Dear IP and Growth Review Team

We welcome this review and the very many relevant questions you raise in your Call for Evidence. In this instance we have opted not to put in a full response but to mention one specific point which is relevant to our transactional intellectual property practice. It relates to the registration of security over intellectual property at Companies House.

Effect of registration of security over intellectual property at Companies House

Allen & Overy advises clients on the full range of commercial contracts relating to the exploitation of intellectual property rights. This includes IPR asset-backed financing, royalty "monetization" and security taking in connection with the financing of projects. The ability to raise finance on the basis of intellectual property assets is often a precondition to a project going ahead. This is particularly true in the entertainment and publishing industries and in fast moving technology fields such as life sciences and in the hi-tech and digital arenas. Examples of recent transactions on which we have acted include several transactions involving the financing of three clinical trials in the pharmaceutical field on the basis of an IP royalty monetization, financing the acquisition of a major record label by using the value of its copyrights and the financing of the acquisition of consumer products business which was secured against its trade mark portfolio.

Security taking in relation to intellectual property often focuses on registered rights such as patents and registered trade marks. Here the security can be registered against the assets in question at the UK Intellectual Property Office, giving the assurance that third parties will acquire any subsequent interest in those IP rights subject to the registered security interest. However, unregistered rights, primarily copyright (but also unregistered trade marks), are also valuable, particularly in the entertainment and publishing fields and in relation to digital technologies and information technology. Security against such rights cannot be registered at the UK IPO. In such cases the security taker must rely on its registration of the security against the IPR owner at Companies House. There is much uncertainty surrounding the effect of this registration as against subsequent bona fide purchasers (or licensees) or other interest holders for value without notice, and this affects the attractiveness of copyright and other unregistered IPR as a basis for financing.

Under the common law, registration of a charge at Companies House gives constructive notice to those who should reasonably be expected to search the register. There is, however, much uncertainty as to who would reasonably be expected to search the register in this context. For example, would a licensee of copyright in specific software (e.g. a re-seller of the software) be expected to search the register at Companies House when this transaction is unconnected to the acquisition of the business as a whole? Also, a charge or security interest is often taken over all property, or all of the intellectual property, of the particular company. It is unclear whether this is sufficient notice with respect to a company's IPR, or whether specific copyright works must be 'called out' in the charge/security interest to constitute 'notice'.

Although it is possible to circumvent the need for constructive notice by taking an assignment of the copyright by way of security (i.e. subject to an obligation to re-assign on repayment) rather than a charge, this has
significant disadvantages for the copyright owner and creates complexities with respect to enforcement of the copyrights. It is therefore generally unpopular with both sides – a hammer to crack a nut.

In our view clarification of this area would be helpful. It would be helpful if the law clearly stated that registration at companies house of a charge or security interest against IPR of an entity constitutes notice of the charge/security interest to all persons acquiring a subsequent interest in any of the IPR that is the subject of the charge/security interest, whether or not the specific item of IPR (or the work in which IPR subsists) is specifically called out in the charge/security interest.

We note the recent consultation on the Registration of Charges by the Department for Business Innovation & Skills and the Government's response to Proposal F (See Government Response document December 2010). We believe it would be helpful to consider the position of IPR specifically.

Kind regards

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