Intellectual Property Rights and the PPSA: Challenges for interest holders, creditors and practitioners

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Abstract

The Australian *Personal Property Securities Act* (PPSA) has made significant inroads into traditional norms of dealing with intellectual property (IP) ownership and rights since its introduction in January 2012, the transitional period of two years having ended on 31 January 2014. Registration requirements under the PPSA have significantly affected a range of commercial transactions dealing with personal property, including the interests of lessors and lessees, consignors and consignees, sellers and buyers, licensors and licensees, and lenders and borrowers. This article considers how IP is treated under the PPSA, and how owners and disseminators of IP (and the practitioners who advise them) may deal with some of the challenges presented by the inclusion of IP rights under the PPSA. IP occupies a unique space in the PPSA, and Part I of the article examines the significance and scope of IP inclusion under the PPSA. Part II sets out how a “security interest” may arise in commercial dealings in respect of copyright, patents, trademarks and designs, and the PPSA requirement of “perfecting” such interests for maximum property security. Part III expands on potential problem areas in implementing these provisions in commercial dealings in the existing IP framework; and this article concludes with recommendations for protective measures in dealing with problematic issues.

Introduction

Intellectual property (IP) rights have become a sought after form of security for financing in recent years. At the expiration of the transitional period of the *Personal Property Securities Act* (PPSA), it is clear that the PPSA has made significant inroads into traditional norms of dealing with IP ownership and rights. Modelled on the Canadian and New Zealand personal property securities legislation, the PPSA was introduced in Australia in January 2012 subject to a transitional period of two years ending on 31 January 2014. The PPSA requires that security interests in personal property be registered on a national register (the PPSR), instead of the previous state-based Office of Fair Trading registers, the ASIC companies’ register and the various IP registers. In addition, certain transactions that previously provided security for an owner, such as retention of title arrangements, with no need for registration, now require registration on the PPSR to afford the seller the same...
level of protection. These requirements have caused the Act to impact significantly on a range of commercial transactions dealing with personal property, including the interests of lessors and lessees, consignors and consignees, sellers and buyers, licensors and licensees, and lenders and borrowers.

The application of the concept of *nemo dat quod non habet*\(^9\) in commercial transactions has been turned on its head, making it possible for a party who holds a registered security interest in an asset (e.g. to secure a loan), to have priority over the rights of the owner of the property.\(^10\) Such a situation would arise, for example, where a piece of equipment has been sold on retention of title basis\(^11\) to a customer and the seller has omitted to duly register a security interest on the national register\(^12\) (PPSR). In such a case, a party who holds an existing registered security interest over the assets of the customer (the equivalent of the old ‘floating charge’\(^13\)) will defeat a claim by the unregistered owner (seller) of the equipment in the event of a dispute or the insolvency of the customer.

Under the PPSA a transaction that “in substance secures payment or performance of an obligation” in respect of personal property, including IP rights such as copyright, patents, trademarks and designs, may give rise to a “security interest”,\(^13\) a rather novel concept in Australian law.\(^14\) The ‘in substance’ test means that the form of transaction is immaterial, as is the identity of the owner of the property.\(^15\) In the context of IP the s12 (1) definition thus includes transactions whereby, for example, trademarked products are used as security in commercial transactions or copyright licences are partially assigned or used as security.\(^16\) In addition, the Act provides a list of transactions as examples that may give rise to a security interest - if they, in substance, secure payment or performance of an obligation - such as a fixed charge,\(^17\) conditional sale agreement\(^18\) and assignment.\(^19\) Once a transaction gives rise to an interest which meets the PPSA definition of “security interest”,\(^20\) the transaction is regulated by the PPSA and registration on the PPSR is

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9 The Latin maxim “No-one can give what they do not have”, historically a foundational concept in property law. See *Bishopsgate Motor Finance Corp.Ltd v. Transport Brakes Ltd* 119491 1 K.B. 322.
10 For example, *Graham v Portacom NZ Ltd* [2004] 2 NZLR 528; see also the landmark case of *Waller v NZ Bloodstock Ltd* [2006] 3 NZLR 629.
11 This type of transaction, also sometimes referred to as a “Romalpa clause” (Case) has historically allowed for the seller to retain ownership until the purchase price has been paid, and provided the owner with security in respect of the goods sold; *Aluminium Industry Vaasen BV v Romalpa Aluminium Ltd* [1976] 1 WLZR 676.
12 Personal Property Securities Register.
13 *Personal Property Securities Act* 2009 (Cth), s 12(1).
14 At the time of writing this article, only a small number of substantive cases have been dealt with under the Australian PPSA. See *Carson, in the matter of Hastie Group Limited* (No 3) [2012] FCA 719; *Maiden Civil (P&E) Pty Ltd (in Receivership) v Queensland Excavation Services Pty Ltd* [2013] NSWSC 852; *NCO Finance Australia Pty Ltd v Australian Pacific Airports (Melbourne) Pty Ltd* [2013] FCCA 2274; *Albarran v Queensland Excavation Services Pty Ltd* [2013] NSWSC 852; *Auto Moto Corporation Pty Ltd v SMP Solutions Pty Ltd* [2013] NSWSC 1403; *Cirillo v Registrar Of Personal Property Securities* [2013] AATA 733; *Central Cleaning Supplies (Aust) Pty Ltd v Elkerton* [2014] VSC 61; *Pozzebon (Trustee) v Australian Gaming and Entertainment Ltd, in the matter of Australian Gaming and Entertainment Ltd (in liq)* [2014] FCA 1034. This has resulted in reliance on New Zealand and Canadian case law to interpret this generic concept that has been introduced into Australian law.
15 *Personal Property Securities Act* 2009 (Cth), s 12(1).
16 *Personal Property Securities Act* 2009 (Cth), s 12(1) and s 12(2)(j). Note: The assignment of a copyright licence will only create a security interest if, in substance, the assignment secures payment or performance of an obligation.
17 *Personal Property Securities Act* 2009 (Cth), s 12(2)(a).
18 *Personal Property Securities Act* 2009 (Cth), s 12(2)(d).
19 *Personal Property Securities Act* 2009 (Cth), s 12(2)(j).
20 *Personal Property Securities Act* 2009 (Cth), s 12(1).
generally required\textsuperscript{21} to preserve a party’s priority interest in the property as against third parties, such as competing creditors or receivers.

These issues have become particularly relevant as the value of IP rights is increasingly recognised in commercial dealings. Borrowers are more frequently offering intangible property as collateral, and creditors are more readily accepting such assets as security\textsuperscript{22} in financial transactions. In this way companies have been increasing their ability to obtain financing by offering intangible property, e.g. copyright in a film or in musical works,\textsuperscript{23} as collateral. The way the importance of tangible property such as real estate, machinery and inventory has diminished, and intangible property has gained greater significance,\textsuperscript{24} has been described as a “paradigm shift”.\textsuperscript{25} Moreover, the inclusion of IP rights is often incidental under transactions where security is taken over all the assets of a company,\textsuperscript{26} in what was previously a “floating charge.” How these IP rights are dealt with under security transactions in Australia has been affected substantially by the introduction of the PPSA.

This article considers how IP is treated under the PPSA, and how owners and disseminators of IP (and the practitioners who advise them) may deal with some of the challenges presented by the inclusion of IP rights under this ground breaking piece of legislation. IP occupies a unique space in the PPSA, and Part I of the article examines the significance and scope of IP inclusion under the PPSA. Part II sets out how a “security interest” may arise in commercial dealings in respect of copyright, patents, trademarks and designs, and the PPSA requirement of “perfecting” such interests for maximum property security. Part III expands on potential problem areas in implementing these provisions in commercial dealings in the existing IP framework; and the article concludes with recommendations for protective measures in dealing with problematic issues.

Part I: IP and the PPSA

What constitutes IP under the PPSA?

The Australian PPSA regulates security transactions involving all property, other than land and certain statutory exclusions.\textsuperscript{27} Thus dealings in intangible property, including IP, may also be

\textsuperscript{21} Personal Property Securities Act 2009 (Cth), s 21(2)(a). Perfection can also occur if the secured party has possession of the collateral [Personal Property Securities Act 2009 (Cth), s 21(2)(b)], but this is unusual in the case of most commercial transactions, other than pledges, where possession will provide perfection. Certain interests are excluded from the PPSA under section 8 of the PPSA, such as common law liens, which need not be registered, and under s 12(5).


\textsuperscript{27} Personal Property Securities Act 2009 (Cth), s 10 definition of “personal property”. The definition is a negative one; it refers to ‘personal property’ as “Property (including a licence) other than (a) land; or (b) a right, entitlement or authority’ that is granted by statute and declared “not the be personal property for the purposes of the Act.”
regulated by the PPSA. The PPSA includes registered rights under the *Designs Act*, *Patents Act*, *Trademarks Act*, and unregistered rights under the *Plant Breeder’s Rights Act*, *Circuit Layouts Act*, and *Copyright Act*. Trade secrets, internet domain names and unregistered trade marks are not included under this definition, but may still be “intangible property” under the PPSA. In commercial transactions the PPSA inclusion will affect owners of, or interested parties in registered rights in designs, patents and trademarks, interest holders in copyright in literary, dramatic, musical or artistic works, and persons with the right to do an act under the *Circuit Layouts Act* during the protection period of the layout, or under the *Plant Breeder’s Rights Act* in relation to “propagating material of a plant variety.”

More specifically, under the PPSA “intellectual property” is defined as:

"... any of the following rights (including the right to be a party to proceedings in relation to such a right):

(a) the right to do any of the things mentioned in paragraphs 10(1)(a) to (f) of the *Designs Act* in relation to a design that is registered under that Act;

(b) the right to exploit or work an invention, or to authorise another person to exploit or work an invention, for which a patent is in effect under the *Patents Act*;

(c) the rights held by a person who is the registered owner of a trade mark that is registered under the *Trade Marks Act*;

(d) the right to do, or to license another person to do, an act referred to in section 11 of the *Plant Breeder’s Rights Act* in relation to propagating material of a plant variety;

(e) the right to do an act referred to in section 17 of the *Circuit Layouts Act* in relation to an eligible layout during the protection period of the layout;

(f) the right under the *Copyright Act* to do an act comprised in the copyright in a literary, dramatic, musical or artistic work or a published edition of such a work, or in a sound recording, cinematograph film, television broadcast or sound broadcast;

(g) a right under or for the purposes of a law of a foreign country that corresponds to a right mentioned in any of paragraphs (a) to (f)."

Thus, given that IP is “personal property” under the PPSA, the PPSA deals with security interests in these IP rights in the same way as with any other security interest in tangible property, as
enunciated in *Viacom Global v Scene One Entertainment (in Receivership)*, and more fully described in Part II below.

**IP Licences**

Significantly, a transferable licence to exercise rights comprising IP is specifically included under the definition of “licence” under the PPSA. The status of licences under the PPSA can be somewhat problematic for interest holders and practitioners and requires an analytical approach. Firstly, the definition of “personal property” expressly includes licences, stating: “personal property means property (including a licence)...”

Secondly, an “intellectual property licence” is defined as “an authority or licence (within the ordinary meaning of that term) to exercise rights comprising intellectual property” under the Act, as discussed above.

Thirdly, "intellectual property licence” is specifically included under the definition of “licence”:

> “licence means either of the following, if it is transferable by the licensee (whether or not the right, entitlement, authority or licence is exclusive, and whether or not a transfer is restricted or requires consent):

> (b) an intellectual property licence.”

Thus, it is clear from the foregoing that an IP licence, if transferable, will be personal property under the PPSA, even if its transferability is limited or the licence is non-exclusive. An issue may arise as to the nature of the transaction and whether or not it can be described as a licence, or more accurately as an assignment. As we will see in Part III this characterisation could materially impact on the status of the transaction under the PPSA, and the legal interests of the contracting parties.

An issue which may be potentially perplexing for interest holders and practitioners, is the exclusion of a licence as a “security interest” under the Act, which states:

> “A security interest does not include: (a) a licence.”

In the context of IP interests, the exclusion of a licence from this definition means that an IP licence itself is not a security interest under the PPSA – rather, the transferrable IP licence is personal property (as explained above), which may be an asset or ‘collateral’ used for the purpose of

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42 *Personal Property Securities Act 2009 (Cth)*, s 10 definition of “personal property”.
43 This is subject to specific provisions relating to intangible property in some instances, eg pursuant to the s 62 priority requirements. There are also specific registration requirements for IP rights described by serial number pursuant to s153(1) read with *Personal Property Securities Regulations*, Schedule 1, Part 2, Clause 2.2.
45 “(Whether or not the right, entitlement, authority or licence is exclusive, and whether or not a transfer is restricted or requires consent),” *Personal Property Securities Act 2009 (Cth)*, s 10 definition of “licence”.
46 *Personal Property Securities Act 2009 (Cth)*, s 10 definition.
47 *Personal Property Securities Act 2009 (Cth)*, s 10 definition.
48 *Personal Property Securities Act 2009 (Cth)*, s 10(b).
50 *Personal Property Securities Act 2009 (Cth)*, s 12(5)(a).
51 Personal property to which a security interest is attached or which is described in a registration on the PPSR. See definition of “collateral”: *Personal Property Securities Act 2009 (Cth)*, s 10.
creating a security interest. Thus, a security interest can be registered over such licences on the PPSR, a practice which is becoming increasingly important in the various technology and creative industries where licencing agreements are operative and typically used by licensees as collateral to secure finance.

With respect to licencing agreements, the nature and terms of the agreement will usually determine whether a proprietary right is being conferred or merely a contractual one (which will then fall outside the scope of the PPSA). The difficulties sometimes associated with determining the status of such transactions in relation to assignment of copyright in particular, as well as accurate description of the collateral, will be discussed in Part III below.

**IP specific provisions**

In addition to the application of the general provisions of the Act, IP is specifically dealt with in Part 3.5 of the PPSA. This part of the Act deals with situations:

- **(a)** where “the exercise of rights by a secured party in relation to goods necessarily involves the exercise of intellectual property rights covered by the security interest”;
- **(b)** where there is “a transfer of intellectual property that is the subject of a licence (or sub-licence).”

In the case of scenario (a), pursuant to s 105, the Act provides that the PPSA will apply to the IP rights in the same way as it applies to the goods, e.g. patented machinery, patented pharmaceuticals, computer hardware with embedded software or branded clothing. Thus in a case where a patent is necessary to operate a piece of machinery the secured party’s interest will include the patent rights required to make the machinery operational. Similarly, if a Toshiba computer is subject to a security interest it will include the patent, trademark and other embedded IP that is essential to its operation.

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55 *Personal Property Securities Act 2009 (Cth)*, ss 104-106.
56 *Personal Property Securities Act 2009 (Cth)*, s 104, 105.
57 *Personal Property Securities Act 2009 (Cth)*, s 104, 106.
58 *Personal Property Securities Act 2009 (Cth)*, s 104, 105.
59 The *Explanatory Memorandum* to the *Personal Property Securities Act 2009 (Cth)*, provides the following example: ‘Grantor A owns a factory that produces car parts using robots whose only function is to manufacture those particular car parts. The process used to manufacture the car parts was patented by Grantor A. Grantor A obtains a loan from Bank A and receives value for a security interest. The security agreement refers to “the robots”. Bank A registers the security interest. Grantor A defaults under the security agreement. Bank A enforces the security agreement. The security agreement only refers to a security interest over the robots, but the court determines that the security interest extends to the extent required to permit the robots to operate. The exercise of Bank A’s rights to the robots under the security agreement necessarily involves the use of the patent rights exploited in the robots. Bank A’s security interest will therefore be enforceable against both the robots and the patent.’
The application of this provision can be problematic where different parties have security interests in the goods and the IP rights respectively, and will be further discussed under Part III.

In scenario (b), pursuant to s 106, the Act provides that a security agreement will bind successors in title to the licensor or sub-licensor to the same extent that they were bound. This means that, if the original licensor had consented or was a party to a security agreement entered into by the licensee, the transferee would be bound to this agreement in the same way as the original licensor (transferor). For example, if A acquires a licence to use a patent from B (the licensor), and later gives Bank C a SI over all its present-and-after-acquired property with B’s consent, and B (licensor and owner of the patent) assigns the patent to a transferee D, but the licence stays with the original licensee (A), then the Bank C’s security agreement will bind all successors in title (or transferees) to the original owner of the IP (licensor), to the extent that the security agreement bound the original owner – thus this will only be the case if the owner consented to the Bank’s security interest or was a party to the security agreement.

This provision accords with the Copyright Act in relation to transfer of copyright interests by the owner:

“A licence granted in respect of a copyright by the owner of the copyright binds every successor in title to the interest in the copyright of the grantor of the licence to the same extent as the licence was binding on the grantor.”

Thus, while the Copyright Act provision means that a transferee (recipient) of a copyright interest needs to be vigilant about possible liabilities of the transferor under existing licensing agreements with licensees, the PPSA takes the transferee’s prospective liability one step further, by binding them under the licensee’s obligations to a secured party, if the original copyright owner consented or was a party to that transaction. A diagrammatic depiction of this scenario would look as follows:

**Figure 1: Transferee liability under the Copyright Act**

![Diagram of transferee liability under the Copyright Act]

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60 Personal Property Securities Act 2009 (Cth), s 104, 106.
63 Copyright Act 1968 (Cth), s 196(4).
For example, if there is an existing software licensing agreement with the licensee, it means that the transferee could be bound by the original licensor’s agreement with the licensee, in respect of issues such as updating and maintaining the licensed software.

However, the PPSA amplifies the transferee’s deferral of interest to the registrant of a personal property security significantly where the licensee has entered into secured transactions with other parties with the consent of the Transferor.

**Figure 2: Transferee liability under the PPSA**

In this example, if the licensee has obtained a loan from the bank under a security agreement\(^\text{64}\) which encumbers all its assets, with the consent (express or implied) of the licensor, the transferee will be bound to the same extent as the original licensor. This is a potentially dangerous situation for a transferee and would require them to firstly, ascertain the identity of all licensees of the copyright material; secondly, to conduct searches on the PPSR to ascertain the existence of any security interests over the licensee’s assets (including its rights under the licensing agreement); and thirdly, to ascertain whether the original licensor would be bound under that agreement, should the bank exercise any rights they hold over the licence. Thus, if the licensee defaults on its bank loan – unless specific provision is made in the licence for its termination in the event of the licensee defaulting on any future loans secured by the licence (which would be unlikely) - the bank could potentially sell or transfer the licensing rights without the express consent of the transferor, and retain the proceeds. This situation will be examined further in Part III below.

**Part II: Maximising IP protection**

**The process of perfection**

How do IP owners then ensure that their IP rights do not become subject to security interests without their express consent in light of the PPSA requirements, and why is it important to do so?

\(^{64}\) Usually this would have been in the form of a charge, which gives rise to a security interest under the PPSA (s 12(2)(a)\&(b). The charge will be a security agreement under the PPSA (s 20(2)).
Priority disputes may arise between owners of IP, secured parties, competing creditors, receivers of insolvent estates and so on, and in such instances, the issue of “perfection” under the PPSA may be a determining factor. 65 We have seen that the PPSA definition of a “security interest” includes transactions whereby, for example, patented materials are used as security in commercial transactions or copyright licences are partially assigned or used as security. 66 Where an IP licence is involved, the situation is complicated by the fact that a licence is excluded as a ‘security interest’, which may create uncertainty for a party unfamiliar with the workings of the PPSA wishing to use an IP licence as collateral in a loan transaction. This means that the parties may need to enter into a “security agreement” in respect of the licence, in addition to the licensing agreement, as the licence itself is not registrable on the PPSR as a security agreement. 67

The Act prescribes a “perfecting process” whereby a secured party can achieve the maximum amount of protection in collateral,68 which requires that the security interest must firstly “attach” to the collateral69 in order to have an enforceable right against the grantor. Attachment occurs70 when the grantor has rights in collateral71 or power to transfer rights in collateral, and either: value is given for the security interest,72 or the grantor does an act by which a security interest arises. 73 In the case of granting a security interest in IP rights, this requirement will usually be achieved when the grantor (the IP owner) enters into the security agreement.74

For the security interest to be enforceable against third parties, a written security agreement which describes the collateral,75 signed or accepted by the grantor,76 is a specific requirement under the Act, unless the secured party is in possession of the collateral.77 Because of the intangible nature of IP (and the scope for dispute about actual and constructive possession of the IP), a written security agreement is essential to ensure protection of an interest in IP. However, as will be discussed below, the accurate description of IP rights as collateral can be problematic and give rise to uncertainty where no serial number exists, as is the case with a copyright interest. It may also be difficult to accurately describe the “work” or “subject matter other than work” subject to copyright in sufficient detail on the PPSR.

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65 Personal Property Securities Act 2009 (Cth), s 55.
66 Personal Property Securities Act 2009 (Cth), s 12(1).
67 Personal Property Securities Act 2009 (Cth), s 12(5).
68 Note ss 19, 20 and 21 as well as the possibility of achieving “super-priority” under s 14, in the case of a purchase money security interest (PMSI).
69 Personal Property Securities Act 2009 (Cth), s 19(1).
70 Unless the parties agree otherwise - Personal Property Securities Act 2009 (Cth), s 19(3).
71 Any proprietary interest is sufficient, even voidable title – see iTrade Finance Inc v Bank of Montreal [2011]2SCR 360.
72 This is in effect consideration – a promise of finance is sufficient and it can be provided at a later date – see Agricultural Credit Corp of Saskatchewan v Pettyjohn (1991) 1 PPSAC (2d) 273.
73 E.g. obtaining rights to the property (collateral), signing the security agreement or taking possession of the property; Personal Property Securities Act 2009 (Cth), s 19(2).
76 Personal Property Securities Act 2009 (Cth), s 20(1)(b)(iii).
77 Personal Property Securities Act 2009 (Cth), s 20(1)(b)(i).
Significantly, a security interest in the proceeds derived from the collateral is enforceable against third parties even if “proceeds” are not specifically included in the security agreement. This means that e.g. periodic payments made in respect of an IP licence to a licensor, which has been used as collateral, will also be covered and may be recoverable by a secured party under the security agreement. However, priority in proceeds will be subject to perfection and proper description of the IP collateral in the PPSR registration, as will be seen below.

It has been firmly established that, in a dispute with other parties, “perfection” is the most important step of the process to determine priority and the date of perfection will usually determine the priority of the secured party vis-à-vis other claimants, rather than the date of attachment. In the case of IP rights, perfection is achieved, either by force of the Act through ‘temporary perfection’ under the provisions of the Act, or if the security interest is (a) attached to the collateral plus (b) enforceable against 3 parties plus an effective registration is in place. Temporary perfection may occur upon the transfer of collateral to another secured party, where a “grace period” applies to the new secured party to enable perfection in the ordinary way. Notably, perfection can occur prior to attachment, i.e. a secured party can register before attachment has been completed. Indeed, it could be argued that it would be courting disaster to provide funds to a prospective borrower unless an effective registration is in place.

Registration requirements

Registration of a security interest is effected by way of a “Financing Statement”, which must include the information required by s153, such as the parties’ particulars, a description of the collateral, the

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78 Personal Property Securities Act 2009 (Cth), s 20(6), subject to the provisions of s 32.
79 Personal Property Securities Act 2009 (Cth), s 153 provides for requirements of the “financing statement” which is lodged on registration of the security interest.
80 Bank of Montreal v Innovation Credit Union [2010] 3 SCR 3; Graham v Portacom NZ Ltd [2004] 2 NZLR 528; see also the landmark case of Waller v NZ Bloodstock Ltd [2006] 3 NZLR 629. These decisions were followed in the Australian case of Maiden Civil (P&E) Pty Ltd (in Receivership) v Queensland Excavation Services Pty Ltd [2013] NSWSC 852 and NCO Finance Australia Pty Ltd v Australian Pacific Airports (Melbourne) Pty Ltd [2013] FCCA 2274.
81 Graham v Portacom NZ Ltd [2004] 2 NZLR 528.
82 Personal Property Securities Act 2009 (Cth), s 21(1)(a).
83 Through possession or entering into a written security agreement as provided for in s 20(1)(b)(iii) of the Personal Property Securities Act 2009 (Cth).
84 Personal Property Securities Act 2009 (Cth), s 21(2)(a); or if the secured party has possession of the collateral (s 21(2)(b), which is unlikely in the case of IP.
86 Personal Property Securities Act 2009 (Cth), S21 (3).
87 See also 674921 BC Ltd v Advanced WingTechnologies Corp (2006) 9 PPSAC 43. However, in some cases registration may be required prior to attachment (see s 62), where “super priority” in an IP security interest is being asserted.
88 Under Personal Property Securities Act 2009 (Cth), s62.
89 Especially if “super priority” is being claimed in respect of a “purchase money security interest”. The issue of super priority in “purchase money security interests” (PMSI) falls outside the scope of this article; however, it is possible to create a PMSI in an IP asset where the secured party is the seller/lessor of the IP or is financing the purchase or lease of the IP asset – see Personal Property Securities Act 2009 (Cth), S14(1).
90 Personal Property Securities Act 2009 (Cth), s 150.
registration end time and whether a PMSI is being claimed. The description requirements here are different from and more stringent than the description required in the security agreement, providing for description as either consumer or commercial property, the class of collateral, and a provision that “collateral may or must be described by serial number, if allowed or required by the regulations.”

These provisions require strict adherence, as a mistake on the financing statement may render the registration ineffective, if it is regarded as a “seriously misleading defect.” Examples of ineffective registrations would be where the grantor is misdescribed or where a required serial number is omitted.

In relation to describing IP collateral there are specific requirements set out in the Personal Property Securities Regulations (PPS Regs). When it is “consumer property” and intangible property which is a design, patent, plant breeder’s right, trademark; or a licence in respect of any of these types of property; it must be described by serial number. This category would be limited to situations where the grantor is an individual and the use of the property meets the “consumer property” description. Failure to include the serial number will render the registration ineffective.

Where collateral is described by serial number, the description must include the information set out in the PPS Regs, e.g. for description of a trade mark it must include the trade mark number issued by IP Australia or the trade mark application number issued by IP Australia. If the security interest is registered in respect of a licence over any of the intangible property mentioned above, the licence

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91 Except in the case of consumer property which must be described by serial number, where the grantor’s particulars are omitted.
92 Personal Property Securities Act 2009 (Cth), s 153.
93 Personal Property Securities Act 2009 (Cth), s 153 (Item 4).
94 Personal Property Securities Act 2009 (Cth), s 20(1)(b)(iii).
95 Personal Property Securities Act 2009 (Cth), s 153 (Item 4(a)).
96 Personal Property Securities Act 2009 (Cth), s 153 (Item 4(c)).
97 Personal Property Securities Act 2009 (Cth), s 153 (Item 4(b)).
98 Personal Property Securities Act 2009 (Cth), s 164(1)(a); or if it is a defect mention in s 165.
99 E.g. recording the grantor’s name as “Grandstrand” instead of “Granstrand” (KJM Leasing Ltd v Granstrand Brothers Inc (1994) 7 PPSAC (2nd) 44; 158 AR 78).
100 Pursuant to Personal Property Securities Act 2009 (Cth), s 165(a); failing to include a serial number where required to do so (Kelln (Trustee of) v Strasbourg Credit Union Ltd (1992) 3 PPSAC (2d) 44; 89 DLR (4th) 427).
101 Personal Property Securities Regulations 2009, Schedule 1, Part 2, Clause 2.2.
102 Personal Property Securities Act 2009 (Cth), s 10: Consumer property means personal property held by an individual, other than personal property held in the course or furtherance, to any degree, of carrying on an enterprise to which an ABN has been allocated.
103 Personal Property Securities Regulations 2009, Schedule 1, Part 2, Clause 2.2(1)(a).
104 Personal Property Securities Act 2009 (Cth), s 10: “Consumer property means property held by an individual, other than personal property held in the course or furtherance, to any degree, of carrying on an enterprise to which an ABN has been allocated.”
105 Personal Property Securities Act 2009 (Cth), s 165(a); Kelln (Trustee of) v Strasbourg Credit Union Ltd (1992) 3 PPSAC (2d) 44; 89 DLR (4th) 427.
106 Personal Property Securities Regulations 2009, Schedule 1, Part 2, Clause 2.2(3)(e)-(h).
must also be described by the serial number of the right for which the licence is given (e.g. the trade mark number issued by IP Australia).\(^{108}\)

In the context of commercial dealings, discussed in this article, it is more likely that the subject collateral will be “commercial property,”\(^{109}\) rather than “consumer property”, as the IP will usually be held by a corporation rather than an individual; or if held by an individual, be used in the course or furtherance of carrying on a business. The PPS Regs provide that “commercial property” which is intangible property and one of the following: a design, patent, plant breeder’s right, trade mark; or a licence in respect of any of these types of property; may be described by serial number.\(^{110}\) Thus it is the secured party’s choice whether or not to include a serial number in the registration. The voluntary nature of this provision means that a potential credit provider may have to conduct a number of searches on the PPSR to ascertain whether the IP rights on offer are, in fact, encumbered.

Significantly, copyright is omitted from these serial number provisions, as copyright is not registrable in Australia\(^{111}\) and consequently does not have a serial number to be registered. This means that a full description of the copyright interest (or the copyright licence) which is being provided as collateral, needs to be made for identification purposes. It also complicates any searches by a prospective credit provider, who will have to carry out careful (and perhaps numerous) searches on the PPSR.\(^{112}\)

The first Australian court decision under the PPSA emphasized the need for effective description of the collateral on the registration.\(^{113}\) In the Hastie case administrators appointed to a number of companies that comprised the Hastie Group, applied to the Court for permission to dispose of plant and equipment - with an estimated value of $6.4 million - held by various companies in the group. One of the main problems was that the administrators had difficulty identifying property that was subject to the security interests of third parties, due to incomplete or general descriptions on the PPSR. Yates J granted the order allowing for the sale of the property, illustrating the importance of providing an accurate description for each item of secured property and as much particularity as possible.\(^{114}\) Although this case dealt with tangible property, it also serves to caution parties with security interests in intangible personal property to ensure that their registration is effective, not only from a compliance perspective, but also on a practical level should they need to identify the secured property. This point is discussed in more depth below.

**Part III: Challenges for IP owners, disseminators and practitioners**

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\(^{108}\) *Personal Property Securities Regulations 2009*, Schedule 1, Part 2, Clause 2.2(2).

\(^{109}\) *Personal Property Securities Act 2009* (Cth), s 10: “Commercial property means personal property other than consumer property”.

\(^{110}\) *Personal Property Securities Regulations 2009*, Schedule 1, Part 2, Clause 2.2(1)(c).


This part focuses in more depth on the challenges faced by IP owners, parties taking IP as security and practitioners under the PPSA. It considers problems associated with preserving interests in IP, when dealing with copyright licences and partial assignments, as well as instances where IP forms part of tangible property, such as a software program which incorporates a registered trademark.

**Multiple IP registers**

The first challenge lies in the fractured treatment of IP under Australian Law, which is reflected in the legislation and registration requirements. Pre-PPSA security over IP rights was dealt with in a number of different Acts, e.g.: the *Circuit Layouts Act*, *Plant Breeder’s Rights Act*, *Patents Act*, *Designs Act*, *Copyright Act* and the *Trade Marks Act*. The Register of Patents, Register of Designs, Register of Trade Marks and Register of Plant Breeder’s Rights (known collectively as the IP Registers), continue to be administered by IP Australia in respect of patents, designs, trade marks and plant breeder’s rights. The various Acts have been amended to avoid overlap with the PPSA, and although IP ownership is still recorded on these registers (e.g. the relevant details of a registered trademark are recorded on the Register of Trade Marks); registration of security interests in IP rights are now regulated by the PPSA and require registration on the PPSR to protect the holder’s interests. Significantly, these registrations were voluntary before the application of the PPSA and in many instances a security interest over a trade mark would remain unregistered. Whilst the PPSA provides greater certainty for persons searching for security interests, it also means that persons searching IP rights need to conduct separate searches on both the relevant IP register (to ascertain the particulars of the IP right) and the PPSR (to establish whether the IP right is subject to any security interests).

Unlike prior registered interests which appeared on the ASIC register for example, registered IP security interests were not migrated to the PPSR. The rationale was the fact that registrations were not compulsory on the IP registers, thus placing the onus on all prior secured parties with a registered interest in IP rights to re-register their interests during the transitional period. Any parties who failed to do so are now in the position of an unsecured party and would need to register in order to secure their interests.

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115 *Circuit Layouts Act* 1989 (Cth).
117 *Patents Act* 1990 (Cth).
118 *Designs Act* 2003 (Cth).
119 *Copyright Act* 1968 (Cth).
120 *Trade Marks Act* 1995 (Cth).
121 *Trade Marks Act* 1995 (Cth), s 69 and *Trade Marks Regulations* 1995 (Cth), reg 7.2.
122 See general discussion of *Personal Property Securities Act* 2009 (Cth) in Parts I and II above.
125 This period ended on 31 January 2014, as noted above.
126 However, any registrations effected after the end of the transitional period will only be effective from registration date, parties will lose the benefit of transitional provisions under s 320 of the Act, and other creditors whose registration preceded theirs may have priority over their interests.
The effect of the concurrent application of the PPSA and IP legislation is that security interest disputes will be regulated by the PPSA, but other disputes (e.g. competing ownership claims or licence-holder/transferee disputes) continue to be regulated by the various IP Acts. Thus, for practitioners and credit providers undertaking due diligence on IP, a search of both the PPSR and the relevant IP register would be appropriate.

Copyright

As noted earlier, copyright is not registrable in Australia and as such, no registered copyright interests exist. It has been explained that, for registration purposes on the PPSR, copyright is treated in a different manner to other IP as it does not have a serial number to be recorded, unlike for example a patent, which “may or must” be described by the patent number mentioned in the Patents Register. This may mean credit providers, publishers or their legal advisors could be carrying out numerous searches on the PPSR to establish whether a copyright interest is free from encumbrance. It also means the secured party will have to ensure that the copyright is fully described in the security agreement and as accurately as possible on the financing statement to adequately protect their interests.

Howard points out other considerations when taking security over copyright:

“Even a copyright, which is ironically (given its artistic association) normally the most readily transferable and "liquid" of intellectual properties can lose its value if, for example, the original author does not wish to participate in adaptations, derivative works, or sequels. Moreover, the original author will normally have moral rights which simply cannot be assigned and can only be waived. Moral rights can, and indeed should, be scary stuff to a banker unless the author has irrevocably and completely waived her entitlement. In a film or a computer program, there can be many dozens or hundreds or more of "authors" There may also be reversion rights in the case of Canada or termination of transfer rights in the case of the U.S.A. that may severely compromise the value of an older copyright.

He further says:

“Copyright registration in the U.S.A. is backed up by deposit of a work, but in the case of computer software it is unlikely to contain any useful quantity of actual source code. In Canada, the work cannot be deposited at all. None of the systems in Canada is reliable in terms of conclusively showing current ownership. There is no on-line copyright system in Canada in any event.”

Similar considerations apply to Australian copyright, as Van Caenegem points out:

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128 Personal Property Securities Regulations 2009, Schedule 1, Part 2, Clause 2.2(2).
“No formal requirements are attached to copyright protection under the Copyright Act... No copyright symbol needs to be displayed on a work or subject matter as a condition of protection, and no official registration of copyright works is either possible or required.”

Thus, Australian parties have to contend with the same limitations in their copyright dealings. They need to follow a diligent approach by being aware of the pitfalls and providing detailed copyright descriptions.  

**Licensing Copyright: Licence or Assignment?**

It has been noted that, in the case of licensing agreements, it can sometimes be difficult to determine whether a proprietary right is being conferred or merely a contractual one (which will then fall outside the scope of the PPSA). This may be especially relevant where, for example a bank (the secured party) agrees to take security over a copyright licence held by a licensee in return for a bank loan. Duggan points out that that a fishing licence, for example, has been held to be property (and thus subject to the PPSA) by the Canadian Supreme Court in *Saulnier v Royal Bank of Canada*. It is clear from the discussion in Part I that a licence is indeed personal property under the Act, and a transferable licence to exercise rights comprising IP is specifically included under the definition of “licence” under the PPSA.

Whether or not a proprietary right in a copyright licence has been transferred will depend on the terms of the contract between the IP rights owner and the transferee/licensee, and whether or not reversionary rights are included in the contract. As registration on the PPSR does not require the filing of supporting documentation, the secured party will have to ensure that it obtains a copy of the licence to ascertain the true nature of the contract. It may also not be clear to the secured party whether any registered interests exist over the copyright licence being offered as security, because of the difficulties of searching for an accurate description of such a licence on the PPSR, as no registration number exists in the case of copyright. Clearly the value of a copyright licence which has been assigned to the licensee, will be significantly more valuable than a licence granted with restrictions or reversion rights, and this status can only be determined by carefully studying the agreement between licensor and licensee. An assignment will usually indicate the transfer of property rights whereas a ‘licence’ may only signify a contractual right; making it difficult to secure licensing rights with any certainty. Where a copyright licencing agreement, or an assignment (for that matter), is subject to reversionary rights of the licensor, there may be a registered interest in favour of the licensor on the PPSR which protects his or her rights, which could be difficult for a credit provider to find for the aforesaid reasons. If the credit provider fails to find this registered interest during a search of the PPSR, and takes the copyright licence as security, it may suffer a

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136 “[Whether or not the right, entitlement, authority or licence is exclusive, and whether or not a transfer is restricted or requires consent],” *Personal Property Securities Act 2009* (Cth), s 10 definition of “licence”.

137 As the holder of the reversionary right, the licensor should register an interest over the licence on the PPSR pursuant to s12.
significant loss in the event of a dispute vis-à-vis the licensor. Where this concerns large projects such as film productions which rely on copyright material, or valuable copyright interests in the music industry,\textsuperscript{138} it may have dire repercussions for the investor.

Clearly if there has been an outright assignment to the assignee, property has been transferred and the secured party will be safe in dealing with the transferee; but as Harris and Mirzai point out the true nature of the transaction must be considered:\textsuperscript{139}

An assignment is absolute in essence, that is, there remains behind no interest held by the assignor. Where ... an interest remains, the instrument is rarely an assignment at all, rather a revocable mandate or creation of a trust... Where parties attempt to mask a security interest behind the veil of assignment, this will not prevent the PPSA from applying pursuant to the “in substance” test (see s12(1)).”

Thus, when dealing with rights held under a copyright licence being offered as security, three issues bear consideration: First, is it a transferable licence; second, has there been an outright assignment, or rather a licencing agreement or assignment with residual rights held by the licensor. Third, if the latter applies, are there any security interests registered against the licence or the underlying copyright which would have priority over any subsequent interest holders. As illustrated, this can be difficult to determine with certainty.

From a different perspective, the transferee of an IP asset (e.g. where the licensor sells its business to another party and includes the copyright in a recording as part of the assets)\textsuperscript{140} should heed the provisions of s 106, which deals with the “transfer of intellectual property that is the subject of a licence (or sub-licence).”\textsuperscript{141} As we saw, if the transferor has granted a licence to a licensee who has encumbered the licence, the Act provides that a security agreement will bind successors in title to the licensor (or sub-licensor) to the same extent that they were bound.\textsuperscript{142} This requires considerable caution on the part of a transferee to avoid its property interest being deferred to a secured party of a licensee of the transferor (licensor), a difficult task, as it need to ensure the licensor was not bound by any security agreement over the licence. It may be possible to deal with this dilemma by requesting a warranty from the transferor (licensor) that the transferor has not previously consented to security interests in the licence.\textsuperscript{143}

\textbf{IP intrinsically associated with collateral}

\textsuperscript{138} The value of copyright in songs can be considerable, for example, in 1984 Michael Jackson paid $47.5 million to purchase ATV Music Publishing, which owned the copyright of more than 200 songs written by John Lennon and Paul McCartney, viewed at http://www.celebritynetworth.com/articles/entertainment-articles/how-michael-jackson-bought-the-beatles-catalogue-then-turned-it-into-a-billion-music-empire.


\textsuperscript{140} As illustrated by \textit{Figure 2} above.

\textsuperscript{141} \textit{Personal Property Securities Act 2009 (Cth)}, s 104, 106.

\textsuperscript{142} \textit{Personal Property Securities Act 2009 (Cth)}, s 104, 106.

\textsuperscript{143} Australian Copyright Council, \textit{Personal Properties Securities Act (PPS Act) and copyright}, p7 viewed on 16 June 2014 at http://www.copyright.org.au%2Fadmin%2Fcmsacc1%2F_images%2F51175436852f9a69b99b19.pdf?ei=OpqeU4X5BSvIkXKuYGIAQ&usg=AFQjCNFlfd2vpQ0aGMDmfsjKjonKMrfg&sig2=hyAewE-TPAbwOKB0nHx6iQ.
Another peculiarity of IP under the PPSA is how it deals with IP that is intrinsically part of the property involved, e.g. patented machinery, patented pharmaceuticals, computer hardware with embedded software or branded clothing. Thus, we have noted that, in a case where a patent is necessary to operate a piece of machinery, the secured party’s interest will include the patent rights required to make the machinery operational. The application of this provision can be problematic where different parties have security interests in the goods and the IP rights respectively, i.e. in respect of the tangible property and intangible property involved.

Mirzai and Harris express the view that:

“The Australian Courts have generally been reluctant to imply a licence to deal with the IP associated with tangible property, enforcing the view that such rights are separate and distinctive.”

The PPSA deals with this situation by providing that, where the security agreement necessarily involves an exercise of the intellectual property rights, the underlying IP rights will attach to that collateral, unless the security agreement provides otherwise. This reverses the common law position – the secured party need not include a specific reference to any IP rights in the security agreement; rather, the grantor has the onus of expressly excluding IP from the agreement. Thus, in order to avoid the implied inclusion of IP, from a grantor’s perspective, security agreements should clearly state the extent to which the IP or IP licences form part of the collateral.

Part IV: Conclusion

It has become evident that, when considering dealings with IP in commercial transactions, the PPSA plays a central role. Additionally, any licence granted in respect of that IP should be scrutinized and ensured that it has not been encumbered under the PPSA. Whilst PPSR searches are pivotal, and the

144 *Personal Property Securities Act* 2009 (Cth), s 104, 105.
145 The Explanatory Memorandum to the *Personal Property Securities Act* 2009 (Cth), provides the following example:
‘Grantor A owns a factory that produces car parts using robots whose only function is to manufacture those particular car parts. The process used to manufacture the car parts was patented by Grantor A. Grantor A obtains a loan from Bank A and receives value for a security interest. The security agreement refers to “the robots”. Bank A registers the security interest. Grantor A defaults under the security agreement. Bank A enforces the security agreement. The security agreement only refers to a security interest over the robots, but the court determines that the security interest extends to the patent to the extent required to permit the robots to operate. The exercise of Bank A’s rights to the robots under the security agreement necessarily involves the use of the patent rights exploited in the robots. Bank A’s security interest will therefore be enforceable against both the robots and the patent.’
148 *Personal Property Securities Act* 2009 (Cth), s 105.
first checkpoint when dealing with these assets, the description of the relevant IP becomes crucial and searches should be done as broadly as possible against the name of the grantor and the IP itself.

As discussed in Part II above, when dealing with “commercial property” which is intangible property and either a design, patent, plant breeder’s right, trademark; or a licence in respect of any of these types of property, the Act provides that it may be described by serial number, which may give rise to uncertainty when conducting a search on the PPSR against a grantor where no serial number is included in the description of the IP. If described by means other than a serial number, it may be difficult to ascertain whether the IP is in fact subject to other security interests. From a secured party perspective it would be desirable to include a serial number in the event of future disputes, in the interests of certainty. However, a prospective secured party will have to conduct detailed searches in respect of any IP collateral on offer under its serial number as well as other possible descriptions, to exclude any possible secured parties relying on descriptions of the collateral by other means, on a prior registered financing statement. When viewed from this perspective, it can be argued that dealing with IP rights (including licences) as collateral can be a perilous affair under the PPSA.

IP licences, in particular, raise a number of issues which a prospective secured party of a licensee (e.g. a credit provider of a licensee) should consider: Firstly, is the licence transferable? If so, it will be regulated by the PPSA, and can be used as collateral in a transaction. Secondly, have any security interests been registered over the license by the licensor or any other secured parties, and have they described the IP which is the subject of the licence) by serial number? If uncertainty exists as to the unencumbered nature of the licence, it would be advisable for a secured party to require a subordination agreement from the licensor or assignor, who may hold ownership or reversionary rights in the licence and whose security interest may be difficult to establish with certainty via a PPSR search. A similar approach should be followed in respect of any other parties holding security over the assets the licensee, especially secured parties with a registered security interest over all “present and after-acquired assets” of the licensee, as this will include any IP rights.

For the acquirer or transferee of IP rights – perhaps as part of the acquisition of a business – it serves well to be aware of existing licensing agreements of the IP with other parties, and potential liabilities that may arise in that regard. It has been noted that there may be ongoing service liabilities such as the maintenance of licensed software under licensing agreements, but under the PPSA further diligence is required. If the original owner (licensor) would have been bound under an agreement with a secured party, e.g. a creditor of the licensee, that secured party could potentially exercise any rights they hold over the licence if the licensee defaults on its security agreement, rendering the transferee (new owner) of the IP subordinate to the rights of the licensee’s secured credit provider under an existing agreement. This situation may be averted by - in addition to conducting diligent searches under IP serial numbers as well as against all known licensees - obtaining a warranty and

150 *Personal Property Securities Regulations 2009*, Schedule 1, Part 2, Clause 2.2(1)(c).
151 *Personal Property Securities Act 2009* (Cth), s 10 definition of “licence”.
152 This requires an understanding of the s12(5) PPSA provision that the licence itself is not a security interest, but can be used as security in commercial dealings.
153 As per *Personal Property Securities Regulations 2009*, Schedule 1, Part 2, Clause 2.2(1)(c).
154 As explained by *Figure 1* above.
155 As explained by *Figure 2* above.
indemnity from the IP owner/transferor to address the onerous s 106 provision,\textsuperscript{156} and ensure that the transferee does not take on more than he or she bargained for.

While it cannot be disputed that the PPSA has, in general, achieved its intended goal of facilitating “the creation of personal property security interests to ensure efficient transactions and increased certainty in financing,”\textsuperscript{157} the effect of the discretionary description requirements of commercial IP under the PPS Regs\textsuperscript{158} is to cast a somewhat nebulous cloud over the “certainty” of the PPSR. For this reason, and because of the other compelling considerations highlighted in this article, dealings in IP interests should be approached with caution under the PPSA. The danger for transferees of IP rights and prospective secured parties, is that the effect of the PPSA provisions on such dealings may not be readily apparent, and could have dire consequences if overlooked. Parties who deal with IP rights in commercial transactions without due regard for the impact of the PPSA do so at their own peril.

\textsuperscript{156} Personal Property Securities Act 2009 (Cth), s 106. Pursuant to s 106, the Act provides that a security agreement will bind successors in title to the licensor or sub-licensor to the same extent that they were bound.


\textsuperscript{158} Personal Property Securities Regulations 2009, Schedule 1, Part 2, Clause 2.2(1)(c).