

## A TRANSFORMATIONAL APPROACH TOWARDS COLLATERIZATION OF INTELLECTUAL PROPERTY

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### **Abstract**

*Almost everyone is familiar with the mortgaging of immoveable property under the Transfer of Property Act and also with pledge and hypothecation of movables but Collateralization of Intellectual Property Rights is a seed which yet to germinate in its full capacity. The author in this Article has therefore dealt with the Collateralization of Intellectual Property Rights delving upon its benefits and challenges. One of the ways of IP financing is through IP backed loans which can be very beneficial for Big Companies which have different Intellectual Property as their assets but there are many challenges faced by Companies in this process of Collateralization primarily being that of Valuation of the IP asset. Lack of expertise in this field like lack of experts in IP Valuation in India poses a major problem. Consequently, if the asset is not valued properly and not given appropriate rating by the Credit rating agencies then investors would be reluctant in investing in such assets of the Intellect. Law in India relating to IP Collateralization is in a nascent stage of development as compared to the law in US, Singapore, Malaysia and Indonesia. In India, though various statutes do make a passing reference to Collateralization of Intellectual Property like the SARFAESI Act, 2002, the Companies Act, 2013 but none of the statutes deal with the intricacies of the subject. In this realm the researcher has mainly focused on the following research questions:*

- What are the challenges faced in the process of IPR Collateralization in India?*
- What is the Regulatory framework regarding IPR Collateralization?*
- How has the other jurisdictions dealt with the same?*

**Keywords:** Collateralization of Intellectual Property Rights, Valuation of the IP asset, SARFAESI Act 2002, Companies Act, 2013.

### **1. Introduction**

Securitization of assets has been used from date back by companies to raise capital and to secure loans. But, in India Securitization of Intellectual Property is in a nascent stage of development. Intellectual Property Securitization also brings with it certain benefits and also challenges which need to be resolved before the same can be frequently used by the rights holders for raising loans or by companies for corporate debts. These complexities vary depending on the type of the asset of the intellect that is being securitized. Lenders also do not like to give loans on Intellectual Property unless the asset is cash flowing and the same could

be treated as a security.<sup>1</sup> Another benefit of Intellectual Property is that its value is increasing day by day and hence its value is becoming more than the real property.<sup>2</sup> In the United States the use of Intellectual Property as collateral have been centuries old<sup>3</sup> but the use of it as collateral in India is not yet statutorily regulated. Using Intellectual Property as a collateral involves transforming innovative ideas into a financial asset for raising capital.<sup>4</sup> There can be various forms of IP financing, one of them is IP backed loans, it takes place when the IP asset is given to the bank as a collateral for raising the loan, another method may involve “IPR Sale and Lease Back”. The same involves the selling of the IP asset by the owner of the asset to the bank after payment of the lump sum amount by the bank which is a sale and thereafter leasing back the IP asset by the bank to the owner for a premium/ rent for a fixed period. At the end of the period the lessee has the option of repurchasing the asset. The IP asset is treated as a security for the loan.<sup>5</sup> Another method is IPR backed securities. This method involves the transacting of the different rights over the royalties of the IP asset. The claim over the rights is placed in Special Purpose Vehicles (SPV) that issues the securities. Then the securities are placed in the capital market and traded and thus it also involves rating by the credit agencies.<sup>6</sup>

The constraints involved in IPR collateralisation also involve the banking sector. Banks are reluctant to grant loans to IPR holders as the IP as a collateral because of their past bitter experience in the same.<sup>7</sup> Another challenge in India involves the under developed valuation system of the IPR. If the assets are not valued properly at a proper rate, then it becomes difficult for the bank to grant loans on the IP asset. The IPR Policy of 2016 has but paved way for IPR securitization and collateralization in India and which is also TRIPS compliant. Amongst others the SARFAESI Act deals with intangibles, and is a way forward for IPR collateralization in India but there are still some challenges which needs to be overcome if we take the same in a broader

<sup>1</sup> Anjanette Raymond, “*Intellectual Property as Collateral in Secured Transactions: Collision of Divergent Approaches*”, 10 Bus. L. INT’l 27 (2009).

<sup>2</sup> Shawn K. Baldwin, “*To Promote the Progress of Science and Useful Arts*”: A Role for Federal Regulation of Intellectual Property as Collateral”, University of Pennsylvania Law Review, May, 1995, Vol. 143, No. 5 (May, 1995), pp. 1701-1738.

<sup>3</sup> *ibid*

<sup>4</sup> Bibekananda Panda and Sara Joy, “*Intellectual Property Rights-based Debt Financing to Startups: Need for a Changing Role of Indian Banks*, VIKALPA- The Journal for Decision Makers”; 46(3) 145-152, 2021, Sage Publications.

<sup>5</sup> [https://metispartners.com/thought-leadership/sale-and-leaseback-a-model-for-increasing-trust-in-ip-assets/#:~:text=In%20simple%20terms%2C%20a%20sale,valuation%2C%20the%20transaction%20takes%20place.\(last visited: 05.04.2024\)](https://metispartners.com/thought-leadership/sale-and-leaseback-a-model-for-increasing-trust-in-ip-assets/#:~:text=In%20simple%20terms%2C%20a%20sale,valuation%2C%20the%20transaction%20takes%20place.(last%20visited:05.04.2024))

<sup>6</sup> <https://www.wipo.int/sme/en/securing-financing.html> (last visited: 05.04.2024)

<sup>7</sup> Bibekananda Panda and Sara Joy, “*Intellectual Property Rights-based Debt Financing to Startups: Need for a Changing Role of Indian Banks*, VIKALPA- The Journal for Decision Makers”; 46(3) 145-152, 2021, Sage Publications.

perspective and try to apply the same in India comparing it with other international jurisdictions. In this Article, the author therefore will try to frame a possible roadmap for India in IPR collateralization.

In the first part of this Article the author has discussed about the assistance that the Intellectual Property Collateralization provides to the owners of the asset and also the hindrances that it faces in such process. In the second part of the Article the author has analysed the current regulatory framework in India and has tried to analyse the statutory laws that provide about IPR Collateralization in India and in the next part of the Article the author has tried to draw a comparative analysis of the present framework of IPR Collateralization in other jurisdictions such as in United States of America, Singapore, Malaysia and Indonesia where the laws relating to IPR Collateralization is more concrete than in India.

## **2. Benefits and challenges of IPR Collateralization**

As already discussed by the Researcher in the Introduction that IP assets can be collateralized in different ways, in this part the researcher will try to discuss about the various benefits and challenges of IP Collateralization. Some of the benefits are that the collateralizing the IP asset is very advantageous for its holder. It generates cash flow.<sup>8</sup> Corporate who are the holders of the IP and requires funds can use the same for their businesses by taking loans on such IP assets. The IP holder gets the loan in cheaper financial conditions and constraints. Another benefit is that the banks have a security in the form of IP assets for the loan that they have provided to its holders. In case of default they have the remedy of a suit for foreclosure or they may sue the holder personally for the repayment or they get the right of sale of the IP asset. This mechanism of Collateralization of Intellectual property provides financial support to the less privileged group of IP holders like the craftsmen, artisans, weavers by getting loans from the banks/financial institutions on the security of their IP assets.<sup>9</sup> There are also many benefits of the Securitization method like in this type of method when the asset is transferred to the Special Purpose Vehicle (hereinafter referred to as the “SPV”) the originator of the IP asset is able to raise the capital by a little amount of investment.<sup>10</sup> The credit ratings of the SPV is higher than that of the originator hence the loans are given at a lesser interest rate than it would have been in case the

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<sup>8</sup> Francis Muhire, *Intellectual Property Rights Monetisation*.

<sup>9</sup> Vishakha Pandey, “National IPR Policy 2016,” 3 INT’L J.L. MGMT. & HUMAN. 130 (2020).

<sup>10</sup> Ariel Glasner, “Making Something out of Nothing: The Trend towards Securitizing Intellectual Property Assets and the Legal Obstacles That Remain,” 3 J. LEGAL TECH. RISK MGMT. 27 (2008).

same was given to the holder directly.<sup>11</sup> It also provides the originator with other financing sources which would not have been otherwise available to the holders of the IP asset. Because, the same is through the SPVs and there is a chance of higher security the financing options would also be diverse. From the investor's point of view securitization is beneficial because the investors then have a fixed rate of income from the same.<sup>12</sup> Also because of an increase in the value of IP it is becoming a major economic asset for the big corporate<sup>13</sup>. In the year of 1982 major physical assets in the United States was 62% but the same has reduced to a whooping 30 by 2000. Companies are increasing their share of IP assets gradually from physical assets for the economic benefits of the IP assets. Similarly, the use of Intellectual Property as a tool for Collateralization is slowly gaining pace for its economic benefits.

### 3. Challenges of IPR Collateralization:

The primary challenge of using IP as collateral is the issues on Valuation of the IP asset. As Lipton observed:

*“it is precisely because there are significant practical risks that creditors are often hesitant in accepting information products as loan security, even if they are protected as "property" under patent or copyright laws so that standard finance theory can be applied”.*<sup>14</sup>

The valuation of an IP asset is a highly specialized field which involves the practitioners valuating the IP asset to use it as collateral.<sup>15</sup> The nature of the Intellectual Property itself imposes problems in its valuation.<sup>16</sup> Valuation of the Intellectual Property asset can be made in two forms. One is when it is registered /documented and the other is when it is expressed in a tangible form. In the second case when it is expressed in the tangible form there are various methods of its valuation but the problem in valuation arises when it is not yet expressed in the tangible form.<sup>17</sup> The valuation of an IP asset involves three broad approaches as elucidated by the International Chamber of Commerce in its Handbook of IP Valuation.<sup>18</sup> The valuation

<sup>11</sup> Ariel Glasner, “*Making Something out of Nothing: The Trend towards Securitizing Intellectual Property Assets and the Legal Obstacles That Remain*”, 3 J. LEGAL TECH. RISK MGMT. 27 (2008).

<sup>12</sup> *ibid*

<sup>13</sup> Kamil Idris, *Intellectual Property: A Power Tool for Economic Growth*, WIPO

<sup>14</sup> Jacqueline Lipton, 'Security Over Australian Intellectual Property' (1999) *Journal of International Banking Law*, 385 .

<sup>15</sup> John Sykes and Kelvin King, “*Valuation and Exploitation of Intellectual Property and Intangible Assets*” (Sweet and Maxwell 2004).

<sup>16</sup> Sudipta De Sarakar and N.L. Mitra, *Secured Lending on Intellectual Property Rights in India- Issues on Valuation*, Asian Journal of Legal Education, 10(2) 217-242, 2023, Sage Publications.

<sup>17</sup> *Ibid*

<sup>18</sup> See <https://iccwbo.org/news-publications/policies-reports/icc-handbook-valuation-intellectual-property-assets/#:~:text=This%20ICC%20handbook%20provides%20a,involvement%20in%20the%20valuation%20process.>

methods of an IP asset are the cost approach, the income approach and the market approach. The problems which arise in the case of the valuation of the IP asset are because of the limitations in the IP asset such as severability, Valuation Accounting Standards, etc. For example, as already discussed the IP rights such as copyright and patent can be in the form of intangible but the problem arises when the same manifests in the form of tangibles as the products may be in the form of tangibles. When a tangible asset is transferred nothing remains in the hands of the owner but when the intangible asset is licensed all the rights of the same is not transferred to the licensee.<sup>19</sup> A question always remains that can a licensor of a patent mortgage the same and can the financier restrict the use of such tangible product because it has been mortgaged. Then what will be the value of a “Cornetto” ice-cream if the same cannot be used as a “brand” because the same has been mortgaged to a financier.

Another challenge which arises is the Accounting Standard for Valuation as the same is different for tangible and intangible assets. Thus, the challenge in the valuation of the IP asset has proved to be a major challenge for IPR Collateralization in India.

Another disadvantage is because the IPR loses its commercial value over time. IPR protection are limited in duration of time and also limited in its scope. Hence, they tend to lose their commercial value over a period of time. In spite of there being a statutory period for the protection of the IPR, it tends to lose its commercial value over the time.<sup>20</sup> Also, some IPRs only confer negative rights which involve restricting others from using the IP rights. IP collateralization involves various risks which are associated with these rights. Another challenge of IPR Collateralization involves structuring issues. Structuring of the agreement by which the loans are given by the banks involves careful drafting. Banks are generally used to providing loans on tangible assets and hence they tend to use the same documents for giving loans on intangible assets also which can be unfavourable for the IP assets holders. Hence, the structuring of the agreements must be done carefully. There has been a well-known case in the US *The Clorox Co v Chemical Bank*<sup>21</sup> which arose due to non-structuring of the loan agreement.

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(last visited: 15.04.2024)

<sup>19</sup> Sudipta De Sarakar and N.L. Mitra, *Secured Lending on Intellectual Property Rights in India- Issues on Valuation*, Asian Journal of Legal Education, 10(2) 217-242, 2023, Sage Publications.

<sup>20</sup> Ariel Glasner, *Making Something Out of Nothing: the Trend towards Securitizing Intellectual Property Assets and the Legal Obstacles that Remain*, 3. J. LEGAL TECH. RISK MGMT. 27 (2008).

<sup>21</sup> 40 USPQ2d 1098, 1996

Further, the laws which are there for registration only speak about the registration of IPR creation and it does not speak anything about the registration of the security interests that are required to be registered if they are created.<sup>22</sup> Without registration of security interests that are being created of the IP asset the subsequent dealers of the same would not be aware of the presence of the security interests in the IP asset.

Also, the laws relating to the creation of security interests is still now in a nascent stage of development in India. IP is evolving and the law relating to it is also evolving day-by-day. The law is different for different jurisdictions and the same is applicable to the law that deals with the collateralization of the Intellectual Property Rights. Though the law in respect of IPR Collateralization is developed in other jurisdictions such as in USA, China, Sweden, UK, Ireland for example India is yet to concretize the law relating to the same. Hence, such uncertainty and inconsistency of the law faces a challenge to IPR collateralization. In spite of the predominant use of Intellectual Property as collateral in the United States, one of the primary reasons for the less use of Intellectual Property as collateral in India also involves the lack of awareness of the holders of the Intellectual Property. The holders/proprietors of the Intellectual Property are unaware of the value of the same and that it can be used as collateral for getting loans.<sup>23</sup>

#### **4. Current Regulatory framework of IPR Collateralization in India:**

The World Intellectual Property Organisation (WIPO) and the Trade Related Aspects of Intellectual Property Rights (TRIPS) are the two international Organization and Agreement that mainly provides the protection of the Intellectual Property Rights. But, one needs to be its members to be bound by such agreement. Therefore, there must be some domestic laws also which shall be governing the scope of this field. In India, the laws that currently provide some kind of statutory protection of collateralization of Intellectual Property Rights are dealt with hereunder in this section by the author.

The same are the UNCITRAL Model Law on Secured transactions, the Securitisation and Reconstruction of Financial Asset and Enforcement of Security Interest Act, 2002, some of the IP legislations itself like the Patents Act, Designs Act, the TradeMarks Act, the Copyrights Act, also the Companies Act, 2013 and the Banking Regulation Act, 1949.

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<sup>22</sup> Anjanette Raymond, *Intellectual Property as Collateral in Secured Transactions: Collision of Divergent Approaches*, 10 Bus. L. INT'l 27 (2009).

<sup>23</sup> Standing Committee Reports, Review of the Intellectual Property Rights Regime in India, Presented to Rajya Sabha on 23<sup>rd</sup> July, 2021.

The UNCITRAL Model Law on Secured Transactions (2016) hereinafter referred to as the “Model Law” deals with security interests in properties which includes movables (tangible and intangible and also Intellectual Property).<sup>24</sup> This law also provides for a model provisions which can be implemented in the domestic laws of its member countries. It also provides for registration of notices of creation of security interests so that other third parties are aware of the same, and for the priority of charges. The UNICITRAL is based on the “United Nations Convention on the Assignment of Receivables in International Trade, the UNCITRAL Legislative Guide on Secured Transactions, the Supplement on Security Interests in Intellectual Property and the UNCITRAL Guide on the Implementation of a Security Rights Registry.”<sup>25</sup>

Some of the relevant definitions of the Model Law include Intellectual Property Rights in its ambit. Such as “Acquisition of Security right” means a security right in a tangible asset, or in intellectual property or the rights of a licensee under a licence of intellectual property, which secures an obligation to pay any unpaid portion of the purchase price of an asset, or other credit extended to enable the grantor to acquire rights in the asset to the extent that the credit is used for that purpose”.<sup>26</sup>

“Intangible asset” means any movable asset other than a tangible asset”.<sup>27</sup>

Article 17 of the same is also relevant for creation of security interests in Intellectual Property Rights. It provides that that a security interest created on a tangible asset does not extend to the Intellectual Property asset and vice versa.

Article 99 of “Model Law” specifically deals with creation of security interests in one’s Intellectual Property.<sup>28</sup> It provides that the creation, effectiveness of the security interests in the Intellectual Property is either the state where the intellectual property is protected or where the grantor is located. The Model Law has been brought into effect by the United Nations for serving as a guide for the enactment of a law for enforcement of Security Interests.

The SARFAESI Act, 2002 was enacted with the object of regulating the creation of security interests and also for the enforcement procedure in case of the assets becoming Non-Performing assets and also for creation of a Central Registry for the registration of the creation

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<sup>24</sup> [https://uncitral.un.org/en/texts/securityinterests/modellaw/secured\\_transactions](https://uncitral.un.org/en/texts/securityinterests/modellaw/secured_transactions) (last visited: 01.03.2024)

<sup>25</sup> [https://uncitral.un.org/en/texts/securityinterests/modellaw/secured\\_transactions](https://uncitral.un.org/en/texts/securityinterests/modellaw/secured_transactions) (last visited: 01.03.2024)

<sup>26</sup> Article 2(b) of the UNICITRAL Model Law on Secured Transactions.

<sup>27</sup> Article 2(p) of the UNICITRAL Model Law on Secured Transactions.

<sup>27</sup> *ibid*

<sup>28</sup> [https://uncitral.un.org/sites/uncitral.un.org/files/media-documents/uncitral/en/19-08779\\_e\\_ebook.pdf](https://uncitral.un.org/sites/uncitral.un.org/files/media-documents/uncitral/en/19-08779_e_ebook.pdf)

of interest. Though this Act has made certain passing remarks about collateralization of Intellectual Property but there are no specific provisions of the same or a chapter dedicated to that specific issue. In this Act “property” has been defined as including movable, immovable and also intangible property such as copyright, patent. Etc.<sup>29</sup> In this Act “Secured Asset” has also been defined as to include Security Interest in any property which also includes intangibles such as Patents, Copyright, Know how or other intellectual Property.<sup>30</sup> In this Act “Financial Asset” has also been defined to include tangible and intangibles referring to “Intellectual Property Rights”. This law not only provides for Securitization but also covers Collateralization in its ambit and specifically by including intangibles specifically Intellectual Property Rights, the Act can thus be extended to collateralization of Intellectual Property Rights.<sup>31</sup>

Besides the general Acts which provides for Collateralization of Intellectual Property Rights, there are certain other Acts which are specific for each type of Intellectual Property dealing with the issue. The Specific Acts are dealt with by the author below:

Besides these there also some IP legislations which deal with this issue such as The Trademark Act, 1999<sup>32</sup>. This Act provides for the assignment of registered as well as unregistered Trade Mark<sup>33</sup> but “Assignment” has not been defined in the Act exhaustively. The Act only defines “Assignment” as assignment should be made in writing between the parties concerned.<sup>34</sup> Along with assignment it also provides about transmission of Trade Mark and also registration of the assignment of transmission of a Trade Mark. But, if we go through the Act in its entirety it can be analysed that there are no statutory provisions in the Act which provides for collateralizing or Securitizing Trade Marks. Then there is the Designs Act, 2000 which provides about the mortgaging of Designs under Section 30 of the Act. It gives the power to mortgage to the proprietor of the design. The assignment or creation of a mortgage of the design shall not be valid unless made by a registered instrument.<sup>35</sup> Thus, a plain reading of this Act will reveal that a design can be used as collateral by its proprietor for the purpose of taking a loan. This Act also makes a reference to the creation of a mortgage of the design only through a

<sup>29</sup> Section 2(t) of the Securitisation and Reconstruction of Financial Interests and Enforcement of Security Interest Act, 2002.

<sup>30</sup> Section 2(zc) of the Securitisation and Reconstruction of Financial Interests and Enforcement of Security Interest Act, 2002.

<sup>31</sup> Ahmar Afaq and Rupal Chhaya, *Securitization of Intellectual Property: Legal Recourse in India*, *Journal of Intellectual Property Rights*, Vol 27, 2022

<sup>32</sup> Trademark Act, 1999, Act no. 47 of 1999

<sup>33</sup> Section 37 of the TradeMark Act, 1999.

<sup>34</sup> Section 2(b) of the TradeMark Act, 1999.

<sup>35</sup> Section 30 of the Designs Act, 2000.



written instrument and same has to be registered by the Controller within specified time limits mentioned in the Act itself.<sup>36</sup>

Similar to the Designs Act, 2000 the Patents Act, 1970 provides about assignment, transmission and mortgaging of the Patents through a written instrument and which also must be registered.

<sup>37</sup> The power to deal with Patent has also been granted to the grantee or the proprietor of the Patent by virtue of Section 70 of the Patents Act, 1970. Thus, this Act also by making special reference to the assignment and mortgaging of Patents allowed for collateralizing of Patents in India. Then there is the Copyrights Act, 1957 which also provides for assignment of Copyright by its owner by virtue of Section 18 and 19 of the Act. When the Copyright is assigned, the assignee is also liable to pay royalty or consideration to the assignor of the Copyright and if the same is not exercised by the assignee within a year from assignment, then the assignment shall be considered to have lapsed.<sup>38</sup>

The Geographical Indications of Goods (Registration and Protection) Act, 1999 also provides about the registration and protection of geographical indications relating to the goods. The same has been defined under the Act as including identification of goods relating to its locality and origin and also if certain features of the goods are specific to a region or locality then the same can be registered under this Act as goods which is that region or location specific such as “Sunderban Honey” or Joynagar Moya” in West Bengal, a State in India. This Act unlike the other acts relating to Intellectual Property restricts the assignment, transmission and even collateralization of the Geographical Indications under Section 24. Hence, the rights relating to Geographical Indications cannot be collateralized under this Act.<sup>39</sup> Then amongst the other IP legislations, there is also the Semiconductor Integrated Circuits Layout-Design Act, 2000 which was enacted to protect semiconductor integrated layout designs. The Act allows the assignment and transmission of the rights of the registered proprietors whether with or without the goodwill of the business concerned.<sup>40</sup> The proprietors thus have the authority to assign and transmit their rights relating to this specific Intellectual Property though it does not explicitly provide about mortgaging the same.

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<sup>36</sup> Section 30(3) of the Designs Act, 2000.

<sup>37</sup> Sections 68, 69 of the Patents Act, 1970.

<sup>38</sup> See Section 19 of the Copyrights Act, 1957.

<sup>39</sup> Standing Committee Reports, Review of the Intellectual Property Rights Regime in India, Presented to Rajya Sabha on 23<sup>rd</sup> July, 2021.

<sup>40</sup> See Section 20 of the Semiconductor Integrated Circuits Layout Design Act, 2000.

Among the non IP legislations there is the Banking Regulation Act, 1949, the Income Tax Act, 1961 and the Companies Act, 2013 which also speaks about collateralisation and creation of charges on intangible assets.

The Banking Regulation Act, 1949: This Act has been enforced to regulate Indian banking and the banks. Section 6 of this Act specifies about the different kinds of activities that a Banking company can undertake. Wherein it has been mentioned that banking companies can grant loans on properties and for that purpose has been given the authority to acquire and deal with “properties” which forms part of the security.<sup>41</sup> But, the Act does not define the term “property” and the Act also does not classify “property” into immovable or movable. Hence, if we consider Section 6 of the Act it does not restrict banking companies from granting loans on Intellectual Property though the same has not been specifically included in the term “Property”. Further, Section (6)(2) of the Act<sup>42</sup> prohibits the Banking Companies from undertaking any activities which has not been specified under Section 6(1) of the Act. Thus, under this Act Banking Companies are not prevented from granting loans on the security of Intellectual Property.

The Companies Act, 2013: It regulates the incorporation and running of the companies. When referring to Collateralization this Act allows Companies to create Charges on its assets, which includes tangible or “otherwise” meaning intangibles provided the same is registered with the Registrar of Companies.<sup>43</sup> Charge is creating a lien on the assets of the company and the same has been defined under This Act including a mortgage. The Schedule 3 of the Act mentions a list of intangibles which shall include Goodwill, Trade Marks, Copyrights, Patents and other Intellectual Property Rights in its scope.<sup>44</sup> Thus after analysing the aforementioned provisions of the Companies Act, 2013 it can be inferred that the said Act does not prohibit Companies from taking loans on the security of “intangibles” which includes Intellectual Property Right provided the same is registered with the Registrar of Companies.<sup>45</sup>

The Income Tax Act, 1961: This Act has been enacted to provide for the taxability of assets, income and etc. This Act also mentions about getting benefits of one’s Intellectual inventions

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<sup>41</sup> Section 6(g) of the Banking Regulation Act, 1949

<sup>42</sup> Section 6(2) No banking company shall engage in any form of business other than those referred to in sub-section (1).

<sup>43</sup> Section 77 of the Companies Act, 2013

<sup>44</sup> Schedule III of the Companies Act, 2013

<sup>45</sup> Ahmar Afaq and Rupal Chhaya, Securitization of Intellectual Property: Legal Recourse in India, Journal of Intellectual Property Rights, Vol 27, 2022

by specifying about intangibles such as Intellectual Property Rights under Section 32, 35AB and other sections relating to Deductions under the Act.<sup>46</sup>

In India, though many General laws and also many special Acts relating to Intellectual Property mentions about Collateralizing Intellectual Property, but there is no Single Act providing the mechanism and procedure for mortgaging the Intellectual assets of a person. The use of the same is also not very popular in India as compared to other jurisdictions which have specialized law in this subject. Hence, in the next part of the Article the author has looked into the laws of other jurisdictions dealing with Intellectual Property Rights as Collaterals.

### **5. Comparative Analysis of Laws of Other Jurisdictions:**

- **United States of America:** Secured financing is not novel here.<sup>47</sup> Article 9 of the Uniform Commercial Code (hereinafter referred to as the “UCC”) provides about secured financing. The Uniform Commercial Code in the United States regulates all commercial activities in the United States.<sup>48</sup> The Uniform Commercial Code has been adopted by most of the States. Article 9 has been subject to changes several times, because of the requirement in the change of the nature of the security. It has been revised to include within its ambit Intellectual Property Rights as Collaterals. The revision in the said Article has also helped in the reduction of financing costs of the debtors.<sup>49</sup> The primary Article of the entire Code is considered to be Article 9. It speaks of enforcement of security Interests by the creditors, which is by way of sale of the security if the debtor fails to repay the debt. Further, the creditor’s remedy under Article 9 is also for bringing an action against the debtor for the payment of the outstanding amount taken as a loan. The other remedy is also of foreclosure. Whereas, the remedies available to the debtor under this Article is limited and somewhat similar to the remedies available to a mortgagor under Indian Property Law. The debtor has the Right of Redemption. The Debtor can redeem the Security till the same has been disposed of by the Creditor. And if the same has been disposed of by the Creditor, i.e. sold by the Creditor, the debtor is entitled to the remaining sale proceeds after the debt of the Creditor has been satisfied. A close look at all these laws will reveal that the same

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<sup>46</sup> Standing Committee Reports, Review of the Intellectual Property Rights Regime in India, Presented to Rajya Sabha on 23<sup>rd</sup> July, 2021.

<sup>47</sup> Xuan-Thao Nguyen, *Collateralizing Intellectual Property*, 42 GA. L. REV. 1 (2007).

<sup>48</sup> <https://www.uniformlaws.org/acts/ucc> (last visited: 18.04.2024)

<sup>49</sup> Xuan-Thao Nguyen, *Collateralizing Intellectual Property*, 42 GA. L. REV. 1 (2007).

remedies are also there for a mortgagor who has mortgaged his property to a mortgagee.

<sup>50</sup> When a patent, copyright, Know how is collateralized to a creditor, a “security agreement” is entered into between the parties which evidences the security interest created in favour of the creditor. <sup>51</sup>

Another relevant law which is worth mentioning when the US laws relating to IP Collateralization is being discussed is the Bankruptcy Code. The definition of “property” under this Code is “all legal or equitable interests of the debtor in property as of the commencement of the case.” Hence, if Bankruptcy proceedings is brought against a debtor his “property” would according to the definition include his “Intellectual Property.” <sup>52</sup> The term “Intellectual Property” has been defined under the Bankruptcy Code to include almost every asset of the intellect such as invention, trade secret, plant variety, patent applications and also other types of Intellectual Property under its ambit.<sup>53</sup> In the United States it has been seen that Collateralizing of Intellectual Property is frequently in use and also backed by statutory recognition. Some of the reasons for the same could be the awareness of such use by the holders of the IP assets, less issues in Valuation of the same, statutory recognition and other allied factors.

- **Singapore:** For Commercialization of Intellectual Property in Singapore, the Government in Singapore has in 2014 introduced IP backed Financing Scheme which was further amended and revised in the year 2017 for further raising the economy of the country. <sup>54</sup> Later in the year 2021 Singapore has also introduced the Master Hub of Intellectual Property which came to be known as “Singapore IP Strategy, 2030”. <sup>55</sup> The banks in Singapore has been very well organized in granting loans on the security of Intellectual Property Rights and as such it is considered to be one of the most important Intellectual Property Hub of the world economy. The risk of non-payment of the dues by the debtors were mostly borne by the Government in Singapore. <sup>56</sup> The major players

<sup>50</sup> Robert S. Bramson, Intellectual Property as Collateral-Patents, Trade Secrets, Trademarks and Copyrights, The Business Lawyer, July 1981, Vol. 36 No. 4. Pp. 1567-1604, Published by American Bar Association.

<sup>51</sup> Xuan-Thao Nguyen & Erik Hille, Patent Aversion: An Empirical Study of Patents Collateral in Bank Lending, 1980-2016, 9 UC IRVINE L. REV. 141 (2018)

<sup>52</sup> Anjanette Raymond, Intellectual Property as Collateral in Secured Transactions: Collision of Divergent Approaches, 10 Bus. L. INT'L 27 (2009).

<sup>53</sup> Article 35 (1) of the US Bankruptcy Code

<sup>54</sup> [https://www.wipo.int/wipo\\_magazine/en/2021/04/article\\_0001.html](https://www.wipo.int/wipo_magazine/en/2021/04/article_0001.html) (last visited: 20.04.2024)

<sup>55</sup> More commonly referred to as “SIPS 2030”.

<sup>56</sup> Ahmar Afaq and Rupal Chhaya, *Securitization of Intellectual Property: Legal Recourse in India*, *Journal of Intellectual Property Rights*, Vol 27, 2022

in the IP backed debt financing in Singapore and the key players for its development in Singapore are the Government Institutions, Intellectual Property Office of Singapore, Enterprise Singapore, the Economic Development Board, the Financial Institutions, the Banks and the Valuers.<sup>57</sup> The first three key players are mainly Government enterprises that regulate and promote IP development in Singapore. To encourage IP backed financing in Singapore, the Government has shared the burden of loan financing and in case of default in repayment by the holders in order to encourage the banks for providing loans on the security of Intellectual Property. The scheme was started in the year 2014 which allowed only the use of patents as a collateral but with the expansion of the scheme in 2017 also registered TradeMarks, copyrights and other Intellectual Property has been introduced in the said scheme. There have been several cases of IPR backed debt financing in Singapore and the same have been evaluated and submitted in the form of report by Singapore and filed before the “World Intellectual Property Organization” (WIPO).<sup>58</sup> Due to the strong regulatory framework of IP backed debt financing in Singapore many enterprises have benefitted from the same. Another reason for the use of IPR debt financing in Singapore is probably due to the sharing of the loan risk by the Government which has helped to serve as an encouragement for the banks to grant loans on the security of an Intellectual Property.

- **Indonesia:** Intellectual Property Rights in Indonesia is recognized as intangible material rights.<sup>59</sup> The same was known as HKI in Indonesia but presently it is also known as IPR in lines with other countries. Intellectual Property Rights in Indonesia is considered to be related to Property and the laws that are applicable to Property in Indonesia also apply to Intellectual Property rights.<sup>60</sup> Though there is no specific laws that govern the issues relating to Collateralizing Intellectual Property Rights in Indonesia but there are instances of Collateralizing the same as treating it as any other kind of “property” under the law.

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<sup>57</sup> See <file:///C:/Users/sonam/OneDrive/Desktop/wipo-pub-rn2023-58-en-unlocking-ip-backed-financing-country-perspectives-singapore-s-journey.pdf> (downloaded on 23.04.2024).

<sup>58</sup> *ibid*

<sup>59</sup> Nanda Devi Rizkia, Hardi Fardiansyah, *Intellectual Property as an object of Banking Credit Collateral in the Digital Era*, Jurnal Pendidikan, Bahasa Vol. 10 No. 1: Mei2023.

<sup>60</sup> *ibid*

- **Malaysia:** The impediments which arise in Malaysia for Collateralizing is due to the dual banking system.<sup>61</sup> The Acts that govern banking system in Malaysia are two folds, i.e. the Islamic Banking Act, 1983 and the Banking and Financial Institutions Act, 1989. But, the Prime Minister of Malaysia had introduced a scheme known as MyIPO to augment and promote IPR Collateralization which is also known as the “Intellectual Property Corporation of Malaysia” which was established through the Intellectual Property Corporation of Malaysia Act, 2002.<sup>62</sup>

It is through this Organization that Malaysia is trying to introduce IPR Monetisation in its jurisdiction. Two specific laws of this country the TradeMarks Act and the Industrial Designs Act have incorporated provisions enabling the Collateralization of the Intellectual Property Rights. Though it is moving towards better codification of laws relating to IPR collateralization but the people are reluctant in going ahead because of the lack of clarity in such laws and also lack of general awareness among its citizen.

## 6. Conclusion:

IPR Collateralization has been a boon for many for the purposes of economic development. Many Corporate being IPR holders also have an advantage of securing loan by Collateralizing their IP Rights. Loans on intangibles can prove equally effective against loans on tangibles. There are various benefits arising out of IPR Collateralization and there are also challenges involved in the process such as lack of awareness being the primary one and also problems of valuation due to lack of expertise in valuation of IPR in India. This is also due to the fact of less developed infrastructure relating to IPR in India. Banks or financial institutions which are to provide the loans also feel awry about the fact that if the borrower fails to repay the loans then there is no enforcement strategy for the lenders against the borrowers. The Nation therefore needs to come up with new laws to motivate IPR Collateralization in India and take effective steps for raising awareness among its citizens regarding the benefits of the process. This can also be achieved by following the practices of other jurisdictions like USA and Singapore wherein Government in order to boost IPR Collateralisation has undertaken the liability of protecting the banks upto 80% in case of defaults of loans provided on the security of Intellectual Property Rights.

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<sup>61</sup> Ida Madieha Azmi, Engku Rabiah Adawiyah Engku Ali, “*Legal Impediments to the Collateralization of Intellectual Property in the Malaysian Dual Banking System*”, Volume 2, Issue 1, Asian Journal of Comparative Law, 2007, Article 8.

<sup>62</sup> [https://www.wipo.int/edocs/mdocs/treaties/en/wipo\\_smes\\_kul\\_11/wipo\\_smes\\_kul\\_11\\_ref\\_theme\\_08\\_01.pptx](https://www.wipo.int/edocs/mdocs/treaties/en/wipo_smes_kul_11/wipo_smes_kul_11_ref_theme_08_01.pptx) (downloaded on 20.04.24)