

# CONSENSUAL SECURITY RIGHTS OVER INTELLECTUAL PROPERTY

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**Abstract:** *This paper focuses on the consensual security rights over the objects of intellectual property in the Czech Republic. The paper is based on the national report presented for the purpose of XX. Congress of the International Academy of Comparative Law (Japan, Fukuoka, 22–28 July 2018). In the first part of the paper, the authors describe the system of the intellectual property protection and explain the basic principles of the core systems of IP protection: copyrights, patents, trademarks and industrial designs. In the next part the authors define three most common methods of the security rights over the intangible assets: a pledge, transfer of a right as a security, and a prohibition of the alienation or the encumbrance of assets. The paper subsequently deals with the following issues: typical structure of the security transaction, mechanisms of evaluating the IP rights used as collateral, and requirements needed for the effectiveness of security rights. With this regard the authors distinguish between the effects of the security rights over non-registered rights such as copy-right or unregistered designs, and security rights over registered trademarks, granted patents or registered industrial designs. Special attention is paid to the security rights over the business enterprise. The final part of the paper is aimed at the statistical analysis. The authors describe how frequent is the use of the consensual security rights in Czech legal practice and what are the usual costs related to the secured transactions over the intellectual property.*

**Keywords:** *intellectual property rights, consensual security rights, pledge, priorities of creditors, registration in the IP registries*

## 1. OVERVIEW OF INTELLECTUAL PROPERTY RIGHTS

### 1.1. Overview of the Categories of Intellectual Property in the Czech Law<sup>2</sup>

In the Czech law, the legal protection of intellectual property can be divided<sup>3</sup> into:

- (A) Industrial property rights;<sup>4</sup>
- (B) Rights related to the industrial property rights;<sup>5</sup>

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<sup>2</sup> The paper focuses on the four most widely recognised IP rights: patents, trademarks, copyright, and industrial design.

<sup>3</sup> VOJČÍK, P. *Teorie právní ochrany nehmotných statků*. Praha: Metropolitní univerzita Praha, o. p. s., 2016, p. 20–21; VOJČÍK, P. *Právo duševního vlastnictví*. Plzeň: Vydavatelství a nakladatelství Aleš Čeněk, 2012, p. 33–35; TELEČ, I. *Tvůrčí práva duševního vlastnictví*. Brno: Doplněk, 1994, p. 42.

<sup>4</sup> Industrial property rights include: (i) rights protecting the scientific and technical results: patents, utility models, industrial designs, topography of semiconductor products, new plant varieties; (ii) rights protecting signs: trademarks, protected designations of origin, protected geographical indications, business names. VOJČÍK, P. *Teorie právní ochrany nehmotných statků*. Praha: Metropolitní univerzita Praha, o. p. s., 2016, p. 20–21; VOJČÍK, P. *Právo duševního vlastnictví*. Plzeň: Vydavatelství a nakladatelství Aleš Čeněk, 2012, p. 33–35.

<sup>5</sup> Rights related to the industrial property rights cover: technical improvements, trade secrets, new methods of prevention of diseases and medical treatment of humans and animals, domain names, names, reputation or privacy of legal persons. Trade secrets are protected by the Art. 504 Civil Code (Act. No. 89/2012 Coll., Civil Code, as amen-

- (C) Copyright; and
- (D) Rights related to the copyright and neighbouring rights.<sup>6</sup>

Protection of industrial property (e.g. patents, trademarks and registered industrial designs) is generally linked to the formal act. These rights require the filing of the application and subsequent registration in the industrial property register. In the Czech Republic, the application is filed with the Industrial Property Office in Prague (hereinafter “IPO” or “Industrial Property Office”). If a new plant variety is registered, the application is submitted to National Plant Variety Office which is a part of the Central Institute for Supervising and Testing in Agriculture seated in Brno.

Copyright, rights related to the copyright and neighbouring rights, or the so-called unregistered Community designs (see below) exist without the necessity of a registration (for example by the creating a work of art or by publishing a design).

Intellectual property rights are rights of an absolute nature (*erga omnes*), as opposed to, for example, to the right on the protection against unfair competition, which is a relative right (*inter partes*).<sup>7</sup> Intellectual property protection is limited to the territory of the Czech Republic (the principle of territoriality), with the exception of the EU supranational protection of EU trademarks and Community Designs which provide unitary protection to the whole territory of the EU (see 1.2).

With regard to the transferability of rights intellectual property rights are divided into: (i) moral rights (right to the attribution of authorship to the invention; right to the attribution of authorship to the design; moral rights of authors and performing artists such as right to the attribution of the authorship, divulgation right, integrity right) and (ii) economic rights (patents, trademarks, industrial designs, economic rights of authors, rights related to copyright).

Moral intellectual property rights are not transferrable. Economic rights are generally transferrable. The exception are the economic rights of authors/performing artists which are not transferrable during the life (*inter vivos*) of the author/performing

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ded). Trade secrets involve competitively significant, identifiable, valuable, and in relevant business circles normally unavailable facts related to the enterprise, whose confidentiality is ensured by the owner in his own interest. Trade secrets cover the know-how of the enterprise, technical or business information. See KOUKAL, P., LASÁK, J. In: P. Lavický a kol. *Občanský zákoník I, Obecná část (§ 1-654). Komentář*. Praha: C. H. Beck, 2014, p. 1782–1788. The protection of business secrets will be subject to legislative changes in 2018 with regard to Directive No. 2016/943/EU of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure.

<sup>6</sup> The Czech copyright doctrine distinguishes between two categories: “rights neighbouring to the copyright” and “rights related to the copyright”. The neighbouring rights include only the rights of performers to their artistic performances (Art. 67 ff. Copyright Act; Act No. 121/2000 Coll., on Copyright and Rights Related to Copyright and on Amendment to Certain Acts, as amended). These rights are inherently linked to the personality of the performing artist. The artistic performance is result of a special talent, feelings and intellect of its creator, and bears the distinctive character resulting from performer’s personality. On the other hand, rights related to the copyright do not have the same nature as the copyright and therefore are called the “related rights”, which expresses their different character. Rights related to the copyright includes: rights of the phonogram producers; rights of the audio-visual recordings producers; rights of the radio or television broadcasters; rights of the publisher of previously unpublished work; rights of the publisher to a remuneration in connection with the private copying of the published work (Art. 1 b) Copyright Act).

<sup>7</sup> TELEČ, I., TŮMA, P. *Autorský zákon: komentář*. Praha: C. H. Beck, 2007, p. 67; KOUKAL, P. In: P. Vojčák (ed.). *Košické dni súkromného práva I*. Košice: Univerzita Pavla Jozefa Šafárika v Košiciach, 2016, p. 451 ff.

artist.<sup>8</sup> They can be transferred only in the way of a “constitutive transfer” (i.e. by granting a licence).<sup>9</sup> Another exception from the transferability of economic rights, are rights related to the so called collective trademark (see further).

The effects of the transfer of industrial property rights are conditional upon the execution of the registration in the registry of the Industrial Property Office or National Plant Variety Office.

## Copyright

The copyright law is governed by the first section of the Act No. 121/2000 Coll., on Copyright and Rights Related to Copyright and on Amendment to Certain Acts, as amended (hereinafter “Copyright Act”).<sup>10</sup>

The copyright protection covers literary, artistic and scientific works which are the result of the creative work of the author, provided that the work in question is captured in an objectively perceivable form, incl. electronic, permanent or temporary [Article 2 (1) Copyright Act]. The work is considered to be the result of an activity which is creative and statistically unique.<sup>11</sup> For the beginning of the copyright protection, these conditions must be met cumulatively. Furthermore, the subject matter should not be excluded from the copyright protection [Art. 2 (6), Art. 3 Copyright Act].<sup>12</sup>

<sup>8</sup> Art. 26 Copyright Act regulates that transfer of economic rights *inter vivos* is prohibited (“Economic rights may not be waived by the author; such rights are not transferable and are not subject to the execution of a decision; this provision shall not apply to claims arising from such economic rights”). However, economic rights are inheritable [Art. 26 (2) Copyright Act]. This means that they may be passed to the heir in a will of the testator.

<sup>9</sup> The legal regulation of the licence contracts is set forth by the Art. 2358-2389 Civil Code. The Copyright Act is applicable as a *lex specialis* in relation to the Civil Code “Copyright law forms, together with other rights to the results of intellectual creative activity and together with other special proprietary rights, a sub-system of substantive civil law”. The Decision of the Czech Supreme Court from 30. 4. 2007, File No. 30 Cdo 739/2007.

<sup>10</sup> See Fn. No. 7.

<sup>11</sup> The computer program is also considered a copyrighted work under the condition that it is the author's own intellectual creation. However, this does not necessarily mean that the computer programme has quality of a statistically unique creative activity. The statutory threshold of the originality is here set lower than in instance of normal copyrighted works. Copyright also protects databases and photographic works. The database is protected by the copyright if the way in which the content of the database is selected and arranged is derived from the author's creative choices. The photographic work is a copyrighted work if it is author's own intellectual creation. In all mentioned cases (computer programmes, databases, photographs), the condition of statistical uniqueness [Art. 2 (2) Copyright Act] does not apply. As copyrighted works are also considered derivative works including translation into another language [Art. 2 (4) Copyright Act]. A copyright also covers all developmental phases and parts of the work, if they themselves fulfil the definition of a copyrighted work [Art. 2 (3) Copyright Act]. See also TELEČ, I., TŮMA, P. *Autorský zákon: komentář*. Praha: C. H. Beck, 2007, p. 34–64.

<sup>12</sup> For example, chess and similar games; timetables, lotteries, solutions and principals, rules, methods; discoveries of a productive, commercial, operating, technical, scientific or research nature; proficiencies and skills; information itself; daily news, data itself; solely ideas; physical laws; official works or a text of laws and statutes; See TELEČ, I., TŮMA, P. *Autorský zákon: komentář*. Praha: C. H. Beck, 2007, p. 7–34, 64–70. “When considering whether the defendant has infringed the plaintiff's copyright it was necessary to ascertain whether the use of the disputed text (even though minimal) was in fact a direct use of the plaintiff's work, respectively whether the plaintiff's work has been involved. It must be considered that, in the present case, the subject matter of protection is not the mere idea of a work but a creative, and therefore protected, activity of the author.” The Decision of the Czech Supreme Court from 30. 4. 2007, File No. 30 Cdo 739/2007.

The copyright can be granted only to the natural person [Art. 5 (1) Copyright Act]. However, legal persons can exercise<sup>13</sup> the economic rights of the author in relation to the employee works [Art. 58 (1) Copyright Act] or works which are considered to be employee works [Art. 58 (7) Copyright Act]. An employer can assign such right to exercise economic rights to another person only with the author's consent, unless this occurs when a business enterprise (undertaking) or any part thereof is being sold [Art. 58 (1) Copyright Act].

Copyright protection arises in the moment when the work is expressed in an objectively perceivable manner. With the extinction of the material carrier through which the work is expressed the legal protection does not expire [Art. 9 (1, 2) Copyright Act].<sup>14</sup>

The duration of moral<sup>15</sup> and economic<sup>16</sup> rights of the author is different.<sup>17</sup> The transferability of rights *inter vivos*<sup>18</sup> is expressly prohibited for both categories of author's rights. These rights cannot be affected by the execution [Art. 26 (1) Copyright Act]. Only the right to use the copyrighted work can be licensed to another person. However, claims arising from the exercise of economic rights (such as the claims from license agreements) can be transferred and might be subject to security rights without restrictions.<sup>19</sup>

The rules mentioned above also apply to the moral and economic rights of performing artists. On contrary, the rights related to copyright (e.g. the right of the phonogram producer to his recording, the right of the audio-video producer to his recording, the right of the radio or television broadcaster to his broadcast, the publisher's right to a previously unpublished work to which the duration of the property rights has expired, the publisher's right to reward) are transferable [Art. 76 (5), Art. 80 (4), Art. 84 (3) Copyright Act] *inter vivos* and also *mortis causa*. Similarly, the database maker's right is transferable [Art. 90 (6) Copyright Act].<sup>20</sup> Therefore these rights may serve as a subject matter of the security.

## Trademarks

Trademarks are regulated by Act No. 441/2003 Coll., on Trademarks, as amended (hereinafter "Trademarks Act")<sup>21</sup> and by Regulation of the Industrial Property Office No. 97/2004 Coll., to implement the Trademarks Act, as amended.

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<sup>13</sup> TELEČ, I., TŮMA, P. *Autorský zákon: komentář*. Praha: C. H. Beck, 2007, p. 553–568.

<sup>14</sup> *Ibid.*, p. 124–129.

<sup>15</sup> Art. 11 Copyright Act: the right to the attribution of the authorship, the divulgation right, the integrity right.

<sup>16</sup> Art. 12-25a Copyright Act: the right to use the work; the resale right; the right to remuneration in connection with a reproduction of the work for personal use and for a legal person's own internal use.

<sup>17</sup> Moral rights last only for the period of the author's life (limited post mortal protection is vested to close relatives to the author, legal persons associating authors or the relevant collecting society; Art. 11 (5) Copyright Act). Economic rights last for the period of author's life and 70 years after his death [Art. 27 (1) Copyright Act].

<sup>18</sup> The transfer of rights upon the death of the author (*mortis causa*) is permissible; general rules of the inheritance law regulated by the Civil Code are fully applicable. TELEČ, I., TŮMA, P. *Autorský zákon: komentář*. Praha: C. H. Beck, 2007, p. 314, 315.

<sup>19</sup> TELEČ, I., TŮMA, P. *Autorský zákon: komentář*. Praha: C. H. Beck, 2007, p. 157–158, 309–314.

<sup>20</sup> TELEČ, I., TŮMA, P. *Autorský zákon: komentář*. Praha: C. H. Beck, 2007, p. 678–680, 689–690, 708–710, 732–734.

<sup>21</sup> The Act No. 441/2003 Coll., on Trademarks and on Amendments to Act No. 6/2002 on Judgements, Judges, Assessors and State Judgement Administration and on Amendments to Some Other Acts (Act on Courts and Judges). The trademarks legislation will be amended in 2019 depending on the implementation of the Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015, to approximate the laws of the Member States relating to trademarks.

Any sign<sup>22</sup> capable of graphical representation can form a trademark,<sup>23</sup> especially words, including personal names, colours, drawings, letters, numbers, product shapes or its packaging if the sign is able to distinguish the goods or services of one person from the products or services of another person (Art. 1 Trademarks Act).<sup>24</sup>

For the existence of national trademark protection it is necessary to submit the application to the IPO and fulfil the conditions specified by the law (Art. 4 to 8 Trademarks Act).<sup>25</sup> Legal protection of the trademark comes into the existence upon the registration in the Trademark Register, which is the public register administered by the IPO.

The trademark owner is endowed with exclusive economic rights (Art. 8 ff. Trademarks Act).<sup>26</sup> Since, trademark rights are of the economic (proprietary) nature (Trademarks Act does not grant to the owner any moral rights) only, they are freely transferable,<sup>27</sup> and they can be subject-matter of the security rights and or be affected by the execution (Art. 15, Art. 17 Trademarks Act).<sup>28</sup> Transfer of the trademark can be done independently from the transfer of the business enterprise for all or only for selected classes of products/services for which the trademark has been registered [Art. 15 (1) Trademarks Act]. The trademark can also be licensed (Art. 18 Trademarks Act).<sup>29</sup> On the other hand the transferability of the collective trademarks is excluded; such rights cannot be given as a security and cannot be also licensed (Art. 39 Trademarks Act).

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<sup>22</sup> Art. 1 Trademarks Act; See also HORÁČEK, R., BISKUPOVÁ, E., DE KORVER, Z. *Práva na označení a jejich vymáhání: zákon o ochranných známkách, zákon o ochraně označení původu a zeměpisných označení, zákon o vymáhání práv z průmyslového vlastnictví: komentář*. Praha: C. H. Beck, 2015, p. 1–12.

<sup>23</sup> On the territory of the Czech Republic there are four protected categories of trademarks (Art. 2 Trademarks Act): trademarks registered by IPO (national trademarks), by WIPO (international trademarks), by EUIPO (the European trademarks) and generally known trademarks.

<sup>24</sup> The current definition corresponds to Art. 2 Directive 2008/95/EC. It will be however amended according to the Art. 3 Directive 2015/2436/EU which replaces the requirement of the graphic representation by the requirement of the sufficiently clear and precise subject matter of the registration (therefore also sound or motion trademarks will be protectable).

<sup>25</sup> The sign cannot be generic, lack any distinctive character, be merely descriptive, generic, contrary to public order or good morals, misleading, containing a symbol of high symbolic value, conflicting with the earlier trademark or other third party's rights, or filed for the registration in bad faith [Art. 4 Trademarks Act]. See HORÁČEK, R., BISKUPOVÁ, E., DE KORVER, Z. *Práva na označení a jejich vymáhání: zákon o ochranných známkách, zákon o ochraně označení původu a zeměpisných označení, zákon o vymáhání práv z průmyslového vlastnictví: komentář*. Praha: C. H. Beck, 2015, p. 16–130.

<sup>26</sup> Exclusive economic rights to the trademark include the exclusive right to use the trademark in connection with the registered products and services and the right to use the symbol ® while using the trademark.

<sup>27</sup> "To transfer the trademark is an exclusive right of its owner. The transfer (...) is carried out by the conclusion of a written agreement on the transfer. The effect of the transfer of rights (...) is not determined by the act of registration in the Trademark Register. Such registration has *inter partes* only declaratory character. However, only by that registration the transfer of the trademark has become effective against third parties. The registration principle governing the transfer of a trade mark does not affect the transfer of the trademark between the contracting parties." The decision of the Czech Supreme Administrative Court from 24. 8. 2005, File No. 6 A 15/2001; See also HORÁČEK, R., BISKUPOVÁ, E., DE KORVER, Z. *Práva na označení a jejich vymáhání: zákon o ochranných známkách, zákon o ochraně označení původu a zeměpisných označení, zákon o vymáhání práv z průmyslového vlastnictví: komentář*. Praha: C. H. Beck, 2015, p. 163.

<sup>28</sup> HORÁČEK, R., BISKUPOVÁ, E., DE KORVER, Z. *Práva na označení a jejich vymáhání: zákon o ochranných známkách, zákon o ochraně označení původu a zeměpisných označení, zákon o vymáhání práv z průmyslového vlastnictví: komentář*. Praha: C. H. Beck, 2015, p. 160–167.

<sup>29</sup> *Ibid.*, p. 168–171.

The trademark protection lasts for 10 years (counted from the filing date of the application). The protection period can be repeatedly extended for another 10 years (Art. 29 Trademarks Act).

## Patents

The patent regulation can be found in Act No. 527/1990 Coll., on Inventions and Rationalization Proposals, as amended (hereinafter “Patents Act”), and in the Regulation of the IPO No. 550/1990 Coll., on Proceedings in Matters of Inventions and Industrial Designs, as amended.<sup>30</sup>

The subject matter<sup>31</sup> of the patent protection must be a result of an inventive activity, which is not obvious to a person (expert)<sup>32</sup> skilled in the art<sup>33</sup> (Art. 6 Patents Act), novel<sup>34</sup> (Art. 5 Patents Act) and industrially applicable<sup>35</sup> [i.e. it can be industrially manufactured or used in industry, agriculture or other areas of the economy (Art. 7 Patents Act)].

Similarly to trademarks, in order to obtain the patent protection it is necessary to file the application to the IPO. The invention also has to fulfil the conditions of the patentability [Art. 3 to 7, Art. 34 (3) Patents Act]. The right to a patent (i.e. to file the patent application) has the inventor (the author of the invention).<sup>36</sup>

If the invention is created during the course of the employment, the right to a patent is passed to the employer, in case the employer decides to claim the right to a patent within the statutory period of 3 months [Art. 9 (3) Patents Act]. The right of the authorship to the invention (as a moral right of the inventor) remains unaffected [Art. 9 (1) Patents Act]. Even though the right to the patent is passed to the employer, the right to a reasonable remuneration, or the right to additional remuneration, belongs to the inventor [Art. 9 (4) Patents Act].

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<sup>30</sup> The Czech patent legislation is fully compatible with the principles contained in the European Patent Convention.

<sup>31</sup> Art. 3 (1) Patents Act.

<sup>32</sup> “An expert is a person who is a professional with general knowledge in specified area” (the Decision of the IPO from 18. 12. 2015, File No. PV 2000-4134). “The expert has mere reproductive than creative qualities” (the Decision of the IPO from 2. 7. 2015, File No. PV 2000-149). See also CHLOUPEK, V., HARTVICOVÁ, K. *Patentový zákon: komentář*. Praha: C. H. Beck, 2017, p. 41, 42.

<sup>33</sup> CHLOUPEK, V., HARTVICOVÁ, K. *Patentový zákon: komentář*. Praha: C. H. Beck, 2017, p. 35.

<sup>34</sup> If the disclosure of the invention is the result of abuse conducted by a third person, the invention is still regarded as new if the disclosure took place no earlier than six months prior to the filing of the application [Art. 5 (5) a) Patent Act]. Concerning the novelty requirement, the IPO found: “With regard to documents that are not generally distributed (e.g. research reports, manuscripts), they can only be considered available to the public if they are stored in a publicly accessible library, or made available, for example, via the Internet. (...) Qualification works (university thesis) stored in a publicly accessible library are considered to be made available to the public, (...) if they have been included in the library catalogue before the filing date.” Quoted from CHLOUPEK, V., HARTVICOVÁ, K. *Patentový zákon: komentář*. Praha: C. H. Beck, 2017, p. 27–28.

<sup>35</sup> “In order to assess the industrial applicability of the invention it is necessary to consider the nature of the invention (...) in the context of the prior art. The industrial applicability requirement means that it must be possible to manufacture or use the subject matter of the patent application.” The Decision of the IPO from 24. 6. 2005, File No. PV 1996-3169.

<sup>36</sup> The inventor is the person who has made the invention by means of his own creative work [Art. 8 (2) Patent Act]. It is a moral right of the inventor similar to the author's right to the attribution of the authorship. See also CHLOUPEK, V., HARTVICOVÁ, K. *Patentový zákon: komentář*. Praha: C. H. Beck, 2017, p. 56–61.

The legal effects of the patent protection start from the date of the patent's notification in the Official Bulletin of the Industrial Property Office [Art. 11 (2), Art. 34 (3) Patents Act]. The duration of the patent rights is subjected to the payment of the annual maintenance fees. The maximum length of the protection is 20 years [Art. 21 (1) Patents Act].<sup>37</sup>

Patent rights as well as right to a patent (right to file the patent application) are fully transferable<sup>38</sup> (Art. 15 Patents Act), they can be given as a security and can be also licensed [Art. 14 (1) Patents Act]. All these acts must be concluded in a written form [Art. 14 (1), Art. 15 Patents Act; Art. 1314 (1) Civil Code<sup>39</sup>].

## Industrial Designs

Industrial designs are regulated by Act No. 207/2000 Coll., on the Protection of Industrial Designs, as amended (hereinafter “Industrial Designs Act”).

An industrial design means the appearance of the whole or a part of a product resulting from the features of, in particular, the lines, contours, colours, shape, texture and/or materials of the product itself and/or its ornamentation. The product means any industrial or handicraft item, including parts intended to be assembled into a complex product, packaging, get-up, graphic symbol and typographic typefaces, except computer programs [Art. 2 Industrial Designs Act].<sup>40</sup> For obtaining the legal protection the design must be new (Art. 4 Industrial Designs Act) and of an individual character<sup>41</sup> (Art. 5 Industrial Designs Act). Furthermore, it cannot be conflicting with good morals and public order (Art. 8 Industrial Designs Act). Since the industrial design protects just the visual appearance of the products, the design resulting from the technical determination or the interconnection of parts of the product cannot be protected (Art. 7 Industrial Designs Act).

The right to the industrial design has the designer of the appearance of the product in question (Art. 12 Industrial Designs Act). The legal protection of the design starts with the entry in the Register of Industrial Designs with retroactive effects<sup>42</sup> to the filing date of the application [Art. 19 (2), Art. 38 Industrial Designs Act].

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<sup>37</sup> If the patent is granted on pharmaceuticals, it is possible to apply for the supplementary protection certificate for the duration of another 5 years (Art. 35m Patents Act). Thus the patent protection of pharmaceuticals can be up to 25 years. CHLOUPEK, V., HARTVICOVÁ, K. *Patentový zákon: komentář*. Praha: C. H. Beck, 2017, p. 248–267.

<sup>38</sup> CHLOUPEK, V., HARTVICOVÁ, K. *Patentový zákon: komentář*. Praha: C. H. Beck, 2017, p. 137–140. However, the right of the authorship to the invention as a moral right of the inventor is not waivable or transferrable.

<sup>39</sup> See Fn. No. 6.

<sup>40</sup> “(...) the concept of industrial design covers only a visually perceptible component of the product, i.e. its appearance, which, besides its other components, such as material composition or technical arrangement, was incorporated into the overall product solution.” KOUKAL, P. In: P. Koukal – M. Černý – R. Charvát. *Zákon o ochraně průmyslových vzorů: komentář*. Praha: Wolters Kluwer, 2015, p. 16.

<sup>41</sup> The requirement of an “individual character” means that the overall impression it produces on the informed user differs from the overall impression produced on such a user by any industrial design which has been made available to the public before the date of filing of the application for registration or the date of priority (Art. 5 Industrial Designs Act). If the protection is to be applied to the component of the complex product, it must remain visible during a normal use of the latter, and the visible features of the component fulfil in themselves the requirement of the novelty and individual character [Art. 3 (2) Industrial Designs Act].

<sup>42</sup> CHARVÁT, R. In: P. Koukal – M. Černý – R. Charvát. *Zákon o ochraně průmyslových vzorů: komentář*. Praha: Wolters Kluwer, 2015, p. 99–102; ČERNÝ, M. In: P. Koukal – M. Černý – R. Charvát. *Zákon o ochraně průmyslových vzorů: komentář*. Praha: Wolters Kluwer, 2015, p. 195–196.

Even though the industrial design protection provides also moral right [right to the attribution of the authorship of the design; Art. 35 (2c) Industrial Designs Act] which is not transferrable, the owner of the industrial design is not limited in the legal transactions related to the registered industrial design: he can freely transfer his rights, provide registered design as a security or grant a licence (Art. 30 to 32 Industrial Designs Act). The design rights can be also affected by the execution [Art. 31 (2) Industrial Designs Act].

If the designer creates an industrial design to fulfil the task resulting from his employment, the right to the industrial design shall pass to the subject who ordered the creation of the industrial design to the designer, unless it is stipulated differently in a contract [Art. 13 (1) Industrial Designs Act]. The right to the authorship of the design shall remain unaffected. If the employer does not claim the right to the industrial design within a period of 3 months from the date of the notification of its creation, the right shall pass back to the designer [Art. 13 (2) Industrial Designs Act].

The legal protection granted to the registered industrial design lasts for 5 years from the date of the filing of the application. It can be repeatedly renewed for 5 years, up to a maximum of 25 years [Art. 11 (1), Art. 2 Industrial Designs Act].

## 1.2 Supranational Intellectual Property Rights (European Trademark, Community Design, European Patent, European Patent with the Unitary Effect)

The European Trademarks registered according to the Council Regulation No. 207/2009,<sup>43</sup> on the Community Trade Mark, as amended by the Regulation No. 2015/2424, as well as the Community Designs (both registered or unregistered) protected by the Council Regulation No. 6/2002,<sup>44</sup> on Community designs, are objects of an industrial property which exist independently of the national protection (Art. 96 Regulation No. 6/2002; Recital No.7, 8 Regulation No. 2017/1001). The European regulation does not substitute the national protection. The aim of the European protection is only to overcome the territorial limits of the national protection of trademarks and industrial designs within the EU.

The same is also applicable to the European Patent, which is granted by the European Patent Office on the basis of European Patent Convention. The European patent is a set of national patents which have a separate existence in individual countries where the European patent has been validated.

The relationship of the national patent protection to the future concept of the uniform European patent regulated by Regulation No. 1257/2012,<sup>45</sup> is similar. The European patent

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<sup>43</sup> The English codified version has been promulgated by the Regulation (EU) No. 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union trade mark. In: *Official Journal of the European Union* [online]. 16. 6. 2017 [2017-07-04]. Available at: <<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R1001>>.

<sup>44</sup> The Council Regulation (EC) No. 6/2002 of 12 December 2001 on Community designs. In: *Official Journal of the European Union* [online]. [2017-06-16]. Available at: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32002R0006>

<sup>45</sup> Regulation (EU) No. 1257/2012 of the European Parliament and of the Council of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection. In: *Official Journal of the European Union* [online]. [2017-06-16]. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32012R1257>



with the uniform effect will be independent of national patents [Recital 26, Art. 7 (4) Regulation No. 1257/2012].

## 2. CONSENSUAL SECURITY RIGHTS<sup>46</sup> OVER THE INTELLECTUAL PROPERTY

Intellectual property rights can generally serve as objects of security on the basis of contractual rights both in the form of relative rights (obligations) as well as proprietary rights (rights in rem). However, only the economic intellectual property rights can serve as objects of the security rights. Moral rights, such as the right to the attribution of authorship of the copyrighted work or of the invention, are non-transferable<sup>47</sup> and thus they cannot serve as the subject matter of the security rights.

Even though economic rights are generally eligible for being a subject matter of security, it would not apply to economic rights which are not transferrable. Therefore, the economic rights of authors and performing artists cannot serve as the subject matter of the security because the Copyright Act prohibits their transferability *inter vivos*.<sup>48</sup> The same rule shall be applied *mutatis mutandis* to collective trademarks<sup>49</sup> and designations of the origin, or geographical indications.<sup>50</sup>

Only the legal forms of the protection (patents, industrial designs, trademarks etc.) can serve as objects of the security rights, not the intangible assets (inventions, technical solutions, designs, signs, works of art or artistic performances) themselves. Even though the Civil Code is based on a broad concept of legal objects (Art. 496 Civil Code),<sup>51</sup> the intangible assets cannot be transferred due to their intangible nature.

The Civil Code regulates that: “Any marketable thing may be pledged” [Art. 1310 (1) Civil Code]. As a typical subject matter of the security rights can serve absolute economic rights: trademarks, patents, registered industrial designs; or possibly relative economic rights (claims). Both the licence contract (Art. 2358 ff. Civil Code)<sup>52</sup> as a “set of relative

<sup>46</sup> By consensual rights we mean rights that are created over the IP right by way of a transaction between the creditor and the debtor, as opposed to the rights which arise by the operation of the law without any agreement between the parties, such as a statutory pledge or a privilege. The difference does not refer to contractual versus proprietary rights. Rather, we start from the proposition that all security rights over a property are proprietary rights.

<sup>47</sup> The issue of the transferability of moral rights is already discussed in the text above. See also KOUKAL, P. In: P. Koukal – M. Černý – R. Charvát. *Zákon o ochraně průmyslových vzorů: komentář*. Praha: Wolters Kluwer, 2015, p. 92.; VOJČÍK, P. *Teorie právní ochrany nehmotných statků*. Praha: Metropolitní univerzita Praha, o. p. s., 2016, p. 94, 103–107; TELEČ, I., TŮMA, P. *Autorský zákon: komentář*. Praha: C. H. Beck, 2007, p. 157–158.

<sup>48</sup> Art. 12 (2) Copyright Act; TELEČ, I., TŮMA, P. *Autorský zákon: komentář*. Praha: C. H. Beck, 2007, p. 169–170.

<sup>49</sup> Art. 39 Trademarks Act.

<sup>50</sup> Art. 2, 8, 23 and 24 of the Act No. 452/2001 Coll., on the Protection of Designations of Origin and Geographical Indications and on the Amendment to the Act on Consumer Protection, as amended.

<sup>51</sup> “(1) A corporeal thing is a controllable part of the external world having the character of an independent object. (2) Incorporeal things are rights whose nature allows it, and other things without corporeal substance” (Art. 496 Civil Code).

<sup>52</sup> MACEK, J. In: M. Hulmák a kol. *Občanský zákoník V. Závazkové právo. Obecná část (§ 1721–2054). Komentář*. Praha: C. H. Beck, 2014, p. 597–606; KOUKAL, P. In: Z. Pražák – J. Fiala – J. Handlar a kol. *Závazky z právních jednání podle občanského zákoníku: komentář k § 1721–2893 OZ podle stavu k 1. 4. 2017 ve znění zákona č. 460/2016 Sb.* Praha: Leges, 2017, p. 1033.

rights”, and the monetary claims arising from the licence or franchising agreements can also be used as the security.<sup>53</sup>

The same conclusions apply likewise on the supranational forms of the IP protection (the EU Trademark and the Community Designs). The EU Trademark or the Community Design can be the subject matter of security rights, especially a pledge.<sup>54</sup>

The regulation of the security rights in the Czech law is provided in the Civil Code. The securities can be divided into categories of an “asset nature” and of a “personal nature”.<sup>55</sup> The securities of a personal nature (suretyship, financial guaranty, promissory note), as well as the securities which are applicable to tangible movable assets only (earnest, hand pledge, retention right, or agreement on deductions from wages or other income), are irrelevant for the comparative research of this paper, and therefore will not be discussed any further.

The most relevant, and generally used in practice, are the following two securities: the pledge<sup>56</sup> (Art. 1309 ff. Civil Code), or the transfer of the right as a security (Art. 2040 ff. Civil Code). Since the new Civil Code has entered into force (January 1, 2014), a “prohibition on the alienation or the encumbrance of the asset” can be also negotiated (Art. 1761 Civil Code).

### 3. STRUCTURE OF SECURED TRANSACTIONS

#### 3.1 Typical Structures of Secured Transactions<sup>57</sup> over Intellectual Property Rights

The most frequently used form of security transactions among intellectual property is a pledge (Art. 1309 ff. Civil Code). The transferable economic rights can serve as the collateral only. The pledge is a security right of the absolute nature and therefore is adhered to the collateral (patent, trademark, registered design), even if it has been transferred. If the debt was not repaid, the pledge – holder<sup>58</sup> (pledgee) could sell the collateral.

By the pledge, both cash and non-cash obligations can be secured. As a general principle, the pledge to industrial property rights becomes effective on the date of the registration in the Trademarks, Patents or Industrial Designs Register.<sup>59</sup>

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<sup>53</sup> TELEČ, I., TŮMA, P. *Autorský zákon: komentář*. Praha: C. H. Beck, 2007, p. 312–313.

<sup>54</sup> Art. 29 of the Council Regulation (EC) No. 6/2002; Art. 19 of the Council Regulation (EC) No. 207/2009 as amended by the Regulation No. 2015/2424.

<sup>55</sup> KINDL, M. *Zajištění a utváření dluhů*. Praha: C. H. Beck, 2016, p. 55–56.

<sup>56</sup> In this paper we use the following terminology. With the “pledge” we understand the form of the security right, and with the “collateral” we understand the subject matter which has been given as a security (such as the trademark, patent or industrial design).

<sup>57</sup> Examples of possible transactions may be found in UNCITRAL. UNCITRAL Legislative Guide on Secured Transactions – Supplement on Security Rights in Intellectual Property. In: *UNCITRAL* [online]. 2011 [2017-06-16]. Available at: <[http://www.uncitral.org/pdf/english/texts/security-lg/e/10-57126\\_Ebook\\_Suppl\\_SR\\_IP.pdf](http://www.uncitral.org/pdf/english/texts/security-lg/e/10-57126_Ebook_Suppl_SR_IP.pdf)>, paras 35 et seq.

<sup>58</sup> We use the term “pledge holder” as the person who has the benefit of the pledge and is the creditor in the obligatory relationship with the debtor.

<sup>59</sup> Art. 17 (3) Trademarks Act; Art. 31 (1) Industrial Designs Act. The Civil Code provides the general rule, that “a pledge on a right which is registered in public register is created by the registration in this register, otherwise another act stipulates differently” (Art. 1316 Civil Code).

A pledgor shall refrain from everything, which impairs the collateral or causes the expiration of the protection. For example, the pledgor (debtor) is required to maintain the protection (patent, trademark) in force for the whole time of the duration of the debt. Similarly, the pledgor must refrain from anything that could jeopardize the existence of the legal protection. If the subject matter of the pledge is the trademark, the pledgor must refrain from any activity, which would lead to the trademark becoming generic, and thus third parties through revocation of the protection may challenge the trademark protection.<sup>60</sup>

On the other hand, the pledgee has no statutory right to restrict the pledgor in the transferability of the pledged intellectual property right. The law regulates that for the transfer of the pledge, the consent of the pledgee is not required. Because of that, we see that cumulatively with the establishing of the pledge the contracting parties in practice conclude also the special right of the prohibition of the transfer (Art. 1761 Civil Code)<sup>61</sup> which gives the pledgee the explicit right to prevent the transfer of the pledged property.

The subject matter of the pledge is valued by the general methods of the asset valuation. Even though the contracting parties may conclude on the method of the valuation or even on the value of the trademark as such [Art. 1359 (1) Civil Code],<sup>62</sup> the value must correspond to the price at which the asset would be sold at a given place and time under comparable circumstances, i.e. the “usual price” [Art. 1365 (1) Civil Code]. If insolvency proceedings have already been initiated, special rules apply (see below).

Regarding the “transfer of the right as a security” (Art. 2040 to 2044 Civil Code), the debtor or a third party temporarily transfers the right to the intellectual property rights to the creditor. A transfer of the right as a security is presumed to be a transfer with a “resolutive condition” that the debt will be discharged. If a transfer of the right as a security concerns an asset registered in a public register (Patents, Trademarks, Industrial Designs Register), the temporary nature of a transfer of the right as a security is also registered there. Unless the debt is paid in time, the conditional transfer becomes unconditional and the transferee becomes the full unlimited owner of the transferred right. However, the transfers of a right as security are not frequently used in connection with the intellectual property rights.

If the transfer of the intellectual property rights as the security (Art. 2040 Civil Code) has been agreed, the law does not explicitly set rules on the valuation of the subject matter of the secured obligation. It is therefore up to contracting parties to decide how the asset would be valued (the rule of the “usual price” must be applied as well).

For the valuation of debt-securing assets (trademarks, patents, know-how, trade secrets, designs, etc.), the general methods for valuation of the intangible assets should be used.<sup>63</sup>

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<sup>60</sup> Art. 31 Trademarks Act.

<sup>61</sup> “A prohibition to encumber or alienate a thing has effect only between the parties, unless it has been established as a right in rem. Such a prohibition is valid if it has been established for the duration of a trust, succession by fideicommissum, representation or for another specific and reasonable period in such an interest of a party which deserves legal protection” (Art. 1761 Civil Code).

<sup>62</sup> RICHTER, T. In: J. Spáčil a kol. *Občanský zákoník III. Věcná práva (§ 697-1474). Komentář*. C. H. Beck, 2013, p. 1115-1116.

<sup>63</sup> SVAČINA, P. *Oceňování nehmotných aktiv*. Praha: Ekopress, 2010, p. 57, 76, 97, 134.

- the actual costs method,
- the purchasing costs method,
- the market price method,<sup>64</sup>
- the incomes method where the value is based on the forthcoming incomes (royalties),
- the selling analogy method<sup>65</sup> based on comparison with the intellectual property transactions carried out in similar circumstances.

A crucial aspect for the precise valuation is the appropriate identification of the subject matter which is being valued (such as whether it is a trademark or a patent, who is the owner, what is the range of absolute rights, what is the territorial scope of the protection, what is the duration of the protection etc.).<sup>66</sup> If the patents are valued, we must pay a special attention to the product quality and to the needs of future investments (especially when pharmaceutical inventions are concerned). Concerning the trademarks, we must focus also on the actual duration of the protection in the past, the consumer awareness about the trademarked products, the volume of advertising etc.

The valuation is usually carried out by the expert. However, such requirement is not prescribed by the law, with the exception of when intangible investments to the company's capital are to be valued.<sup>67</sup> In such a case, the intangible asset must be valued by any expert selected from the list of court experts.

### 3.2 The Effectiveness of the Security Rights between the Parties, and Against Third Parties

When the pledge over the industrial property is established, the law stipulates, that the pledge agreement has legal effects upon the registration in the public register [Art. 17 (3) Trademarks Act, Art. 31 (1) Industrial Designs Act, Art. 1316 Civil Code]. Contrary to the legal regulation of the transfer of industrial rights or to the licencing of a trademark, industrial design or patent,<sup>68</sup> the law does not explicitly distinguish between the *inter partes* and *erga omnes* effects of the pledge. For this reason, either among parties, or against third persons, the pledge over the industrial property rights has effect upon the entry into the public register (Art. 1316 Civil Code). These findings apply on a transfer of the right as a security (Art. 2041 Civil Code) as well.

However, if the trademark is pledged as a part of the business enterprise, the pledge is established by the registration in the Pledge Register [Art. 1319 (2) Civil Code], not in the

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<sup>64</sup> “The market value is the estimated amount of money for which the asset would be possibly exchanged at the valuation date between the willing buyer and the seller, when both parties act freely and in an informed and reasonable manner.” SVAČINA, P. *Oceňování nehmotných aktiv*. Praha: Ekopress, 2010, p. 75.

<sup>65</sup> SVAČINA, P. *Oceňování nehmotných aktiv*. Praha: Ekopress, 2010, p. 134–153.

<sup>66</sup> *Ibid.*, p. 62.

<sup>67</sup> Art. 143, 251, 478, 573 Act No. 90/2012 Coll., on Business Corporations, as amended.

<sup>68</sup> If industrial property rights are transferred, the contract is legally binding among parties at the moment of the conclusion of the contract [Art. 1745, 570 (1) Civil Code]. However, the effectiveness *erga omnes* (against third parties) takes effect upon the registration in the registry [Art. 14 (2), Art. 15 Industrial Designs Act; Art. 30 (1), Art. 32 (3) Patents Act; Art. 15 (3), Art. 18 (3) Trademarks Act].

Trademarks Register.<sup>69</sup> Subsequent registration of the pledge in the Trademarks register has only declaratory effect.

Differently, this rule does not apply to industrial designs or patents. The enrolment in the Industrial Designs or Patents Register has constitutive effect and the pledge is created only when it is entered in this register, not in the Pledge Register. The legal regulation on trademarks on the one hand, and regulation on patents and industrial designs on the other hand differs in this respect without a substantial justification or a proper reasoning.

When the right to the asset is registered in the Trademarks, Industrial Designs or Patents Register,<sup>70</sup> anyone should be familiar with the existence of the secured right since the ignorance of the registered information is not excused. If more pledges are set up upon the same intellectual property right, the moment of submission to the registration [Art. 982 (1) Civil Code] is decisive for their order. Similarly, when the pledge over the intellectual property is entered into the public register, it takes precedence over a pledge or other security rights, which are not registered, in the public register (Art. 981 Civil Code).

If the pledge is established over the royalties arising from license agreements, the security right is created, when the contract becomes effective [Art. 1335 (2) Civil Code]. The pledge is effective against the licensee from the moment when he gets notified of its existence by the pledgor (i.e. the licensor) or when the pledge is proven to the licensee by the pledgee [Art. 1336 (2) Civil Code]. If the royalties have become due, the pledge holder has the right to claim royalties directly against the licensee.

### 3.3 Registration of the Security Rights over the Intellectual Property Assets

Trademarks, Patents or Industrial Designs Register is the public register (see above) and therefore all transfers of rights and establishing of the security rights must be registered there. A setting up of the pledge, a transfer of the right as a security, and the prohibition of alienation or encumbrance is subject to the registration principle. The law does not explicitly distinguish between the *inter partes* and *erga omnes* effects of the secured rights. For this reason, either among parties, or against third persons, the secured right over the industrial property rights has effect upon the entry into the public register (Art. 1316 Civil Code). However, when the pledge is set up over the business enterprise, a pledge over the trademark, which is a part of the enterprise, arises by the registration in the Pledge Register (see above).

If the pledge is established over the royalties arising from license agreements, the security right is created, when the contract becomes effective [Art. 1335 (2) Civil Code]. The registration principle is not applied here.

The order of the rights of secured creditors (Art. 981, 982, 2016 Civil Code)<sup>71</sup> is determined by (i) the time each creditor begins to claim his rights, and (ii) the time the right to

<sup>69</sup> The pledge, which is established over the set of assets or over the business enterprise, arises based on a registration with the Pledge Register maintained by the Notarial Chamber of the Czech Republic. The pledge must have the form of a notarial deed [Art. 1314 (2) Civil Code]. The security does not exist until it has been registered. However, the Pledge Register is not a public register which would be freely accessible to the public and everyone would have the opportunity to inspect the register.

<sup>70</sup> However, not in the Pledge Register which is not considered to be a public register (see above).

<sup>71</sup> RICHTER, T. In: M. Hulmák a kol. *Občanský zákoník V. Závazkové právo. Obecná část (§ 1721-2054). Komentář.* Praha: C. H. Beck, 2014, p. 1252–1254.

the secured asset has been established. The order of secured creditors is therefore as follows: (i) the creditors secured with the proprietary right (*right in rem*) registered in the public register, (ii) the creditors secured with the proprietary right (*right in rem*) unregistered in the public register, (iii) the creditors secured by the collateral of the contractual nature (secured rights *inter partes*), (iv) unsecured creditors. Within each category the earlier right over the younger right has the priority. If the pledge had not been registered in the public register (such as in the case when the trademark has been pledged as a part of the business enterprise and the parties did not submit the request for the registration in the Trademarks Register), the pledge holder (pledgee), whose right was registered in the public register, would have been in a better position since he would be preferably satisfied.

However, if the insolvency proceedings were initiated against the debtor, special rules for insolvency proceedings stipulated by the Insolvency Act<sup>72</sup> would apply instead of the general rules contained in the Civil Code.

#### 4. PRIORITIES OF SECURITY RIGHTS IN THE INSOLVENCY PROCEEDINGS

All creditors must enter the insolvency proceedings if they wish to satisfy their claims. Secured creditors, who do not enter the insolvency proceedings within two months after the date when the court declares the bankruptcy over the debtor's assets, lose their right to satisfy their claims by the sale of the secured asset [Art. 167 (4) Insolvency Act].

If insolvency proceedings have been initiated, the order of creditors is the following: in the first row the so-called "priority claims"<sup>73</sup> (Art. 168 Insolvency Act) and the "claims equal to priority claims"<sup>74</sup> (Art. 169 Insolvency Act) are satisfied by the bankrupt debtor's assets. In the second step, the rights of secured creditors are satisfied. The order of secured creditors in relation to the same secured asset (e.g. a pledged trademark) is determined by the time when the right has been created.

If the sale of the security is not sufficient to fully satisfy the debt of the secured creditor, the remaining debt is satisfied from the other assets of the bankrupt, where the secured creditor is satisfied together with the unsecured creditors. If anything remains, the subordinated claims (Art. 172 Insolvency Act)<sup>75</sup> will be satisfied.

If the creditor's claim is not fully satisfied in the insolvency proceedings, such claim does not cease to exist (Art. 244 Insolvency Act), but it becomes the enforceable title which gives the creditor possibility to enforce the claim if the debtor's asset position improves in the future.

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<sup>72</sup> Act No. 182/2006 Coll., on Bankruptcy and Settlement, as amended.

<sup>73</sup> E.g. costs of insolvency proceedings, the remuneration of the bankruptcy liquidator, taxes or fees.

<sup>74</sup> E.g. unpaid wages of the employees, receivables of the state, outstanding alimony.

<sup>75</sup> A subordinated claim is a claim which according to the wording of the contract should be satisfied only after the satisfaction of another creditor's claim.

## 5. SECURITY RIGHTS OVER THE INTELLECTUAL PROPERTY AS A PART OF THE BUSINESS ENTERPRISE

The security over the business enterprise, which corresponds to the notion of the “floating charge”, takes usually the form of the pledge.

The pledge to the business enterprise is created upon the registration in the Pledge Register [Art. 1319 (2) Civil Code]. As already mentioned, without substantial justification or proper reasoning, the moments of the creation of the pledge over the industrial property rights (which are parts of the business enterprise) differ significantly. The registration of the right in the Industrial Design or Patents register has constitutive effects and the pledge is created only when it is entered in this register. However, when the pledge is established over the trademarks, the registration of the pledge in the Trademarks Register has only declaratory character. Thus, the moment of the pledge formation differs on the basis of types of industrial property which are a part of the business enterprise.

The position of the third parties' rights and the rights of the liquidator of the bankruptcy assets is the same as to other debtor's assets. Usual costs of the establishing of the pledge over the business enterprises are related to the notarial deed [Art. 1314 (2) (a) Civil Code].

## 6. RIGHTS AND OBLIGATIONS OF A DEBTOR AND A CREDITOR IN CONSENSUAL SECURITY RIGHTS BEFORE DEFAULT

Most of the rights and obligations of the debtor and creditor have already been discussed above.

When a debt is secured by the pledge, the pledge holder (pledgee) is entitled to satisfy his claims from the sale of the pledged intellectual property right if the debtor fails to satisfy the debt properly and in due time [Art. 1309 (1) Civil Code]. The pledgor shall refrain from everything which impairs the collateral or causes the expiration of the protection. For example, the pledgor (debtor) is required to maintain the protection (a patent, a trademark) in force for the whole time of the duration of his debt. Similarly, the debtor must refrain from anything that could jeopardize the existence of the legal protection. If the subject matter of the pledge is the trademark, the pledgor must refrain from any activity which would lead to trademark becoming generic and thus the trademark protection may be challenged by third parties through the revocation of the protection. If the pledgor is a small entrepreneur or a consumer, it is not possible for the contracting parties to negotiate the forfeiture [Art. 1315 (3) Civil Code].

The “transfer of the right as a security” generally gives the creditor a temporal ownership over the intellectual property rights. A transfer of the right as a security is presumed to be a transfer with a “resolutive condition” that the debt will be discharged. If a transfer of the right as a security concerns an asset registered in a public register (Patents, Trademarks, Industrial Designs Register), the temporary nature of a transfer of the right as a security is also registered there. Unless the debt is paid in time, the conditional transfer becomes unconditional and the transferee becomes the unlimited owner of the transferred right.

The last security right used in practice is the “prohibition of alienation or encumbrance” (Art. 1761 Civil Code). Without the consent of the creditor, the debtor cannot transfer the

right to the collateral, or to establish the security right to the intellectual property right. Since the pledge holder (pledgee) has no statutory right to restrict the pledgor in the transferability of the pledged asset, the prohibition of the alienation is usually set up together with the establishing of the pledge.

## 7. ENFORCEMENT OF THE SECURITY RIGHTS OUTSIDE THE INSOLVENCY AND IN THE INSOLVENCY

Outside the insolvency, we can speak about the enforcement of the secured rights only in respect of the pledge since the “transfer of the right as a security” or the “prohibition of alienation or encumbrance” is enforced directly by the Industrial Property Office, which administers the register of industrial property rights. If the transfer of the right as a security becomes unconditional, the Industrial Property Office deletes the notification in the register. Similarly, the Industrial Property Office must request the creditor’s consent for the alienation or the encumbrance of the industrial property right if the contracting parties have established such security rights.

The pledgee has the right to satisfy himself from the pledge by the manner agreed in writing under the conditions stipulated in the Civil Code, e.g. by the sale or retention of the asset. As a general rule, before the debt is due, the agreement, stipulating that the pledgee can sell the collateral in any manner or he may retain the collateral for an arbitrary or predetermined price, is prohibited [Art. 1315 (2) Civil Code]. However, when the debt is not paid properly or on time, the pledgee may satisfy his claim in a manner agreed in writing with the pledgor [Art. 1359 (1) Civil Code]. Another possibility is that the pledgee will satisfy his claim from the proceeds gained from the sale of the asset at a public auction, or a sale administered by a court. If it has been stipulated that the pledgee may sell the pledged asset other way than at a public auction, it is also binding upon the legal successor to the pledgor (Art. 1360 Civil Code).

A pledgee shall notify the pledgor of the beginning of the pledge’s enforcement in writing [Art. 1362 (1) Civil Code]. If a collateral is registered in a public register (such as in case of Patents, Trademarks, or Industrial Designs Register), or in the Pledge Register (e.g. when the trademark is pledged as the part of the business enterprise), the pledgee shall submit to the Industrial Property Office the information about the enforcement of the pledge. The pledgee may sell the collateral only thirty days after the notification was registered in the register [Art. 1364 (2) Civil Code].

If insolvency proceedings are initiated, the creditor will usually be satisfied by the sale of the asset outside the public auction. However, the liquidator of the bankruptcy must conclude on the method of selling the intellectual property with the creditors committee (Art. 286 Insolvency Act). If the sale of the collateral is executed under the usual price determined by the expert, or under the price based on the pledgor’s accounting, it will only be possible with the consent of the creditors’ committee and the insolvency court as well.



## 8. TYPICAL COSTS OF THE CONSENSUAL SECURITY RIGHTS OVER THE INTELLECTUAL PROPERTY

The costs of the preparation of the security agreement may differ depending on the category of the intellectual property right and it is not possible to quantify them in general. However, when the intellectual property right is subject to the pledge as a part of the business enterprise, the pledge agreement has to be concluded in the form of a notarial deed. The costs related to the notarial deed and the subsequent registration in the Pledge Register is usually 0.2 % from the value of the asset.

The costs of the registration in the Patents, Trademarks or Industrial Designs Register are regulated by the Administrative Fees Act.<sup>76</sup> These fees are due upon the filing of the application for the registration of the right.

	<b>patent</b>	<b>trademark</b>	<b>industrial design</b>
Registration of the pledge, registration of the transfer of the right as a security	600 CZK (€23)	600 CZK (€23)	600 CZK (€23)

However, any changes in the listed security rights (such as the attachments to the pledge agreement, changes in the name of the pledge holder, etc.) are recorded free of charge because they are not included in the list of fees which is set by the Administrative Fees Act. Similarly, the prohibition of the alienation or the encumbrance of the industrial property rights, and also the registration of the industrial property right as a part of the business enterprise are carried out by the IPO free of charge.

## 9. STATISTICS ON THE CONSENSUAL SECURITY RIGHTS OVER THE INTELLECTUAL PROPERTY

In practice, we rarely find the security transactions over the intellectual property rights. Creditors (banks usually) generally do not have an interest in securing the debts by the intellectual property rights because they do not represent a sufficiently liquid form of the security.

The statistical data provided in the table below (through the last 3 years) on the issue were provided by the IPO.<sup>77</sup>

<sup>76</sup> Act No. 634/2004 Coll., on Administrative Fees, as amended.

<sup>77</sup> Authors express their gratitude especially to Vladimír Kloz, vkloz@upv.cz, and Jana Hlavsova, jhlavsova@upv.cz, for providing data on the structure and number of security rights in respect to trademarks, patents and other industrial property rights.

Change in the relevant register	Year	Industrial property right	Quantity
Request for the registration of the pledge	2014	patent	3
		utility model	4
		validated European patent	1
		trademark	303
	2015	patent	3
		utility model	9
		industrial design	1
		validated European patent	1
		trademark	112
	2016	patent	1
		industrial design	3
		validated European patent	2
		trademark	379
Request for the registration of the prohibition of the alienation and the encumbrance	2014	trademark	169
	2015	trademark	71
	2016	trademark	150
Request for the registration of the prohibition of establishing a pledge (i.e. the application specifically mentioned just the prohibition of the establishing of the pledge not the other security rights)	2014	trademark	3
	2015	trademark	52
	2016	trademark	147
Request for the registration of the prohibition of the alienation of rights (i.e. the application concerned just the prohibition of the alienation, not the encumbrance)	2015	trademark	1
Request for the registration of the security right to the industrial property rights as part of the business enterprise	2014	patent	50
		utility model	2
	2015	trademark	13
	2016	patent	53
utility model		1	

According to the information provided by the IPO the transfer of the right as a security has not yet been registered for any of the above mentioned categories of industrial property rights.

The pledge is registered as the most often used form of the security over industrial property rights. The records about the pledges also indicate that the debt is usually either paid on time or is being refinanced in a short term. There were only 44 cases of the enforcement of the pledge notified to the IPO in 2014 and just 1 case in 2015.