



Client Alert

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Pledge of Registered Trademarks: New Procedural Rules

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Trademark can be pledged under Chinese law to secure corporate financing facilities. However, the pledge has to be perfected through registration with the Trademark Office of the State Administration of Industry and Commerce (“SAIC”) before the pledge becomes legally effective. Regarding the registration procedure, on September 24, 2009, SAIC issued the new procedural rules - “Provisions on Procedure for Registration of Pledge of Registered Trademark Exclusive Right” (“Provisions”)¹, to replace the

previous ones issued in 1997. The Provisions were intended to reflect the new legal changes relevant to Property Law², Trademark Law³ and Implementing Regulations of Trademark Law⁴ which occurred after issuance of the previous procedural rules. The significant changes under the Provisions are summarized as follows:

² Order No. 62 of the President of the People's Republic of China, 2007.

³ Adopted on August 23, 1982, by the Standing Committee of National People's Congress, thereafter respectively amended in 1993 and 2001.

⁴ The No. 358 Order of the State Council, 2002.

¹ Gong Shang Biao Zi [2009] 182 Hao.

I. Master Contract

As a new requirement, the master financing contract underlying the pledge agreement shall be submitted to SAIC for the pledge registration purpose. Given SAIC's power not to register the pledge if the contracts are repugnant to the mandatory provisions of laws, SAIC will most likely review the substance of the master and pledge contracts or agreements.

II. Valuation of Trademark

The Provisions require a trademark valuation report, which can be omitted if the parties to the pledge have agreed in writing on the value of the trademark.

III. Expiration of Registration

Interestingly, SAIC indicates the so-called "valid term of registration" in a pledge registration certificate if SAIC accepts the registration application. Upon expiry of such valid term, the registration of pledge will be invalidated automatically. Before expiry of the term, the parties may apply for extension of the registration.

The imposition of such a valid term on registration means that both the pledgor and the pledgee are required to specify a date of expiry of the registration when the application is submitted, though the parties may encounter difficulty in

identifying such a period for the underlying transaction.

IV. Revocation of Registration

The Provisions reiterate that the registered pledge can be revoked by SAIC in one of the following circumstances: (a) the relevant agreement breaches the mandatory provisions of laws; (b) the pledge agreement has been held null and void; (c) the pledged trademark has been revoked or deregistered, or has expired without renewal; (d) the trademark is imposed judicial attachment measures by court; (e) the pledgor loses exclusive right because of due process of law; (f) the pledge registration is achieved by submitting false documents or using deceived measures.

V. Commentary

Given that SAIC examines the substance of pledge and relevant agreements, given the numerous circumstances of revocation of pledge registration, the preparation of pledge-related agreements and the application for registration itself are typically a legal matter. The issue how to determine the valid term of pledge registration is also technical from the legal perspective, which may depend on the valid term of the trademark itself and nature of the underlying financing transactions. Please contact us if you may have any further queries regarding this client alert.

*Should you have any questions about this Client Alert, please contact the following partners of **HaoLiWen IP Group**:*

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