

AUSTRALIAN IP ALERT

From 30 January 2012 security interests in Australian Intellectual Property should be registered on the Australian Personal Property Securities Register.

Need To Know

Record security transactions that occur from 30 January 2012 on PPSR

Ability to “migrate” from IPO Registers ends 30 January 2014

Affects security taken over patents, trade marks, designs, plant breeder rights, copyright, circuit layouts as well as over transferable licences of these properties

Priority obtained by order of registration

Unregistered security in most cases extinguishes when personal property is purchased by a person unrelated to the security transaction

THE PPSR

From 30 January 2012 the provisions of the previously delayed [Personal Properties Securities Act 2009 \(Cwth\)](#) (PPS Act) commence operation. This Act sets up a national registration system for security interests in personal property named the Personal Property Securities Register (PPSR). Personal property is all forms of property with the specific exception of real estate.

The purpose of the new system is to create a single location where potential purchasers of personal property may check whether a security interest exists over that property. This system replaces a large number of State and Federal based registers and property specific registers.

WHAT TO REGISTER

A security interest is deemed as an interest in personal property that in substance secures payment of a debt or performance of an obligation, regardless of the form of the transaction.

Intellectual property is covered by the system when a security interest attaches to it. In respect of intellectual property this could occur when:

- security is taken directly over the intellectual property e.g. a mortgage is secured directly over a trade mark; or
- an exercise of rights over secured tangible goods necessarily involves an exercise of associated intellectual property rights e.g. the operation of a secured machine requires the use of a patented process or integral software; or
- security is taken over a *transferrable* license to use intellectual property.

A transferrable license is one which may be transferred directly by the licensee to a third party even if the transfer is restricted or requires consent; security taken over a non-transferable license does not need to be registered.

WHAT HAPPENS TO SECURITIES ALREADY NOTED ON THE IPO REGISTERS?

In the past it was possible to record these sorts of interests in the Australian Intellectual Property Registers i.e. the Patent and Trade Mark Registers. However mostly recordation was voluntary and therefore did not lead to establishing any priority in the property. It is for this reason that interests which are already noted on these registers are not being automatically migrated over to the PPSR. Holders of these interests will be allowed a transition or migration phase up to 30 January 2014 to secure the registration of their interest on the PPSR. After this time their interests in the intellectual property will be considered to be in the same position as an unregistered or unperfected security interest.

It is still possible after 30 January 2012 to have an interest noted on the Australian IPO Registers if the holder of the interest wishes to exercise the ability to receive the various notifications under the IP Acts but noting such interest will not provide the holder with any legal priority.

WHY REGISTER

If a security interest attaches to intellectual property from 30 January 2012 then that interest should be perfected by registration on the PPSR. Perfection by registration determines the priority status that a security interest enjoys relative to other interests and also allows the interest to survive the bankruptcy or insolvency of the grantor of the interest. Usually a perfected interest will have priority over any

unperfected security interests and an earlier registered interest will have priority over a later registered interest. In the case where there are two competing unperfected security interests, generally the earlier attached interest will have priority over the later attached interest.

If a security interest is unperfected then the unperfected security interest will be deemed extinguished when a purchaser of the encumbered intellectual property, who was not a party to the transaction that created the security interest, completes the purchase.

The PPS Act also has a number of provisions in Chapter 14 which enable registered security holders to enforce their interest in the secured property via seizure and sale or retention of the property. Some of the provisions may be contracted out of by the parties.

SEARCHING THE REGISTER

Prospective purchasers of property should conduct a search of the PPSR prior to completion of a purchase. A search may be conducted by use of the Grantor details or the serial number (patent or trade mark application or registration number) of the property. In the case of a patent or trade mark if the purchaser conducts a search of the PPSR with the correct serial number of that property immediately prior to the completion of the transaction and no security interest is noted, then that purchaser acquires the property free of any security encumbrance.

THE GREY AREA

In the case where the intellectual property is deemed to be attached to a security interest as a result of that intellectual property being required to exercise a security interest over tangible goods, then the security interest in the intellectual property is deemed to be perfected when the security interest is registered against those tangible goods. Accordingly it is not always the case that a search of the encumbrances of specific intellectual property will reveal these deemed forms of attachment. Please note however that it is possible to alter this form of attachment by specific agreement between the security parties.

HOW TO REGISTER

Registration is carried out by the online submission of a Financing Statement which includes the particulars of the parties to the transaction, the attached property details which in the case of intellectual property such as patents, designs and trade marks must include the application/registration number of that property, as well as a description of the security interest. The actual security agreement document is not submitted and the amount of liability arising from the agreement is not provided. The registration process is intended to provide a notification of the existence of an encumbrance rather than its full terms.

Although the security agreement document is not submitted as part of the registration process, the person completing the Financing Statement should be provided with a copy.

If a patent, design or trade mark registration number were entered incorrectly on the statement then the security interest would not be enforceable against a purchaser searching the PPSR with the correct number.

The Financing Statement also indicates the end date of the encumbrance. In the case of a patent, design or trade mark, as these are properties with serial numbers, the registered encumbrance will only last for a maximum of 7 years. If no end date of 7 years or less is noted when submitting the Financing Statement then the registration will automatically terminate at the end of 7 years. The lack of inclusion of an end date is discouraged by the setting of the registration fee payable for these applications at a rate higher than the rate of the fee for one that states a period of 7 years or less (initially a fee 17 times higher). It is possible to renew the registration for up to a further 7 year period at the end of the original term.

Once the statement has been lodged a verification statement is sent to the secured party. The verification statement is able to be used as proof of the perfection of the security interest.

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FURTHER INFORMATION

This paper is merely a summary of some of the features of this new system and is not intended to be a comprehensive analysis of the operation of the PPS Act. For more detailed information visit www.ppsr.gov.au.

Please note that New Zealand also has a security register system details of which may be located at www.ppsr.govt.nz.



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