

# **INTELLECTUAL PROPERTY IN THE HANDS OF A TRUSTEE**

## **INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCIES WORLD WIDE**

**– seen from a Danish perspective**



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## 1 - INTRODUCTION

When intellectual property lawyers meet bankruptcy lawyers to discuss common matters, they often notice very significant and incompatible differences of opinion. The reason is often that many IP-lawyers find that the mere ascertainment that an asset enjoys some IP-legal protection automatically means that the asset has a special status in the bankruptcy estate, and that this, per se, can justify preference before other creditors for the creditor basing his claim on an IP-protected right.

Thus, I still recall wondering the first time I noticed these differences of opinion in connection with a joint seminar for IP-lawyers and insolvency lawyers on the treatment of IP-protected assets in bankruptcy estates, which seminar I participated in as a relatively young and un-experienced insolvency lawyer.

As part of the seminar, the participants were to solve a number of specific cases jointly, and one of the cases involved a decision under bankruptcy law of a number of claims arising during the administration of a furniture manufacturer's bankruptcy estate. The manufacturer had been engaged in batch production of designer furniture according to licence agreements entered into with a number of famous Danish furniture designers.

According to the licence agreements, the furniture manufacturer was entitled to manufacture and market the furniture included in the licence agreements, which furniture undoubtedly enjoyed protection under IP law. The components which were part of the production originated to a wide extent from sub-suppliers. As regards payment obligations, it was stated in the licence agreements that these occurred when the finished furniture "left the manufacturer's warehouse".

Then, the participants were to decide on a number of problems, including i.a. questions regarding the title to finished furniture on stock, delivered but not yet used furniture components, the revenues arising from furniture manufactured prior to the bankruptcy and sold by the trustee and revenues from sale of furniture sold prior to the bankruptcy but received after the bankruptcy order was issued.

I will limit myself to note that the decisions made revealed significant differences of opinion among the participants. Generally, the IP-law orientated participants tended towards admitting the IP protected authors far more protection under IP-legislation as such, whereas the bankruptcy lawyers did not find any basis for admitting creditors basing their claim on IP protection any special status before other creditors who were involved as suppliers for the production.

## 2 - APPLICABLE LAW

In the following, I will give a short account of applicable law seen from a Danish point of view. In this connection, it should be noted that Denmark is a "civil law" country and, as regards legal history, has had a long tradition for extensive legislative cooperation with the other Nordic countries, including first and foremost Norway and Sweden. In a separate chapter, I will briefly touch on the differences and similarities in the area as regards Sweden, Norway and Finland.

According to applicable law, two provisions in the Danish Bankruptcy Act arouse particular interest in response to what is covered by the bankruptcy. Thus, Section 32 of the Danish Bankruptcy Act reads as follows:

*"The estate in bankruptcy shall comprise any property owned by the debtor at the time of the pronouncement of the adjudication order, and any other property which may accrue to the debtor during the bankruptcy proceedings."*

This provision must be compared with Section 82 of the Danish Bankruptcy Act:

*”Property items belonging to a third party or property which is ineligible for inclusion in the bankrupt estate for other reasons shall be delivered to the rightful owners.”*

In the above provisions, no decision is made as to when an asset can be assigned to the debtor’s property or when the asset belongs to third parties. A decision thereon has to be made on the basis of current rules regarding the passing of property, first and foremost including whether the acts of perfection required under applicable law have been undertaken in order for the transaction to be binding in case of a future bankruptcy.

However, if the relevant act of perfection is not undertaken, the transaction will be revoked.

In general, assets can be transferred for ownership or as security, and each case requires undertaking of the act of perfection required under applicable law for the category of the particular asset.

Depending on **the nature of the asset**<sup>1</sup> and **the nature of the transaction**<sup>2</sup>, a broad catalogue of acts of perfection can be made ranging from the mere agreement and sometimes with an additional requirement for individualisation to dispossession, notice of registration in a separate register of rights, i.e. the Land Register (“tingbogen”) (rights in immovable property), the register of chattel mortgages (“personbogen”) (rights regarding chattels personal, including company and receivables charges), the shipping register (“skibsregisteret”) (rights regarding ships), the nationality register (“nationalitetsregisteret”) (rights in aircrafts), the motor vehicle securities register (“bilbogen”) (rights in vehicles).

It can be established that the different kinds of prevailing acts of perfection have been developed in an interaction between case law, jurisprudence and legislation.

## **2a - Certain intellectual property rights**

National registers also exist for certain intellectual property rights. Thus, the Danish Patent and Trademark Office keeps a register of patents pursuant to part 12 of the Danish Patent Consolidated Act (“patentbekendtgørelsen”), a register of trade marks pursuant to Section 12(3) of the Danish Trade Marks Act<sup>3</sup> (“varemærkeloven”), a register of registered utility models pursuant to the Danish Utility Models Act (“brugsmodelloven”), and a register of design rights pursuant to the Danish Design Act<sup>4</sup> (“designloven”), and a register of the topography of semiconductors pursuant to the Danish Act on protection of the design of semiconductors (“lov om beskyttelse af halvlederprodukters udformning”).

It should be noted that the legislation in the above-mentioned areas include authority to register charges within the specific areas in the respective registers.

However, it is emphasised that such registration is only of an orderly character, and that the act of perfection in connection with charging of rights of the specific nature must be made in accordance with the rules on chattels mortgages which are registered in the register of chattels mortgages (“personbogen”).

Published case law in the area is very limited, and, thus, I will comment briefly on two available leading cases.

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<sup>1</sup> For example real property with attachments, movable property, ships and aircrafts, motor vehicles, certain intellectual property rights, securities, unsecured claims.

<sup>2</sup> For example transfer for ownership, transfer as security, and - in the case of the latter - the nature of the security in the form of pledge, mortgage, so-called “key pledge” (“nøglepant”), and as from 1 January 2006 company charge and receivables charge.

<sup>3</sup> Community trademarks under the EU rules have deliberately not been included in the exhaustive list, and pledging therefore takes place in accordance with the EU rules of the Office for Harmonisation in Alicante to obtain protection against third parties in all EU member states.

<sup>4</sup> Community design under the EU rules have deliberately not been included in the exhaustive list, and pledging therefore takes place in accordance with the EU rules in the register of Community designs in Alicante to obtain protection against third parties in all EU member states.

One of the cases was determined by the Danish Supreme Court regarding a bankruptcy estate's sale of records and cassettes produced before termination of an agreement on exercise of copyrights.

The independent institution Nordisk Copyright Bureau (hereinafter NCB) brought an action against the bankruptcy estate of a record producer.

Please note that NCB was an administrative body safeguarding the copyright owners' interests in connection with production of records and cassettes. The controversial issue of the case was whether the bankruptcy estate had incurred liability in damages with status as pre-preferential claims by selling the stocks available at the time of the commencement of the bankruptcy proceedings.

The bankruptcy estate claimed that it was an ordinary creditor's claim supported on an agreement entered into prior to the bankruptcy.

The Supreme Court agreed to the bankruptcy estate's point of view and emphasised that the bankruptcy estate had only exercised the right to sell records and cassettes transferred to the publishers authorised by the standard agreement, and, thus, that the bankruptcy estate had not violated the copyrights administered by NCB.

The other leading case in the area was determined by the Danish Eastern High Court. During the case, the Society of Authors ("Forfatterforeningen") claimed on behalf of themselves and on behalf of justified authors that the bankruptcy estate should acknowledge: "that the copyright and ownership of the manuscripts, books that were being printed and the printed books present as at the commencement of the bankruptcy proceedings belonged to the authors respectively".

Contrary to the Bankruptcy Court, the Eastern High Court found that the amounts coming from the sale of books after the bankruptcy belonged to the bankruptcy estate and not the authors. The Court emphasised that the estate had not entered into the agreements with the authors considering that the society/authors had not ensured "a protected right of a proprietary nature under the general rules of the law of property". Unfortunately, it is not clear what they refer to with this reference.

## **2b - Company and receivables charges**

The Norwegian professor, Doctor of Laws Viggo Hagström has stated in a recently published article<sup>5</sup> named "Is the fundamental principles of property law obsolete?" ("Er formuerettens grunnbegreper blitt foreldet?") (my translation):

*"Property law is temporarily a hidden field; the static property law is closely connected to national conditions and will expectedly continue to be influenced by traditional legal material. As regards the dynamic property law, new financial arrangements may put firmly established opinions to the test; for example, EU Directive 2002/47 on financial collateral arrangements, which was implemented under Norwegian law by the Act of 26 March 2004 no. 17, has within its own area departed from the traditional principles of Nordic patent and bankruptcy law."*<sup>6</sup>

As a result of the influence stated by Viggo Hagström, Denmark has introduced rules regarding floating charges in the Danish Registration of Property Act in the form of company and receivables charges as at 1 January 2006<sup>7</sup>.

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<sup>5</sup> "Juristen" no. 1, February 2007, p. 4.

<sup>6</sup> "Tingsretten er foreløpig et skjernet felt; den statiske tingsrett er nær knyttet til nasjonale forhold og vil ventelig fortsatt være preget av det overleverte rettsstoff. For den dynamiske tingsrett del kan nye finansielle ordninger sette innarbeideje oppfattninger på prøve; EUs direktiv 202/47 om finansiell sikkerhetsstillelse som ble gjennomført i Norge ved lov af 26. Mars 2004 nr. 17, har eksempelvis innenfor sitt område brutt med tradisjonelle nordiske panterettslige og konkursrettslige prinsipper."

<sup>7</sup> Introduced by Act no. 560 of 24 June 2005 to amend the Danish Registration of Property Act, the Bankruptcy Act and other acts (Company charge). The bill is based on a draft bill in report no. 1459/2005 on company charge submitted by a committee under the Ministry of Justice.

The Act decisively departs from traditional principles on the law of patents and bankruptcy in force until then by way of prohibiting floating charges and security in so-called *tingsindbegreb*, meaning an unspecified plurality of things.

The aim of the introduced company charge regulatory system was to enable businesses “to borrow on security in their receivables, stock and goodwill etc. in a simple and collective way”<sup>8</sup>.

When introducing the Act, the Minister for Economic and Business Affairs, Bendt Bendtsen, furthermore stated that “the company charge is an important step towards increased growth as the businesses’ opportunities for providing capital are enhanced. It also strengthens the competitive power and growth”<sup>9</sup>.

The rule in Section 47(c)(3) of the Danish Registration of Property Act exhaustively lists the types of assets that can be included in a company charge.

Of special interest in this presentation is the listing under item 7 in the provision:

*”Goodwill, domains and rights under the Patent Act, the Trade Marks Act, the Design Act, the Utility Models Act, the Registered Designs Act, the Copyright Act and the Act on Protection of the Design of Semiconductors (Topography).*

*The act of perfection for a company charge is registration, according to which the company charge is to be registered in the register of chattel mortgages in order to obtain protection against agreements entered into in good faith with the owner of the charge and to protect the legal immunity of the charge.*

*It is emphasised that a holder of a company charge must respect a seller’s rights to the movable property if a valid retention of title has been made in connection with the sale.”*

As mentioned, a new rule on receivables charges has been inserted in Section 47(d) of the Danish Registration of Property Act. The rule opens up the possibility of “a company charge on the business’ receivables in the sense that the holder of the charge can obtain a charge on the debtor portfolio, so that the business’ receivables as at the time of the creation of the charge are included therein, and, also, that future receivables are included in the charge when they are incurred”.

I emphasise that it is provided by Section 47(e)(2) of the Danish Registration of Property Act that at no time both a company charge and a receivables charge can be registered under the pledgor in the register of chattel mortgages.

Even though the rules regarding company and receivables charges are relatively new, and, thus, that it is still not possible either to determine whether the rules live up to the intentions on which the bill was based or which influences the amendments to the act can be expected to have on future bankruptcy estates, the Act reflects the comparable development which has been noted in many other countries.

It can also be established that the legislation is in line with the intentions on which the United Nations Commission on International Trade Law based their “Draft Legislative Guide on Secured Transactions: Terminology and Recommendations”<sup>10</sup>. Therefore, it must be presumed that the implemented amendments to the Act comply to a significant degree with the requests made by various IP-legal organisations for complying with a number of requests from particular sectors; the special security interests.

### **3 - BRIEFLY ABOUT THE LEGAL SYSTEM IN SWEDEN, NORWAY AND FINLAND**

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<sup>8</sup> The Ministry of Justice’s press release of 8 March 2005.

<sup>9</sup> The above-mentioned press release.

<sup>10</sup> United Nations A/CN.9/WG.CI/WP.29

As emphasised above, the changes in Denmark have been implemented under the influence of the development in other countries having a related legal tradition, and, in the following, I will focus on the corresponding rules prevailing in a number of those countries which have been accounted for in the report on which the bill is based, see note no. 5.

### **3a - Norway**

Until 1980, the Norwegian rules on charges were to a wide extent similar to the Danish rules. The rules on charges over inventories introduced in 1980 represented a significant extension compared to previously.

However, in order to ensure a reasonable bankruptcy administration, the Norwegian Storting adopted new rules on legal charges in respect of administrative costs on 25 March 2004.

In addition to the charge over inventories, the Norwegian law on charges opened up the prospect of providing security on unsecured claims, both separately according to rules similar to the Danish rules, and collectively - a so-called "factoring charge".

The holder of the charge obtains legal effect by registration under the business operator in the register of chattel mortgages. In addition to this act of perfection, notice is usually also given in connection with a "factoring charge".

It should be noted that the Norwegians have considered discontinuing the application of both charges over inventories and the "factoring charge", but they decided to maintain the regulatory system with reference to the trade's need for obtaining credit secured on stocks and receivables.

### **3b - Sweden**

By the Act of 17 July 2002 ("lag2003:528) on "Företagsinteckning", Sweden introduced rules regarding securities in the form of "företagsinteckning". A creditor with security in the form of "företagsinteckning" is given a preferential right in case of bankruptcy according to "förmånsrättslagen"<sup>11</sup>. "Företagsinteckning" includes all the trader's assets. "Bolagsverket" is the registration authority for "företagsinteckning".

Furthermore, the rules must also be compared with the rules on reconstruction found in "lag (1996:764) om företagsrekonstruktion" as amended.

### **3c - Finland**

Under Finish law, businesses can provide a company charge ("företagsinteckning") on some of their assets.

According to the rules in force since 1 January 2003, the holder of a company charge is only paid 50 per cent of the value of the charged assets after creditors with more preferential claims have been fully covered. Any business registered in "Handelsregisteret" may provide a company charge.

The assets that can be included in a company charge are listed in Section 3 of the Act. Especially emphasised is the "right to trade mark, company, design, patent and other intellectual properties, rental rights, rights of use, chattel rights and other special rights and other fixed assets".

The act of perfection is made by registration in "Patent- og Registreringsstyrelsen".

## **4 - SUMMARY**

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<sup>11</sup> 1970:979 as subsequently amended.

As shown in this review, the access to provide security on assets has been widely extended through the rules introduced in Denmark on company charges and receivables charges. The purpose of the introduced rules is to meet the businesses' need for increased financing, and, thus, the development also meets the trends seen in other countries, and which are also reflected in the initiatives taken under the auspices of Uncitral, which, as mentioned, have resulted in the present "Draft legislative guide on secured transactions" according to which they i.a. recommend that the key objectives of an effective and efficient secured transactions law are as follows:

*"The purpose of the recommendation on key objectives is to provide a broad policy framework for the establishment and development of an effective and efficient secured transactions law. This recommendation could be included in a preamble to the secured transactions law as a guide to the underlying legislative policies to be taken into account in the interpretation and the application of the secured transactions law (hereinafter referred to as "the law")."*

In spite of the development accounted for and the changes the development has caused, especially the access to have the disposal of assets related to IP legally protected assets, one still has to know that the special elements of personal character related to these rights and the protection which is often granted to the initial rightful owner according to legislation, theory and in practice.

In Denmark, this has i.a. resulted in the provision in Section 56 of the Danish Copyright Act which reads as follows:

*"56(1) Assignment of copyright does not give the assignee any right to alter the work unless the alteration is usual or obviously presumed.  
(2) Assignment of copyright does not give the assignee any right to reassign copyright unless the reassignment is usual or obviously presumed. The assignor remains liable for the performance of the agreement with the author."*

The newly implemented legislation does not aim at changing the protection to which the initial rightful owner is presumably entitled.

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