

General Information on the PPSA

The *Personal Property Securities Act 2009* (Cth) (**PPSA**) commenced operation on 30 January 2012 and significantly changed the legislative regime governing security interests in Australia. The PPSA applies to security interests in both tangible and intangible personal property, including intellectual property (**IP**), and includes specific provisions that deal with security interests in relation to IP.

What is a Security Interest?

Under the PPSA, a security interest is defined to include an interest in personal property provided for by a transaction that, in substance, secures payment or performance of an obligation. Examples of security interests include charges, mortgages, conditional sale agreements and transfers of title.

A security interest:

- must be attached to personal property (i.e. not land or other real property);
- is granted by a grantor (the grantor is the person with the interest in the personal property); and
- is granted in favour of the secured party (the secured party is the person who receives the benefit of the security interest, e.g. a bank).

IP Covered by the PPSA

The PPSA regime covers a wide range of IP including designs, patents, trade marks, copyright, circuit layouts, plant breeder rights and licences and sub-licences in IP.

How to Protect Security Interests in IP – Perfection

A security interest is “perfected” when the secured party has done everything it can do to protect its security interest under the PPSA.

Perfection under the PPSA can be achieved by registration, control, possession or temporarily by virtue of the PPSA. For security interests in IP, the main form of perfection will occur by registration on the Personal Property Securities Register (**PPS Register**).

By properly perfecting a security interest, a secured party:

- protects the priority position of a security interest against third parties; and
- prevents the security interest from vesting in the grantor if the grantor becomes insolvent.

The failure to perfect a security interest does not affect the underlying agreement between the parties. However, the failure to perfect a security interest will affect the priority of the security interest in a priority dispute.

Where there is more than one security interest in the same collateral, the general rule under the PPSA is that the first secured party to perfect its security interest in the collateral obtains priority, unless another priority rule applies. There are several exceptions to the general rule provided in the PPSA but these are beyond the scope of this update.

IP Australia Registers

The PPSA is concerned with security interests in personal property which includes IP, and not the IP itself. For example, where a charge is granted over a trade mark, it is the charge that is registered on the PPS Register rather than the trade mark itself.

Owners of IP are still required to register their ownership interests on the relevant registers with IP Australia.

Registration of Security Interests on IP Australia Registers

Prior to the PPSA, security interests in IP were able to be noted on the relevant register held by IP Australia. In particular, patents were required to be registered on the Register of Patents in order for the secured party to enforce its security interest in court.

Essential PPSA terms

- **Attaches:** A security interest attaches to collateral when the grantor has rights in the collateral and the grantor does an act by which the security interest arises.
- **Collateral:** Collateral is the personal property to which the security interest is attached.
- **Grantor:** The person granting a security interest. The equivalent terms are borrower, mortgagor, chargor, lessee and bailee.
- **Personal property:** Generally includes all property other than land and some excluded statutory rights. Some examples of personal property are cars, boats, machinery, office furniture, artworks, goods, crops, inventory and IP.
- **Secured party:** The secured party is the holder of a security interest. The equivalent terms are financier, mortgagee, chargee, lender, retention of title supplier, lessor and bailor.
- **Security interest:** An interest in relation to personal property provided for by a transaction that secures payment or performance of an obligation.

The enforceability of a security interest over a patent is no longer governed by the *Patents Act 1990* (Cth) or registration on the Register of Patents. As with all other forms of IP, the secured party must now register its security interest in the IP on the PPS Register.

For notification purposes, a secured party can still note its security interest on the relevant IP Australia register, but to have legal enforceability, these security interests must now be registered on the PPS Register.

Registering Security Interests in IP Rights

In order to properly perfect a security interest in IP under the PPSA, security interests over the following types of IP must be registered on the PPS Register with reference to the serial number of the underlying IP:

- designs;
- patents;
- trade marks;
- plant breeder's rights; and
- a licence over any intangible property mentioned above.

The relevant serial number will generally be the registration number provided by IP Australia. If the IP is in the process of being registered with IP Australia, the PPSA prescribes the relevant serial number that should be used to effect proper registration on the PPS Register.

Failure to register a security interest over IP by serial number makes the registration ineffective. This will affect the perfection of the security interest, and therefore the priority of the security interest.

Security interests registered in relation to the serial number of the IP can be registered for up to 7 years (the maximum time allowed under the PPSA for collateral identified by serial number).

For IP that is not registered with IP Australia and does not have a serial number, such as copyright or circuit layouts, a description should be provided to identify the type of IP subject to the security interest.

Transitional Security Interests in IP

If a security interest was created pursuant to a security agreement prior to 30 January 2012, the PPSA recognises such an interest as a "transitional security interest". Transitional security interests are deemed to be perfected for a period of two years starting from

30 January 2012, allowing them to maintain their priority until the end of the transition period on 30 January 2014. Unlike some Commonwealth and State registers, the IP Australia registers have not been migrated to the PPS Register. Therefore, holders of transitional security interests in IP should ensure that they register their security interests on the PPS Register before the deadline, or risk having their interests subordinated to other subsequent security interests.

Any security interests granted after 30 January 2012 should be registered as soon as possible if they are not already registered.

When Does the PPSA Apply to a Security Interest in IP?

Depending on the circumstances, the law that governs a security interest in IP is the law of the jurisdiction:

- under or by which the IP is granted; or
- in which the grantor is located.

Therefore the PPSA applies to security interests in IP:

- granted by Australian companies or persons located in Australia; and
- granted by any person if the IP rights are granted under Australian law.

Summary

Since the introduction of the PPSA:

- registering a security interest in IP with IP Australia no longer affects the priority position and enforceability of the security interest;
- a security interest in IP must now be registered on the PPS Register;
- regardless of when your security interest was created, it should be registered as soon as possible because the transition period of the PPSA ends on 30 January 2014;
- there are different registration requirements for security interests over different types of IP. If the requirements are not met, the priority of the security interest might be affected; and
- an owner of IP must still register its ownership interest on the relevant register with IP Australia.

The PPSA is a complex piece of legislation and it is important for holders of security interests in IP to ensure that their rights are protected under the PPSA.

Please contact us for assistance with any PPSA or IP related matters.

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