



UNIVERSITÀ DEGLI STUDI DI TORINO



USING INTELLECTUAL PROPERTY AS COLLATERAL:
AN INTERNATIONAL EXPERIENCE AND A MONGOLIAN
PERSPECTIVE

By

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ABSTRACT

When Mongolia enacted the Law on Secured transaction of moveable and intangible property in 2016, drafters encouraged the recognition of using IP as collateral. This research is based on a comparative study of civil and common law concept related to intellectual property securitization. In much of the developed world, the unified system such as functional, integrated and comprehensive secured transactions and intellectual property law system is the prevalent legal devise in the IP securitization market.

The research begins with a theoretical discussion of the key differences between IP securitization and tangible asset securitization. The main objective of this research is to distinguish exactly what is the difference between the Mongolian and other countries legal conceptions under IP securitization process, including creation, perfection, priority and enforcement of security rights in IP.

We offers the result of analysis of the IP securitization related problems of Mongolia and provides recommendations for further development and improved economic efficiency through intensive and rational use of IP as collateral.

Key words: intellectual property securitization, collateral, intellectual property asset.

I. INTRODUCTION

Since the 1997 issuance of the Bowie Bonds¹, intangible assets have been used for securitization. In 2002, the World Intellectual Property Organization (WIPO) declared securitization of intellectual property assets a new trend, particularly for small and middle-sized companies, and the number and volume of these deals is growing².

In much of the developed world, using IP as collateral is a financial tool. It is clear that more IP assets are now being used in asset based lending. The Brookings Institute concluded intangible inputs are as important, or more important to wealth creation than tangible assets³. Moreover, IP assets are increasingly being used in asset-based lending. The number of patents pledged as collateral grew from less than 10,000 in 1995 to nearly 50,000 in 2013. According to an IP merchant bank, Ocean Tomo, intangible assets as a percent of market value are at an all-time high of 84% for S&P 500 companies⁴. Since 1980, 16% of all U.S. patents have been pledged as collateral before their expiration⁵. By 2013, 40% of all firms with patents outstanding had pledged their patents as collateral at some point. For many technology firms, these IP rights have become their most valuable assets. The rise of companies such as Apple, Google and Facebook reflects the importance of IP as development factor in today's economy.

Financial institutions and investors in Mongolia still prefer to use immovable, tangible properties as collateral and there is no experience using IP. When Mongolia enacted its Law on secured transaction of Movable property and intangible property⁶ (hereinafter "Law on STMIP") in 2016, drafters encouraged the recognition of securitization over IP rights, based on the assumption that security rights may be created for any type of IP including patents, utility models, designs, trademarks or even copyrights. The law was adopted in 2016 but it will enter into force on March 1, 2017. The lengthy period for entry into force is due to the need to establish the new collateral system (filing system for collateral registration) at the General Authority for State Registration. Security interests will only be enforceable and valid if there is a valid written pledge contract between the pledgee and pledgor.

The main challenge in using IP as collateral is risk, which may occur at various stages of the securitization process. The main objective of this thesis is to identify the difference between the Mongolian and other selected countries' IP securitization legal background, and explore the possibilities for a developed system of IP securitization. Moreover, this research aims to analyze the risk factors that may arise during the securitization process. For instance, uncertainty over the legal enforceability of IP rights, technology transfer, IP validity and valuation of IP assets are the main obstacles to using IP as collateral.

Can these risks be mitigated? This work is primarily based on the analysis of the USA legal

¹ In 1997, singer/songwriter/publisher David Bowie scoffed at traditional music industry financing and struck gold in the capital markets by issuing the first ever asset securitization involving music royalty future receivables and intellectual property rights. The deal netted the artist \$55 million and began the music industry's newfound love affair with the capital markets. It further sparked other industries that rely heavily on intellectual property rights to consider securitization as a viable financing tool for the future. See more from Kerr, T. N. (2000). Bowie bonding in the music biz: Will Music royalty securitization be the key to the gold for music industry participants? *Entertainment Law Review*, 7(2),

² Benedikt Maurenbrecher, *Legal aspects of IP securitization in Switzerland* (2005)

³ Bennett, s. (2016). *THE John Marshall review of intellectual property law f', the IP asset class: protecting and unlocking inherent value. p.402*

⁴ Tomo, O. (2015). Annual study of intangible asset market value from ocean Tomo, LLC. Retrieved February 20, 2017, from <http://www.oceantomo.com/2015/03/04/2015-intangible-asset-market-value-study>

⁵ Kim, S. (2016) *IP asset value as collateral: The increasing use of patents as collateral in asset-based lending*, p1.

⁶ Law of Mongolia on Secured Transaction of Movable and Intangible Property (2016)

system's utilization of securitization, since the United States is the world leader in securitized financing. At the same time, unforeseen obstacles to securitization may arise in countries with substantially different legal systems. Therefore, we propose to explore both civil law and common law secured transaction regimes over IP.

II. CHARACTERISTICS OF IP SECURITIZATION

2.1. MAIN DIFFERENCE BETWEEN IP SECURITIZATION AND TANGIBLE ASSET SECURITIZATION

The process of issuing securities backed by assets in structured financing is called securitization, because assets are turned into securities. IP securitization is defined as “a “financing technique” or “method of financing” whereby a company transfers rights in receivables (e.g. royalties) from IP holders to an entity, which in turn issues securities to capital market investors and passes the proceeds back to the owner of the IP”.

Securitization of IP differs from securitization of other kinds of traditional assets like mortgages and credit cards. IPRs are considered personal property and a security interest may in principle taken over any kind of property, tangible and intangible.⁷ Intellectual property is a property in the sense that it can be bought, sold, licensed or traded in the same way as any other form of property. However, compared with more traditional asset classes, other intangibles and personal properties, IP has some unique attributes. For the purpose of secured transaction law, IPRs are distinct from the rights to payment that flow from it, such as the right to payment of royalties. In order words, a license agreement relating to the IP is not a secured transaction and a license with a right to terminate the license agreement is not a security right.⁸

1. IP rights are in most of the cases exclusive rights: IP consists of exclusive rights, which are enforceable against anyone. But there are limitations on intellectual property rights. Copyrighted material may be copied within the broad limits of statutorily recognized “fair use”. Although patents do not have similar limitations for personal use, patent protection is also subject to exceptions, such as the “research exemption”.
2. IPRs cannot be in held in possession: All personal things are in possession or action. Although IPRs chose in action⁹ classification has been criticized, it is agreed that IPRs cannot be held in possession. In order words, IPRs are pure intangibles, which may be exercised and enjoyed fully by an indefinite number of subjects simultaneously¹⁰. This is because the party who holds “title” to the intellectual property interest is typically the one with legal authority to enforce the rights against infringers. Parties with mere possession of physical copies are not a factor. As such, competing claimants for intellectual property involve parties with competing title interests. However, these parties can differ depending on whether the debtor's intellectual property interest arises under an assignment or a license.
3. Intellectual Property is an unlike tangible property (e.g., a pen or olive oil) — is what economists call a public good, meaning that it is both non-rivalrous and non-

⁷ Tosato, A. (2010) ‘Security interests over intellectual property’, *Journal of Intellectual Property Law & Practice*, 6(2), pp. 93–104

⁸ United Nations: (2011a). *UNCITRAL legislative guide on secured transactions supplement on security rights in intellectual property*, *UNCITRAL*

⁹ Holdsworth, W.S. (1920) ‘The history of the treatment of “Choses” in action by the common law’, *Harvard Law Review*, 33(8), p. 997. “Chose in action is known legal expression used to describe all personal rights of property which can only be claimed or enforced by action, not by taking physical possession”.

¹⁰ Tosato, A. (2010) ‘Security interests over intellectual property’, *Journal of Intellectual Property Law & Practice*, 6(2), pp. 93–104.

excludable¹¹. For example, many people can benefit from information without interfering in the pleasure others receive from the same information. It is non-rivalrous. At the same time, once disclosed, it is extremely difficult to exclude others from using the information, and it is non-excludable. You cannot build a fence around your idea as you can your backyard or ranch.

4. Intellectual property is frequently contained in tangible –physical – embodiments¹². These include pharmaceuticals and mechanical devices that reflect patented inventions; DVDs, paperback books and lithographs that embody copyrighted works; and labels, apparel and merchandise containing trademarks. In these physical embodiments there are in reality two sets of property rights: those in the tangible item; and those in the embodied intellectual property¹³.

Based on the unique characteristics of the IP, the secured transaction relating to IP can be divided into 2 categories: IP rights transaction and financing transaction¹⁴. IP rights transaction consist of transactions in which the IPRs themselves serve as security of the borrower including rights in patents, trademarks or copyrights; financing transactions involve IP on other movable assets including equipment, inventory or receivables. But in its simplest form, a financing transaction is a non-recourse debt financing, where a licensor of intellectual property can take the future cash flow expected from a license agreement and receive a cash payment up front, representing the present value of the future cash flow. Intellectual property royalty financing allows the owner of the intellectual property to keep an equity interest in the intellectual property, and thus, the owner of such property can still profit from the upside value of such an asset beyond the security interest on the debt¹⁵.

2.2. LEGAL TRADITION DIFFERENCES OVER IP SECURITIZATION PROCESS

/USA, JAPAN and MONGOLIA/

An effective system of intellectual property secured financing must operate within an existing framework. This requires understanding of the principles that support intellectual property commerce and identifying how they differ from those supporting commerce for tangible goods and their related trade receivables. These differences must then be reflected in any workable proposal for intellectual property asset financing.

Key elements to any such proposal are the creation, perfection, priority and enforcement of security rights in IP.

1. Creation and Perfection: Although IP is intangible, taking security over IP rights uses similar concepts to taking security over traditional forms of property. According to the UNCITRAL legislative guide, security rights over IP may be created by written agreement between the grantor and secured creditor. The creation of security right in an intangible asset requires a written document, which by itself or in conjunction with the course of conduct between the parties evidences the agreement of the parties to create a security right. The USA imposes different requirements for the creation of a security right in intellectual property

¹¹ Nard, C. A. (2013). *The law of patents*, Third edition (aspen casebook) (3rd ed.).p 31

¹² UNCITRAL, *report and analysis of the ad hoc working group on intellectual property financing regarding the UNCITRAL draft legislative guide on secured transactions* (2007)

¹³ UNCITRAL, *report and analysis of the ad hoc working group on intellectual property financing regarding the UNCITRAL draft legislative guide on secured transactions* (2007)

¹⁴ United Nations: (2011a). *UNCITRAL legislative guide on secured transactions supplement on security rights in intellectual property*, UNCITRAL, p23

¹⁵ Kramer, W. J., & Patel, C. B. *Securitisation of intellectual property assets in the US market*, p2

(which may take the form, for example, of a transfer for security purposes, a mortgage or pledge of intellectual property). For example, registration of a document or notice of a security right on IP with the relevant intellectual property registry may be required for the creation of the security right.

There are three basic requirements for creating an enforceable interest in collateral such as;

- Value has been given;
- The debtor has rights in the collateral or the power to transfer rights in the collateral to a secured party and
- The debtor has authenticated a security agreement that provides a description of the collateral¹⁶.

Under Mongolian law¹⁷, an IP pledge is also subject to a written agreement between the IPRs holder and a pledge holder. Moreover, in limited cases the secured transaction over IP may be created by the law. Security right created on the basis of law means security rights in property, which arise by operation of the laws regulating enforcement, tax and insolvency relations. But confirmation of a grantor's priority ranking and making the security right in collateral effective against third parties is distinct from creation of a security right.

2. Perfection is an important part of a security rights in movable and intangible property and registration is the best way to achieve this. Article 9 of the Uniform Commercial Code¹⁸ of the USA adopted "unitary concept" of a security interest. The adoption of a unitary concept of a security interest has a number of different consequences. First and foremost, it means that the former differences among the various types of financing devices no longer have any significance. In their place, there is a single concept and a single source of law that governs security interests in personal property.

However, UCC imposes different requirements for the creation of security rights in intellectual property. For example, to perfect a security interest in registered copyrights and pending copyright applications¹⁹, the short-form IP security agreement must be filed with the USCO. But to perfect a security interest in a patent, the lender, should also file a short-form IP security agreement with the USPTO to provide protection against and serve as notice to subsequent *bona fide* purchasers or mortgagees of the patent who search the USPTO records and take such patent subject to the existing security interest. To be considered timely, the filing of the IP security agreement with the USPTO must be within three months from its date or before the date of a subsequent purchase or mortgage.

Neither the Mongolian laws relating to intellectual property or those relating to secured transactions address perfecting security interests in intellectual property. According to the general rule for personal property collateral, the consensual security shall be perfected when a secured asset is transferred to possession of a lender or its representative as specified in the collateral agreement²⁰. If possession of the secured asset is not transferred to the pledgee, a consensual pledge shall be perfected by registering a notice of the pledge in the corresponding electronic database. Since IPR cannot be held in possession, perfection in intellectual property

¹⁶ UCC Article 9-203(b), Amendments Enacted in 26 States, UNIFORM LAW COMMISSION (May 22, 2012),

¹⁷ Law of Mongolia on Secured Transaction of Movable and Intangible Property (2016), Article 8.

¹⁸UCC Article 9, Amendments Enacted in 26 States, UNIFORM LAW COMMISSION (May 22, 2012),

¹⁹ Copyright Protection is automatic in principle. However, this does not preclude the possibility where a country may choose to impose such formalities for its own nationals, nor does it prevent authors from placing claims on their works, if they so wish. Countries such as the United States also do require registration of the work with the Copyright Office if a right holder want to go to court for copyright infringement. This formality is however not a requirement for copyright protection, which remains automatic.

²⁰Law of Mongolia on Secured Transaction of Movable and Intangible property (2016), Art. 11

needs registration. A registering notice should include a specific or general description of the assets that are subject to a security right. In this case, IP laws or secured transaction laws need to create special rules over specific identification of the secured intellectual property right with respect to various types of intellectual property such as for example, a patent or a copyright. This is because intellectual property over a specific technology often comprises a bundle of rights, and unless the parties intended to create security over all the IP, they may need to describe the specific assets used as collateral.

3. Priority: In USA, Federal law provides recordation and priority rules governing the issuance or registration for patents, trademarks and copyrights. Federal law is not exhaustive in nature and merely gives a broad outline about perfection and priority of security interest. Generally, there is a “first to file or perfect” priority rule. In other words, the licensor cannot obtain priority unless it obtains a subordination agreement for the licensee’s lender.

In Mongolia, security interests and interests of lien holders in the same collateral have priority according to time of registration of a notice or perfection except as otherwise provided in law. Key principle is the chronological order rule in which first registered pledge shall fulfill demand first. However, there is an exceptional case that the transfer of pledge item to the possession of pledgee shall be considered as registered at same time. In the event of overlapping of ownership and registration pledges in a pledge item, time of dispossession shall be followed for determining order of liability fulfillment²¹.

Also, a person with the right of retention pursuant to Articles 329, 354 and 392 of the Civil Code of Mongolia shall have a higher priority ranking than other pledgees with perfected pledge rights over the same pledge item. This means, in principle, that the non-contractual pledges, which are created due to failure to fulfill obligations of lease, work performance or transportation contracts, are possessory pledges that require the pledge item to be under control of the pledgee.

4. IP Securitization process: Securitization is a process wherein assets are turned into securities and relies on the participation of parties with various professions to be successful. Briefly, the parties involved are;

1. The debtor that applies for loan from originator to generate the creditor’s right
2. The originator is the owner of the securitized assets. In return for capital, all or part of the rights from the securitized assets are transferred to a special purpose vehicle (SPV) for initiating and maintaining the securitized IP as a pledge for a specified period of time.
3. In a typical IP securitization, the royalty stream is transferred to a special purpose, bankruptcy-remote vehicle. The Special Purpose Vehicle (SPV) or issuer is the entity that takes over control of the securitized asset(s) to shield them from bankruptcy and that issues the securities (for example, a subsidiary company or the institute of underwriters). The special purpose vehicle can be a trust, a company or any other legal entity and depends on the local law or regulation governing the situation, and the relevant tax off-sets²².
4. Investors

In the case of intellectual property (IP) rights, the receivables may include license royalties or other cash flows from the IP. The originator (who owns the receivables) groups and transfers them to a special-purpose vehicle (SPV), which issues securities based on the receivables. The proceeds obtained from issuing debts or equities to the investors are used to pay the originator. Debts issued by the SPV (bonds or the like) are serviced by the receivables. Equity interests

²¹ Law of Mongolia on Secured Transaction of Movable and Intangible property (2016), Art. 11

²² Chen Lee (2002) Principle and Practicum on asset securitization, Cultural Publisher.

issued by it, help the SPV in passing through the revenues produced by the receivables. Recording the security interests in the property ensures the obligation to pay the receivables with recourse to seizure of property in case of a default

2.3. THE BENEFITS OF IP SECURITIZATION

Creative industries (including IT and biotech), where production and research costs are high and need for capital is required not only to operate but also develop and market the products, may benefit the most from IP securitization. IP securitization seems an appropriate method for funding or financing industries where making money on products or services is a more lengthy process. Through IP securitization, creative companies can tap into their future cash flows and keep up with marketplace.

There are many reasons to use intellectual property as collateral, with three primary reasons being²³:

1. IP is an untapped source of collateral;
5. IP securitisation offers a quick return on research and development; and
5. IP securitisation captures additional value.

More importantly, it can provide the originator with a new source of fee income from originating and servicing the securitized assets. Securitization of intellectual property assets represents a unique securitization market that has not been widely developed. Although the cash flow from intellectual property can be steadier than the cash flow from assets that are currently widely securitized, there are some significant issues with IP securitization that have hampered the full development of the market.

For instance, in Japan a non-recourse transaction backed by the television broadcasting rights of a series of popular movies was announced in 2002. Shochiku Co., Ltd., a film company, granted TV Tokyo Corp. the ground-based broadcasting right for 34 films that had yet to be aired from among a total of 48 of the popular serial films “It’s Tough Being a Man.” The SPC, having obtained this content copyright from Shochiku, raised funds from the Industrial Bank of Japan, by offering the royalties for the ground-based broadcasting right from TV Tokyo as backing.

IP securitization is also beneficial for society since it offers an alternative investment to investors and provides opportunities to society for obtaining income distribution. A high-profile example of an IP securitization occurred in 2007, in USA, when Sears created \$1.8 billion worth of bonds based on the brand names Kenmore, Craftsman, and Die Hard. Sears transferred ownership of the brands to a separate, wholly owned, bankruptcy-remote SPV named KCD IP (for Kenmore Craftsman Die Hard IP). KCD charges Sears royalty fees to license those brands and uses the royalties to pay the principal and interest on the bonds²⁴.

Another famous example is Walt Disney, which raised about USD 725 million from Industrial Bank of Japan in 1988 through issuance of bonds against future earnings of an amusement park for the coming 20 years²⁵. The deal was structured in such a way that the investors had to bare any shortfall in the revenues and Disney continued to get its royalties without losing any

²³ Kramer, W. J., & Patel, C. B. *Securitization of intellectual property assets in the US market*

²⁴ Andrew Clarke and Ilan Guedj, ARPC, Is intellectual property amenable to securitization? (2014) See more at: <http://www.srr.com/article/financing-alternatives-companies-using-intellectual-property-collateral>.

²⁵ Chopra, S., & Negi, A. (2010). Role of intellectual property during recession. *Journal of Intellectual Property Rights Vol, 15*, 122–129

money. It was the Walt Disney brand in which investors showed interest and faith, and responded positively in the market.

However, Mongolia has no regulation or experience to structure IP securitization. Most Mongolian creative industries remain dependent on tangible assets and conventional financing transactions. Not many creative industries know how to protect and commercialize their IP assets in IP securitization schemes.

III. THE CHALLENGES APPLYING IP SECURITIZATION IN MONGOLIA

3.1. LEGAL CHALLENGES

A. Consistency with laws: In some jurisdictions, security rights in certain types of intellectual property are governed by the intellectual property laws, while in other jurisdictions such rights are governed by the secured transactions laws, and in still other jurisdictions they are governed by both sets of laws (often with some uncertainty as to the relationship between the two regimes).

Accordingly, when considering the enactment of laws pertaining to intellectual property as it functions in secured transactions, there must be a careful coordination between the laws governing secured transactions and those governing intellectual property rights generally. Because security rights have little or no value to a lender unless the lender is able to realize their economic value in the debtor's insolvency proceeding, there must also be a careful coordination between secured transactions and intellectual property regimes, on the one hand, and insolvency regime, on the other, with the result that the pre-insolvency effectiveness and priority, as well as the economic value, of security rights are respected.

In Mongolia, the Civil Code provides a comprehensive foundation for the country's private law as in most civil law systems. Therefore, the Law of Mongolia on secured transaction of movable and intangible property must be consistent with Civil Code and with other IP related laws²⁶. But existing regulation supporting IP securitization in Mongolia is very limited²⁷. The absence of legal regulation concerning IP securitization certainly sparks a fundamental problem for the application of IP securitization in Mongolia. Therefore, IP securitization needs more specific regulation in order to regulate IP securitization perfection, priority or SPV etc.

B. The recognition of the security rights in IP: Indeed, the recognition of the security rights in IP is important. The laws of some jurisdictions do not recognize the possibility of obtaining security rights such as in many important types of IP assets as trade secret, databases and plant variety etc. In Mongolia, according to the article 7 of the Law on Secured transaction of movable and intangible law, a patent, utility model, trade mark, industrial design, copyright and all types of movable and intangible properties can be pledged. However, the existing regulations supporting securitization in Mongolia are very limited. Without specific regulation, the perfection and enforcement of IP securitization will be questioned. Also, the uncertainty of the law may raise doubts about determining whether an IP securitization will be worthwhile.

C. Legal or contractual limitations on the transferability of intellectual property: Specific rules of law relating to intellectual property may limit the ability of an intellectual property

²⁶ IP related laws of Mongolia including Copyright law, Patent law, Trade mark and Geographical indication law, Law on innovation, Law on technology and science, Law on Bankruptcy and Tax law.

²⁷ Article 7.1 of the Law of Mongolian Law on Movable and intangible property provides that invention, utility model, trade mark, industrial design, copyright and order all types of movable and intangible properties can be pledged. This is the only regulation over IP securitization.

owner, licensor or licensee to create a security right in certain types of intellectual property. In Mongolia only the economic rights of an author are transferable; the moral rights are not transferable. Moreover, in Mongolia trademarks are not transferable without their associated goodwill²⁸. And same as in Japan, the transfer of a trademark in Mongolia will only take effect once notice for change ownership registered by national intellectual property offices.

D. The bankruptcy risk: Bankruptcy is a common one for securitization. As mentioned earlier, it is usually covered through the sale of the assets to a bankruptcy-remote special purpose vehicle (SPV). The use of a SPV is designed to insulate the assets from other creditors of the seller in the event of bankruptcy of the seller. If properly structured, this risk can be greatly reduced, if not eliminated, and allow for the rating of the securitization to be greater than that of the seller. Securitization often utilizes a special purpose vehicle (SPV), alternatively known as a special purpose entity (SPE) or special purpose company (SPC), in order to reduce the risk of Bankruptcy and thereby obtain lower interest rates from potential lenders. Mongolia does not have regulation or laws on this issue.

3.2. PRACTICAL CHALLENGES

A. Valuation of the IP: There are no universally accepted formulae for making valuation of IP. However, in some jurisdiction, parties (lenders and borrowers) are able to rely on valuation methods developed by national institutions. In the United States and other developed countries, companies have experienced a shift in the focus of a company's value from tangible to intangible IP assets and more frequently monetize IP through IP securitization. Calculation and valuation are necessary to determine the feasibility of securitization and to predict future cash flow²⁹. IP securitization presents significant difficulties due to valuation issues regarding the intangible nature of IP assets³⁰. Generally, the real value of particular IP assets cannot be measured accurately because of the nature of IP assets as intangible. The Mongolian government adopted the "Regulation for Intellectual property valuation" (2011). According to this regulation the Mongolian Intellectual Property Office shall value inventions, industrial designs, utility models, trademarks and copyrighted works upon request of the creator for a service fee of 5% of the determined value of the intellectual property. Mongolian Intellectual Property Office cannot be flexible to keep up with market development. Because, IPO adopted relatively expensive service fee. Although, the Mongolian government's involvement is very crucial for promoting intellectual property securitization by providing the regulation in order to promote innovation, and raise the utilization protection and management of IP.

B. The awareness of IP value risk: Awareness of IP values and the experience to practice IP securitization are also practical problems in Mongolia. In USA and other developed countries, companies are increasingly aware of their intangible assets, including IP. They have experienced a shift in the focus of a company's value from tangible to intangible IP assets and more frequently monetize IP through IP securitization. However, Mongolia has no experience to structure IP securitization. Most Mongolian creative industries remain dependent on tangible assets and conventional financing transactions. Not many creative industries know how to protect their IP assets in IP securitization schemes.

²⁸ This rule, also called the rule "against assignment in gross," is currently incorporated in Section 10 of the Trademark Act of 1946 (Lanham Act)

²⁹ Frederic Rosenberg and Jonathan T. Weiss of Weil, (2003) Securitisation of Intellectual Property Assets: Music and Film Copyright Royalties.", Gotshal & Manges, LLP

C. Fair use risk: Another important risk that may affect the outcome of an intellectual property asset securitization is the “fair use” risk. This risk exists for most intellectual property assets, but it is especially important for copyright. The 2006 Copyright Act, although granting protection to the copyright owners, contains sufficient reservations from that protection. One of the most important is the concept of “Limitations” that is traditionally defined as “a privilege of others than the owner of copyrighted material in a responsible manner without his consent.”³¹

D. Infringement risk: The IP infringement precisely affects to the unpredictability of IP or royalty cash flow. Any unpredictability of royalty income due to such infringements may diminish the attractiveness of the future royalty/cash flow/receivables-based securitization. Therefore, it is difficult to securitize IP assets in Mongolia, since in Mongolian infringements of IP by illegal downloading or digital file sharing or counterfeiting still occurs at an alarming rate³². Often government agencies as Intellectual property office and Custom Authority are the institutions that play major role with copyright infringement piracy or counterfeiting cases. Also intellectual property enforcement system needs strong judicial system for dealing with civil, administrative and criminal liabilities. But unfortunately, Mongolian IP office has changed its structure and name upon the parliament election. The key to better protection is awareness.

IV. FUTHUR DEVELOPMENTS AND FUTURE OF IP SECURITIZATION

We propose the following recommendations for the development of Mongolia’s securitization system, based on the assumption that a formal and developed system is necessary to unified system such as functional, integrated and comprehensive secured transactions and intellectual property law system.

1. Mongolia’s Civil Code provides a comprehensive foundation of the country’s private law, like in most civil law system. Also the Article 3 of the Civil Code provides that other civil laws must be consistent with the Code. Therefore, as mentioned before, when considering the enactment of laws pertaining to intellectual property as it functions in secured transactions, there must be a careful coordination between the laws governing secured transactions and those governing intellectual property rights generally. But policymakers play a key role in promoting the acceptance, use, and dissemination of intangible assets in the market. Areas in need of attention range from patent reform to securities definitions and banking regulations, from perfection and bankruptcy law to accounting techniques, and from technology to tax policy. Industry standards and procedures also need attention, especially in the area of valuation.

2. Securitization of intellectual property assets represents a unique securitization market that has not been widely developed. Although the cash flow from intellectual property can be steadier than the cash flow from assets that are currently widely securitized, there are some significant issues with IP securitization that have hampered the full development of the market. However, at the current time there is little doubt that a single secured transactions instrument that covers all assets types is the best option. As Professor Dunn and Seiler, stated: "we believe the most efficient and certain legal regime, which removes disincentives and added costs to the collateralization of these types of assets, would be one of general application to all types of assets (including trade secrets and other non- traditional forms of intellectual property), rather than separate security rights regimes. This approach is referred to as the “functional, integrated and

³¹ H.Ball, Law of Copyright and Literary property 260 (1944)

³² Mongolia ranked 134th out of 140 in the world for IP protection in world economic forum and 55th out of 128 in the global Innovation index in 2016.

comprehensive approach”. Intellectual property owners, lenders and potential purchasers would all benefit from a uniform, dependable method for perfecting and tracking security interests in intellectual property.

3. Laws relating to the secured transaction and laws relating to the intellectual property both need to balance the doctrine of exclusive right providing strong opportunity for individuals (creators or inventors) to manifest their will or interest and to stimulate the production and dissemination of creativity and productivity in science, knowledge and creative works under free market conditions. It means that promoting and accelerating creativity and productivity by structuring IP securitization must be dedicated to also achieving social interest goals without damaging individual IP interests. IP securitization regulation should ensure the personal rights to IP without ignoring public, national or social interest. The regulation should contain the concept of social function utilized so as to restrict IP from over exploitation via IP securitization. The social function of IP securitization can be realized by balancing the rights and duties of IP owners when structuring securitization.

To solve the infringement and practical challenges of IP securitization in Mongolia, it is necessary for the national IP office to pay attention to and become involved with developing legal framework. There is no need political involvement with this. The intellectual property law enforcement and administration systems need to be strengthened. The judicial protection and administrative law-enforcement systems need to be strengthened, while judicial protection of IPRs should play its leading role.

4. Strengthen the knowledge propagation on intellectual property right and increase the awareness of intellectual property right in the whole society. Carry out the ordinary intellectual property right education extensively. Increase the intellectual property right content in the national promotion of the public awareness of IP securitization.

5. In addition, the government has an important role developing a system, which issue IP backed securities market. To establish the system, the following issues need to be addressed such as

- Developing legal regulation on IP securitization in consistence with Civil Code and STMIP.
- Establishing IP valuating and credit enhancement agencies for IP assets.
- Establishing the system for IP securitization process, including creation of SPVs.

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