

1. INTRODUCTION¹

Securitisation of Intellectual Property (IP) is not new concept but has been in practice since mid-1990s. IP being only an intangible asset is a wrong and incorrect notion as the same has the potential of raising finances through securitization like other tangible assets. Off-late, not only multinational corporations but *small and mid-sized enterprises are also being benefited by leveraging their IP assets, in exchange of finances.*² Securitisation as defined in Section 2(z) of the SARFAESI Act as under:

“Securitisatio” means acquisition of financial assets by any securitisation company or reconstruction company from any originator, whether by raising of funds by such securitisation company or reconstruction company from qualified institutional buyers by issue of security receipts representing undivided interest in such financial assets or otherwise.

As per the sub-section, securitisation is the process of acquisition of financial assets (and

not secured assets) by the securitisation company from the ‘originator’ by raising funds from the qualified institutional buyer (QIB) by issuing ‘security receipts’, which represents the undivided interest in such financial assets or otherwise. The traditional methods of IP backed financing tools like licensing (royalties) and direct sales of patents or trademarks were in practice but with the changing scenario companies have found new ways of IP financing:

- a) utilizing the value of IP is to use it as collaterals
- b) to raise funds by auctioning their IP and another mode³

The first known instance of IP financing relate backs to the year 1997 wherein singer David Bowie who paved this innovative way of raising finance by converting his future royalties from his record sales into securities and converted them to a private bond worth \$55 million.⁴ Similarly, Nickolas Ashford and Valerie Simpson, songwriters and producers

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² Intellectual Property Financing – An Introduction, September, 2008, WIPO Magazine.

³ *Ibid.*

⁴ Sam Adler, “David Bowie \$55 Million Haul Using a Musician's Assets to Structure a Bond Offering” 13 ENT. L. & FIN. 5 (1997).

of hit songs including “Ain’t No Mountain High Enough” used copyright of their 247 songs as assets to back bonds, raising US\$25 million.⁵ Other famous examples of IP securitization transactions include trademarks of Domino’s Pizza chain and Dunkin-Donuts, patent on the HIV drug developed by Yale University and many more. It is the general perception that only the tangible assets i.e. real estate, equipment and inventory can be used to avail asset-based loans. IP assets also have the potential to be used as collaterals for securing loans. Where borrowers pledge their patents, trademarks or copyright works, it automatically increases the value of their collateral pool and potential for a successful loan. Securities in the form of IP assets can be marketable debt securities collateralized by financial assets like mortgages, leases, account receivables and instalment loan contracts. The financial institutions have recognised IP assets as a potent source for raising credits, therefore, IP financing is becoming vital in financial markets across the world. Securitization of

intellectual property asset is an upcoming and new trend which needs exploration as described by World Intellectual Property Organization (WIPO). The fundamental requirement for business assets that can be securitized is that they should either have reasonably predictable cash flows or future receivables. Intellectual property is separately identifiable from other intangible assets and is legally protected under the relevant laws of the land.

Albeit, the international organizations like WIPO and United Nations Commission on International Trade Law (UNCITRAL), have been propelling the idea of IP securitisation since 2002, wherein WIPO declared securitization of intellectual property assets a new trend, particularly for small and middle-sized companies but has seen an exponential increase in 2011.⁶ As UNCITRAL introduced a Legislative Guide on Secured Transactions Supplement on Security Rights in Intellectual Property in 2011 (‘Legislative guide’) in association with various international organizations including WIPO.

⁵ *Ibid.*

⁶ Benedikt Maurenbrecher, “Legal aspects of IP securitization in Switzerland”.

The purported objective of the Legislative guide is to promote low-cost credit by enhancing the availability of secured credit and to make credit more available and at a lower cost to intellectual property owners and other intellectual property rights holders, thus enhancing the value of intellectual property rights as security for credit. The Legislative guide, however, seeks to achieve that objective without interfering with fundamental policies of law relating to intellectual property. It also aims to promote guidance to States with respect to such a functional, integrated and comprehensive secured transactions and intellectual property law system.

2. MAJOR PARTICIPANTS AND THEIR ROLES IN THE PROCESS OF SECURITIZATION OF IP

The process of securitization of assets involves the following major players:

- I. **Originator/IP Holder-** The company/entity creating the asset for securitization is known as the originator.
- II. **SPV (Special Purpose Vehicle)-** An SPV is formed by the originator company for carrying out specific transactions.

- III. **Investor-** The person who purchases the asset securitized is the investor.
- IV. **Service Provider-** It is the company which manages and takes care of the securitized asset like collecting payment and other tasks of like nature.
- V. **Rating Agency-** Rating agencies work as an assessor and rate the debtor's ability to pay back the loans and thereby help in assessment of the risk involved in securitization.
- VI. **Credit Enhancer/Guarantor-** Credit enhancer is a guarantor who guarantees and ensures the repayment of the loan. This purpose is to reduce the risks arising out of debt or future payments.
- VII. **Trustee-** A trustee acts in fiduciary relationship with the SPV and created for administering the securitized asset.

3. BENEFITS ARISING FROM SECURITIZATION OF INTELLECTUAL PROPERTY

- I. Prompt and regular flow of funds and cash;

SECURITIZATION OF INTELLECTUAL PROPERTY: HISTORICAL PERSPECTIVE AND INDIAN OVERVIEW

- II. Availability of capital for development of product(s) and service(s);
 - III. Tremendous support to R&D, innovation and creativity;
 - IV. Bonds as securities;
 - V. Creating liquidity even before actual receipts;
 - VI. Additional collateral security;
 - VII. Ensures quick return on R&D;
 - VIII. Fetches additional value;
 - IX. Alternative form of raising capital;
 - X. Intellectual property holder retains control over IP.
- I. Identify your IP clearly
 - II. Read the small print in finance documents
 - III. Keep proper records
 - IV. Recognize your limitations
 - V. Make contingency plans
 - VI. Don't be greedy
 - VII. Don't overlook other people's IP rights
 - VIII. Don't forget the dynamics of marketplace
 - IX. Don't overlook the effect of leakage
 - X. Don't borrowing more than you need

4. TEN COMMANDMENTS ON IP SECURITIZATION

The WIPO recognizes the following ten commandments which would be applicable in almost every case of IP financing and act as catalyst in the process of securitizing intellectual property.⁷ The purport of these commandments is to reduce the potential risk and disputes/conflicts.

5. THE INDIAN PERSPECTIVE

In many countries, IP backed financing or IP securitisation is flourishing at a faster pace, however, India still lags behind as there is no concrete legal sanctity to IP securitisation. Albeit the Government of India has launched National IPR Policy in 2016 for spurring interest in IPR commercialisation, but it is still at nascent stage.

The Hon'ble Apex Court in the matter titled as *Canara Bank v. NG Subbaraya Setty*⁸

⁷ Jeremy Philips, "IP Financing: the Ten Commandments" (WIPO Magazine, September 2008).

⁸ MANU/SC/0433/2018

deliberated on the concept of acceptability of IP securitisation or IP assignment and on the peculiar facts of the said case, albeit that the assignment of IP was not valid but did not opine on the said, as it was not agitated. The reason for not treating it as valid assignment was that the parties did not offer IP as security or collateral at the time of executing the loan agreement and also that an unrelated IP cannot be treated as collateral.

The discussion on securitisation of IP in India's context would be incomplete without referring to section-30(2) of Design's Act, 2000. Section 30(2) lays

"30- Entry of assignment and transmissions in registers-

(2) Where any person becomes entitled as mortgage, licensee or otherwise to any interest in a registered design, he make an application in the prescribed form to the Controller to register his title, and the controller shall, on receipt of such application and on proof of title to his satisfaction, cause notice of interest to be entered in the prescribed

manner in the register of designs, with particulars of the instrument, if any, creating such interest."

In addition to sec 30(2), Design Rules, 2011, Rule 36 and Form (No. 12) provides to record such mortgage or licence in Register of design, on the payment of prescribed fees of Rs. 500/-. Such codified provision and its mechanism proves one thing beyond refutable doubt that legislature in its wisdom has acknowledged and accepted the practice of securitisation of IP.

Securitization of IP Assets is recognized as one of the objectives in National IPR Policy 2016. Section 2(1)(t) of the SARFAESI Act covers within the ambit of "property" the intangible assets being knowhow, trademark, copyright, licence or franchise. Further, Section 2(1)(zf) defines "security interest" as a right, title or interest of any kind upon property created in favour of secured creditor and includes such right title or interest in intangible assets. In a nutshell, therefore, the bank accepting assignment of any IP as the security for a loan outstanding is the secured creditor having security interest over IP and can sell or assign the IP

and recover the outstanding amount, in case of default. The object behind incorporating a specific provision for facilitating creation of security rights over intangible properties is to acknowledge the availability of IP as security credit. The IPRs have substantial value and the law needs to provide for creation of security rights over such valuable properties to raise funds. A mortgage is a safe form of security transaction and it also requires that the IP be assigned to the lender with a license being granted back to the debtor. IP asset-backed securitization is known in the film and music industries.

6. CONCLUSION

With the expanding horizons of IP in India and same being considered as one of the hot discussion for policy formulation in various schemes by Government of India, IP securitisation is need of the hour. As already discussed IP securitisation being known to world since ages, the same is at nascent stage in India. The GoI must bring out some policies, guidelines, etc. to start IP securitisation for atleast MSME's and/or startups to raise small loans, as to keep them afloat especially during this COVID times. The valuation of IP, credit-worthiness of IP

holder, drawbacks in the system, etc. will be discussed in the second part of this research paper.