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Banking on a Dream: Perfecting Security Interests in Copyrights - An International Survey

Judy Lam

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BANKING ON A DREAM: PERFECTIONING SECURITY INTERESTS IN COPYRIGHTS—AN INTERNATIONAL SURVEY

I. INTRODUCTION

The modern world has witnessed tremendous growth in the arts, media and technology. This growth has enlarged the domain of copyrights in all modes of communication. Such rapid advancement has led to increased complexity in laws governing intellectual property in general, and copyright in particular. In the field of communications, copyright law plays a crucial role in modern business transactions. The significance of copyright protection has increased particularly in the entertainment and publishing industries, where the commercial value of a copyright has grown to such a level that it may constitute the most valuable asset of a business. Just as a significant portion of a business' value may lie in the trademark which gives brand recognition to its products, a film company's sole means of generating income and the sole property with which it can secure financing may be its copyright in a film or library of films.

Recognition of rights and title in copyrights is on the rise, as is the ability to sell, transfer or exploit a copyright. As a result, banks and investors are increasingly recognizing that a copyright can be a uniquely valuable asset. Thus, the use of copyright-protected property as collateral for financing is steadily increasing. This is particularly true in cases involving a copyright of a work which has significant value and the value

2. Id.
3. Id. at 11-12.
5. For example, “Marlboro brand cigarettes now account for one of every four cigarettes sold.” Ian Jay Kaufman et al., SECURITIES INTERESTS IN INTELLECTUAL PROPERTY, N.Y. L.J., June 28, 1991, at 5.
6. UNESCO, supra note 1, at 62.
7. Zimmerman, supra note 4, at 74.
of which can be easily established—for example, a well-known play or movie which has already received critical acclaim or generated substantial revenues.  

Before the advent of intellectual property rights, a lender generally accepted only a company's tangible assets—such as physical equipment, inventory or real property—to secure financing. Now, a company can rely on using its intangible, as well as tangible, property to serve the same end. This shift is due, in part, to the change in the global economic foundation from one based on traditional industrial business toward one comprised of intangible, information-based technologies. The changes in technology, and hence in the composition of business, have convinced lenders that intangible assets can be valuable security. The use of intangibles, such as intellectual property, as collateral in secured transactions has changed the traditional method of commercial transactions from one dependent upon the creditor taking physical possession of tangible goods to one in which only legal title or symbolic possession is transferred. "Openness in the manner of acquiring rights of repossession and disposition, short of full or fee simple ownership, is essential in a marketplace where virtually anything, whether tangible or intangible, can be the object of commercial law property."

Companies which previously relied on traditional types of collateral can now increase their ability to obtain financing by offering their intangible property as collateral, which allows already successful, seasoned businesses to further grow and expand. More significantly, however, using intellectual property as security for financial transactions increases opportunities for new companies. While a new film company with no established credit rating, a short cash flow history, and little tangible

8. Kaufman, supra note 5, at 5. Similarly, the value of a copyright or other intellectual property has played a large role in business valuation for merger and acquisition purposes. Id.


10. See id.


12. Id.

13. Because copyrights are intangible property, they have no situs and cannot be moved; therefore, transfer of possession, which is required under commercial law, can only be symbolic. Symbolic possession can be effected through recording a security agreement or repossession by a creditor without physical movement of the article being possessed. Boris Kozolchyk, On the State of Commercial Law at the End of the 20th Century, 8 ARIZ. J. INT'L & COMP. L. 1, 14 (1991).

14. Id.
property to offer as security will have difficulty obtaining initial capital financing, it may nevertheless convince a bank to lend start-up capital by offering its copyright in a film as collateral. As banks begin to realize that a majority of business revenues are generated solely from intellectual property, they will be more willing to use this valuable resource as security for a loan. A loan or line of credit can make a critical difference for new companies, which typically experience irregular cash flow and increased purchasing needs during initial stages of development. Thus, this trend gives new companies, which have traditionally been forced to rely on initial private investment, the option of borrowing to start up their businesses.

The importance of copyright is also being recognized on an international level. The economies of developed countries have become more globally interdependent, and products such as films now have the potential to generate significant income worldwide. Now, more than ever, films, songs, inventions, computer programs, and literary works can realize worldwide distribution and income. Similarly, the financing of projects secured by copyrighted works earning global income is gaining rapid recognition, and lenders in the United States may soon find it imperative to familiarize themselves with international copyright law.

Although a work originating in the United States is protected by a United States copyright, it is protected from infringement in country X by a copyright under country X’s copyright law; in addition, income earned in country X will arise out of the copyright in country X, not from the United States copyright. Consequently, a creditor seeking a security interest in all foreign income should perfect such an interest according to the copyright law in each country where the work will generate income. Because copyright law is in varying levels of development and recognition throughout the world, the procedures for perfecting security interests in this type of property are different in each country. Thus, it is essential for a lender to conduct adequate research to determine the requirements for recording such interests and establishing priority in every country in which the work earns income. A creditor who fails to comply with the appropriate procedures in each country runs the risk of being unsecured as to that income. Thus, the creditor may be reduced to unsecured status and forced to compete with other unsecured parties. In the entertainment industry, a lender who finds himself unsecured is likely to be forced to compete with

16. UNESCO, supra note 1, at 18.
unsecured parties such as performers, actors and production crew members to obtain payment.

This Comment discusses various paradigms for perfecting security interests in a work that enjoys international exposure. The process will be illustrated through a hypothetical situation involving a movie production company offering a copyright in a film as security for a twenty million dollar line of credit. This Comment begins with a synopsis of the law governing international copyright protection provided by the two multilateral copyright conventions—the Berne Convention and the Universal Copyright Convention. The discussion of actual procedures required for perfection of a security interest in a copyright begins with the existing law in the United States and Canada, the two countries which have dual recordation systems. The Comment then discusses the copyright laws in Japan, the United Kingdom, France, Singapore and the Philippines, all of which expressly provide for the recordation of security interests as well as priority between lienholders. Loan transactions secured by copyrights in these countries will be more attractive because their copyright laws and procedures provide a system whereby the security interests of creditors can be adequately protected.

The discussion then explores the copyright law systems in Spain and India, both of which provide for permissive recordation, but have no provision governing priority between lienholders, thereby requiring the courts to look to civil law to resolve issues of priority. Finally, this Comment analyzes the copyright law in Australia to illustrate a system which has no provisions governing recordation or priority of security interests in copyright. Because of the growing value and exposure of copyrighted works, it is imperative for countries which do not have copyright laws governing security interests to follow the direction taken by those countries which have enacted thorough and comprehensive copyright laws. Legislation in this area should be amended to resolve the issues of security and priority so that practitioners can then rely upon codified law. Aside from giving copyright increased international protection, enacting legislation in this area will also encourage financing based on copyrighted works which may be distributed worldwide.

17. See infra notes 22-35 and accompanying text.
18. See infra notes 36-108 and accompanying text.
19. See infra notes 109-80 and accompanying text.
20. See infra notes 181-210 and accompanying text.
21. See infra notes 211-22 and accompanying text.
II. STATEMENT OF THE PROBLEM

In any industry, a company survives by using the income generated by its product to fund its operations. The same is true in the entertainment industry, where a company will rely on income generated by its product (whether it be a film, song or literary work) to maintain current operations and fund future productions. The following hypothetical fact pattern will be used throughout this Comment to illustrate the impact of each different copyright system on the security interest of a creditor. A movie production company, after submitting a business proposal involving established movie writers and directors, convinces a bank to extend a revolving line of credit of twenty million dollars. The company uses the line of credit to finance the production of two films, and the bank takes a security interest in the two films as collateral for the credit it extends. The films are a big success in the United States, attracting viewers and generating income in record numbers. As a result, the films are sent to foreign countries, where they are processed, translated, distributed and shown, thereafter generating foreign income.

Energized by its newfound success, the production company attempts to capitalize on this momentum by immediately expanding its operations and hastily producing more films. The company and its principals also begin to spend lavishly by doing business and entertaining on an international scale. After suffering poor business management and producing several expensive, but unsuccessful films, the company files a voluntary petition for bankruptcy. The unsecured creditors, a group which includes actors and production crew members who worked on the films, challenge that the bank's liens are unperfected and should be avoided by the estate in bankruptcy. The bank's security interest, if not properly perfected, is now jeopardized and may become unsecured, thereby forcing the bank to compete with other unsecured creditors for payment.

If the bank is to prevail as a secured creditor, it must have taken adequate steps to perfect its security interest in the intangible property of the company, the copyrights to the two successful films. Because the films enjoy international exposure and income, the bank must have complied with the procedures appropriate for perfecting such security interests in each country where the films earn income in order to protect its status as a secured creditor. If the proper procedure was not followed, or if a country's copyright law does not clearly provide for perfection of security interests in copyrights, the bank may lose its status as a secured creditor with respect to the revenue earned in that country. The creditor will also
be considered an unsecured creditor in the priority scheme in bankruptcy proceedings.

III. AN OVERVIEW OF INTERNATIONAL COPYRIGHT PROTECTION

The Berne Convention and the Universal Copyright Convention are two multilateral conventions which give substantial protection to international copyrights.\textsuperscript{22} The goal of both conventions is to provide uniform protection and procedures when dealing with situations regarding copyright issues in more than one country.\textsuperscript{23}

The Berne Convention for the Protection of Literary and Artistic Works completed its first agreement in 1886.\textsuperscript{24} The member countries agreed to grant reciprocal copyright protection delineated in the Berne Convention to foreign works by nationals of a member country.\textsuperscript{25} The most important feature of the Berne Convention is that “[p]rotection is granted without observance of any formalities,” effectively eliminating the registration requirements heretofore applied in many countries.\textsuperscript{26} The original convention did not protect media such as films and sound recordings, but included films and sound recordings in subsequent revisions after they gained commercial importance.\textsuperscript{27} Although the Berne Convention began with limited support, largely from the Western European nations, it had secured ratification by eighty-one member nations by 1989.\textsuperscript{28}

\begin{itemize}
\item \textsuperscript{22} Universal Copyright Convention, July 24, 1971, 25 U.S.T. 1343, 943 U.N.T.S. 194; Berne Convention For the Protection of Literary and Artistic Works, July 24, 1971, Hein’s No. KAV 2245 [hereinafter Berne Convention] (Although originally opened for signature on Sept. 9, 1886, the most recent revision occurred at Paris on July 24, 1971.).
\item \textsuperscript{24} Berne Convention, \textit{supra} note 22, at 1.
\item \textsuperscript{25} UNESCO, \textit{supra} note 1, at 63.
\item \textsuperscript{26} \textit{Id.}
\item \textsuperscript{27} See Stewart, Berne Convention, \textit{supra} note 23, at 102-03.
\item \textsuperscript{28} Member states of the Berne Union as of January 1, 1989: Argentina, Australia, Austria, Bahamas, Barbados, Belgium, Benin, Brazil, Bulgaria, Burkina Faso, Camaroon, Canada, Central African Republic, Chad, Chile, Colombia, Congo, Costa Rica, Cyprus, Czechoslovakia, Denmark, Egypt (Arab Republic of), Fiji, Finland, France, Gabon, German Democratic Republic, Germany (Federal Republic of), Greece, Guinea, Holy See, Hungary, Iceland, India, Ireland, Israel, Italy, Ivory Coast, Japan, Lebanon, Liberia, Libyan Arab Republic, Liechtenstein, Luxembourg, Madagascar, Mali, Malta, Mauritania, Mexico, Monaco, Morocco, Netherlands, New Zealand, Niger, Norway, Pakistan, Peru, Philippines, Poland, Portugal, Romania, Rwanda, Senegal, South
Despite its focus on securing quality of copyright protection and placing stricter requirements on its member states, the Berne Convention was not universally accepted. In fact, the United States and the Soviet Union were not original members.\textsuperscript{29} Inspired by the United Nations Educational, Scientific and Cultural Organization (UNESCO), the Universal Copyright Convention sought to provide a minimum level of truly universal protection for copyrights; this system was intended as a complement, not as a substitute to the Berne Convention.\textsuperscript{30} Where the Berne Convention stressed quality of protection, the Universal Copyright Convention stressed breadth and quantity of nations participating.\textsuperscript{31} In fact, the Universal Copyright Convention adopted a "safeguard clause" intended to ensure continued membership and observance of the Berne Convention.\textsuperscript{32}

In 1952, the Universal Copyright Convention required that each member state provide copyright protection for a minimum of the duration of the life of the author plus twenty-five years.\textsuperscript{33} Other rules simplifying the process of protection were enacted in the 1952 Convention. For example, the display of the symbol © with the year of publication was the only formality required for protection.\textsuperscript{34} The Universal Copyright Convention also developed a method to deal with compulsory licenses, which has served as the model for developing countries.\textsuperscript{35}
IV. DISCUSSION OF VARIOUS LEGAL PARADIGMS GOVERNING SECURITY INTERESTS IN COPYRIGHT

A. Paradigms Which Have Dual Systems For Recording and Priority of Security Interests In Copyright

Both the United States and Canada have dual systems for governing recordation and priority in security interests.\(^\text{36}\) In both countries, national legislation governs copyright and other types of intellectual property, while state or provincial legislation governs security interests and commercial transactions dealing with personal property.\(^\text{37}\) The excessive legislation in this area of secured transactions may be attributed to "a dramatic shift in the foundation of the North American economic base... from cars, car parts, steel, mining and textiles to information-based industries of telecommunications, semiconductors, instrumentation, computers, health products and biologicals."\(^\text{38}\)

1. The United States

In the United States, the Copyright Act is a federal law which governs all aspects of the creation, duration, limitations and registration of copyrights generated or recognized in the United States.\(^\text{39}\) Article 9 of the Uniform Commercial Code ("U.C.C."), adopted as state commercial law in several states, governs secured transactions in personal property. Before the issue was settled in \textit{In re Peregrine Entertainment, Ltd.},\(^\text{40}\) distinguished commentators debated whether the proper method for perfecting a security interest in a copyright was to: (1) record a transfer of copyright ownership in the United States Copyright Office, according to the federal Copyright Act;\(^\text{41}\) or (2) file a U.C.C.-1 financing statement, as dictated by Article 9 of the U.C.C.\(^\text{42}\)


\(^{38}\) Zimmerman, \textit{supra} note 4, at 74 & n.1.


PERFECTING SECURITY INTERESTS IN COPYRIGHTS

The Copyright Act "is far from comprehensive," failing to address the perfection of security interests or priorities of such interests in copyrights. The Act provides that "any transfer of copyright or other document pertaining to a copyright may be recorded at the Copyright Office." A recording effectively perfects a security interest only if it gives constructive notice, which requires that: (1) the security agreement (or instrument of transfer) makes an adequate identification of the work so that it might be found in a reasonable search in the Register of Copyrights index; and (2) the work has been registered. Therefore, in order to meet the Act's requirement of constructive notice, a lender must complete both the registration and recordation procedures in the United States Copyright Office. Since most works are not registered until they are completed, the attempt to record the security interest prior to the work's completion may not be effective to establish priority over a subsequent transferee.

On the other hand, the U.C.C. requires the filing of a financing statement to perfect a security interest in personal property, including general intangibles. However, an exception exists when the property is governed by a federal law which provides for a national form of registration. Copyrights are among the types of property the drafters of the

43. Note, Transfers of Copyrights for Security Under the New Copyright Act, 88 YALE L.J. 125, 133 (1978) [hereinafter YALE].
45. Id. § 205(c).
46. YALE, supra note 43, at 88.
47. Id. at 132. The registration requirement poses a problem to many copyright owners, particularly those in the film and motion picture industry, who typically wait until the work is completed to register its copyright, but they will seek financing to fund the completion of the work. The problem arises as to how to protect the work, and the creditor who has extended funds for its completion, while the work is still in progress. Id.
48. Id. at 131 & n.31.
50. This exception, also known as the step-back provision, provides as follows:

The filing of a financing statement otherwise required by this Article is not necessary or effective to perfect a security interest in property subject to (a) a statute or treaty of the United States or international registration or a national or international certificate of title or which specifies a place of filing different from that specified in this Article for filing of the security interest.

U.C.C. § 9-302(3)(a) (1990). Furthermore, § 9-302(4) provides that "[c]ompliance with a statute or treaty described in subsection (3) is equivalent to the filing of a financing statement under this Article, and a security interest in property subject to the statute or treaty can be perfected only by compliance therewith . . . ." Id. § 9-302(4).
U.C.C expected to be exempt from Article 9 filing requirements.\(^{51}\) In sum, a work is exempt from the Article 9 filing requirements only if the requirements of recording and registration under federal law are met; merely recording the security agreement in the Copyright Office is insufficient because it only satisfies part of the procedure required for giving constructive notice.\(^{52}\) Therefore, it is unclear whether the Copyright Act was intended to entirely preempt the U.C.C. with respect to copyrights. It appears that dual filing, under both the U.C.C. and the Copyright Act, is necessary to protect a creditor in the interim period after financing has been extended but before the work has been completed and registered.

Commentators have discussed the gap in the law which leaves businesses, banks and attorneys without clear direction regarding recording and lien priority. The favored approach views the Copyright Act preempting state law—this approach is consistent with several court interpretations which held that a federal method of recordation supersedes state U.C.C. filing procedures.\(^{53}\) Another view concludes that the Copyright Act, by naming a national location for recording security interests, fits squarely into U.C.C. section 9-302, "the step-back provision," providing that recordation under such a federal system is the equivalent of filing under Article 9.\(^{54}\) Many have criticized the difficulty in interpreting the unclear statutory language and the problems arising under existing law and suggest either that: (1) the U.C.C. continue to govern issues not mentioned in the Copyright Act, such as priority and remedies;\(^{55}\) or (2) the Act be amended

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52. YALE, supra note 43, at 135.
53. Klumb, supra note 36, at 148-63. The Ship Mortgage Act and the Federal Aviation Act expressly preempt Article 9 and require federal recordation of security interests in ships and aircraft, respectively. Philko Aviation, Inc. v. Shacket, 462 U.S. 406, 413 (1983) (The Supreme Court concluded that, "although state law determines priorities, all interests must be federally recorded to obtain whatever priority to which they are entitled under state law."). The Court, in Waterman v. MacKenzie, 138 U.S. 252 (1891), held that the Patent Act partially preempted Article 9, thus requiring federal recording to establish priority. The Lanham Act is silent on the issue of security interests, and thus cannot preempt Article 9. The author argues that the purpose of the Lanham Act was to protect the public from deception, and this purpose is furthered if security interests in trademarks are treated as assignments, which must be recorded in order to be enforceable against subsequent purchasers.
55. Concoff, supra note 54, at 1235.
such that the requirement of registration in order to give constructive notice is eliminated. 56

a. In re Peregrine Entertainment, Ltd.

The issue of whether a security interest in a copyright is adequately perfected by filing with the United States Copyright Office or by filing a financing statement with the appropriate secretary of state was first presented to a federal district court in National Peregrine, Inc. v. Capitol Federal Savings and Loan Ass'n. 57 The case involved a bank, Capitol Federal Savings and Loan ("Cap Fed"), which extended a six million dollar line of credit to National Peregrine, Inc. ("NPI") secured by a film library. 58 Cap Fed filed a U.C.C.-1 financing statement in three different states, but failed to register the work or record the security agreement in the United States Copyright Office. 59 When NPI filed bankruptcy nearly four years later, it claimed that Cap Fed failed to properly perfect the lien by completing the appropriate filing with the Copyright Office; hence, NPI, as a debtor-in-possession, sought to "avoid Cap Fed's supposedly unperfected security interest for the benefit of the estate." 60

Addressing the conflicting state and federal schemes governing where to file a security interest in a copyright, the court held that the federal copyright law 61 preempted state law because it was of "comprehensive scope" and copyright was a subject implicating "unique federal interests." 62 Therefore, the federal law which required recording a security interest with the United States Copyright Office was controlling, and federal recording was the only method by which a security interest in a copyright

56. This amendment will allow a recording to give constructive notice of a security interest, and yet maintain the secrecy of works-in-progress, such as motion pictures or computer programs, the contents of which an author may not wish to reveal through registration. Yale, supra note 43, at 139.


58. Id.

59. Id. at 198.

60. Id. A debtor-in-possession, after meeting certain requirements, may obtain a hypothetical judicial lien on all property and may avoid any transfer of property which is voidable, thereby preserving it for the benefit of the estate free of encumbrances. 11 U.S.C. § 544(a)(1) (1988).


could be perfected.\textsuperscript{63} The court concluded that the Copyright Act fit squarely within the step-back provisions of U.C.C. sections 9-302(3) and (4),\textsuperscript{64} thereby making federal recordation the equivalent of filing under Article 9 and effectively preempting state law.\textsuperscript{65} Consequently, because Cap Fed failed to file under the federal recording scheme, its interest remained unperfected.\textsuperscript{66}

The court reached this conclusion after it found the federal method of perfection to be superior because utilizing a federal system results in national uniformity, predictability and economy, whereas the U.C.C.-1 filing would require interested third parties to search the records in potentially every state.\textsuperscript{67} In addition, the intangibility and "lack [of] clear situs" of copyrights "militates against individual state filings and in favor of a single, national registration scheme."\textsuperscript{68} The court reasoned that recording systems exist to provide interested parties one "specific place" to search for encumbrances or transfers affecting a particular property.\textsuperscript{69} Thus, maintenance of dual recording systems would decrease the utility of each system by requiring filing and searching in both indexes, thereby causing confusion, uncertainty and increased risk of error.\textsuperscript{70} Furthermore, a federal method of recordation, providing a clearer, more assured recordation process would promote the purchase and sale of copyrights, facilitate more efficient commercial transactions and increase the value of such property as collateral for loans.\textsuperscript{71}

The court further held that NPI, as a Chapter 11 debtor-in-possession, was entitled to a judicial lien on the estate's assets and had the power to avoid voidable transfers of property under § 544(a)(1) of the Bankruptcy

\textsuperscript{63} Id. at 203.
\textsuperscript{64} Id.
\textsuperscript{65} The court reached this conclusion because copyrights are specifically mentioned in comment 8 of U.C.C. § 9-302 as the type of property governed by federal statute. Id., at 203.
\textsuperscript{66} Id. at 204.
\textsuperscript{67} Peregrine Entertainment, Ltd., 116 B.R. at 199.
\textsuperscript{68} Id. at 200-01. The court followed the direction taken in Danning v. Pacific Propeller, 620 F.2d 731, 735-36 (9th Cir. 1980), which held that the Federal Aviation Act preempted state filing provisions regarding security interests in civil aircraft because a federal recording scheme was better suited for property which was "highly mobile" such as aircraft. The court in Peregrine Entertainment, Ltd. reasoned that, since "copyrights, even more than aircraft, lack a clear situs," the federal law governing copyrights should also preempt state filing requirements. Id.
\textsuperscript{69} Id. at 200.
\textsuperscript{70} Id. at 201.
\textsuperscript{71} Klumb, supra note 36, at 165.
As a result, the bank’s unperfected security interest was “trumped by NPI’s hypothetical judicial lien,” and the bank was treated as an unsecured creditor.73

b. In re AEG Acquisition Corp.

One year later, in In re AEG Acquisition Corp.,74 a court broadened the application of the federal recording requirement to include recordation of security interests in United States copyrights in works of foreign origin.75 The case involved an investor, Zenith, who took a security interest in three films, two of which were foreign works.76 Zenith filed both a U.C.C.-1 financing statement for all three films and a mortgage recordation in the United States Copyright Office for the one United States film; however, it did not file mortgages with the United States Copyright Office for the foreign films.77 When AEG filed for bankruptcy, it brought an action to avoid the transfers made to Zenith.78

Relying on Peregrine Entertainment, Ltd., the court concluded that “a security interest in a film is perfected under the United States Copyright Act, and not under the Uniform Commercial Code.”79 The court held that Zenith’s failure to file according to the Act resulted in its security interest in the two foreign works being unperfected.80 Zenith claimed it did not comply with the federal recording procedure set forth in Peregrine Entertainment, Ltd. because it thought foreign films were made exempt from registration in the United States by the Berne Convention.81 The bankruptcy court agreed that the Berne Convention granted copyright protection to works by nationals of member countries without requiring

73. Id.
74. Official Unsecured Creditors' Comm. v. Zenith Prods., Ltd. (In re AEG Acquisition Corp.), 127 B.R. 34 (Bankr. C.D. Cal. 1991). This case was an adversary proceeding within the bankruptcy reorganization case In re AEG Acquisition Corp.
75. Id. at 42.
76. Id. at 37-38.
77. Id.
78. AEG sought to recover monies paid to Zenith, which AEG claimed were preferential and fraudulent transfers, according to the United States Bankruptcy Code, 11 U.S.C. §§ 547, 548 (1988). Id. at 38.
79. AEG Acquisition Corp., 127 B.R. at 40.
80. Id. at 42.
81. Id. at 37-38. The Berne Convention provides that copyrights of any country in the Berne Convention do not have to be registered in other Berne Convention countries in order to gain protection in those countries. Berne Convention, supra note 22, at 4 (art. 5(2)).
compliance with formal procedures such as registration; however, the court ruled that the exemption only applied to copyright protection against infringement, not against priority of security interests. The court concluded that, since Zenith failed to record its security interests in the United States Copyright Office, as required by United States copyright law, Zenith's security interests were unperfected and the liens were avoided.

Thus, as it now stands, the development of case law on this issue establishes that the proper procedure for perfecting a security interest in a copyrighted work of either domestic or foreign origin is effective only by recording with the United States Copyright Office. A lender who has followed this procedure will be assured of its priority as a secured creditor against subsequent recorded and unrecorded interests. Applying this rule to the hypothetical case involving the movie production company, the bank may claim an interest in the United States proceeds of the films only if it completed the appropriate filing with the United States Copyright Office.

2. Canada

In Canada, the federal regulation governing copyrights is the Copyright Act, which defines the rights of copyright owners. In addition, six Canadian provinces have adopted the Ontario Personal Property Security Act ("PPSA"), which was modelled after and closely resembles Article 9 of the United States Uniform Commercial Code.

While the Canadian Copyright Act governs virtually all aspects of copyright law, it does not expressly address security interests, and "[t]he PPSA attempt[s] to legislate with respect to intangibles, including copyrights ... as if the federal statutes do not exist." The issue of whether a security interest should be perfected under the federal or

82. 17 U.C.S.A. § 411(a) (West 1977 & Supp. 1991); Berne Convention, supra note 22, at 4 (art. 5(1)).
83. AEG Acquisition Corp., 127 B.R. at 42.
84. Id.
86. The six provinces which have adopted the PPSA are British Columbia, the Yukon Territory, Alberta, Saskatchewan, Manitoba and Ontario. Zimmerman, supra note 4, at 75.
87. Kaufman, supra note 5; see also Erdle, supra note 37, at 61 ("Federal statutes fail to define the types of 'assignment' or 'interest' governed by their registration provisions . . . .").
88. Erdle, supra note 37, at 61.
provincial system has been left unanswered.\textsuperscript{89} Adding to the confusion, the federal and provincial regulations establish different priority of transfers, often yielding conflicting results.\textsuperscript{90} As a safeguard, practitioners have been recording security interests under both systems.\textsuperscript{91} Since dual recordation is both inefficient and costly,\textsuperscript{92} commentators and legal practitioners in Canada are anxious to resolve the conflict between federal and provincial law.

The dual recordation system in Canada involves the Copyright Act,\textsuperscript{93} which governs virtually all aspects of copyright ownership, and the PPSA,\textsuperscript{94} which governs secured transactions in personal property, including intangibles such as copyright. Under section 40 of the Copyright Act, registration of the underlying copyright is optional; however, a grant of an interest in a copyright, such as an assignment, is void against a subsequent assignee if not recorded.\textsuperscript{95} The prescribed manner for recording a security interest in a copyright is to file the original and a certified copy of the security agreement in the Copyright Office.\textsuperscript{96} If the copyright has been registered, a microfiche copy of the security agreement will be indexed and attached to the registration certificate.\textsuperscript{97} While the Copyright Act does not articulate whether security interests are to be included in “interests” and “assignments” covered in section 40, “[c]ommentators have expressed doubts about whether the federal acts were ever intended to govern assignments intended as security.”\textsuperscript{98} Under federal law, the first party to record prevails against all subsequent grantees; however, the Act is silent as to priority between the holder of an unrecorded interest and a trustee in bankruptcy.\textsuperscript{99}

89. The dispute has resulted in five different approaches to security interests: (1) Complete preemption by the federal legislation and the PPSA is completely inapplicable to intellectual property; (2) PPSA governs all matters, except priorities, which is governed by federal legislation; (3) Federal law will govern where an assignment has been registered federally, otherwise the PPSA governs; (4) Registration is required under both federal and provincial law—federal law governs priority of subsequent assignees, PPSA governs priority of other secured parties, transferees or a trustee in bankruptcy; and (5) Federal registration will preempt PPSA law, but the PPSA still governs rules of priority. \textit{Id.} at 62.
90. \textit{Id.}
91. \textit{Id.}
92. \textit{Id.}
95. Erdle, \textit{supra} note 37, at 61.
96. Zimmerman, \textit{supra} note 4, at 89.
97. \textit{Id.}
98. Erdle, \textit{supra} note 37, at 61.
99. \textit{Id.} at 62.
Under the PPSA, an enforceable security interest is created once it has been: (1) attached to the collateral and (2) perfected. A security interest attaches when the debtor has rights to the collateral, the debtor has signed a security agreement identifying the collateral, and value has been given. Perfection of the security interest, pursuant to section 23 of the PPSA, requires registration of a financing statement, which must include the names of the debtor and secured parties and identify the category of collateral secured in the security agreement. Registration of the financing statement may be completed before or after the security agreement is signed. Unlike the federal Copyright Act, the PPSA establishes a priority scheme by order of registration, regardless of notice, and the trustee in bankruptcy holds a superior position vis-a-vis a creditor with an unperfected security interest.

Unlike the situation in the United States, where courts have resolved the issue of whether federal copyright law preempts state commercial law, the conflict between federal and provincial legislation concerning security interests in copyrights in Canada remains unresolved. Commentators have suggested several resolutions, the most favored of which requires dual recordation. Under this approach, the federal law gives priority over subsequent assignees, and the provincial law governs priorities over "other secured parties, transferees for value, or a trustee in bankruptcy." However, this alternative is criticized as being expensive and time-consuming, as well as "lead[ing] to absurd priority problems." Others suggest exclusively utilizing the federal scheme. They argue that copyright is better governed by one uniform law across the nation—creditors are better protected, they record in only one register and they need not worry about divergent outcomes under competing laws in the different provinces.

100. Zimmerman, supra note 4, at 81.
101. Id.
102. Id. at 82.
103. Id. at 83.
104. Erdle, supra note 37, at 62.
105. Id.
106. Id.
107. Id. "A debtor, for example, may make two security assignments of the same copyright. The first is registered under the PPSA; the second under the Copyright Act. Under the PPSA, the first assignment would have priority; under the Copyright Act, the second would prevail. One assumes the federal act would be paramount. But reverse the sequence of events and the result is entirely different." Erdle, supra note 37, at 62.
108. Zimmerman, supra note 4, at 94.
For the hypothetical creditor in Canada, the most prudent course of action would be to file under both the federal and provincial schemes. Although this approach seems redundant and is more expensive, it is necessary because the law in this area is unsettled and only by recording under both systems can a creditor be completely assured that the security interest is properly perfected.

B. Paradigms Which Have One System for Recording and Priority of Security Interests in Copyright

The law in Japan, the United Kingdom, France, Singapore and the Philippines clearly delineates the recording procedures a creditor must follow to ensure that a security interest in a copyright is perfected. Because the laws in these countries provide one uniform system for recordation, and the regulations governing priority are clearly expressed, their systems represent the best paradigm for perfecting and protecting security interests in copyright. The free transfer and hypothecation of copyrights is promoted in these countries because the paradigm clearly provides for the protection of these interests.

Although distinctions exist between the different countries’ laws, they generally provide one system of recordation, and recordation is required in order to perfect the interest and establish priority. In order to perfect its security interest in the copyrights and their proceeds, the lender who extends credit to the film company in the hypothetical situation would have to follow and complete the appropriate filing procedures required by the law in each of these countries.

1. Japan

Japanese copyright law draws a distinction between the moral and economic rights arising in copyright.109 This distinction has developed in the copyright legislation of many countries, either from the Roman legal tradition, a socialist system or court decisions.110 Generally, moral rights include the creator’s “right to make [the] work public, the right to claim authorship ([also known as the] paternity right) and the right to the integrity

110. UNESCO, supra note 1, at 23.
of one's work." An author's moral rights allow her to choose whether the work is to bear the author's name, a pseudonym, or remain anonymous, whether the work will be publicized and the content and quality of the publication. Moral rights encompass the right to claim infringement or plagiarism, the right to protest significant changes, and the ability to grant a right of publication (shuppanken) in the original work. Article 59 of Japan's Copyright Act deems moral rights inalienable, because they are considered uniquely personal to the author. Nevertheless, copyrights are similar to personal property, and Article 61(1) provides that copyrights may be assignable in whole or in part.

Although moral rights and economic rights overlap to some extent, economic rights generally concern the right to reproduce or publicize the work. Economic rights are property rights which give rise to the author's ability to derive income if he chooses to exploit the work publicly. The author's copyright refers to the author's economic right, and it includes the right to reproduce, perform, broadcast, recite, exhibit, lend, translate or adapt the creative work. The creation of a new technology which can communicate the author's work to an audience in a new medium creates a new economic right in the author.

Japanese copyright law allows an owner of a copyright to mortgage his economic interest in the copyright to obtain financing; such a mortgage or security interest is considered a transfer under Article 77 of the Copyright Act. Article 61(1) of the Copyright Act provides that "copyright is assignable in whole or in part;" therefore, an author's copyright is treated as a form of personal property and can be offered as security for a loan. Article 66 governs the use of copyright as collateral and provides that a secured party's rights include the right to collect royalties or other

111. Doi, supra note 109, at 784.
112. UNESCO, supra note 1, at 23.
113. Doi, supra note 109, at 784-85.
114. Id. at 786.
115. Id. at 799-800.
117. Doi, supra note 109, at 786.
118. Id.
119. The introduction of new technological advancements, such as videocassettes, laser discs and compact discs, gives rise to the author’s economic right to publish in each of these media or the right to convey these rights. See UNESCO, supra note 1, at 27.
121. Doi, supra note 109, at 800.
122. See id.
consideration for the use of the work.  

Article 78 mandates that all transfers of copyrights, including security rights, be registered by the Director General of the Cultural Affairs Agency in the Copyright Register (Chosakuken toroku genbo) in order to be effective against third parties.

An owner of a copyright may grant a license to a publisher pursuant to Article 21. Alternatively, pursuant to Article 79, an author may grant a shuppanken to a publisher. Shuppanken, a concept unique to Japanese copyright law, gives the grantee the exclusive right to publish or reproduce a work. Once a copyright owner grants away a shuppanken, the owner can no longer publish the work in its original form or in a compilation of works by the same author. In addition, the holder of a shuppanken has a significant property interest because she, unlike a publisher who merely has a license, "enjoys the same exclusivity against third parties as does the copyright owner."

Pursuant to Article 78, all transfers of this type must be recorded in the Publication Right Register (Shuppanken toroku genbo) to be effective against third parties. Transfers which must be recorded include: (1) the establishment, transfer, modification, extinction or restriction of the shuppanken right itself; (2) the giving of the shuppanken as security for a financial transaction; and (3) transfer, modification, extinction, or restriction of the secured party's right. Lenders must be sure that both the security agreement, as well as the shuppanken underlying the secured transaction, are recorded.

In the United States, as in many other Anglo-Saxon countries, copyright law does not recognize the author's moral right; however, similar "basic moral rights are recognized in civil and penal law . . . [governing] unfair competition, contracts, defamation or the right of privacy."

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123. Doi, supra note 120, at JAP-28 to JAP-29.
124. Id. at JAP-28 to JAP-30.
125. Doi, supra note 109, at 802.
126. Id.
127. Id.
128. Id. at 803.
129. Id. at 802.
130. Doi, supra note 120, at JAP-29 to JAP-30.
131. Doi, supra note 109, at 802.
132. Doi, supra note 120, at JAP-29, JAP-37.
133. UNESCO, supra note 1, at 23. The growing sophistication of media, with the advent of more modern methods with which to exploit and publicize creative works such as radio, films and television, has put significant pressure on such countries to recognize moral rights in their copyright laws. Id. Furthermore, since the publication of the UNESCO pamphlet, the increased
Peregrine Entertainment, Ltd., the court reasoned that the ultimate value of the copyright, and hence the value relied upon as collateral for financing, is the receivables of the copyright, not the copyright itself, as an intangible asset. Therefore, under United States law, a security interest in a copyright is effectively an interest in the *money earned* by a copyright-ed work.

By contrast, Japanese law recognizes both the ownership of the work itself (moral right), as well as ownership of the right to publish a copyright-ed work (economic right). However, because the properties are interdependent, security interests in each may require another party's approval. For example, if the copyright owner had used the copyright as collateral for prior financing, Article 79(2) requires approval from the bank before a *shuppanken* can be granted to a publisher. Similarly, if a *shuppanken* holder wishes to use the *shuppanken* as security for financing, Article 87 requires the consent of the copyright owner.

The law governing copyright in Japan clearly delineates the requirements and procedures necessary to perfect a security interest in the moral or economic rights arising from a copyright. The hypothetical creditor must perfect its security interest by filing a copy of the security agreement in the Copyright Register. If the security interest is taken in a *shuppanken*, the creditor must also record the security agreement with the Publication Right Register.

exposure through video, compact disc and cable television programming will probably add to this effect.


135. “The transfer of a copyright interest is fundamentally different from the creation of exclusive rights to a work itself . . . .” *Peregrine Entertainment, Ltd.*, 116 B.R. at 199 n.6.


137. *Id*.

138. *Id* at JAP-28 to JAP-30.

139. *Id* at JAP-29.
2. European Economic Community

The law in the European Economic Community ("EEC") is applicable to all twelve member nations; however, it is not considered an international law or a convention. "EEC law is supranational and hence sui generis." EEC law has its roots in the Treaty of Rome, signed in 1957 by the original six members of the EEC, in which each of the member countries "divested themselves of certain of their sovereign rights and transferred them to the Community set up by them." The treaty is executed by institutions dedicated to administering the treaty over the EEC as "a common market." The treaty seeks to achieve greater copyright protection through harmonization of laws between all member nations without impinging on the intellectual property rights of the individual states. Despite increased uniformity in certain broad classifications of intellectual property, the area of security interests or mortgages in intellectual property is not addressed by EEC law and is left to regulation by each individual country. By focusing on this issue in only a few countries, the following discussion is not meant to be exhaustive of the law in the European Economic Community. Instead, it is meant to present several approaches to the problem of perfecting security interests in intellectual property in the region.

a. United Kingdom

Under the United Kingdom's Copyright Act of 1988, registration of a creative work is not required for protection from infringement within the

140. John MacPhail, European Economic Community, in 2 INTERNATIONAL COPYRIGHTS AND NEIGHBORING RIGHTS 537 (Stephen M. Stewart ed., 2d ed. 1989). The member nations are Belgium, Netherlands, Luxembourg, France, Italy, Federal Republic of Germany (FRG), United Kingdom, Ireland, Denmark, Greece, Spain and Portugal. Id. at 537 n.1.

141. Id. at 537. Sui generis means "of its own kind or class; peculiar." BLACK'S LAW DICTIONARY 1434 (6th ed. 1990).

142. MacPhail, supra note 140, at 538.

143. Id. The institutions charged with administering the treaty are: (1) the European Parliament, formerly called the Assembly; (2) the Council of Ministers representing the member states; (3) the Commission; and (4) the Court of Justice. Id.

144. Id. at 541.

145. For example, a recent directive, issued by the Council of Ministers, mandates certain procedures regarding legal protection of computer programs (effective in each of the member states January 1, 1993). William R. Comish, United Kingdom, in 2 INTERNATIONAL COPYRIGHT LAW AND PRACTICE UK-1, UK-15 (Melville B. Nimmer & Paul Edward Geller eds., 1992).

146. MacPhail, supra note 140, at 541.
United Kingdom ("U.K."). A copyright arises once an original work takes a permanent form. The law in the U.K. does not distinguish between an author's moral rights and economic rights. Instead, the author's copyright is the whole bundle of rights associated with the creation, integrity, publication, exploitation and distribution of the work. This traditional system views the author's control as relating "only to the whole work or a substantial part of it." Therefore, the law generally concerns issues of copyright having to do with the publication and exploitation of the work.

A mortgage of copyright constitutes a transfer of copyright as an item of personal property under section 90(1) of the Copyright Act of 1988; thus, it can be mortgaged or conditionally assigned. Section 90(4) requires that a mortgage of copyright be registered with the Registrar of Companies within twenty days of its creation. Failure to comply with the recordation requirement renders the mortgage void. Furthermore, in the event of bankruptcy, a copyright passes to the trustee and such interest would defeat an unrecorded security interest, similar to the operation of section 544 of the Bankruptcy Code under United States law.

It is crucial for the hypothetical creditor to record the mortgage with the Registrar of Companies in order to ensure perfection of its lien. Failure to do so will render the lien unperfected. Furthermore, the bankruptcy laws in the U.K. allow the unperfected lien to be "trumped" by the interest held by the trustee in bankruptcy, thus leaving the creditor in an unsecured, unprotected position.

147. Id.
148. Id.
150. UNESCO, supra note 1, at 26.
151. Id. at 23.
152. Cornish, supra note 145, at UK-33.
153. Id. at UK-34.
154. Id.
155. If the bankrupt party is not the author of the work, the author will retain the right to royalties and exploitation. Id. at UK-33.
b. France

In France, copyrights are considered intangible property and are governed by France's 1957 Copyright Act. Similar to Japanese copyright law, French law recognizes a rigid distinction between ownership of the material object (the copyright itself) and the right to exploit the copyright. Consequently, ownership of the copyright in a work is differentiated from the right to exploit the work, and transfers of copyright do not automatically transfer the right to exploit the work. This distinction allows an owner of a copyright to interfere with another's right to exploit the work, but the law provides for remedies if such interference becomes abusive.

As intangible property, a copyright, similar to a trademark, license or patent, is considered industrial property and is recognized as a business asset which may be used as collateral for a borrowing transaction. The security agreement underlying the transaction must be in writing and must be signed by both the debtor and creditor. When a copyright is used as collateral, the security agreement must be registered at the Fiscal Administration to be valid and enforceable. Additionally, when a loan is secured by copyrighted material in a certain subject area, recordation of the security interest may be required in the corresponding office. For instance, a security interest in a motion picture must be recorded in the National Center of Cinematography.

A company whose most valuable asset is a copyright may effectively negotiate a business loan using the copyright as collateral. The lender will extend credit and take a lien on a going business (nantissement de fonds de commerce), which is described as a "security interest in tangible and intangible movable property owned or used in connection with the operation of a going concern." The transaction is secured by assets which are most valuable to the business, and, as such, the loan is consid-

157. Id. at FRA-29 to FRA-30.
158. Id.
162. Id.
163. Haimo, supra note 160, at 1180.
secured by the business itself.\textsuperscript{164} Again, the security agreement underlying the transaction must be in writing and signed by both the debtor and creditor.\textsuperscript{165} The creditor must record the lien at the Commercial Registry in each district in which the business has operations or branch offices, and all liens against industrial property must also be recorded in the Patent Office (\textit{Institut National de la Propriété Industrielle}).\textsuperscript{166} French copyright law governing priority of interests is a race statute, providing that "the first creditor to record his lien on the business will have priority over subsequently recorded liens on the same collateral."\textsuperscript{167} Therefore, the hypothetical creditor must be sure to record his security interest in the Commercial Registry and the Patent Office, as well as the National Center of Cinematography.

In the event of default on the loan, a creditor may enforce its lien by initiating foreclosure proceedings against the debtor, but it must give the debtor eight days notice.\textsuperscript{168} Although the foreclosure process of a copyright closely resembles the process governing real and tangible personal property, a creditor who forecloses and obtains ownership of a copyright will have difficulty converting the copyright itself into funds with which to recoup the loss on the loan.\textsuperscript{169} Compare this security interest to, for example, a mortgage on a house, which is a lien on a tangible asset. Foreclosure on a mortgage allows the creditor to take possession of the house, sell it, and apply the sale proceeds to the loan. Conversely, a copyright in France may be used as collateral for a loan on the entire business; thus, the creditor must foreclose upon the entire company.\textsuperscript{170} This involves a lengthy and complicated process. The law does not allow the creditor to take possession of the business. Instead, the creditor must comply with a protracted procedure whereby the business and all its assets are sold at a judicial auction; the creditor must then wait to be paid out of those proceeds.\textsuperscript{171} In this respect, it is more expedient for a creditor to realize the value of tangible property, such as equipment, as collateral for a loan transaction.

Another key distinction lies in the effect of the foreclosure. Under United States law, failure to pay a loan secured by a tangible or intangible

\begin{itemize}
  \item \textsuperscript{164} \textit{Id.}
  \item \textsuperscript{165} \textit{Id. at 1181.}
  \item \textsuperscript{166} \textit{Id.}
  \item \textsuperscript{167} \textit{Id.}
  \item \textsuperscript{168} Haimo, \textit{supra} note 160, at 1181.
  \item \textsuperscript{169} \textit{Id.}
  \item \textsuperscript{170} \textit{Id.}
  \item \textsuperscript{171} \textit{Id.}
\end{itemize}
asset may result in its foreclosure and seizure, and the owner may lose that one piece of property. French law allows a lender holding a perfected security interest in a business to foreclose not only upon a single asset, but upon the entire business. As a result, the business owner in the United States may lose a single piece of property while retaining the right to continue, restructure or liquidate the business. In France, however, failure to pay on a lien on a going business resulting in foreclosure effectively requires liquidation of the entire business, which is analogous to a Chapter 7 bankruptcy liquidation under United States law.

3. Singapore

The Singapore Copyright Act of 1987 contains language closely resembling language found in copyright legislation in the United Kingdom and Australia. A copyright arises automatically, without registration, in all "original literary, artistic, musical and dramatic works and also in other subject matter which includes sound recordings, cinematographic films, cable programmes, broadcasts and published editions of works." Pursuant to section 194, ownership of a copyright can be transferred or assigned by operation of an agreement, provided the assignment is "in writing signed by or on behalf of the assignor."

In all types of intellectual property, a security interest may constitute a charge or mortgage, which is governed by the Singapore Companies Act. Section 131 of the Singapore Companies Act requires that companies incorporated in Singapore register all charges within thirty days of the security agreement's creation in order to be effective against third parties. If the creditor fails to comply with this process, the security agreement will be void, and the charge will not be perfected against the property of the company.

Unlike the law governing other types of intellectual property, such as trademark and patent, the Copyright Act does not require registration of

173. Id.
175. Haq, supra note 172, at 13.
176. Id.
177. Id. at 13-14.
copyrights. Therefore, the lender seeking to properly collateralize a copyright need only comply with the Singapore Companies Act governing secured transactions. While the security interest must be registered, the copyright itself need not be.

The hypothetical creditor who extends credit to a company and takes a security interest in copyrights which will earn income in Singapore need not register the copyright. However, she must record the security interest within thirty days of the agreement’s creation; failure to do so will result in the lien remaining unperfected and leave the creditor in an unsecured and unprotected position.

4. The Philippines

The procedure for recording security interests in intellectual property in the Philippines is quite clear. First, there must be a written security agreement, and it must be filed with the Register of Deeds. When dealing specifically with a security interest in copyrights, the security agreement must be filed both with the Register of Deeds and with the National Library.

Since the law in this area is clearly defined, the hypothetical creditor need only follow the explicit instructions delineated in the copyright provisions. As long as the security agreement is properly written and filed with the Register of Deeds and the National Library, the security interest will become perfected and the creditor’s security and priority are protected.

B. Paradigms Which Provide For Permissive Recordation But Contain No Provision for Priority of Security Interests In Copyright

1. Spain

The 1987 Copyright Act of Spain was created to replace the 1879 Copyright Act along with the “variety of provisions enacted on an ad hoc basis to supplement [it].” The new Act was adapted to the Berne and Universal Copyright Conventions and, similar to the procedures in other

178. Id. at 14.
179. Kaufman, supra note 159, at 5.
180. Id.
PERFECTING SECURITY INTERESTS IN COPYRIGHTS

convention countries, does not require the registration of copyrights. Registration, though not mandatory, is permissive at the Copyright Registry (El Registro del Propiedad Intelectual), and the Registry makes public the record of such registrations.

Similar to the law in other nations, Spanish copyright law does not allow for the transfer of an author's moral rights; therefore, a transfer may be given, or a security interest may be taken, only in a creator's economic or "exploitation rights." The right to mortgage a copyright is expressly treated in Article 53 of the Copyright Act. The Article provides that "exploitation rights in the works protected under this Act may [be] made subject to mortgages (hipoteca) in accordance with the laws in force." Article 53 also prohibits the attachment of the actual exploitation rights, but allows attachment of the profits and benefits arising from a work's exploitation by treating such monies as the "salary" of the author. Such proceeds from exploitation will be treated as "salary or other pay" in the event of bankruptcy.

The 1987 Copyright Act does not mandate the recording of such mortgages or transfers in order to establish priority against subsequent transferees. Nevertheless, Article 130(2) of the Act specifies that submission of "instruments and contracts" to the Copyright Registry is permitted, and the Register will consider their legality. Since recordation is neither provided for nor required by federal law, cases involving conflicting transfers must rely on Spanish civil law to determine the rights and priorities of the parties. One commentator has written that, although mortgages in copyright are rare, the existence of Spanish law governing liens on personal property indicates that it is likely they will be

182. Id. at SPA-11, SPA-39.
183. Id. at SPA-39.
186. See supra note 181, at SPA-28.
187. Id. at SPA-38.
188. Id.
189. Id. at SPA-31.
190. Id.
191. del Corral, supra note 181, at SPA-31, SPA-38.
enforceable under the 1987 Copyright Act.\textsuperscript{192} Therefore, it appears that it would be most prudent for a secured party to record the mortgage of copyright in the Copyright Registry.

The National Institute of Cinema is a special agency which operates under the authority of the Ministry of Culture, and it is primarily responsible for regulating "commerce in video recordings for private use."\textsuperscript{193} The National Institute oversees public certification for "the legal sale, rental, or exchange of video recordings in Spain."\textsuperscript{194} In addition to filing a mortgage with the Copyright Registry, a lender who holds a security interest in a United States film, with intentions to exploit it through video in Spain, may file a record of the mortgage with the National Institute of Cinema. However, since this method has been untested, it is unclear whether such a filing will have the legal effect of perfecting the lien in Spain.

Since the existing system provides no established method for perfection of security interests, a secured party runs the risk of being deemed unsecured. Under the current copyright regime, the hypothetical creditor who wishes to perfect a security interest in a copyrighted work earning income in Spain has no definitive answer. While the creditor may record his interest in the Copyright Registry, the current law does not make clear whether this procedure will serve to perfect her interest. Unless Spanish copyright law is amended to include a method for perfecting and enforcing such rights, security interests in intellectual property will continue to be vulnerable, and lenders will be reluctant to take copyright-protected property as collateral when the copyright generates income in Spain.

The copyright law should be amended to require recordation in the Copyright Registry of all mortgages, liens and security interests in copyrights. Records should be made available for public inspection, thereby constituting constructive notice to interested third parties. Only then will the law provide adequate assurance for the lender who wishes to extend credit secured by expected proceeds from the exploitation of a copyrighted work in Spain. Moreover, the record would inform business-people in Spain involved in transactions with such property seeking to adequately protect their interest and priority.

\textsuperscript{192} Id. at SPA-38 (citing A. Delgado, \textit{La nueva ley espanola sobre propiedad intelectual} [The New Spanish Law on Intellectual Property], 138 REVUE INTERNATIONALE DU DROIT D'AUTEUR 199, 240-41 (1988)).

\textsuperscript{193} Id. at SPA-39.

\textsuperscript{194} Id.
Copyright law in India was developed when India was still part of the British Empire; hence, India's copyright law has its roots in British law. Soon after India's independence, however, it passed the Copyright Act of 1957, establishing India's own "independent and self-contained law."

Under the Indian Copyright Act, a copyright need not be registered to obtain copyright protection; however, the Act does provide for a Register of Copyrights. The indexes of the Register are open to the public for inspection. The indexes categorize information alphabetically by: (1) general author; (2) general title; (3) works in each language indexed by author name; and (4) works in each language by title name. The Copyright Act does not expressly mention security interests, but section 18 does provide for transfers and assignments, in whole or in part, of copyright. In order to be valid, an assignment must be in writing and signed by the assignor or his authorized agent, but there is no express requirement that a transfer or assignment be recorded.

Although registration and recordation are not compulsory, the existence of the Register of Copyrights encourages a creditor to utilize it as a vehicle to secure perfection of its liens, to form the basis of its secured transaction. Furthermore, it is a common practice to attach a form to the application for registration of copyright to delineate any particulars regarding the

196. Id. at IND-9. The Copyright Act of 1957 was amended by the Copyright (Amendment) Act of 1983. The amendment incorporated the mandates of the Berne Convention and the Universal Copyright Convention and extended copyright applicability and protection to video films and computer programs. Id.
198. Id.
200. Id. at IND-29.
201. Ponnuswami, supra note 197, at 743.
203. Id. at IND-36. Rule 15 of the Copyright Rules established a set of forms to be kept by the Registrar. Each form is used for a different type of creative work: Form I—Literary, Dramatic and Musical Works; Form II—Artistic Works; Form III—Cinematograph Films; and Form IV—Records. Form III, covering film rights, contains a designated space for the author to include the particulars of an assignment or license. Id.
existence and scope of assignments or licenses. Subsequent recordings may be executed to update the status expressed in the particulars attached to the applications. For example, an author who wishes to abandon a copyright must give notice to the Register of Copyrights. Registration with the Register of Copyrights constitutes “prima facie evidence of the particulars entered in it.” The existence of these provisions indicates that recording of assignments or transfers is permitted, as well as practiced, in the Register of Copyrights, and it would be wise for a lender to record there to effectively perfect and give notice of its lien.

However, “[r]ecordation of transfers through registration as just described, does not alone give any priority, since registration is not compulsory under the Act and does not confer any right greater than just the entry in the register.” “At best, [recording] can only be a proof of the particular transaction to show it was entered into on a particular day.” The Act does not address the issue of priority as between conflicting transferees; therefore, the issue is left up to the operation of general law, which gives priority to the earlier transfer.

Although the Copyright Act in India comes very close to recognizing security interests in copyrights and provides a method to record such interests, the Act does not contain express provisions which govern this process. Therefore, the courts can only rely on the operation of general law to interpret the rights of the parties, and this is regrettably problematic for the lender seeking to firmly establish a lien on the property. The hypothetical creditor may record his security interest in the Register of Copyrights; however, since such a recording is permissive, not mandatory, it may not constitute constructive notice and may fail to perfect the lien. Because the law is unclear, creditors and copyright owners will remain unsure whether their interests will be protected. Until the Act is amended to require a precise procedure whereby security interests will be recorded and priority of transfers will be recognized and enforced, secured parties will continue to be vulnerable to elimination or misinterpretation of their interests in copyright as collateral in India.

204. Id. at IND-30. A security interest or mortgage, for example, is a particular which might be indicated on the application.
205. See id.
206. Ponnuswami, supra note 197, at 744-45.
207. Ramaiah, supra note 195, at IND-37.
208. Id. at IND-31.
209. Id.
210. Id. at IND-30 to IND-31.
D. Paradigm Which Provides For Neither Recordation Nor Priority of Security Interests in Copyright—Australia

Copyrights in Australia were originally governed by the British Copyright Act of 1911, but are currently governed by the Copyright Act of 1968.211 One commentator remarked that, although “the 1968 Act was a major achievement in the development of Australian copyright law . . . technological change in the fields of communications and information technology [have] far outstripped the capacity of the 1968 Act.”212 There is no formal procedure required for the registration of copyrights in Australia; hence, there is no Copyright Office in the country.213 Instead, the Attorney General of the Australian government is charged with the responsibility of governing copyrights.214 Although Australia does have a Patent Office, that office has no control over copyrights.215

The Copyright Act does not specifically address security interests; however, since copyright is considered personal property which is amenable to transfer, a security interest in a copyright may be considered an assignment of copyright.216 Specifically, a security interest may qualify as a partial assignment, granting only a partial interest in the copyright.217 Under the Copyright Act, “an assignment of copyright, whether total or partial, is ineffective unless it is in writing signed by, or on behalf of, the assignor.”218 However, the Act has no provision governing recordation of transfers or other copyright interests. Therefore, the general principles of law and equity apply, and the “first assignee in time pursuant to a valid legal assignment will take priority over subsequent assignees.”219

Because there are no express provisions regarding the recording of transfers, there is no formal procedure for perfecting a security interest. Thus, it logically follows that there is no mechanism to give constructive notice of such an interest. Therefore, creditors holding a security interest may be vulnerable to a copyright owner who subsequently conveys to a

213. Id., supra note 211, AUS-53.
214. Id.
215. Id.
216. Id. at AUS-45 (citing Copyright Act of 1968, § 196(1)).
217. Id. at AUS-46 (citing Copyright Act of 1968, § 196(1)).
218. Id., supra note 211, AUS-46 (citing Copyright Act of 1968, § 16).
219. Id. at AUS-48.
bona fide purchaser,220 thus defeating the creditors’ unrecorded security interest. Although the common law provides that the first assignee has priority over subsequent assignees, there is no formal recording procedure that ensures priority; consequently, the issue of the superior interest must be determined by a court. If a creditor is successful in claiming priority over another assignee, it is unclear whether: (a) the priority of the security interest defeats the subsequent assignment completely; or (b) the copyright may be assigned to a third party who takes subject to the first lien and which remains enforceable against the debtor. Conversely, if a creditor is unsuccessful in claiming priority over another assignee, it is unclear whether: (a) lose its interest in the copyright altogether; or (b) only lose the priority in the assignment, but still have the ability to enforce the lien against the debtor subject to the first assignee. Without further clarification in the Copyright Act, these issues will remain problematic.

This situation presents an additional dilemma for the hypothetical creditor who must depend on the courts’ ability to apply traditional rules of law and equity to determine her rightful interest and priority. This is particularly true when dealing with intellectual property because it is a new and growing field requiring special expertise. Furthermore, the Copyright Tribunal,221 the judicial actor most qualified to pass judgment in this area, has no jurisdiction in the acquisition, transfer or perfection of copyrights.222 Under the current law, the secured party only has a written document to prove the existence of the transfer; there is no mechanism to establish this party’s priority or give constructive notice of this claim. The lack of attention to this aspect in the law leaves courts with no choice but to look to the common law to adjudicate these issues.

The hypothetical creditor has no location in which to record a security interest in a copyrighted work, no method of giving constructive notice to interested parties, and no guarantee of perfecting an interest or establishing a priority. Creditors would be afforded far better protection if the law expressly discussed security interests in intellectual property and provided a method by which such interests could be registered; such a method would

220. A bona fide purchaser is “[o]ne who has purchased property for value without any notice of any defects in the title of the seller.” BLACK’S LAW DICTIONARY 177 (6th ed. 1990).
221. “The Copyright Tribunal was established by the Copyright Act of 1968. A member of the Tribunal is appointed by the Governor-General and must be a judge or legal practitioner of not less than five years’ standing, or must be otherwise suitably qualified by training or experience.” Lahore, supra note 211, at AUS-53.
222. Id.
allow creditors to formally provide constructive notice to, and establish priority over, subsequent grantees.

V. CONCLUSION

This Comment is not an exhaustive evaluation of international copyright procedures governing security interests; instead, it is intended to explore and critique some of the existing law in this area. After only a brief glimpse into the copyright laws of several foreign nations, it is evident that there is a lack of both clarity and uniformity in the procedures required to perfect a security interest in a copyright. Currently, the law regarding intellectual property is in varying stages of development worldwide; therefore, it is not surprising that some countries have expressly provided for the issue of copyright mortgages, while many have not.

The requisite procedure for perfecting a security interest in copyright in the United States, as well as in Japan, the United Kingdom, France, Singapore and the Philippines, is clear. Creditors seeking to secure or guarantee profits earned from distribution or exploitation of a copyrighted work in these countries may rely on the current law to provide guidance to the appropriate method of perfection. More importantly, secured parties who have complied with the country’s procedure can rely on the law and the courts to recognize and enforce the validity of their interests.

Conversely, many other countries have not formally recognized the importance of mortgages in copyright, and hence, have not developed regulations in this area. The law in some countries provides for a Copyright Register or Office of Copyright; however, registration of copyrights or recordation of transfers of copyrights is not mandatory. Consequently, these Copyright Offices’ indexes are not used to give constructive notice of their contents and, hence, recordation cannot guarantee a lien’s perfection or priority.

Other countries do not require registration of copyrights and, therefore, do not have Copyright offices. Until there is movement toward recognizing formal recording of mortgages in copyrights, the security interest itself will not be legitimization. Lenders will have a mortgage that may be unenforceable, defeated by a copyright owner’s subsequent transfer, or voided in bankruptcy proceedings. There must be a formal system of recordation in the Copyright Office or another place where the public can gain access to the records, and interested third parties must be informed that a recording

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223. See supra notes 43-173 and accompanying text.
constitutes constructive notice such that liens recorded therein are assured priority over subsequent transfers, assignments or liens.

Since the inherent value of intellectual property, such as copyrights, has rapidly gained worldwide recognition, global pressure has expanded the scope of copyright protection. Countries have focused on legislation targeted at guaranteeing protection of the creative works and their modes of distribution and expression against infringement, rather than security interests in such property. Due to expanding technology and increased globalization in the entertainment industry, however, the value of intellectual property will continue to rise exponentially in importance and exposure, and it is likely that there will be a global response to the lack of attention in this area.

Judy Lam*