

ANALYSIS ON THE BUSINESS COLLATERAL ACT B.E.2558 (2015): A CASE STUDY OF USING TRADEMARK AS COLLATERAL*

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ABSTRACT

As a result of the financing constraints today, many companies are seeking alternative sources of capital. To use Intellectual Property (IP) as a collateral is the interesting choice that the investors chose to secure their loan.

Other than the tangible assets, offering valuable IP assets to the financial institution can also increase a financing opportunity. In the old days, few of intangible assets are accepted to be a collateral. The forms of assets that accept to be collateralized in Thailand many years ago are (1) a movable property by pledge; and (2) a land registered, a building or some certain types of moveable property by mortgage.

The financial institution normally give loans only to the companies who have operating business histories because those companies are well-known and more reliable. Using IP as collateral is a business option that may offer a financing to the startup and small sized companies who need an additional capital for their starting.

The researcher investigated the scope and methodology to use trademark as collateral in Thailand according to the Business Collateral Act B.E. 2558 (A.D. 2015) (BCA) compare with the Uniform Commercial Code (UCC), Article 9. The law did allow trademark to be used as collateral under the BCA, Section 8, but did not mention any measure and procedure to support it. Due to the special characteristics of trademark, the more specific terms then should be prescribed in the law.

Keywords: Business collateral, Security interest, Trademark, Mortgage, Pledge

บทคัดย่อ

ผลจากข้อจำกัดทางการกู้ยืมเงินในปัจจุบัน บริษัทต่างๆ เริ่มแสวงหาแนวทางการสร้างทุนเพิ่มเติมให้แก่บริษัทและการนำทรัพย์สินทางปัญญามาเป็นหลักประกันในการชำระหนี้ก็เป็นอีกแนวทางหนึ่งที่นักลงทุนต่างให้ความสนใจกันเป็นจำนวนมาก

นอกเหนือจากทรัพย์สินที่มีรูปร่างแล้ว การเสนอมูลค่าของทรัพย์สินทางปัญญาแก่สถาบันการเงินเป็นอีกแนวทางหนึ่งที่ช่วยเพิ่มโอกาสทางการเงินได้ ในสมัยก่อนมี “ทรัพย์สินที่ไม่มีรูปร่าง” เพียงบางประเภทเท่านั้นที่สามารถนำมาใช้เป็นหลักประกันทางธุรกิจได้ เมื่อหลายปีก่อนประเภทของทรัพย์สินที่สามารถนำมาใช้เป็นหลักประกันทางธุรกิจในประเทศไทยจำกัดเพียงแค่ (1) ทรัพย์สินที่เคลื่อนที่ได้โดยการจำหน่าย (2) ที่ดินจดทะเบียน, อาคาร สิ่งปลูกสร้าง, หรือ ทรัพย์สินที่เคลื่อนที่ได้บางประเภทโดยการจำหน่าย

ปกติสถาบันการเงินจะอนุมัติสินเชื่อเงินกู้ให้แก่บริษัทที่มีประวัติความเป็นมาทางธุรกิจด้วยเหตุที่บริษัทดังกล่าวมีชื่อเสียงและสามารถไว้วางใจได้ในระดับหนึ่ง การนำทรัพย์สินทางปัญญามาเป็นหลักประกันทางธุรกิจจะช่วยเพิ่มช่องทางการเงินทุนให้แก่บริษัทที่ก่อตั้งใหม่และบริษัทขนาดเล็ก

ผู้สืบค้นได้ทำการศึกษาถึงขอบเขตและแนวทางสำหรับการนำเครื่องหมายการค้ามาเป็นหลักประกันทางธุรกิจในประเทศไทยตามหลักในพระราชบัญญัติหลักประกันทางธุรกิจ พ.ศ. 2558 โดยเปรียบเทียบกับหลักใน Article 9 แห่ง Uniform Commercial Code (UCC) ของประเทศสหรัฐอเมริกา เนื่องจากพระราชบัญญัติหลักประกันทางธุรกิจ พ.ศ. 2558 นั้นเพียงแค่ขยายขอบเขตให้เครื่องหมายการค้าสามารถนำมาเป็นหลักประกันทางธุรกิจได้โดยใจความตามมาตรา 8 แต่หาได้วางหลักการ วิธีการและขั้นตอนอื่นใดเพื่อสนับสนุนการขยายขอบเขตดังกล่าวไว้ด้วยไม่ เนื่องด้วยลักษณะพิเศษของเครื่องหมายการค้าข้อกำหนดและแนวทางที่เป็นการเฉพาะจึงควรถูกกำหนดไว้เพิ่มเติมในกฎหมาย

คำสำคัญ: หลักประกันทางธุรกิจ, หลักประกัน, เครื่องหมายการค้า, จำนอง, จำนำ

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1. INTRODUCTION

Collateral is a specified asset that provides a security interest and serves a protection or a guarantee against a debtor's default to a creditor. In the old days, the creditor trusted that only tangible asset and real estate can be collateralized to secure loan. The creditors did not pay much attention to intangible assets. Only a few types of intangible assets, which provided by law, can be pledged as a collateral.

The laws concerning a security over asset, which are popular and always used in Thailand are (i) mortgage of immovable property and certain types of movable property and (ii) pledge of movable property. There was no specific law stipulated intangible assets to be collateral in the past. An Intellectual Property (IP) which is one of those valuable intangible assets has also been ignored.

As a technological age, the business world nowadays realizes that many intangible assets, especially IP, are priceless and should also be able to collateralize. By using intangible assets as collateral, the investors will greatly increase channels to get more credit in the loan market. Many countries then has revised and updated their laws, regarding the business collateral, to include the intangible assets as collateral. Thailand also agree with this principle and has just enacted the new law at the end of last year, namely "The Business Collateral Act B.E. 2558 (2015) (BCA)."

According to the BCA, many intangible assets, which had been ignored in the old days, become available as collateral. The Intellectual Property (IP) is also defined in Section 8, sub-section (5) to be usable as collateral.

Among various types of Intellectual Property (IP), trademark is of interest to the investors and the financial institutions to be used as collateral in the security agreement. Trademark is a symbol that represents the company's reputation, products and services. With the trademark, the customers can distinguish their preferred goods or services from the variety of goods or services in the market. Trademarks will make it easier for the customers to make a decision when they do their shopping. Many people, without experience, simply choose the products of the famous brands because

they trust the standard quality of such companies. An extensive use of trademarks will build up and establish “goodwill” when the business is doing well. It is obvious that the fame and popularity adhere to the trademarks itself. Hence, trading a trademark in the loan market would give a high credit to secure financing.

Nevertheless, it seems that the BCA just inserted IP in the Act as an afterthought as evidenced by the various terms that is not suitable for IP. For example, the words “loss” and “damage” in the enforcement step have no involvement with IP. As for trademarks, they are normally protected since the date of first use in commerce or have been registered and shall be renewed indefinitely.

There are many outstanding issues which still have to be clarified, such as the methodologies to use and to enforce IP, the valuation of IP, etc. This paper will focus on the problems of and the solutions to the use of trademarks as collateral studying from the leading role of the U.S. Law.

2. THE IMPORTANCE OF TRADEMARK IN BUSINESS WORLD

As a recognized sign which connects with the appearance of the company, the trademark has an effect in driving a customer’s purchasing decision. Many consumers decide to buy a product by viewing the trademark that they know and/or believe in its quality.

In the business perspective, there are many substantial reasons showing that trademark is so much important and useful in commerce. The top reasons are exemplified below.¹

1. An effective communication tool.

Trademarks can convey a sentimental quality of the products and/or services and noting an overview of the company’s profile and reputation to the customer in the first place.

2. Very economical tools to communicate with the customers.


¹ Abigail Rubinstein, “7 Reasons Why Trademarks Are Important to Your Business,” <https://www.entrepreneur.com/article/235887>. (Accessed on January 15, 2016)

Without any additional costs incurred on advertising or marketing activities, the trademark itself can promote products and/or services and persuade the consumer's demand by permitting the consumers to quickly choose products and/or service items from among other competitive company's offerings.

3. Easy to find our products and/or services from those of the competitors.

With a main duty to distinguish the products of owner from others and/or to specify the origin of the products, trademark is a tool to capture the customer's attention and make the products and/or services outstanding from those of other competitors in the market.


4. Bringing a possible marketing and advertising across borders, cultures, nations, and languages.

Since the trademark could also be a device, symbol, and/or design, problems on the differences in borders, cultures, nations, and/or languages then could be cleared away. For example, the Nike's swoosh design (TM: ), the Red Bull's double bull device

(TM: ) , the McDonald's M logo design (TM:



), the Starbucks's woman's face within a green circle

design (TM: ) , etc. . These trademarks are globally

recognized, even if they do not show any word or phrase in the specific local language such as Chinese, Japanese, Burmese, or Spanish. The customers would immediately know the brand or the products and/or services of the owner instantly when viewing the trademark.

5. Allowing the business to be utilized on the social media and Internet.

Being a keyword, a phrase, or a major term, trademark can help your products and services to be easily looked for by entering into a search engine (Google, Yahoo, Bing) or in the social media platform (Instagram, Facebook, Pinterest, Twitter). This can help increase the volume of sale products through another channel. Some company uses this channel not only for marketing but also for selling via online shopping.

6. The value of trademark can be appreciated over time.

“The more your business reputation grows the more valuable your brand will be.” Trademarks can lead the way to expand your business to the third parties such as a franchisee, and can also be absolutely sold for a specified value from one to another. Sometimes trademark can lead to the merger and acquisition of the business by a larger company and conduce to the conglomerate company.

7. Make the company more attractive for the candidate on job vacancies.

Trademark can inspire a positive feeling in the people’s minds. Many people will be interested in finding a job in the famous company. The well-known trademark would persuade a smart person to compete for the job in the company.

8. Trademark will never be expired and the value will increase more and more every day.

In other words, the company will not lose but will receive an income from it from time to time. Trademark can be renewed, normally, in every ten years, and will not be released to the public or any other person without a permission from the original holder. Some trademarks, such as Mercedes and Pepsi-Cola, have been recognized for more than a hundred years.

3. USING TRADEMARK AS COLLATERAL UNDER THE U.S. LAW

Article 9 of the Uniform Commercial Code (UCC) governs any transaction that creates a security interest in personal property (U.C.C. - ARTICLE 9 - § 9-109 (a) (1).) The secured party under the definition of the UCC, Article 9 - § 9-102 (a) (72) are as follows.

“a person in whose favor a security interest is created or provided for under a security agreement, whether or not any obligation to be secured is outstanding;

- (a) a person that holds an agricultural lien;
- (b) a consignor;
- (c) a person to which accounts, chattel paper, payment intangibles, or promissory notes have been sold;
- (d) a trustee, indenture trustee, agent, collateral agent, or other representative in whose favor a security interest or agricultural lien is created or provided for; or
- (e) a person that holds a security interest arising under Section 2-401, 2-505, 2-711(3), 2A-508(5), 4-210, or 5-118.”

Intellectual Property (IP) is not obviously identified in the definition. The Official Comment uses the catch-all term, given “Intellectual Property” as an example of the terms "general intangible" in Article 9 - § 9-102 (a) (42). Trademarks which are generally known as one of the intellectual property, hence included in this term as well.

Like those over other personal property, a security interest over an intellectual property in the United States can be created and attached by filing a “UCC-1 financing statement” with the Secretary of State in which the debtor is located.

To perfect a security interest in collateral under the UCC, Article 9 - § 9-203 (b), there are three important clauses which should be stated as follows:-²

1. Value of the collateral must be indicated.

The subject trademark will have to be appraised well before perfecting a security interest with the Secretary of State.

2. The debtor has rights in the collateral or the power to transfer it to a secured party. The debtor, in this regard, can be a trademark owner itself or the assignee who has an exclusive right over that trademark.

² Robert K. Weiler, “*Basics Of Creation And Perfection Of Security Interests Under Article 9 Of The Uniform Commercial Code*,” <http://bhlawpllc.com/wp-content/uploads/2014/04/CREATION-AND-PERFECTION-OF-SECURITY-INTERESTS-RKW1.pdf>” (Accessed on May 11, 2016)

3. There is an agreement that the property will be put up to be collateral or an agreement that allows the secured party to take a possession over the collateral.

However, since intellectual property has a unique characteristic, it is advisable to record either a “short-form intellectual property (IP) security agreement” or “confirmatory document” with the “United States Patent and Trademark Office (USPTO)” for trademarks and patents, or with the “United States Copyright Office (USCO)” for registered copyrights. This is for the purpose of data protection in order to help protect some privacy covenants and detailed terms of the contract to the public.³

4. USING TRADEMARK AS COLLATERAL UNDER THAI LAW

To maximize value of non-performing assets and increase effectiveness of enforcement, recently in November 2015, the Business Collateral Act B.E. 2558 (BCA) has been enacted. The main proposed of this Act is to conform the law to "social change" and "modernity" at the present age. Due to the limited types of property provided by law, many properties of worthiness have been overlooked and missed out. The definition of security asset (also known as “business collateral”) has been defined more broaden to cover “an intellectual property” appears in the Section 8 of the BCA.

In spite of the fact that, previously, the lender hesitated to loan an intangible asset because this type of property has a lack of trust and is hard to evaluate, the fifth in section 8 “intellectual property” becomes available to use as a security. Many companies have been inspired and realized that assets derived from an idea or creativity is priceless. Intellectual property portfolios become an important part of the company’s assets. In addition to the fixed assets and current assets, intellectual property is also accepted by banks and other financial institutions to secure loan.

³ Svetlana Attestatova, “*Intellectual Property – Make Sure You Are Perfected,*” <https://www.lendinglawreport.com/2011/04/articles/collateral/intellectual-property-make-sure-you-are-perfected/>. (Accessed on May 11, 2016)

As an intangible asset, it is hard to assess the value of a trademark precisely. An evaluation will also include a goodwill and/or a fame of the business which can rise and fall at any time. The value of a trademark will be high up if it has obtained a legal protection. In general, the value will be considered from (1) intentions of the party; (2) general practice in commerce; and (3) the judicial decision.⁴

4.1 The Cost Approach

The most basic approach which calculates the value from the invested cost since the initial stages of the brand's creation by pointing out the actual cost occurred. This approach examines the direct costs associated with the brand at creating, replacing or reproducing it.

4.2 The Market Approach

This approach is a comparative method to study the price which the customers have paid for similar valuable assets in the similar market. Data on the price paid for comparable brands is collected and adjustments are made to compensate for the differences between those brands and the brand under review.

4.3 The Income Approach

Amongst the three financial analysts, this is the most popular approach which has been widely accepted and used as a brand valuation method in the United States. This approach is to find out the present value of the trademark from its ability to generate revenues in each period of such trademark and predict the future cash flows and profits of it. The future revenue of the brand is involved with the valuation. The unexpected future cash flows may be taken into the discount rate if and when reflected.

5. CONCLUSION AND RECOMMENDATIONS

The value of trademark is rapidly rising in recent years. Trademarks become so important to the business world. While registering trademark incurred only incidental fees, the registration

⁴ Chalermchai Kokkeadtikul, "Method for valuing intellectual property, Office of The National Broadcasting and Telecommunications Commission," <http://chalermchai-nbtc.blogspot.com/2013/06/intangible-asset-present-value-future.html>. (Accessed on July 30, 2016)

will give a high profit subsequently. The business world finally found that not only for protection, but the trademark is also possible for trading in the market. There are many channels of trade and distribution that the trademark can be put in benefit. Securing trademark becomes a remarkable choice for the investors from both big company and small company who are interested in financing. Nevertheless, as an intangible asset, securing an intellectual property especially in trademarks is still hard to be perfected.

To be applicable, an additional principle, regarding use, appraisal and enforcement of an intellectual property which have been used as collateral, should be added into the Business Collateral Act B.E. 2558 (BCA.) In terms of an intellectual property, the specific methodologies should have been specified as well in the Act.

Since the Department of Intellectual Property (DIP) would be the most appropriate division that can deal with the rules for valuing and enforcing legal rights of an intellectual property, the BCA should empower the DIP in the act as to control some legal activity when an intellectual property has been taken to be collateral.

The valuation expert such as “The Valuers Association of Thailand” and “Thai Valuers Association” should play a role. This is to offer price valuation services and set up a standard valuation method. The parties to the security agreement then can have a fair price of the collateral. It is obvious that the financial institution or the court does not have sufficient experience in a specialized field of intellectual property. The provision regarding measure and procedure to appraise the value should be controlled by the IP expert. The valuation if depended on the discretion may be imprecise, unfair, or delay. The BCA should additionally described that the value of the subject intellectual property should be guaranteed for a fair price from “The Valuers Association of Thailand” or “Thai Valuers Association” before taken into the security agreement as collateral. The trademark value should be able to appraise by both of (1) a specialist or a specialized organization or (2) the legislative organization set up by law for righteousness. The non-profit organization of the government would build up trustworthiness to the contracting parties. The debtor will have more confident when

securing their trademark with the secured party. The confidence of which would guarantee that a given loan is worthy.

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