

# Security Interests in Intellectual Property Licences under Japanese Law: A Comparative Analysis

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## I. INTRODUCTION

In the wake of the global emergence of a knowledge-based economy, intangible assets have become a key economic factor. Japan is particularly well known for her advanced position as regards technology, reflected by the large number of patents registered that rank among the highest worldwide.<sup>1</sup> The Japanese legislator, too, has acknowledged the importance of intellectual property. Thus, the Intellectual Property Basic Act<sup>2</sup> of 2002 explicitly states in its Article 1 that the promotion of intellectual property is necessary

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1 R. TAPLIN, *Intellectual property and the new global Japanese economy* (London 2009) 25; CH. HEATH, *Intellectual property and anti-trust*, in: Röhl (ed.), *History of law in Japan since 1868* (Leiden 2005) 419 *et seq.*

2 *Chiteki zaisan kihon-hô*, Law No. 122/2002, Engl. transl. available at <http://www.japaneselawtranslation.go.jp>; quotations are based on this translation. Each year so-called strategic programmes (*chiteki zaisan senryaku daimô*) are issued on the basis of the Intellectual Property Basic Act; see also TAPLIN, *supra* note 1, 25.

for the objective of realizing a dynamic economy and society that is based on the creation of added values through the creation of new intellectual property and effective exploitation of such intellectual property in light of a growing necessity for intensifying the international competitiveness of Japanese industry in response to the changes in the social and economic situations at home and abroad.

Given its economic importance, intellectual property represents a large part of corporate value. Thus, there is an growing need to use intellectual property assets also as security in order to obtain credit.

Often, however, owners of intellectual property do not – or do not exclusively – exploit their patents, trademarks or copyrights themselves but rather grant a right of use, a so-called licence, to a third party, the licensee.<sup>3</sup> Licences are also valuable assets and are increasingly used as security. A software company, for instance, which develops software while incorporating software components that it licenses from third parties might offer its right to use and incorporate software components licensed from third parties as security in order to obtain credit.<sup>4</sup>

Using intellectual property and licences as security involves a number of specific problems that are not encountered with “traditional” types of security. In practical respects, it is in particular the valuation of intellectual property and also the realization of security rights that cause problems, as there are often no ready markets available for intellectual property assets. In recent years security rights in intellectual property have become a topic of research both in Japan<sup>5</sup> and in Germany.<sup>6</sup> Security interests in

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- 3 On the practical importance of patent licences, see K. YAMAGAMI, *Tokyo raisensu keiyaku no jitsumu-jô no mondai-ten* [Practical problems regarding patent licence contracts], in: Kin'yû Shôji Hanrei 1236 (2006) 156.
  - 4 See UNITED NATIONS COMMISSION ON INTERNATIONAL TRADE LAW, UNCITRAL Legislative Guide on Secured Transactions Supplement on Security Rights in Intellectual Property (New York 2011) para. 41.
  - 5 See, for instance, T. HABU, *Chiteki zaisan-ken tanpo yûshi* [Financing based on intellectual property as security] (Tokyo 2008); K. KAMATA, *Chiteki zaisan tanpo no riron to jitsumu* [Theory and practice of intellectual property as security] (Tokyo 1997); IDEM., *Chiteki zaisan-ken tanpo o meguru hôteki sho-mondai* [Various legal problems involved in using intellectual property as security], in: Kin'yû Hômu Jijô 1444 (1996) 6; K. SENGOKU, *Chiteki zaisan-ken tanpo yûshi no jitsumu* [Financing based on intellectual property rights as security in practice], in: Ginkô Hômu 21 (1996) 10; Y. TAKAISHI, *Chiteki shoyû-ken tanpo* [Intellectual property rights as security] (Tokyo 1997).
  - 6 See, for instance, C. WOESTE, *Immaterialgüterrechte als Kreditsicherheit im deutschen und US-amerikanischen Recht*, (Osnabrück 2002); A. BRÄMER, *Die Sicherungsabtretung von Markenrechten* (Tübingen 2005); TH. KNÜPFER, *Marken als Kreditsicherheit* (Frankfurt a.M. 2003); A. WARTH, *Marken als Grundlage der Kreditsicherung* (Frankfurt a.M. 2007); CH. KLAWITTER / L. HOMBRECHER, *Gewerbliche Schutzrechte und Urheberrechte als Kreditsicherheiten*, in: Wertpapiermitteilungen 2004, 1213; J. KOTTHOFF / D.A. PAULY, *Software als Kreditsicherheit*, in: Wertpapiermitteilungen 2007, 2085; H. SCHMIDT, *Urheberrechte als Kreditsicherheit nach der gesetzlichen Neuregelung des Urhebervertragsrechts*, in: Wertpapiermitteilungen 2003, 461.

licences, however, which in essence are rights in rights in rights, trigger yet further, specific problems that so far have hardly been dealt with.

An analysis of Japanese law shows that there are clear and consistent provisions which make it indeed feasible in practice to grant security rights in licences. For a German lawyer this is of particular interest, as German intellectual property laws tend to impair rather than facilitate the use of licences as security. Thus, German provisions as they stand are in need of reform. In framing new intellectual property laws, Japanese law could well serve as a model in particular as regards provisions on licences and the creation of security interests in them.

This paper therefore attempts to give an overview of the Japanese provisions on patent, trademark and copyright licences as security and to analyse them in comparison to German law.<sup>7</sup> The main focus of the analysis lies on the nature of intellectual property licences (II.), the creation of security rights in licences (III.), the rights and obligations of the parties to the security agreement (IV.) and insolvency (V.).

## II. INTELLECTUAL PROPERTY LICENCES

Before dealing with the creation of security interests, it is necessary to take a closer look at the nature of the security concerned, i.e. the nature of intellectual property licences. While in German law, for instance, there is a huge controversy as to what kind of right a licence actually grants, which is fostered by the near absence of explicit provision on licences in the intellectual property laws, Japanese law provides straightforward and consistent rules on licencing.

### 1. Patent and trademark law

Under the Patent Act (PA)<sup>8</sup> and the Trademark Act (TMA),<sup>9</sup> two types of licences are available: so-called special licences (*sen'yô jishi-ken* or *sen'yô shiyô-ken*)<sup>10</sup> and ordinary licences (*tsûjô jisshi-ken* or *tsûjô shiyô-ken*).<sup>11</sup>

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7 For a more detailed comparative study on intellectual property licences as security under German, Austrian and Japanese law, see G. KOZIOL, *Lizenzen als Kreditsicherheiten. Zivilrechtliche Grundlagen in Deutschland, Österreich und Japan* (Tübingen 2011) on which this paper is based.

8 *Tokkyo-hô*, Law No. 121/1959 as amended by Law No. 16/2008. Engl. transl. available at <http://www.japaneselawtranslation.go.jp>.

9 *Shôhyô-hô*, Law No. 127/1959 as amended by Law No. 16/2008. Engl. transl. available at <http://www.japaneselawtranslation.go.jp>.

10 The Patent Act uses the term *jisshi-ken*, which literally translates as right to exercise, while the Trademark Act refers to licences as *shiyô-ken* (right to use). As the provisions are largely the same under both acts, in the following the term "licence" will be used for both.

a) *Special licences*

Special licences are provided for in Article 77 PA and Article 30 TMA, respectively, and grant the licensee an exclusive right to use the patent or trademark. Within the range of the licence granted, the IP owner himself is no longer entitled to use the patent or trademark or grant further licences.<sup>12</sup>

The special licence only becomes effective upon registration in the patent or trademark register (Art. 98(1) no. 2 PA, Art. 30(4) TMA). This is in line with the provisions on the creation of the patent or trademark itself, which also stipulate registration as a prerequisite for effectiveness. Registration of the licence requires consent of the licensor. While it is generally acknowledged by doctrine<sup>13</sup> that the licensor has a duty to register the licence arising out of the licence agreement, case law<sup>14</sup> has held that there is no duty of the licensor to register. The courts' view has rightly been criticised, as it is rather problematic if the licensee has no means to assert the effectiveness of the rights granted to him under the licence agreement.<sup>15</sup>

Upon registration the licence also takes effect against third parties without any further prerequisites.<sup>16</sup> The licence is thus also effective against someone subsequently acquiring the patent or trademark from the licensor. The licensee is entitled to seek an injunction or to claim damages in his own name if his rights are infringed by third parties (Art. 100, 102 PA, Art. 36, 38 TMA).<sup>17</sup>

Special licences can be transferred provided the licensor consents.<sup>18</sup> Only in the case of general succession, including inheritance, or if the licence is transferred together with

11 For an English language introduction to patent licences, see also H. KAWAGUCHI, *The essentials of Japanese patent law* (The Hague 2007) 135 *et seq.*; T. DOI/W.C. SHATTUCK (eds.), *Patent and know-how licensing in Japan and the United States* (Seattle 1977).

12 Cf. also ÔSAKA BENGOSHI-KAI. CHITEKI ZAISAN-HÔ JITSUMU KENKYÛ-KAI (ed.), *Chiteki zaisan keiyaku no riron to jitsumu* [Intellectual property contracts in theory and practice] (Tokyo 2007) 323.

13 See also N. NAKAYAMA (ed.), *Chûkai tokkyo-hô* [Commentary on patent law] (3<sup>rd</sup> ed., Tokyo 2000) 819; SH. ONO, (ed.), *Chûkai shôhyô-hô* [Commentary on trademark law], (2<sup>nd</sup> ed., Tokyo 2005) 770.

14 Tokyo District Court, 29 July 1979, in: YAMAGAMI KAZUNORI SENSEI KANREKI KINEN RONBUN-SHÛ KANKÔ-KAI (ed.), *Hanrei raisensu hô. Yamagami Kazunori sensei kanreki kinen ronbun-shû* [Case law on licences. Collection in commemoration of the 60<sup>th</sup> birthday of Professor Kazunori Yamagami] (Tokyo 2000) 111.

15 Cf. CH. HEATH, *Lizenzen und Technologietransfer*, in: Baum/Bälz (eds.), *Handbuch Japanisches Handels- und Wirtschaftsrecht* (Köln 2011) para. 34.

16 N. NAKAYAMA, *Kôgyô shoyû-ken hô (jô). Tokkyo-hô* [Industrial property I. Patent law] (2<sup>nd</sup> ed., Tokyo 2000) 440.

17 NAKAYAMA, *supra* note 13, 817; ONO, *supra* note 13, 763 *et seq.*

18 NAKAYAMA, *supra* note 13, 818 *et seq.*; K. TOYOSAKI, *Kôgyô shoyû-ken hô* [Industrial property law] (Tokyo 1980) 295.

the business exploiting it, consent of the licensor is not required.<sup>19</sup> The transfer is not effective unless registered (Art. 77(3) PA, Art. 30(3) TMA). The licensee also has the right to grant sub-licences. Again, consent of the licensor is required (Art. 77(4) PA, Art. 30(4) TMA). Sub-licences always take the form of ordinary licences.

*b) Ordinary licences*

An ordinary licence grants the licensee the right to use the patent or trademark in such a way and to such an extent as stipulated by statute or contract (Art. 78(2) PA, Art. 31(2) TMA). A special licence may be granted either by the patent or trademark owner himself or by a special licensee. Registration is no requirement for effectiveness as such. However, the licence has to be registered in order to become effective against third parties;<sup>20</sup> non-registered ordinary licences cannot be asserted against third parties (Art. 99(1) PA, Art. 31(4) TMA). The same applies to the transfer of the licence (Art. 99(3) PA, Art. 31(4) TMA).<sup>21</sup> According to case law, there is again no duty of the licensor to register the licence unless expressly stipulated in the licence agreement.<sup>22</sup> Some authors, however, argue that the licensor is obliged to register.<sup>23</sup> It is up to the parties to frame the licence granted as an exclusive right of use (*dokusen tsûjô jisshi-ken*)<sup>24</sup> or non-exclusive right of use (*hi-dokusen tsûjô jisshi-ken*). There are no statutory provisions on the exclusiveness of ordinary licences. For this reason, there is no possibility to state in the patent or trademark register whether the licence is exclusive or not. The exclusiveness of the licence can therefore not be asserted against third parties. Thus, the licensee has no claims for infringement against third parties who are subsequently granted further ordinary licences by the licensor.

There are no explicit provisions on the rights of the licensee in case of infringement of the licence. According to case law the exclusive ordinary licensee may, by way of

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19 This applies, however, only to patent law. Transfer of a trademark licence always requires consent of the licensor, cf. T. SHIBUYA, *Chiteki zaisan-hô kôgi III* [Textbook on intellectual property law III] (2<sup>nd</sup> ed., Tokyo 2008) 312, 315.

20 A registered ordinary licence is effective against a subsequent purchaser of the patent or trademark: NAKAYAMA, *supra* note 13, 814. According to Y. TAMURA, *Shôhyô-hô gaisetsu* [Introduction to trademark law] (2<sup>nd</sup> ed., Tokyo 2001) 407, the licence is effective against the purchaser even if not registered provided the purchaser knew that a licence had been granted.

21 NAKAYAMA, *supra* note 13, 829.

22 Supreme Court, 20 April 1973, in: Hanrei Taimuzu 295 (1973) 258.

23 For an overview of the different positions, see NAKAYAMA, *supra* note 13, 838; ONO, *supra* note 13, 787; ÔSAKA BENGOSHI-KAI, *supra* note 12, 325.

24 The patent or trademark owner may or may not be excluded from exploiting the patent or trademark (*kanzen dokusen tsûjô jisshi-ken* (completely exclusive licence) or *hi-kanzen dokusen tsûjô jisshi-ken* (not completely exclusive licence)).

analogy to Article 102 PA, claim damages in his own name.<sup>25</sup> The licence is transferable. Consent of the licensor is, however, required unless a patent licence is transferred in conjunction with the business exploiting it (Art. 94(1) PA, Art. 31(3) TMA).<sup>26</sup> There are no explicit provisions on the right to grant sub-licences. While it is generally acknowledged that the licensee is entitled to grant sub-licences, there is no possibility to register them. Sub-licences are therefore not effective against third parties.

## 2. Copyright law<sup>27</sup>

Copyright licences (*riyô kyodaku*) grant the licensee the right to use the copyrighted work in such a way as stipulated by contract (Art. 63(2) Copyright Act (CA)<sup>28</sup>). There is no possibility to register copyright licences. Thus, copyright licences are not effective against third parties, including a subsequent purchaser of the copyright.<sup>29</sup> The licence agreement may provide for exclusiveness of the licence. However, lacking the possibility to register the licence, the licensee cannot assert the exclusiveness of his right against third parties, including parties that are subsequently granted licences in violation of the agreement between copyright owner and original licensee.<sup>30</sup> There are no provisions on the rights of the licensee in case of infringement of the licence.<sup>31</sup> According to case law and doctrine, an exclusive licensee may bring a claim for damages against third parties unlawfully exploiting the copyrighted work<sup>32</sup> while non-exclusive licensees are not

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- 25 Osaka District Court, 28 February 1979, Mutai-shû 11, 92; Osaka District Court, 20 December 1984, Mutai-shû 16, 803. However, the exclusive ordinary licensee is not entitled to seek an injunction, Osaka District Court, 20 December 1984, Mutai-shû 16, 803. Cf. also ÔSAKA BENGOSHI-KAI, *supra* note 12, 325. Doctrine is divided on whether also non-exclusive ordinary licensees are entitled to claim damages or seek an injunction. For an overview of the different positions taken in patent law, see NAKAYAMA, *supra* note 13, 831; for trademark law, see TAMURA, *supra* note 20, 408 *et seq.*
- 26 For the transfer of trademark licences, the licensor's consent is always required, cf. SHIBUYA, *supra* note 19, 312, 315.
- 27 For an English language introduction to copyright licences, see H. SHIOMI/P. GANEA, Copyright contract law, in: Ganea/Heath/Saitô (eds.), Japanese copyright law (The Hague 2005) 77.
- 28 *Chosaku-ken hô*, Law No. 48/1970 as amended by Law No.73/2009. Engl. transl. available at <http://www.japaneselawtranslation.go.jp>.
- 29 N. NAKAYAMA, *Chosaku-ken hô* [Copyright law] (Tokyo 2007) 329; T. SHIBUYA, *Chiteki zaisan-hô kôgi II* [Textbook on intellectual property law II] (2<sup>nd</sup> ed., Tokyo 2007) 382 *et seq.*
- 30 SHIBUYA, *supra* note 29, 380, 386; K. YABUKI/A. NEMOTO, *Chosaku-ken raisensu* [Copyright licence], in: Kin'yû Shôji Hanrei 1236 (2006) 171; Y. TAMURA, *Chosakuken-hô gaisetsu* [Introduction to copyright law] (2<sup>nd</sup> ed., Tokyo 2001) 484.
- 31 NAKAYAMA, *supra* note 29, 330, 502.
- 32 Tokyo District Court, 22 May 1991, in: Hanrei Jihô 1421 (1992) 113. Cf. M. MATSUDA, *Chosaku-ken hô 63-jô ni yoru chosaku-butsu no riyô kyodaku keiyaku to minpô saiken-hô, hasan-hô no kôsa* [Licence agreements regarding copyrighted works according to Art. 63 Copyright Act and points in common with the law of obligation and bankruptcy law], in: Moriizumi (ed.), *Chosaku-ken hô to minpô no gendaiteki kadai. Handa Masao sensei koki*

entitled to bring a claim against unlawful infringers.<sup>33</sup> The licence can be transferred provided the licensor consents (Art. 63(3) CA).<sup>34</sup>

Another type of copyright licence is the right of publication (*shuppan-ken*). The publisher is granted an exclusive right to reproduce the copyrighted work by means of printing or other mechanical or chemical processes for the purpose of distribution (Art. 80 CA).<sup>35</sup> The right of publication can be registered in the copyright register. Registration is required for third party effectiveness (Art. 88(1) CA). The holder of a registered right of publication has a claim against infringers.<sup>36</sup> The right of publication can be transferred provided the copyright owner consents (Art. 87 CA). However, the transfer can also only be asserted against third parties if registered in the copyright register.

### 3. Comparative remarks

Under German law, one of the biggest controversies regarding intellectual property licences concerns the question whether a licence grants the licensee a personal right, which is enforceable only against the licensor, or a (quasi-)real right, which is enforceable against anyone. The provisions on licences in the German Patent, Trademark and Copyright Acts give hardly any indication. As far as licences are held to be (quasi-)real rights, a further problem arises: Although there are strict publicity requirements under German property law, there is hardly any possibility for publicity of licences. The only type of licences which can be registered are exclusive patent licences (Section 30(4) German Patent Act). However, since neither effectiveness nor third-party effectiveness depends on it, registration does not entail any effects whatsoever. The same holds true, by the way, for the transfer of the intellectual property right itself, which may be registered in the patent or trademark register, but, again, registration also has no impact on effectiveness, even against third parties. Lacking special provisions on licences or transfer of rights, and given the narrow definition of property of Section 90 German Civil Code which does not allow for the application of property law rules,<sup>37</sup> the provisions on assignment of claims are applied to intellectual property rights and also to licences. As Claims are merely personal rights, no publicity is required for their transfer. Since intel-

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*kinen ronshû* [Today's problems in copyright and private law. Collection in commemoration of the 70<sup>th</sup> birthday of Professor Masao Handa] (Tokyo 2003) 461 *et seq.*; NAKAYAMA, *supra* note 29, 502; K. KANAI, *Chosaku-ken tô no raisensu keiyaku no sho-mondai* [Some issues regarding copyright and other licence agreements], in: Kopiraito 2004, 19 *et seq.*; TAMURA, *supra* note 30, 484 *et seq.*; YABUKI / NEMOTO, *supra* note 30, 172.

33 Cf. KANAI, *supra* note 32, 19; YABUKI / NEMOTO, *supra* note 30, 172.

34 Cf. M. HANDA / M. MATSUDA (eds.), *Chosaku-ken hô konmentâru 2* [Commentary on copyright law 2] (Tokyo 2009) 595.

35 NAKAYAMA, *supra* note 29, 336.

36 SHIBUYA, *supra* note 29, 380 *et seq.*

37 According to Section 90 German Civil Code, only tangibles are property.

lectual property rights and to some extent also licences are (quasi-)real rights that affect third-party interests, this cannot be regarded as a satisfactory solution.

Japanese law, on the other hand, offers – as set out above – clear-cut rules on the creation as well as the effects of licences. There are graduations in the effects of the different types of licences: Special patent or trademark licences and the right of publication, if registered, are extensively protected and can be enforced against anyone. They grant the licensee a position almost comparable to that of the owner of the patent or trademark. Special licences are therefore regarded as (quasi-)real rights. Ordinary patent or trademark licences are held to be personal rights. However, provided they are registered, they are in some respects also enforceable against third parties, e.g. against a subsequent purchaser of the intellectual property and, under certain circumstances, also against an infringer. Ordinary patent and trademark licences that are not registered, as well as copyright licences, which cannot be registered, are personal rights and are as such not enforceable against anyone but the licensor. According to case law, ordinary licences do not even grant a positive right but only amount to a waiver of the licensor's right to ban exploit of the intellectual property by others.<sup>38</sup> However, this interpretation is not in line with the wording of Article 78(2) PA under which the licensee is granted a *right* to use the patent. Therefore, ordinary licences are to be regarded as granting a positive right which is, however, only enforceable against the licensor, unless registered.<sup>39</sup> The various provisions on licences are also consistent with regard to the prerequisites for creating a “real” right that differ between patent and trademark law on the one hand, and copyright law on the other: While patents and trademarks require registration to come into existence, registration of copyrights is only a prerequisite for third-party effectiveness.

While parties are thus given a wide range of possibilities to shape the licence, in practice, most licences are non-registered ordinary licences. Special licences are usually not granted because they prevent the licensor from using the patent or trademark and give the licensee a very strong position.<sup>40</sup> This does not mean, however, that there is no need for licences to be protected and enforceable against third parties. Still, in practice most licences are not registered. This is partly due to the relatively high costs of registration. Parties further refrain from registration because it requires disclosure of various business data. The amount of royalties as well as the manner of payment, the extent of the licence and sometimes even the mere fact that a licence has been granted may be

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38 Osaka District Court, 26 April 1984, *Mutai-shû* 16, 271; see also NAKAYAMA, *supra* note 13, 744.

39 Cf. T. KOJIMA, *Tsûjô jisshi-ken no fu-kashin-sei* [Inviolability of ordinary licence] in: *Ajia Hôgaku* 19 (1985) 164 *et seq.*; T. SHIBUYA, *Chiteki zaisan-hô kôgi I* [Textbook on intellectual property law I] (2<sup>nd</sup> ed., Tokyo 2006) 373.

40 NAKAYAMA, *supra* note 13, 812.

sensitive data which businesses may not wish to publicise.<sup>41</sup> Some authors<sup>42</sup> have therefore voiced a preference for the German system, which does not require any form of publicity even for the creation or transfer of licences that grant (quasi-)real rights. The lack of publicity in German law does, however, give rise to more problems than it solves. Therefore, practical needs in Japan should rather be met by adjusting the disclosure requirements.<sup>43</sup> As for the provisions on licences in general, it is on the contrary Japanese law that should be a model for German law.

### III. CREATION OF SECURITY RIGHTS IN INTELLECTUAL PROPERTY LICENCES

There are three possible ways of using licences as security. First, the licensee (grantor) may grant a pledge in the licence. Second, he may transfer the licence as security to the secured creditor (grantee); and third, the IP owner (or licensee) may grant a licence (or sub-licence) as a security to the creditor.

#### 1. Pledge

Japanese law provides for two types of security rights, pledge (*shichiken*) and mortgage (*teitô-ken*). The pledge is a possessory security right in moveable or immovable property. Delivery of the security is required for effectiveness between the parties (Art. 344 Civil Code (CivC)<sup>44</sup>).<sup>45</sup> Unlike German law, for instance, this also applies to immovable property, which is therefore rarely pledged.<sup>46</sup> The mortgage is a non-possessory security right in immovable property and some types of moveable property for which a register exists. Registration is only required for third-party effectiveness (Art. 177 CivC).<sup>47</sup>

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41 KAZUHIKO YAMAMOTO et al., *Tôsan-hô gaisetsu* [Overview of insolvency law] (Tokyo 2006) 210; S. MATSUDA, *Raisensu keiyaku no antei kyôka ni mukete* [Towards increasing stability of licence agreements], in: Chiteki Kanri 56 (2006) 708; SHIBUYA, *supra* note 29, 382 *et seq.*

42 Y. KOMADA, *Doitsu-hô ni okeru raisenshû no hogo* [Protection of the licensee under German law], in: Chiteki Zaisan-hô Seisaku-gaku Kenkyû 12 (2006) 158 *et seq.*, 160.

43 Here for once German patent law could serve as a model under which only the fact that a licence has been created is registered while *disclosure* of the licensee or other data is not required. See also Y. KOMIYA, *Raisensu keiyaku no hogo ni kansuru genjô to mondai-ten* [Present situation and problems of protection of licence agreements], in: NBL 787 (2004) 9 *et seq.*, 12 *et seq.*

44 *Minpô*, Law No. 89/1896 and No. 9/1898. Engl. transl. available at <http://www.japaneselawtranslation.go.jp>.

45 Cf. H. DÔGAUCHI, *Tanpo bukken-hô* [Real security law] (3<sup>rd</sup> ed., Tokyo 2008) 81 *et seq.*;

46 H. MATSUOKA, Dingliche Kreditsicherheiten, in: Baum / Bälz (eds.), *Handbuch Japanisches Handels- und Wirtschaftsrecht* (Köln 2011) para. 60.

47 Cf. DÔGAUCHI, *supra* note 45, 118.

Security interests in intellectual property itself as well as in licences are modelled as pledge (Art. 95 PA, Art. 34 TMA, Art. 87 CA). As intangible assets cannot be handed over, registration takes the place of delivery. Thus, there is a close resemblance to mortgage. However, the fact that registration is – at least partly – required for effectiveness as such and not only third-party effectiveness points again more towards a pledge. Which effects registration has depends on the type of licence. Special licences under patent and trademark law, which require registration in order to come into existence, also require it for the creation of a pledge (Art. 98(1) no. 3 PA, which also applies to trademark licences: Art. 34(3) TMA).<sup>48</sup> As far as ordinary licences are concerned, which take effect between the parties without registration, registration of the pledge, too, is only a prerequisite for third-party effectiveness (Art. 99(3) PA, Art. 34(4) TMA). The same applies to the pledge of a right of publishing (Art. 88(1) no. 2 CA).<sup>49</sup> Apart from registration, consent of the licensor is a mandatory requirement for pledging a special or ordinary licence in a patent or trademark, or the right of publishing (Art. 77(4), 94(2) PA, Art. 30(4), 31(4) TMA, Art. 87 CA).

The pledge of copyright licences other than the right of publishing is not explicitly provided for. As copyright licences are only effective between the parties and do not have any effect against third parties, they could be regarded as a claim. Thus, the rules on the pledge of claims apply requiring notification of the pledge to the debtor, i.e. the licensor (Art. 364 CivC).

## 2. *Transfer as security*

Even though there are no specific rules, it is generally acknowledged that licences can also be subject to a transfer as security.<sup>50</sup> The provisions on ordinary transfer are applied. This means that consent of the licensor is required. Transfer of special licences in patents or trademarks further requires registration (Art. 98(2) PA, Art. 30(4) TMA), while a transfer of an ordinary licence or a right of publishing is not effective against third parties unless registered.<sup>51</sup> As there is no possibility to specify that the transfer is for security purposes, the transfer is registered just as any other transfer.<sup>52</sup> In the land register, in contrast, it has become possible to register a transfer of immoveable property explicitly as being for the purpose of providing security.<sup>53</sup> For the sake of clarity and for the protection of third parties, it might be worth considering whether the same could also be feasible with regard to the patent, trademark and copyright registers.

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48 SHIBUYA, *supra* note 39, 371; IDEM, *supra* note 19, 312.

49 NAKAYAMA, *supra* note 16, 428.

50 NAKAYAMA, *supra* note 13, 816.

51 R. NAKAMURA, *Chiteki zaisan-ken no tanpo shutoku* [Acquiring security rights in intellectual property rights], in: *Ginkô hômu* 21 (1998) 83.

52 TAKAISHI, *supra* note 5, 173.

53 DOGAUCHI, *supra* note 45, 305.

### 3. *Licence as security*

Apart from granting security rights *in* a licence one could also think of granting a licence *as* security. Such a licence grants the licensee, i.e. the grantee, the right to exercise, transfer or sub-licence the licence in the case of default.<sup>54</sup> In contrast to pledge and transfer as security, the grantor is usually not the licensee but the intellectual property owner himself, although a licensee could also grant a sub-licence as security.<sup>55</sup>

Granting a licence as security is of particular relevance in cases where the intellectual property itself cannot be pledged or transferred which applies, for instance, to copyright under German law.<sup>56</sup> While under Japanese law it is possible to transfer or pledge the economic rights of the copyright owner, there may still be instances where the intellectual property owner would rather grant only a licence than transfer the whole intellectual property right to the secured creditor. In contrast to an outright transfer, it is possible to limit a licence to individual methods of exploitation or to a certain region. Thus, the scope of the security right can flexibly be adjusted to the needs of the parties and in accordance with the amount of the secured claim. Another advantage for the grantor is that he remains entitled to prosecute third parties infringing on the intellectual property right,<sup>57</sup> which may be vital for the perseverance of the intellectual property right if the licensee does not take any action.

The licensee, i.e. the grantee, is not obliged to pay royalties as he has already fulfilled his side of the bargain by granting a loan. Since it is even possible to grant gratuitous licences, the lack of a duty to pay royalties does not provide an obstacle to granting an effective licence.<sup>58</sup>

### 4. *Comparative remarks*

From a German point of view, it is again the fact that Japanese law offers clear and consistent rules that attracts attention. Unlike Japanese law, German intellectual property laws do not contain any provisions on the pledge of licences. In line with the overall application of the provisions on the assignment of claims, the pledge of licences also follows the rules on the pledge of claims (Section 1274(1) German CivC). In contrast to an outright assignment, the pledge of claim does require publicity. Ideally, one would wish for a possibility to register the pledge of a licence in the patent or trademark register. However, while it is possible to register a licence under the German Patent Act

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54 On German law but equally applicable to Japanese law J. BALLESTREM, *Die Sicherungsübergabe von Patent- und Gebrauchsmusterrechten* (Köln 2009) para. 177.

55 CH. BERGER, *Absonderungsrechte an urheberrechtlichen Nutzungsrechten in der Insolvenz des Lizenznehmers*, in: Gerhardt / Haarmeyer / Kreft (eds.), *Insolvenzrecht im Wandel der Zeit. Festschrift für Hans-Peter Kirchhof zum 65. Geburtstag* (Recklinghausen 2003) 4.

56 On German law but equally applicable to Japanese law BALLESTREM, *supra* note 54, para. 180.

57 On German law but equally applicable to Japanese law BALLESTREM, *supra* note 54, para. 179.

58 On German law but equally applicable to Japanese law BALLESTREM, *supra* note 54, para. 177.

(Section 30(4)), provided the licence is exclusive, there are no provisions on the registration of a pledge, which is therefore held to be inadmissible.<sup>59</sup> Under the German Trademark Act, in contrast, there are no provisions on the registration of licences, which is thus not accepted, while a pledge in a trademark may be registered according to Section 29(2). Even if it were possible to register pledges in licences, the patent and trademark registers are currently framed in such a way that neither effectiveness nor third-party effectiveness depends on registration.<sup>60</sup> The lack of special provisions for licences and pledges in licences therefore leaves no other option than to apply the rules on the pledge of claims, which require notification of the debtor for the pledge to become effective.

As regards the transfer as security, Japanese law, just like German law, applies the rules on outright transfer and not those of security rights as pledge or mortgage. In the case of transfer of licences as security, however, the special provisions in the intellectual property laws require the same standard of publicity for transfer as for pledge, and in both cases consent of the licensor. In German law, however, the assignment of a claim – contrary to the pledge of a claim – does not require any form of publicity, even if it is an assignment as security. The application of the rules on claims on the transfer of licences and also the transfer of licences as security means that there are no publicity requirements at all. While there is an explicit provision in the German Copyright Act requiring consent of the licensor to a transfer of the licence, it is controversial whether consent is required under the German Patent Act and Trademark Act. As the person who exercises the licence has a great influence on the value of the licence and the intellectual property right itself, and as the relationship between licensor and licensee is considerably based on mutual trust, it seems appropriate to require the licensor's consent for a valid transfer of the licence. As far as consent of the licensor is required for the transfer of a licence, this should also apply to the pledge of the licence, which ultimately may lead to a transfer if the security is realized in case of default.

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59 See WOESTE, *supra* note 6, 78. This also applies to a pledge of the patent itself.

60 See WOESTE, *supra* note 6, 82.

#### IV. RIGHTS AND OBLIGATIONS OF THE PARTIES TO THE SECURITY AGREEMENT

##### 1. *Right to exercise the licence*

A crucial question to any security agreement is which party is entitled to use the security, i.e. to exercise the licence, once the security right has been granted but prior to default of the debtor. For the grantor whose business will frequently be based on the exploitation of the licence, it is of vital interest to be able to continue exercising his right of use.

##### a) *Pledge*

Under Japanese law, a pledger is generally not entitled to use the pledged property. Even possession of immovable property has to be transferred to the creditor. Contrary to German law, the pledger is not even entitled to use immovable property once a pledge has been granted. In contrast, it is the pledgee who is entitled to use the property of which he is in possession. While with moveable property, use by the pledgee is subject to the consent of the pledger, the pledgee is entitled to use immovable property without any further requirements.<sup>61</sup> In the case of a mortgage that is effected by registration while possession remains with the mortgager, it is the mortgager who remains entitled to use the security.

The pledge of a licence that is also effected merely by registration without the possibility of transferring possession raises the question as to who is entitled to exercise the licence. According to the express provision of Article 95 PA, the pledgee is *not* entitled to use the pledged licence unless the parties agree otherwise.<sup>62</sup> The same applies to trademark licences (Art. 34(1) TMA).<sup>63</sup> Most authors therefore argue – in contrast to the general rules on pledge – that it is the pledger who is entitled to exercise the licence.<sup>64</sup> In effect, the pledge of a licence, again, is closer to a mortgage than to a pledge of tangible property.<sup>65</sup>

##### b) *Transfer and licence as security*

By the transfer of a licence as security or the granting of a licence as security, the grantee formally obtains all rights of a licensee. According to the intention of the

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61 DÔGAUCHI, *supra* note 45, 91.

62 NAKAYAMA, *supra* note 13, 912 *et seq.*; SHIBUYA, *supra* note 39, 371; IDEM, *supra* note 19, 312.

63 TAMURA, *supra* note 20, 408.

64 NAKAYAMA, *supra* note 13, 913; IDEM, *supra* note 16, 428; TOKKYO-CHÔ (ed.), *Kôgyô shoyûken-hô chikujô kaisetsu* [Commentary on industrial property law] (16<sup>th</sup> ed., Tokyo 2001) 252.

65 On the terminological difficulties leading to security rights in intellectual property assets being called pledge and not mortgage, see NAKAYAMA, *supra* note 16, 428 Fn. 2, TOKKYO-CHÔ, *supra* note 64, 253.

parties, the grantee should, however, only be able to realize the security in case of default, while prior to default the right of use should remain with the grantor.<sup>66</sup> The grantee, for instance a bank, usually does not have any interest in exercising the licence as such, while the grantor often depends on the exploitation of the licence to earn profits that allow him to repay the loan and thus to avoid default.<sup>67</sup> Also, many licence agreements stipulate a duty to exercise the licence. In the case of a transfer of a licence as security or the granting of a sub-licence as security, it may thus be essential for the grantor (licencee) to remain entitled to use the licence in order to fulfil the licence agreement and avoid a termination of the licence due to breach of contract.<sup>68</sup>

In case of a transfer of security, the right of use of the grantor is usually ensured by a sub-licence agreement between grantee and grantor. The grantee, now formally the licencee, grants a sub-licence to the grantor.<sup>69</sup> Sub-licences are subject to the consent of the licensor. Since the licensor already had to give his consent to the transfer of the licence to the grantee, and the sub-licence only ensures the right of use of the original licencee, this should not pose a problem.<sup>70</sup> Also, if a licence is granted as security, the grantor (licensor) is usually granted a sub-licence. In this case it can safely be assumed that the licensor will consent in granting himself a sub-licence.

The scope of the sub-licence is identical with that of the licence itself.<sup>71</sup> However, the sub-licence is terminated in case of default to safeguard the grantee's right to realize the security, which is usually undertaken by selling the licence or sub-licensing it to a third party. If the sub-licence to the grantor were to remain effective, this would impair realization of the security or at least reduce its value considerably.

While the sub-licence is effective, the grantor (sub-licencee) is generally not under a duty to pay royalties as the sub-licence forms part of the security agreement. Usually the sub-licence is also in the interest of the grantee as it allows the grantor to earn profits to repay the loan. On the other hand, the grantor usually remains liable for the royalty payments arising out of the main licence agreement with the licensor.<sup>72</sup> In those rare cases where the grantor does pay royalties for the sub-licence, this is to be regarded as the payment of interests on the obligation secured.<sup>73</sup>

As prior to default the right of use should remain with the grantor, the security agreement usually prohibits the grantee from granting sub-licences or transferring the licence to third parties. Through the outright transfer of the licence (or the granting of a licence), the grantee has, however, formally succeeded in all rights of the licencee. Any

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66 Cf. DOGAUCHI, *supra* note 45, 308.

67 BRÄMER, *supra* note 6, 186; CH. BERGER, *supra* note 55, 2.

68 On German law but equally applicable to Japanese law WOESTE, *supra* note 6, 107.

69 Cf. CH. BERGER, *supra* note 55, 2.

70 Cf. WOESTE, *supra* note 6, 107.

71 Cf. also BRÄMER, *supra* note 6, 189, on the transfer of a trademark as security.

72 Cf. also BRÄMER, *supra* note 6, 190.

73 DÔGAUCHI, *supra* note 45, 308.

dispositions concerning the licence are therefore legally effective. The grantor then only has a claim for breach of contract against the grantee.<sup>74</sup>

The grantor, on the other hand, – provided he was granted a sub-licence – is entitled to grant sub-sub-licences to third parties. Otherwise he would lose an important means of exploiting the licence, which might also enable him to repay the loan and avoid default. The security agreement may provide for an advance assignment of royalty claims arising from such sub-sub-licences to the grantee in order to ensure that the full amount is used on repaying the loan.<sup>75</sup>

As the grantor's sub-licence terminates in case of default, any sub-sub-licences granted by him also terminate upon default: The grantee as sub-sub-licenser cannot grant more rights than he himself has. Sub-sub-licences, therefore, involve no risk for the grantee, as they are no obstacles for the realization of the security in case of default.<sup>76</sup>

## 2. *Preservation of the secured property*

Under the security agreement, the grantor has a duty to preserve the secured property. According to Article 97(2) PA, a special licensee who has pledged the licence may not renounce the licence unless the pledgee consents. There are no safeguards, however, in case the licensor renounces the patent itself.<sup>77</sup> Further, if the grantor is the licensee, he has to fulfil his obligations arising from the licence agreement as a breach of the licence agreement could lead to its termination by the licensor. The grantor, therefore, has to ensure due payment of royalties as well as exercise of the licence and observance of any quality standards if so required under the licence agreement. Preservation of the secured property also means that the grantor has to exercise the licence in such a way as to safeguard its value, which may include prosecuting third parties infringing upon the licence. If the grantor does not take the necessary actions to preserve the licence, the grantee may be entitled to prosecute infringers in his own name or to pay royalties on behalf of the grantor. In the case of a pledge, the grantee is not entitled to use the licence. The grantee therefore cannot exercise the licence on behalf of the grantor to avoid termination of the licence agreement. In case of a transfer as security, however, the grantee is formally entitled to exercise the licence and may thus step in if the grantor neglects his duties.

Also, in the case of a licence as security, the grantee is entitled to prevent any damage to the intellectual property by prosecuting third parties infringing upon it or by paying the necessary fees to preserve the patent or trademark.

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74 Cf. BRÄMER, *supra* note 6, 267, on the transfer of a trademark as security.

75 Cf. BRÄMER, *supra* note 6, 197.

76 Cf. BRÄMER, *supra* note 6, 195.

77 SHIBUYA, *supra* note 39, 371.

## V. INSOLVENCY

The ultimate test for any security is insolvency. Usually, the crucial question is whether and to what extent the security right grants the secured creditor preferential treatment in the case of insolvency of the debtor. However, security interests in licences involve yet another issue. It is not only the security right but also the security itself that is at stake when it comes to insolvency as the licence might be terminated if one of the parties to the licence agreement becomes bankrupt.

### 1. Licence and insolvency

In principle, insolvency proceedings do not affect contracts concluded before proceedings were opened. Creditors may, however, no longer enforce their claims individually, but are subject to a general enforcement procedure under which they will only receive a certain quota of their actual claim. Their own obligations, on the other hand, are not affected by the insolvency of the debtor; they have to render full performance.

If a contract has not been fully performed by both the debtor and the other party, this would mean that the other party, while having to perform fully itself, would only receive a quota in return. Thus, most insolvency laws provide a special rule for such contracts that seeks to guard the synallagmatic nature of the contract. According to Article 53 Japanese Bankruptcy Act (BA<sup>78</sup>), the bankruptcy administrator may terminate a contract not yet fully performed by both parties by the time of commencement of bankruptcy proceedings, or he may perform the debtor's obligation and request the other party to perform his obligation. In the latter case, the other party has a claim on the estate and not just a claim as a bankruptcy creditor. If the contract is terminated, however, any claims for damages under breach of contract may only be made as a bankruptcy creditor.<sup>79</sup> The underlying notion of this provision is to give the bankruptcy administrator the possibility to terminate contracts unfavourable to the estate while safeguarding full performance of advantageous contracts.<sup>80</sup> In order to prevent the estate from being burdened by too many obligations, full performance by the bankruptcy administrator requires permission by the court (Art. 78(2) BA).<sup>81</sup>

Typically, licence agreements are contracts that are not fully performed by both parties: Throughout the term of the licence agreement, the licensor remains obliged to grant use of the licensed intellectual property while the licensee continues to be under a duty to pay royalties.<sup>82</sup> However, if in the insolvency of the licensor the bankruptcy

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78 *Hasan-hô*, Law No. 75/2004 as amended by Law No. 109/2006. Engl. transl. available at <http://www.japaneselawtranslation.go.jp>.

79 M. ITÔ, *Hasan-hô* [Bankruptcy Law] (4<sup>th</sup> ed., Tokyo 2006) 254 *et seq.*

80 T. KATÔ, *Hasan-hô* [Bankruptcy Law] (4<sup>th</sup> ed., Tokyo 2006) 229.

81 Cf. ITÔ, *supra* note 79, 259.

82 KEN YAMAMOTO, *Shin-hasan-hô ni okeru raisensu keiyaku no shori to raisenshû no hogo* [Licence agreements and protection of the licensee under the new Bankruptcy Act], in:

administrator was given the right to terminate the licence agreement, the licensee would risk losing all investments made in the exploitation of the licence. In many instances, a licensee will focus his business activity on the use of the licensed intellectual property. In the pharmaceutical industry, for instance, large sums are spent for many years on research and development of new drugs on the basis of licensed patents.<sup>83</sup> Licence agreements should therefore not be subject to termination by the bankruptcy administrator. Similar considerations apply to lease contracts. Therefore, Article 56(1) BA contains a provision that, under certain circumstances, excludes contracts on rights of use from the application of Article 53 BA. Such contracts remain effective, and the other party's claim is upgraded to a claim on the estate (Art. 56(2) BA).

a) *Insolvency of the licensor*

In the case of insolvency of the licensor, the licence is protected under certain circumstances. If the licence grants a (quasi-)real right as in the case of special patent and trademark licences or the right of publishing, the licensee – as other holders of real rights – is entitled to segregation. This means that the underlying licence agreement is not subject to termination by the bankruptcy administrator.<sup>84</sup>

To all other types of licences that only grant personal rights, Article 56(1) BA applies to exclude contracts on leaseholds or other rights of use from the bankruptcy administrator's right of termination. The licence agreement thus remains effective and the licensee has a claim on the estate (Art. 56(2) BA).

However, application of Article 56(1) BA requires that all prerequisites for third-party effectiveness are fulfilled. The reason for this limitation is that those rights are generally more strongly protected.<sup>85</sup> Also, it is argued that the bankruptcy administrator acts on behalf of the creditors and is thus to be regarded as a “third party” against whom rights can only be asserted if the prerequisites for third-party effectiveness are fulfilled.<sup>86</sup>

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Chiteki zaisan kenkyû-sho (ed.), *Chiteki zaisan raisensu keiyaku no hogo* [The protection of intellectual property licence agreements] (Tokyo 2004) 129; YAMAMOTO, *supra* note 41, 209; ITÔ, *supra* note 79, 267 *et seq.*, 263.

83 See C.C. DENGLER / S. GRUSON / R. SPIELBERGER, *Insolvenzfestigkeit von Lizenzen? Forschungsstandort Deutschland – so wohl kaum!*, in: *Neue Zeitschrift für das Recht der Insolvenz und Sanierung* 2006, 678.

84 Cf. the explanation of the Ministry of Justice regarding the draft Bankruptcy Act of 2004, HÔMU-SHÔ MINJI-KYOKU SANJI-KAN SHITSU, in: *Bessatsu NBL* 74 (2002) 110; see also H. KANEKO, *Gijutsu raisensu keiyaku no tôsan tetsuzuki ni okeru shori* [Technical licence agreements in insolvency proceedings], in: *Minshô-hô* 106 (1992) 220 *et seq.*; M. WAGATSUMA, *Raisensu keiyaku to tôsan tetsuzuki* [Licence agreements and insolvency proceedings], in: *Tôkyô Toritsu Daigaku Hô-gakkai Zasshi* 44 (2004) 137.

85 See H. NAKATA, *Hôritsu kôï ni kansuru tôsan tetsuzuki no kôryoku* [Effects of insolvency proceedings on legal acts], in: *Jurisuto* 1273 (2004) 59.

86 NAKATA, *supra* note 85, 59; YAMAMOTO, *supra* note 41, 181.

While ordinary patent or trademark licences, provided they have been registered, fall within the scope of Article 56(1) BA, there is no possibility to register copyright licences other than the right of publishing. Copyright licence agreements are therefore always subject to the bankruptcy administrator's right to termination.<sup>87</sup> However, patent and trademark licences are also rarely registered as explained above. In practice, therefore, the protection of licences in the case of insolvency of the licensor is insufficient.<sup>88</sup> Not only should the registration of patent and trademark licences be facilitated, but there is also a need for registration of copyright licences.<sup>89</sup>

Even if Article 56(1) BA does not apply, there are some restrictions to the bankruptcy administrator's right to terminate the licence agreement. The contract may not be terminated if this would amount to an abuse of rights or violate the principle of good faith.<sup>90</sup> This applies also to copyright licences that would otherwise be completely without any protection.<sup>91</sup>

Still, reform of registration of licences is urgently required. If licences are not registered and therefore fall within the scope of Article 53, problems arise even where the bankruptcy administrator does not terminate the contract but demands performance: If the bankruptcy administrator sells the licensed intellectual property right, the unregistered licensee cannot assert his right against the acquirer.<sup>92</sup>

#### b) *Insolvency of the licensee*

The provision of Article 56(1) BA applies only in the case of insolvency of the licensor. In the insolvency of the licensee, the general rules for contracts not fully performed apply, and the bankruptcy administrator is, therefore, entitled to terminate the contract.<sup>93</sup>

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87 YAMAMOTO, *supra* note 41, 210.

88 E. KATAYAMA / M. HATTORI, *Tōsan-ji ni okeru raisensu keiyaku no hogo* [Protection of licence agreements in insolvency], in: NBL 798 (2004) 52.

89 HANDA / MATSUDA, *supra* note 34, 608 *et seq.*; H. SONO, *Chosaku-ken raisensu keiyaku ni okeru raisenshū no chii no hogo no arikata* [Protection of the position of the licensee regarding copyright licence agreements], in: Chiteki Zaisan-hō Seisaku-gaku Kenkyū 9 (2005) 149; KATAYAMA / HATTORI, *supra* note 87, 55 *et seq.* While the problems were already acknowledged at the time of the reform of the Bankruptcy Act, it was argued that they could only be solved in the context of intellectual property law, not insolvency law. Cf. HŌMU-SHŌ MINJI-KYOKU SANJI-KAN SHITSU, in: Bessatsu NBL 74 (2002) 109; YAMAMOTO, *supra* note 41, 210 *et seq.* SONO, this note, 151 *et seq.*, proposes means for the protection of copyright licences.

90 Supreme Court, 29 February 2000, Minshū 54, 553.

91 H. KANEKO, *Raisenshū tōsan ni okeru hasan kanzai-nin ni yoru kaijo-ken seigen* [Restrictions of the bankruptcy administrator's right to terminate the contract in the insolvency of the licensor], in: Chiteki zaisan kenkyū-sho (ed.), *Chiteki zaisan raisensu keiyaku no hogo* [The protection of intellectual property licence agreements] (Tokyo 2004) 166 *et seq.*; HANDA / MATSUDA, *supra* note 34, 611; SONO, *supra* note 89, 149.

92 MATSUDA *supra* note 32, 453; SONO, *supra* note 89, 150.

93 NAKATA, *supra* note 85, 58.

If the licence grants a (quasi-)real right, however, it is held that the underlying agreement is not subject to termination by the bankruptcy administrator.<sup>94</sup>

Also, the licensor does not have a right to terminate the licence agreement due to insolvency of the licensee. Prior to the 2004 reform of bankruptcy law, Article 621 CivC. gave the leaser a right to terminate the lease if the lessee became insolvent.<sup>95</sup> For real rights of use, Article 276 CivC provided for a similar right to terminate the contract.<sup>96</sup> Both provisions were, however, abolished. According to Article 276 CivC, it is now only possible to terminate the contract if the rent is not paid consecutively for two years. If the relationship of mutual trust has come to an end or if the parties have so agreed, the contract may be terminated prior to the lapse of a period of two years.<sup>97</sup>

## 2. *Security rights in licences and insolvency*

### a) *Pledge and transfer as security*

Licences used as security are, in principle, protected in the insolvency of the licensor. As far as the licence grants a (quasi-)real right, the licensee may claim segregation from the estate. This withdraws the licence agreements from the range of the bankruptcy administrator's right of termination. Other licences are not subject to termination by the bankruptcy administrator as far as they are effective against third parties. Licences are therefore apt to be used as security. Special patent and trademark licences as well as the right of publishing are a very stable form of security. But also ordinary patent and trademark licences are – at least in theory – well protected in case of insolvency of the licensor.

In the insolvency of the licensee, however, the bankruptcy administrator is in principle entitled to terminate the contract; only (quasi-)real rights are excluded. If the licensee has granted a security right in the licence, the termination of the licence agreement by the bankruptcy administrator would extinguish the security. The security agreement, however, places the grantor under a duty to preserve the security. The grantor may generally not renounce the licence or terminate the licence agreement. This also applies to insolvency. The bankruptcy administrator succeeds in the rights and obligations of the licensee. He is thus also obliged to preserve the licence in which a security right has been granted. If the bankruptcy administrator makes use of his right to terminate the contract, therefore, this constitutes a breach of the security agreement for which the secured creditor can claim damages. In deciding whether to terminate the licence agreement, the bankruptcy administrator has to consider such liability for damages and to assess whether it is more advantageous for the estate to demand performance or to

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94 H. KOBAYASHI, *Q&A Tōsan-hō kaisei to minji-hō no jitsumu* [Q&A Reform of bankruptcy law and private law practice] (Tokyo 2005) 36 *et seq.*

95 See NAKATA, *supra* note 85, 58.

96 Siehe dazu NAKATA, *supra* note 85, 58; KOBAYASHI, *supra* note 94, 36.

97 KOBAYASHI, *supra* note 94, 37 *et seq.*

terminate the licence and pay damages. The grantee can, however, prevent a termination of the licence agreement by paying the royalties.

*b) Licence as security*

In the case of a licence granted as security, the crucial question is whether the licence agreement is subject to termination by the bankruptcy administrator in the insolvency of the licensor. Since a licence as security typically does not involve a duty of the licensee (grantee) to pay royalties, one could argue that such a licence agreement is not a bilateral contract and thus the provisions on termination of not fully performed contracts do not apply. However, as the licensee has to give credit in return, the licence agreement is therefore not a purely unilateral contract. As a bilateral contract, the licence agreement is not yet fully performed simply by granting the licence because the licensor (grantor) has a duty to preserve the security. Thus, the provisions of Article 56 BA apply and the licence agreement is not subject to termination by the bankruptcy administrator if third-party effectiveness is achieved. (Quasi-)real rights, however, are again generally not subject to termination.

*c) Rights of the grantee*

A pledge entitles the pledgee to claim separate satisfaction in the insolvency of the pledger (Art. 65 *et seq.* BA). Real rights of use, including (quasi-)real licences, on the other hand, entitle their holder to claim segregation (Art. 62 BA). The aim of segregation is to ensure the preservation and the exercise of the real right, while separate satisfaction only grants preferential satisfaction. If a real right is transferred or granted solely for the purpose of giving security, it is not subject to segregation but – like the statutory security rights – only to separate satisfaction.<sup>98</sup> Assets that are subject to separate satisfaction remain part of the estate and grant only preferential satisfaction after realization of the security. The grantee does not obtain the assets itself but only monetary satisfaction, in contrast to unsecured creditors, however, to the full amount of his claim.

*3. Comparative remarks*

The issue of protection of licences in insolvency is of great relevance in German law. According to Section 103 German Insolvency Code, the insolvency administrator may terminate a contract not yet fully performed by both parties, or perform the debtor's obligation and demand performance by the other party. Lease contracts are excluded from the lessor's insolvency administrator's right of termination under Section 108 Insolvency Code. While prior to the insolvency law reform of 1999 the provisions on

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<sup>98</sup> Cf. YAMAMOTO, *supra* note 41, 120 *et seq.*; T. KROHE, *Insolvenzverfahren*, in: Baum / Bälz (eds.), *Handbuch Japanisches Handels- und Wirtschaftsrecht* (Köln 2011) para. 33.

lease contracts were applied to licence agreements by way of analogy, thus affording protection of licences in the insolvency of the licensor,<sup>99</sup> Section 108 Insolvency Code now refers explicitly only to the lease of immovable property. It is therefore argued that it is no longer permissible to apply this provision to licence agreements as well.<sup>100</sup> Under the current law, licence agreements are therefore subject to termination in the case of insolvency of the licensor.

Contrary to Japanese law, it is widely held that even licence agreements granting (quasi-)real rights are subject to termination by the insolvency administrator, while stating at the same time they are subject to a claim for segregation. If, however, the licensee is in any event entitled to claim segregation of the licence from the estate, it does not make any sense to give the insolvency administrator a right to terminate the underlying contract. Thus, also under German law one should adopt the view that contracts granting (quasi-)real rights that entitle segregation are excluded from termination. This would at least afford (quasi-)real licences protection in the insolvency of the licensor.

As for other types of licences, the introduction of a new clause into the Insolvency Code has been proposed that would explicitly exclude licence agreements from the insolvency administrator's right to termination.<sup>101</sup> Besides US law, the Japanese provision of Article 56 BA has also been mentioned as being a model for the new draft provision of the German code,<sup>102</sup> which is currently still subject to discussion in Parliament.<sup>103</sup> Unlike its Japanese counterpart, the German draft provision does not presuppose the fulfilment of registration or other requirements. Further, it differentiates between the main obligation of the licence agreements, which remains effective, and supplementary obligations, which remain effective only if they are essential for the exploitation of the licence by the licensee. The insolvency administrator is also given the right to adjust the amount of royalties payable. While there clearly is a need for an explicit provision on licences in the Insolvency Code, the present draft has been criticised for interfering with party autonomy.<sup>104</sup>

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99 E. JAEGER / W. HENCKEL, *Konkursordnung*, (9<sup>th</sup> ed., Berlin / New York 1997) § 21 para. 6.

100 *Münchener Kommentar zur Insolvenzordnung* (2<sup>nd</sup> ed., München 2008) § 103 para. 76 (M. HUBER).

101 Entwurf eines Gesetzes zur Entschuldung mittelloser Personen, zur Stärkung der Gläubigerrechte sowie zur Regelung der Insolvenzfähigkeit von Lizenzen, Bundestagsdrucksache 600/07, 31 August 2007, Art. 1 No. 12.

102 See Begründung Regierungsentwurf 43, 57; DENGLER / GRUSON / SPIELBERGER, *supra* note 83, 682, 684.

103 D.E.F. SLOPEK, *Lizenzen in der Insolvenz des Lizenzgebers: Der neue § 108a InsOE*, in: *Gewerblicher Rechtsschutz und Urheberrecht* 2009, 129.

104 See, for instance, SLOPEK, *supra* note 103, 131.

## VI. CONCLUSION

Japanese intellectual property laws offer clear and consistent provisions on security rights in intellectual property licences. The comparison with German law shows that the problems regarding licences and the creation of security rights in licences under German law arise from the lack of explicit provisions in German intellectual property laws. The application of the provision on the assignment of claims is problematic since intellectual property rights and, to some extent at least, licences are (quasi-)real rights that involve different problems and interests as compared to mere personal rights, in particular as regards third-party interests. The incorporeal nature of intellectual property rights would, on the contrary, require even further protection of third parties than under property law. Japanese intellectual property laws recognize this need and provide – at least in patent and trademark law – for stricter publicity than under property law: While in property law, delivery or registration is merely a requirement for third-party effectiveness, creation and transfer of patents and trademarks as well as creation and transfer of special licences require registration in order to become effective at all. In copyright law, at least the same publicity standards as under property law are maintained. The lack of provisions in German law also causes some uncertainty as regards the nature of licences. Again, Japanese provisions that offer parties a variety of graduations as to the (third-party) effects of licences should be a model for a desired reform of German licensing law. The only drawback of Japanese law lies in the practical problems regarding registration, which are caused by far-reaching disclosure requirements. Therefore, it is necessary to balance more evenly the interests of third parties to be able to access comprehensive information on transactions and those of the parties to the licence agreement to restrict access to strategic and sensitive business data. To achieve this end, it would seem sufficient to merely adjust the provision on the extent of information required to disclose.

The issue of publicity is also essential as regards the creation of security rights in licences. Again, German law lacks clear provisions. While notification of the debtor (licensor) ensures at least minimum publicity of pledges, there is no publicity in the case of a transfer of the licence as security, unless one requires consent of the licensor. Imposing registration requirements as provided for under Japanese law, which are consistent with the registration of intellectual property rights and licences, would considerably help to clarify legal relations and protect third-party interest.

Patent and trademark licences as well as the right of publishing are in theory well protected in the insolvency of the licensor. However, in practice Japanese law faces major problems regarding the registration requirement, which is only rarely fulfilled. Also, the fact that it is impossible to achieve third-party effectiveness of copyright licences, which are thus subject to termination by the bankruptcy administrator, remains problematic. In German law, a draft provision loosely modelled on Japanese Article 56

BA has been proposed to ensure protection of licences in the insolvency of the licensor, which, according to the majority opinion, is not given under current law.

In particular – but not only – from a German point of view, Japanese law is exemplary for providing a clear and consistent legal basis for using intellectual property licences as security. Remaining practical problems can be overcome and should not tempt the Japanese legislator into adopting the German system.

#### SUMMARY

*Intellectual property rights and licences are important economic assets that are increasingly used as security in order to obtain credit. The article analyses the use of intellectual property licences as security, highlighting the characteristics of Japanese law from the point of view of German law. First, a closer look is taken at the nature of the security, i.e. the nature of intellectual property licences. Japanese patent and trademark law provide for two types of licences. Special licences, which become effective only upon registration, grant the licensee a (quasi-)real right. Ordinary licences are in principle effective only against the licensor. If registered, they acquire some third-party effectiveness, in particular against a subsequent acquirer of the patent or trademark. The exclusive licensee also has a claim against infringers upon the licences. Under the Copyright Act, the right of publishing grants a (quasi-)real right that requires registration in order to become effective against third parties. Other copyright licences cannot be registered in the copyright register and are, therefore, not effective against third parties. However, an exclusive licensee is generally held to be entitled to bring a claim against an infringer unlawfully exploiting the copyrighted work. Japanese intellectual property laws, therefore, offer clear rules on the requirements for the creation of licences and their effects, while under German law the absence of explicit rules leads to the application of the provisions on the transfer of claims, which is not suitable in particular to (quasi-)real rights. Also, registration of licences is impaired by current provisions. Attention is drawn, however, to the practical problems regarding registration under Japanese law, which arise due to far-reaching disclosure requirements.*

*Second, three different ways of using licences as security are proposed: the creation of a pledge in a licence, the transfer of a licence as security and the granting of a licence as security. A pledge of special patent or trademark licences requires registration in order to become effective, while registration of a pledge of ordinary patent or trademark licences or of a right of publishing is only a prerequisite for third-party effectiveness. The pledge of a copyright licence follows the rules on the pledge of claims, which require notification of the debtor (licensor). The general provisions on transfer of licences apply to the transfer of a licence as security. Again, transfer of special patent*

*or trademark licences requires registration for effectiveness as such, while for ordinary licences and the right of publishing, registration is only relevant in the context of third-party effectiveness. Both pledge and transfer as security require consent of the licensor. Licences as security are mostly granted by the intellectual property owner himself rather than a licensee, and they are a means to limit the security to certain exploitation methods or regions. German law, in comparison, again lacks explicit rules. Difficulties arise with regard to publicity of security rights, which cannot be registered in the patent or trademark registers. While a pledge only becomes effective upon notification of the debtor (licensor), there are currently no publicity requirements regarding the transfer of a licence as security.*

*Third, the rights and obligations of the parties to the security agreement are analysed. According to doctrine – and contrary to the rules for tangibles – the pledger remains entitled to exercise the licence. In the case of a transfer as security or a licence as security, the right of use of the grantor is ensured by granting him a sub-licence that terminates upon default. The grantor has a duty to preserve the licence in particular by fulfilling the terms of the licence agreement and by taking action against any infringers.*

*Finally, the issue of protection of licences in the insolvency of the licensor and the rights of the grantee in the insolvency of the grantor are examined. Due to the practical difficulties regarding registration and the lack of registration possibilities for copyright licences, some problems arise under Japanese law. In principle, however, licences provide safe and stable security that entitles the grantee to separate satisfaction in case of insolvency of the grantor.*

#### ZUSAMMENFASSUNG

*Immaterialgüterrechte und Lizenzen stellen bedeutende Vermögenswerte dar, die zunehmend zur Kreditsicherung herangezogen werden. Der Beitrag analysiert – aus dem Blickwinkel des deutschen Rechts – die rechtlichen Grundlagen für die Verwendung von Lizenzen als Sicherheiten in Japan. Dabei wird zunächst der Sicherungsgegenstand, nämlich die Rechtsnatur von Lizenzen, untersucht. Im japanischen Patent- und Markenrecht stehen zwei verschiedene Arten von Lizenzen zur Verfügung: Besondere Nutzungsrechte entstehen erst mit Eintragung im Patent- oder Markenregister und gewähren dem Lizenznehmer ein absolut geschütztes Recht. Gewöhnliche Nutzungsrechte hingegen sind grundsätzlich nur gegenüber dem Lizenzgeber durchsetzbar, erlangen jedoch mit Eintragung eine gewisse Drittwirksamkeit, etwa gegenüber dem Rechtsnachfolger des Patent- oder Markeninhabers. Dem Inhaber eines ausschließlichen gewöhnlichen Nutzungsrechts werden darüber hinaus Ansprüche gegenüber Dritten, die das Lizenzrecht verletzen, gewährt. Im Urheberrecht gewährt das Verlagsrecht ein absolutes Recht, das jedoch erst mit Eintragung im Urheberrechtsregister Dritten entgegengehalten werden*

kann. Sonstige Lizenzen können nicht eingetragen werden; ihnen kommt daher grundsätzlich keine Wirksamkeit gegenüber Dritten zu. Ausschließliche Lizenznehmer können nach herrschender Ansicht jedoch gegen Dritte, die in das Nutzungsrecht eingreifen, vorgehen. Die japanischen Immaterialgüterrechtsgesetze sehen somit klare Regelungen von Lizenzen und ihren Wirkungen vor. Im deutschen Recht hingegen werden mangels gesetzlicher Bestimmungen die Vorschriften über die Forderungsübertragung angewendet, was jedoch insbesondere in Hinblick auf absolute Rechte nicht sachgerecht ist. Die Eintragung von Lizenzen ist nach geltendem Recht kaum möglich. Das japanische Recht andererseits stößt in der Praxis auf Probleme bei der Registrierung von Lizenzen, da oftmals unternehmensstrategische Informationen offengelegt werden müssen.

Für die Verwendung von Lizenzen als Sicherheiten sind drei verschiedene Formen denkbar, nämlich die Begründung eines Pfandrechts an der Lizenz, die sicherungsweise Übertragung der Lizenz und die sicherungsweise Einräumung einer Lizenz. Ein Pfandrecht an den besonderen Nutzungsrechten des Patent- und Markenrechts kommt mit Eintragung zustande, während bei gewöhnlichen Nutzungsrechten und Verlagsrechten die Eintragung nur Voraussetzung der Drittwirksamkeit ist. Die Verpfändung einer urheberrechtlichen Lizenz folgt den Regeln über die Forderungsverpfändung, die die Verständigung des Drittschuldners (des Lizenzgebers) voraussetzt. Auf die Sicherungsübertragung finden die allgemeinen Regeln über die Übertragung von Lizenzen Anwendung. Die Eintragung ist daher ebenfalls Wirksamkeits- bzw. Drittwirksamkeitserfordernis. Sowohl Verpfändung als auch Sicherungsübertragung setzen die Zustimmung des Lizenzgebers voraus. Sicherungsgeber bei einer Sicherungslizenz ist meist der Immaterialgüterrechtsinhaber selbst, der dadurch die Möglichkeit erhält, das Sicherungsrecht räumlich oder hinsichtlich der Nutzungsarten zu beschränken. Im deutschen Recht fehlen wiederum gesetzliche Regelungen. Problematisch ist vor allem die Publizität der Sicherungsrechte, die nicht eingetragen werden können. Die Begründung eines Pfandrechts erfordert die Verständigung des Lizenzgebers; für die Sicherungsübertragung bestehen jedoch keinerlei Publizitätsvorschriften.

Hinsichtlich der Rechte und Pflichten der Parteien ist vor allem die Frage der Nutzung der Lizenz bedeutsam. Nach herrschender Ansicht – und im Gegensatz zu den Vorschriften bei körperlichen Gegenständen – soll der Pfandrechtsgeber zur Nutzung berechtigt bleiben. Bei Sicherungsübertragung und Sicherungslizenz wird dem Sicherungsgeber häufig eine mit dem Eintritt des Sicherungsfalls befristete Unterlizenz erteilt und so die Nutzung ermöglicht. Der Sicherungsgeber ist zur Erhaltung des Sicherungsgutes verpflichtet, insbesondere hat er den Lizenzvertrag zu erfüllen und Eingriffe Dritter abzuwehren.

In der Insolvenz des Lizenzgebers ist die Beständigkeit von Lizenzen aufgrund der genannten praktischen Probleme bei der Registrierung sowie der fehlenden Registrierungsmöglichkeit für Urheberrechtslizenzen gefährdet. Grundsätzlich bieten jedoch Lizenzen einen stabilen und beständigen Sicherungsgegenstand, der den Sicherungsnehmer in der Insolvenz des Sicherungsgebers zur Absonderung berechtigt.