Capitalizing IP– Security Interest and Securitization of Trademarks

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Abstract

One of the main barriers for any innovator or entrepreneur is a lack of funding for their projects. In many cases innovators and entrepreneurs do not have valuable assets that could be presented as collateral to lenders. As well, in many cases innovators and entrepreneurs are not aware of the value of their IP portfolios and how these properties could be developed and economically utilized.

Canada is a country with ambitious plans to encourage innovation and enhance economic growth. It is important that Canada develop comprehensive legal and policy frameworks that help innovators and IP creators not only to protect their assets but to use them to raise capital. In fact, the Government of Canada, as investigated in this dissertation, is making significant efforts to develop its intellectual property and innovations paradigms. However, there are barriers and pitfalls in the legal and policy frameworks governing security interests in IP assets in Canada. While there are some minor differences, these problems are shared by most IP assets.

In this dissertation, I analyze the pitfalls and barriers in using trademarks, one of the most popular IP assets, as security interests, and do so not only from a theoretical point of view but also from a practical one. In the theoretical analysis I examine the Canadian legal frameworks governing security interests in trademarks as well as those in the United States. I conducted empirical research with all concerned parties having an interest in security interests in trademarks: Canadian lawyers, bankers, government officials and other professionals. This helped me to highlight the gaps and pitfalls in Canadian regulatory and policy frameworks governing security interests in trademarks. The interviews I conducted with these stakeholders also helped me to better shape recommendations to develop and reform the current frameworks.

This dissertation paves the way for future research related to other IP assets such as patents, copyrights and domain names. It also highlights other key points that could help develop and reform current Canadian IP policies and regulations.

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Dedication

To my wife Marwa, thank you for your endless support and encouragement—thank you for believing in me. For my three kids: after the long, busy days and nights I hope we can finally have a little more time together.

To the soul of my mother, my father, family, friends and my beloved father-in-law who have always supported and inspired me, thank you!

To the soul of Professor Ian Kerr, you will be missed so much but will never be forgotten!

1 CHAPTER ONE: Capitalizing IP—Security Interest and Securitization of Trademarks

1.1 Introduction

In a rapidly growing world economy that relies increasingly upon intangibles as assets,[1] it is important to create an efficient legal framework that deals with intellectual property (IP) assets as it does with tangible assets. If IP asset-backed financing transactions were to be considered as secured lending transactions, the cost of lending would decrease due to the decrease in the high risk related to unsecured lending. This would be reflected positively in the ability of IP owners to raise the capital necessary for their projects.

Many countries are now aware of the importance of developing IP finance frameworks. They are keen to facilitate that process and overcome the legal and practical barriers. In 2008, the Beijing IP office in China provided 402.75 million yuan (the equivalent of US$59 million) to finance small and medium-sized enterprises (SMEs) in the so-called IP pledge loans.[2] Similarly, in 2014 the Intellectual Property Office of Singapore announced a S$100 million IP financing scheme to support local businesses to use their granted IP rights as collateral for bank loans.[3] Likewise, in 2015 the Egyptian parliament legislated law no. 115/2015

[1] A report issued in March 2015 by one of the leading intangible capital firms (Ocean Tomo, LLC) showed that the percentage of intangible components of the S&P 500 index increased from 17 per cent in 1975 to 84 per cent in 2015. Ocean Tomo's Annual Study of Intangible Asset Market Value is available online: <http://www.oceantomo.com/2015/03/04/2015-intangible-asset-market-value-study/>.

[2] Ian Ellis, "Maximizing Intellectual Property and Intangible Assets: Case Studies in Intangible Asset Finance," working paper # 07, (Athena Alliance, November 2009).

[3] "Singapore Launches S$100M Intellectual Property Financing Scheme & First One-Stop IP Service Centre: Embracing Intellectual Property," (April 8, 2014), online: Intellectual Property Office of Singapore website:

regulating security interests in immovable and intangible assets. This law and its executive bylaw represent a significant change in the Egyptian legal system.[4] The Government of India's 2016 National Intellectual Property Rights policy report[5] outlines the different objectives this government will use to develop the Indian IP and innovation frameworks. The fifth objective of this report, the commercialization of intellectual property rights (IPR), is particularly relevant to my research. This objective underlines the economic exploitation of IP assets as being a very important aspect of developing innovation and IPR. It proposes the development of two main areas: (1) the valuation of IP assets, and (2) security interests in IP assets.

The rationale behind these projects is that these governments believe that most innovators, especially in the start-up stage, have difficulty financing their projects. In many cases, the asset list of the start-up business does not include any valuable tangible assets. At the same time, there could be registered IP assets that could be used as collateral. However, if there is no efficient legal framework governing security interests in IP rights, financiers will definitely search for any brick-and-mortar assets to use as collateral, even the personal homes of the business owners.

The idea of using IP assets to raise capital is not novel. Thomas Edison used his patent on the incandescent electric light bulb as collateral to secure financing to start his General Electric Company. The Bowie bond copyright financing of 1997 was based on future royalties

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<https://www.ipos.gov.sg/MediaEvents/Readnews/tabid/873/articleid/272/category/Press%20Releases/parentId/80/year/2014/Default.aspx>.

[4] Eslam Shaaban, "Financing of Innovations in Egypt: Barriers and Potential" Open AIR, online: Open AIR <http://openair.africa/2019/06/19/financing-of-innovations-in-egypt-barriers-and-potential/>. As well, in 2007 the International Trademark Association issued a resolution explaining the importance of security interests in trademarks. They encouraged countries to develop their legal frameworks related to security interests in trademarks, "Recordal of Security Interests in Trademarks", <https://www.inta.org/Advocacy/Pages/RecordalofSecurityInterestsinTrademarks.aspx#>.

[5] National Intellectual Property Rights Policy 2016, online: The Department for Promotion of Industry and Internal Trade, India <http://dipp.nic.in/sites/default/files/National_IPR_Policy_English.pdf>.

on the back catalogue of pop musician David Bowie.

In 2015, Ocean Tomo, one of the specialized IP valuation firms in the United States, issued a report showing how the market value of the components of the S&P 500 (one of the main financial indices in the United States) changed from 1975 to 2015. It shows that in 1975

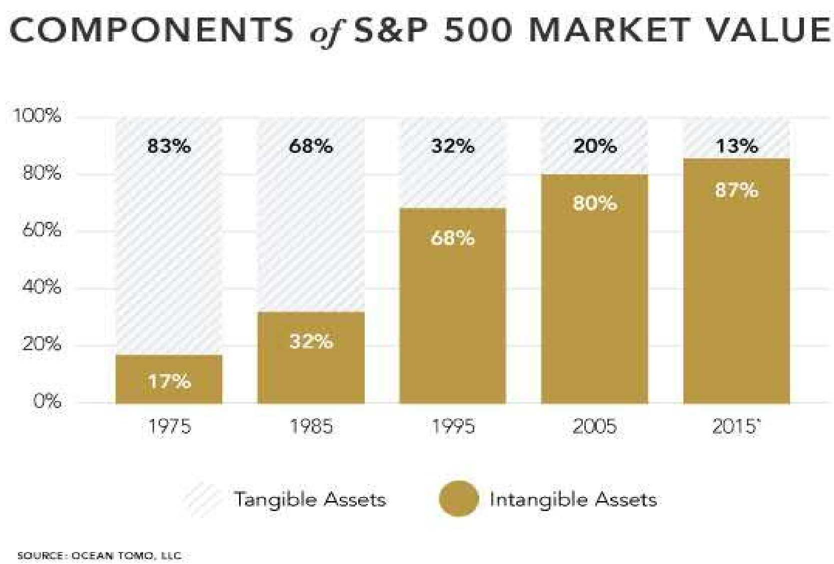

Figure 1 Components of S&P 500 market value

intangible assets represented only 17 per cent of the components of S&P 500 market value.[6] By 2015, the percentage of intangible assets had increased to 87 per cent of the market value. This rising number suggests the value of intangible assets, which include IP rights, could rapidly grow in the near future. Thus, absent an efficient legal and procedural framework to facilitate the process of security interest in IP assets, the Canadian economy could be losing a lot of opportunity for growth.

[6] Kristi Stathis, "Ocean Tomo Releases 2015 Annual Study of Intangible Asset Market Value," online: Ocean Tomo website <http://www.oceantomo.com/blog/2015/03-05-ocean-tomo-2015-intangible-asset-market-value/>.

1.2 Research Outline

The main focus of this research is to identify the gaps between market practice and needs, on the one hand, and the existing legal frameworks related to security interests in trademarks in the United States and Canada, on the other. I examine the extent to which the related legal frameworks in Canada and the United States can efficiently facilitate raising capital for corporations using their trademarks, and I look for pitfalls and barriers and what might be done to overcome them in Canada based on the outcome of the interviews I conducted in Canada.

This research addresses raising capital through security interests in trademarks, which means providing finance backed by trademarks as security through granting direct recourse for lenders on the secured trademarks, in case the borrower fails to pay the debts due.[7]

There are two reasons to focus on trademarks: first, trademarks are IP assets shared in common by all businesses, and second, they are a form of IP asset that is more accessible and more easily understood by business owners and financiers. This makes this category of IP the best suited to this research.

The first part of this dissertation focuses on examining the existing literature related to security interests in trademarks in the United States and in common-law Canada,[8] including

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[7] At the beginning of this research I was planning to research the security interest and securitization of trademarks. However, during my research I noticed that securitization of trademarks is a very advanced stage in Canada and that there are some basic issues that need to be examined as a primary step.. Therefore, I decided to focus this research only on security interests in trademarks.

[8] In this research, I focus on the Canadian jurisdictions that follow the common law; this includes all provinces and territories except Quebec. Therefore, every reference in this research to the Canadian legal framework

legal frameworks, case law, academic and professional reviews, and the proposed solutions for the related barriers in Canada in light of the applicable legal framework in the United States. The proper valuation of trademarks is an obstacle to perfect security interests in trademarks. Another barrier in both Canada and the United States is that the registration of trademarks is federal, while provincial and state laws regulate security interest perfection. This raises the problem of dual registration of security interests and the lack of a unified system of registration, which affects the proper perfection of security interests in trademarks. All the issues and pitfalls are discussed in more detail in Chapter Two of this dissertation. I use the outcomes of the legal analysis in Chapter Two as a foundation for the interview stage in Chapter Three. These outcomes are used to elaborate the extent to which the current legal frameworks are compatible with market practices, understanding and needs.

The reason for using these two jurisdictions is that the U.S. and Canadian legal systems are both common-law jurisdictions with similar constitutional structures. Also, trademark legislation in both jurisdictions is federal, while the Personal Property Security Acts (PPSA) and the *Uniform Commercial Code* (UCC)—the laws regulating security interests in Canada and the United States, respectively—are provincial and state laws. Finally, the U.S. and the Canadian systems both contain similar constitutional paradigms that regulate the limits of establishing a federal framework for security interest creation and registration. I use the U.S. jurisdiction to be able to track the level of development of the Canadian regulatory framework governing the capitalization of trademarks.

The second part of this study applies a textual legal analysis methodology combined

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shall mean the legal framework of the Canadian common-law provinces and territories, unless otherwise specified.

with interviews with numerous stakeholders, including IP professionals (lawyers and trademark agents), financiers, public servants and trademark owners in the United States and Canada. The interviews draw upon the participants' backgrounds and experiences related to security interests in trademarks. I explore, from each party's point of view, the obstacles and deficiencies of the related regulatory frameworks. I also elicit their recommendations for developing these frameworks in order to have a more reliable legal infrastructure.

The final part of this work is the analytical interpretation of the data. This takes place in two steps. The first step is to analyze the data gathered through the interviews in Canada and the United States and to compare these data with the existing literature and current legal frameworks, thus revealing, on the one hand, the gaps between market practices and needs, and, on the other, the existing legal frameworks in the United States and Canada. Finally, I provide recommendations for reform of Canadian practices and legal frameworks to make these more efficient for providing finance backed by trademark assets.

1.3 The Importance and Originality of the Research

The originality of this research is that it not only focuses on a theoretical analysis of security interests in trademarks, or even on a practical overview of it, it also approaches security interests in trademarks from both an IP and a corporate finance perspective. This research highlights the most recent changes and developments in Canada's trade and strategic agenda that triggered trademark reform, and the effect of these changes on the security interests in trademarks paradigm.

Security interests in IP assets exist in both the U.S. and Canadian markets, for example, the Silicon Valley Bank often deals with security interests in IP assets and accepts IP as collateral. In fact, U.S. banks even accept Canadian trademark registrations as collateral. For example, the Canadian trademark registration number 453935 for "BUTTERY BURST" was assigned as collateral to the Bank of America from 2012 to 2014;[9] this Canadian trademark was owned by a U.S. company. As well, a Canadian company provided their trademark—number 569549 for "REPOMAN"—as collateral to two U.S. banks, Morgan Stanley Senior Funding, Inc. and Barclays Bank PLC.[10] Meanwhile, one of the most famous transactions with respect to security interests in trademarks was the Shoppers Drug Mart security interest and its trademark application number 0885898 for "SHOPPERS DRUG MART: THE OFFICIAL DRUG STORE OF THE NEW MILLENIUM" which was assigned to the Canadian Imperial Bank of Commerce in Canada.[11]

These examples show that in some cases, Canadian companies have sought financing from U.S. financial institutions because the latter are more open to the idea of security interests in trademarks and IP rights. Unfortunately, databases or statistics showing the number of registrations in Canada of security interests in trademarks do not exist, nor is a full analysis available of how Canadian trademark owners are willing to capitalize their IP rights. In this study, I examined the regulatory frameworks for security interests in trademarks in both the United States and common-law Canada, coupled with empirical research involving professionals from multiple sectors and government officials, in order to produce more comprehensive outcomes than other existing literature related to security interests in trademarks. These outcomes

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[9] Canadian Trademark details, 0770124 – "BUTTERY BURST", online: <http://www.ic.gc.ca/app/opic-cipo/trdmrks/srch/viewTrademark/pdf?id=770124&tab=reg&lang=eng>.

[10] Canadian Trademark details, 1071131 – REPOMAN, online:<http://www.ic.gc.ca/app/opic-cipo/trdmrks/srch/viewTrademark?id=1071131&lang=eng&tab=reg>.

[11] Canadian Trademark details, online: <http://www.ic.gc.ca/app/opic-cipo/trdmrks/srch/viewTrademark?id=0885898&lang=eng&tab=reg>.

in turn reveal the main pitfalls in the Canadian regulatory and practical frameworks and provide the basis for shaping more realistic and applicable recommendations.

It is worth to mention that, at the beginning of my research, I was planning to include some examination of a project involving the Government of Canada, the United Nations Commission on International Trade Law (UNCITRAL) and the World Intellectual Property Organization (WIPO) to develop a model law that governs security interests in intellectual property rights. The project was halted, and the reason is unclear. As explored in Chapter Two of this dissertation, I believe that the adaptation of the Model Law related to security interests in IP assets is not the best method to develop the relevant legal and regulatory frameworks in Canada. In particular, the constitutional structure of Canada and the powers granted to each level of the government whether provincial or federal will act as barriers towards the creation of a single legal framework to govern security interests in IP assets. Also this will raise question whether this proposed law will be federal or provincial. Meanwhile, and as discussed in Chapter Two, the creation, attachment and perfection of the security interests will be very hard questions to resolve. This means that a new Model Law will not facilitate the process of security interests in IP assets. On the contrary, it will further complicate the process. Therefore, it is most important that any proposed reforms must take place after examining the current Canadian regulatory and policy frameworks from different perspectives.

As discussed above, most of the existing literature on security interests in trademarks analyzes this issue from one perspective only, either the IP perspective or the corporate finance perspective. Nevertheless, and as stated before, the nature of this subject necessitates analyzing and evaluating both perspectives at the same time. This dual focus provides a more accurate overview of the problem and leads to more relevant and useful recommendations. The research summarized here fills a gap between the IP and the corporate finance perspectives. It is a preliminary step towards the development of IP financing schemes in Canada. I hope it will be a precursor to subsequent research that focuses on the policy and regulatory frameworks that govern security interests in all IP assets, not only trademarks.

1.4 Research Objective

This dissertation sheds light on the need for further research and policies related not only to security interests in trademarks but also to other aspects as Security interests in other IP assets in Canada such as patents, domain names and copyrights. This dissertation also encourages the creation of adequate databases for IP security interests in Canada that provide accurate and reliable information related to security interests in IP assets. It also emphasizes the importance of increasing IP literacy and knowledge in the Canadian business community, in addition to the importance of creating a consolidated digital identification system for IP owners. In Chapter Four I provide additional discussion about potential future research and policy changes based on the examination of the current policy and regulatory paradigms.

1.5 Literature Review

1.5.1 Introduction

Security interests in trademarks in particular and IP in general falls in the area between IP and corporate finance domains. The complexity of this topic is such that it requires not only legal background in both domains, but policy and practice understanding as well. Understanding of IP and trademarks in particular is necessary to better analyze their validity and possible utilization based on their characteristics. Therefore, before examining the use of trademarks as collateral there must be prior understanding of all related aspects. For example, research in this context should include, among other things, understanding the creation, registration and the possibilities of cancellation or nullification of the trademark in addition to the regulations and the practical framework governing trademarks. At the same time, capitalizing IP requires understanding of corporate finance legal and practical frameworks. This includes, for example, understanding of lending paradigms, the differences between secured and unsecured lending, and the rules of creation and perfection of security interests.

In my view, due to the fundamental nature of this topic, any comprehensive research related to security interests in IP must deal with the possibilities and barriers from both IP and corporate finance perspectives. This means that any research that focuses on only one perspective will be dealing with only one side of the story. The investigation of the frameworks governing security interests in trademarks will be more comprehensive if it takes place from all perspectives. This includes the theoretical and practical approaches of both corporate finance and IP perspectives. Even the practical perspective of this research must involve the points of view of policy makers, professionals specialized in each perspective, and trademark owners.

Examination of the relevant literature in the United States and Canada shows that there is a lack of such comprehensive research. To date, most of the studies on security interests in trademarks, or IP assets in general, have approached the issue from a single point of view, either IP or corporate finance. No significant research analyzes security interests in trademarks from both IP and corporate finance viewpoints and examines both theoretical and practical frameworks as a starting point, and then investigates the relevant market practice through empirical research. Most of the current research relates to one or more of the following areas:

security interests, securitization, asset-backed securities, economic exploitation of trademarks, bankruptcy, licensing, and franchising. The majority of this research does not reference corporate finance and IP theories and practice.

To better understand the missing piece in the existing literature, I review current literature related to security interests in trademarks in Canada and the United States. My review examines existing Canadian and U.S. literature that analyzes security interests in trademarks, based on the scholars' insights from both corporate finance and IP perspectives to understand what comes before and how my research fits within this landscape.

1.5.2 Review Methods, Data Sources and Search Strategy

The following subsections describe the review method used in this paper, including the data sources, the applied search strategy and the criteria for selecting studies for examination.

In this review, I used three academic databases to search for relevant scholarly publications: Hein Online, Westlaw Canada, and Scopus. The rationale behind choosing these three databases is that Hein Online and West Law are specialized legal sources while Scopus has business and corporate finance resources. I accessed these databases through the University of Ottawa Library. Initially, I planned to include only the peer-reviewed articles about security interests in trademarks from the last ten years. However, the outcome of ten years' worth of material was relatively small. I therefore decided to include peer-reviewed articles published between 2000 and 2017. Another reason for this expanded timeframe was to identify any change in the number of studies related to security interests in IP in general and in trademarks in particular before and after the global financial crisis of 2007. I experimented with a range of search terms, including plural and singular words and "trademark"/ "trade-mark"/ "trade mark", before settling on the most efficient terms for each database, as noted in Table 1 below.

Data sources	**Search string used**	**Number of studies retrieved with search strings**	**Number of studies fitting with search string**
Hein Online	(("security interest in trademarks") OR ("security interest in trade-mark") OR ("security interest in trade mark") AND ("Canada" or "United States") in Law Journal Library.	25	13
Westlaw Canada	"Trademarks" OR "trademark" OR "trade-mark" OR "trade mark"& "Security interest"	41	12
Scopus	"Trademarks" OR "trademark" OR "trade-mark" OR "trade mark"& "Security interest"	4	3
Total		**70**	**28**

Table 1: Data sources and search strings

1.5.3 Additional Resources

I include in this review some relevant books, articles and reports from Canada and the United States, starting from the year 2000. Although these additional sources did not appear in the peer-reviewed literature search, I included them because they are important to this discussion. This ensures that my review covers not only peer-reviewed articles but also reflects all literature relevant to this topic.

I also include a review of the available literature on the Social Sciences Research Network (SSRN),[12] which includes the most recent writings related to security interests in trademarks. I included the SSRN as it is one of the most important databases and e-libraries that covers many legal domains today. Its importance stems from the fact that it is mostly an open-access database. It allows researchers and scholars to benefit from published research and to publish updated versions of their work. It is common to find writings on contemporary issues published on SSRN. In many cases, material found on the database is work in progress, however, this research can aid in understanding what shape future literature related to a certain topic will take. In SSRN, I used different search terms: "security interests in trademarks", "security interests in trade-mark", "security interests in trade mark" "security interests in IP", "capitalizing IP" and capitalizing trademarks".[13] The outcomes of these searches were almost the same. However, only three papers of the nine papers found were relevant.

In the following section I highlight the main findings from all the examined resources. I tried to review as much of the available literature related to security interests in trademarks in the United States and Canada as possible. I categorize the findings of my literature review into two main themes.

a) U.S. security interests in trademarks literature from corporate finance and IP perspectives.
b) Canadian security interests in trademarks literature from corporate finance and IP perspectives.

[12] Social Sciences Research Network website: <https://www.ssrn.com/en/>.
[13] I was keen during my search in SSRN to try different formats in the search string, so I included plural or singular words to ensure that the outcomes are accurate.

The rationale behind this categorization is to visualize the level of engagement in capitalization of trademarks research from each perspective and in each jurisdiction.

1.5.4 Findings

1.5.4.1 *U.S. Security Interests in Trademarks Literature from Corporate Finance and IP Perspectives*

1.5.4.1.1 The U.S. Corporate Finance Literature

In the U.S. context, in many cases corporate finance scholars and professionals do not discuss capitalizing IP in general or trademarks in particular as part of the secured lending literature. The reason for this, as will be discussed in more detail later, is that corporate finance scholars and professionals tend to be unfamiliar with intellectual property rights. This was evident in many of the writings related to corporate finance. The outcome of my review of the existing literature related to security interests in trademarks can be grouped according to the level of focus. So, the analysis starts with the general literature examining corporate finance and secured lending. In this context, it is not common to find a high level of concentration on security interests in IP assets in general and trademarks in particular. Most of the writing related to corporate finance and secured lending highlights the general rules governing the use of different kinds of assets as securities. This may well also include the process of attachment and perfection of security interests. This could be noticed in the writings of Lynn LoPucki and Elizabeth Warren in their book, *Secured Credit.*[14] This book provides, among other things, a general overview of security interests in IP assets in the United States. Although this is an

[14] Lynn M. LoPucki & Elizabeth Warren, *Secured Credit: A Systems Approach*, 7th ed., (New York, Wolter Kluwer Law and Business, 2012), Chapter 6, Perfection.

important piece of literature that describes and analyzes many aspects related to secured credit in the United States, it does not provide detailed analysis of the reform and development road map of the current legal and regulatory frameworks governing security interests in IP in general or trademarks in particular in the United States. This is not strange, especially given that this book does not specifically address the capitalization of IP assets. The same could be noticed in Stephen Lubben's book,[15] which explores many aspects related to corporate finance tools. This includes secured credit as one of the main aspects related to corporate finance. Yet Lubben spent little time on security interests in IP in general or trademarks in particular. He does not dig deep into the issues related to capitalizing IP assets and related pitfalls. It is evident that corporate finance writings do not usually focus on the capitalization of IP assets as one of the new tools for corporate finance.

On another level, other writings investigate collateralization of IP assets by exploring the difficulties and barriers in creating and perfecting security. Anjanette Raymond examines security interests in IP assets and difficulties with the collateralization of IP assets in England and the United States.[16] She also explores the problem of perfection and valuation of IP assets, including trademarks, patents and copyrights. In this paper the author explores how the English legal paradigm governing secured credit is developing and how other countries have followed the same steps. This paper also highlights the idea of having an independent legal framework that governs capitalization of IP assets and the consequences of dual systems.

[15] Stephen J. Lubben, *Corporate Finance* (New York, Wolters Kluwer Law and business, 2014), Chapter 19 Asset Securitization at 339.
[16] Anjanette Raymond, "Intellectual Property as Collateral in Secured Transactions: Collision of Divergent Approaches" (2009) 10(1) Business Law International.

In my opinion, only creating a separate legal paradigm that governs capitalization of IP assets will not help to overcome the pitfalls related to the current system. The new system will not encourage all concerned parties to get more involved in accepting IP assets in general and trademarks in particular as collateral. As discussed later in this dissertation, the legal framework is one of the main issues that discourage all concerned parties from accepting IP assets and especially trademarks as collateral. Thus, there are many other factors that must be addressed in parallel to legal reform. Raymond T. Nimmer focuses on the commercial side of security interests in IP assets in the United States.[17] He explores Article 9 of the UCC and highlights the inconsistencies between the UCC as state legislation and IP laws as federal legislation. This article analyzes many aspects related to security interests in IP assets in general without a particular analysis of the issues related to security interests in trademarks. This article illustrated how the new rules of the revised Article 9 are very important. The most important changes in the new revised Article 9 of the UCC is related to the relation between the first to file rule and subsequent parties who finance the creation or acquisition of assets. In fact, the main difference between the old version of Article 9 and the revised version is that the revised version relates to the subordination of debts on intangible collateral. In particular, the new revised version of Article 9 disallow the new creditors to have priority in the secured asset without negotiating or perhaps paying for subordination agreement with the first creditor. In this paper Nimmer examines how IP financing under the new revised Article 9 is somehow uncertain and shows different levels of contradictions. This makes the Revised Article 9 far from establishing a comprehensive framework. The author highlighted how the IP field and the relevant financing arrangements needs more adjustment of the Article 9 approach than

[17] Raymond T. Nimmer, "Revised Article 9 and Intellectual Property Asset Financing" (2001) 53 Me. L. Rev. 287 at 360.

the presented in the revised version. As the IP are linked to the creative person who created or invented the work.

In the same context there are other writings that examine security interests in IP assets as a whole and provide a good analysis of the report issued by the Article 9 Study Committee of the Permanent Editorial Board for the Uniform Commercial Code. William A. Dornbos discusses, among other things, many aspects related to security interests in IP assets.[18] Yet, Dornbos does not provide a complete answer on how to overcome the barriers and pitfalls related to security interests in IP assets in general and trademarks specifically. The same could be said of Kenneth B. Axe, who highlights and analyzes issues related to security interests in IP assets in the United States, focusing in particular on the perfection and enforcement of security interests and the related barriers from the perspective of Article 9 of the UCC, which is common in most research related to security interests in IP in the United States.[19] Axe analyzes Article 9 of the UCC as the legal framework governing security interests. Thus, he does not provide a full explanation of only one type of IP asset in particular; rather, he provides a general overview of the issues and barriers related to security interests in IP in general. It is noted that most of the writings at this level of focus provide a general overview of the issues related to capitalizing IP. Also, it is evident that these writings are based only on theoretical analysis of the existing legal frameworks in the United States. Nothing in the examined literature provides the practical point of view through empirical research involving relevant professionals.

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[18] William A. Dornbos, "Structuring, Financing, and Preserving Security Interests in Intellectual Property" (1996) 113 Banking L.J. 656 at 687.
[19] Kenneth B. Axe, "Creation, Perfection and Enforcement of Security Interests in Intellectual Property under Revised Article 9 of the Uniform Commercial Code" (2002) 119 Banking L.J. 62 at 86.

Ariel Glasner discusses one of the most important aspects related to capitalizing IP assets and highlights the issue of securitizing IP assets.[20] He explores the importance of securitization as a method for raising capital for business. The idea of securitization of IP assets is based primarily on the idea of asset-backed securities. Securitization could take place through issuing securities in the financial markets backed by valuable IP assets owned by the business. Glasner explains the famous model of IP assets securitization that takes place through creating a special purpose vehicle (SPV). The rationale behind creating an SPV is to transfer the ownership of these assets to this SPV. This provides a high level of bankruptcy remoteness to the securitized assets from other assets owned by the business. Also, this method provides the business creditors with a direct recourse to the securitized IP assets in case of bankruptcy. The same model can be applied to trademarks; indeed, this has already happened several times in the United States. However, the main obstacle for this structure is that it could raise issues related to who is using and controlling the securitized trademark.

A deeper emphasis is found in the literature focusing on capitalizing IP from the borrower's perspective. In fact, this is a very important and often overlooked issue. One of the main barriers to having a successful IP capitalization is valuation. Ian Ellis looks at the tools of IP assets' exploitation but from a banking and business perspective.[21] Ellis focuses on the company's (borrower) point of view and their main motivations when choosing the most convenient financing scheme. This article analyzes the major problems facing IP financing, especially valuation and how valuation could help to build more trust in IP financing. He focuses more on valuation of intangible assets and the economic factor, since this is considered one

[20] Ariel Glasner, "Making Something out of Nothing: The Trend towards Securitizing Intellectual Property Assets and the Legal Obstacles That Remain" (2008) 3 J. Legal Tech. Risk Mgmt. 27 at 66.
[21] Ellis *supra* note 2.

of the most important issues that could encourage all concerned parties to utilize IP assets as collateral. In addition, he explains the importance of IP financing and the situation in the United States and China, noting for example the $58 million provided by the Beijing IP office in 2008 to finance SMEs through IP pledge loans.[22]

In fact, as discussed in detail in Chapter Two of this dissertation, valuation is an essential factor that affects capitalizing trademarks schemes. However, valuation must be considered among all other factors and not in a separate context. In other words, the reform of the valuation of IP in general and trademarks specifically must take place in parallel with other policies and actions in order to have a comprehensive framework that enhances capitalization of trademarks and IP assets in general.

Another level of focus that is rising is the capitalization of domain names. This is a new area that appears in the security interests in IP assets literature. This trend could be justified based on the increase in awareness of digital assets. Most of the writings in the United States focus on the issues and pitfalls related to security interests in domain names in that country. For example, Alexis Freeman highlights issues related to the bankruptcy of domain name owners, including how creditors of a domain name owner can have a direct recourse to the domain name as a valuable asset.[23] Similarly, Jonathan Lipson focuses on cases of bankruptcy of Internet companies in the United States.[24] He explores different alternatives to liquidate assets owned by the internet company in case of bankruptcy. Lipson highlights the need to have a proper legal framework that governs security interests in IP assets, particularly since

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[22] *Ibid*.
[23] Alexis Freeman, "Internet Domain Names Security Interests: Why Debtors Can Grant Them and Lenders Can Take Them in This New Type of Hybrid Property" (2002) 10 Am. Bankr. Inst. L. Rev. 853 at 890.
[24] Jonathan C. Lipson, "Financing Information Technologies: Fairness and Function" (2001) 4 Wis. L. Rev. 1067 at 1158.

the assets owned by internet companies are mainly domain names, copyrights and trademarks.[25] However, he does not provide a comprehensive action plan on how to have proper frameworks that govern security interests in IP. Although Lipson does not focus directly on security interests in trademarks, he draws attention to the importance of these assets as part of security interests in domain names. In other words, I do not expect that there could be a security interest in domain names, which most of the time are based on trademarks owned by the debtor, without having a security interest in the trademark, especially since most of the time the trademark is transferred with its associated goodwill. Therefore, security interests in trademarks—if not well examined—will remain a missing step in the literature before moving to capitalization of domain names as a third generation of security interests.

1.5.4.1.2 U.S. IP Literature

My research suggests that the IP literature related to capitalizing IP is more advanced and thorough than the existing corporate finance literature on the same topic. In the U.S. IP context, I came across a wide spectrum of writings related to security interests in IP. The IP literature in the United States includes writings that focus on the history of capitalizing IP, the pitfalls of the whole system of security interests in IP as well as capitalization of domain names. This could even be noticed in the writings of IP scholars in the United States such as Xuan-Thao Nguyen. In one paper, Nguyen focuses on the history of security interests in IP assets for small businesses in the United States from 1845 to 2014.[26] She gives a good overview of the current and past legal frameworks regarding security interests in IP. She notes the issue of the fraudulent transfer of a secured property to a lender and gives a practical example

[25] *Ibid*.
[26] Xuan-Thao Nguyen, "Financing Innovation: Legal Development of Intellectual Property as Security in Financing 1845-2014" (2015) 48 Ind. L. Rev. 509 at 550.

from the case of *Aptix Corp. v. Quickturn Design Systems, Inc.* Not taking this risk into consideration when drafting the security agreement could lead to big losses for the secured parties. In my view, this article not only sheds light on security interests in trademarks, but it is also an important piece of literature that highlights the need for a proper legal framework for security interests in IP.

In a second paper, Prof. Nguyen provides an overview of security interests in IP in general.[27] She elaborates the importance of having this kind of security in the market and how the impact of its implementation will be notable. Nguyen proposes amending Article 9 of the UCC to include IP assets in the definition of the acceptable securities. This paper explains in detail many aspects related to security interests in IP assets, including trademarks. This paper focuses on the U.S. legal framework governing security interests in IP assets with more emphasis on the implementation of UCC – Article 9.

In a third paper, Nguyen explores the problems and pitfalls of the system of security interests in domain names in the United States, asking in particular what procedures can be used to perfect this security interest.[28] As domain names are usually linked to trademarks, she highlights the issues related to the perfection of security interests in trademarks in the United States. However, and as I explained earlier, the analysis of capitalizing domain names necessitates having a previously completed step—having a comprehensive legal and policy framework governing security interests in trademarks.

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[27] Xuan-Thao Nguyen, "Collateralizing Intellectual Property" (April 17, 2008). SMU Dedman School of Law Legal Studies Research Paper No. 00-31. (2007) 42(1) Georgia Law Review. online: SSRN: <https://ssrn.com/abstract=1317443>.
[28] Xuan-Thao N. Nguyen, "Commercial Law Collides with Cyberspace: The Trouble with Perfection -Insecurity Interests in the New Corporate Asset" (2002) 59 Wash. & Lee L.Rev. 37 at 82.

On another level, and as explored in the corporate finance literature, there is growing research focusing on domain names and cyber assets. So, some writings focus on the bankruptcy of technology and internet companies. For instance, Marjorie Chertok and Warren E. Agin focus on bankruptcy cases of Internet companies, exploring the question of how best to liquidate the assets owned by an Internet company.[29] They highlight the importance of having a proper legal framework to govern security interests in IP assets. In particular, they note that the assets owned by Internet companies are mainly domain names, which are most of the time inextricably linked to the trademarks owned by the company. It is clear that having a proper legal framework to govern security interests in trademarks is a must.

Similarly, Freear, Sohl and Venkatachalam[30] examine issues related to the financing of innovations with a focus on patents. The paper gives a good overview of the pitfalls and barriers to financing innovation in the United States. Hence, the issue of dual filing of security interests remains one of the most common problems that exist among all IP assets in the United States and Canada. In Chapter Two, I examine the constitutional issue related to federal and provincial powers in respect of security interests in trademarks.

In most of the relevant literature in the United States the main focus is on the issues and pitfalls related to Article 9 of the UCC and how the current system lacks certainty, as is explored in Chapter Two of this dissertation. For example, a paper by Lorin Brennan focuses on the revised Article 9 of the UCC and how IP assets as a public good could be negatively

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[29] Marjorie Chertok & Warren E. Agin, "Restart.com: Identifying, Securing and Maximizing the Liquidation, Value of Cyber-Assets in Bankruptcy Proceedings" (2000). 8 Am., Bankr. Inst. L. Rev. 255 at 306.
[30] John Freear, Jeffrey E. Sohl, A.R. Venkatachalam, "Leveraging intellectual property in the financing of entrepreneurial ventures: a technology-based solution to the perfection of security interests" (2004) 4(2/3) International Journal of Entrepreneurship and Innovation Management (IJEIM).

affected when treated as a tangible industrial good.[31] The author gives an overview of how the drafting of the revised Article 9 could cause a conflict between the licensor and the creditors in respect of the licensed rights. One of the most important issues mentioned in this piece is the perfection of security interests and the risk of not having sufficient information related to previous securities. The issue of inconsistency and lack of a trustworthy and adequate federal record for all existing security interests in IP rights in general and trademarks in particular could have a negative legal impact on all concerned parties.

Other writings provide a quick overview of security interests in general without going more deeply into the concrete pitfalls of the current frameworks. For example, Alicia Griffin Mill provides a quick overview that briefly covers the issues related to security interests in patents, trademarks and copyright in the United States.[32] Stephen Schreiner, Kevin Jordan and Noah Lerman provide a general overview of the pitfalls and barriers related to this issue without going into too much detail about each type of IP asset.[33] They explore the issues related to the perfection of security interests in IP assets and Article 9 of the UCC legal framework, as discussed in detail in Chapter Two of this dissertation. Likewise, Lorie Graham and Stephen McJohn[34] bring together a number of short essays in the form of stories dealing with various aspects of IP. One of the 32 stories discusses issues related to security interests in IP in the United States. It highlights the problem of perfection of security interests and how improper

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[31] Lorin E. Brennan, "Financing Intellectual Property Under Federal Law: A National Imperative" (2001) 23 Hastings Comm/Ent: Communications & Entertainment Law Journal, online: SSRN: <https://ssrn.com/abstract=296421> or http://dx.doi.org/10.2139/ssrn.296421.
[32] Alicia Griffin Mills, "Perfecting Security Interests in IP: Avoiding the Traps" (2008) 125 Banking L.J. 746 at 753.
[33] Stephen T. Schreiner, Kevin B. Jordan & Noah M. Lerman, "Perfecting Security Interests in IP: Pitfalls and Bankruptcy Considerations" (2013) 130 Banking L.J. 912 at 927.
[34] Lorie Graham & Stephen McJohn, "Thirty-Two Short Stories about Intellectual Property" (2001) 3 Hastings Sci. & Tech. L.J. 1, 68.

perfection of security interests in IP can lead to the loss of the right to the security. This short story is very general and does not go into much detail on the issues related to security interests either in IP assets in general or trademarks in particular.

There are other writings that dig more deeply into the issue of security interests in IP. A paper by John Hornick, for instance, explores the U.S. framework governing security interests in IP assets, including patents, trademarks and copyrights.[35] The author focuses on the process of security interests and related problems and pitfalls. He concludes that there is no accurate registration system for security interests in IP rights. Although this paper analyzes the legal paradigm related to capitalizing IP assets, it could be said that this paper did not provide a concrete recommendation on how to overcome the issues related to dual registration of security interests in the United States.

In the trademark context it is common to find writings that examine the trademarks paradigm without going through security interests in trademarks as part of the needed reform. Maya Alexandri[36] provides a theoretical overview of the trademarks paradigm in the United States with some recommendations for reform. She highlights, among various issues, the notion of trademark goodwill and its importance and value with respect to trademarks. She provides good insight on trademarks in the United States in light of the *Lanham Act*. However, this article does not refer to security interests in trademarks or in IP assets as part of the recommendations for reform.

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[35] John F. Hornick, "Security Interests in Intellectual Property" (2003). online: Finnegan website <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=4c698bab-7284-48a2-a8bd-12e04b5bf9ef>.

[36] Maya Alexandri, "The International News Quasi-Property Paradigm and Trademark Incontestability: A Call for Rewriting the Lanham Act" (2000) 13 Harv. J. L. & Tech. 303 at 374.

The same phenomenon of skipping security interests in trademarks was less evident in the literature related to licensing of IP. The writings related to licensing of IP assets mention the capitalization of IP assets as a tool for maximizing profits. This could be noticed, for example, in a book by Alexander Poltorak and Paul Lerner.[37] This book explores the licensing agreements of each of the IP assets and provides a good explanation of the most integral aspects related to the IP licensing process. However, this book does not focus on security interests in trademarks in particular or even IP in general despite the close ties between licensing of IP assets and the possibility of securitization. As in many cases, the IP owners securitize the license agreements by issuing securities backed by IP license agreements. Likewise, Richard Cieri and Michelle Morgan illustrate the importance of IP in the U.S. legal context and how it could boost the country's economy. They discuss license agreements as a method of financial exploitation of IP assets.[38] Their central point is the licensee's protection scheme in case of the licensor's bankruptcy in the United States. This issue is one of the important aspects related to IP licenses. The authors suggest that the licensee might have security interests in the licensed IP assets as one of the possible tools to protect the licensee's rights in the license agreement. Although Cieri and Morgan's paper does not seem directly connected to my research, in my opinion it highlights one of the implications and applications of having proper security interests in trademarks not only in the United States but also in Canada. However, Cieri and Morgan do not offer an in-depth exploration of the barriers and challenges to successfully having security interests in IP assets.

[37] Alexander Poltorak & Paul Lerner, *Essentials of Licensing Intellectual Property. Essentials Series*. (Hoboken, N.J.: J. Wiley & Sons., 2004).
[38] Richard M. Cieri & Michelle M. Morgan "Licensing Intellectual Property and Technology from the Financially-Troubled or Startup Company: Prebankruptcy Strategies to Minimize the Risk in a Licensee's Intellectual Property and Technology Investment" (2000) 55 Bus. Law. 1649 at 1698.

From a policy perspective, the significance of the Stuart Graham, Alan C Marco and Amanda Myers paper[39] is that it provides a statistical analysis of all transactions related to trademarks in the U.S. paradigm. It includes transactions as assignments and security interests in trademarks. Among the authors of this paper are two previous employees of the United States Patents and Trademarks Office (USPTO) who completed this paper during their employment. This paper provided a complete overview of the growth of different trademark-related transactions. It is worth mentioning that the U.S. legal paradigm does not require the registration of security interests in trademarks in USPTO files. The analysis and statistics included in this paper are very thorough and give a better overview of the history and progress of all transaction related to trademarks.[40] As is evident in the empirical research outlined in Chapter Three of this dissertation, in Canada there are no similar databases that show the number of transactions specifically related to security interests in trademarks. The lack of this kind of data is a barrier to having a better overview of the number of transactions and whether they are increasing or declining.

1.5.4.2 Canadian Literature Related to Security Interests in Trademarks from Corporate Finance and IP Perspectives

1.5.4.2.1 Canadian Corporate Finance Literature

In the Canadian context the number of articles that appeared in my searches is relatively low compared to the United States. The rationale behind this is that there could be more pressing issues to write about in Canada or that there are far fewer legal academics in Canada.

[39] Stuart J.H. Graham, Alan C. Marco, & Amanda Myers "Monetizing Marks: Insights from the USPTO Trademark Assignment Dataset" (2018) 27(3) Journal of Economics & Management Strategy, 403, online: SSRN: <https://ssrn.com/abstract=3224866> or <http://dx.doi.org/10.1111/jems.12261>.
[40] *Ibid*.

This raises the question of whether business shall start first and academia will follow? Or things happen the other way around? In my opinion, the answer is neither, as in many cases market needs could be negatively affected by the conservative banking culture, mainly in finance.

One of the most comprehensive writings in Canada from a corporate finance perspective is by Norman Siebrasse and Catherine Walsh.[41] Published in 2005, this report analyzes the issue of security interests and collateralization of IP assets from a policy perspective. It focuses on the perfection and procedures of IP security interests and securitization; in addition, the report offers recommendations for legal framework reform. The authors investigate the applied legal frameworks and practices related to IP financing. However, the focus of their research is on IP assets as a whole, and they do not conduct a detailed analysis of security interests in trademarks. This report indicates that the Canadian government was keen to develop the legal and regulatory framework governing security interests in IP assets.

Siebrasse and Walsh investigate the common barriers to a more reliable framework governing security interests in IP assets in general. They identify five main points that negatively affect the disposition of financial institutions to accept IP assets as collateral. These points are:

1) The risk of valuation of IP assets associated with security interests in IP assets.
2) The lack of certainty in the legal framework governing security interests in IP assets.
3) Reform of the ambiguity related to the IP ownership title.

[41] Norman Siebrasse & Catherine Walsh, “Leveraging Knowledge Assets Reducing Uncertainty for Security Interests in Intellectual Property”, Law Commission of Canada; see also the same report, “Leveraging Knowledge Assets,”, Faculty of Law, University of New Brunswick, December 2002, online: <http://www2.unb.ca/~siebrass/DownloadArticles/Security%20in%20IP%20Final.pdf>.

4) The law of debtor and the choice of applicable law.
5) The federal registration of IP security interests as an alternative to the choice of law.

In this dissertation I investigate each of these points. In fact, there are some changes in the overall framework governing security interests in IP in general, including trademarks. The valuation of IP assets for example was developed during the last decade, as will be examined hereafter. I also provide some recommendations in the Canadian context that could help in developing and solving many pitfalls identified in the Siebrasse and Walsh report.

In the same context, most of the remaining corporate finance literature focuses on highlighting the dual filing issue in Canada as a continuing problem. The literature focuses more on the analysis of PPSAs and how they are similar to Article 9 of the UCC in the United States. For example, Anthony Duggan, Jacob S. Ziegel and Jassmine Girgis provide a comprehensive study of the PPSAs and their main pitfalls. The authors compare the *Ontario Personal Property Security Act*[42] with the Quebec *Civil Code*[43] and Article 9 of the UCC. The significance of this research is that it highlights the most common problems and provides proposals and recommendations for reform.[44] However, this research does not highlight issues related to security interests in IP assets. The same could be noticed in Ron Cuming's paper[45] but with more emphasis on studies related to security interests in IP in Canada with a focus on patents. His paper examines the process of obtaining security interests in patents in accordance with the PPSA. The author recommends that security interests in patents be governed solely

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[42] *Personal Property Security Act*, R.S.O. 1990, c. P.10.
[43] Civil Code of Québec, CQLR c CCQ-1991, online: <http://canlii.ca/t/53k4f>.
[44] Anthony Duggan, Jacob S. Ziegel, & Jassmine Girgis, "Proposals for Changes to the Canadian Personal Property Security Acts" (2002) 59 CBLJ 145.
[45] Ron Cuming, "Security Interests in Intellectual Property" (1995) College of Law, University of Saskatchewan, online: <http://library.lawsociety.sk.ca/inmagicgenie/documentfolder/AC0462.pdf>.

by the provincial securities act (PPSA). As is discussed later in this dissertation, it is not feasible to rely only on the PPSA as the sole register of security interests as this will mean that the patent file will lack any annotation of the security in question. The same issue exists with the registration of security interests in trademarks as dual registration is one of the significant issues in this respect. The problem of dual registration is that it raises constitutional conflicts between the federal and provincial powers; this is one of the most significant issues related to security interests in trademarks. It raises the question of how to ensure that a simple system of registration of security interests in trademarks exists without prejudice to any constitutional rules while appearing in the federal IP registry.

The above analysis shows that in the United States the corporate finance-based research in respect of capitalizing IP in general is more developed and comprehensive than that found in Canada. The explanation for this, as discussed in Chapter Four, is that Canadian corporate finance scholars and professionals are somehow conservative when dealing with new forms of finance. Therefore, it is normal to see that their writings and research reflect the readiness of the Canadian corporate finance sector to deal with IP in general and trademarks in particular as a collateral.

Generally, my review suggests that the number of works in the corporate finance literature related to security interests in trademarks is relatively low in both Canada and the United States, while there are significantly more offerings dealing with the capitalization of domain names.

1.5.4.3 Canadian IP Literature

The number and quality of writings related to capitalizing IP in general from an IP perspective exceeds that written from a corporate finance perspective. There are some writings that summarize the issues related to security interests in IP in general and others that analyze in more detail the relevant problems and barriers.

Some writings in the Canadian context focus more on capitalization and securitization of patents. For instance, Sweeney[46] focuses mainly on the securitization of patents and patent-backed securities in Canada. She investigates the possibilities and barriers for having a proper regulatory framework for patent-backed securities. The idea of using the patent as an asset to back securitization is one of the ways to utilize IP assets as collateral. In this model the valuated patents are used instead of other forms of assets in the securitization process. In Canada, this is considered to be an advanced stage of capitalizing IP that needs various regulatory and educational steps.

Myra Tawfik[47] is one of the Canadian scholars who focuses on the commercialization of IP assets. Her comprehensive study provides a thorough analysis of the relevant Canadian paradigm not only from a theoretical perspective but from a practical perspective as well. The author conducted interviews with 25 stakeholders from all over Canada regarding their insights on IP commercialization. This research provides in-depth insights regarding the level of knowledge and awareness of IP among, for example, SMEs and Canadian universities. Thus, this research does not focus on security interests in IP in general or trademarks in particular as a method for IP commercialization.

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[46] Grace Sweeney, "Patent-Backed Securitization for Innovation and Economic Growth in the Life Sciences: A Proposal for Incremental Securities Law Reform" (2013)11 Can. J. L. & Tech. 283.
[47] Myra J. Tawfik, *Addressing a Gap in Canada's Global Innovation Strategy: Capacity Building in IP Literacy, IP Strategy and Access to Affordable IP Legal Services* (Waterloo, ON, CA: Centre for International Governance Innovation, 2016). (Canadian Electronic Library/desLibris).

Meanwhile, there are other writings that focus on security interests in other forms of IP. Anthony Duggan provides good insights on the matter.[48] His paper focuses on the Canadian context of security interests in patents. Although this paper is not related to security interests in trademarks, it nevertheless deals with the same basic issues related to security interests in trademarks, including the common problem of dual filing. Duggan illustrates his insights through hypothetical cases concerning security interests in patents. He proposes recommendations for the reform of the legal and regulatory framework related to security interests in patents. The first recommendation is that the whole process of security interests in patents be governed by the PPSA only. As later explained in this dissertation, it is very important to build a registration system for security interests in IP assets that accepts annotation of security interests in the IP asset registration file and not be a system isolated from the IP records. The second option proposed in Duggan's paper is to enact new federal legislation to govern security interests in general on a federal level instead of the current provincial PPSA regimes. I do not agree with enacting new federal security legislation to govern only security interests in IP assets as this will not solve the problem of dual registration. One of the main pitfalls in the current system is that it does not provide a level of certainty in the security registration process, especially because there is no syncing mechanism between the PPSA registers and the IP registers that allows the security to appear in the patent or trademark file. Therefore, there will be little benefit to enacting a federal statue if this problem is not fixed.

[48] Anthony J. Duggan, "Patent Security Interests: Costs and Benefits of Alternative Registration Regimes" (2002) 37 Can.Bus. L.J. 165 at 185.

Some writings on domain names and software security interests deal with the aftermath of e-commerce and internet companies' bankruptcy. For example, Michael Geist[49] examines the current Canadian legal system with respect to e-commerce bankruptcy. Like many other studies focusing on the bankruptcies of domain name owners, Geist highlights, among other things, the idea of security interests in domain names. Still, the increasing importance of having a proper legal regime to govern security interests in domain names necessitates having the same for trademarks.

In the same context Kiriakoula Hatzikiriakos[50] probes the Canadian and U.S. contexts with respect to security interests in IP assets but with more emphasis on security interests in software. This is a good reference text; it brings together most of the regulatory frameworks governing security interests in IP in Canada and the United States. However, the author does not offer a clear road map for the development of security interests in IP in general from either an IP or a corporate finance perspective.

One of the main texts related to security interests in IP assets in Canada is Howard Knopf's 2002 book.[51] It is one of the most cited texts in the Canadian literature related to security interests in IP in general. Knopf provides recommendations for the development of the legal framework governing security interests in IP assets in Canada. One of his main recommendations is to create a one-stop shop for the registration of security interests. The one-stop shop refers to a system that would consolidate the process of registering security interests

[49] Michael Geist, "When Dot-Coms Die: The E-Commerce Challenge to Canada's Bankruptcy Law" (2002) 37 Can. Bus. L.J. 34 at 74.
[50] Kiriakoula Hatzikiriakos, *Secured Transactions: In Intellectual Property, Software as Collateral* (Canada: LexisNexis Butrerworths, 2006).
[51] Howard Knopf, *Security Interests in Intellectual Property* (Toronto: Thomson, Carswell, 2002).

in trademarks to overcome the dual registration problem.[52] In the seventeen years since the publication of this book there have been some important developments in the field of security interests in IP. However, as explored in this dissertation, the idea of a one-stop shop for registration is still an issue that has not been resolved due to several barriers and obstacles such as the constitutional conflict between the federal and provincial powers.

Dual filing, as explored in Chapter Two of this dissertation, is one of the issues that could act as a barrier to having proper security interests in trademarks. Hence, this issue cannot be solved by granting the right of security registration to the federal government as this will raise constitutional dilemmas. Therefore, the solution to this problem is to provide a one-stop shop as recommended by Knopf without breaching provincial or federal constitutional powers. However, as will be discussed in Chapter Four, the application of new and innovative ideas could prevent the problem of dual filing and establish the one-stop shop idea with no need of a federal registration of security. In other words, new shared-ledger technologies could be used to avoid the constitutional conflict between federal and provincial powers.

In 2009, WIPO published the outcome of a questionnaire concerning the security interests in intellectual property in 66 countries that included the U.S. and Canada[53]. This questionnaire highlights some of the main aspects related to security interests in intellectual property rights from a legal and regulatory perspective. In Chapter Two of this dissertation I highlight the main outcomes of the WIPO questionnaire to see how the Canadian legal framework have been developed from 2009 until the present in Canada.

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52 *ibid*

53 WIPO Information Paper on Intellectual Property Financing - Annex I: WIPO Questionnaire on Security Interests in Intellectual Property, online: <http://www.wipo.int/edocs/mdocs/copyright/en/wipo_ip_fin_ge_09/wipo_ip_fin_ge_09_7_annex.pdf>.

In the international context there are valuable writings that have examined security interests in IP. In these writings it is noted that there is a focus on navigating through different jurisdictions and how each country deals with the issue of security interests in IP assets, as stated in Kono's (2017) book.[54] This book is a collection of essays that captured some insights about the security interests in IP in different jurisdictions around the world. From these essays it is worth to highlight Denoncourt's essay that addressed many of the international contexts in respect of security interests in intellectual property. From these jurisdiction she highlighted the UK legal framework which is discussed below in more details in the context of Denoncourt's book. She also presented the EU efforts to better understand and regulate issues related to valuation of IP and to promote awareness in the business community related to security interests in IP. Also she mentioned the current developments in the US especially the US Patent Quality Initiative (PQI) and its impact on elevating patents as an IP capable of being used as security, as financial institutions is now creating internal IP focus teams to better understand and protect their IP portfolios. In Singapore, the IP office is actively working with financial institutions to promote IP lending for SMEs. Government support includes subsidies for IP valuation exercise and partially underwriting of the loan. In the same context Denoncourt illustrated the Japanese government initiatives regarding the disclosure of intellectual capital (IC) which helped Japanese lenders to link the IP corporate asset and information strategy to the cost of debt.

In the essay by Bazinas[55], he highlights the supplement of the UNICTRAL model law and how the aim of this supplement issued in 2010 is to provide guidance to states to adopt

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54 Toshiyuki Kono, *Security Interests in Intellectual Property (*Singapore: Springer, 2017. Print)
55 Ibid note, essay by Spyridon V. Bazinas, UNCITRAL's Contribution to Intellectual Property Financing Law

legal regimes that facilitate the use of intellectual property assets as collateral. The supplement also helps to coordinate between security interests and intellectual property law, acquisition financing, law applicable on security interests in IP and the impact of the insolvency of a licensor or a licensee on a security interest in that party's rights.

In fact as, stated in this thesis, there are some obstacles that perhaps were the main reason of not adopting the UNCTRAL's model law and its supplement in Canada. The most important obstacle is the federal- provincial constitutional barrier that the intellectual property protection is governed mostly by Federal laws while the creation and perfection of security interests are governed by provincial legislations. This makes the whole situation hard to address using the UNCTRAL model law.

In the essay by Takashi Shimizo,[56] the author highlighted a survey conducted in Japan to address the level of understanding of IP financing among start-ups. This questionnaire survey shows that IP backed financing is not popular among start-ups in Japan and that tech start-ups rely more on equity financing. While the non-tech start-ups are mostly focusing on debt financing however they do not have IP to utilize as a security for this financing.

It could be said that there is somehow a contradiction between what Denoncourt stated in her essay and what Shimizo stated in the Japanese context. In my view, there is no contradiction, especially which what Denoncourt presented as efforts by the Japanese government will not have direct implications on the Japanese SMEs. The outcome of the survey stated in Shimizo essay shows that the problem is mainly insufficient knowledge and understanding of the possibility if using IP assets as collateral among SMEs, which necessitates different policies and procedures to be taken by the Japanese government.

56 *Ibid* note , Takashi Shimizu, *Intellectual Properties and Debt Finance for Startups*

In this dissertation, I conducted empirical research to investigate among other things, the level of understanding and knowledge of capitalizing IP, as explored in Chapter Three herein after. This empirical research is linked to the outcomes of the analysis related to the Canadian legal and policy frameworks.

In the UK, it is noted that the there are some advanced writings and reports that provided a thorough and comprehensive analysis of security interests in IP assets. In my view, there are no equivalent studies in the Canadian literature that provide a high degree of understanding of all the aspects related to capitalizing IP. For example, Denoncourt in her book[57]discussed some important aspects that are not commonly examined in the security interests in intellectual property literature. She elaborated among other aspects, the accounting and financing schemes managing security interests in IP in addition to the related corporate governance. This book provides deep analysis of the existing legal framework governing security interests in IP in the UK not only from a theoretical perspective but it involves more analysis of the market practices and relevant policies. In the same context, from the policy perspective the UKIPO published in 2016 a thorough report addressing the security interests in intellectual property assets.[58] This report provides analysis of the UK and international frameworks and the then recent developments related to security interests in intellectual property. The authors focus on how the UK lenders deal with IP assets and recommend some proposed actions to be taken. Among these recommendations is creating a resource toolkit by UKIPO to all concerned parties. This tool kit is meant to provide all the basic knowledge and

57 Janice Denoncourt, *Intellectual Property, Finance and Corporate Governance* (London, Routledge,2018)
58 Goodridge, P., Haskell, J. and Wallis, G. *UK Intangible Investment and Growth: New Measures of UK Investment in Knowledge Assets and Intellectual Property Rights* (September 2016) Independent Report commissioned by the UK Intellectual Property Office

needed information in respect of the security interests in IP. Also, it recommends that any future programs must compliment and build upon the existing government initiatives and programs supporting SMEs.

1.5.5 Analysis of the Literature Review

The above review shows that the U.S. literature on capitalizing IP in general is more developed than the literature in Canada. However, it is evident that although there are some writings related to capitalization of domain names, there are no similar writings that focus on the capitalization of trademarks. As discussed above, the lack of a concrete and comprehensive framework governing security interests in trademarks could negatively affect the efficiency of security interests related to domain names, especially because trademarks and domain names are mostly linked together.

Meanwhile, most of the writings, especially in the Canadian context, analyze the issues and barriers to having proper security interests in IP in general. However, there is no specialized literature that focuses only on capitalizing trademarks from both theoretical and practical point of views. The importance of developing the legal and policy frameworks governing the capitalization of trademarks is that they could be used as a model for developing capitalization of IP in general. On the other hand, the above analysis reveals a lack of empirical research that involves all concerned parties and listens to their practical points of view on the capitalization of trademarks. A closer look at the number of studies that appeared in this review shows that the searches related to security interests in trademarks on the Westlaw database produced a broad range of results. In fact, the search for "security interest in trademarks" on Westlaw yielded no articles, so I decided to use the search string (Trademarks & "Security interest"). While this search produced 13 results, a deeper analysis of the outcomes revealed a vast array of topics related to banking, finance, trade, property and IP laws. The number of studies that focus specifically on security interests in trademarks is relatively low. Figure 2 indicates the number of studies that appeared in the search results in Hein Online, Scopus and Westlaw. It is worth mentioning that, as explained above, not all the studies are related to security interests in trademarks. The search on Westlaw in particular yielded a number of studies that are not related specifically to security interests in IP rights or trademarks.

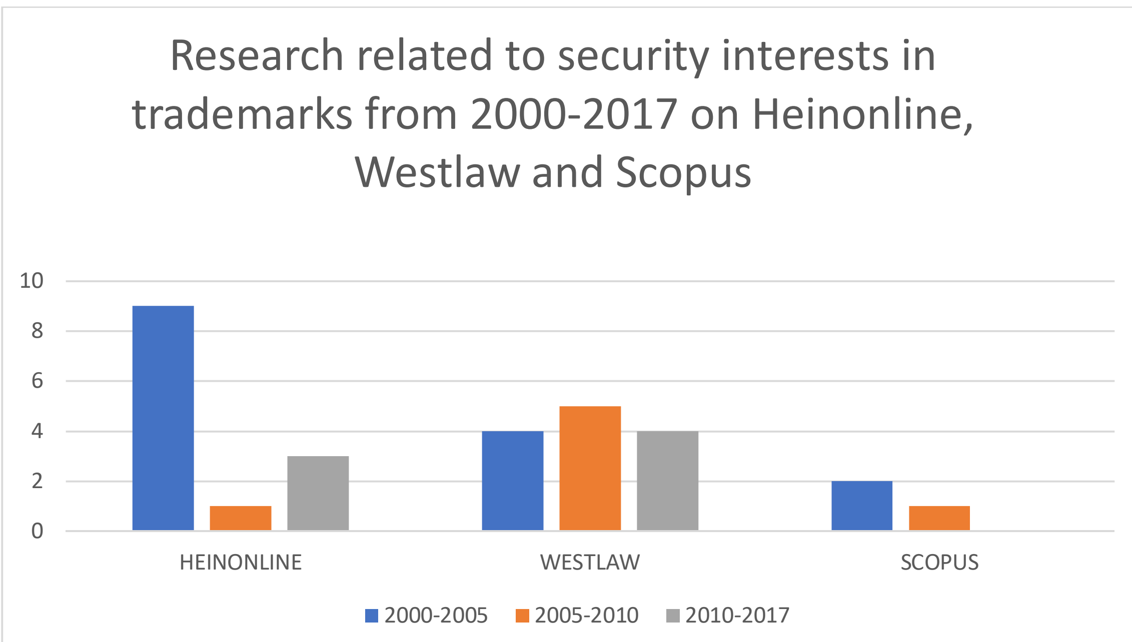

Figure 2: Studies related to security interests in trademarks on Hein Online, Westlaw and Scopus, 2000–17

A large number of studies focus on security interests in domain names. It is also clear that the number of U.S. studies that focus on security interests in IP rights in general is far greater than the number of similar Canadian studies during the same period. In more detail, the review shows a ratio of 2:9 Canadian to U.S. studies on security interests in IP. My research suggests that the Canadian banking culture takes a conservative approach in accepting trademarks or any IP asset as collateral compared to the U.S. market. This will be discussed in detail in Chapters Three and Four of this dissertation.

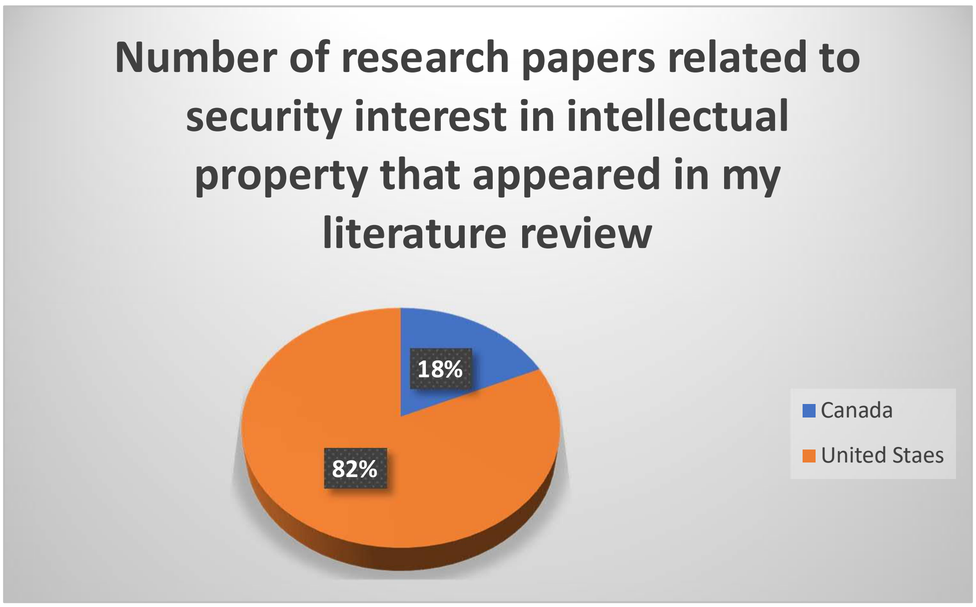

Figure 3 Number of studies related to security interests in intellectual property

A closer look at the Canadian studies that appeared in my search results shows that not one study focuses specifically on security interests in trademarks. Nor it is common to find comparative studies that highlight the legal framework of security interests in trademarks in Canada and the United States. Also, it could be said that building an acceptable model of security interests in trademarks will be both the motivation and the engine to apply the same rules to other IP assets. This could be done with some customization of the rules to fit each type of IP asset independently.

Most of the writings with more emphasis on capitalization of IP assets focus on the dual filing of security interests' registrations. However, they often mentioned the problem without providing a practical solution that could solve the problem.

From examining other international writings especially Prof. Denoncourt's book and UKIPO report that there is an increasing focus and interest on using IP as security. This interest is evident in the EU, UK and many other countries in Asia especially Singapore, Japan and India. Therefore, it is noted that if compared to the Canadian literature it is clear that there is a gap of Canadian comprehensive research that focuses on different aspects related to security interests in intellectual property in the Canadian context. Also, it is important that any new research takes into consideration the special constitutional framework of Canada.

My thesis builds on previous work on IP and security interests, but it does so in ways that are distinct from earlier contributions. I provide theoretical analysis of the current legal frameworks in Canada and the United States, including both the IP and corporate finance frameworks. The following step involves empirical research that sheds light on the practical perspectives on the barriers according to selected professionals, policy makers and financiers. As my literature review suggests, and to the best of my knowledge, there is no previous research related to security interests in trademarks in Canada that simultaneously provides theoretical analysis and qualitative empirical insights. The importance of the empirical research step is that it reveals hidden pitfalls in practice that could act as barriers to having a comprehensive trademarks security interests' paradigm. I propose a multi-focus plan that covers many legal and policy aspects in addition to the pitfalls in the current system. This plan starts from increasing awareness and knowledge related to trademarks and IP generally and ends by proposing to use shared-ledger technology, such as block-chain, as an innovative method to avoid the dual filing issue.

1.6 Theoretical Framework

My research takes place in the intersection between corporate finance law and IP law. The economic components of both disciplines constitute an integral part of my research. In my view, it is not easy to have a complete understanding of the research problem and be able to recommend legal reforms without using the law and economics approach. Moreover, practical recommendations must be measurable; it must be possible to show how capitalizing trademarks could have a positive economic impact on all concerned parties.[59] However, before talking about security interests in trademarks from an economic perspective, it is important to first understand the economic structure of IP rights in general and then focus on the economic structure of trademarks.

The fundamental concept of creation and registration of trademarks is to provide an exclusive right to the owner of the trademark. This exclusivity grants monopoly rights that prevent third parties from utilizing the trademark without prior consent of its owner. This means that the protection of trademark is considered a negative right. It provides the right for the owner to monetize the value of their trademark away from any unconsented use thereof to create a higher corporate value.[60] Meanwhile, the registration and maintenance of trademarks do not come at no cost. From an economic perspective, and especially in the early stages of

[59] Richard A. Posner, "Intellectual Property: The Law and Economics Approach" (2005) 19(2) Journal of Economic Perspectives, 57, online: <https://www.amherst.edu/system/files/media/1894/PosnerIntProp.pdf>.
60 Denoncourt *Supra* note 57,

business of SMEs these costs are relatively high, if compared to the imminent economic benefits that could be generated from the registration and protection of their trademarks. In parallel, the structure of the regulatory and policy frameworks in Canada as explained in Chapter Two of this dissertation focus on the process of creation and registration of trademarks, serves the goal of consumer protection in addition to the protection of investment in goodwill. However, it focuses less on dealing with trademarks as an asset.

Thus, in many cases, business owners could refrain to proceed with filing trademark applications to only protect their rights and they might see that trademark registration is not their priority, especially that the goodwill in the mark accumulates over time with use whether the mark is registered or not. This was even confirmed in the empirical research as discussed in Chapter Three of this dissertation. It is worth mentioning that in advanced stages when a business starts to grow, trademark owners try to maximize the incoming revenue through granting licenses and/or franchises to third parties as a tool to economically exploit their trademarks.

However, business owners especially in early stages often lack sufficient working capital that could help them to operate and develop their business. The source of this working capital can vary. It could be provided by venture capital companies through direct investment in the shareholder structure of the company. Also, this could take place through primary sources of finance such as financial institutions. Also, in more advanced stages, the necessary finances could be raised through securitization by issuing bonds backed by certain assets in the secondary market.

In this dissertation, I focus on raising capital through primary financing. The reason for using this source of funding is that it is the most classical, straightforward method of finance that is well known in market practices. In this model, financial institutions provide the borrower with loans in the form of short term, long term or revolving loans to help business owners to raise capital necessary for their business.[61] Thus, financial institutions as explored in Chapter Three of this dissertation, according to their business models and lending policies, could request collateral to secure the repayment of the due debts on maturity dates. In most cases this collateral could be real estate assets such as buildings, lands, farms, machinery, trucks or any other sort of asset. At the primary stages of doing business, it is not common that business owners have sufficient assets that could act as collateral. In addition, nowadays business could be in the form of an online business that only owns intangible assets such as domain names, copyrights, trademarks or even patents. If the business owners realize that if they developed their IP portfolio and that in this context their trademarks could be accepted as collateral, they will definitely be more eager to develop these trademarks. This could take place through registration of trademarks in Canada or even abroad.

In this case, the cost of filing and registration of trademarks remains unchanged. What does change is that the benefit of registration of trademarks has been maximized. This benefit maximization takes place through visualizing both classical fundamental approaches which is the trademark owner protection and the consumer protection approach for trademark registration. This was confirmed by the Supreme Court of Canada's discussion in Ciba-Geigy case. [62]

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61 ibid

62 "*Ciba-Geigy Canada Ltd. v. Apotex Inc. and between Ciba-Geigy Canada Ltd. v. Novopharm Limited*" (1992) 1992 Can Supreme Court Reports 120.

It is clear that however one looks at the passing-off action, its purpose is to protect all persons affected by the product.

(a) Protection of Manufacturers

This corresponds to the third point mentioned by Lord Oliver. The right to be protected against the "pirating" of a brand, trade name or the appearance of a product is linked to a kind of "ownership" which the manufacturer has acquired in that name, brand and appearance by using them…..

(b) *Protection of Customers*

In the Anglo-Saxon legal systems, [TRANSLATION] "the person chiefly concerned is the competitor affected by the unfair act" (Mermillod, *Essai sur la notion de concurrence déloyale en France et aux États-Unis* (1954), at p. 176). He is frequently in fact the first party affected by the practice or aware of it.

Also the court stated that:

"Accordingly, to begin with, from what might be called the individual or manufacturer's standpoint, the passing-off action is intended to protect a form of ownership.

There is also the concept of ownership, protected by the passing-off action in relation to goodwill, a term which must be understood in a very broad sense, taking in not only people who are customers but also the reputation and drawing power of a given business in its market."

However, and as explained in the following chapters, there are some barriers to applying this approach that if resolved could have a direct economic impact on business owners and will promote and encourage trademark protection and in following stages this could be applied on other IP assets. In Chapter Two of this dissertation I explore the current legal frameworks governing the security interests in trademarks. I also explore how the *Trade-marks Act*[63] and the relevant policies and regulations in addition to the PPSA deal with security interests in trademarks. In Chapter Three I investigate from a practical point of view the professional and governmental views on security interests in trademarks in the Canadian context. Finally, in

63 *Trade-marks Act*, RSC 1985

Chapter Four, I present the outcomes of all the previous steps and provide diagnoses of the current situation along with recommendations for change.

The basis of trademark protection

One of the most important aspects that must be investigated along with the analysis of the economic role of trademarks is to first understand the role of trademarks. It is noted that there are trademark policies and doctrine analysis of trademarks which have different perspectives.[64] While one court could describe trademarks as "peculiarly complex area of the law"[65] other modern trademark law approaches begin with the economic functions of the trademark.[66] Upon identifying these functions the law must decide how they should be protected.

One of the most important functions of trademarks is the product identification function. This function could also be recognized to serve the consumer protection, as explored above in the Supreme Court of Canada's judgement in Ciba-Geigy.[67] This means that the consumers will benefit from identifying the trademark and will be able to go back and buy or use the product or service identified with the trademark. This will ensure that consumers will be able to receive the same level of quality each time they decide to use the product labeled with the identified trademark. Law and economics scholars describe this as the trademarks help to reduce the product search costs.[68]

64 Mathias Strasser, The Rational Basis of Trademark Protection Revisited: Putting the Dilution Doctrine into Context, 10 Fordham Intell. Prop. Media & Ent. L.J. 375 (2011).Available at: https://ir.lawnet.fordham.edu/iplj/vol10/iss2/9
65 HMH Publ'g Co., Inc. v. Brincat, 504 F.2d 713,716 (9th Cir. 1974).
66 Strasser, s*upra note, 65*
67 Ciba-Geigy, *Supra* note 63
68 *Ibid*

Hence, other scholars argue that the identifying function does not eliminate the search costs completely.[69] Especially, that there will always be a search cost at the primary stages for the consumers to be able to identify the most convenient quality.[70] However, in my view this cost is marginal if compared to the search costs if the trademarks do not provide the identifying function. In addition to the identifying function, the communication function is one of the most important functions of trademarks that enables the producer to better communicate information related to the product price and characteristics to the consumer.

One of the most important concerns regarding the use of trademarks as a security is that trademarks serve both as an asset and a consumer protection function. If used as a security trademark could have an impact on the consumer protection function. In fact, this is a valid argument especially that as discussed in Chapter Two of this dissertation, trademark laws serve both as an asset and a consumer protection functions. Therefore, when trademarks are used as a collateral for financing, their consumer protection function could be affected. This could arise in case of the trademark being utilized by other parties on goods different from the goods on which the debtor used the mark that could lead to confusion of customers. Meanwhile, the consumer protection function limits the scope of the trademark by giving emphasis to confusion as a limit for protection. Thus, beyond this limit any non-commercial parody of a trademark is not considered as infringement, as it does not fit within the confusion criteria.

[69] *See* William Landes & Richard Posner, *The Economics of Trademark Law,* 78 TRADEMARK REP. 267, 270 (1988); Roger Van den Bergh & Michael Lehman,[Information Economics and Consumer Protection in Unfair Competition and Trademark Law], GRUR INT. 1992, 588, 589-590.
70 Strasser *Supra* Note*, 65*

However, the validity of the above argument does not mean that we refrain from using the trademark as collateral and to be treated as an asset. The validity of this argument necessitates taking sufficient measures by the secured creditor to avoid any negative impact on the consumer protection role of the trademark. In this context it is important to highlight Judge Alex Kozinski who stated:

> It is enough for today to recognize that in our culture, trademarks are doing all kinds of work they weren't originally meant to do. As their new functions become more important, so will the need for law to keep up. It's critical that we consider all the interests at stake and weigh those interests by reference to current reality, not according to rules made up at another time to deal with another reality. Trademarks, trade names, logos, and the other symbols of commerce have evolved. The law must evolve with them.[71]

What Judge Kozinski stated in his article is significant. The use of trademark now is exceeding by far the limited scope that it was created for. Therefore, if the use of trademarks as collateral is a new method of utilization of trademarks, any concern related to such use that could have an impact on its consumer protection role, should not lead to abstain this use. It is supposed to lead to finding more innovative and thorough solutions for this problem. These solutions could be in the form of changing laws, regulations, policies or practices to fit with the new methods of use.

It is worth mentioning that one of the fundamental criteria to accept trademarks as security is the value of the goodwill associated with the trademark.[72] And as the goodwill could be negatively affected by any confusion and the loss of distinctiveness of the trademark - which in the same time could have a negative impact on consumer protection - therefore the use of the trademark as a security necessitates to maintain the value of the trademark and its

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71 Alex Kozinski, "Trademarks Unplugged" (1993) 68:4 NYUL Rev 960.

72 Siebrasse & Walsh, *supra* note 41

goodwill, that could not take place without maintaining the fundamental function of the trademark which is consumer protection. This have been noticed by the Supreme Court of Canada judgement in *Veuve Clicquot Ponsardin v. Boutiques Cliquot Ltée* case as it stated that

> [T]he goodwill attaching to a trade mark is I think that portion of the goodwill of the business of its owner which consists of the whole advantage, whatever it may be, of the reputation and connection, which may have been built up by years of honest work or gained by lavish expenditure of money and which is identified with the goods distributed by the owner in association with the trade mark.[73]

Therefore it could be said the security interests in trademark will not be worthwhile if the fundamental function of trademark is not protected. Especially, that the secured creditor will always be keen to maintain and maximize the value of the secured asset. Especially, that in case of default the secured creditor will resort to sell the trademark to recover the unpaid debts. The only change here is that the assignor will be the creditor and not the debtor (original owner). It is worth to note that as I explore in Chapter Two of this thesis, in some cases the security interests take place in the form of conditional assignment. Which means that the consequences of the security interests in trademarks is very similar to that of trademark assignment.

The capability of the IP owner to economically exploit the value of their IP depends on the ability to manage and control the IP use and sale by others.[74] In the trademark context, invalidity may be raised as defence in the actions of trademark infringement. Especially, the main function of trademark is to provide a high level of certainty to the consumer about the origin of the products and wares associates with the trademark.[75] . From a trader's standpoint,

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73 Veuve Clicquot Ponsardin v. Boutiques Cliquot Ltée, [2006] 1 S.C.R. 824
74 *Ibid*
75 *Ibid*

the trademark is a means by which loyalty of the consumer can be established.[76] It helps consumers not only to identify goods that have been acceptable to them in the past, they can also be capable to recognise other goods originating from a source previously acceptable for them, as these other goods bear a mark indicating the common source.[77] Also the ability to protect trader's trademarks from deceptive uses by others is a fundamental aim of businesses. It is worth to mention that Consumer protection is not by any means the only goal of trademark legislation.[78] There is another public interest that might be served through Trademark protection.[79] In the *Memorandum on the creation of an EEC trade mark*[80] it was stated that:

> … trade marks are indeed an indispensable means of promoting trade and in doing so to assist the further interpenetration of national markets. They help manufacturers to acquire new markets and thus help to promote the expansion of economic activity beyond national borders.[81]

The trademark must be distinctive in respect of the source of goods and services.[82] Thus in case that a trademark lost its distinctiveness as where a similar trademark is used on similar goods without any action taken by the trademark owner- in this case the trademark could become invalid. [83]There are other cases where the trademark may become invalid. This could arise in a case the trademark was not properly maintained and guarded by the owner or the secured creditor. This risk must be taken into consideration by the secured creditor accepting trademarks as collateral especially in the valuation stage.[84] In the same context, to maintain

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76 Teresa Scassa, *Canadian Trademark Law*, 2nd ed. (Toronto: Lexis Nexus Canada, 2015), § 1.61
77 *Ibid*
78 *Ibid*
79 *Ibid* at § 1.63
80 Bulletin of the European Communities, Supplement 8/76, adopted by the Commission on 6 July 1976, para. 21.
81 *Ibid*
82 *Ibid*
83 *Ibid*
84 *Ibid*

distinctiveness the secured creditor must not rely only on the trademarks as the sole collateral. Although the *Trade-Marks Act* now provides that the trademark could be assigned independently from the business as a whole, the courts could still be concerned with the ultimate goal of consumer protection.[85] This could be rationalized that even if the trademark could be assigned independent from the associated goodwill there are no guarantees that the trademark could remain valid after the assignment.[86] In other words, and as explained above the trademark could lose its distinctiveness and became invalid if used on two similar wares or services. Therefore, the trademark must always be properly maintained and guarded by the owner or the secured creditor.

1.6.1 The Rise of Law and Economics

Since its founding by Adam Smith in the 18th century, the science of economics has always been interdisciplinary, linked especially with politics and culture. Adam Smith made a very early contribution to law and economics through his writing about the economic effects of legislation (1776). Jeremy Bentham's theory of legislation and utilitarianism (1782, 1789) was one of the first to recognize the close connection between of law and economics.[87] Other scholars linked law and economics and considered this area to be an object of academic pursuit; these include Henry Simon, Aaron Director, Henry Manne, George Stigler, Armen Alchian, Gordon Tullock and others. The early focus of American scholars of law and economics

85 Veuve Clicquot Ponsardin v. Boutiques Cliquot Ltée, *Supra* note 74
86 *Ibid*
87 Francesco Parisi "Positive, Normative and Functional Schools in Law and Economics" (2004) 18(259) European Journal of Law and Economics.

was concentrated on areas related to corporate law, tax law and competition law. In this context, these scholars focused mainly on how to explain the relationship between economic markets and the various legal constraints affecting those markets, such as taxes and regulation.[88]

1.6.2 Overview of the Law and Economics Approach

Economics is widely thought to be an efficient tool to analyze law. If human economic behaviour is based on the rational concept of maximizing utility and wealth, humans will accordingly respond rationally to changes in law. This assumption incorporates the basics of most of the literature on law and economics.[89]

The law and economics approach looks at the law from a behavioural point of view.[90] It works on two levels: the first level is human choice;[91] the second level is the goal that is based on the legal rule determined to be the right tool to deal with market failure.[92]

The law and economics approach started in the United States in the late 1950s.[93] Scholars of law and economics in the 1960s focused on the effect of legal rule on the normal functioning of the economic system, and in particular on market equilibrium.[94] Acceptance and

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[88] *Ibid*.
[89] *Ibid*.
[90] D. Friedman "Law and Economics: What and Why" (1989) 9 Economic Affairs 25, online: <http://onlinelibrary.wiley.com/doi/10.1111/j.1468-0270.1989.tb01119.x/abstract?deniedAccessCustomisedMessage=&userIsAuthenticated=false>.
[91] In my research, I expand this discussion of the rational actor principal and how it affects the process of economic decision-making, especially the deliberative and consistent choices that help in drawing the rational choice. Also, I discuss how the rational factor principal can help in the analysis of security interests in trademarks.
[92] Alessio M. Pacces & Louis T. Visscher, "Methodology of Law and Economics" in Bart van Klink and Sanne Taekema eds, *Law and Method. Interdisciplinary Research into Law (Series Politika, nr 4)* (Tübingen: Mohr Siebeck, 2011), online: SSRN: http://ssrn.com/abstract=2259058.
[93] E. MacKaay "History of Law and Economics." *Encyclopedia of Law and Economics, vol. 1* (Cheltenham, UK: Edward Elgar Publishing, 2000). 65. online: <http://encyclo.findlaw.com/0200book.pdf>.
[94] Parisi, *supra* note 80.

widespread use of this methodology in the legal community began in the 1970s.[95] Beginning in the 1970s, scholars focused more on using economic analysis to achieve a better understanding of law.

Scholars have developed many definitions for law and economics. One of the most relevant definitions is "*the application of economic theory and econometric methods to examine the formation, structure, processes and impact of law and legal institutions*."[96] Cento G. Veljanovski also developed this approach in his 1982 book, *The New Law-and-Economics*.[97] He argued that the law and economics methodology focuses not only on a legal analysis of the economic world but also on an economic analysis of the legal world covering all fields of law, whether private or public, substantive or procedural.

Richard Posner defended the idea of wealth maximization as a guide for judicial actions. He distinguished wealth from market prices. Posner's theory of wealth maximization was closer to a political philosophy of consensus than any other political principle.[98] By contrast, Calabresi said that to achieve social improvement, wealth must be accompanied by other goals, such as utility and equality. He defended the law and economics approach and considered it to be worthy of examination and not only as a tool to examine social justice. However, the resistance that characterized the beginning of law and economics as a valid approach did not last long. All concerned parties, especially legal practitioners and policy makers, are now

[95] *Ibid*.
[96] *Ibid*.
[97] Eli Salzberger,. "The Economic Analysis of Law - The Dominant Methodology for Legal Research?!" (2007). University of Haifa Faculty of Law Legal Studies Research Paper No. 1044382. online: SSRN: <http://ssrn.com/abstract=1044382>
[98] William M. Landes & Richard A. Posner, Economic Structure of Intellectual Property Law. (Cambridge, MA, USA: Harvard University Press, ProQuest ebrary, 2003). Chapter one, the economic theory of intellectual property at 11.

aware of the importance of this approach and how it can help them to develop their disciplines and find new approaches to answer complicated questions. The law and economics approach requires the law to be analyzed and understood according to economic principles. Gary Becker offers three main principles that govern human behaviour: humans tend to (i) maximize their utility, (ii) form a stable set of preferences, and (iii) accumulate information and other inputs in a variety of markets.[99] The main task of behavioural law and economics is to explore the implications of actual human behaviour for the law. It analyzes the question of how real people differ from *homo economicus*, or the economic person.[100]

The disciplines of economics and law sometimes complement and other times contradict one another. The obvious contradictions between the two approaches are evident in how economics focuses mainly on how to achieve the most possible economic benefit and make the maximum use of the available resources, while the law is supposed to focus on what is just and fair.[101] The economic analysis of law is one of the most important approaches in understanding the existence or decline of a legal rule.

According to Gary Becker, human behaviour may be circumscribed or influenced by three concepts: (i) bounded rationality, which means that human behaviour is limited by the amount of information a person has; in other words, human actions and reactions will vary according to the amount of knowledge a person has; (ii) bounded willpower, which means that people often take actions that conflict with their self-interest; and (iii) bounded self-interest, which means that people may tend to do what is fair for others even if this is against their

[99] Christine Jolls, Case R. Sunstein & Richard H. Thaler, "A Behavioral Approach to Law and Economics," 50 Stanford Law Review 1471(1998)
[100] *Ibid*.
[101] Jeffrey L. Harrison and Jules Theeuwes, *Law and Economics* (New York, London, W.W. Norton &Company, 2008).

own absolute self-interest.[102] These three bounds make any human behaviour hard to analyze according to the usual principles of economics. Law and economics is no longer considered a branch of microeconomics; this approach must be seen as a better way to understand both economics and the law.[103]

Scholars have divided the field of law and economics into two subfields: positive law and economics, and normative law and economics.[104]

1.6.3 Positive Law and Economics

An analysis from the perspective of positive law and economics provides statements of what the law and its effects are and aims to explain and predict law and its consequences.[105] The positive law approach is keen to illustrate the rationale behind a legal rule, and its role is explanation rather than evaluation

1.6.3.1 Normative Law and Economics

The focus of the normative approach is not to explain a legal rule. Rather, it focuses mainly on whether or not a legal rule is good.[106] In other words, the normative approach evaluates a legal rule to check its efficiency and sufficiency from an economic perspective.

In 1987, Milton Friedman[107] answered a question raised by many scholars: can normative and positive law approaches be used together? Friedman said the positive approach

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[102] *Ibid.*
[103] Pacces & Visscher, *supra* note 85.
[104] *Ibid.*
[105] *Ibid.*
[106] Salzberger, *supra* note 90.
[107] Heico Kerkmeester, Methodology: General, *Encyclopedia of Law and Economics, vol. 1*, (Cheltenham, UK: Edward Elgar Publishing, 1999), online: <http://encyclo.findlaw.com/0400book.pdf>

can be used in normative research studies to explain a legal rule and its rationale, and the normative approach can be applied then to check its efficiency.

Economists are able through positive analysis to prove the efficiency of legal rules and their effect on the distribution of wealth and income, but their role is limited with respect to the normative prescriptions for social change and legal reform. Law and economics rely more on the basic assumption that individuals tend to rationally maximize their wealth and income. According to this approach, the rule of law will affect human behaviour, and this will be reflected in the relative economic structure.[108]

One of the main objectives of IP economic theory is to balance incentive and access.[109] The owners or the creators of the IP asset will not be willing to protect their IP assets if they do not have projections of considerable economic incentive that they will receive accordingly.[110] At the same time, the cost to access or use the IP assets must be reasonable and not far in excess of the marginal cost. If the cost to access, use or consume the IP rights is relatively high, this will exclude persons who recognize the value of the IP right but cannot afford to pay the high price.[111]

The benefit or the incentive is an important factor that affects the decision to invest in IP assets. However, this benefit must be greater than the transaction cost. The IP scheme is not without cost. There are costs for administering and managing the process of IP protection and for granting the exclusive rights for people to access the IP. The economic approach to IP focuses mainly on how to strike a balance between the costs of protection and access to IP on

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[108] Landes & Posner, *supra* note 91.
[109] *Ibid.*
[110] *Ibid.*
[111] *Ibid.*

the one hand and the benefits generated from the IP assets on the other.[112]

The costs for administering and managing the protection of IP assets can sometimes be a barrier for its registration. The owners and creators of IP, especially in the initial stages of a business, might hesitate to proceed with expensive IP registration procedures. However, this will not be the case if Canada develops an efficient legal and procedural framework that governs security interests in IP assets. The owners and creators of IP rights would have another motive to register their rights as an initial step in using these assets to raise capital. Thus, costs would be marginal when compared with the benefits of registration; the economic incentive for registration would be the motive for registration. In other words, the development of the Canadian legal paradigm governing security interests in trademarks could have a positive economic impact.[113]

1.6.4 Economic Incentive Theory

The law and economics theory was developed to better understand and recommend reforms in many fields of law. Two scholars, William Landes and Richard Posner, succeeded in developing a remarkable theory of economic incentive. This theory focuses on conventional economic ideas and public choice theory to interpret recent developments in various fields of law. One of these authors' papers applied this theory to IP law.[114] Public choice theory is based on the role of cartels or influence groups acting as pressure groups to encourage legislators to develop laws that regulate or develop their particular area of interest.[115] However,

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[112] Harrison & Theeuwes, *supra* note 102.
113 As explored in Chapter Three of this dissertation there is a tendency by small business owners to not consider the trademark registration as a priority. This had been rationalized on the fact that the costs associated with the filing and registration of trademarks is relatively high if compared to the expected short term outcomes.
[114] Landes & Posner, *supra* note 91.
[115] *Ibid*.

and as stated by Landes and Posner, public choice theory may be useful for interpreting the regulation of certain areas, but in the case of deregulation, it is hard to relate deregulation to public choice theory.[116] Landes and Posner describe how public choice based on economic rent could explain different forms of legal developments and how this theory could provide a basis for the evolution of IP laws.

1.6.5 How the Law and Economics Approach will be Used to Answer my Research Questions

In this study, I use the law and economics approach to answer my research questions. I use the positivist approach to understand and analyze the existing legal frameworks related to security interests in trademarks in Canada and in the United States. In addition, I examine how security interests in trademarks could add a different dimension to the use of trademarks. The fundamental purpose of trademarks is consumer protection through distinction between the quality and goodwill of products and services.[117] Security interests in trademarks will add a new dimension to trademarks as they can now be used to raise capital. As previously noted, the cost of creating, protecting and maintaining trademarks, especially in the start-up stage, can be relatively high in the short-term if compared with the projected proceeds from their trademarks However, the utilization of trademarks as a tool to raise capital will have a positive economic impact and will encourage businesses to register their trademarks. The benefits deriving from such registrations will be maximized by adding the dimension of raising capital.

In the empirical research conducted for this dissertation, I focus on IP lawyers and

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[116] *Ibid*.
[117] Jeanne C. Fromer, "The Role of Creativity in Trademark Law" (2001) 86 Notre Dame L. Rev. 1885. See also Barton Beebe, "The Semiotic Analysis of Trademark Law" (2004) 51 UCLA L. Rev. 621 at 671.

corporate finance professionals in addition to government officials who are closely linked to the intersection of law and economics. This is reflected in the data I gathered and how it was very relevant to the economic incentives and barriers that the law could provide.

I use the normative approach to evaluate the efficiency of legal frameworks. In the end, I identify the gaps in the legal and policy frameworks to provide a proposal for reform.

1.7 Methodology

When planning this research, one of the most important questions I considered was which methodology would be the most appropriate. The answer to this question derived from the nature of the research itself. The first part of this research will be a theoretical analysis of the existing legal frameworks related to security interests in the United States and Canada, and the second part consists of interviews. The aim of the interview portion of the research work is to analyze the market practices of security interests in trademarks in Canada and the United States and to determine what level of knowledge all concerned parties have about security interests in Canada.

In fact, I combine the methodologies of textual legal analysis and interviews. A textual analysis of the theoretical and legal framework will be conducted to elaborate structures and pitfalls of the related regulatory frameworks, while the interviews will focus on investigating the market practices and barriers to security interests in trademarks. The outcome of combining the regulatory frameworks, the theoretical and academic background of this issue, and the practical points of view of all concerned parties, including IP-rights owners, IP lawyers, finance lawyers, financial institutions, and regulatory bodies, will create a new level of understanding of the subject.

The interviews were completed by gathering rich data through intensive questioning of my research subjects. I conducted 15 interviews in total, including five bankers, two employees of governmental regulatory bodies, three trademark owners, and five trademark agents and corporate finance lawyers. The nature of this research and its purpose necessitated conducting qualitative interviews. While some scholars, such as Seidman,[118] focus more on the structure of the interviews, my research investigated business practices; this required interactive discussions to flesh out the backgrounds, understanding and concerns of the participants.[119] The main goal of the interviews was not to collect quantitative data but to give a better understanding of the research question from the participants' perspectives.

The rationale behind the number of interviews was that one participant from a financial intuition will be sufficient to elaborate the experts' and professionals' points of view. The same applies to law firms, trademark agents and government officials. I expect the trademark owners will not have different points of view than their lawyers or trademark agents most of the time, but I was keen to interview all concerned parties. I recorded the interviews using a voice recorder. The questions are listed in Appendix 1 of this dissertation.[120] After completing the interviews, I moved to the next step of classifying and coding the data. The coding process involved naming the segments of gathered data with a code or name that refers to each piece of data. This stage was the first step toward an analytical interpretation based on the concrete statements.[121] In this stage, I classified the outcome of the interviews according to the field of

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118 Irving Seidman, *Interviewing as Qualitative Research: A Guide for Researchers in Education and the Social Sciences* 3rd ed, (New York and London, Teachers College Press, 2003).
119 Herbert J. Rubin & Irene S. Rubin, *Qualitative Interviewing: The Art of Hearing Data* (2nd ed.) (Thousand Oaks, CA: SAGE, 2005), Chapter Two: Why we do what we do: philosophy of qualitative interviewing (pp. 19-38).
120 These are the main basic questions that were developed into more thorough and particular questions during the interview process.
121 Rubin and Rubin *supra note* 112 at 43.

practice. The next step was the memo-writing stage, in which I analyzed the coded data and tried to complete the missing part of the research puzzle.[122]

1.7.1 Semi-Structured Interviewing:

The nature of the interviews conducted as part of this dissertation is very specific. I chose the participants in my research based on certain criteria. I chose individuals who worked in the fields of IP, banking, senior government officials working on Canadian IP policy, entrepreneur as well as brand valuator. The reason for choosing these sectors is that they represent most of the fields directly connected to security interests in trademarks. In other words, this helped me to illustrate the different perspectives of practitioners and decision makers who could be affected by or influencing the Canadian legal and policy frameworks governing security interests in trademarks.

The interviews took place in the form of semi-structured interviews.[123] The semi structured interview (SSI) is considered not only as a data collection strategy but it started since 1990 as suggested by some scholars to be considered as a research method.[124] It could be said that the SSI has proliferated, diversified and developed to exceed the level of being used as a research strategy and to be considered as an independent research method widely used in various disciplines.[125] The unique structure of the SSI facilitates its use in qualitative, quantitative, and mixed method research.[126]

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122 *Ibid* at 53.
123 Mcintosh, Michele J, and Janice M Morse. "Situating and Constructing Diversity in Semi-Structured Interviews." Global Qualitative Nursing Research 2 (2015): 2333393615597674. Web.
124 *Ibid*
125 *Ibid*
126 *Ibid*

SSI as a semi standardized method that is characterized by its design are conducted using a predetermined questionnaire.[127] These questions are usually open ended questions that are structured to elicit open ended responses that generate discussion.[128] The questions are asked in a way that give the interview participants the freedom to provide unscripted responses that floats in the main spectrum of the interview.[129]

I prepared the list of main questions that triggered discussions and led to asking follow up questions. I was not trying to direct the interviewees to provide specific answers.[130] It was a kind of open-ended questions that gives some-how a freewheeling quality. However, I maintained the lead to ensure that the discussion was not going far beyond the scope of my research.[131]

The semi-structured interviewing works well when interviewing high level professionals and senior government officials especially that in most cases the interviewees are bounded to certain rules and regulations that could make them not flexible to participate in interviews. In fact, it was not easy to schedule the interviews and it would have been very hard to schedule a follow up or second round interview.[132]

1.8 Thesis Road Map

In Chapter Two of this dissertation I examine the legal frameworks governing security interests in trademarks in Canada and the United States. This examination includes the PPSA,

127 *Ibid*
128 *Ibid*
129 *Ibid*
130 H Russell Bernard, *Research Methods in Anthropology: Qualitative and Quantitative Approaches*, 4th ed (Lanham: AltaMira Press, 2006)
131 *Ibid*
132 *Ibid*

the *Bank Act* and the *Trade-Marks Act* in the Canadian context, and the *Lanham Act* and the Article 9 of the UCC in the United States. I also include the relevant case law in both jurisdictions. In Chapter Three, I focus on the empirical research and highlight the most relevant and important insights of each participant. I also clarify the background of each participant. I analyzed the information gathered through the interviews and categorized the participants by field of practice. At the end, I used the results of each category to articulate the main findings and explain how they lead to a better understanding of the practical barriers and concerns in developing a framework for security interests in trademarks in Canada.

In the final chapter, the Conclusion, I put together all the puzzle pieces from the theoretical and empirical analyses and offer realistic recommendations based on the theoretical and practical examination of IP and corporate finance.

2 CHAPTER TWO: The Legal Framework for Security Interests in Trademarks in Canada & the United States

2.1 Introduction

Although trademarks are IP assets, they are unique in nature compared to other IP assets. They are not supposed to present a new innovation or unprecedented artwork. Trademarks can be in the form of a word and can even be the owner's thought or have originated from someone else's ideas. So, the advertising agencies that design trademarks for their clients do not usually own the mark. The client who use the trademark to mark her goods is the owner and can register it under the name of her business.[133]

The Supreme Court of Canada stated in *Mattel, Inc. v. 3894207 Canada Inc*:[134] Trademarks are something of an anomaly in intellectual property law. Unlike the patent owner or the copyright owner, the owner of a trade-mark is not required to provide the public with some novel benefit in exchange for the monopoly. In the same case the court also stated:

> The trade-mark owner, by contrast, may simply have used a common name as its 'mark' to differentiate its wares from those of its competitors. Its claim to monopoly rests not on conferring a benefit on the public in the sense of patents or copyrights but on serving an important public interest in assuring consumers that they are buying from the source from whom they think they are buying and receiving the quality which they associate with that particular trade-mark. Trademarks thus operate as a kind of shortcut to get consumers to where they want to go, and in that way perform a key function in a market economy. Trade-mark law rests on principles of fair dealing. It is sometimes said to hold the balance between free competition and fair competition.

This means that the trademark by its very nature differs from other IP assets, because

[133] Lien Verbauwhede, "Intellectual Property Issues in Advertising" online: WIPO <https://www.wipo.int/sme/en/documents/ip_advertising_fulltext.html#P201_36735>.
[134] *Mattel, Inc. v. 3894207 Canada Inc.*, [2006] 1 SCR 772, 2006 SCC 22, P 16, 17.

the trademark's aim is consumer protection and to ensure consumers receive a certain level of quality. In addition, the trademark is also used to protect the fundamental rights of the manufacturer of the product. When you see the McDonald's or Subway trademark on a restaurant, you have a minimum expectation of the level of food quality and service. Building a brand with a certain level of quality and consumer satisfaction requires significant investments.[135] Historically, trademarks were used to identify the owner of certain goods; this evolved into the identification of the source and origin of the product.[136] The Supreme Court of Canada in the *Ciba Geigy Canada Ltd. v. Apotex Inc.*[137] noted that the common law action of passing off aims to protect both the consumer and the manufacturer. This review of the legal framework will focus only on trademarks. As discussed in Chapter One, the trademark is the most popular and familiar IP asset.

In this chapter, I examine the current legal frameworks in Canada and the United States, with more emphasis on the Canadian context. This analysis will help to determine the pitfalls and ambiguity in the current regulatory frameworks. Chapter Three of this thesis will examine the conformity between practice and legal framework using empirical data and will look at the gaps between them from a practical point of view. Finally, I will provide evidence-based recommendations for developing a new legal framework.

To help maximize the benefits of trademarks it is important to eliminate barriers to having adequate security interests in trademarks. This could take place through reaching a common ground of interest between corporate finance and IP laws, especially given that the

[135] Menell, Peter S. "Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis" (2007) 22(2) Berkeley Tech. L.J. 733 at 824.
[136] Teresa Scassa, *Canadian Trademark Law*, 2nd ed. (Toronto: Lexis Nexus Canada, 2015).
[137] [1992] S.C.J. No. 83, [1992] 3 S.C.R.120, 44 C.P.R. (3d) 289 (S.C.C.).

fundamental component of corporate finance and security legal frameworks is always the protection of lenders' and creditors' rights. This takes place through using the debtor's or borrower's assets as collateral to guarantee payment of all or part of the outstanding debts. By contrast, the IP laws' fundamental component is the protection of the creators' and innovators' rights.[138] This can be achieved by finding common ground and mutual understanding of capitalizing trademarks between all concerned parties.

The research described in this dissertation can be used as a foundation for further work on security interests in IP assets. This future step could take place with some minor customization that will enable efficient legal frameworks for governing security interests in all other IP assets.

The legal framework governing security interests in trademarks in general consists of two main areas of practice: IP and corporate finance. Section 2 of this chapter discusses and analyzes the current legal frameworks that govern security interests in trademarks in Canada and the United States.

2.2 Legal Framework

The legal frameworks governing trademarks and security interests in Canada and the United States are very similar. The legislation governing trademarks is federal law in both countries, while security interests are governed by provincial and state laws, respectively. Fig-

[138] Hatzikiriakos *supra* note 50 at 128.

ure 1 shows the relevant legal frameworks governing security interests in IP in both jurisdictions.

As Figure 4 makes clear, security interests in trademarks in Canada are governed by two main statutes: The *Trade-marks Act*[139], which is a federal law governing all aspects related to trademarks; and the provincial personal property security statutes in each of the common-law provinces.[140] In the province of Quebec, security interests are governed by the Civil Code of Quebec (CCQ).[141] However, as discussed later in this chapter, there is another piece of legislation that could be developed in a manner that would facilitate the creation of security interests in trademarks, the *Bank Act*.[142]

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139 *Trade-marks Act*, RSC 1985, *Supra* Note 64

140 *Ontario Personal Property Security Act*, R.S.O. 1990, c. P.10, online: <https://www.ontario.ca/laws/statute/90p10>, *British Colombia Personal Property Security Act*, [RSBC 1996] Chapter 359, online: <http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/00_96359_01>, *Alberta Personal Property Security Act*, online: <http://www.qp.alberta.ca/documents/Acts/P07.pdf>, *Saskatchewan Personal Property Security Act*, 1c. P-6.2 Personal Property Security, 1993, online: <http://www.qp.gov.sk.ca/documents/English/Statutes/Statutes/P6-2.pdf>, *Manitoba Personal Property Security Act* C.C.S.M. c. P35, online: <http://web2.gov.mb.ca/laws/statutes/ccsm/p035e.php>, *New Brunswick Personal Property Security Act*, Personal Property Security Act, SNB 1993, c P-7.1, online: <http://canlii.ca/t/533bq>, *Nova Scotia Personal Property Security Act*, online: <https://nslegislature.ca/sites/default/files/legc/statutes/personal%20property%20security.pdf>, Prince Edward Island Personal Property Security Regulations, online: <https://www.princeedwardisland.ca/sites/default/files/legislation/P%2603-1G-Personal%20Property%20Security%20Act%20Regulations.pdf>, *Newfoundland and Labrador. Personal Property Security Act*, 1999 c22 s19; 2007 cS-13.01 s110, online: <https://assembly.nl.ca/Legislation/sr/statutes/p07-1.htm>, *Personal Property Security Act*, SNWT (Nu) 1994, c 8, online: <http://canlii.ca/t/52c05>, *Yukon Personal Property Security Act*, online: <http://www.gov.yk.ca/legislation/acts/peprse.pdf>.

141 Civil Code of Québec, CQLR c CCQ-1991, online : <http://canlii.ca/t/53k4f>.

142 *Canadian Bank Act*, SC 1991, C.46, online: <http://canlii.ca/t/53k2q>.

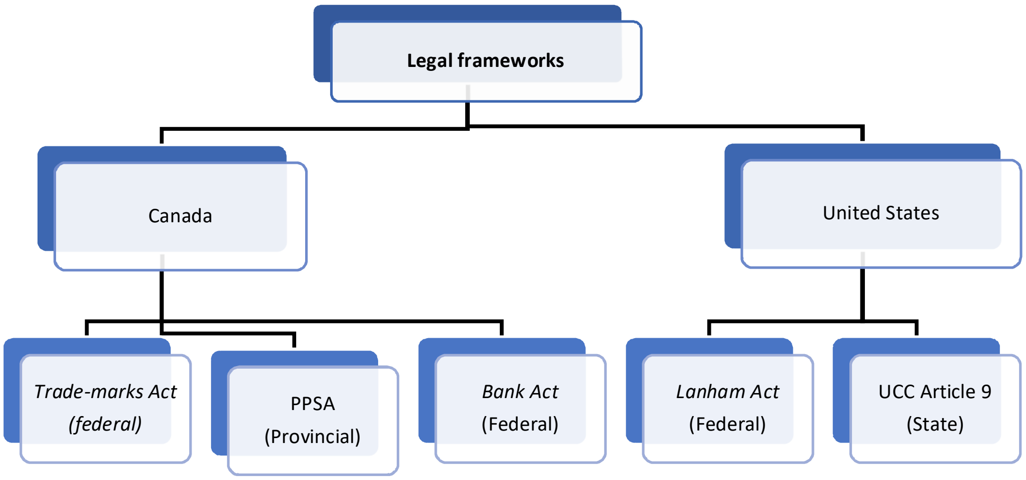

Figure 4: Legal frameworks governing security interests in trademarks in Canada and the United States

Security interests in personal assets, as defined in the Ontario PPSA[143] and the *Uniform Commercial Code* (UCC),[144] are designed to provide to the creditor a property owned by the debtor as collateral to secure direct recourse to the asset in case of a failure to pay. In fact, the risk of the debtor's failure to repay any debts due is the most important factor that financiers must evaluate before lending. Thus, they are always keen to secure a source of payback in case of the debtor's failure to pay. Meanwhile, when the risk associated with the financing of any business increases, the interest rate increases accordingly. Hence, when the available debt security and the debtor's creditworthiness decrease, the risk increases. Consequently, the debtor should compensate the creditor by paying a higher interest rate where there is a failure to provide adequate security to the creditor. For that reason, the debtor must have sufficient assets to completely or partially cover the value of the borrowed amounts, if they are not willing to pay higher interest rates. The debtor must provide collateral to which the creditor has direct recourse in case of default or bankruptcy. In most cases, the assets provided as

[143] *Personal Property Security Act*, R.S.O. 1990, c. P.10.
[144] UCC § 9, online: <https://www.law.cornell.edu/UCC/9/9-311>.

collateral are tangible assets, such as real estate, motor vehicles, ships, airplanes or any other valuable assets accepted by lenders.

Secured credit is the process by which the debtor offers to the creditor some or all of their assets as collateral. This collateral secures the creditor and ensures a source of payback for the outstanding debt. The U.S. Bankruptcy Code defines a lien as "*a charge against or an interest in property to secure payment of a debt or performance of obligation*,"[145] while the Canadian *Bank Act* defines security interests as "*an interest in or charge on property by way of mortgage, lien, pledge or otherwise taken by a creditor or guarantor to secure the payment or performance of an obligation*."[146]

There are two main reasons for having a security interest in the debtor's personal property. The first is to ensure that the debtor is not able to sell the asset to a third party; this could take place through attachment and perfection. The second reason is to guarantee to the creditor a source of payback of an outstanding debt. This also could be applied on security interests in trademarks. It could be said that there are two main criteria to have a proper and efficient legal framework for security interests. The first is a system that prevents the debtor from transferring ownership of the secured trademark to third party without the consent of the creditor. The second is a system that grants the creditor direct recourse to the secured trademark.

To better understand the importance of having a proper security interest, take the hypothetical situation where a creditor lends money to a debtor without taking security on any

[145] U.S. Bankruptcy Code, Chapter 11.
[146] *Canadian Bank Act, supra* note 143.

of the debtor's assets. This would be considered unsecured credit. In this case, nothing prevents the debtor from selling or giving any of his or her assets as collateral to any third party or even from granting any of the assets as collateral to other creditors. In particular, there are no restrictions on selling the debtor's assets except the contractual obligation stated in the loan agreement. If the debtor sold one or more of her assets, this could affect her creditworthiness and ability to pay the outstanding debts. Meanwhile, in cases where the debtor grants a security right to other creditors on one or more of their assets, this secured creditor will have seniority over any unsecured creditors. In many cases, the priority and seniority level of the secured creditors are not the same. This means that the secured creditor with seniority will have right of recourse to the secured assets until full repayment of the debts due before any other creditors. Thus, in order to secure their rights, the creditors must ensure that they have a proper security interests in the secured asset. However, and so as not to complicate things, I will assume that all secured creditors are of the same seniority. Consequently, in case of bankruptcy the unsecured creditor will share all the debtor's remaining cash and assets with other unsecured creditors in the same class of debt (*pari passu*) on a pro rata basis.

It could be said that the main aim of security interests is to protect the creditor's rights in the secured assets through "attachment" and to protect the creditor from third parties and other creditors through "perfection."[147] Security interests are created and considered enforceable according to the PPSA and Article 9 of the UCC through attachment. The rules of attachment in both statutes are similar. The main principal of attachment is that upon giving the

[147] Kiriakoula Hatzikiriakos, "Taking Security in Canada: The Rules of the Game" (2012) Business Law Today, online: <http://www.jstor.org/stable/businesslawtoday.2012.08.06>.

value, the secured party will have possession of the collateral owned by the debtor.[148]

2.2.1 Attachment

Attachment under the PPSA is similar to that in Article 9 of the UCC. The simple meaning of the word "attachment" in respect of security interests is that all the necessary requirements and prerequisites for the creation of a security interest have been fulfilled. Attachment is the first step of security creation. The attachment is completed when the value is given, when the debtor has rights in the collateralized assets and when a security agreement between the debtor and the creditor is signed with a specific description of the collateral or possession of the collateral.[149] It is worth mentioning that in the province of Quebec the concept of attachment does not exist in the CCQ. However, the concept of "hypothec" is very similar to attachment as stated in the PPSA.[150] The similarities are evident in the requirement to have a security agreement in the case of non-possessory security.[151] Also, in Quebec, when the security takes place through the physical delivery of the secured property, the creditor creates a security agreement for evidentiary reasons only.[152]

2.2.2 Perfection

According to the PPSA there are three methods of security perfection: registration, possession and control. Perfection through the registration of a financial statement is valid for almost all personal assets.[153] However, perfection through possession or control cannot take

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[148] *Ibid.*
[149] 2012 Bus. L. Today 1 2012
[150] *Ibid.*
[151] *Ibid.*
[152] *Ibid.*
[153] *Ibid.*

place in the case of intangible assets due to the nature of intangible assets.[154] In the provinces governed by a PPSA, it is possible to have a pre-filing. Pre-filing is a procedure of filing the security over the secured assets before signing the security agreement.[155] This grants the creditor a priority on the secured asset. This priority is based on time, but there are also many other rules that determine the priority of security interest. Discussion and analysis of the priority rules of security interests are beyond the scope of my research.

Perfection is an integral prerequisite of having a successful security interest. The main target of any security interest is to secure the assets in a manner that prevents the debtor from disposing of the secured assets. This means that there must be a record for the asset that shows whether there are liens, mortgages or charges that backed a certain debt.

2.3 The Canadian Legal Framework

In Canada, the legal frameworks governing security interests in trademarks consists of the *Trade-marks Act*, which covers most of the legal and regulatory aspects related to trademarks, and the PPSA, which covers the security process at the provincial level.[156] However, there is another important legal framework that no one has considered as an alternative for IP security perfection—the *Bank Act.*

The *Bank Act* is the legal and regulatory framework that governs federal banks' operations and some secured credit transactions.[157] The *Bank Act* is federal legislation that regulates, among other things, security interests for banks on certain kinds of property. On the

[154] Axe, *supra* note 19 at 86.
[155] Bus. L. Today 1 2012 *supra* note 116. 2012.
156 It is worth to mention that the Canada Business Corporations Act does not regulate more than the powers of creation of security interests in general without more emphasize on the process of its creation.
[157] The *Bank Act, supra* note 143.

other hand, the PPSA is the legal framework that regulates security interests in personal assets in the common-law provinces of Canada for bank and non-bank creditors. The federal *Bank Act* does not apply to non-bank creditors or provincial credit unions, and they are not able to benefit from this Act. The PPSA and the *Bank Act* are two distinct pieces of legislation, and each relies on a completely different set of legal principles and priority rules.[158] I will review in more detail each of these two legal frameworks to better understand the differences between them.

However, before investigating the PPSA, the *Trade-Marks Act* and the *Bank Act* it is important to first highlight the constitutional background of the federal and provincial powers. This will help to better understand the rationale behind the dual filing process for security interests in trademarks. When a question is raised as to whether certain legislation is considered as part of provincial or federal powers, the Supreme Court of Canada shall be responsible for settling the matter.[159]

Security interests in trademarks are one of the cases that raise the issue of division of powers between the federal and provincial legislative authorities that is governed by s. 91 and 92 of the *Constitution Act, 1867*.[160] The idea that the trademark is one of the federally regulated IP assets could lead to confusion about the proper process to create a security interest thereon, especially, as I discuss hereunder, because security interests in personal assets are regulated according to the provincial PPSA. The *Trade-Marks Act* lacks any direct or indirect

[158] Clayton Bangsund, "Clarification from the Supreme Court of Canada: Prior Taken Unperfected PPSA Security v. Subsequently Taken Bank Act Security" McLennan Ross Legal Counsel Newsletter, Winter 2011, online: <http://www.mross.com/law/digitalAssets/9/9812_PPSA_Security_v_Bank_Act_Security_CBangsund.pdf>.
[159] The constitutional distribution of legislative powers, online: <https://www.canada.ca/en/intergovernmental-affairs/services/federation/distribution-legislative-powers.html>.
[160] The *Constitution Act*, 1867, 30 & 31 Vict, c 3, online: http://canlii.ca/t/ldsw.

reference to the mechanism and process of creating security interests in trademarks. Therefore, security interests in registered trademarks—which are federally regulated assets—are governed by the provincial PPSA in common-law Canada or the CCQ in Quebec.[161] There is no constitutional objection to applying the provincial personal property security laws on a federally regulated intangible asset, especially in the absence of a federal statute governing security interests in trademarks.[162]

In fact, this shows that the criteria for deciding whether the jurisdiction is federal or provincial can be delicate. Especially, if we are talking about legislation that falls under the double aspect doctrine, it is sometimes controversial to decide. Applying this rule to security interests in trademarks that involve a federal asset, it is evident that this could raise a lot of debate about the validity of security under the provincial legislation.

Hence, the current legal framework governing security interests in trademarks is mainly the PPSA in common law Canada and the CCQ in Quebec.[163] Any possible action to withdraw this authority from the Canadian provinces could raise constitutional challenges.[164] It is worth mentioning that—as discussed in Chapter Three of this dissertation—none of the

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[161] In the matter of a Reference by the Governor in Council pursuant to section 53 of the *Supreme Court Act*, R.S.C. 1985, c. S-26, as set out in Order in Council P.C. 2010-667, dated May 26, 2010, concerning the Proposed *Canadian Securities Act*, the Supreme of Canada ruled that:

To determine the constitutional validity of legislation from a division of powers perspective, the pith and substance analysis requires the courts to look at the purpose and effects of the law. The inquiry then turns to whether the legislation falls under the head of power said to support it. If the pith and substance of the legislation is classified as falling under a head of power assigned to the adopting level of government, the legislation is valid. When a matter possesses both federal and provincial aspects, the double aspect doctrine may allow for the concurrent application of both federal and provincial legislation Reference re *Securities Act*, [2011] 3 SCR 837, 2011 SCC 66 (CanLII), <http://canlii.ca/t/fpdwb>, retrieved on 2018-10-09

[162] Siebrasse & Walsh, *supra* note 41.

[163] *Ibid.*

[164] Janet Fuhrer & Timothy Boune, "The Draft Intellectual Property Security Act Revisited", in Howard Knopf, ed., *Security Interests in Intellectual Property* (Toronto: Thomson, Carswell, 2002).

professionals I interviewed had concerns about the validity of creating security under provincial legislation. My research then mainly considers how to evaluate the current legal and practical frameworks governing security interests in trademarks.

2.3.1 Constitutional Overview of the Grounds of Security Interests in Trademarks

One of the important cases that examines the issue of the division of powers between the federal and provincial governments is the case Reference Re *Securities Act*.[165] The *Securities Act* was supposed to create a single regulator of Canadian securities. The proposed Act did not impose itself as a sole regulator of Canadian securities, but it allowed the provinces to opt in so as to create a unified system for securities. While Canada, Ontario and other interveners argued that this Act falls under the general branch of Parliament's power to regulate trade and commerce under s. 91(2) of the *Constitution Act, 1867*, Alberta, Quebec, Manitoba, New Brunswick and other interveners argued that this scheme falls under the provincial powers under s. 92(13) and s. 92(16) of the *Constitution Act, 1867*.[166]

However, the court must conduct the pith and substance analysis by examining the purpose and effect of the law to be able to decide the constitutional validity of legislation from the perspective of the division of powers. If this examination shows that an issue falls under the powers of the enacting level of government, then the legislation will be valid. However, if the examination shows that the issue falls under both federal and provincial powers, the double aspect doctrine will be applied, which allows the application of legislation from both levels at the same time.[167]

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[165] Reference Re *Securities Act*, 2011 SCC 66, [2011] 3 S.C.R. 837.
[166] *Ibid*.
[167] *Ibid*.

In its ruling the Supreme Court of Canada stated:

> [7] It is a fundamental principle of federalism that both federal and provincial powers must be respected, and one power may not be used in a manner that effectively eviscerates another. Rather, federalism demands that a balance be struck, a balance that allows both the federal Parliament and the provincial legislatures to act effectively in their respective spheres. Accepting Canada's interpretation of the general trade and commerce power would disrupt rather than maintain that balance. Parliament cannot regulate the whole of the securities system simply because aspects of it have a national dimension.[168]

When analyzing the above statement, it appears that the Supreme Court of Canada in this judgement emphasized a very important rule. This rule is that the separation of powers between the federal and provincial governments is a tool to create a balance in the federal system. This separation will help to ensure a high level of efficiency in both federal and provincial legislation. Meanwhile, the application of the federal government's interpretation of the general trade and commerce powers could have a negative effect in maintaining the balance between both powers. Also, the Supreme Court of Canada stipulated that the national dimension of any proposed legislation shall not be the base of granting the legislative powers to the federal government.

This case stated an important rule on how to determine whether the legislation falls under federal or provincial powers by applying the pith and substance analysis. Also, it examines how certain issues can fall in the intersection between federal and provincial powers and the application of the double aspect doctrine. In my view, and as will be discussed in the next paragraphs, the security interests in trademarks in specific and in intellectual property in general fall in the intersection between the federal and provincial powers of legislation.

In order to be able to examine the constitutional powers related to security interests in

[168] *Ibid* at para 7.

trademarks, it is important first to check the legislation powers related to trademarks and security interests in personal assets.

In Canada, trademarks are not mentioned explicitly in the *Constitution Act, 1867*, which is similar to the case of the United States, but the Canadian Constitution does assign legislative authority over patents and copyrights to the federal government.[169] However, trademark laws in Canada and the United States are considered to be a federal power. In Canada, both registered and unregistered trademarks as well as trade names come under the federal parliamentary powers "Regulation of Trade and Commerce".[170] In fact, this started after confederation as Canada continued the trademark registers created by the Province of Canada.[171]

In 1937, the Privy Council commented that "[t]here could hardly be a more appropriate form of the exercise of [the trade and commerce] power than the creation and regulation of a uniform law of trade marks."[172] In 2005, in the *Kirkbi* case, the Supreme Court of Canada commented on the Privy Council decision and said that

> [T]he federal government's power to legislate with respect to trade-marks has never been the target of a direct constitutional challenge. The issue was raised in the Privy Council in a 1937 decision examining the constitutionality of federal trade-mark legislation.[173]

Also in this case, the Supreme Court of Canada stipulated that the current *Trade-marks Act is valid legislation that governs not only registered trademarks but even unregistered*

[169] *Constitution Act*, 1867 (UK), 30 & 31 Vict, c 3, reprinted in RSC 1985 Appendix II, No 5, ss 91, 92 [Constitution Act] the Canadian Constitution delineates jurisdiction for copyright and patent subject matter to the federal government.
[170] David Vaver, *Intellectual Property Law: Copyright, Patents, Trade-marks (2).* (Toronto: Irwin Law, 2011). (Canadian Electronic Library/desLibris. Absolute) at 456.
[171] *Ibid.*
[172] *Ibid.*
[173] *Kirkbi AG v. Ritvik Holdings Inc.*, [2005] 3 SCR 302, 2005 SCC 65 (CanLII), online: <http://canlii.ca/t/1m020>.

trademarks.[174] One of the most important concepts that was stated in this case is that there is no evidence that the registration regime of the trademarks under the *Trade-marks Act* was planned to provide two distinct enforcement regimes, as the *Trade-marks Act* was created to regulate both registered and unregistered trademarks.[175]

Security interests in trademarks falls in the intersection between federal and provincial powers. Specifically, as discussed in this dissertation, security interests in personal assets fall under the provincial powers while registered trademarks are regulated by federal legislation.[176]

This means that proposing federal legislation that governs security interests in trademarks in particular and IP in general could raise a constitutional conflict between the federal and provincial powers, because new federal legislation could eviscerate some of the powers granted by the Canadian Constitution to the Canadian provinces.

2.3.2 *Personal Property Security Act*

The term PPSA is used to refer to a type of a provincial statute that exists in each of the Canadian common-law provinces. Generally, the provincial statutes differ only slightly, except for the OPPSA.[177] However, there are no major differences with respect to security interest creation and perfection processes.[178] In this research I will focus mainly on the Ontario

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[174] *Ibid.*
[175] *Ibid.*
[176] I focus in this dissertation on registered trademarks only and not unregistered trademarks, which are beyond the scope of my research.
[177] *Personal Property Security Act*, R.S.O. 1990, c. P.10.
[178] John R. Sandrelli, Christopher J. Ramsay & Anjili I. Bahadoorsingh, "Remedies Under Security Interests in Canada: An Overview", International Bar Association, July 2002 (Published: I.M. Fletcher and O. Swarting, "Remedies Under Security Interests", Kluwer Law International and International Bar Association (2002):<http://www.dentons.com/upload/en/publications/archive/12619_Remedies_under_Security_IBA_pdf.PDF>.

PPSA. According to the PPSA, creditors are not limited to federal banks; it covers other categories of creditors like provincial credit unions, venture capitals or even any other creditors.

2.3.2.1 The PPSA's Evolution

Enacted in 1976, the OPPSA was the first of its kind in Canada. By 2001, each Canadian province had its own PPSA, except for Quebec. Before enacting PPSA legislation, the Canadian common-law provinces applied the common law security interest rules of England. This included the classic chattel mortgage, the fixed equitable mortgage, floating charges and the unpaid seller's reservation of ownership. The last of these was not a real security interest as it was considered a conditional sale of the asset.[179] The innovation of the PPSA was in unifying the legal framework governing security interest in personal property all over Canada. This happened through implementing independent statutes in each province, which were similar to a great extent.

The OPPSA defines *collateral* as "personal property that is subject to a security interest,"[180] while the security interest is defined as "*an interest in personal property that secures payment or performance of an obligation.*"[181] Personal property is defined as "chattel paper, documents of title, goods, instruments, intangibles, money and investment property, and includes fixtures but does not include building materials that have been affixed to real property."[182]

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[179] Daryl E. Clark "A Comparison of the American and Canadian Secured Property Legal Regimes" (2003) 59(1), Secured Lender [serial online]. 8.
[180] *Ibid* at subsection 1(1).
[181] *Ibid*.
[182] *Ibid*.

These definitions show that according to the OPPSA nothing prevents obtaining security interests in intangible assets as personal property owned by the debtor. These intangible assets include the IP rights owned by the debtor, such as copyrights, patents and trademarks.[183]

A security interest in any collateral, including a trademark, must be registered properly, otherwise it will be considered not to exist.[184] Nevertheless, nothing prevents the registration of a security interest in a trademark according to the rules of the PPSA or the *Trade-marks Act*, as there is no contradiction between the two registrations. In other words, and as will be discussed later in this chapter, the security interest in common-law Canada is governed by the PPSA, which regulates all elements of the creation, attachment and perfection of security. While there is no obligation or requirement in the *Trade-marks Act* or even the Trademark Regulations[185] to register a security interest or even to annotate the trademark registration to note the security interest, any creditor who wishes to annotate the security interest in the trademark file must register the security agreement with the Canadian Intellectual Property Office (CIPO). This amounts to the dual registration of security interests as will be discussed later.

Thus, the registration of security interests in trademarks will remain an issue if the dual registration of security interests in trademarks is a common practice to ensure its proper perfection. In fact, Siebrasse and Walsh state that there is a problem of uncertainty in the legal

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183 Stewart Hayne, "Know How on Taking Security in Intellectual Property: Issues with Intellectual Property as Collateral and the Spectra of the Federal Registries" (2011), online: <http://www.cba.org/ns/PDF/Issues_Intellectual%20Property_Collateral_Hayne.pdf>.

184 Alan Troicuk, "Legal and Technical Implications of Canadian Adherence to the Madrid Protocol," (January 2012), at 74, "Other Recordals," online: CIPO <http://www.cipo.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/vwapj/mcProtocoleMadrid-tmMadridProtocol-eng.pdf/$file/mcProtocoleMadrid-tmMadridProtocol-eng.pdf>.

185 Trade-marks Regulations (SOR/96-195).

system governing security interests in IP. They proposed the creation of a federal security registration system that governs security interests in IP.[186] Knopf analyzed the whole system governing security interests in IP assets and proposed the creation of a one-stop shop to govern the registration process of these securities.[187]

The dilemma of dual registration of security interests in trademarks is very common in both the United States and Canada. In many cases, and as I investigate in Chapter Three of this dissertation, creditors opt for dual filing of security interests in trademarks as a best practice. However, this procedure could raise the transaction cost accordingly. In fact, dual registration is a pre-emptive measure to ensure that the security interest appears in the trademark register with no real added value. There are some counterarguments that refute dual filing and cite evidence that suggests single filing is sufficient. This issue will be examined in the empirical research, which will look at the implications of dual filing and whether there is an alternative to dual filing that would ensure the proper filing of security.

2.3.3 *Trade-marks Act*

Section 91 of the *Constitution Act, 1867* sets out the distribution of federal legislative powers in Canada.[188] The list of legislative powers clearly mentions patents and copyrights, but there is no explicit inclusion of trademarks. However, jurisdiction over trademarks is grounded in section 91.2, "The Regulation of Trade and Commerce."[189] This is evident in the

[186] Siebrasse & Walsh, *supra* note 41 at 100.
[187] *Ibid.*
[188] *The Constitution Act*, 1867, 30 & 31 Vict, c 3.
[189] Daniel R. Bereskin, Notes from Canada, 77 Trademark Rep. 154, 165 (1987).

case of *Kirkbi AG v. Ritvik Holdings Inc*.[190]

Canada's *Trade-marks Act* is federal legislation enacted in 1953.[191] The *Act* sets out all the legal and technical aspects related to trademarks, including the application for registration, assignment, unfair competition and many other regulatory issues related to trademarks in Canada.

In Canada, protection of trademarks is provided to both registered and unregistered trademarks. The protection scheme for registered trademarks is stated clearly in the *Trade-marks Act*: upon registration, the owner is granted 15 years of protection throughout Canada, however, this changed to ten years in June 2019.[192] Protection for unregistered trademarks—what is known as the common-law trademark protection—is based on evidence as to the scope and extent of the goodwill in the mark. It is therefore risky to rely on passing-off action and prior use as a basis for protection.[193] This means that the registration of trademarks in Canada is the most efficient method of protection. Trademark registration offers Canada-wide protection.

Unregistered trademarks in Canada rely on the tort of passing off. The passing-off role

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[190] *Kirkbi*, *supra* note 173: "The federal government's power to legislate with respect to trade-marks has never been the target of a direct constitutional challenge. The issue was raised in the Privy Council in a 1937 decision examining the constitutionality of federal trade-mark legislation. The Privy Council judgment relies, albeit implicitly, on the second branch of the trade and commerce powers under s. 91(2) to confirm Parliament's jurisdiction to enact trade-mark legislation": *Attorney-General for Ontario v. Attorney-General for Canada*, [1937] A.C. 405." Lord Atkin for the Privy Council commented as follows (at p. 417): "No one has challenged the competence of the Dominion to pass such legislation. If challenged one obvious source of authority would appear to be the class of subjects enumerated in s. 91(2), the Regulation of trade and commerce, referred to by the Chief Justice. There could hardly be a more appropriate form of the exercise of this power than the creation and regulation of a uniform law of trade marks."

[191] Troicuk, *supra* note 185.

[192] Section 46(1), R.S.C., 1985, c. T-13, see also: "A guide to trademarks" Government of Canada, online: <http://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/h_wr02360.html>. See also section 46-1 *Trade-marks Act*, RSC 1985.

[193] Bereskin, *supra* note 189.

is mainly to remedy the harms and losses suffered by a trader through the creation of consumer confusion between their products and services and those of a rival.[194] Over time, the tort of passing off grew to be mainly focused on the protection of traders from unfair competition rather than only consumer protection.[195] The Canadian courts were pushed to apply passing off in three situations that can be summarized as follows: 1) cases where the consumer is initially mislead, as in instances where advertising is used to mislead customers to deal with competitors; 2) when the consumer is not misled but other are so-called "initial interest"; and, 3) the post-sale confusion, which takes place when the customer intentionally decides to buy a fake luxury or expensive product that can be mistaken for an original.[196] The three situations mentioned above apply to the passing-off action before the federal and provincial courts.

Hence, businesses that are keen to ensure a high level of protection for their brands will prefer to go for the protection granted by trademark registration rather than passing off as a sole tool for support. As David Vaver remarks on the reasons why it is better to register, "Registration does cost money up front and in renewal fees, but infringement actions require less proof than passing-off actions and may be cheaper in the end."[197]

It is worth mentioning that passing off and registration of trademarks are based on different theories. Passing off discourages the disruption of economic relations by misrepresentation, while registration of trademarks intends to make trademarks like commodities, which increases the trademark's exchange value.[198] In fact, there are many other advantages of trademark registration over passing-off protection. For example:

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[194] Vaver, *supra* note 171 p 459.
[195] *Ibid*
[196] *Ibid.*
[197] *Ibid* p 460.
[198] *Ibid.*

a) Passing off requires a market reputation gained for the symbol or feature before protection can be claimed, while trademark applications can be filed before the applicant starts using the trademark to identify the product. However, use must be proven before registration.[199]

b) Passing off provides protection of reputation for the symbol or feature on a local level where such reputation is made, while trademark registration provides nation-wide protection for the trademark.[200]

c) Passing off necessitates proof that the defendant mispresented its product or service related to the plaintiff's as well as the relevant damages to the plaintiff's business ("goodwill"), while trademark registration provides protection for the whole range of products and services covered by the registration.[201]

d) Passing off requires proof of existence, use and reputation by the plaintiff, while registration provides valid protection in Canada for the products and services for which the trademark was registered.[202]

Therefore, examining security interests in registered trademarks will be more efficient and less problematic when compared to the possibilities of creating of security interests in unregistered trademarks.

2.3.3.1.1 Security Interests in Trademarks

An examination of the *Trade-marks Act* shows that there are no direct references to the procedures and requirements for creating security interests in trademarks. Section 26(2)(c)

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[199] *Ibid.*
[200] *Ibid.*
[201] *Ibid.*
[202] *Ibid.*

of the *Trade-marks Act* stipulates that the following must be stated in the trademark register: "*a summary of all documents deposited with the application or subsequently thereto and affecting the rights to the trade-mark*."[203]

Although the *Trade-marks Act* makes no reference to security interests in trademarks, this section refers to a summary filed or to be filed with the trademark application reflecting rights that affect the trademark, which certainly includes any security agreements. Meanwhile, in January 1987 CIPO issued a Practice Notice titled "Security Agreement,"[204] which states:

> The Registrar of Trade Marks will permit the placement of 'Security Agreements' on the files of trade marks in the circumstances where such trade marks have been put up as security. Notes to this effect may be entered on the register on payment of the prescribed amendment fee. An example of the note places on the register in a recent case was 'Security Agreement Placed on File - Jan. 1987'.[205]

Analysis of this note and section 26(2) of the *Trade-marks Act* reveals that the placement of the security agreement of secured trademarks on the file is optional; it is not a requirement for the validity of the security interest. Therefore, there might be a security interest in a trademark that does not appear in the trademark register. This Practice Notice does not elaborate whether the creditor has the power to place the security agreement on the debtor's trademark file or whether it will be the sole right of the trademark owner. In addition, nothing in this note shows the minimum prerequisites of the security agreement and whether or not this

[203] *Ibid* at section 26(2).
[204] Practical notices, Canadian Intellectual Property Office, Security Agreements, 1987-04-08, online: CIPO <http://www.cipo.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr00228.html>.
[205] Troicuk, *supra* note 185 at 74.

placement is considered to be an attachment. Also, it does not show the mechanism of recording or removing the security from the trademark file.

In my opinion, this is a fundamental issue, and I expect that the bottom line of developing the regulatory framework governing security interests in trademarks is to develop a mechanism that ensures that the security interest is recorded in the trademark register upon its creation. The rationale behind this is to ensure that all transactions that involve trademarks are recorded in the trademark register. This will provide a high level of certainty in CIPO data records, especially given that the current PPSA system of security interest is provincial, and in some cases the debtor may operate their business in more than one province. In short, reliance on provincial records alone for registration of security interests in trademarks is not efficient because the trademark's records could lack relevant information related to the security interest.

Recently, CIPO announced amendments to the Practice Notice on security agreements:

> Where a trademark has been put up as security, the Registrar of Trademarks will, upon written request, record a security agreement on the file of an application for the registration of a trademark or a trademark registration. A note to this effect will be placed on the trademarks database (for example, 'Security Agreement placed on file – June 1, 2018').
>
> Where a trademark is no longer the subject of a security agreement previously placed on file, the Registrar of Trademarks will, upon written request, record the removal of the security agreement. A note to this effect will be placed on the trademarks database (for example, 'Security Agreement removed – April 15, 2019').[206]

It is clear that the amendments to the Practice Note make it more developed than the

[206] Draft – Practice notice on security agreements, (2019), online: CIPO: <https://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr04612.html>.

former version. The main progress in the current wording is that it provides a clearer road map on how to record the security agreement and on the trademark registration file . Also, it shows the mechanism for removing the record of a security agreement. In my view, this amendment is a step in the right direction to give greater confidence in the trademark register. It could encourage more concerned parties to create security interests in trademarks. Hence, it is important to have a data set that shows changes in the number of security interests in trademarks before and after the new rules were applied. This data set analysis will provide evidence as to whether the new rules stated in the Practice Note positively affect the number of security interests in trademarks. An additional step could help to build a more reliable database that ensures that any security interest in trademarks appears in the trademarks records. As explored in Chapter Four of this dissertation, this step involves creating a kind of auto-synchronization system between the federal and provincial governments that flags secured trademarks upon the creation of security interests with the provincial authority.

On the other hand, section 48(1) of the *Trade-marks Act* states that

> *"A trade-mark, whether registered or unregistered, is transferable, and deemed always to have been transferable, either in connection with or separately from the goodwill of the business and in respect of either all or some of the goods or services in association with which it has been used.*"[207]

An analysis of this section of the *Act* shows that nothing prevents the transfer of ownership of the trademarks, whether associated with the goodwill of the business or even independently.

[207] R.S.C., 1985, c. T-13

When talking about the trademark as a security it is most important to highlight some risks that are associated therewith. Among these risks are the trademark's invalidity for loss of distinctiveness as stated in paragraph 18 (1)b of the *Trade-marks Act.*[208] In more detail, the core principal of a trademark is that it is a tool used to distinguish goods and services in the market by certain producer or service provider from other products or services.[209] In *Labatt Brewing Co. v Molson Breweries*,[210] the court stipulated an assessment tool to determine how the trademark is distinctive.[211]

1- A mark and a product be associated
2- The owner uses the association between the mark and its product and is manufacturing and selling this product, and
3- This association enables the owners to distinguish its product from that of others.[212]

The above criteria show that there must be a clear link and association between the mark, the products and the producer. This link or association will enable the public to distinguish the source of the products with certain level of quality. [213]

The application of these rules on security interests in trademarks shows that in case of a debtor's default and selling the secured trademark to a third party, there are some risks that could exist in respect to the association between the trademark and the producer that could lead to trademark invalidity, especially if the trademark was sold to a third party who does not

[208] *ibid*
[209] Scassa, *supra* note 137 at 318.
[210] *Labatt Brewing Co. v Molson Breweries* , 2000 CanLII 17105 (FCA);(2000), 252 N.R. 91 (FCA);252 NR 91;180 FTR 99;[2000] FCJ No 159 (QL);5 CPR (4th) 180.
[211] Scassa, *supra* note 137 at 319.
[212] *Labatt Brewing Co. v Molson Breweries*, *supra* note 210.
[213] Scassa, *supra* note 137 at 325.

provide the same level of quality as the original producer. This could negatively affect the distinctiveness of the trademark and could lead to its invalidity.

Paragraph (3) of the same section states that "*The Registrar shall register the transfer of any registered trade-mark on being furnished with evidence satisfactory to him of the transfer and the information that would be required by paragraph 30(g) in an application by the transferee to register the trade-mark.*"[214]

This paragraph stipulates as a condition that the transferee must provide sufficient evidence of the transfer of ownership. However, in all of the above-mentioned sections, or even in the CIPO note, nothing requires that security interests in trademarks be registered in the trademark register. Thus, the *Trade-marks Act* by itself does not provide a comprehensive and efficient method to protect creditors or third parties. If we compare this system to the regulatory system governing security registration of other assets, we see that more adequate measures apply. For example, when someone buys a car in Ontario, the seller is obliged to provide the buyer with the used vehicle information package (UVIP), which contains all the information related to the vehicle's history. This includes whether there are any debts or outstanding amounts owing on the vehicle.[215] However, no similar rules or prerequisites exist to help the transferee of a trademark to ensure that there is no outstanding security interest in the trademark. In practice, the transferee's lawyer will do due diligence, including a search on the PPSA register of the transferor's domicile—as discussed below—to make sure that there is no outstanding security interest in the trademark in question.

One of the most important issues that must be addressed when talking about security

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[214] *Ibid*.
[215] https://www.ontario.ca/faq/how-do-i-find-out-if-money-owed-vehicle.

interests in trademarks according to the PPSA is the effect of the debtor's place of business operations on the perfection process. For example, a debtor may operate his business in more than one location—in Toronto, Ontario, and Montreal, Quebec. If the debtor and creditor choose to have their agreement governed by laws of Ontario, in the case of an enforcement proceeding the Ontario court will first make sure the chief executive officer (CEO) of the debtor is located in Toronto.[216] If the CEO of the debtor is located in Montreal, the CCQ will determine the validity of the security interest.[217] On the other hand, if the debtor and creditor agreed that the laws of the state of New York will govern their agreement, if the creditor decides to start enforcement proceedings in the New York courts, this will be a different situation. Section 1-301 of Article 9 of the UCC states that the law of the agreement is the governing law of the security interest. Therefore, the New York law will apply.[218] This means that security interests in trademarks could be perfected in accordance with any provincial laws or even other jurisdictions, while nothing in the trademark record shows that the security exists.

In fact, although the perfection of security interests as discussed above aims to notify third parties of its existence, it remains a very important tool to protect the creditor's rights on the security in question. This means that the perfection of security interests in general will alert any bone fide that a certain asset is subject to security interest. This prevents any transactions that could negatively affect the value of the secured asset.

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[216] Hatzikiriakos, *supra* note 50.
[217] PPSA R.S.O 1990, c. P10, s.7(1)
[218] *Ibid.*

2.3.4 *Bank Act*

Although security interests in trademarks are not governed by the *Bank Act*, I believe it is important to highlight some main points of this Act with focus on the creation of security. The *Bank Act* is federal legislation that regulates all aspects of the banking business in Canada, including the incorporation and registration of banks as well as their capital structure and ownership arrangements. The *Act* also regulates corporate governance issues and the requirements for foreign banks to operate in Canada. The *Bank Act* also regulates some cases of security interest.[219]

I focus only on security interests and their perfection and therefore to what extent this Act provides the bank's priority over a secured property. Accordingly, it is important at the beginning to understand how the terms "security" and "security interest" are defined in the Canadian *Bank Act*:[220]

> 'Security' means (a) in relation to a body corporate, a share of any class of shares of the body corporate or a debt obligation of the body corporate, and includes a warrant of the body corporate, but does not include a deposit with a financial institution or any instrument evidencing such a deposit….. etc.[221]
>
> 'security interest' means an interest in or charge on property by way of mortgage, lien, security interest or otherwise taken by a creditor or guarantor to secure the payment or performance of an obligation[222]

From the definitions above, a security is defined as "*a debt obligation of the body*

[219] Canadian *Bank Act*, *supra* note 135.
[220] *Ibid.* at C.46.
[221] *Ibid.* at C.46 – Definitions.
[222] *Ibid.*

corporate, and includes a warrant of the body corporate,"[223] and I may conclude that a security as an obligation on the borrower guarantees the payment of the outstanding debts. In the case of a debtor's failure to pay, the security will warrant payment of the debt by liquidating said security granting the lender direct recourse thereon. Nevertheless, the definition of security interest states that such security may be in the form of a mortgage, lien or security interest. It was kept open to include any future development in the form of security interest. It is worth highlighting that the security may be taken by the creditor to secure the payment of any debts due. Therefore, if the original debtor fails to pay any of the debts due, the creditor will have a direct recourse to the secured asset. Similarly, as stated in section 428(13) of the *Bank Act*, "Subrogation of security,"[224] the guarantor shall subrogate the original creditor in case the guarantor has paid all the amounts due on the original debtor. This means that the guarantor shall have all rights and powers granted to the original creditor to be able to call for the subrogated debt. From this point, we may conclude that the guarantor, which in most cases is not a bank, may subrogate the original creditor (the bank). And we can conclude from this section that nothing prevents non-banks as guarantors from benefitting from the security scheme set out in the *Bank Act*.

Given the above discussion, we are led to ask about trademarks and whether the collateralization of trademarks and having security interests in trademarks are valid under the *Bank Act*. In fact, upon reviewing the whole of the *Bank Act*, I found no reference to any clear restriction against using trademarks as collateral for financial indebtedness, and, as stated above, reference to the security does not limit collateral to a certain kind of asset. Rather, the

[223] *Ibid.*
[224] Canadian *Bank Act*, *supra* note 143 at C428 "subrogation of security".

Bank Act extends the bank security so as to include the put and call options on securities,[225] while this in fact is not a regular security and includes a high degree of uncertainty. Therefore, nothing in the *Bank Act* prohibits having a security interest in trademarks.

However, it must be considered that, as stated in section 427 of the *Bank Act*, under the heading "Loans to certain borrowers and security": "*A bank may lend money and make advances…*" This section lists various fields of manufacturing and agriculture and the securities to be taken by the bank in each case.[226] IP assets are not listed among other assets. However, in my opinion, if we are to interpret the exact wording of this section and try to analyze its scope, we will notice that what is stated in this section is not obligatory to the banks, which means that banks can decide whether or not to proceed with such lending and take IP assets as security. In other words, the bank may accept a security from the list in the above-mentioned section or accept any other type of security, which will be based upon the sole discretion and appraisal of each bank based upon its creditworthiness assessments.

In 2012 the *Bank Act* was amended by adding the following definition:

> 'unperfected', in relation to a security interest, means that the security interest has not been registered in a public register maintained under the law under which the security interest is created, or has not been perfected or published by any other means recognized by that law, where the registration or other means of perfection or publication would have made the security interest effective against third parties or would have determined priorities in rank in respect of rights in, on or in respect of the property that is subject to the security interest.[227]

This important amendment altered the legal situation in a major way in respect of the

[225] Canadian *Bank Act*, *supra* note 143 at c. 428 (18) Subrogation of Security.
[226] *Ibid* at Section 427.
[227] *Ibid* atS 425 (1)

priority of a bank's right on the security interest. Before the amendment, a bank had priority over any other rights of any third party on the secured property. However, such wording did not mention the situation of other rights acquired on the secured interest, and nothing in the legislation stipulated how to deal with such secured interest and how to deal with such interest if it was not perfected. The case *Bank of Montreal v. Innovation Credit Union*[228] raised the issue of priority dispute between the security interest accorded by the PPSA and that accorded by the *Bank Act*, and the court granted a priority right to the PPSA security over the *Bank Act* security. In this case the competition was between the unperfected prior PPSA security and a later *Bank Act* security. The court held that the non-perfection of the PPSA security interest does not lead to the subordination of said security under the *Bank Act* security.[229] The court highlighted that the criteria of determining the priority of security are based on the *Bank Act* priority rules.[230] These rules also stipulated that the bank cannot acquire greater interest in the collateral than the debtor. In addition, the court emphasized the common-law principal *nemo dat*, which ranks the security according to the date and time of its creation. A similar case, *Royal Bank of Canada v. Radius Credit Union Ltd.*,[231] also examined priority rights on security interest in after-acquired property by Radius Credit Union, and in parallel the same assets were used as collateral to the bank according to the *Bank Act*. The court held that both the bank and the credit union held incomplete security interests.[232]

However, the new amendment stipulated that the bank's right of priority over any other

[228] *Bank of Montreal v. Innovation Credit Union*, 2009 CanLII 44635 (SCC), online: http://canlii.ca/t/25brm.
[229] Roderick J. Wood, "Bank Act - PPSA Interactions: Still Waiting for Solutions" (2012) 52 Can. Bus. L.J. 248.
[230] *Ibid.*
[231] *Royal Bank of Canada v. Radius Credit Union Ltd.*, 2010 SCC 48 (CanLII), [2010] 3 SCR 38, http://canlii.ca/t/2d7k9.
[232] *Ibid.*

third party's rights on the secured property, including "*any person who has a security interest in that property*," is subject to the fulfillment of two conditions:

a) The security was unperfected at the time the bank acquired its security in the property.[233]

b) The bank was not aware of such unperfected security at the time the bank acquired its security.[234]

Therefore, we may conclude that the rules stipulated in the two cases of *Bank of Montreal v. Innovation Credit Union* and *Royal Bank of Canada v. Radius Credit Union Ltd.* are now not applicable, as in the first case the priority of the unperfected security of Innovation Credit Union was of high importance, although the security of the Bank of Montreal was registered and perfected according to the rules applied then under the *Bank Act*. Thus, if the latest amendments to the *Bank Act* were applicable before the issuance of this judgment, then it was most likely to favour the Bank of Montreal, subject to the fulfillment of the two conditions stated above. The second case is somewhat different, as the Royal Bank of Canada was granted the security in all the present properties and those acquired after, while the security interest of Radius Credit Union was prior to the bank's security and was unperfected. In fact, the judgment of Supreme Court of Canada was a motive for the call for legislative reform that resulted in the above-mentioned amendments.[235]

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[233] Canadian *Bank Act*, *supra* note135 S 428 (1) - 2012, c.5, s. 38

[234] Canadian *Bank Act*, *supra* note 109 at c.5, s. 38.

[235] Stephen J. Redican & Jenna Grant, "Canada: New Bank Act Amendments Alter Security Interest Priorities Between Federal Bank Act Security and Unperfected PPSA and Other Security Interests" (April 2012), BLG, online:<http://www.mondaq.com/canada/x/173980/Financial+Services/New+Bank+Act+Amendments+Alter+Security+Interest+Priorities+Between+Federal+Bank+Act+Security+and+Unperfected+PPSA+and+Other+Security+Interests>.

The new definition of *unperfected security* in the new amendment states that "*the security interest has not been registered in a public register maintained under the law under which the security interest is created.*"[236] If this rule is applied to security interests in trademarks in Canada, we will find that perfection as per the PPSA will be sufficient. However, in my opinion this must be changed because the core function of perfection is to appear in a public register accessible by concerned parties. There is no requirement of registration in the trademark office register. However, even if security interests in trademarks are registered in the trademark register that will still not be the end of the problem as the issue of dual security registration will remain. The best practice to solve the current problem is to have a one-stop shop. This will be discussed in Chapter Four of my dissertation.

The *Bank Act* as the regulatory framework governing the banking industry at the federal level regulates, among other things, security interests. However, it is applicable when the creditor is a federal bank. Therefore, the *Bank Act* could be applied on any security interests where credit unions or non-bank entities are creditors. Thus, federal banks are eligible to create security according to the *Bank Act* or to the provincial PPSA or CCQ. In some cases, federal banks create security interests on a certain asset according to both the *Bank Act* and PPSA, which is known as the "Dual Documentation Issue".[237] In respect of security interests in trademarks, there is nothing in the *Bank Act* that would prevent accepting trademarks as a security. Hence, creation of security interests in trademarks according to the *Bank Act* will be a right for federal banks alone. This means that other creditors, whether credit unions or any other sort of lender, will remain subject to provincial PPSAs. In my view, with the lack of any

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[236] Canadian *Bank Act*, *supra* note 135 at C. 46. definitions.
[237] Wood, *supra* note 230.

registration of security interests in trademarks in CIPO's trademark registers, this could increase the ambiguity and uncertainty in the legal framework governing security interests in trademarks. Therefore, in my opinion, as a general rule, any proposed federal legislation to regulate security interests in trademarks must ensure that it is applicable to any creditor. In other words, any changes in the current legal framework governing the creation and perfection of security interests in trademarks must simplify and increase consistency and confidence in the whole process.

2.3.5 Recent Developments in Canadian Trademarks Regulation and Policy

In the last few years there have been significant developments in Canadian regulatory and policy frameworks related to trademarks and IP awareness and knowledge. In the following section I highlight the main developments in these frameworks.

2.3.5.1 Developments in the Canadian Trademark Regulatory Framework

Starting in June 2019, recent changes in the legal framework of trademarks came into force; this includes the Madrid Protocol, the Singapore Treaty and the Nice Agreement.

A- The Madrid Protocol

The implementation of the Madrid protocol in the Canadian trademark legal framework will have a positive impact on Canadian businesses. When the Madrid Protocol comes into force the applicant will be able to apply for international trademark registration at the national office (Canada). Upon the request of the applicant the national trademark office (CIPO) shall forward the application to the International Bureau (IB). The IB administers the application and forwards it to the states designated by the applicant.[238] The national IP offices of the designated states review international applications and send their decision to the IB within 12 to 18 months.[239]

One of the most important issues from a law and economics perspective is the economic return, which includes the cost efficiency of any process. In many cases, if the cost of registration is relatively high compared to the economic return, businesses could refrain or even postpone any possible plans to register their IP rights in general and trademarks in particular. Therefore, the willingness of businesses to have their trademarks registered in other countries could be negatively affected if the cost of international registrations is high. According to the Madrid Protocol, international registration will be significantly less costly than non-Madrid protocol registrations in each country separately, if the number of designated countries is high, and especially because the non-Madrid protocol registration is based on dealing with local trademark agents to file trademark applications in the designated states. The registration of international trademarks—according to the Madrid Protocol—will save an integral part of the registration costs. This will take place through filing one international trademark application and payment of the relevant WIPO fees according to the number of designated states. In addition, the application will be in one language, which means that there are no translation fees for the applicant's documents, goods and services. Also, the applicant will not pay fees to legalize any document up to the designated state's consulate.

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238 Charlotte Waelde et al., *Contemporary Intellectual Property, Law and Policy*, 3rd ed (Oxford University Press, 2014) at Part V, Registered Trade Marks 13.53, p.568.

239 "Proposed Amendments to the Trade-marks Regulations (Part 2), Innovation, Science and Economic Development Canada" (Video), online: <https://www.youtube.com/watch?v=IjLKrSVHni0&feature=youtu.be>.

On another level, simplification of the international registration process and the reduced cost will encourage Canadian businesses to grow their business in many countries. Also, the Madrid Protocol will enable the international trademark owner to register the license agreements granted to international licensees and can determine the limits of the license for products and services in addition to the geographic limits of this licensee.

I. The Legal Impact of the Madrid Protocol

The first and most important legal impact of the Madrid Protocol is the international protection of trademarks. This means that within 12 to18 months of filing the applicant receives legal protection in the designated states, unless refused by any of these states. Also, the applicant will have proof of all her registrations in one document. And the trademarks are renewable for further periods of ten years.[240]

II. Security Interests in International Trademarks According to the Madrid System

The Madrid System stipulates clear rules and procedures that govern security interests in trademarks. Upon implementation of the Madrid System in Canada international trademark owners will be able to create security interests in trademarks to finance their business. These rules will enable recording of security interests in trademarks in the international trademark file. Hence, According to Rule 20 of the Madrid Protocol common regulations:[241]

Rule 20 - Restriction of the Holder's Right of Disposal

[240] Article 6(1) Madrid Protocol.

[241] Common Regulations under the Madrid Agreement Concerning the International Registration of Marks and the Protocol Relating to that Agreement (as in force on July 1, 2017), World Intellectual Property Organization (WIPO), online <https://wipolex.wipo.int/en/text/442735>.

> (1) *[Communication of Information] (a) The holder of an international registration or the Office of the Contracting Party of the holder may inform the International Bureau that the holder's right to dispose of the international registration has been restricted and, if appropriate, indicate the Contracting Parties concerned.*

These procedures are not limited only to registration or annotation of security interests in trademarks. They are extended to restrict trademark owners from disposing of the secured trademark. This means that CIPO will inform the IB with the MM19(E) form that the owner of the international trademark registration will be restricted from disposing the secured trademark.[242] In the MM19 (E) form sent to the IB, CIPO will indicate the designated countries where the restriction will be applied. On the other hand, if Canada is a designated country in an international registration that is subject to security interest, CIPO shall apply the restriction of the holder's right on the trademark in question. This means that no assignment or any action can take place on the secured trademarks without the prior approval of the creditor.

It is important to highlight that the wording of the above-mentioned rule states that the holder "may" inform the IB of the security in question. The use of the word "may" shows that informing the IB of the security interests is optional for the right holder. In my view, if this process were to be a requirement and not optional, the validity of the security could be affected in cases where the right holder fails to notify the IB. However, in practice creditors usually require the registration of the security interests as a condition of any loan disbursement.

As examined above, Canada does not have a record for security interests in trademarks as it is optional for the concerned parties to annotate security interests in CIPO's records. In addition, registration of security interests in trademarks takes place according to provincial

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[242] Request For The Recording Of a Restriction of The Holder's Right of Disposal, Form MM19(E), online: WIPO <https://www.wipo.int/export/sites/www/madrid/en/forms/docs/form_mm19.pdf>.

laws.

B- The Singapore Treaty

The Singapore Treaty was concluded in 2006 and entered into force in 2009. The main objective of the treaty is to build a modern international legal framework that governs the administrative process of international trademark registrations.[243] The Singapore Treaty is based on the 1994 Trademark Law Treaty (TLT) but with a wider and more developed scope that includes the technological means of filing and communication in the contracting parties' trademark offices.[244]

Also, the Singapore Treaty provides rules that facilitate the governance of trademark licensing. These new rules represent the maximum requirements for the recording, cancellation or amendment of a license agreement.[245] In addition, the treaty enables the registration of multi-class trademark applications, which means that an applicant can apply for different goods and services of different classes in the same application.[246] Furthermore, the treaty provides a relief mechanism to remedy failure to comply with deadlines for actions or procedures.[247]

The Singapore Treaty applies to applications of non-traditional trademarks such as 3D

[243] Singapore Treaty on the Law of Trademarks, online: <https://www.lexology.com/library/detail.aspx?g=95fa954a-6820-46ca-bc66-faa9c872e18f>.
[244] Summary of the Singapore Treaty on the Law of Trademarks (2006), online: <http://www.wipo.int/treaties/en/ip/singapore/summary_singapore.html>.
[245] *Ibid*.
[246] Singapore Treaty on the Law of Trademarks, *supra* note 243 at Article 6.
[247] *Ibid* at Article 14.

designs, holograms, colours, or motion trademarks. It likewise applies on non-visible trademarks like sounds, taste and feel marks.[248]

2.3.6 Recent Changes in Canadian IP Policy

In the Canadian context, the IP legal and policy frameworks are under development. This is evident in the many changes made to existing legal frameworks governing IP assets in Canada and in the relevant policies.

The Canadian intellectual property office's current policy focuses on promoting and supporting innovations. They are offering intensive training and knowledge-building seminars and workshops. These events focus on IP knowledge as a whole or entail more specialized sessions related to trademarks, patents or copyright changes. For example, they offer information sessions open to the public to explain the newest amendments to the Canadian *Trademarks Act*, especially the implications of the Madrid Protocol.[249]

In August 2018, CIPO announced the update of their IP examination manuals to facilitate access for all concerned parties to the new rules and the exact procedures for IP protection. They published two main beta versions of the manuals for trademarks and patents.[250]

It is worth highlighting that in December 2018, CIPO announced the launch of Canada

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[248] Summary of the Singapore Treaty on the Law of Trademarks, *supra* note 244.
[249] CIPO events, online: <https://www.ic.gc.ca/app/scr/crmsri/CIPO/events/?lang=eng&open&wt_src=TMNews-2019-02-14>.
[250] Trademarks examination manual - Beta version, online: <https://manuels-manuals.opic-cipo.gc.ca/w/ic/TM-en#!fragment/zoupio-_Toc520981808/BQCwhgziBcwMYgK4DsDWszIQewE4BUBTADwBdoAvbRABwEtsBaAfX2zgFYAmABgE4AHAEYBPAQEoANMmylCEAIqJCuAJ7QA5BskQ4ubABsDAYSRpoAQmQ7CYXAiUr1Wm3YQBlPKQBC6gEoAogAyAQBqAIIAcsYBkqRgAEbQpOzi4kA>.

IP hub, an online platform that focuses on increasing IP awareness and knowledge in the business community.[251] This platform helps businesses on different aspects of IP, starting with learning to create, protect and finally to grow their business. Under each of these aspects there are various subtitles with a lot of details and information to help small businesses. However, there is no reference to the possibility of capitalizing IP assets in Canada.

It is clear that CIPO is developing policies related to IP protection in Canada. However, there are still some modifications to the policies and regulations that could add value to the legal and policy frameworks governing IP in Canada. This is discussed in more detail in Chapters Three and Four below.

2.3.7 The Intellectual Property Security Act (IPSA)

In the early 2000s there was a huge effort to enact a kind of unified act to govern security interests in intellectual property in Canada under the name of the *Intellectual Property Security Act* (IPSA). The Canadian Bar Association (CBA) was involved in this project, and many IP scholars and lawyers in Canada participated in the related meetings and discussions.[252]

Hence, and as discussed in Chapter Four below, the idea of having a unified federal law in Canada, the IPSA, that governs security interests in IP assets, seems to be the magic solution from a theoretical point of view. However, from a practical point of view this could raise many constitutional conflicts. Basically, whether the security interest is federal or provincial is not the main barrier to promoting capitalization of trademarks in Canadian markets. There are other alternatives that could be used to overcome the dual filing problem, such as

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[251] IP HUB, online: <http://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/h_wr04406.html>.
[252] Fuhrer & Boune, *supra* note 131 at 227-246.

using technology to create a system that automatically notifies CIPO upon registration of security interests in trademarks by provincial authorities. Therefore, there could be valid justifications that discussions regarding the unified security interest act in Canada did not complete. Hence, there must be other tools and programs that could be used to promote the capitalization of IP assets.

2.3.8 Legal Framework of Security Interests in Trademarks in United States of America

Canada is often influenced by the U.S. legal system.[253] And so it is common to find similarities between the two jurisdictions. The legal framework regulating security interests in trademarks in the United States is similar to the Canadian legal framework. Like the *Trademarks Act* in Canada, in the United States the federal *Lanham Act*[254] regulates everything to do with the federal registration of trademarks, including all related required procedures. Analogous to the provincial legislation in Canada, the PPSA, Article 9 of the UCC is state legislation. However, while to a certain extent there may be confusion between the PPSA and the *Bank Act* in Canada, that confusion does not exist in the U.S. legal framework as Article 9 of the UCC is the main legal framework regulating security interests.

One of the main distinctions between trademarks and patents or copyright is that the patent is linked only to the original invention, the copyright is related only to the relevant work, and the trademark exists only with a commercial activity.[255] The U.S. Constitution includes provisions for patents and copyrights, but not for trademarks. The first trademark laws

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[253] Clark, *supra* note 146.
[254] *Lanham (Trademark) Act* (15 U.S.C.), Executive Summary, online: <http://www.bitlaw.com/source/15usc>.
[255] Dornbos, *supra* note 18 at 687.

in the United States were enacted in 1870 and 1876. The U.S. Supreme Court declared these statutes to be unconstitutional, arguing that Congress had no power to regulate trademark rights at the federal level as it is considered purely a state issue.[256] However, in 1881 and 1905 Congress passed new statutes that regulate interstate trademarks. The *Lanham Act* of 1946 is the most recent revision of federal trademark laws. Thus, the role of federal trademark legislation in the United States is to regulate and provide a system for registration in addition to providing borders within which common law can be enforced at the federal level.[257] Therefore, the prior interstate use of a trademark is a prerequisite for federal trademark registration.

The next section of this chapter examines the legal framework regulating security interests in trademarks in the United States. This review will cover the two main essential legal frameworks, the *Lanham Act*[258] and art. 9 of the Uniform Commercial Code.

2.3.8.1 The **Lanham Act**

The *Lanham Act* regulates trademarks at the federal level in the United States. Other laws govern trademarks at the state level.[259] However, this current study will focus mainly on the *Lanham Act* and will not look in depth at the debate between the federal and state trademark laws. The *Lanham Act* does not have a clear provision that covers security interests in trademarks. Article 1060, Assignment,[260] states that:

> *A registered mark or a mark for which an application to register has been filed shall be assignable with the good will of the business in which the mark is used, or with that part of the good will of the business connected with the use of and symbolized by the*

[256] *Ibid.*
[257] This is not the case in Canada. In Canada the *Trademark Act* at the federal level regulates all aspects of trademarks.
[258] *Lanham (Trademark) Act*, *supra* note 255.
[259] State Trademark Information Links, online: <https://www.uspto.gov/trademarks-getting-started/process-overview/state-trademark-information-links>.
[260] *Lanham (Trademark) Act*, *supra* note 255 at section 1060.

mark.

This means that the *Lanham Act* stipulates that the assignment of trademarks shall take place accompanied with the goodwill attached to the said business or even the part of the goodwill related to the assigned trademark. It is worth noting that this is contrary to the Canadian legal framework which allows the assignment of trademarks with or without the associated goodwill as discussed above. The assignment of a trademark in the United States shall be recorded in the USPTO within three months of the assignment date. Failure to record the assignment within three months will result in the assignment considered void as against any subsequent purchaser for a valuable consideration without notice. Meanwhile, as the court explained in *In re Roman Cleanser Co.*,[261] security interests in trademarks and the *Lanham Act* is only limited to assignment of ownership of trademarks; nothing prevents having security interests in trademarks according to Article 9 of the UCC.[262]

Section 1060 is the only section in the *Lanham Act* that is considered as a tool that could be adopted to create security interests in trademarks. This is because creditors used the assignment agreement of trademarks as a tool to perfect a security interests in the trademark; in the case of non-payment of the debt due, the creditor can use the assignment agreement to sell the secured trademark.[263] Also, a closer examination of the trademark system reveals that Article 7.24 of the U.S. trademark law rules of practice[264] states only the legal basis and the

[261] 802 F.2d 207 (6th Cir. 1986).
[262] See also In *re Roman Cleanser Co.* and In re 199Z, Inc.
[263] Xuan-Thao Nguyen, "Security interest in intellectual property and licenses and article 9" (May 2003) the Licensing Journal, Security interests in trademarks, page 11.
[264] 37 Code of Federal Regulations (CFR) 7.24 - Requests to record security interest or other restriction of holder's rights of disposal or release of such restriction submitted through the Office, online: <http://www.uspto.gov/trademarks/law/tmlaw.pdf>.

terms and conditions that regulate the registration of security interests in international trademark registrations. However, it does not mention any procedures in respect of the registration or perfection of security interests in U.S. trademarks.

Therefore, from the reading of Article 1060 of the *Lanham Act,* it appears that assignment of trademarks can take place. It is worth mentioning that if security interests in trademarks takes place in the form of assignment, the lender will be in the position of having several forms of responsibilities as maintaining the distinctiveness of the trademark as well as trademark infringement proceedings. The lender could even be liable in an infringement action.[265] Also, the lender must continue using the trademark. If the trademark is assigned to the lender, this will negatively affect the exclusivity of the trademark owner and accordingly the value of the trademark. This explains why in many cases the creditor's legal advisor has recommended that the creditor avoid security interests in trademarks in the form of assignment.

In the case of *Trimarchi v. Together Development Corp.*,[266] as well as the federal bankruptcy case regarding the sale of Pan American Airways trademarks to Eclipse Holdings, Inc.,[267] the courts decided to consider the sale of the trademark as independent from its goodwill.[268] In the Pan Am case, on December 20, 1993, after the original Pan Am bankruptcy proceedings, the trademarks owned by Pan Am were transferred to Eclipse Holdings, Inc. ("Eclipse"), for a price of $1,325,000. On December 20, 1993, the trademarks were transferred to Cobb Partners, Inc. ("Cobb"). On December 29, 1993, Cobb and Eclipse entered into an agreement with a new PAN AM corporation ("the Plaintiff") which started operating airline

[265] Nguyen, *supra* note 264.
[266] *Trimarchi v. Together Development Corp*. (2000) 255 B.R. 606.
[267] *Pan American World Airways, Inc. v. Flight 001, Inc*., (S.D.N.Y. Jul. 13, 2007) 06 Civ. 14442 (CSH).
[268] Nguyen, *supra* note 264.

and aviation services under the name PAN AM. However, the new PAN AM filed for bankruptcy in February 1998 and became a subsidiary of Pan Am Systems, Inc. ("Pan Am Systems"), which was formerly known as Guilford Transportation Industries, Inc. Flight 001 is a company that sells travel-related products. As a sign of good faith Flight 001 decided to cease selling any products bearing the logo or name of Pan Am. However, the Plaintiff claimed Flight 001 infringed their trademarks. Flight 001 as the defendant argued that there are no grounds for trademark infringement for several reasons. The most important argument was that "*any such transfer* [of ownership] *was invalid because the original Pan Am's goodwill did not actually pass to the plaintiff.*"[269] The court stated that:

> The Second Circuit has held that 'a trademark cannot be sold or assigned apart from the goodwill it symbolizes.' *Marshak v. Green,* 746 F.2d 927, 929 (2d Cir. 1984). 'Use of the mark by the assignee in connection with a different goodwill and different product would result in a fraud on the purchasing public who reasonably assume that the mark signifies the same thing, whether used by one person or another.' *Id.* Therefore, the sale of a trademark divorced from its goodwill is an invalid 'assignment in gross.'[270]

These court decisions facilitate the process of security interests in trademarks. This happened by granting an adequate level of flexibility to assign trademarks independently from their associated goodwill subject to certain criteria.

Some professionals, especially in the banking and finance industries, believe that the sale of a trademark independently from the associated business goodwill will lead to a reduction in its value. However, and as will be discussed later in this chapter, there are many methods of trademark valuation which facilitate the process of calculating the value of a trademark and enable the valuator to determine the value of the trademark with or without the business

[269] *Ibid.*
[270] *Ibid.*

goodwill. These methods rely on different grounds as the income and cost of replacement.

The most efficient method to perfect a security interest in trademarks in the United States is stated in the case *Re Roman Cleanser Co.*[271]: The perfection of the security interest shall not be subject to the *Lanham Act* and there is a major technical difference between the assignment and the security interest. This is especially the case because the assignment of the trademark focuses on the transfer of trademark ownership subject to failure of the debtor to repay the debt. While on the other side it fails to achieve the fundamental principles of security—attachment and perfection. The duly perfected security interests in a trademark will provide the creditor with a reasonable level of protection against third parties. It is also worth noting that it is important to ensure the proper registration of security interests with the United States Patent and Trademark Office (USPTO) in order to prevent any possible legal claims related to the secured trademark by third parties.[272] This is clearly evidenced in *Re Chattanooga Choo-Choo Company, Debtor*,[273] which stipulates that the improper perfection of security interests in trademarks may lead to losing priority thereon. While in *Joseph v. Valencia, Inc.*[274] the imperfection of security interests of trademarks leads to a denial to create a right attached to an asset.[275] Accordingly, this necessitates moving to the next level to check how Article 9 of the UCC*,* as a state law, deals with security interests in trademarks.

2.3.8.2 Article 9 of the Uniform Commercial Code

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[271] 802 F.2d 207.

[272] Christina Lui, "Navigating through the Legal Minefield of State and Federal Filing for Perfecting Security Interests in Intellectual Property" (2011) 51(2) Santa Clara Law Review 724. See also Trimarchi, 255 B.R. at 610-11; In re 199Z, Inc., (Bankr. C.D. Cal. 1992)137 B.R. 778, 782 .

[273] In re Chattanooga Choo-Choo Co., 98 B.R. 792, 1989 Bankr. LEXIS 2137, 8 UCC Rep. Serv. 2d (CBC) 795 (Bankr. E.D. Tenn. 1989).

[274] *Joseph v. Valencia, Inc*. (In re 199Z, Inc.), 137 B.R. 778.

[275] Deborah Schavey Ruff, Mayer, Brown, Rowe & Maw LLP, Security Interests In Patents And Trademarks, (August 2003), page 2 <http://www.securitization.net/pdf/Ruff_Schavey_Security_Interests.pdf/>.

The UCC is a model law adopted in all 50 states to replace the diverse state laws and to minimize variations between them, similar to the PPSA in Canada. Neither the Canadian nor the U.S. legal frameworks provide the full remedy for the issue of security interests in trademarks. It seems that the U.S. legal framework provides a situation that is much more organized than that applied in Canada. Security interest is governed by UCC article 9, which stipulates the procedures governing the security interest in each type of collateralized property.[276] Trademarks fall under the definition of General Intangible as may be noticed in article 109(a)(1): *"Except as otherwise provided in Subsection (c) and (d), this Article applies to: (1) a transaction, regardless of its form, that creates a security interest in personal property or fixtures by contract."*[277]

More specifically, the interpretation of the term "General Intangible" under Section 9-102(42) of the UCC is defined as

> *any personal property, including things in action, other than accounts, chattel paper, commercial tort claims, deposit accounts, documents, goods, instruments, investment property, letter of credit rights, money and oil, gas, or other minerals before extraction. The terms include payment intangibles and software.*[278]

The analysis of this definition shows that it falls short of clearly assigning intellectual property rights as part of General Intangible. However, the official UCC notes state the following:

> The term '**general intangible**' brings under this Article miscellaneous types of contractual rights and other personal property which are used or may become customarily used as commercial security. Examples are goodwill, liter-

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[276] Valerie Brennan, Hogan & Hart, son LLP, McLean, Virginia, USA , & Carmel Corcoran, Maguire Boss, Cambridge, United Kingdom , Obtaining a Security Interest in a Trademark: Comparison Under US and UK Practice, Reprinted with permission from: INTA Bulletin , Vol. 62, No. 23 – December 15, 2007 Copyright © 2007 the International Trademark Association, online: <http://www.hoganlovells.com/files/Publication/55a18399-c653-4479-a9ac-829a09596d7e/Preview/PublicationAttachment/9d2ee76f-292a-4c92-a304-ba50dbbbf10d/Brennan.pdf>.
[277] UCC Article 9, Secured transaction, § 9-109. SCOPE, online: <http://www.law.cornell.edu/UCC/9/9-109>.
[278] *Ibid* at Definitions, § 9- 102 (42).

> ary rights and rights to performance. Other examples are copyrights, trademarks and patents, except to the extent that they may be excluded by Section 9-104(a)….[279]

According to the case *Re C. C. & Co., Inc., Debtor*, the trade name and the trademark are considered as part of the general intangibles, which are part of the personal property.[280] It is worth noting that UCC Section 9-311 states an important rule: the collateralized assets may be transferred by way of sale, even if the security agreement states otherwise and regardless of the consent of the debtor.[281] In fact, it is the right of the creditor to sell the collateralized asset, and nothing prohibits such a sale if the debtor fails to perform his obligations. Such sale shall be valid even if the debtor does not agree to the sale and even if the security agreement contained a contradicting clause.

The main elements of the security interest are attachment and perfection. The attachment occurs on signing the deed of security, thereby reflecting the relationship between the borrower and the lender. This deed affirms that the borrower provides the security in return for specific indebtedness. While the perfection can be fulfilled by filing a UCC-1 financial statement,[282] that undertaking is not a prerequisite for perfection of the security interest; there are other procedures for perfection of security interests.[283] The perfection of security interests in trademarks can take place through registration at the state office, however, if the registration

[279] K.S.A. § 84-9-106.
[280] In re C.C. & Co., 86 B.R. 485 (Bankr. E.D. Va. 1988).
[281] Nguyen, *supra* note 264 at 12.
[282] Evelyn M. Sommer, "Perfecting security interest in intellectual property" (May, 2003) 23(5) The Licensing Journal, 36.
[283] Schavey Ruff et al., *supra* note 276 at 2.

took place independently before the USPTO, it will not be considered a perfection of the security interest. This is the case in *Trimarchi v. Together Development Corp.*,[284] where the creditor failed to register the security interest in a trademark by filing a financial statement before the state office. Since the creditor only registered the security before the USPTO, it was considered that the security in question did not exist. Unlike the process in Canada, as noted above, the attachment of security interest as per the UCC did not require a certain law to govern the attachment. In other words, the law of attachment is not the law of the domicile of the debtor's CEO as in Canada, but it is governed by the agreed upon terms and conditions between parties.[285]

In 2006, empirical research revealed that of the 4,790 registrations in the USPTO of security interests in trademarks, 15% failed to register their trademark security according to the UCC in the state office.[286] The best practice to ensure that the security appears in both the records of the USPTO and the UCC is to submit a financial statement before the state office and by registering before the USPTO.

In the United States the perfection of security interests in trademarks is governed by two systems, the UCC system for the registration of the security and the USPTO system for the registration attached to the trademark file.[287] The security filing system in the United States is very confusing and causes a high level of legal uncertainty about the validity of the security interest for lenders and owners of trademarks. Usually lenders have a dual filing of their security to ensure that it is perfected legitimately. The problems with dual filing are that the

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[284] *Trimarchi v. Together Development Corp.*, 255 B.R. 606 (D. Mass. 2000).
[285] Hatzikiriakos, *supra* note 50 at 32. See also, C. Cooper, The New Article 9 Uniform Commercial Code, 2nd ed. (American Bar Association, section of business law, 2004) at revised 9-301 official comment 2.
[286] 49 IDEA 197 2008-2009.
[287] *Ibid.*

process becomes complicated and the cost of the security process is increased. Consequently, this will be reflected in the whole lending process and will lead to increased lending costs. In my opinion, one of the main motives to use trademarks as collateral is to decrease the cost of lending. The ideal model is that security interests in trademarks provides an alternative to unsecured lending, especially in cases where the debtor's main assets are intangibles. This increase in the transaction cost will result in decreasing the benefits of security interests in trademarks. Also, dual filing may sometimes cause confusion with the proper way to perfect security, which will lead to security interests in trademarks being considered unperfected securities. In other words, creditors will be considered unsecured.

After exploring both the *Lanham Act* and UCC Article 9, there are other issues that must be taken into consideration before proceeding with security interests in trademarks. One of the main issues is that in many cases such security may take place in the form of assignment. However, the meaning of assignment and its consequences differ between the *Lanham Act* and the UCC. Specifically, the *Lanham Act* deals with the assignment as a transfer of title rather than as a contingent right, whereas the UCC deals with the security as a contingent right. In other words, if a lender accepts a trademark owned by one of his clients as security, the main target of the security interest from the lender's point of view is to have direct recourse to the collateralized trademark in case of a failure of the debtor to pay, i.e., contingent right.[288] In contrast, according to Article 1060 of the *Lanham Act*, the assignment is typically a transfer of title. As a result, registration of the assignment in the USPTO in the name of the lender, meant to be registration of the security interest, will be considered to be a transfer of ownership

[288] Schavey Ruff et al., *supra* note 268.

of the secured trademark.

Consequently, lenders in most cases apply one of two options: 1) the collateral assignment or 2) the contingent assignment. The collateral assignment is based on the USPTO registration of the assignment in the name of the lender and then returned to the borrower after fulfilling all of his obligations, including payment of the debts due, whereas the contingent assignment is based on the execution of the assignment in case of default of the borrower to pay his debts. The collateral assignment is based on the transfer of ownership to the lender, and since the lender may not have sufficient ability to manage the secured trademark, he will license the borrower to use the secured trademark. This is high risk in that the *Lanham Act* stipulates certain responsibilities for the licensor of a trademark, including especially that the licensor must have control over the quality of the good or services produced under the licensed trademark.[289] In many cases the lenders do not have enough experience to control the licensed trademark, and this may lead to the abandonment of the secured licensed trademark.[290]

Option 2, the conditional assignment, is problematic as a method of perfection of security interest. With this method, the assignment will be affected only in the case of default by the borrower of one of his due obligations such as failure to pay the debts due. Prior to default by the borrower, the lender would not have any control of the secured trademark except for the contractual obligation stated in the deed of assignment. In other words, in the event of default by the borrower, the lender will take further steps to execute the assignment before the USPTO. The lender, therefore, remains without security until the execution of the assignment;

[289] *Dawn Donut & Co. v. Hart's Food Stores, Inc*. 267 F.2d 358 (2d Cir. 1959), and J. Thomas McCarthy, "Trademarks and Unfair Competition" 2nd ed. (Rochester, N.Y.: Lawyers Co-operative Publishing, 1984), §18:42 (2001).
[290] *Haymaker Sports, Inc. v Turian,* 581 F.2d 257 (1978).

this is very high risk, and the lender may find himself with no security at all. In other words, the conditional assignment does not have the same legal effect as security interests. It lacks two fundamental basics of security interests, i.e., attachment and perfection. The conditional assignment does not provide a pre-default remedy and does not create seniority on the secured assets. Therefore, any security holder could have priority on the secured trademark before the conditional assignment holder.

I conclude the following:

1) The *Lanham Act* as a federal law does not state any particular rules regulating security interest in trademarks.
2) Security interests in trademarks in the United States take place according to the regulations stated in Article 9 of the UCC, meaning that if the assignment of the security interest is registered only before the USPTO, it will not be considered to exist. Therefore, it is highly recommended, and common practice, to have dual registration of the security interest with both the UCC at the state level and before the USPTO at the federal level, i.e., dual filing.

It must be stated in the security agreement that the borrower owning the secured trademark must keep the registration of the trademark valid; however, the lender must always be able to renew the registration.

2.3.9 Valuation as one of the Common Non-Legal Barriers to Security Interests in Trademarks

Although valuation is not a legal issue and tends to be more of a financial and economic tool, it is a fundamental pillar of the monetization of trademarks. It is important for all concerned parties, whether trademark owner or lender, to know the exact financial value of the trademark before deciding to proceed with the process of creating a security interest. For the trademark owner, it is important to know whether their trademark is worth enough to be presented as a security to a lender. And on the other side, lenders will not accept the trademark as collateral unless it receives proper valuation.

In the dictionary the word "monetization" is defined as converting something into or expressing something in the form of currency.[291] Older definitions would explain monetizing as to legalize as money or to coin gold into money. This is similar to the current economic and financial understanding and application of monetization, which is mainly to "to utilize (something of value) as a source of profit, or to convert an asset into money or a legal tender."[292] Utilization of intellectual property assets in general as a source of profit can take place in different forms: as sales, licensing and security interests. Hence, the utilization of trademarks as a source of profit requires having a solid paradigm for their valuation. The importance of this system is that it will facilitate determining the value of the asset, which will be a main pillar in negotiating any business arrangement related to this asset.[293] The valuation of intellectual property assets in general relies more on the uses, benefits and the projected revenues that might be generated from this asset.[294] It is important to highlight that legal protection affects the value of intellectual property assets. This means that if intangible assets do not qualify for legal protection, their value could be negatively affected.[295]

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[291] Smith, Gordon V. & Vladimir Yossifov, *Monetization of Copyright Assets by Creative Enterprises*. Creative industries – No. 7, World Intellectual Property Organization (WIPO), (August 2013) online: WIPO <https://www.wipo.int/edocs/pubdocs/en/copyright/955/wipo_pub_955.pdf.

[292] *Ibid*.

[293] *Ibid*.

[294] *Ibid*.

[295] *Ibid.*

The value of any IP asset mainly evolves from the exclusive and monopoly rights granted to the owner.[296] In fact, the valuation of IP assets in general could be an essential step required to achieve other purposes. These purposes could be:

1- Merger and acquisition transactions, where the valuation of the IP asset will be included as part of the due diligence conducted by the IP owner to realize the market value of the company.[297]
2- Licensing agreements, where the IP assets should be valuated and entered into a financial module to better determine the licensing fees and any other royalties or payments.[298]
3- Financial reporting valuation of IP assets is now one of the requirements for financial reporting, this includes the reporting of valuation, amortization and goodwill values of intangible assets.
4- Litigation. The valuation of IP assets could be required as part of a litigation process to determine the value of damage occurred from infringement of IP assets.[299]
5- Bankruptcy. A bankruptcy court could request the valuation of all IP assets owned by the bankrupt company to better determine the consolidated value of all assets owned by the company vs the outstanding debts.[300]

296 Denoncourt, *Supra* note 57,
297 Paul Flignor and David Orozco, *i*ntangible Asset & Intellectual Property Valuation: A Multidisciplinary Perspective, https://www.wipo.int/sme/en/documents/ip_valuation_fulltext.html
298 *Ibid*
299 *Ibid*
300 *Ibid*

6- Taxation. The value of IP assets and especially trademarks and their associated good-will could now be part of tax requirement especially if associated with licensing to third parties.[301]

7- Financing and securitization. As investigated in this dissertation, one of the main pre-requisites of capitalizing IP is the proper valuation of these assets. This includes classic lending by financial institutions, factoring and securitization.[302]

From the above, it is clear that the valuation of IP is not an uncommon request but it tends to be an essential step that must be accomplished by business owners at many stages of the business.

The valuation of IP assets could intersect with other tangible assets in many ways, so both tangible and intangible assets (IP assets) do not generate profit by themselves but need to be commercially exploited in the market to provide a profit. In other words, there are some risks associated with the use of trademarks as a security. One of the most common problems as explored before is the risk of the trademark invalidity. The grounds of invalidity include 1) the trademark is not registerable which is covered by paragraph 18(1) (a) of the *Trade-marks Act* , b) trademark is not distinctive as per stated in paragraph 18(1)(b) of the *Trade-marks Act* and c) trademark is abandoned as per paragraph 18(1)(c) of the *Trade-marks Act.*[303]

In addition there is the risk of depreciation of the trademark goodwill.[304] The grounds of this issue could be found in subsection 22(1) of the *Trade-marks Act* which stated that no one

301 *Ibid*
302 *Ibid*
303 Scassa, *supra* note 135, Chapter 6- Trademark Invalidity
304 Goudreau, Mistrale. "Chapter 4. Trademarks." *International Encyclopaedia for Intellectual Property*. The Netherlands: Kluwer Law International BV, 2012. 96–124. Web.

can use others trademarks in a way that could lead to depreciation of the value of its good-will.[305] The Supreme Court of Canada in the case *Veuve Clicquot Ponsardin v. Boutiques Cliquot Ltée,* stipulated four principals for the depreciation claims.[306]

> […]Firstly, that a claimant's registered trade-mark was used by the defendant in connection with wares or services – whether or not such wares and services are competitive with those of the claimant. Secondly, that the claimant's registered trade-mark is sufficiently well known to have significant goodwill attached to it. Section 22 does not require the mark to be well known or famous (in contrast to the analogous European and U.S. laws), but a defendant cannot depreciate the value of the goodwill that does not exist. Thirdly, the claimant's mark was used in a manner likely to have an effect on that goodwill (i.e. linkage) and fourthly that the likely effect would be to depreciate the value of its goodwill (i.e.damage)

This means that if the four conditions of the depreciation claim exist there will be a possibility that the trademark loses its value.

Meanwhile, scholars like Siebrasse & Walsh identified the lack of its distinctiveness as one of the fundamental risks that could negatively affect the validity of the secured lender's collateral.[307] It is worth to mention that the main function of trademark is to provide a high level of certainty to the consumer that links the products' and wares' origin to the associated the trademark. In other words, the trademark must provide sufficient distinctiveness in respect of the source of wares and services.[308] Thus, in case the trademark, used in association with goods or services, has lost distinctiveness - as the case that a similar trademark is used on a similar wares without any action taken by the trademark owner - in this case the trademark could become invalid.[309] Therefore, the trademark must always be properly maintained and

305 *Ibid*
306 *Veuve Clicquot Ponsardin v. Boutiques Cliquot Ltée*, [2006] 1 S.C.R. 824, at para. 46.
307 Siebrasse & Walsh, *supra* note 41, P.18
308 *Trademarks Act, Supra* note 202. Section 18 (1)(b)
309 *Scassa, Supra note 137,* Chapter 6- Trademark Invalidity

guarded by the owner. This issue must be taken into consideration by the secured lender accepting trademarks as collateral especially in the valuation stage.[310] In the same context, it is not recommended that the secured lender relies only on the trademarks as the sole collateral, and it is always better – if possible – to have security over other assets including the *fond de commerce*. Although the *Trademarks Act* provides that the trademark can be assigned independently from the business as a whole, the courts are still concerned with the ultimate goal of consumer protection.[311] Which could be rationalized that even if the trademark could be assigned independent from the associated goodwill there are no guarantees that the trademark will remain valid after the assignment.[312] In other words, and as explained above the trademark could lose its distinctiveness and became invalid if used on two similar wares or products.

Upon comparing the risks associated with trademarks to other real estate assets such as land or buildings the likelihood that real estate assets lose their value in the same context does not exist. However, in my view, there is always a risk associated with any asset. This risk by itself is not the problem, but the problem is the failure to mitigate or minimize the impact of the said risk. Therefore, if the trademarks could be subject to depreciation of the value of goodwill this does not mean that we shall refrain from accepting the trademark as a security. It means that we must try to find the proper methods to minimize this risk or any other similar risk as explored in this dissertation.

310 Siebrasse & Walsh, *supra* note 41*, p.16*
311 *Ibid*
312 *Ibid*

Meanwhile, any IP owner as well as secured lender accepting IP as collateral must have a basic capacity on how to manage and control IP assets. This will enable them to maximize the economic value and better exploit the IP assets. Most of the aspects mentioned above could be cured to increase the level of certainty and ensure the sustainability of trademark distinctiveness. This could take place through using the adequate belts and suspenders to be stated in the security agreement signed by the secured lender and the debtor. In more details, the secured lender must establish a proper mechanism to ensure periodic audits on the trademark registrations of the debtor. These audits will ensure that no further registrations or actions could negatively affect the validity of the secured trademark registration. Also, the secured lender must conduct or assign a third party to conduct market investigations to ensure that there are no other goods or services that could affect the distinctiveness of the secured trademark Therefore, it could be said that trademarks, like any other asset, could lose their value if not well maintained. The same will happen to any other tangible asset.

In September 2019, Government of Canada announced new reforms to the *Bankruptcy and Insolvency Act* (BIA) and the *Companies' Creditors Arrangement Act* (CCAA) that came into force in November 2019.[313] These reforms include among other things a reform that ensures the consistent protection of intellectual property (IP) user rights in insolvency[314]. This reform is very important and should help to maintain the value of the IP assets even after the insolvency. It grants the IP licensee in good standing the right to continue using the IP if an insolvent licensor disclaims the license. This means that even after the insolvency of the licensor the value of the IP that could be based on the revenue streams of licenses will remain

313 New release, Reforms will enhance retirement security and protect intellectual property user rights, September 2019, available online https://www.canada.ca/en/innovation-science-economic-development/news/2019/09/insolvency-reforms-to-come-into-force.html
314 Bankruptcy and Insolvency Act, RSC 1985, c B-3, <http://canlii.ca/t/543rx> article7

unchanged. This will increase the level of trust in the value of IP assets and decrease the possibility of hyper fluctuation of the IP value in general and trademark in particular.

To have value, IP assets must be: 1) recognizable and distinguishable from other assets owned by the business; 2) able to generate continuing profits and benefits for the business; 3) legally protected and not free in the public domain; 4) transferable from a seller to a buyer.[315]

As explored above, the value of a trademark can change over time based on market existence and consumer satisfaction. Trademarks even can die if not well maintained or if they lose their market acceptance. In fact, this is similar to the way machinery can lose its value if not well maintained.[316] Therefore, maintenance of a trademark's value requires continual financial and labour investments.[317]

The value of a trademark is closely linked to its associated goodwill. The idea of goodwill is not novel; historically, goodwill has been examined at length by the accounting profession. Accounting Research Study No. 10, published by the American Institute of Certified Public Accountants in 1968, notes that the concept was used as far back as the sixteenth century:

> The idea of goodwill appears to have existed long before the advent of modern business concepts. P. D. Leake mentions some early references to goodwill, including one in the year 1571 in England, 'I gyve to John Stephen... my whole interest and good will of my Quarrell [i.e., quarry]....[318]

The goodwill associated with a trademark can be built and earned but also can be

[315] *Ibid*.
[316] Russell L. Parr & Gordon V. Smith, *Valuation of Intellectual Property and Intangible Assets*. (Toronto: John Wiley & Sons, 1998) at 26.
[317] *Ibid*.
[318] George R Catlett, *Accounting for Goodwill (Accounting Research Study No. 10),* (Stamford, CT: American Institute of Certified Public Accountants, Inc., 1968) at 8, 10.

lost.[319] There are different factors that can negatively affect goodwill. One of the most significant examples is the loss of trademark distinctiveness, which can be the result of the trademark becoming generic or when the mark itself is no longer distinctive of a specific trade or service.[320] Goodwill can also be lost by abandonment of the trademark, which could take place through non-use. However, not every instance of the non-use of the trademark can be considered as abandonment. In some cases, a business owner might decide to stop using a trademark for a specific period of time as part of a business strategy or due to market conditions. In the case *Ad Lib Club Ltd. v. Granville*,[321] the plaintiff's night club was forced to cease operation due to noise complaints. However, there was enough evidence that the plaintiff was planning to operate in another location and did not completely abandon the trademark.[322] Hence, while non-use of the trademark might not affect the goodwill that persisted thereafter, it is unclear how long goodwill will survive when a trademark is not being used.[323]

The issue of valuation is one of the fundamental issues that could lead to reluctance on the part of financial institutions in accepting trademarks as a security. In the Siebrasse and Walsh report the valuation of IP assets was mentioned as a main concern regarding the framework governing security interests in trademarks.[324] However, about 17 years after this report was published, there have been massive developments in respect of valuation of IP assets.

In recent years, focus on the valuation of intangible assets has increased. This may be due to a huge market demand and intention to utilize intangible assets, especially intellectual

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319 Scassa, *supra* note 137.
320 *Ibid*.
321 [1972] 2 All E.R. 300.
322 Siebrasse & Walsh, *supra* note 41.
323 *Ibid.*
324 *Ibid.*

property assets. Evidence of this new emphasis can be found in the issuance of two valuation standards from two of the most important standardizing entities, the International Organization for Standardization (ISO) and the International Valuation Standards Council (IVSC). The two valuation standards are 1) ISO 10668: Brand Valuation, and 2) IVS 210: Intangible Assets.

In the next section, I explore these valuation standards and the different options available for concerned parties to valuate trademarks. The rationale behind explaining the valuation methods and standards is to illustrate significant developments in the valuation of IP assets. The valuation of trademarks in particular and IP assets in general—as noted in Chapter Three below—was frequently mentioned by the interviewees as an unknown and complicated barrier to accepting trademarks and other IP assets as collateral.

ISO Brand Valuation Standards 10668

The ISO is one of the most reputable leading non-profit organizations in the field of creating international standards. These standards are used to measure and valuate many aspects related to business, management and industry.[325] In September 2010, the ISO issued ISO 10668 Monetary Brand Valuation, a valuation standard that deals specifically with the valuation of brands. This statement was presented in the introduction of ISO 10668: "*Intangible assets are recognised as highly valued properties. Arguably the most valuable but least understood intangible assets are brands.*"[326]

This statement shows growing attention to the value of intellectual property assets and

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[325] About ISO, online: <https://www.iso.org/about-us.html>.
[326] A. Liberman & T. Heberden, "Brand Valuation and the Legal Aspects of ISO Brand Valuation Standard 10668" (2012) 32(7) The Licensing Journal p.8.

how trademarks are considered to be the most valuable of intellectual property assets. The role of this valuation standard is continually increasing due to the need for a more reliable tool to measure the value of brands, whether for the purposes of litigation, bankruptcy, acquisition, tax compliance or business decisions.[327]

The valuation of brands in this standard can take place using one of the following approaches:

1) Market Approach
2) Income Approach
3) Cost Approach

Within each approach there are several methods that can be applied. The choice of the best approach depends on many factors, including the nature of the brand and the availability of the related data. A deep analysis of the rationale behind each approach and the choice of one approach over the others is outside of my research scope. However, I will explore each approach in brief to give a better understanding of them.

1) Market Approach:

The market approach is based on the method of market comparison. This means that the valuation process compares similar transactions of similar brands. This approach requires evaluation of brands of similar conditions, taking into consideration the brand strength, market share, economic factors, legal protection and strategic value of the brand.[328] The market approach is not always the best choice for valuation of brands because the nature of brands makes it difficult

[327] *Ibid.*
[328] *Ibid.*

to find similar brands with similar conditions to compare between related transactions.[329]

2) Income Approach:

The income approach is a popular and common method to valuate brands. It is based on the present value of the expected future earnings generated from the brand over its remaining economic life. This standard proposes methods to determine the cash flow of a brand as part of the income-based approach.

a) Price and volume premium method:

This method is based on the estimation of the brand value by reference to the price premium and/or volume premium that it generates. This method also considers cost efficiencies of the brand.

b) Income-split method:

This method determines the value of the brand based on its share of economic revenue generated by the brand.

c) Multi-period excess earnings method:

This method is based on the valuation of the current value of the future expected cash flow after subtracting revenues generated from all other essential assets of the business.

d) Incremental cash flow method:

In this method, the valuation process takes place through comparing the cash flow generated by a comparable business that does not own a brand.

e) Royalty relief method:

[329] *Ibid.*

This method measures the present value of speculative future brand royalties, based on the assumption that the brand is licensed rather than owned. This method is widely used for financial reporting and tax valuations as it is aligned with the commercial practice of licensing.

3) **Cost Approach:**

This approach measures the value of the brand based on the cost of recreating, rebuilding or replacing the brand.[330] This approach is not practical on well-established brands since the relationship between the cost of creation and the brand value is not linear.[331]

IVS 210: Intangible Assets

In 2016, the IVSC issued an exposure draft related to the valuation of intangible assets.[332] This draft outlines the highlights of the valuation standard for intangible assets and presents various approaches for their valuation. These approaches are as follows:

1) **Income Approach**[333]

In this approach, the value of an intangible asset is determined by calculating the current value based on income, cash flow or cost saving of the intangible asset during its economic life. To use this approach, certain indicators must be available:

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[330] *Ibid* and Australian Marketing Institute, Overview of ISO 10668: Brand Valuation, Requirements for Monetary Brand Valuation, (August 2011), online: http://brandfinance.com/images/upload/iso_10668_overview.pdf.
[331] Liberman & Heberden, *supra* note 326.
[332] International Valuation Standards Council, Ivs 210: Intangible Assets, Exposure Draft, online: <https://www.ivsc.org/files/file/view/id/647>
[333] *Ibid* at 8-20., In conversation, an expert in the brand valuation field informed me that the ISO is currently working on the development of a new version of the brand valuation standard. It is expected to be issued soon. This new version may reflect new market demands in the field of brand valuation and may include more insight into using valuation of brands as a tool to facilitate the capitalization of trademarks.

a) The economic benefit generated from the intangible assets, especially income, cash flow or cost reduction.
b) The measurability and possible forecast of the economic value.

2) Excess Earnings Approach[334]

This approach assesses intangible assets based on the income that they generate after excluding all other assets owned by the business

3) Relief-from-Royalty Method[335]

With this method, the value of the intangible is calculated based on the difference between owning the intangible asset and the cost of licensing the asset from a third party. Through this hypothetical calculation, the valuator can determine the exact savings and earnings the intangible asset provides through ownership.

4) Premium Profit Method or With-and-Without Method[336]

This method proposes two scenarios: the first is based on the assumption that the business uses the intangible asset, and the second is based on the assumption that the business does not use the intangible asset. This method is similar to the Relief-from-Royalty method. In the Premium Profit Method, the comparison of the value added and cost saved from the use and non-use of the intangible asset will be the basis of its valuation.

5) Greenfield Method

This method assumes that the only asset owned by the business is the intangible asset; it excludes all other assets owned by the business.

[334] *Ibid.*
[335] *Ibid.*
[336] *Ibid.*

6) Market Approach

This approach is based on the idea of comparing the intangible asset with a very similar intangible asset in a comparable transaction. However, to apply this approach, two conditions must be fulfilled:

a) The existence of a market case involving a transaction that is similar to that involving the intangible asset
b) The availability of sufficient information about the comparable transaction that could help to facilitate the valuation process

7) Cost Approach

In this approach, the basic process is to calculate the cost of replacement of the intangible asset. There are two methods to apply the cost approach:

a- The replacement cost: This is based on the concept that the market participant will not pay more than the value of an asset if replacing it with a similar functioning asset.
b- The reproduction cost: This method is more feasible to apply with an intangible asset that has a material presence, such as software.

What did the new valuation methods add to the current capitalizing IP framework?

The new valuation standards as IVS and ISO in the context of IP valuation in general and trademarks in particular are very important. They increase the level of certainty in the whole valuation process through stipulating of definite standards that must be applied in order to valuate the targeted IP asset. Therefore, all the concerned parties could determine upfront and before starting any transaction as a pre-requisite a valuation of the target IP assets to be conducted as per certain standards.

The lack of well-established IP valuation methods like IVS and ISO lead for long time to paying less attention to the importance of the value of brands. This led to a gap between a company's market value and book value as a result of ignoring the brand value in the balance sheets. This gap creates a lack of information from an asymmetric perspective about companies which resulted on the decrease of the market efficiency.[337]Also some other jurisdictions started to pay more attention to the importance of IP valuation in general. For example, the European Commission issued in March 2014 the final report from the expert group on IP valuation.[338] This report is the outcome of a thorough investigation and examination conducted by group of experts in different disciplines to evaluate the importance and impact of IP valuation on enhancing innovations in the EU. This report stated that "T*he bottleneck for the improvement of an IP market is not in the lack of accepted methods or standards, their content or consistency, but in the limited dissemination of the fact that they exist and the little confidence in their results"*.[339] The report reveals that the valuation standards on their own are not the main issue and should not be taken out of context. However, it is important to highlight that this report was issued in 2014 while the ISO brand valuation standard was issued in 2011 and the IVS was issued in 2016 after the issuance of this report. This means that if the same investigations took place now the outcome could show more confidence in the valuation standards.

Having explored the methods of valuation, it is clear that the valuation of intellectual property assets is becoming less of a barrier to achieving proper security interests in IP assets.

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337 Nuriye Z.Ökten, Elif Yolbulan Okan, Ünal Arslan, Mustafa Özgür Güngör The effect of brand value on economic growth: A multinational analysis, European Research on Management and Business Economics 25 (2019) 1–7

338 Final Report form the Expert Group on Intellectual Property Valuation (March 2014), European Union, https://op.europa.eu/en/publication-detail/-/publication/797124c6-08cb-4ffb-a867-13dd8a129282

339 Ibid

However, these new approaches and methods of valuation must be introduced and well promoted within financial institutions, and certainly these institutions must be included in the discussions so that they can recommend changes to meet their requirements. In addition, there must be a high level of involvement by federal and provincial governments to ensure that these valuation methods are compatible with their regulations.

It is vital to highlight that the utilization of IP valuation and monetization methods is not optional. The failure to have clear IP valuation and monetization policies could have negative impacts on IP owners. These negative impacts could even affect larger corporations and not just SMEs. Nortel, for example, was a leading Canadian telecommunications company. Nortel's IP portfolio had thousands of patents. Nevertheless, the company failed to monetize these patents and to maximize their commercial value before its bankruptcy.[340] However, following bankruptcy, Nortel's IP portfolio was liquidated and purchasers succeeded in maximizing the value of the patents.[341] This shows how a lack of awareness of the value of IP assets can even have a negative impact on large corporations.[342]

In fact, there is no one method that could be considered best for trademark valuations, especially if we are dealing with businesses of different sizes and histories. Therefore, the method that could be applied for a well-established business may not fit with a business in existence for only five years. Also, a company with millions of dollars in investments will not apply the same methods to evaluate its trademarks as an SME.

[340] Tawfik, *supra* note 47 at 20.
[341] *Ibid*.
[342] *Ibid*.

It is worth mentioning that in many cases the cost of valuation itself could deter businesses from valuating their trademarks as they might consider it a high-cost step. Therefore, it is very important to have low-cost valuation services for SME's to be provided as part of the support provided by business and investment support organizations, whether governmental or non-for-profit organizations. This could be one of many steps to be taken to encourage valuation of trademarks.

2.3.10 WIPO Questionnaire on Security Interests in IP Assets

In 2009, the World Intellectual Property Organization (WIPO) published a research questionnaire involving 66 countries; Canada was one of the participants.[343] The main purpose of this research questionnaire was to explore the efficiency of national legal frameworks governing security interests in intellectual property assets. The following examination of the questions and Canada's answers reveal where Canada stands in relation to security interests in intellectual property.

Questions	**Responses**
Question 1 *Are security interests in IP, or any issue related to security interests in IP, addressed in any of your country's IP laws?*	Thirty six percent of the participants answered "No" to this question; Canada was one of those 24 countries. It is worth noting that the vast majority of the EU countries, including Germany, Austria, Denmark, France, Sweden, Greece, Spain, as well as the United States, Mexico, Israel, Australia, Japan and many other developed and developing countries answered "Yes" to this question. Canada may well be the most developed country that answered "No" to the question.

[343] WIPO Questionnaire *Supra* note 53

This is a primary indicator of how the developed countries are keen to ensure that their IP legal frameworks cover security interests in IP.

Question 2

If issues relating to security interests are addressed in your country's laws, for the following types of IP, please indicate whether such issues are addressed in a) only IP laws, b) both, IP laws and other laws, c) only other laws, d) no law.

To this question, Canada was one of the countries that said they address security interests in IP in a) only IP laws and b) both, IP laws and other laws (e.g., copyright and/or patents). This answer is a bit confusing in that it implies that security interests in trademarks are covered in the *Trade-marks Act*, which is not the case. As aforementioned, the *Trade-marks Act* lacks any reference to security interests in trademarks. Even the patent and copyright laws do not regulate the issue of security interest.

Question 3

If issues relating to security interests are addressed in your country's laws, please indicate which law addresses the following issues:

(i) *The creation or granting of security interest in IP;*

(ii) *The method(s) for making a security interest in IP effective against third parties (including infringers) or for giving notice to third parties;*

(iii) *The priority to be given to a security interest in IP with respect to other assignments, licenses, or security interests;*

(iv) *The enforcement of a security interest in IP.*

(i) Canada and the United States replied: other laws.

(ii) Canada and the United States replied: other laws.

(iii) Canada stated: other laws; the United States replied: other laws and IP laws.

(iv) Canada and the United States replied: other laws

Question 4

Can security interests in IP be recorded on a

Canada stated: other register and not IP register; the United States replied: IP register.

register in your country, whether an IP-specific register or other register?

Question 5

In your country or region does a security interest in IP become effective against third parties upon its creation, or is it necessary to record the security interest in any register or in an IP-specific register for it to become effective against third parties?

Canada did not answer this question; the United States replied: IP register.

Question 6

In your country or region if a security interest can be recorded in an IP-specific register, what effect does such recording have on its priority against later competing assignments, licenses and security interests? Does such a recording give priority over all competing parties regardless of their knowledge, or only over those without knowledge of the security interest, or merely create a presumption of priority or have another or no effect?

Canada did not answer this question; the United States answered: Parties without knowledge.

Question 7

Under the applicable law in your country or region does a security right in IP include any proceeds realized from the exercise of the IP, such as license fees, equitable remuneration, royalties or other compensation?

Canada and the United states answered "Yes" to this question.

Question 8

In the case that IP subject to security interest is infringed by a third party, how does the applicable law in your country or region address the following matters:

(i) Does the applicable law allow the secured creditor to take legal action to preserve the value of its security, either alone or in conjunction with the owner of the IP?

(i) In Canada, no action allowed, while in the United States the creditor alone is allowed.

(ii) If the applicable law allows the secured creditor to take legal action, can the secured creditor collect damages, obtain an injunction, or both?	(ii) Canada and the United States did not answer this question
(iii) If the applicable law allows the secured creditor to take legal action against third parties, do the debtor and secured creditor have autonomy to determine the right to do so in the security agreement, or is it determined solely by the IP law, or is the issue unaddressed in your law?	(iii) Canada did not answer this question. The United States answered that the secured party has autonomy to determine this right in the security agreement.

There are some notable points derived from the information stated in the WIPO questionnaire. The Canadian intellectual property legal framework lacks any reference to security interests in IP assets. There are no clear rules governing the creation or perfection of security interests in intellectual property rights. There would be many advantages of having a clear mechanism and rules to govern the process of security interests in trademarks and/or the mechanism being mentioned in the *Trade-marks Act*. These rules would provide lenders with an adequate framework to protect their rights against third parties. However, the Canadian legal framework governing IP fails to provide any rights to lenders (secured parties) to take legal action to preserve their rights from third-party claims or to take legal action against infringers.

It is clear that the U.S. legal framework governing security interests in IP in general is better developed than its Canadian counterpart. The United States has registers that are valid against third parties by themselves without the need of other security registers. Also, the secured creditor in the United States has the right to take legal action against third parties to protect their rights on the secured assets and this right can be mentioned in the security agreement, but this is not the case in Canada.

2.4 Reform Proposal

As explored in this chapter, security interests in trademarks in Canada require innovative ideas to create a level of conformity and consistency in the governing legal framework. However, in practice there are some issues that could act as barriers to the reform of the current legal framework. The most important issues are 1- the dual filing and constitutional controversy between federal and provincial powers, 2- the valuation issue and 3- the risk of depreciation and the loss of distinctiveness.

In fact, to overcome these issues, the creditor must take into consideration various aspects that could impact the validity of security interests. These aspects include:

1- <u>The reforms must be consistent with federal and provincial powers.</u>

As explored in this chapter, the dual filing is one of the main stoppers that could act as a barrier towards using trademarks as a collateral. As discussed, there is a problem that the trademark is a federally-regulated asset while the process of attachment and perfection of security interests is governed by provincial laws. This problem left the creditor between one of two options: The first, is to proceed with dual filing before the provincial government to create and perfect the security interest and as a second step to record the security interest in the trademark file. The second, is to perfect the security interest only before the provincial competent authority. The first option is the most accurate procedure to be taken, as the security interests will not otherwise appear in the trademark file; however, the dual filing is not the most efficient model to be made. As investigated in Chapter Three of this dissertation, in many cases this step is considered a burden and could lead to creditors refusing to accept trademarks as security.

Meanwhile the creation of a one stop shop could raise many constitutional flags related to the powers of provinces vs that of the federal government. Therefore, this requires creating an innovative method that could provide a one stop shop for perfection of security interests in trademarks that does not breach the constitutional powers. This method or tool could be using block-chain technology to create a joint ledger between all the provincial governments and the federal government. This ledger could have two duties: 1- to create and perfect the security interests in the provincial competent authorities' records according to the PPSA or CCQ. 2- to annotate the security interest in the trademark record.[344] Hence, to achieve this ledger there must be amendments of all the PPSAs, the CCQ and the *Trademarks Act,* and perhaps in all other IP laws, to show how this process will be accomplished.

In fact this proposed process- if applied- could help in solving the whole constitutional challenge, especially that the process will maintain only one perfection of the security interests in trademarks according to the provincial statute while notifying CIPO of this security interest. It is worth mentioning that this process will not constitute a burden by any means to the federal government as the security interest will appear simultaneously upon creation in the trademark file, with no further action to be taken by CIPO staff.

2- <u>Ensuring that the trademark is valid and registered.</u>

As explored in this chapter, trademarks by their own nature require high level of maintenance. The notion of the said maintenance is to protect the validity of the trademark against

344 In Chapter Four of this dissertation, I explained in more details what block-chain ledger is and how it could be used, in addition to in depth analysis of how this method could eliminate any constitutional challenges.

any action that could lead to trademark invalidity. This process should even start before the creditor decides to accept the trademark as a collateral to ensure that the registration of the trademark is valid. This means that the creditor must maintain the validity of the trademark registration until the debt maturity date. This could take place as investigated in this chapter by conducting periodic audits to ensure that no actions or omissions by the debtor or any third party could lead to depreciation of the goodwill associated with the trademark or the loss of its distinctiveness.

Moreover, it is important to take into consideration that a renewal of a trademark registration might be required during the life of the debt. Therefore, the creditor must take all the required measures to ensure that the trademark registration will remain valid. The creditor could assign this process to a trademark agent to provide periodic reports to the creditor about the validity of the trademark registration.

3- The seniority of debt

One of the most important aspects that any creditor must investigate before creation of security interests in any personal assets is to ensure that the there are no existing security interests on the same asset for other creditors that could negatively affect the value of the secured asset. In other words, the creditor must check that there are no outstanding security interests attached and perfected on the same asset by another creditor. To better understand this case I will use a hypothetical example. Assume that creditor A is lending 500,000$ to company B, and company B offered to provide Creditor A with a security interests in its trademark Alpha. Although trademark Alpha's value as per the valuation report is 800,000$ but Company B had granted a security interests in the same trademark to creditor C to secure the repayment of 700,000$ debt. Therefore, with the existence of the two security interests for Creditors A and C in case of default and non-payment by company B trademark Alpha's value will be distributed between the two creditors of the same seniority *(Pari Passu) on Pro-rata* basis. Which means that the existing amount will be divided to each creditor on the same percentage of their debt.

Therefore, it is most important the creditor not only ensures that there are no existing security interests on the same trademark before its perfection but also to ensure that during the life time of the debt the debtor will not create any further security on the same trademark that could negatively affects the value of secured asset.

It is worth mentioning that the legal frameworks only draw the main outline of the security interests on personal assets in general and in trademarks in particular. Therefore, it is the responsibility of the creditor accepting trademarks as security to complete a comprehensive due diligence that covers the trademark and its validity as well as ensuring the non-existence of prior security interests.

Also, it is most important that the creditor maintains a periodic review on the position and status of the trademark validity and the security during the lifetime of the debt and until maturity. In fact, all these belts and suspenders must be stated clearly in the loan agreement and the security agreement. Which means that in case of occurrence of any actions or omissions by the debtor that could lead to invalidity of the trademark or even to negatively affect its value the creditor shall consider this as an event of default. This is always covered by covenants in the loan agreement and will be subject to negotiations between the creditor and debtor.[345] Also, the same shall be applied in the case of the debtor's failure to provide the relevant periodic reports from third parties related to the validity of the registration.

It is worth noting that it is very hard to rely solely on legislation to cover and govern every single detail related to the security interests in trademarks. Taking into consideration that although there are some shared characteristics of the security interests in different trademark-related transactions, there could be many changes from case to case. These differences make it easier to use contractual obligations to cover any possible gaps that could not be covered by the law.

2.5 Conclusion

The examination of the legal frameworks governing security interests in trademarks in Canada and the United States shows that the two frameworks are very similar. Even the constitutional grounds for both the protection of trademarks and the creation and perfection of security interests are similar.

A closer look at the United States and Canadian legal frameworks governing security interests in IP reveals that there is no specific provision that prohibits using trademarks as collateral, but neither jurisdiction has specific provisions that regulate security interests in trademarks.

In Canada, the legal paradigm does not require security interest in a trademark to appear in the trademark file. Accordingly, a trademark might be collateralized while nothing appears in the trademark file. This results in a high level of uncertainty regarding the system

345 Alan Schwartz, "A Theory of Loan Priorities" (1989) 18:2 J Leg Stud 209.

and the accuracy of the information recorded in the trademark file. Therefore, creditors would proceed with the dual filing of security interest according to the provincial PPSA and the federal CIPO system. However, from a law and economics perspective, the additional filing means additional cost. This could discourage parties from filing with CIPO, especially because there are no negative legal implications for either the debtor or the creditor. In my view, the main beneficiary of dual filing are third parties dealing with trademark owners, especially in due diligence of transaction like license or franchise agreements.

In the United States, the general overview shows that there are no fundamental differences from the Canadian legal paradigm. However, a deeper look reveals that there are other tools provided to secured creditors that do not exist in Canada, as is evident in the WIPO questionnaire. For example, secured creditors in the U.S. have the right to take separate legal action and enforce their rights against third parties. From a lender perspective, this could increase trust in the IP capitalization system and eliminate vagueness and uncertainty.

In my view, trademarks in particular and IP assets in general are not assets that financial institutions are typically knowledgeable about or have experienced dealing with. As a result, the vagueness and uncertainty of the required procedures as well as the dual filing of a security will make financial institutions and creditors in general increasingly reluctant to accept trademarks as collateral.

Chapter Three of this thesis presents the results of interviews I conducted with professionals involved in security interests in trademarks. The interviews provide detailed insights regarding the barriers to concluding a valid security interest. In Chapter Four I provide recommendations that could facilitate the whole process.

3 CHAPTER THREE: Canadian Professionals' Perception of Security Interests in Trademarks

3.1 Introduction

The examination of the Canadian legal framework governing security interests in trademarks in Chapter Two of this dissertation revealed that there are no concrete legal barriers from a theoretical perspective that prevent financial institutions from accepting trademarks as collateral. However, in practice there is a high level of vagueness in the process that could cause confusion about the proper rules and procedures related to security interests in trademarks. As discussed, the Canadian legal framework does not necessitate that security interests in trademarks appear in federal trademark records. The whole process of security interests in trademarks is governed by the provincial acts, whether the PPSA in common-law Canada or CCQ in Quebec. This results in ambiguity and could raise various questions regarding the proper procedures to protect the creditor's rights on the collateralized trademark. Meanwhile, there are valid doubts about the reliability of security interests in trademarks that appear in the trademark's records, especially given that recording security interests in trademark is a voluntary procedure, as discussed in Chapter Two.

Most of the literature reviewed in Chapter One, which analyzes the facilitation of security interests in trademarks, focuses on the regulatory framework and how dual filing of security interests is the main barrier to security interests in trademarks. This is not the case in the United States, as discussed in Chapter Two.

In the next phase of my study, I solicit the views and concerns of professionals working in relevant areas in Canada through one-on-one interviews. These interviews explore the practical framework governing security interests in trademarks. I interviewed IP lawyers, corporate finance lawyers, bankers, IP owners and valuation specialists. The goal of this empirical research is to investigate some of the main points related to security interests in trademarks from a practical point of view based on the following considerations:

1) The level of understanding, experience and familiarity of security interests in trademarks transactions between professionals working in relevant fields of practice.
2) The barriers that could prevent security interests in trademarks from being accepted as a reliable sort of security.
3) The recommendations of the professionals regarding eliminating current barriers.

Based on these three goals, I asked questions that varied according to the professional's level of knowledge and their field of practice.

The outcome of these interviews helped me to better understand from different practical perspectives the main barriers to having a proper structure for security interests in trademarks in Canada. The areas of practice of the professionals interviewed are as follows:

1) Banking and financial professionals
2) Governmental officials
3) Lawyers and trademark agents
4) Entrepreneur and brand valuation professionals

The interviews were conducted in person or using Zoom video conferencing software.

Audio was recorded with the consent of the participants, all of whom signed a consent form as per research ethics requirements.[346] Some of the participants chose not to disclose their identity; to ensure the highest level of confidentiality, I refer to them by a pseudonym in this dissertation. Care was taken in the audio recording not to mention them by name. The interviews took place between April 2017 and May 2018.

The first part of this chapter analyzes each interview and allocates keywords (codes) to each. The second part offers an evaluation of the empirical research. In appendix 3, I highlight the most important information gathered through each interview.

Sectors	Participants
Banking and financial professionals	**Banker 1**
	Banker 2
	Banker 3
	Banker 4
	Banker 5
Governmental officials	**Government Official 1**
	Government Official 2

[346] Appendix 1 of this thesis includes the interviews questionnaire and the research ethics approval.

Lawyers and trademark agents	**IP Lawyer 1**
	IP Lawyer 2
	IP Lawyer 3
	IP Lawyer 4
	IP Lawyer 5
	IP Lawyer 6
Entrepreneur and brand valuation professional	**Professional 1**
	Professional 2

3.2 Interview Outcome Classification

As I mentioned in Chapter One, interview data are coded and classified. The participants are classified into four main categories:

1) IP lawyers and agents
2) Banking and finance professionals
3) Government officials
4) Other professionals and IP owners

In each category, I explore the key ideas mentioned in the interviews and look at how each participant approached these concepts.

3.2.1 IP Lawyers and Agents

I interviewed five agents and IP lawyers from Ontario and Quebec. They offered different perspectives regarding many issues related to security interests in trademarks and IP in general.

a) Security interests in trademarks in the market

The IP lawyers and agents showed different levels of understanding and experience regarding security interests in trademarks in the Canadian market. Most of the participants, except IP Lawyer 1, stated that they are familiar with security interests in trademarks and have at least some basic knowledge regarding this kind of transaction. However, only three of the lawyers I interviewed have actually done this kind of transaction. Only one of these lawyers said he is regularly involved in this kind of transaction.

IP Lawyer 1, who is practicing law in Ontario, elaborated that from her point of view the problem stems from the reluctance of business owners to register their trademarks, especially SMEs. In fact, there are many reasons for this reluctance; they will be analyzed later. If the registration of trademarks needs further promotion and awareness, security interests in trademarks could follow.

IP Lawyer 2, who has a good understanding of security interests in IP, also had previous experience with security interests in patents. He has some concerns about the validity of the IP asset as a security. His main concern with respect to using trademarks as a security is the present value of trademarks and how this value could change over time. He added that the value of a trademark could be negatively affected if it was collateralized without the associated goodwill. IP Lawyer 2 also said the number of security interests in trademark transactions in the Canadian market is relatively low. He explained his concerns that security interests in trademarks could have a negative impact on the value of the trademark as they are associated with the goodwill of the business.

IP Lawyer 3 agreed with IP Lawyer 2 that the number of transactions involving security interests in trademarks is relatively low. She has been involved in some transactions where trademarks were used as part of a general security agreement. IP Lawyer 3 believes that security interests in trademarks are important, however, as also stated by IP Lawyer 1, in many cases people are not aware of the importance of registering their trademarks. She and IP Lawyer 2 shared the same concern that the trademark could lose its value over time.

IP Lawyer 4 believes that security interests in trademarks could be useful but are not crucial. He highlighted several examples related to security interests in trademarks in Canada and how the trademarks could be used to raise capital. Also, we deliberated on the idea of depreciation of a trademark's value, and I argued that this could happen in very few cases relative to other assets.

IP Lawyer 6 practices this kind of transaction often. He said security interests in trademarks and in IP in general have been taking place in Canada for a long time. However, security interests in patents take place more often than in trademarks because, in his view, trademarks are associated with goodwill and the operation of a business. He also mentioned that creditors in such security transactions vary from financial institutions to venture capitals. IP Lawyer 6 said he encountered security interests in trademarks ten times in five years. He added that these transactions involved big companies and not SMEs.

As evidenced from the legal analysis as discussed in Chapter Two of this dissertation, trademarks depend upon the strength of their goodwill that could be subject to depreciation. However, the secured creditor must take the necessary steps and actions to ensure the proper maintenance of the secured trademark and not to rely only on the actions taken by the debtor. This includes usual audits and reviews of any actions or omissions by the trademark owner (the debtor) that could negatively affect the value of the trademark.

Given the above findings, evidently the knowledge and experience in the market among the IP lawyers varies according to the size of a business and its location. IP Lawyer 1 is practicing in an Ontario city where the scale and size of business is different from that of major cities. This was confirmed by IP Lawyer 3, practicing in Montreal, who noted that SMEs are less willing to register their trademarks. The interviews with IP Lawyers 2, 4, 5, and 6 revealed that they deal with a different class of business, mostly those larger than SMEs. IP Lawyer 6, who works in a Montreal office dealing with the market practice of security interests in trademarks, has a higher level of experience and knowledge than IP Lawyer 2.

A small number of cases of transactions of security interests in trademarks was mentioned by IP Lawyer 6, suggesting that only a small percentage of IP lawyers have a thorough understanding of security interests in IP. In my opinion, this can be attributed, as mentioned by the IP lawyers, to the low number of security interests in trademarks transactions in the Canadian market.

b) The economic considerations

All of the participating lawyers and agents mentioned the economic consideration many times with different approaches. They noted the cost of trademark registration and how it affects the willingness of business owners to register their trademarks. Also, they highlighted how facilitating security interests in trademarks could act as an economic incentive for IP registration. Likewise, most of them emphasized the value of trademarks in the start-up stage and how that value could be relatively low due to the lack of a strong revenue stream.

IP Lawyer 1 stated that the costs associated with trademark filing, especially the agent's fees, are in many cases considered a barrier that prevents small businesses from registering their trademarks. Also, she emphasized that if business owners knew they could use their IP assets and especially their trademarks to raise capital, this could encourage them to register their trademarks. The economic consideration was apparent in IP Lawyer 2's interview as he emphasized that the value of a trademark and its associated goodwill, as well as the revenue stream, could encourage financial institutions to accept the trademark capitalization. IP Lawyer 3 also focused on the economic consideration as an integral part of security interests in trademarks. She said financial institutions could be reluctant to deal with trademarks as collateral because they do not understand their economic value. She said that while business owners sometimes do not recognize the value of trademarks and the economic benefits they can generate, some owners consider IP protection as "a loss of money." IP Lawyer 3 explored another economic factor related to trademarks, where the overall economic impact and the promotion and encouragement to create and protect an internationally recognized Canadian brand could be reflected in the growth of the Canadian economy. IP Lawyer 4 agreed that the revenue stream generated from trademarks is a principal factor that could encourage financial institutions to capitalize trademarks. This explains why financial institutions prefer to deal with established business trademarks over small businesses or start-ups. IP Lawyer 4 and I discussed the possibility of depreciation of the economic value of the trademark, and in the end, we agreed that this could happen in a catastrophic situation for business but would not be a common occurrence. IP Lawyer 5 also emphasized that the economic position of the trademark owner represented by its financial worthiness is a main factor that must be taken into consideration when dealing with trademarks as security. IP Lawyer 6 highlighted that the dual filing process of security interests in trademarks is costly. However, the problem of with dual filing is not cost; rather it is an extra burden and addition procedures that could be simplified.

In my view, and as explored in Chapter One of this dissertation, there is a noteworthy connection between law and economics when analyzing security interests in trademarks. Taking the economic factor into consideration when creating a legal framework governing security interests in trademarks could act as incentive for protection of trademarks. Ignoring the economic factor could discourage all concerned parties from registering their trademarks or presenting them as collateral.

c) Knowledge and education

Lack of knowledge and education is one of the fundamental issues that was raised during the interviews. Almost all the participating lawyers stated that there is a significant shortage of knowledge about the importance of protecting IP assets. They mentioned that this shortage exists in the start-up community and among business owners, notably at the SME level. At the same time, the lack of knowledge is also obvious in the financial sector.

IP Lawyer 1 mentioned the lack of IP knowledge among business owners and said that in many cases they are not able to identify the importance of protecting their IP rights. IP Lawyer 2 believes that there is a lack of knowledge and education about IP protection among businesses. He added that the educational component must be developed by the government, and this education and knowledge must be promoted to practitioners, IP owners and financial institutions. A similar opinion was expressed by IP Lawyer 3, who emphasized that illiteracy of IP and IP value is significant among business owners. She said they sometimes regard IP protection as a loss of money with little added value. She suggested all concerned sectors must be involved to increase knowledge and education among business owners. IP Lawyer 4 elaborated that there is a significant lack of IP knowledge and education despite the efforts by the Government of Canada to increase awareness. He believes that enhancing and increasing public awareness of IP and security interests in trademarks could encourage innovation; however, other actions will still be required. IP Lawyer 5 added that there must be IP knowledge and education programs for financial institution professionals to enhance their understanding. IP Lawyer 6 advocated the same, adding that the lack of IP knowledge and understanding of security interests in trademarks can result in lawyers not feeling confident to provide their clients with legal recommendations about this kind of transaction.

The IP lawyers agreed that there is a lack of knowledge and IP literacy on many levels—from business owners to financial institutions. I would like to add that business lawyers, and sometimes IP lawyers, may lack sufficient information about capitalizing IP and particularly security interests in trademarks. As will be discussed in detail in Chapter Four, there must be a high level of coordination and understanding between IP and business professionals.

d) The current legal framework

One of the main issues mentioned by IP lawyers is that they do not see a requirement for a major change in the law, except for IP Lawyer 6. The main concern I heard from three of the IP lawyers was in regard to dual filing and the need to have a comprehensive system of security interests in trademarks—whether in the form of a one-stop shop, as proposed by IP Lawyer 4, or as proposed by IP Lawyer 6 in the form of a separate system of security registration or through developing the current legal framework.

IP Lawyer 1 did not specifically mention that there is a need for change to the current legal framework for trademarks, but she said the existing IP regime must be developed to cope with the current rapid growth and development in the IP domain. IP Lawyer 2 does not see that there is any legal obstacle preventing security interests in trademarks, and even the dual registration problem, in his opinion, is not a hindrance to this kind of transaction. IP Lawyer 3 shared IP Lawyer 2's opinion that there is no urgent need to change the current legal framework. She recommended building an IP securities register to show security interests in IP assets in general. IP Lawyer 4 agreed that no legal reform is needed to develop security interests in trademarks schemes. However, he added that there must be a register to show the security of trademarks, and he recommended having a one-stop shop for registration of security interests in trademarks. IP Lawyer 4 also recommended that the WIPO could have a bigger role in developing and implementing the model law of security interest. He said this could be used to create an international one-stop shop for security interests. The discussion with IP Lawyer 5 about the need for a dual registration system or for CIPO to administer the security perfection process was very important. IP Lawyer 6's opinion was quite similar—the current legal system is fine and there is no requirement to change; however, he criticized dual filing, calling it a needless additional step from a legal perspective.

I cannot deny that I was surprised by these interview results. An integral part of the literature that I examined in Chapter One focused on dual filing as a main obstacle to the creation of security interests in trademarks. The above opinions clearly show that not all lawyers see a deficiency in the legal framework. However, all of the lawyers I interviewed focused on the need for some fine tuning of the procedural framework to ensure the existence of a reliable ledger that shows any security in trademarks. In fact, and as discussed in this dissertation, there is a need to change the current legal frameworks governing security interests under PPSAs or the CCQ. This change must take place in the form of providing clear procedures to govern the creation and perfection of security interests not only in IP assets but to include security interests in other federal assets. This need will increase if Canada adopts the joint ledger as a tool to overcome the conflict of powers between the federal and provincial governments. Meanwhile, there is a need to amend the *Trademarks Act* to include clear rules that govern the security interests in trademarks.

3.2.2 Bankers and Finance Professionals

I interviewed five bankers from different Canadian financial institutions, including both national and credit unions. In these interviews I explored how these financial institutions view IP rights, especially trademarks, and how they may accept trademarks as collateral. There are several key points on which most of the participating bankers focused:

a) Security interests in trademarks in the market

All the bankers participating in my research stated clearly that they seldom, if ever, encountered security interests in trademarks or IP in the market. Banker 1 mentioned that he has not worked on any transaction that involved security interests in trademarks as the sole security. On the other hand, he said his financial institution does accept the goodwill of professionals as a security. Banker 2 said the financial institution she works for does not accept trademarks as collateral, nor any other IP assets. She justified this as being the bank's credit risk policy which determines the type of assets accepted as collateral. Banker 3 said the same thing, and that he has not experienced any transaction involving a trademark as a security. He said the market has more tolerance for other kinds of securities that generate revenues. Banker 4 added that security interests in IP in general are taking place in Canada but not frequently. Banker 4 had the most practical experience relating to security interests in IP in general. Banker 5 said he had never come across a security interest in trademarks during his career in banking.

Given the above findings, it appears that neither security interests in IP in general, nor trademarks in particular, are familiar within the culture in Canadian financial institutions. The interviews illustrated that capitalizing trademarks is not a tool popular among bankers who are used to secure debt repayments.

b) General Security Agreement

All the bankers stated that trademarks are collateralized under a general security agreement (GSA), which includes all current and future assets owned by the borrower, and that security interests in trademarks is not happening on a stand-alone basis. Two of the financial institution professionals, Banker 1 and Banker 4, mentioned that although the trademark is not accepted as a security on its own, it may fall under the GSA. This conclusion was confirmed by two trademark lawyers, IP Lawyer 3 and IP Lawyer 6.

The GSA is an umbrella agreement that covers all current and future assets owned by the debtor, whether tangible or intangible. Therefore, including trademarks or any other IP asset under the GSA is done by the financial institution as a protective measure to ensure that all the assets owned by the debtor are under the financial institution's control. In fact, and as mentioned by Banker 1, among other bankers, the trademark or any other IP assets collateralized under the GSA are not valuated. This is because the process of IP valuation, as addressed in Chapter Two of this dissertation, requires specialized procedures and expertise. This means that the real value of these assets is not calculated as part of the debtor's assets. In other words, the banks, in this case, overlook the value of fundamental assets owned by the debtor, which could negatively affect the borrower's creditworthiness. There is no evidence that all this security is entered in the trademark register. In my opinion, this needs to be changed to maximize the value of the assets owned by debtors.

In my view, the use of the GSA to govern all the secured assets could be valid except for IP assets and especially trademarks. This is because there some terms and conditions that only fit for security interests in trademarks that must be stated clearly and are not commonly used in the GSA. These terms and conditions act as belts and suspenders to ensure many aspects that could include mainly the following points:

1- Maintaining a valid registration of the trademark.
2- Ensuring that no acts or omissions of the trademark owner or by third party that could affect the distinctiveness of the secured trademark.
3- Ensuring that no acts or omissions by the trademark owner or by third party that could affect the value of the trademark goodwill.
4- Ensuring that no infringement of the trademark is taking place which could have a negative impact on the value of the trademark.
5- Also if the trademark is licensed to a third party, the secured creditor must ensure

that license agreements are valid and that all the royalties and annuities are paid on time, or even they could be used to directly repay the debts.

c) Revenue stream and lack of certainty

One of the main concerns each banker mentioned as a barrier for accepting trademarks as collateral, especially in the preliminary stages of a business, is a weak revenue stream associated with the business and trademark. They explained that the trademark alone does not hold any value without an associated revenue stream. Also, they emphasized that trademarks may quickly lose their value in the market. Banker 1 said earning power is a main motive for his financial institution to accept the financing of professionals based on their goodwill. They do not accept trademarks as collateral because they lack a strong revenue stream, especially in the earlier stages of business. Banker 2 elaborated that cash flow and revenue stream are the main factors she considers when financing any business. Therefore, if the trademark owner does not have a sufficient cash flow and revenue stream, the chances of obtaining financing using the owner's trademark asset as collateral are low. It is worth mentioning that this financial institution does not provide asset-backed financing even if these assets are real estate. They provide financing only based on a revenue stream. Banker 3 shares that opinion, and he said the market focuses on assets that generate revenues, such as credit card receivables and auto loans. He added that the problem with security interests in trademarks is that trademarks are not, by themselves, income-generating assets. Banker 4 also said the lack of a consistent revenue stream generated by a trademark could increase the risk of capitalizing trademarks. Banker 5 emphasized that there is a lack of certainty about the value of a trademark and whether this kind of asset could be a reliable sort of security.

The analysis of the above findings shows how Canadian financial institutions rely more on business income than on the value of assets. Even IP Lawyer 4 mentioned the revenue stream as one of the main items financial institutions will look for when providing finance to any business. In my opinion, and as concluded from the interviews, trademarks are associated with goodwill, which reflects on the revenue stream and cash flow generated by the company. Also, one of the valuation methods of trademarks, as explored in Chapter One of this dissertation, is based on the income generated from the goods and services labelled with the valuated trademark. Therefore, it is not logical that financial institutions will only consider the cash flow of borrowers and neglect the value of their trademarks due to the uncertainty of the trademark's value.

d) Lack of knowledge

All the interviewed bankers mentioned a lack of knowledge in the financial sector about aspects related to IP. They all stated that there is a need to increase the awareness and understanding of IP and how to deal with it. This was confirmed by explicit or implied statements during the interviews. All the bankers who participated in interviews agreed that security interests in trademarks is a new domain and bankers have insufficient knowledge about this field and about IP rights in general. Only Banker 4 had sufficient IP knowledge. In most of the interviews and after brainstorming, the interviewees started to show more comfort and interest in better understanding this domain.

e) Governmental incentives

Most of the participants from financial institutions stated that the government could intervene and promote the market by providing certain incentives or guarantees to financial institutions to encourage the acceptance of IP assets as collateral. They suggested that these incentives could be in different forms such as tax incentives and loan guarantees. This opinion was common among bankers. I noticed that they expect the government will provide these incentives to promote capitalization of trademarks and IP in general. However, I believe that understanding this kind of transaction will promote profitability, which in and of itself is a business incentive. I believe that the role of the government at this point is to provide sufficient awareness of programs related to IP aspects as a first stage and in an advanced stage to provide programs to increase awareness of capitalizing IP.

f) The conservative financial system in Canada

The most common opinion expressed by the bankers is that Canada's banking and finance culture is very conservative. In fact, Canadian banks are not willing to accept new risks, and this has made the Canadian banking system one of the most stable in the world. In addition, given the lack of strong competition between financial institutions, there is no pressure to explore new business structures. This is how the participating bankers rationalized the conservative nature of the Canadian banking system. I would add here the lack of knowledge about IP in general and the tendency by Canadian financial institutions to only accept what they called "low risk transactions." A deep understanding of the IP structure will show that there are other sorts of banking transactions widely accepted in the market that could be of higher risk compared to capitalizing IP. Clear examples of these transactions are potentially high-risk swaps, derivatives and other similar transactions that are based on speculation and future projections. However, financial institutions apply certain risk management techniques that help them to measure and mitigate the risks associated with these transactions. This shows how one of the factors that prevents financial institutions from accepting trademarks as a collateral could be a lack of knowledge as to how to deal with the associated risks.

3.2.3 Government Officials

The interviews with the two senior Canadian government officials revealed that there are many projects, policies and programs in the pipeline to increase awareness about IP commercialization. I noticed a good understanding of the need to develop the current IP system.

The interviews elaborated the governmental point of view and highlighted potential projects. The Government of Canada appears to be taking important steps towards the development of practical and educational frameworks for IP. One of the main findings of the interviews is how much the government focuses on increasing awareness among businesses, and especially small businesses.

During these interviews I suggested developing a system that notifies CIPO of any IP security created at the provincial level. This idea was accepted by the government officials. In fact, sharing provincial security records with CIPO could be a good practical solution to overcome the problem of dual filing, especially because record sharing will not raise constitutional concerns. As evidenced in the interviews, the dual filing issue is a common problem that was noted in the vast majority of the Canadian and U.S. literature on the subject. All the writings proposed a unified system of registration or a one-stop shop for registration as proposed by IP Lawyer 4. In theory this could be the solution to the problem, but in practice the constitutional dilemma, the cost efficiency and the length of the process to make this change may prevent implementation of a unified registration system. A deep analysis of the problem may show that there is only a need to notify CIPO of any security interest transactions in IP in general, including trademarks, and not a need for the transaction to be perfected by CIPO. Therefore, creating a shared ledger between the provincial security records and CIPO would be more than sufficient.

Having an adequate register of all security interests in trademarks and in IP assets in general would help to perform different kinds of analysis and research. There could be an abundance of analyses that will show which size of business is more involved in this kind of transaction, the ratio between foreign banks to Canadian banks as creditors and security holders of security interests in trademarks, and how the number of security interest transactions varies over time. This could help a good deal to shape the history and development of security interests in IP. As stated by IP Lawyer 1, CIPO does not currently have accurate records of all security interests in trademarks.

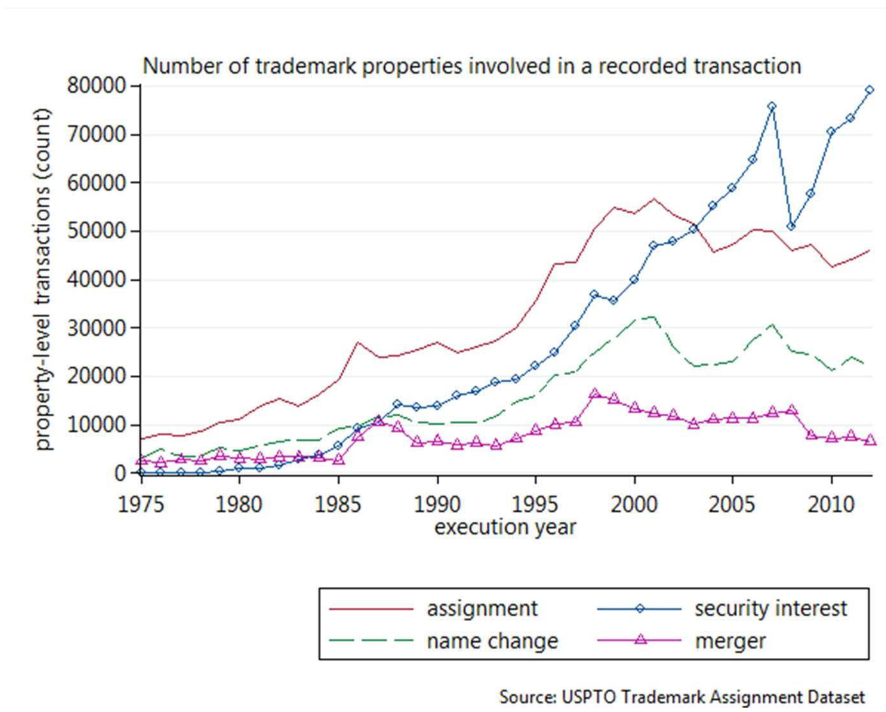

Figure 5:USPTO Number of Trademark Properties Involved in a Record Transaction

In the United States, the USPTO published a research paper showing the number of security interests in trademarks, assignment, name changes and mergers. Figure 5 shows the growth in the number of security interests in trademarks transactions in the United States from 1975 to post 2010.[347]

The registration of security interests in trademarks in the United States with USPTO is not a legal requirement, which means that there is a margin of error in the study as it does not show the exact number of security interests in trademarks in the U.S. market. However, this graph shows the market direction and growth. From these numbers we can understand how SMEs perform in the market, what business or industry sectors are more involved in this kind of transaction, and what can be done to improve the market.

If we develop a shared-ledger system and succeed in having a record in Canada that shows the number of security interests in trademarks, this could help the Canadian government to better understand market movement towards or away from capitalizing trademarks and focus on how to develop and solve any relevant issues.

Meanwhile, I believe that further steps need to be taken as a government initiative with the Business Development Bank of Canada (BDC) to start developing and implementing IP financing programs for SMEs. To the best of my knowledge, BDC does not have programs that involve IP financing.

Coincidentally, I learned in the interviews that the Government of Canada now is working on developing education and knowledge-building programs for SMEs about IP commercialization. I believe that these programs must be extended to include bankers, non-IP lawyers, auditors and accountants. There must be multi-party involvement to boost the IP

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[347] Trademarks are Increasingly Used as Collateral, online: USPTO <https://www.uspto.gov/learning-and-resources/ip-policy/economic-research/trademarks-are-increasingly-used-collateral>. See also, Graham, Marco & Myers, *supra* note 39.

culture in Canada.

3.2.4 Other Professionals and IP Owners

I interviewed two professionals from different perspectives. Professional 1 works in the field of valuation of brands, and Professional 2 works as an entrepreneur and business owner in the food industry. I noticed that Professional 1, by virtue of his experience and practice, was involved in the complex issues related to trademarks and brands. He highlighted many important points related to trademarks and brands in general. Professional 1 focused on the lack of understanding in the market about many aspects related to the value of trademarks and brands. Professional 2 stressed that there is a lack of education and understanding of IP rights in general. He mentioned that he faces financing difficulties, so if trademarks were accepted as collateral, this would have a positive impact on his willingness to register and develop his IP portfolio.

3.3 Discussion

The principal goal of this research was to focus attention on the gaps in the market and how each concerned party sees the problem from their particular point of view. The highlights and analysis above reveal that the number of cases involving trademarks as a security is rather low, and this was confirmed by most of the participants. There are many reasons for this, but one of the main findings is the reluctance of IP owners, especially the SMEs, to file for registration of their trademarks. The main reasons for this reluctance are the lack of knowledge of the importance of IP protection and relatively high cost of registration.

The lack of IP knowledge is a common problem in both the financial and the business sector. Most of the financial sector participants, as well as the business owners, did not have enough knowledge about the importance and value of IP. This lack of knowledge manifests as a reluctance and unwillingness on the part of business start-ups to register their trademarks, and on the part of the financial institutions to evaluate the risk of financing IP.

In 2007, CIPO published a report detailing the outcome of 106 surveys gathered through 15-minute telephone interviews with Canadian businesses with less than 500 employees.[348] The report suggests that the percentage of participants who consider themselves as very familiar or familiar with the term IP is about 35%,[349] while the number of participants who rate themselves as very familiar or familiar with trademarks is 38%.[350] However, when asked about the organization responsible for the registration and protection of IP rights in Canada only 1% of participants were able to name CIPO, while 81% did not know the name of the organization. About 18% mentioned other government agencies like Industry Canada, Justice Canada, the trademark office, patent office or Canada Revenue Agency.[351] The above-mentioned numbers suggest that even the 38% who consider themselves as familiar or very familiar with IP lack very basic knowledge.

In 2012-2013, CIPO conducted a number of roundtables with key stakeholders to better determine the gaps and needs for SMEs in respect of the IP commercialization process.[352] One of the most significant outcomes of these roundtables was that participants stated that the

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[348] The Strategic Council, Canadian Small and Medium Sized Enterprises (SMEs): Baseline Awareness of Intellectual Property (Ottawa: CIPO and Industry Canada, 2007), online: https://www.ic.gc.ca/eic/site/112.nsf/vwapj/FinalReportCIPO-SME.pdf/$file/FinalReportCIPO-SME.pdf.
[349] I*bid* at 21.
[350] *Ibid*.
[351] *Ibid*.
[352] Canada, CIPO, CIPO Roundtables: Report Following May and June 2012 (Wave One) (Gatineau: CIPO, 2012), online: <https://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr03646.html>.

main barriers in seeking IP protection were costs and the complexity of the IP system. The participants stated that they always have to make hard choices as to whether to invest time and effort on research and development or in other business-related activities, such as IP protection. The report revealed that it is hard for SMEs to work on the creation and development of an effective IP strategy due to the complex nature of IP and the lack of information.[353]

On another level, valuation of IP assets is currently growing and being developed by professional organizations. Among financial institutions, however, the credibility and acceptance of the new standards are weak. Meanwhile, the restrictive cost of conducting a valuation of a single IP asset, whether a trademark or a patent, could decrease the willingness of financial institutions and borrowers to proceed with the valuation process for capitalizing IP.

Some participants consider the dual filing of a security with the PPSA and with CIPO to be an issue, while others do not. The complexity of the process and the intersection between federal and provincial systems and the possible constitutional issues it might raise could be an obstacle for proceeding with amendments to the current legal framework. Be that as it may, there is a compelling need for a system that guarantees the accuracy of the trademarks' chain of title. This system must ensure that the full history of the trademark, including any action taken, appears in the trademark register.

Many participants suggested government incentives could help solve the current problems. As will be explored in Chapter Four, these incentives could assume different forms. Nevertheless, recognition of the vast benefits associated with IP financing and the application of an adequate framework will, in itself, be a strong incentive.

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353 Tawfik, *supra* note 47.

From the above analysis it is evident that there are some points that all the participants agree upon. These are summarized below.

1) Limited number of security interest in trademarks transactions

Most of the participants mentioned that security interests in trademarks transactions are not common in the Canadian market. However, each sector rationalizes this limitation from a different perspective. Most of the lawyers and IP agents agree that there is both a lack of understanding and vagueness in the process of capitalizing IP. This lack of understanding exists in the financial sector and among business owners. The financial institutions attributed their reluctance to accept trademarks as a security to the volatility of a trademark's value and the high risk associated with trademark capitalization. The government officials agree that the number of transactions of security interests in trademarks is relatively low. However, I noticed that the Government of Canada is now paying more attention to the idea of commercialization of IP assets. The IP owners and brand valuator also highlighted that they did not have previous exposure to this kind of transaction, although they see good economic potential in the exploitation of IP rights to raise capital.

2) Legal framework developments

The participants in my research agreed that no material change is needed in the PPSA or the *Trade-marks Act.* However, banking professionals, brand valuators and IP owners as well as most of the IP lawyers suggested that there must be some policy and procedural changes to the current system governing trademarks. These changes are broad, ranging from enhancing the education and knowledge base to the creation of a one-stop shop for registration of security interests in trademarks. In addition, building a unified system that consolidates all

IP assets held by the same owner in one register to facilitate the due diligence processes was recommended. The government officials were not against the policy and procedural changes, but they mentioned that any legislative amendments to the current security interests' frameworks could raise constitutional problems.

3) IP knowledge-building and educational developments

All the participants agreed that there is a lack of knowledge and awareness in the Canadian arena regarding the commercialization of trademarks as well as other IP assets. This is reflected in the reluctance of all parties to proceed with security interests in trademarks. This lack of IP knowledge exists among business owners, financial professionals, bankers and even lawyers. As stated by IP Lawyer 6, if the lawyers are not fully informed of security interests in trademarks as a possible alternative for financing, they will not have the confidence to recommend it to their clients. In fact, this could be applied to all fields of business.

To summarize, based on the analysis of the interviews, it seems that the current problems and obstacles in Canada pertaining to security interests in trademarks could be addressed if the concerned parties decided to communicate and coordinate with each other. Unfortunately, there is no mechanism at present that could consolidate the concerns and improve the current system for all parties—financial institutions, IP lawyers, government officials and other professionals.

I believe that IP education and knowledge building, communication and coordination between all concerned parties, and modifications and alternatives to the current procedural and regulatory frameworks for security interests in trademarks (explored in Chapter Four) would all help immensely to develop a successful platform for capitalizing IP in general and trademarks in particular.

In the next chapter, I provide recommendations on how to develop the current policy and regulatory frameworks concerning capitalization of trademarks. I use the outcomes of my theoretical analysis and empirical research to draw the full image.

4 CHAPTER FOUR: Findings and Recommendations

4.1 Introduction

The analysis of the legal frameworks governing security interests in trademarks in Canada and the United States and the evaluation of the empirical research I conducted, clearly illustrate that there are gaps and deficiencies in the current Canadian legal and practical frameworks governing security interests in trademarks. In fact, there are major changes and developments taking place these frameworks. However, the underlying rationale and the findings of this research show that there are more changes that need to be made to the regulatory and policy frameworks related to the capitalization of trademarks in Canada. Success in implementing these changes will have a positive impact on the frameworks governing security interests in other IP assets as well. Those other IP assets, such as copyrights and patents, could have greater real value than trademarks do at earlier stages. As noted in Chapter Two, trademarks require a lot of work to build goodwill and market reputation in order to increase in value and to become significant business assets. In contrast, patents and copyrights could be used more independently as a security, especially because they are not linked to the specific goodwill of a business in the same way as trademarks.[354]

The concept of a security interest in IP in general, and in trademarks in particular, could be an incentive for innovators, business owners and start-ups to more fully develop their IP portfolios, which could then be used to raise funds for their enterprise. However, as mentioned previously, in many cases there are factors that prevent IP owners and creators from

[354] As noted in the interviews, most of the lawyers stated that transactions involving security interests in patents, for example, are more common than trademarks. However, there are no official records or studies that show the exact number of transactions involving IP assets as a collateral.

proceeding with proper registration and protection of their IP assets.

When I talk with Canadian start-up business owners, they usually describe a common problem: lack of finance or expensive finance. The reason they have a problem financing their business is that their business does not have a valuable asset to use as collateral. In general, businesses have different financing options whether through debts or equity. The last resort for any business is to use their valuable assets as a collateral, especially if these assets are considered an integral part of the business itself.[355] However, financial institutions are reluctant to provide financing for start-ups and small and medium enterprises without receiving valuable collateral.[356] Many business owners resort to using their family home as collateral for a line of credit to raise capital needed for the business. Many business owners agree that capitalizing IP assets is a practical alternative that could solve the problem of a lack of finance. This is why it is clear that the motive for and the impact of security interests in trademarks is purely economic.

The analysis of the U.S. legal framework showed how the jurisdiction most similar in structure to Canada deals with capitalization in trademarks. It illustrates how the main issue in the Canadian context is not a legislative problem, especially given that there are other factors that negatively affect the collateralization of trademarks, mainly the lack of knowledge and IP literacy and the conservative financial culture.

Hence, investigation of the legal paradigms governing security interests in trademarks

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[355] Nguyen, *supra* note 264.

[356] Many organizations working with SMEs offer financing in the form of loans. However, they demand that SMEs pay relatively high interest rates when repaying their loans. For example, Futurpreneur, an organization working with entrepreneurs, offers unsecured loans. It does not require collateral but the interest rate ranges from prime rate +2% to 6% (average of 9% to 11% per annum). The same goes for BDC; it offers interest rates around 6.2 to 12%. This is even higher than what is offered by other banks.

in Canada and the United States reveals that the two frameworks are quite alike. Both paradigms share similar constitutional basics governing registration of trademarks and the creation and perfection of security interests. Both jurisdictions show no legal provision that could deprive capitalization of trademarks. Hence, they also share a lack of clear rules to govern this issue.

In Canada, the legal framework does not necessitate that security interests in trademark appear in the trademark file. Consequently, an existing security interest might not appear there. This leads to a high level of vagueness and uncertainty about the accuracy of the information recorded in the file. Therefore, creditors would proceed with the dual filing of security interests according to the provincial PPSA and the federal CIPO system. Recently, CIPO announced new rules that govern the recording and removal of security interests in trademarks, as explored in Chapter Two of this dissertation. However, this step is still primary, although it somehow partially removed the vagueness of security interests in trademarks. There must be additional reforms, including an auto-notification system that shows the security in the trademark file, or even to decrease the cost of recording security interests in trademarks. CIPO also could provide incentives for trademark owners for recording security interests in their trademark in CIPO records. These incentives could take the form of future discounts on trademark filing or renewals.

This chapter summarizes the main findings of both the textual analysis of the legal framework in Canada and the examined relevant literature as it pertains to the empirical research. This is done to outline the overall situation of security interests in trademarks in Canada. Based on the findings, I advance recommendations that could help to enhance the current system and frameworks governing security interests in trademarks in Canada.

4.2 Main Findings

The main findings of this research can be summarized as follows:

1) Canadian financial institutions tend not to accept trademarks as collateral.
2) The Canadian community lacks sufficient IP education and literacy.
3) The security interest perfection process for trademarks is uncertain.
4) A law and economics approach could be used to understand the needs and gaps in the current legal and policy frameworks governing security interests in trademarks.

4.2.1 Canadian Financial Institutions Tend not to Accept Trademarks as Collateral

As previously discussed in Chapter Three, most financial institutions in Canada are reluctant to accept trademarks as collateral. Usually, each Canadian financial institution applies somewhat different lending perspectives and policies that ensure adequate levels of risks. Therefore, it is common that what is accepted in one financial institution may not necessarily be accepted in another. As concluded from the interviews with bankers, Canadian banks are now more interested in low-risk transactions than before, especially since the global financial crisis of 2007–08. Although the financial market recovered over time, as noted in the interviews with bankers, the pain and fear of the crisis continue to influence financial institutions.

In Canada, some financial institutions may accept the goodwill of professionals as a basis for lending but do not accept trademarks as collateral.[357] For other banks, the main basis for lending is cash flow, and the most accepted assets for collateral in Canada are tangible

[357] This was stated by Banker 1. See interviews highlights Appendix 3.

assets such as land, real estate, cars and equipment. However, IP assets, and especially trademarks, are not accepted as collateral on their own. Even so, IP assets can be included as a security under the umbrella of a general security agreement (GSA) that covers all the tangible and intangible assets owned, or yet to be owned, by the borrower. Most of the bankers interviewed confirmed this and further elaborated that trademarks are included as part of the security package covered by the GSA. In this case, unfortunately, trademarks are not individually valuated. Therefore, the assets owned by the debtor will be given a lower valuation than they might otherwise receive. Accordingly, the debt-to-equity ratio will show less value of equity without the value of trademarks. This will increase the gap between equity and debt and will lead to a higher interest rate. It is worth noting that the debt-to-equity ratio has a significant effect in calculating the level of risk and, subsequently, the loan interest rate.

In the course of my qualitative research, I noticed that financial institutions in Canada are very cautious when dealing with new products, especially those in relation to secured lending. They are always searching for safer areas to do business. This tendency increased after the global financial crisis. As one of the interviewed bankers stated, there is no need to apply new credit policies involving new risks if they are doing well in the market.

In addition to the low appetite for high-risk transactions, I noticed that there are other factors that discourage financial institutions from accepting trademarks as collateral. The old perception that valuation of trademarks is uncertain and that trademarks could easily lose their value was one of the main issues mentioned by the bankers I interviewed, as well as some of the IP lawyers, when considering trademarks as collateral. However, and as explored in the interview with Professional 1 in Chapter Three, and as explained in Chapter One of this thesis, there are now new valuation methods, not only for trademarks but for all IP assets. These new methods were developed in response to recent developments and increasing demand for the commercialization of IP assets. Thus, the valuation process of IP assets in general is relatively expensive. In my view, the high cost of IP valuation is a result of the low number of professional valuators specialized in IP assets. Costs are also increased because the applied methods of IP valuations are still novel.

It was also noted in the literature examined in Chapter One, and especially the Siebrasse and Walsh report,[358] that the valuation of IP assets in general was considered to be one of the fundamental barriers to capitalizing IP. This report and Knopf's book[359] were published in the early 2000s. In the interview with IP Lawyer 4, we agreed that the value of trademarks could decrease based on market conditions, however, this could also take place with other types of collateral that are widely accepted in financial markets. For example, company shares or movable assets as vehicles, trucks or machinery could lose their value. This is why financial institutions can request insurance policies to mitigate risks. The interviews also revealed that most of the key professionals working in financial institutions are not fully informed that these new valuation methods could provide them with adequate valuation of trademarks. The issue with Canadian financial institutions is that they are not willing to access and try new products. As explained by some of the bankers I interviewed, if one financial institution began accepting this kind of transaction, other banks would follow.

The interviews revealed that a lack of a consistent and sufficient revenue stream is one of the fundamental issues that prevent SMEs from receiving financing from financial institu-

[358] Siebrasse & Walsh, *supra* note 41.
[359] Knopf, *supra* note 51.

tions. In some cases, as stated in the interviews, the bank might refrain from financing a business if it does not have a sufficient revenue stream even if it owns valuable assets.

4.2.2 The Canadian Community Lacks IP Education and Literacy

The lack of knowledge of IP and understanding of its possible utilization is a complex and multi-level issue. As noted in Chapter Three, I noticed during the interviews that there is insufficient IP knowledge among different levels of professional practice. IP illiteracy exists among business owners, bankers and lawyers in addition to other business sectors.

In the banking industry, most of the interviewed financial institution participants were not familiar with the importance of intellectual property assets and how they can be accepted as security. As became evident in the interviews, even though financial institutions in Canada mostly do not regard IP assets as possible security interests, they can, however, accept intellectual property included as part of a security package with other sorts of assets. The discussion revealed that there is a lack of knowledge with respect to using security interests in trademarks, but this illiteracy extends to the preliminary understanding of trademark assets in general and how they can be commercialized like any other asset. The interviewed Ontario trademark agent suggested that financial institutions do not fully understand the importance of IP assets. All the participants from financial institutions revealed that there must be professional training or IP literacy programs for financial institutions to raise their awareness of IP assets. They mentioned that the Government of Canada should be involved in this kind of training in partnership with financial institutions.

At the business level, as confirmed by many interviewees, there is a lack of knowledge among business owners, especially in the SMEs. From an economic perspective, they consider the registration of IP assets, and especially trademarks, a waste of time and money. The Ontario trademark agent stated that in many cases, business owners, especially small businesses, are not aware of the importance of their own trademarks. This is evidenced by their reluctance to proceed with the registration of their trademarks.

IP Lawyer 3 stated that business owners have a significant shortage of knowledge about the importance of IP registration and how such registration could both generate profit and protect their rights. Professional 2, as an entrepreneur and business owner, illustrated that he has very limited knowledge about IP and has not yet registered a trademark to protect his rights. Professional 1, the experienced brand valuator, said that there is a lack of knowledge and understanding in the market about the value of IP assets in general and that there is insufficient public interest in understanding the value of trademarks and brands.

Another example of the lack of IP knowledge appeared during the interviews: sometimes even lawyers are not fully aware of how to use trademarks as collateral. This could be concluded from the number of IP lawyers who were unfamiliar with this kind of transaction. As stated clearly by IP Lawyer 6, if lawyers are not fully aware of the legal process and implications of using trademarks as a security, they will not recommend them to their clients.

The lack of awareness of the importance of capitalizing trademarks exists in almost all relevant sectors in Canada. Even if IP agents and lawyers have a deep and thorough understanding of IP assets and how to protect them, they are not always aware of the possibilities for using IP rights as collateral. It could be argued that there is a Chinese wall between IP practice and corporate finance in Canada, and each field of practice is isolated from the other. It is common to find professionals working in one domain who are not aware of the importance and possibilities of the other domain.

It is worth noting that the literacy of IP creators regarding the value and importance of IP assets increases as the size of their business increases. Therefore, it is common to find that SMEs are relatively less willing to protect their IP rights than are larger businesses. As stated in Chapter Three, this could be attributed to a lack of knowledge regarding the importance of IP. As discussed earlier, this lack of knowledge could negatively affect the IP owner's decision as to whether or not to proceed with the registration of the IP right. In other words, in the absence of knowledge of possible economic incentives and rewards the IP owners could be reluctant to endure the costs of IP registration, as will be discussed later in this chapter. Economic factors act as motives, or barriers, to developing IP rights.

4.2.3 The Security Interest Perfection Process is Uncertain

The present research reveals that there are no restrictions in the legal framework governing security interests in Canada (PPSA or CCQ), nor in the legal framework governing the registration and protection of trademarks (*Trade-marks Act*) on the creation and perfection of security interests in trademarks. However, neither the *Trade-marks Act* nor the relevant regulations provide a mechanism that allows the annotation of security interests in the trademark records with no need for dual registrations. The lack of this mechanism leads to a level of vagueness and uncertainty in the system.

Most of the IP lawyers I interviewed were aware of the issue of dual filing and how it could be a burden in the process of obtaining security interests in trademarks. IP Lawyer 3 mentioned that all lawyers involved in security interests in trademarks are dealing with dual registration so as to safeguard the position of the creditors in the transaction, but they are aware that there is no legal requirement for or consequence of this step. IP Lawyer 5 insisted that if dual registration became a requirement, this would not solve the problem but would be considered as an additional burden and would not be of any particular benefit. The same view was expressed by IP Lawyer 6, who noted that lawyers see dual registration as a best practice. He added that the current legal framework must be clearer to reflect the registration of security interests in trademarks. IP Lawyer 4 also confirmed that there must be a one-stop shop for registration of security interests in trademarks. It is clear that lawyers understand that neglecting dual registration could cause a state of vagueness and uncertainty about security interests in trademarks hence it is still not a legal requirement.

It is interesting that banking professionals and IP owners did not identify dual registration as one of the obstacles that prevent them from considering trademarks as security. This is somewhat contrary to Siebrasse and Walsh's statement in their report that the uncertainty of the security registration system is a main barrier.[360] The interviews also reveal that financial institutions do not consider dual registration as an impediment; in other words, it is not the primary concern of financial institutions. There are some prior measures that must first be taken into consideration in order to convince them to accept trademarks as collateral while working in parallel to remove uncertainty in the system. I do not agree with the point of view that the dual filing is not a burden, especially, that it makes the whole process more complicated instead of achieving security interests' perfection in one step. This was concluded from the literature as explored in Chapter One of this dissertation that illustrated how the dual filing

[360] Sieprasse and Walsh, *supra* note 41.

is considered a legal burden.[361] Meanwhile, when I raised this issue with the government officials, they said resolving the issue of dual registration through legislative change will not be easy and could raise constitutional issues between the federal and provincial powers. However, they were open to other ideas related to sharing information between provincial and federal governments, as will be discussed later in this chapter.

4.2.4 The Economic Incentive as a Main Motive for all Parties

The economic incentive constitutes a fundamental directive for professional behaviour towards the protection of IP assets and their acceptance as a security. The interviews revealed that the decisions of all concerned parties are affected, or could be affected, by the economic incentive. This economic incentive could encourage or discourage the concerned party from taking further steps towards registration or acceptance of IP assets.

The economic effect starts with the business owners, especially in the SME stage. If the business owner does not realize that the registration of trademarks can have a direct economic impact on the business, she will not register her trademarks. On the other hand, if the business owner knows that developing her business IP portfolio can help her to raise capital through using it as collateral, she will be keen to invest in developing this portfolio. This was revealed in the empirical research through the insights of the Ontario trademark lawyer and Professional 2, who owns a start-up company in Canada. As suggested by the interviews, in many cases people refrain from registering their trademarks in Canada and they feel that the registration process is very expensive when compared to the proposed net result of the regis-

361 See Anthony Duggan, Jacob S. Ziegel, & Jassmine Girgis *supra* note 44, Ron Cuming, *supra* note 45 and Grace Sweeney supra note 46

tration of their IP. Nevertheless, Professional 2 said that if he knew he could use his trademarks as collateral he would definitely develop his IP portfolio. This suggests that the economic factor may affect the decision to register a trademark, especially in the start-up stage. Also, this suggests that security interests in trademarks could add another dimension to the philosophy of trademarks. Rather than trademarks being used only for the purpose of consumer protection, registration of trademarks could add an economic advantage and incentive. In other words, security interests in trademarks maximize the economic benefit from trademarks. If capitalizing trademarks is one of the possibilities that trademark owners could use to raise capital, they will be more willing to protect and develop their IP portfolios.

The bankers in the interviews revealed that there are two main economic factors that could affect their decision to accept trademarks as collateral. First, the economic value of the trademark must be based on a reliable valuation; second, there must be a revenue stream. These two economic considerations in banking and finance culture are categorized as risk factors. The increase of risk could lead to high costs of borrowing, which could negatively affect the borrower, or the financial institution could even refrain from providing finance to the IP owner.

In addition, participating bankers proposed that the Government of Canada should provide economic incentives for Canadian financial institutions to encourage them to consider trademarks, and IP in general, as collateral. This idea was not embraced by the government officials I interviewed; they said that security interests in trademarks by themselves could be an economic incentive for financial institutions.

4.3 Recommendations for Change

After examining the legal and practical frameworks governing security interests in trademarks in Canada, and after seeking and analyzing professional and practical insights, I propose the following three key approaches to achieve efficient regulatory and procedural frameworks:

1) Increase IP literacy and build knowledge.
2) Resolve the ambiguities of the system for registering security interests in trademarks.
3) Enhance the law and economics balance as a primary method for developing a trademark legal paradigm.

4.3.1 Increase IP Literacy and Build Knowledge

As the utilization of IP has risen over the last 20 years, the problem of IP illiteracy has become common; knowledge building thus must take place on multiple levels. It could start in middle school in a nutshell to help new generations better understand and utilize IP assets. Knowledge building and IP education must be extended to cover business owners in the SME stage, banking professionals and lawyers. In each sector there must be special education programs.

In fact, CIPO is doing excellent work and provides many programs related to increasing IP awareness and education for businesses and especially for SMEs. If CIPO were to develop an educational website in addition to school programs that simplify IP for students, this would help to create a society well informed about IP rights.

Meanwhile, CIPO, IP firms and local organizations working with SMEs, such as Invest Ottawa, must cooperate to organize comprehensive training programs to help new business owners recognize the opportunities and benefits of creating and protecting their IP rights. In my view, a cursory rendition of IP rights for business owners that does not exceed a brief description of trademarks, patents and copyrights is not what business owners expect at their primary stages. There must be a more interactive program to help build IP literacy among business owners.

It is worth mentioning that CIPO recently developed a web section called "IP for business."[362] This web section provides a great deal of educational material about IP for businesses in the form of presentations, videos and IP tools, as well as a link for financing and loans. Recently, CIPO announced a partnership with the Business Development Bank of Canada (BDC) to create an online IP strategy assessment tool for SMEs.[363] These steps are progressive and ambitious, so it is important to measure the impact of educational programs on business owners and how these programs help owners to better understand their rights. It is also important to have a method to identify which programs participants complete and how many before deciding to register or to commercialize their trademarks.

In my interviews with government officials, I found willingness and passion to develop policies related to increasing IP knowledge and education through programs, training and new strategies. This will encourage SMEs to register and develop their IP rights. However, some fine tuning could take place, especially with respect to how business owners can

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[362] IP for business, CIPO, online: <http://www.ic.gc.ca/eic/site/cipointernet-interne-topic.nsf/eng/h_wr00011.html>.
[363] Business Development Bank (BDC), "Intellectual Property Strategy Assessment" online: https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/business-assessments/ip-strategy/pages/default.aspx/>.

be reached and how to convince them to join these programs. In addition, there must be specialized programs focused on how to capitalize IP assets. The programs must be customized to every field of business practice. For instance, the scope of IP training and education for food businesses is different than that needed for tech businesses. Every field of practice needs more focus on relevant IP assets and how they can be developed.

Similarly, my empirical research indicates that there is a lack of understanding between financial institutions, lawyers and IP professionals with regard to security interests in trademarks in particular and IP in general. As I mentioned above, each of the bankers interviewed for this research suggested that awareness and training programs are needed for financial institutions to increase IP knowledge in the financial sector. Such programs must be provided by CIPO and include detailed information to answer questions raised by financial institution professionals. Such a program could include IP lawyers and IP valuators as speakers to foster comprehensive understanding by banking professionals about security interests in trademarks in particular and in IP in general. Also, business lawyers should attend mandatory training programs related to security interests in trademarks and IP in general because, as was mentioned by IP lawyer 6, lawyers will not propose security interests in trademarks or any other IP asset if they do not fully understand them.[364] I also propose organizing a series of meetings, workshops and conferences to gather government officials, policy makers, financial personnel, IP professionals and any other representatives from all concerned parties to reach a consensus on how to promote and develop the current regulatory and practical frameworks governing security interests in IP assets. These events could initiate a mandate or a declaration

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[364] These training programs could take place through cooperation between CIPO and law societies in different provinces in Canada.

to be developed into legislative amendments or policy changes. Indeed, this could lead to financial institutions developing their credit policy to start accepting trademarks as collateral.

4.3.2 Resolve the Ambiguities of the System for Registering Security Interests in Trademarks

As discussed in Chapter Two, the current legal framework in Canada governing security interests in trademarks needs to be further developed.[365] The ambiguity of the process of security interests in trademarks, especially in respect of dual filing, is one of the main barriers that could discourage all parties from considering this kind of security. In Canada, the creation and perfection of security interests in intangible assets takes place according to the guidelines of the PPSA, or the CCQ in Quebec. However, there is no requirement to register security interests in trademarks in the trademark's file; according to the trademark regulations, it is optional to register the security agreement with CIPO. This means that if a lender fails to proceed with this registration, the trademark file will not show that this trademark is being used as a security; nonetheless, there will be no legal consequences. In fact, financiers and their legal advisors take refuge in the dual registration process by creating security according to the provincial rules and filing the security agreement with CIPO as a pre-emptive measure to ensure that the security interest appears in the trademark register with no real added value. It can be argued that the evidence shows that single filing is sufficient.

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[365] I can say that this development is needed with respect to security interests in all other IP rights. This could be part of my future research which would examine the legal barriers to security interests in IP rights. Hence, this future research would hopefully pave the way to establishing an efficient legal and practical system of capitalizing IP.

This issue was examined in Chapter Three, and among all the participating IP professionals, most of the lawyers were aware of the concept of dual filing. IP Lawyer 5 stated that when he conducts a search for security interests in trademarks, he does so in the PPSA register and not the trademark register. In my opinion, the current system needs improvement, such as allowing registration of security interests to appear in the trademark's file upon its creation and registration with the provincial government.

One of the key components of the perfection of security interests is to notify third parties that this asset is being used as a security. It is expected that this information will appear in the asset registration file, as is the case with vehicle registrations. This is especially important because some debtors may operate their business in more than one location. As a result, if a third party wants to check whether a trademark is being used as a security, they first need to verify where the CEO of the debtor is located.[366] I do not believe that this is the best practice. As per the example used in Chapter Two, if you are buying a used vehicle in Ontario, the seller is obliged to provide you with the Used Vehicle Information Package (UVIP) that contains all information related to the vehicle's history. The UVIP specifies whether there are any debts or outstanding amounts owing on the vehicle.[367] In contrast, with respect to security interests in trademarks, there is no such rule to protect third parties when dealing with trademarks.

However, when discussing the high costs and vague procedures associated with security interests in trademarks, it is not practical to propose that dual registration of security interests in trademarks be a prerequisite. Nonetheless, there must be a solution for this problem

[366] Hatzikiriakos, *supra* note 50.
[367] https://www.ontario.ca/faq/how-do-i-find-out-if-money-owed-vehicle.

that provides a one-stop shop for the perfection of security interests in trademarks, as proposed by IP Lawyer 4. The difference here is that the one-stop shop that I propose will not be based on having dual registrations, one provincial and one federal. Rather, this system will require that a security appear in the trademark file upon its registration with the provincial government. The requirement is for a system that synchronizes data related to the registration of security interests in trademarks between the PPSA or CCQ registration and the trademarks office.

As discussed in Chapter Two, technology could be used to create a shared ledger to overcome the problem of dual filing of security interests. This process would be possible while the registration of security interests in trademarks will take place according to the provincial legal framework. The only change will be that such security interests would then also appear in the federal trademark file. There would be no need to re-register security interests in the trademark file as they will be registered simultaneously upon creation of the provincial security.

4.3.2.1 Block-chain: a more secure alternative for registration of security interest in trademarks

Every day the applications of block-chain technology are expanding, and it is expected to be a fundamental tool used to solve critical and complex legal and business issues.[368] So, what is meant by block-chain and how can block-chain technology be used to solve the problem of dual filing of security interest in trademarks?

368 J Beckage, Understanding the practical and legal challenges of blockchain. *Rochester Business Journal, 33*(24), 23-24. (2017). Retrieved from https://search-proquest-com.proxy.bib.uottawa.ca/docview/1942231506?accountid=14701

Block-chain technology is a relatively new method to store and record data. It is different and more efficient than the classic and well-known methods of storing data, which are based on a centralized system administered and controlled by one organization.[369] There are many drawbacks to these systems as manifested in the insufficient level of coordination between different organizations or departments in the same company that are utilizing the same saved data. This information is normally saved with its owner or administrator, and in some cases parts of these databases are shared with others.[370]

In the context of security interest in trademarks, as discussed in detail in this dissertation, the creation and perfection of security interests in trademarks is taking place according to the applicable provincial legal frameworks. The details of a transaction are not shared with CIPO unless the creditor decides to annotate with the security agreement in the trademark register, which is a voluntary procedure. This means that the information and history of transactions involving the trademark as a security in the trademark register will be inaccurate and incomplete. In fact, this led scholars, as examined in the literature review, to consider this process as uncertain and to recommend a change of law to allow the creation of a one-stop shop for creation and perfection of security interests in IP assets.[371]

In contrast, Block-chain technology is based on the registration of data in a decentralized ledger that can be shared with other parties to access or to contribute; each contribution

369 *ibid*
370 *Ibid*
371 Howard P Knopf, "Security Interests in Intellectual Property: An International Comparative Approach" (2002) 7 Intl Intellectual Property L & Policy 90-72.

is then shared with others accessing this database.[372] The idea of block-chain and distributed ledgers arose from cryptocurrencies such as Bitcoin, but the concept is not new; it started with commercial ledgers that record every single movement in a business and can only be modified through new entries and not by deleting existing ones.[373] More precisely, block-chain is a process of distributed ledger recordings, and although block-chain emerged primarily as part of Bitcoins and crypto-currencies, block-chain can be used in many other fields to record and track anything, such as education and health records, financial and banking services, and contractual relations.[374]

Although there are other recording systems used to register information, the block-chain method is unique in the way it records data. It records information in blocks that are arranged in chronological order, and these blocks are linked together to form a chain.[375] As stated above, to be able to change any information recorded on a block is to add a new block that includes the amendment.[376] One of the most important characteristics of block-chain is decentralization; there is no specific central registry of all the recordings because the data are distributed through the block-chain network.[377]

How Block-chain technology can help in solving the issue of double registration of security interest in trademarks

372 Beckage, *Supra* note 369
373 M Nofer,. P Gomber, O, Hinz,. et al. Bus Inf Syst Eng (2017) 59: 183. https://doi-org.proxy.bib.uottawa.ca/10.1007/s12599-017-0467-3
374 *Ibid*
375 *Ibid*
376 What is Blockchain?, Centre for International Governance Innovation, video , available online on https://www.cigionline.org/multimedia/what-blockchain
377 *Ibid*

In the interviews, I mentioned the issue of creating a unified system for security interest in trademarks with government officials as well as lawyers. The government officials stated that the constitutional issues related to the federal and provincial powers could be a barrier to achieving this unified system. Two IP lawyers offered similar opinions. It is a complex issue that requires cooperation between the federal and provincial governments to coordinate and reach a unified system that allows a one-stop shop for registration of security interests.

The complete analysis of the issue of dual filing will show that the problem is not specifically related to the need to have a dual perfection of security interest in trademarks. In fact, it requires mainly the creation of one record of security registration and perfection that appears in the trademark register.

Therefore, a block-chain -based register could be created to be a shared ledger between the federal and provincial governments. This system would be a partially decentralized system that shares the information related to security interests in trademarks between the PPSA and CIPO. The creation and perfection of the security interest in trademarks will take place according to the provincial laws (PPSA or CCQ) in the same manner that it is happening now. The change will be that the registration will be recorded on a block-chain based database shared with CIPO. Once the registration takes place, it will appear in the trademark register of the secured trademark. Upon the release of security interest from the provincial records, such release will appear on the trademark register. This system could be developed even to block any transfer of ownership attempts as long as the trademark is collateralized.

The benefits of using block-chain database to record security interests in trademarks

There are many benefits associated with using the block-chain technology to build an adequate shared ledger between the provincial and federal governments to record security interest in trademarks transactions. They are:

1- Increasing the certainty in the system of security interests in trademarks
2- Solving the constitutional conflict of provincial and federal powers
3- Creating an adequate database of the security interest in trademarks for further analysis and strategic planning
4- Cost efficiency
5- The block-chain ledger could be customized and developed to include more trademark information.

1- Increasing the certainty in the system of security interests in trademarks

The problem with the current system of security interests in trademarks is that the creditors are not required to annotate the security agreement in the trademark register. This means that there could be a security that does not appear in the trademark register. This leads to a lack of confidence and certainty about the information stated in the trademark register. The problem of ambiguity surrounding the proper procedures to register security interests, as revealed from the interviews, could lead financial institutions and even IP and business lawyers not to consider this kind of security. Meanwhile, Siebrasse and Walsh mention the lack of consistency and uncertainty as one of the main barriers of security interest in IP assets in general.[378]

The block-chain ledger will increase certainty and confidence in the information and records of the trademark register, and this will be reflected in the simplification of the IP due diligence process. The recording of security interests in the trademarks register will automatically appear upon perfection of the security at the provincial level. Therefore, there will be no doubts about the accuracy of this data.

2- Solving the constitutional conflict between provincial and federal powers

The conflict of powers between federal and provincial governments is one of the main barriers to the perfection of security interests in trademarks. This appeared from the literature review especially the Siebrasse and Walsh report and Knopf's book. Meanwhile, the analysis of the Canadian legal paradigm as explored in Chapter Two of this dissertation revealed how the creation of security interests in a federal asset according to the provincial legislation led to a high level of uncertainty and vagueness. Therefore, in many cases professionals decide to proceed with dual filing of security interests in trademarks, as explained before. The dual filing will take place once before the provincial government, to create and prefect the security interest, and the second before the federal government to annotate the security interest in the trademark record. The second filing does not create any legal consequences but it helps to ensure that the security interest appears in the trademark file to inform third parties with the

378 Sieprasse & Walsh, *Supra* note 41 at page 91

existence of the security over this asset. This step is considered as the security attachment, as explained in Chapter Two of this dissertation.

In the interviews, government officials and lawyers talked about this issue as an obstacle for any possible legislative amendments to address the dual registration problems. Especially, that as per the constitutional powers the security interests could not be governed by a federal statute as this would be considered *ultra vires* the federal government. The diagnosis of the current situation shows that there is a need to have a one stop shop that ensures that the security interests is created according to the provincial law but in the same time appears in the federal records.

The block-chain security registration system that I propose here will solve this problem. In more details, there will be a shared ledger between Provincial government from one side and the Federal government from the other. The Provincial government will create the security interests according to the PPSA or the CCQ but one more step will be added. This step is the annotation of the security interest in trademark upon creation in the federal trademark records. This process guarantees that no breach of the constitutional powers takes place as the perfection of the security interests in a trademark remains a provincial power. Hence, the federal annotation is not to be considered more than an official notification of the creation of security interest in a federal asset.

This new process will require amendments to the PPSAs and the CCQ especially in respect of the security interest in federal assets regulations. Also, it will necessitate some federal and provincial regulations on how to administer the process for the sharing of information related to security interest in trademarks between federal and provincial governments. This means that no powers will be added or removed from any governmental authority. This must take place through coordination between both levels of government to prevent any possible contradictions in the proposed regulations.

In parallel, there must be amendment to the *Trademarks Act* to regulate how the security interests' annotation and deletion will take place in the register of trademarks. This will include the provisions related to the validity and effect of registration starting from In my view, there will be also a need to make changes of some policies and practice guides related to trademarks in the federal level and the security interest's creation in the provincial level. These amendments shall include the policies related to the annotation of security interests in the register of trademarks.

It is worth to mention that the application of this process using the block-chain ledger could, after some customization, be used with other IP assets. Also, it could be said that this could be a valid tool to solve many problems related to the conflict of powers between the federal and provincial governments that one level does not require more than having a record or being notified by action of the other level of government or between different provinces. This could be found in taxation, companies' registers and even parking and provincial offences.

3- Creating an adequate database of the security interest in trademarks for further analysis and strategic planning

The block-chain ledger will provide complete and efficient information about the security interest in trademarks. This information could be used to analyze and see the percentage of growth in security interest transactions every year. It also could be used to identify the segments and size of businesses involved in these transactions. In addition, the data could be used to identify the financial institutions or venture capitals that are accepting trademarks as collateral and whether they are Canadian or international. From these analyses, CIPO will be able to identify many issues related to their future plans and policies.

In Chapter Three of this dissertation, I mentioned a similar study from the United States that shows the number of transactions in security interest in trademarks over time. This study stated that the numbers are not 100% accurate because the U.S. system does not require the registration of security interest in trademarks in the USPTO files. If CIPO applied the block-chain technology as described above there would be more accurate data upon which to rely to analyze and study changes in this sector. As noted in the interviews, there is no such data or analysis in Canada.

4- Cost efficiency

The application of the block-chain ledger will act as an economic incentive for all the concerned parties. The registration of the security interest in the trademark register will take place automatically without any further costs or procedures by debtors or creditors. This will help to encourage financial institutions to consider this kind of security that will not cost more to attach or to perfect. In addition, it will save the time that was spent registering this security in the trademark register.

5- The block-chain *ledger could be customized and developed to include more intellectual property information*

In a future stage, the block-chain technology could be used to develop more adequate databases that record not only trademarks but all the IP assets. As mentioned by Professional 1 in the interview, there is a lack of a unified system that enables valuators of brands to access all the information about IP assets owned by the same business, to valuate IP assets, or even to complete the due diligence process. The block-chain ledger could be used to create a unified system in CIPO that consolidates all the IP assets owned by the same business in one ledger. This service would facilitate access to IP records and help to encourage businesses to deal with a more user-friendly system.

Furthermore, as stated by one of the IP lawyers who I interviewed, the trademark register must ensure that the chain of titles is all clearly recorded in the trademark register. In fact, by using the block-chain ledger, the chain of title will be more accurate because it will register every single action in the trademark's history. This will also increase the certainty in the trademark system.

In addition, this ledger could include all transactions related to trademarks. Also, it could be shared with the company's registration authority, the PPSA office or any other related authorities. This approach would ensure low-cost registration of securities because it would be a single event. In addition, security interests would appear in the trademark ledger, so any third party dealing with the trademark, or its owner, would have access to its full history.

4.3.3 Enhancing the Law and Economics Balance as a Primary Method of Developing a Trademarks Legal Paradigm

As outlined in Chapter One, the law and economics approach provides an efficient tool for analyzing law. The approach assumes maximizing utility and wealth is the main motive of human economic behaviour, and any change to the legal or procedural frameworks must take this into consideration.[379] The law and economics approach looks at the law from the point of view of human behaviour.[380] The main challenge when trying to develop an interdisciplinary approach between law and economics is that in many cases they contradict one another; i.e., economics is based on the rationale of the maximization of wealth and the exploitation of all available resources, while the law focuses on what is just and fair.[381] According to Gary Becker, human behaviour may be circumscribed or influenced by three concepts:[382]

(i) bounded rationality

(ii) bounded willpower

(iii) bounded self-interest

These three bounding concepts seemingly make human behaviour difficult to analyze according to the usual principles of economics. However, I submit that two of the three bounds of human behaviour can rationalize the behaviours of IP owners relating to IP commercialization. It helped me to understand and rationalize both economics and law.[383]

The impact and motive for security interests in trademarks is purely economic. It could be said that any amendment to or development of the current regulatory and procedural framework must take the economic incentive as its starting point. Trademark owners will be reluctant to register their trademarks if there is no economic incentive associated with registration. This economic incentive could take place in the form of facilitating the process for creating security interests in trademarks, which will help SMEs raise capital. Meanwhile, SMEs, especially those in their preliminary stages, are keen not to pay any expenses without direct benefit.

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[379] *Ibid*.
[380] Friedman, *supra* note 91.
[381] Harrison & Theeuwes, *supra* note 102.
[382] *Ibid*.
[383] Jolls, Sunstein & Thaler, *supra* note 100.

That being said, to encourage trademark owners to proceed with registration of their IP rights or to create a good IP portfolio, there must be an associated economic incentive.

Some common economic incentives in the licensing of IP rights are beyond the scope of this research; however, one economic incentive that I do focus on is the capitalization of IP rights. The fundamental purpose of trademark registration is consumer protection, which in many cases is not the first priority of business owners. If IP owners understand that their IP rights can be used as collateral to secure financial indebtedness, this economic incentive will make them keen to register and maintain those rights. The main economic incentive will be access to cheaper financing, which could be 2% less than the unsecured lending cost. However, the costs associated with IP registration and valuation must not exceed this economic incentive, otherwise the IP owners may lose their appetite to proceed. The key to the success of capitalizing IP is to decrease the costs associated with the entire process.

Despite this, financial institutions are reluctant to proceed with capitalizing IP assets due to a number of economic factors. The first is the risk of leveraging IP, because each bank applies its own credit policy. One banker told me there is no reason for his financial institution to change its credit policy and accept new rules that could be of high risk. To change this pattern, there must be a significant economic incentive to encourage financial institutions to start IP-based lending. I believe this incentive could be in the form of governmental guarantees for the IP-secured loans or discounted taxes on the financing of innovations and IP-asset transactions.

As explored in section 1.6 of this dissertation and from the analysis of the current regulatory, policy and practical frameworks, it is clear that the current legal framework could be better developed to enhance a more comprehensive structure governing security interests in trademarks. In Chapter Two, I examined how the current legal structure governing security interests in trademarks lacks certainty on how to perfect security interests in trademarks. It is clear that there is a need of adequate measure that could help on increasing the clarity of the process to perfect the security interests in trademarks. This was also confirmed through the interviews as the many of the interviewees confirmed that where they accept trademarks as security, they prefer to have dual filing of security one according to the PPSA and the other with CIPO. The dual filing as explored increases the complexity of the whole process in addition it increases the cost associated with perfection of security interests in trademarks. While on the other side, the registration of any security interests in any other personal property could take place in a one stop shop.

As investigated in Chapter Two, there are some risks that are associated with the use of trademarks as collateral. These risks mainly involve the loss of distinctiveness and the depreciation of value in addition to the likelihood of depreciation of the trademark goodwill.[384] As explored, the grounds of this issue is found in subsections 18(1) , 20, 22(1) of the *Trademarks Act* which stated that no one can use trademarks owned by others in a way that could lead to depreciation of the value of its goodwill.[385]

Therefore, despite the fact that security interests in trademarks help in enhancing the use of trademarks as commercial assets, however, it is very important the secured creditor must take into consideration that the risk of the trademark invalidity is very crucial. In other words,

384 Scassa, *Supra* note 137.
385 *Ibid*

the secured creditor must take into consideration that the use of trademark as collateral necessitates a high level of maintenance to ensure that no acts or omissions by the debtor or by third parties could affect the distinctiveness. Therefore, it is important that the secured creditor takes into consideration that while using the trademark as collateral they must maintain a balance with the consumer protection role of the trademark.

On other level, the new approach that I proposed in this dissertation through the creation of the block-chain shared ledger could act as an adequate tool to overcome serious problems that prevents dealing with IP federal assets as collateral through having records of any transaction that involves the use of IP assets as collateral. The direct benefit of this process will encourage financial institutions to have more confidence in the security interests in trademarks process. In the interviews, although part of the interviewees stated that they have no major concern on the current legal framework, thus, others stated that the development of the said frameworks could encourage business owners to register their trademarks.

The reform proposal presented in this dissertation will help to increase public awareness of the value of trademarks and will have an indirect impact on developing the Canadian IP paradigm. This could take place through the use of the security records by the government to better understand any required developments. These required developments not necessary will be related only to security interests in trademarks but could be extended to develop other aspects related to trademark policy.

The economic impact of the proposed changes could surpass the limits of developing trademark paradigm and could positively affect the Canadian business community.

4.4 What Did this Research Add to the Existing Literature?

The findings of this research intersect with the existing literature at some points and deviate at others.

One of the most important pieces of literature in Canada related to security interests in IP assets, as referenced in Chapter One, is the 2002 report, "Leveraging Knowledge Assets," by Norman Siebrasse and Catherine Walsh**.** This report revealed significant findings pertaining to the main obstacles to having security interests in IP assets in general. These findings can be summarized in the following points:

1) The risk of valuation of IP assets associated with security interests in IP assets
2) The lack of certainty in the legal framework governing security interests in IP assets
3) The ambiguity related to the IP ownership title
4) The law of debtor and the choice of applicable law
5) The federal registration of IP security interests as an alternative to the choice of law

Since this report was issued, some changes have taken place in the legal and regulatory frameworks that govern security interests in IP. However, my research focused only on the obstacles to developing a successful regulatory framework governing security interests in trademarks. Based on the analysis of these barriers throughout this research, I have developed several recommendations.

Analysis of Siebrasse and Walsh's findings reveals what has changed, what has remained the same and what could be changed by the recommendations proposed in this dissertation.

4.4.1 The Risk of Valuation of IP Assets Associated with Security Interests in IP Assets

The methods of IP asset valuation, mainly trademarks, have changed during the last decade and are still being developed. Indeed, developments of IP valuation methods must be well communicated to all concerned parties, especially in the financial sectors. In addition, there must be adequate measures to ensure that the valuation of trademarks services is available for reasonable fees. Otherwise, these services will not be accessible to SMEs, and business owners will be discouraged from proceeding with valuation because of minimal economic returns.

4.4.2 The Lack of Certainty in the Legal Framework Governing Security Interests in IP Assets

One of the fundamental findings by Siebrasse and Walsh was how the lack of certainty in the legal framework governing security interests in IP could affect the willingness of the concerned parties to consider security interests in IP assets.[386] This issue was examined thoroughly in this dissertation, and I explored how vagueness could negatively affect the development of security interests in trademarks. As discussed, the federal-provincial conflict of powers is a critical problem that acts as a barrier to simplifying the current system and to creating an accessible, unified register of security interests in trademarks.

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[386] Siebrasse & Walsh, *supra* note 41 at 27.

My analysis shows that there are no fundamental differences between the U.S. and Canadian legal paradigms. However, the WIPO questionnaire revealed that there are other tools provided to secured creditors in the U.S. that do not exist in Canada. For example, in the United States secured creditors have the right to take separate legal action and enforce their rights against third parties. From a lender perspective, this could increase trust in the IP capitalization system and eliminate vagueness and uncertainty.

As I recommended, the application of a ledger linking the federal government to its provincial counterparts would solve this problem. The creation and perfection of security interests would take place according to the provincial law while the information of the security would be registered automatically in the secure trademark register. This system would create a high level of confidence and certainty in the system and would allow any third party to easily access this information for any purpose such as due diligence.

4.4.3 Reform of the Ambiguity Related to the IP Ownership Title

The Siebrasse and Walsh report mentioned the problem of the ambiguity in the IP title registration system and how there must be a clear and inexpensive registration method for the transfer of title of IP assets.[387] Transfer of title could be managed with new technologies such as block-chain to ensure that the records of chains of title accurately reflect all the assignments of the trademark's history. In addition, CIPO must block any assignment of ownership of any secured trademark until the security is released. This would also foster a high level of confidence in the system.

This point was raised by IP Lawyer 6; he said this is one of the main issues that could

[387] *Ibid* at 45-46.

create uncertainty and a lack of confidence in the efficacy of security interests in trademarks system.

4.4.4 The Law of Debtor and the Choice of Applicable Law

This issue was raised in Chapter Two of this dissertation. I described how security interests in trademarks are governed by the laws of the province where the CEO and the head office of the company are located. In fact, the issue of choice of law could be a crucial problem that increases the level of uncertainty in the system of security interests in trademarks. This is especially true if the debtor operates in more than one province.

However, my recommendation to use shared-ledger technology would solve this problem. A shared ledger would ensure that security interests in trademarks exist in the trademark register. There would be no need to check the provincial records first as the trademark register will be the first place to check. The information in the trademark register about the security interest will show the province where the business is registered, thereby removing the need to investigate and speculate which provincial law is applicable. This would result in savings of both time and money in addition to having a high level of confidence in the information provided.

4.4.5 The Federal Registration of IP Security Interests as an Alternative to the Choice of Law

Siebrasse and Walsh recommended having a federal registration system for security interests in IP assets. They proposed that this system govern security interests in federal IP assets.[388] I cannot deny that this was my point of view at the beginning of my research; however,

[388] *Ibid* at 100.

my analysis of the applicable legal frameworks and the results of my interviews showed that this would not be the ideal solution to the problem. There are constitutional barriers and conflicts of power between provincial and federal governments. In addition, CIPO's mandate does not include managing security interests in trademarks or in IP assets in general, which comprises creation and perfection of the security. The most important goal is to have a proper trademark register that shows all the transactions and events taking place with the trademark. In my opinion, and as proposed above, the block-chain ledger would help to avoid creating a federal registration system of security interests with all the expected legal and practical obstacles.

4.5 Conclusion and Future Research

4.5.1 Conclusion

The main focus of this research was to identify the gaps between market practice and needs, on the one hand, and the existing legal frameworks related to security interests in trademarks in Canada, on the other. I examined the extent to which the related legal frameworks in Canada and the United States can efficiently facilitate raising capital for corporations using their trademarks, and I looked for pitfalls and barriers and what might be done to overcome them in Canada based on the outcome of the interviews I conducted in Canada.

I explored in Chapter One how the existing Canadian literature did not propose sufficient solutions to the existing pitfalls in the current legal, practical and policy frameworks. And how most of the writings focus only on the security interests in IP from one perspective (IP or corporate finance only) and not providing comprehensive alternatives. While on the other hand it is noticed how the U.S. literature is more advanced as well as other literature from UK, EU and Japan. Meanwhile, it is noted how other jurisdictions provide innovative ideas to encourage the use of IP assets as collateral, such as Singapore, which provides subsidies for IP valuation exercise and partially underwriting of the loans.[389]

The present analysis of the legal frameworks in Canada and the United States clearly demonstrates how the two regulatory frameworks are very similar. In particular, trademark legislation in both countries is federal, while security interests are governed by provincial or state laws. It is clear that both countries have a problem of dual registration of security interests. However, in Canada the business culture is more conservative and tends to rely more on the less risky transaction. This is different from the business culture in the U.S. which is more tolerant to accept new challenges and always tries to find innovative solutions for the associated risks.. [390]

Meanwhile, the outcome of this research and as evidenced from the interviews in Chapter Three shows mainly that there are some pitfalls that negatively affect the use of trademarks as a security. These pitfalls are mainly:

1- The lack of knowledge related to IP in general and trademark in particular and how it could be utilized in a more advanced way as an asset in parallel with its role in consumer protection. It was clear that this lack of knowledge exists in the SMEs level and also is extended to the banking and finance professionals. This has a direct negative impact on accepting trademarks as collateral. In this context, I proposed to enhance

389 Kono, Supra note 54
390 Relative examples are stated in Chapter Two of this dissertation about the Silicon Valley bank and the security interests in Canadian trademarks granted to the U.S. financial institutions as collateral, Supra notes 9 &10.

and increase knowledge and IP literature among the business communities, as explained in Chapter Four.

2- The dual filing problem and the division of powers between the federal and provincial governments in respect of creation, perfection and attachment of security. For this problem, I proposed the creation of a block-chain ledger to act as a shared ledger between the federal and provincial governments. This ledger, if the governments agreed on its creation, could act as a one stop shop for the security interests in trademarks that does not affect the constitutional powers of different levels of the government.

3- How the trademark as collateral is always associated with the risk of invalidity. In this context I explored how the trademark could be invalidated, which means the loss of the collateral. I explained in details in Chapters One, Two and Four how the secured creditor could mitigate this risk through using IP management strategies along with belts and suspenders in the security and loan agreements.

4- The valuation issue is one of the fundamental concerns raised by most of the scholars. I explored how the new valuation methods could help in providing more accurate and reliable valuation outcomes of the IP assets. In Chapter One I highlighted how other jurisdictions are providing more attention, support and development to the IP valuation as in the EU, Singapore and UK.

As stated earlier, the government could develop new programs that motivate financial institutions to capitalize the IP market. Likewise, the government could provide incentives to encourage venture capital to develop this market in addition to providing adequate knowledge building and IP education. Also, the use of a ledger could help to overcome many of the procedural, constitutional and economic barriers to having a proper system of security interests in trademarks.

At the end I emphasize what Judge Kozinski stated, that as the trademarks evolve and develop each day there must be in parallel development in the legal framework, and we cannot expect that the trademark will be doing more work than what it was created for without developing this legal framework.[391] And I add to his words that the development should not only be limited to the legal frameworks but it must be extended to include policies, practices and how we think about trademarks.

4.5.2 Future Research

This dissertation highlights the need for further research and policies related not only to security interests in trademarks but also to more advanced levels. These levels could be summarized as follows:

1) Security interests in other IP assets in Canada such as patents, domain names and copyrights

When I started my research, my plan was to examine security interests in IP assets in Canada and the United States. However, I realized that this would be a massive project. While my dissertation is more limited in scope, I believe that it can act as a starting point for future research and policy proposals related to capitalization of IP assets. As investigated above, the barriers that could prevent financial institutions from moving forward with capitalization of trademarks are similar to problems faced by other IP assets. Therefore, solving issues related to security interests in trademarks will assist in the development of similar

391 Kozinski, Supra note 71

frameworks to govern other forms of IP assets.

2) Creation of an adequate database for IP security interests

When I say creating an adequate IP database, I do not mean that there is no current database for each IP asset. What I am advocating is the creation of a more detailed database that reflects the security interests' transactions that involve IP assets. In other words, all the information related to security interests in IP assets must exist in the relevant record. The use of block-chain technology would help to ensure that security interests in any IP asset appear simultaneously in its file upon perfection with the provincial authorities. This will ensure that IP records reflect the history of all relevant transactions.

3) Creation of digital identification for IP owners

The digital identification of IP owners means the creation of a consolidated database instead of having Chinese walls between different IP records in CIPO. CIPO could create profiles for each IP owner that show each owners' assets. This would include trademarks, patents, copyrights or industrial designs, for instance. The importance of this database is that it would facilitate the process of IP portfolio valuation as well as any due diligence that includes IP assets. This data could also help CIPO to better allocate the percentage of IP assets owned by each sector and size of business. This will help to have better policies to develop IP frameworks.

4.5.3 Where Do We Stand?

The future may be predicted by the assessment of future strategies, policies and plans. To determine whether we are going in the right direction, we must examine whether Canadian plans are sufficient to face future challenges. With this in mind, I reviewed the CIPO annual report for 2016–17 titled *Empowering innovation through IP*, issued in January 2018.[392] In the report, CIPO announces its future plans and strategies for the protection and development of IP rights. As the report's title declares, empowering innovation is a fundamental objective of CIPO. The report claims that IP development has great potential, and one of the main topics covered is IP awareness and education. The report emphasizes the importance of raising awareness in SMEs in collaboration with other businesses, educational and not-for-profit organizations. As mentioned earlier, increasing awareness and IP literacy is one of the main factors in promoting innovation and IP protection. When planning to develop and promote innovations, more focus must be put on the idea of IP commercialization, which includes the valuation of IP assets and the development of financing schemes that accept security interests in IP assets. I noticed that CIPO is now planning to focus on the idea of IP commercialization.

It is essentially saying: Valuation encourages the development of a system to valuate IP assets and innovations. As identified in this dissertation, valuation is one of the main obstacles to having proper security interests in trademarks, especially with the uncertainty of the applied valuation standard. Government intervention to determine acceptable valuation standards could mitigate uncertainties associated with the valuation process. The second obstacle related to valuation is its relatively high cost.

The objective for security interests in IP relies on legal and procedural frameworks to smooth the way for IP owners and innovators to access financing. It proposes the creation of a joint platform that involves innovators and investors in a manner that facilitates communication and builds relationships. It also motivates financial institutions to start applying new

[392] https://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/vwapj/annual-report-2016-2017-eng.pdf/$file/annual-report-2016-2017-eng.pdf.

credit policies vis-à-vis security interests in IP rights.

If Canada began applying a similar strategy to develop security interests in trademarks and IP rights in general, the outcome would be significant. My empirical research suggests the Canadian market is very conservative with respect to the acceptance of new risks. However, the government could stimulate the use of security interests in IP rights by adopting an adequate valuation method. I also recommend that the government should pledge low-cost valuation services of IP assets for SMEs. This will increase SMEs' awareness of the importance of developing their IP portfolios.

Canada must adopt a joint platform that assembles financial institutions and venture capitals together with IP owners, business start-ups and innovators in a common virtual space where they can share interests and do business in a model similar to that described in the Indian IPR policy report.

Furthermore, there must be procedural development to ensure a quick and secure way to conduct the registration of security interests in trademarks. As I proposed, we could build a block-chain system that ensures sharing of information about security interests in trademarks between the PPSA and the CIPO. Through this technology, we could overcome the problem of dual registration of security interests and decrease the cost of the service.

There must also be clear procedures and rules governing security interests in trademarks in the *Trade-marks Act.* This will simplify the whole process of security interests in trademarks and remove any ambiguity or vagueness from the system. This legislative amendment will encourage all parties to access this market.

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Appendix 1

Research Ethics Approval

Appendix 2: Interview Questions

1. General Questions

Each interview participant was asked a series of questions relating to a general understanding of security interests and securitization in trademarks:

a- Have you ever done (security interest/securitization) in trademarks?

b- What is your experience and knowledge of (security interest/securitization) in trademarks?

c- To what extent is it important to have an efficient regulatory framework that governs (security interest/securitization) in trademarks?

d- What are the economic impacts on trademark owners if they succeed in having (security interest/securitization) in trademarks (interest rate reductions)?

e- In practice, what are the best processes to create (security interest/securitization) in trademarks?

f- What are the main obstacles from your point of view that negatively affect the process of creating (security interest/securitization) in trademarks?

g- How do you evaluate the current regulatory frameworks governing (security interest/securitization) in trademarks?

h- What are your recommendations for reform of the current legal frameworks?

2. Canadian Practice Focus Questions

a- How do you see the issue of dual filing of security interest in trademarks?

b- Do you think that the 2012 *Bank Act* amendments regarding the priority of security interest registration will have a positive impact on security interests in trademarks?

c- Do you think there is a practical conflict between the *Trade-marks Act* and the PPSA?

d- How in practice can you achieve a balance between the concept of true sale and the concept of use and control of trademarks?

Appendix 3: Interview Highlights

In this appendix I highlight the most important insights of each participant interviewed. I consolidated the participant's insights on each sector into one category.

A. Banking and Financial Professionals

I interviewed professionals from different national and provincial financial institutions in Canada to investigate their perspectives on capitalizing trademarks and what they believe could be done to help develop the current frameworks governing security interests in trademarks.

Banker 1—Credit Union Ontario

I started my interview with Banker 1, a financial services advisor in a credit union in Ontario, by inquiring about the difference between provincial credit unions and national banks in Canada. He explained that as a credit union, his organization works only with its members and is provincially regulated by the Ontario Ministry of Finance. Clients of credit unions must only do business in Ontario, unlike clients of national banks.

I asked Banker 1 about his experience and background concerning security interests in IP and whether he had been part of any financial transaction that included trademarks as collateral. He told me that as part of the lending process, his credit union looks at the financial statements of the borrower, which normally include tangible and intangible assets. However, he affirmed that they do not accept IP assets as collateral on their own. The only case when they would accept intangibles as collateral is when they finance professionals. In this situation only, the credit union accepts goodwill as collateral to finance professionals such as lawyers, dentists or doctors; for any other business, they do not consider goodwill as collateral. I asked him about the rationale behind this practice and whether if a business owner provided a valuation of his trademark the bank would accept that as collateral. He told me they cannot lend based on projections except for professionals, because professionals have "earning powers and strength of character."

He clarified that even if they have a valuation, the bank will not accept IP assets as collateral. However, Banker 1 indicated that collateral is governed by the General Security Agreement (GSA), which includes all of the borrower's tangible and intangible assets. If a company does not own any tangible assets, the bank will review its financial leverage, income and debts and might ask for insurance policies as collateral for the business; however, they will not consider trademarks or IP assets in general as collateral. They will only finance according to the borrower's cash position and leverage, and they will not consider the brand as separate collateral.

I queried about the differences between interest rates for secured credit and non-secured credit. He answered that the difference between the interest rates could be as much as 3% to 4% more for non-secured creditors, taking into account the consideration of credit history.

I asked Banker 1 about his expectations for the future of IP financing, especially given that we are living in a world that is becoming progressively more virtual. He responded that his institution will continue to apply the same rules for financing and that IP assets will fall under the umbrella of the GSA. In his view, IP assets have only accounting value and not market value, so if the company goes out of business, the value of the trademark will vanish, while the real property assets are very strong and keep their value.

I questioned him as to why they accept the goodwill of professionals while not accepting that of other businesses. He replied that clinics or offices could be sold to other professionals and the client list could be transferred to the new owner.

When questioned about how the government could be involved in developing the current framework governing the capitalization of IP, Banker 1 proposed that the government could provide guarantees or incentives to financial institutions for IP financing. He mentioned the example of the *Canada Small Business Financing Act*,[393] which is guaranteed by Industry Canada. Even in this case, the government does not enforce special practices on private financial institutions. He said the government could apply new incentive programs to be part of Business Development Bank of Canada's (BDC) lending policies.

Banker 2

This interview was conducted with a senior officer from a big Canadian financial institution. I will refer to her as Banker 2. She provided insight on how the bank she works for is doing business and how they deal with IP assets. However, her opinion does not represent her bank's official position.

Banker 2 said the borrower's cash flow is the main factor that the bank considers when deciding to lend money. Consequently, the bank does not accept trademarks as collateral. This is not because trademarks are invalid collateral, but because the bank's credit policy is based

[393] S.C. 1998, c. 36. This Act is mainly focused on providing a level of government guarantee to financial institutions lending money to small and medium enterprises in Canada. There are certain conditions that are required to apply this Act on financing transactions. Also, there is a ceiling for the government guarantee of the debts.

on the cash flow and how the borrower will be able to service the debt. In other words, they are gauging the lending on the debt service ratio. She clarified that even if the bank is financing a real estate company, they do not accept land as collateral—only the company's cash flow.

Regarding the future of lending and the financial institutions' readiness to deal with the financing of IP assets, Banker 2 stated that this is all determined by the risk the financial institution is willing to take. In her opinion, valuation is a fundamental factor and the biggest obstacle to having a trademark as a security. She mentioned that the value of trademarks and IP depends on the relevant industry. A firm appraisal of the trademark's value could help financial institutions to have higher risk tolerance when financing IP. She stated that even though the market structure is changing, financial institutions are hesitant to take the initiative. To better evaluate the risks associated with IP financing, financial institutions take a wait-and-see approach and will follow other institutions after they have modified their lending policies. She also stated the there is a significant difference between the markets in Canada and the United States because the Canadian market is more conservative than the U.S. market. Banker 2 added that although it appears to be somewhat unfavourable, the conservative Canadian market provides a haven for many investors. However, they may be missing out on many opportunities.

She suggested that the government could offer programs to provide incentives for financial institutions, similar to the program for financing start-ups.[394] She elaborated that the Canadian government's program for start-ups has had a very positive impact on the SME market and has helped many small businesses to grow by means of loans guaranteed by the

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[394] What I understand from the discussion with Banker 2 is that regulations could be enacted to provide incentives for financial institutions to accept IP assets as collateral.

government.

When I asked Banker 2 about IP knowledge in the financial sector, she answered that there is a lack of IP knowledge, and there is no training on the subject. She added that she believes that in order to change the current lending culture, all parties must understand that the market and economy are progressing towards an intangible economy, and this necessitates a change in how we operate. She said that in Canada this change could take some time because of the conservative economy and the reluctance to accept new risks.

This interview shows how financial institutions in Canada are reluctant to accept new risks related to IP. Also, it reveals that there is a lack of knowledge in the financial sector but that financial professionals are eager to correct this deficiency. Meanwhile, valuation remains one of the main hindrances to the acceptance of trademarks as collateral.

Banker 3

Banker 3 is a senior banking professional at one of the top national banks in Canada. He has a background in law and business, so his participation in the interview process was important for providing a banking insight with a legal perspective.

Banker 3 said he has no practical experience with security interests in trademarks in Canada, and he mentioned that there is not much activity in the market relating to capitalizing trademarks. The market focuses more on assets that generate revenues, such as credit card receivables and auto loans. He added that the difficulty with security interests in trademarks in Canada is mainly the intangible nature of trademarks, and also because they are not income-generating assets. He went on to say that valuation is one of the common barriers when dealing with IP assets.

I asked him about the effect of regulatory changes relating to security interests in trademarks. He said if the government could increase the certainty of the whole process, it might help bring a change to the market. He said the banks are moving towards more secured transactions and less risk, especially after the financial crisis. Therefore, the banks will not go for new types of transactions unless they are very careful and fully understand the risks involved. Even so, the banks will have no option but to be part of the rapid developments in the field of financing and technology, and they will find themselves forced to accept new businesses and practices.

Banker 3 recommended that financial institutions engage in discussions with regulatory authorities to find a better framework to govern the capitalization of IP assets. Also, he said the problem of lack of knowledge of IP in the financial sector requires more education. Regarding the dual registration of security interests in trademarks, he said new technologies could be used to create certainty in the system. He concluded that valuation, certainty and the use of technology could facilitate the process and lead to better access to financing.

Banker 4

Banker 4 works in a senior position related to Intellectual Property and Innovation at one of the top financial institutions in Canada. He has a background in and exposure to legal, IP and corporate finance; his point of view about capitalizing IP was insightful. Banker 4 said that based on his experience, he believes security interests in IP are challenging in Canada. The trademark may be part of a GSA, but it is not common to have one as an independent security.

He elaborated that security interests in IP assets occur in Canada but not often because the Canadian market is very conservative. Furthermore, this kind of transaction is "relatively new." He added that much of the blame for the financial crisis was put on the securitization of assets. There is no pressure of competition on the Canadian banks to accept new risks, so they are very selective in choosing clients. From his experience, he believes that there are no strong IP forces in the market which are able to bring this kind of innovative financing structure to the table. He also said there is a problem with accounting practice and how it deals with IP assets.

Regarding valuation, he said there is a problem with the reliability of the valuation of trademarks and with how it is to be considered as a reflection of its real value.

He added that a consistent revenue stream could mitigate some of the risk associated with trademarks and that the stability of the trademark in the market would decrease the risk of invalidity. In a broader scope, we must focus on all the points at which IP and bankruptcy laws intersect, including license agreements and who would be able to take over the license in case of bankruptcy. He highlighted that the trustee in bankruptcy may be in a position to satisfy the debt holders by selling the assets.

Regarding the registration of security interests in IP assets with CIPO, he said it had not been a problem in the past, but the chain of title is starting to become an issue (due to the lack of a reliable record of all the transactions involving security interests in trademarks). He mentioned that he had a discussion with the Government of Canada about chain of title and how it affects trademarks, especially in the process of due diligence: there is no assurance that the current trademarks register shows every action on the trademark file. If security interests in trademarks and in IP in general are not registered with CIPO, it will breach the constructive notice to bona fide third parties.

He added that the *Bankruptcy and Insolvency Act*[395] needs to be developed to afford more comfort to creditors in trademarks as a collateral. Furthermore, the valuation methods must be a credible reflection of the real value of trademarks.

Banker 4 said he is willing to see IP assets more accepted as collateral, but technical and cultural issues could hinder this development. He highlighted that the cost of valuation is high—he did a valuation of a patent that cost the bank $25,000. Valuation methods are difficult to standardize because there are many variables that could affect the result. While the range of the value of real assets in the market is predictable, the value of IP assets is not. He mentioned that the trademarks of start-ups have little or no value until the companies build a brand. Patents and copyrights, however, could have more value in earlier stages.

When I asked Banker 4 how he sees shared-ledger technology as a means of developing the current registration system, he answered that this would be an ideal scenario because there would be a shared ledger that registers every action affecting the trademark.

Banker 5

Banker 5 is from one of the national banks in Canada. He works as a relationship manager and is an internationally trained banker with more than 18 years of practice in many financial institutions worldwide. He has worked for two other financial institutions in Canada.

I asked Banker 5 about his knowledge of and experience with security interests in trademarks, and he said that he has not come across this kind of transaction before. I asked

[395] R.S.C., 1985, c. B-3.

him his opinion as to why security interests in trademarks are not common, and he answered that in general IP assets are intangible and that this kind of transaction is relatively new. He said this could be an evolutionary trend that is developing and still needs to be tested. He added that time will tell whether this will be successful or not.

I questioned him about the main obstacles that prevent the use of trademarks as collateral. He replied that it is always easier to valuate tangible assets than intangible assets. If there are sufficient tools for trademark valuation, he added, the next step is having an adequate legal framework governing security interests in trademarks that will encourage financial institutions to consider this kind of transaction; there must be clear procedures on how financial institutions would have direct recourse to the security. I illustrated that, from a legal perspective, there is nothing in the PPSA or the *Trade-marks Act* that prevents security interests in trademarks. I briefed Banker 5 on the process of security interests in trademarks and how he could have a direct recourse to the trademarks as on any other collateralized asset. He was interested in this information and asked me whether he could liquidate the trademark, and I affirmed this. I asked him what other issues could act as barriers to having security interests in trademarks. He said he comes from the old school of banking and has seen how banking and finance have developed. He said that if you have valuation and the legal base, things will happen in the market, but it will take time. Banker 5 illustrated that financial institutions will first take real estate as collateral, then shares and stocks as the second preferred assets. He asked me why a financial institution would go for security interests in trademarks when they can take security interests over shares. I answered that this is exactly the same as when financial institutions take real estate security and do not take company shares for security. The reason is to ensure that the borrower is unable to liquidate an important valuable asset that could affect the creditworthiness of the borrower.

I asked him how he sees the future of lending and whether attitudes will change. He said this is subject to willingness and understanding in the market, and financial institutions will need to change their policies and documentation. He added that there must be more talk in the market. He also said sufficient education must be provided to the financial institutions. Banker 5 added that the Canadian financial market is very conservative and will take time to start conducting this kind of transaction. He emphasized that to consider this kind of transaction, a lot of research must be done to understand how this could affect the Canadian financial market, and there must be a lot of education and knowledge-building strategies in the financial sector to better understand security interests in trademarks.

B. Government Officials

I interviewed two senior officials in the Government of Canada working in the field of innovation and intellectual property rights. The rationale behind these two interviews was to consider how senior public servants working in the field of IP in Canada see the potential of economic growth through commercialization of IP assets and especially trademarks.

Government Official (Gov1):

This participant is a senior government official working in the field of IP and innovations. I will refer to him as Gov1.

Gov1 began by outlining the government's position and how it is concerned with innovations and IP and with the shift toward intangible assets. He also stated that the government is closely following the increasing relevance of IP to the economy, how companies can leverage their intangible assets, and how IP involves multiple players with different perspectives. The government's announcement in Budget 2017 of the new National Intellectual Property Strategy shows the government's interest in IP development.[396]

Regarding security interests in trademarks, Gov1 mentioned that two of the Canadian government's fields of interest are access to capital and how small businesses and start-ups can leverage their IP assets among other types of assets. He said many issues must be taken into consideration when dealing with security interests in trademarks and IP assets, such as knowledge and experience. He also clarified that there are obstacles to having proper security interests in trademarks, especially since it is evident from the analysis of the current IP ecosystem that there is a high level of IP illiteracy. This illiteracy is obvious in financial institutions, funding organizations, venture capital firms, post-secondary institutions, incubators, accelerators, and even among entrepreneurs. He said that even if we fixed the issues with the legal procedures, this would not fully solve the problem because financial institutions would not immediately start accepting IP as collateral. He added that combating illiteracy is part of the IP strategy and it will include a combination of many factors such as legislation, programs and services, and a cultural shift. In respect of the incentives, he stated that the Government of Canada covers the parts of financing in the SMEs that financial institutions can fail to cover. He also clarified that registration is not the main issue that prevents financial institutions from proceeding with IP financing, but that valuation is a major obstacle to having security interests in trademarks. Providing governmental incentives is a good opportunity and financial institutions could have a good return from this business. He added that within start-ups and small businesses in Canada, intangible assets include not only brands but patents as well. If the

[396] https://www.budget.gc.ca/2017/docs/plan/budget-2017-en.pdf.

trademark is the most valuable asset owned by a SME, there will be other factors that will affect their creditworthiness, such as revenues. In regard to the dual filing of security interests in trademarks in Canada, he stated that the Canadian legal system is indeed complex as it involves constitutional rules related to federal and provincial powers.

This interview shows that the Government of Canada is moving towards the development of IP frameworks and that it is aware of the lack of IP knowledge in the business community and is working to fix this shortcoming. Meanwhile, the government recognizes that financial institutions are reluctant to develop IP financing.

Canadian Government IP Official (Gov2)

I interviewed a senior IP official in Canada and will refer to her as Gov2. Gov2's insight was very important to the whole research puzzle because she has significant legal and intellectual property experience in Canada.

I asked her first about her background and experience in respect to security interests in trademarks. She said she gained relevant experience during her career in private practice and then with the Government of Canada in CIPO. I asked Gov2 about her view on the importance of having security interests in trademarks in Canada, and she answered that this is something that must be explored and that she is not sure that the current legal framework is sufficient; a lot of research and analysis remain to be done on this issue.

I asked her how often security interests in trademarks happen in Canada, to which she answered that CIPO has not gathered these statistics. I asked her about the issue of dual registration and how non-registration of trademarks with CIPO will result in a lack of complete data. She said she does not believe the trademark registry reflects everything about the trademarks "from soup to nuts." She added that "to require businesses to now record transactions, this will cost all businesses money." Also, she clarified that we have to understand the legal consequences of failure to register the trademark security. If there are no legal consequences for non-registration, there will be no need to add this as a requirement and to add additional burden on business owners.[397]

I elaborated that my focus is not to change the current legal framework but to have an adequate register that reflects all transactions of a trademark. This could be done with the same method as the annotation of vehicle liens or charges. In many cases people do not have sufficient knowledge of intellectual property in general, so they will not be aware of the possibility of security interests in trademarks. Gov2 answered that this is why CIPO is now working on a new program of awareness and education to increase knowledge of the value of intangibles.

I asked Gov2 about the possibility of having a system that allows PPSA or CCQ to inform CIPO of any security interests in trademarks or other IP assets, and she said the suggestion of linking records is interesting; she took note of the idea. She added that the government understands that businesses look to the government as one entity and not as different levels: federal, provincial and municipal. She highlighted that there are other steps that could be taken to facilitate doing business. Also, there could be a communications link for CIPO on the PPSA registration or even the provision of information about the PPSA registration on the

[397] In her opinion this means that there is a lack of legislative consequences for non-registration of the trademark security with CIPO, such as invalidity or loss of priority. CIPO is not keen to add registration as a required procedure.

CIPO website. She elaborated that the program for IP education and awareness is working on increasing knowledge of the value of the commercialization of IP rights.

I asked her about the statistics on security interests in trademarks in Canada; she answered that to the best of her knowledge there are no such records. This is due to the fact that it is not a requirement and that security interest's registration with CIPO is optional.

I told Gov2 that most of the financial institutions and businesses in Canada think that there must be a greater role for CIPO in increasing IP awareness and education in the financial and business markets. She told me that CIPO started working on the commercialization of IP assets in 2018, which will increase awareness of IP and how to deal with IP assets as with any other non-complicated asset and how IP assets could be used to move the business forward. She added that the Canadian government noticed a "lower rate of strategic use of IP by Canadian businesses." She added that the programs also focus on female entrepreneurs and indigenous communities and businesses. Gov2 added that CIPO is working with other partners, such as BDC, trade commissioners, incubators and accelerators, who can better reach out to business owners. She believes that business owners will not go to CIPO, but CIPO must reach out to them.

I asked Gov2 for her recommendations to develop the current system and what she believes are the main obstacles to having a more efficient system of security interests in trademarks. She said lack of knowledge and IP education is a main barrier to developing IP security and partnering with other business and professional organizations.

C. IP Lawyers and Agents

The practical insights of IP lawyers and agents was very important to my research. The interviews revealed the high level of lawyers' knowledge and practical experience in security interests in trademarks.

IP Lawyer 1

When I first asked IP Lawyer 1 about her background in security interests in trademarks, she said that although she had been practicing as a trademark lawyer for many years, she did not have any previous practical experience with security interests in trademarks. She stated that as a trademark agent and lawyer in Ontario she has noticed that many people are not willing to register their trademarks. She added that in many cases the business owners do not realize any economic benefit from the registration of trademarks and are not willing to pay for the registration and professional fees. Also, people sometimes prefer to register their trademarks by themselves, and she added that since there is a lack of knowledge and education about the process of protection of trademarks, the average person will not be familiar with the idea of security interests in trademarks.

I asked her about her experience with the assignment of trademarks, and she replied that she did not have previous experience involving this. I questioned her about the possibility of maximizing a trademark's value by selling it independently of its goodwill or security interests in trademarks. She said this is very encouraging and could possibly make people more willing to register their trademarks if they believe that it will be of value or they may use it to raise capital. She added that in practice people see the value of patents and the importance of registering them more so than trademarks.

IP Lawyer 1 is not familiar with security interests in trademarks; however, with some brainstorming, I noticed that she was not resistant to the idea of security. She stated many valid points, in particular the lack of knowledge and education of business owners concerning the importance of trademarks. IP Lawyer 1 was willing to explore the different aspects related to security interests in trademarks, mainly the valuation process and how it takes place. She believes that capitalizing IP could be the economic incentive that encourages business owners to give more attention to their IP rights. She added that in the Internet era, trademarks are more visible than before, so the importance of having a regime of protection and utilization of trademarks is growing rapidly.

IP Lawyer 2

IP Lawyer 2 is a managing partner in one of the reputable IP firms in Canada. He has more than 25 years of practice experience in the field of IP. We started our discussion about the idea of security interests in IP in general. IP Lawyer 2 mentioned that he has experience in security interests in patents, which allows the security holder to have a direct recourse to the patent in case of default of the debtor. Regarding security interests in trademarks, he said trademarks are more problematic as they identify a certain level of quality of product or service and the trademark must originate from a single source. Therefore, in case of security interests in trademarks, if a trademark is sold to a third party, there are no requirements that the new owner maintain the same level of quality. In other words, the original producer will not have control over quality of the trademark, as is the case with the licensing of trademarks. When I told IP Lawyer 2 that there are many cases of security interests in trademarks in the United States and that it is possible to assign trademarks from one owner to another, he affirmed that the assignment of trademarks as a security is also taking place here in Canada. He mentioned that he was also involved in cases of security interests in patents, industrial designs and copyrights in Canada.

I asked him about the barriers to having security interests in trademarks in Canada, and IP Lawyer 2 said the problem is that trademarks do not necessarily have an immediate market value; rather, the value is linked to the business's success in the marketplace. By contrast, a patent may have an immediate value even before the product is sold, especially in the fields of technology and pharmaceuticals. He added that this does not mean it is impossible to have security interests in trademarks, but the valuation of trademarks, especially in the start-up stage, will be difficult. I asked him whether it makes a difference if the company has been in business for ten years. He answered that this situation would be different because it is an established business. He gave an example of a local company that might not be well known in the Canadian market, but it is well known at the international level—this company's trademarks would be of high value in the market.

I asked IP Lawyer 2 about the legal framework in Canada and whether it facilitates the process of obtaining security interests in trademarks. He answered that the current legal framework is different from that when he started practicing; then, it was not possible to license a trademark. He said nothing prevents an entity from having security interests in trademarks in Canada, however, the owner of the trademark must be very cautious when dealing with his trademarks, especially regarding their use.

I questioned him about how security interests in trademarks take place and whether a conditional assignment is the best way to create the security interest. He answered that the bank would not want the full ownership of the trademark transferred to it but would prefer to have a sort of co-ownership of the trademark that could provide the bank with a certain level of control and cash flow.

I asked IP Lawyer 2 whether the *Trade-marks Act* would need to be amended to contain a clear provision regulating security interests in trademarks. He answered that from a practical point of view, he does not feel that there is a need to have a specific provision in the *Trade-marks Act*, and it does not cause problems requiring special provisions. I raised the issue of dual registration and that there is no requirement to record security interests in trademarks in Canada. He said this will not prevent anyone from pursuing registration of security interests in trademarks. He also stated that he believes there is no value in having a unified system for the registration of trademarks security. In addition, the government will have no reason to do this, especially since it is not causing problems and the complications of provincial (PPSA) versus federal (*Trade-marks Act*) jurisdiction will take too much time to resolve. It is noteworthy that in his previous experience of IP security, the creditors were investors, venture capitals and sometimes suppliers.

When asked for his recommendations to develop the current legal and regulatory framework, IP Lawyer 2 responded that an educational component must be developed by the government, which must promote this issue with practitioners, IP owners and financial institutions.

IP Lawyer 2 provided a valuable insight from an IP perspective on how one can examine the validity of the IP asset as a security. He elaborated that the number of cases involving trademarks as collateral is relatively low. He explained his concerns about security interests in trademarks and how this could have a negative impact on the value of the trademark as it is associated with the goodwill of the business. In addition, he believes that the current legal framework does not need immediate change, but there is a lack of knowledge and education about IP. One of the main issues he raised is that the “immediate value” of the IP asset could be the main motive to using security interests in IP assets in general and trademarks in particular.

IP Lawyer 3

IP Lawyer 3 is a practicing IP lawyer and trademark agent in Quebec. IP Lawyer 3 started the interview by mentioning that although security interests in trademarks are not common in Canada, some of her clients have been involved in transactions for which they used their trademarks as security. However, she clarified that trademarks were not the only asset used as a security; they were part of a GSA that included other real assets. She said banks are not open to accepting trademarks or IP assets on their own as collateral, and banks may either feel these assets have no value or they do not know how to deal with them.

IP Lawyer 3 said the value and importance of trademarks in particular and IP assets in general is increasing, especially in the current knowledge-based economy where so much is becoming virtual and intangible. However, there is still a lack of knowledge and understanding in all sectors about the value of IP. She mentioned that sometimes people view the registration of trademarks or IP assets as "a loss of money and not a security." She added that she feels "Canada is the least industrialized country in the G20" and that changing this condition is a multi-sector responsibility. Another point she made was that clients, mainly SMEs, are sometimes not aware of why they have to register their trademarks. Canada must be more focused on helping to create and develop brands with good recognition in the international markets, and this will have a direct impact on the economy.

IP Lawyer 3 added that the problem of IP illiteracy must be addressed. Even IP lawyers, although not practicing as trademark agents, may not be fully aware of the possibilities and value of their clients' IP assets.

She mentioned that it is rare that her clients ask her to register security interests in their trademarks. In those cases, the security becomes part of a GSA, and the secured trademarks are not valuated. IP Lawyer 3 observed that the valuation of trademarks could be tricky and that a trademark could lose its value. Furthermore, if the cost of valuation is high, owners may refrain from valuating their trademarks.

Regarding security interest registration, she said it takes place in the form of a security agreement that acts as a pre-assignment. She has no concerns regarding the *Trade-marks Act* and feels that nothing needs to be changed. However, she does recommend having a special federal register of IP securities.

IP Lawyer 4

IP Lawyer 4 is an experienced lawyer specialized in IP as well as a scholar of security interests in IP. He has many relevant writings as articles and books. Also, he was involved in many projects and policy reform meetings related to the same domain.

IP Lawyer 4 started by explaining his background and efforts relating to security interests in IP and his participation in the negotiations related to the UNCITRAL Model Law on Secured Transactions.[398] He gave an example of a previous case of security interests in trademarks involving Shoppers Drug Mart.[399] He highlighted that there must be a level of coordination between provinces in order to have a one-stop shop for the registration of security

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[398] UNCITRAL Legislative Guide on Secured Transactions: Supplement on Security Rights in Intellectual Property (2010), United Nations Commission of International Trade Law (UNCITRAL), http://www.uncitral.org/uncitral/en/uncitral_texts/security/ip-supplement.html.
[399] This security is discussed in more detail in Chapter Four.

interests in IP. IP Lawyer 4 said security interests in trademarks might not be essential, but they would be useful. He stated that if a revenue stream is generated from the IP asset, then the possibility of obtaining financing is higher than in the case of start-ups. He added that banks will not provide financing to anyone without a valuable asset or revenue stream. IP Lawyer 4 emphasized that goodwill could be unsound and could lose its value.

On the subject of the registration of security interests in trademarks, IP Lawyer 4 said there are no legal restrictions on registering security interests in trademarks in Canada. He added that the security agreement is a form of assignment where the debtor agrees to assign his rights to the registered trademarks to the creditor in case of failure to pay off the debt. He also highlighted that the main objective of the perfection of security interests is the priority and notice to protect the legitimate third party and the lender. Therefore, the proper registry must show whether this asset is subject to a security interest.

IP Lawyer 4 and I discussed the possibility of the value of the trademark going down to zero. I noted that the value of other assets can depreciate in the same manner as a trademark and can lose more than 50% of their value. He replied that if the business is linked to only one trademark and a catastrophic event destroyed the product goodwill, the value could go down very quickly. We agreed that the possibilities of this happening were low, and he added that the value of a patent could also go down if it was considered invalid.

We had a very constructive discussion on the subject of the UCC and PPSA, and we agreed that Canada must further develop the current system to facilitate the capitalization of IP assets.

Regarding the lack of IP knowledge, he said there is an enormous shortfall in IP education. Although the Canadian Intellectual Property Office (CIPO) is making an effort to increase IP awareness, IP Lawyer 4 believes this awareness of developing security interests in trademarks will not change much. He said education could encourage innovation, but that will not be the main motivation, and it must be one of many steps taken to develop the security interests in trademarks scheme.

On the subject of amendments to legislation, IP Lawyer 4 stated that the idea of having the one-stop shop is crucial. However, the government will not have an appetite to pursue this legislative change with all the associated debates and discussions. He stated that the World Intellectual Property Organization could take the initiative to push towards having a model law. He also recommended that this could be an international security interests in trademarks, i.e., an international one-stop shop. In my opinion, this is an ambitious idea, and it could create conflict between international security and the PPSA. He countered that this system is applied with ships and aircraft, and it is not causing conflict.

IP Lawyer 5

IP Lawyer 5 is a partner at one of the most reputable law firms specializing in IP management and strategies, including transactions involving IP assets that involve security interests in trademarks. He has experience in IP financing transactions where lenders want to secure their rights when accepting IP assets as security. He said this kind of transaction has been taking place in the Canadian market for a long time, noting that the PPSA and IP laws have been in place for many years. However, more focused attention to the value of IP started in the last 20 years.

IP Lawyer 5 deals with numerous kinds of lenders, including financial institutions and venture capital firms. He said capitalizing IP is taking place more with patents than with trademarks because trademarks are linked to an operating business with trusted products and services. He said banks are taking security interests in trademarks as part of the GSA for the assets of the borrower, which includes IP assets.

In practice, he said, the notice of security is filed according to the PPSA, and then the same notice is filed with CIPO. We discussed the necessity of registering security interests in trademarks with CIPO, and his point of view is that today registration with CIPO is not an essential step. He added that the role of CIPO is not for substantive examination of the security agreement. When he represents a client buying a trademark, he checks the PPSA to make sure there is no charge on the trademark.

IP Lawyer 5 said if a company is licensing a trademark, there is no requirement to notify third parties about this private arrangement. He added that banks are not doing sufficient due diligence when accepting IP assets as collateral.

He added that lenders prefer dual registration of security interests in trademarks as “belts and suspenders,” not because there are legal requirements to have the redundancy. He said there are many factors governing security interests in trademarks, including legislative, agency, federal and provincial factors. Therefore, it is necessary for financial institutions to have more understanding and knowledge of IP assets when taken as a security.

IP Lawyer 6

IP Lawyer 6 works as a trademark lawyer in Montreal in one of the top IP law firms in Quebec, and as part of his practice he works in most of the legal areas related to trademarks.

I asked IP Lawyer 6 about his experience with and knowledge of security interests in trademarks, and he responded that he sees this kind of transaction in the market, although not very often. He said that he recalled seeing security interests in trademark transactions perhaps ten times in the last five years. I asked him why this kind of transaction is not popular in the market, and he added that financial institutions are reluctant to consider security interests in trademarks because they feel they are risky transactions. He added that one of the main issues that financial institutions worry about is the lack of certainty about how to perfect and protect the secured trademarks. Therefore, he did not see security interests in trademarks used as the sole security in a financial transaction. I asked IP Lawyer 6 about the trademark owners who are heavily involved in security interests in trademarks. He answered that large businesses are much more involved in this kind of transaction than SMEs. However, he added that in most cases, there is not much detail about the creditors or the transactions. He emphasized that there is no mechanism to search for security interest transactions in CIPO databases and that it is optional to register the security agreement with CIPO.

IP Lawyer 6 said one of the main issues that make financial institutions reluctant to accept security interests in trademarks concerns how they can use the trademark as a source of payback and what the bank can do with it. How could the bank sell the security since there will be a limited number of interested bidders? He added that the process of selling a trademark is relatively long and the cost of the sale is high. All of this makes the financial institutions lose interest in this kind of transaction.

He mentioned that the constitutional issue between the federal and provincial powers could affect the creation of a more reliable legal framework related to security interests in trademarks, especially with respect to issues related to perfection, bankruptcy and certainty about the process.

IP Lawyer 6 revealed that there is no legal benefit to registering a security agreement in trademarks in the trademark register; he said such registration is no more than a notification to third parties that the trademark is being used as collateral; it will not prevent the assignment of the trademark. Therefore, financial institutions will not have any incentive to register security interests in trademarks with CIPO.

I asked him about the dual filing process and how this could affect the willingness of financial institutions to accept security interests in trademarks. He said this is a costly process and people are doing it as part of best practice and not as a legal requirement. However, he did recommend dual filing of security interests in trademarks.

I raised the issue of IP knowledge and education with him, and he said more development is needed to increase awareness about IP. He emphasized that increasing education and knowledge in addition to increasing communication and coordination between all concerned parties will help to increase confidence in IP and its value. I asked him where we should start to increase IP knowledge and awareness and whether he sees the problem existing in the financial and/or business sectors and even among lawyers. He said if a lawyer does not have enough knowledge about the possibility of security interests in trademarks, he will not have the confidence to recommend this solution. Moreover, the lack of legal precedents and success stories could make lawyers uncomfortable with this kind of transaction.

IP Lawyer 6's recommendation was to develop the current system of security interests in trademarks. He mentioned that the legal framework governing trademarks must include specific provisions for how to perform security interests in trademarks. In addition, there must be a mechanism to search and study security interests in trademarks more efficiently with CIPO. Meanwhile, there is the problem of a lack of precision and interaction between federal and provincial powers relating to the creation and perfection of security interests in trademarks. I discussed with him how creating a system that could share the information of security between federal and provincial governments could help to solve this problem. IP Lawyer 6 replied that this would help by ensuring that registration of securities with the provincial government would also appear in the CIPO file at the federal level.

D. Other Professionals and IP owners

Professional 1

Professional 1 is a specialist in brand valuation and a CEO at a brand valuation firm. As discussed in Chapter One, the valuation of trademarks is frequently seen in the literature as one of the main obstacles relating to security interests in trademarks. Professional 1's insight was very important because trademarks are considered a main component of the brand valuation process.

Professional 1 first spoke about the failure of many business owners to register their trademarks in Canada as well as other countries of operation, and he explained how this has a negative impact on the value of trademarks and the valuation process. Concerning security interests in trademarks, he did not see security interests or securitization in trademarks transactions as a separate financial tool but as part of a larger secured transaction. He said there is a need for a national registry of security interests in trademarks and even for trademark registration itself. Furthermore, he believes that the system is not user-friendly, but it does allow third parties easy access to search for trademarks owned by a certain company.

He highlighted another important issue—the lack of a unified system that consolidates all IP registrations owned by the same entity. He considered how this affects the valuation process and makes it difficult to cross reference other IP assets owned by the same owner. It is worth noting that a brand valuation includes not just trademarks but also the valuation of other IP assets such as patents or copyrights, thereby necessitating a unified ledger or register to encompass all IP assets owned by the same company.

Regarding the practice of trademark valuation, Professional 1 said that "there is insufficient public interest in how the trademark can generate value." He added that "the trademark in our mindset is a tool to differentiate a common good… however, the trademark is a differentiator of the business providing the goods and services." This means that the public perception that trademarks only differentiate goods and services must be developed to recognize them as a differentiator of the business itself.

He explained that in the United States there have been several mergers and acquisition transactions in which the value of the trademarks not only was financially recognized but also constituted a high percentage of the total value of the transaction. An example of this is the Kraft-Heinz transaction in which the brand value reached more than 50% of the entire transaction.[400] Similarly, this can be witnessed in the acquisition of LinkedIn by Microsoft, where the value of the brand was about 80% of the total transaction cost.[401]

Professional 1 stated that there is a problem in the market in not distinguishing between

[400] For more detail see: FORM S-4 , REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 , H.J. HEINZ HOLDING CORPORATION , available online, https://www.sec.gov/Archives/edgar/data/1637459/000119312515126301/d898418ds4.htm.
[401] For more detail see: SCHEDULE 14A INFORMATION https://www.sec.gov/Archives/edgar/data/1271024/000110465916130837/a16-14187_1prem14a.htm.

the trademark and the brand because the trademark by itself may not be a sufficient tool to differentiate between goods and services; together, the trademark and the brand could be a more comprehensive way to distinguish a business.

One of the most important issues Professional 1 raised was the question that arises when financial institutions do not consider the valuation of the trademark when financing a business. Are they giving a proper valuation of the whole business based on the value added by the trademark? He stated that the value of a trademark is generated from the value of the business and its reputation in the market. So, if a trademark were acquired by a more reputable business, this could increase the value of that trademark, while if it were acquired by a less reputable business, this could negatively affect its value.

Professional 1 proposed that having security interests in trademarks and brands is very important because there are many businesses that can generate significant cash flow based on their trademarks and brands. He added that the International Organization for Standardization (ISO) is now developing the brand valuation standards that will be in place shortly. Furthermore, there are different initiatives in the market used by different professional organizations, especially in the United States, that focus on developing brand valuation standards in addition to the IP interest reporting standards.

He added that a third-party brand valuation without the existence of internal data related to IP assets would be misleading.

Professional 2

Professional 2 is an entrepreneur who owns two start-ups. However, he has not yet registered any trademarks for his businesses. He was very interested to learn that it is possible to use a registered trademark as collateral. I asked him about his experience with financial institutions. He said financial institutions do not consider the value of any intellectual property to be an asset because they only regard real assets as collateral. He added that he bought an existing business and that the bank refused to finance him without personal collateral. The bank also refused to finance his online business, a website that provides business consulting services, and he considers it to be the most profitable business he owns. The bank's rationale was that there were no real assets that can serve as collateral. He revealed that during his years in business, no financial institution was willing to look at the value of the intangible components of any of his businesses, websites for example, and that the vast majority are only looking for real assets as collateral. Therefore, he provided his personal assets as collateral for financing.

When I asked him about his background and about the valuation of trademarks and the possibility of using his trademarks as collateral, he said he does not have any experience in this regard and that if security interests in trademarks became a possible solution, this would encourage him to register his trademarks. Professional 2 previously worked as a banker in Canada, and he believes that it will be challenging to convince financial institutions to embrace the IP financing market. I asked him whether if he owned a trademark he would provide it as collateral, and he answered that this would be an opportunity he would take advantage of.

One of the most significant points made in this interview occurred when I asked Professional 2 about whether he has any background in venture capital as a source of financing for business. He replied that he does not know much about this and does not know how to approach venture capitalists or what the processes and requirements are to have financing through venture capital firms.

He clearly stated another important point: If he knew that the registration of his trademarks and copyrights could have a beneficial economic return through using these IP assets as collateral, he would definitely proceed with the registration process. Professional 2 offered recommendations as a business consultant and owner. One is to increase IP education and awareness because business owners are not aware of security interests in IP assets and do not have enough knowledge about IP. The second point is the cost and fees of professional services associated with the registration of IP assets are relatively high for small and medium enterprises. He added that he carried out a valuation of his business, but it did not include any valuation of the IP assets. He said this could be due to a lack of knowledge about this option on the part of the valuator, and financial institutions must be more flexible and have the courage to venture there. Finally, he said the government should develop a special program to facilitate capitalizing IP assets, similar to the government program for funding the farming industry—the *Canadian Agricultural Loans Act* Program.[402] This program would facilitate the registration of small-business IP assets and assist with the valuation of these assets.

This interview reinforced that entrepreneurs and SMEs in general have many problems in connection with starting and developing their businesses. The first issue is financing and the financial institutions' unwillingness to accept the risk of a small business if the owner fails to provide adequate real assets as collateral. There is a lack of knowledge and awareness of IP and its importance, which commonly leads to a reluctance by start-up owners to proceed

[402] The *Canadian Agricultural Loans Act* (CALA) Program is defined as "a loan guarantee program designed to increase the availability of loans to farmers and agricultural co-operatives. Farmers can use these loans to establish, improve, and develop farms, while agricultural co-operatives may also access loans to process, distribute, or market the products of farming." Canadian Agricultural Loans Act Program, Agriculture and Agri-Food Canada, online: <http://www.agr.gc.ca/eng/?id=1288035482429>a

with the registration of their IP rights. Still, knowledge and literacy of the IP system by itself will not be sufficient; this knowledge must be accompanied by economic incentives. As concluded from the interview with Professional 2, if business owners realize that their IP assets can be used in the future to raise capital, they will be more willing to register their rights and create a good IP portfolio.