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Five “Headline” Points to Remember When Taking Security Over Intangibles

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1. Intellectual Property Rights are often High Value Assets: Lenders will want security and rights over the most valuable assets of a borrower. As the value of borrowers’ intangible assets have grown over the years, lenders have had to shift their focus from traditional sources of assets as security (such as land, receivables and equipment) to using intangible assets as security. Often the intangible assets will be included as the part of a package of assets secured. In IP rich companies, such as technology, life sciences, fintech and brand-led consumer products, IP assets form a critical part of the overall value of the borrower and have to be considered carefully by a lender from a risk and structuring perspective.

2. Consider Intangibles at Due Diligence Stage: When considering a transaction which will include intangibles in the secured assets portfolio a lender should investigate the borrower's IP portfolio, to satisfy itself that they constitute assets over which a loan can be secured. Often intangible rights will be held in IP ownership structures in which the borrower has a role, the rights in the intangible assets may be held by more than once entity, or account will need to be taken of licensing structures, such as exclusive licences. If the borrower has a licence structure at the heart of its business care should be taken. It is not uncommon for commercial contracts dealing with certain types of intangibles to prohibit encumbering assets that are the subject of the licences. Sometimes a lender may need the borrower to procure third party consents to properly take security. Require the borrower to produce a detailed schedule of its IP assets and to explain any IP

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structure. Consider carefully any borrower qualification in relation to ownership conditions or warranties in the area of IP intangibles.

3. Maintenance and Protection of the Secured Assets: Certain IP rights, such as patents, trade marks, domain names and certain types of designs need to be registered by the borrower to accrue value. These can be very valuable rights and so it is important that a lender understand what gives them intrinsic value. To maintain value registrations of rights of these will also need to be maintained. The security documentation should include appropriate provisions and mechanism requiring preservation of intangible assets.

4. Perfection and registration of security: If a lender takes an interest, including a security interest, in a registered IP right this will need to be registered at the appropriate registry as soon as possible after the transaction in order to put the world at large on notice of its interest. Failure to register security in an appropriate form can lead to impaired lender rights to rely upon the security over the asset. If not recorded in a register the security in relation to the asset may lose ranking, and may not be incapable of being relied upon in court, including in respect of a third party purporting to take an interest in the asset.

5. Enforcement: If a lender takes security over IP then the security documentation must facilitate enforcement should the borrower default in its obligations to the lender. What recourse to realise value in the IP assets will depend on the mechanisms dealt with in the security documentation, and account will need to be taken of the nature of the intangible assets when crafting those mechanisms. If the lender has a mortgage then, provided the assignment of the IP to the lender has been properly managed, the lender may have a right of sale. In other cases there may be a right to appoint a receiver, in which case the receiver powers will need to address the ability to deal with the IP assets.

If you are considering this topic, and would like further guidance on the ability to secure intangible assets, please contact **Deirdre Kilroy**, Technology & Innovation, **Patrick Molloy**, Finance and Capital Markets or your usual Matheson contact for more information.

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