandonment or vulnerability to expungement;
- (viii) refrain from granting licenses without the prior written consent of the lender; and
- (ix) co-operate with the lender in disposing of the trade-mark in the event of a default.

(c) Copyright

Lenders should ensure that the security agreement includes terms that provide that:

- (i) the borrower is the copyright owner;
- (ii) copyright subsists in the work used as security;
- (iii) the work is original and not copied from someone else;
- (iv) where copyright is unregistered, it will be registered; and
- (v) the works in which copyright subsists are adequately identified

and that the borrower/copyright owner will:

- (vi) enforce the copyright against infringers if necessary;
- (vii) refrain from granting licences without the prior written consent of the lender;
- (viii) co-operate with the lender in disposing of the copyright in the event of a default; and
- (ix) obtain a waiver by the author or artist of his or her moral rights.

(d) Industrial Design

Lenders should ensure that the security agreement includes terms that provide that:

- (i) the industrial design registration has issued and is valid;
- (ii) the borrower owns the industrial design;

- (iii) the borrower is not infringing the rights of any third party by producing and selling the article covered by the industrial design

and that the borrower/industrial design owner will:

- (iv) enforce the industrial design rights against infringers if necessary;
- (v) refrain from granting licenses without the prior written consent of the lender; and
- (vi) co-operate with the lender in disposing of the industrial design in the event of a default.

(e) Integrated Circuit Topography

The holder of integrated circuit topography rights should keep in mind that such rights expire after a set period of time.⁴¹

(f) Plant Breeders' Rights

The holder of plant breeders' rights is required to pay annual maintenance fees and failure to do so may result in revocation of the plant breeders' rights.⁴²

The holder of plant breeders' rights should keep in mind that such rights expire after a set period of time.⁴³

Lender's Investigation

The prudent lender will satisfy itself as to the value of the collateral. This may require, for example, investigating the validity of a patent or its scope and significance in the relevant marketplace. In the case of a trade-mark, the extent of the reputation in the trade-mark may be the whole of the collateral for loans of hundreds of millions of dollars. Careful investigation of its reputation and distinctiveness would be well advised.

⁴¹ R.S.C. 1985, c. I-14 6, amended by S.C. 1993, c. 15, s. 5. The exclusive right in a registered topography shall subsist for a period of 10 years from the filing date.

⁴² *Supra* note 6, s. 6, s. 35 (1).

⁴³ Plant Breeders' Rights are granted for a period of up to 18 years, effective from the date of issue of the rights Certificate.

G. Licences

(i) Security Interests in Intellectual Property Licences

Security interests over licences in intellectual property may be created in two particular instances:

1. A lender might secure a loan by expressly taking an interest in the debtor's licence; and
2. Equally, a lender might obtain a security interest in the debtor's licence by virtue of its general security interest in the entirety of the debtor's undertaking, property and assets.⁴⁴

In practise, the licensor's permission is usually required by the terms of the license. Licensors have little interest in consenting.

Certain licenses have been judicially determined⁴⁵ to fall outside the purview of the PPSA, because the rights conferred are merely equivalent to 'permission' or 'privilege' as opposed to a 'vested right' in the hands of the debtor. A licensing agreement should, nevertheless, be scrutinized for provisions which render the licence personal, non-exclusive or non-transferable.

(ii) Pitfalls

Licences are invariably limited in time, territory, scope and purpose, and impose tight restrictions on the manner in which the rights may be exercised by the licensee.⁴⁶ As such, lenders should be aware of the limitations in the collateral which make taking licenses to intellectual property as collateral rather risky. Inquiries which ought to be made include whether the licence is exclusive or non-exclusive, what is the term of the licence, does the licensee have the right to grant sublicences, what execution fees, licence fees, royalty payments and other financial obligations are imposed upon the licensee, can the licensee sue for infringement, are there proceedings attacking the validity of title to the intellectual property or any claim by a third party that its use is unauthorized, what rights does the licensor have, and what means does the lender have to keep the licence in good standing on default of the licensee?

The following questions are particularly challenging:

⁴⁴ Kozlov, *supra* note 1 at p. 2.

⁴⁵ See *National Trust v. Bouckhuys* (1987), 61 O.R. (2d) 640; reversing (1987), 59 O.R. (2d) 556 (H.C.) where a licence to market tobacco was found not to be personal property within the meaning of the PPSA. See *Bank of Montreal v. Bale* (1992), 4 P.P.S.A.C. (2d) 114 where a discretionary quota-type licence failed to qualify as personal property. Lastly, in *209991 Ontario Ltd. v. Canadian Imperial Bank of Commerce* (1988), 8 P.P.S.A.C. 135 (Ont. H.C.) a nursing home licence's non-transferability precluded it from being used as security interest.

⁴⁶ *Supra* note 27 at p.10

<*> Does the licensing agreement contain boilerplate provisions which prevent the transfer or assignment of a licence?

These provisions could inhibit effective realization, and in the worst case scenario, render the secured party who hopes to assign the licence liable for inducing or authorizing infringement by its transference of the license.

<*> Is the licensing agreement restricted to specific territory?

It is important in order to ensure priority that the security interest is perfected in accordance with the assignment sections of the intellectual property state and the personal property security legislation of that jurisdiction.⁴⁷ Inquiries should be made with respect to the debtor's principal place of business and the location of its executive offices. If they are in two different provinces the lender should likely register in provincial security claims both provinces.

The lender should obtain a covenant requiring the debtor to give notice or obtain consent if the debtor relocates to another jurisdiction so as to maintain the perfection of the security interest by registration in the new jurisdiction.

Lastly, in deciding these jurisdictional matters, if the lender's security interest extends to the proceeds from the sale of intellectual property, it would be wise to register in the jurisdiction in which proceeds are likely to arise. However, in the end, such extensive due diligence and multiple registrations may be a financial burden the lender is not willing to undertake.

<*> A lender cannot be certain that the intellectual property right is a valid, enforceable right.

Searches of the appropriate registries do not necessarily guarantee that the right is valid, just that the licensor is the registered owner of the property. Intellectual property is by its nature vulnerable to being found to be invalid and non-existent. Mere warranties of the borrower will not protect a lender from this peril.

<*> Does the lender have the means of disposing of the collateral?

Potential barriers include:

- (a) licensing agreements often purport to terminate on the debtor's bankrupt or insolvency;
- (b) most licensing agreements contain clauses restricting or prohibiting the assignment or transfer of the debtor's rights under the agreement;
- (c) even if the secured party can dispose of the collateral, the nature of the intellectual property may significantly limit the pool of potential purchasers; and

⁴⁷ PPSA, ss. 7(1) and (4).

- (d) the secured party may often be unfamiliar with the market and not know how to contact potential purchasers, if any exist at all.

H. Conclusion

Registration under both federal and provincial statutes will best protect the lender's interests. A prudent lender will let someone else plumb the depths of constitutional paramountcy law.

A careful review of the rights and obligations set out under either a security agreement or a licensing agreement are crucial in order to minimize the lender's and debtor's risks, and ultimately, in order to preserve the value of the collateral.