

INTERNATIONAL INSTITUTE FOR THE UNIFICATION OF PRIVATE LAW INSTITUT INTERNATIONAL POUR L'UNIFICATION DU DROIT PRIVE

EN

PREPARATORY COMMISSION FOR THE ESTABLISHMENT OF THE INTERNATIONAL REGISTRY FOR MAC EQUIPMENT PURSUANT TO THE MAC PROTOCOL

Regulations Working Group Third session (remote) 19 February 2021 UNIDROIT 2021 MACPC/Regulations/W.G./3/Doc. 3 rev. Original: English April 2021

SUMMARY REPORT

OF THE THIRD SESSION

(Videoconference, 19 February 2021)

TABLE OF CONTENTS

Item No. 1	Opening of the session	3
Item No. 2	Adoption of the order of business of the session	3
Item No. 3	Approval of the Report of the Second Session of the Regulations Working Group	3
Item No. 4	Consideration of issues associated with draft Regulations	3
Item No. 5	Timetable and planning of further work	10
Item No. 6	Any other business	10
Item No. 7	Closing of the Session	10
Annex I	List of Participants	11
Annex II	Order of Business	14

1. The third session of the Regulations Working Group established by the Preparatory Commission for the establishment of the International Registry for Mining, Agricultural and Construction (MAC) equipment took place via videoconference on 19 February 2021. The Working Group was attended by 19 participants from 8 Member States of the Commission, 1 observing State, and 1 observing organisation (the List of Participants is available in Annex I).

Item No. 1 Opening of the session

2. *The UNIDROIT Secretary-General* opened the session and welcomed the participants to the third session of the Regulations Working Group.

Item No. 2 Adoption of the order of business of the session

3. The *Working Group adopted the draft Order of Business* (MACPC/Regulations/W.G./3/Doc. 1, available in Annex II).

Item No. 3 Approval of the Report of the Second Session of the Regulations Working Group

4. With subject to one minor correction in Paragraph 1, the *Working Group approved the Report of the second Session* (MACPC/Regulations/W.G./2/Doc. 4).

Item No. 4 Consideration of issues associated with draft Regulations

5. *The Chair* suggested that the Working Group consider the matters raised in the Issues Paper (MACPC-Regulations W.G./3/Doc.2). It was suggested that the Working Group first resolve smaller issues in preparing the draft Regulations (issues I, III, VI, VII, VIII, IX, X) and thereafter revert to a discussion of the three main issues (issues II, IV, V).

General Approach to the Drafting of the Regulations

6. *The Chair* started the discussion with respect to the general approach to the drafting of the Regulations in Paragraphs 3 of the Issues Paper. He recalled that there was a general consensus to consider the user-friendliness of the Regulations of the MAC Registry while maintaining legal accuracy, taking into consideration the varying levels of sophistication of the users of the MAC Registry.

7. *One participant* noted that the issue of liability mentioned in Paragraph 8 of the Issues Paper was unclear and should be considered further alongside different issues. *The Chair* agreed and noted that this could be explored further when discussing access requirements and user accounts.

8. The Working Group agreed on drafting the Regulations in a user-friendly manner, while maintaining legal accuracy.

Indirect and Direct Access to the Registry

9. *The Chair* opened the discussion on the issue of indirect and direct access to the MAC Registry. With regard to indirect access, he noted that the discussion related to the use of intermediaries in facilitating access to the MAC Registry. He further noted that consideration needed to be given to rules for setting up user accounts which allowed registered users to authorise representatives to undertake activities on their behalf. Additionally, the Registry software should be able to enable different types of users to perform different types of transactions with different levels

of authorisation. He queried whether this should entail substantive rules in the Regulations or simply be part of the software design of the Registry.

10. With regard to the issue of integrating Application Process Interfaces (APIs) into the Registry, as noted in the Issues Paper, *a participant* queried the costs this would entail, and how this was dealt with in the documentational structure of the Aircraft Registry. The participant reiterated the significance of intermediaries, noting that Article 4 of the MAC Protocol provided a legal basis for representative capacity which needed to be enabled by the Registry.

11. *A participant* noted that the Aircraft Registry did not yet have API integration, however, this was presently being considered and would be necessary for the future development of a mobile application to facilitate access. It was noted that while APIs came with a monetary cost, their usefulness in enabling two systems to interoperate and exchange messages with each other was very important. This could allow entry points (within countries) or service providers (such as law firms) to design their own software that the Registry could respond to. With regard to intermediaries, it was noted that the Aircraft Registry had facilitated users to set up accounts as Professional User Entities (PUE). Such accounts were allowed to authorise personnel (such as lawyers within a law firm) to make registrations on behalf of their clients.

12. With regard to the functioning of an API, *one participant* explained that an API was software that allowed different systems to communicate with each other. It acted as a tunnel for a software application at one end (such as a website, a mobile application, an entry point of a State, or an operating system of a law firm) to integrate with the MAC Registry at the other end. They could be used to guarantee quality control, and filter out any incompatible data from any source so that it did not enter and damage the Registry.

13. *A participant* identified three issues which required further attention: (i) how to differentiate between transactional users and professional users of the Registry, which related to professional users being able to assist clients with registrations, and was addressed in a clear manner in the Aircraft Registry; (ii) the use of direct entry points, which had never materialised in the context of the Aircraft Registry; and (iii) the use of APIs. It was added that APIs were more of a technological consideration, rather than legal, and did not need significant attention by the Working Group.

14. *A participant* noted that the use of APIs might raise two concerns for the Working Group to consider. The first one was whether the Registry might be mandatorily required to facilitate the use of APIs. In this regard, he noted that in the case of open banking, the European Union had passed laws which required banks to create open API channels which could be accessed by third-party developers. This created the risk that third-party developers might provide more competitive services in terms of price and customer experience than the Registry, and so impact the viability of the Registry. The second one posted the question whether the Registry, or the Supervisory Authority, should be able to select only certain third-party API providers, to ensure quality control.

15. *A participant* drew attention to Paragraph 15 of the Issues Paper and agreed that it was better to keep the Regulations as flexible and inclusive as possible, noting that this would enable technological developments in all directions and not limit the Registry to certain solutions.

16. *The Chair* noted that APIs could allow a larger number of users to access the Registry. As such, it was in the Registrar's commercial interest to facilitate third-party developers developing APIs as this could lead to a larger number of registrations. He noted that the Regulations could facilitate the use of APIs, with the technical elements left open to the Registrar.

17. *The UNIDROIT Secretariat* noted that there was general support in the Registrar Working Group that the Request for Proposals for the Registrar include a requirement that the Registry facilitate

open API channels. The Registrar Working Group and the Preparatory Commission had requested the Secretariat to prepare some research relating to liability of the Registrar under the Cape Town Convention in case it used an API, as well as issues relating to APIs impacting the commercial viability of the Registrar. Based on this research, it was noted that there were no unique liability issues related to using APIs under the Cape Town Convention, as it would operate under the same principles as a general intermediary. As such, the Registrar would simply be expected to follow best practice. With regard to impacting the commercial viability of the Registrar, it was noted that while this was not necessarily a concern, one option was to allow the Registrar to charge third party service providers a royalty fee for using the Registry via an API.

18. The Chair summarised that the Working Group had agreed that the Regulations should facilitate the use of APIs in a general manner. It was also agreed that technical issues relating to APIs should be dealt with in other documents prepared by the Registrar, such as the terms and conditions for access to the Registry.

19. *The Chair* noted the importance of enabling parties to authorise others to make registrations on their behalf. It was noted that the Regulations should facilitate this and also allow for the creation of users similar to PUEs in the Aircraft Registry. It was queried the extent to which the Regulations should contain specific rules on this matter, or whether the matter should be addressed in other technical and operational documentation to be prepared by the Registrar.

20. A participant noted that consideration needed to be given to the issue of whether an authorisation was valid, and to the issue of whether the Registry needed to take any steps to ensure this validity. These should be addressed in the Regulations, whereas all other technical points could be addressed of by the Registrar elsewhere. *The Chair* noted that security protocols would need to be established within the Registry to ensure that adequate confirmations were exchanged when a user wanted to authorise another user to transact on its behalf.

21. With regard to the levels of access for users, *a participant* noted that standard risk management strategies ensured that all registrars enabled various different types of user profiles to be created within one account. This did not need to be detailed in the Regulations, as it was standard practice in most jurisdictions. It was also noted that agency law should not be dealt with by the Regulations, in order to avoid unnecessary liability and risk related issues.

22. A participant explained that, for the Aircraft Registry, this issue was dealt with in Article 5(3)(e) of the Aircraft Registry Regulations under which a registration can only be made with the authorisation of the named parties to the transaction. An alternative solution could be a more flexible approach where the agency relationship was entirely outside the registry system. This presented a small risk of users making unauthorised registrations on behalf of parties which had not permitted them to do so. *Some participants* noted that these risks were minimal and did not materialise in most jurisdictions, however, safeguards in this regard were important in order to allow States to have confidence in the accuracy of the Registry.

23. *A participant* noted that consideration needed to be given to what documentation the Registry should collect in relation to authorisations. It was also noted that keeping in mind the nature of the users of the MAC Registry, it should be possible to register interests in the Registry directly through a PUE (such as a law firm), without even needing to open an account on the Registry. This was particularly important as opening an account with the Registry was a purely technical step, for which the related legal step (the registration of an interest) could always be performed by an intermediary. *Several participants* agreed with the importance of enabling parties without a user account to make registrations through intermediaries.

24. The Chair queried how issues such as discharge, which required consent, and others, would function if the holder of an international interest did not have an account on the Registry. A *participant* noted that in such situations, it was likely that the intermediary would be allowed to consent on behalf of the named party, and when it was not, it could approach the named party outside the Registry system and obtain consent. The provisions on discharge already provided for this.

25. *A participant* noted that other additional issues that this type of access could create related to situations where one intermediary ceased to exist, or if an alternative intermediary claimed to be able to act on behalf of a party when it was not authorised to do so. For this, the Aircraft Registry provided a solution of a transferable right to discharge or a more general transferrable right to manage a registration which stemmed from a party's authorisation of an intermediary. This could be managed in a centralised manner where the client could send a notice to the registry to change its authorisation; or in a decentralised manner either through blockchain or escrow agents whereby electronic tokens or keys relating to authorisation to manage a registration could be transferred to another party.

26. One participant noted the importance of documents such as powers of attorney, should named parties be allowed to have interests registered on the Registry through intermediaries without opening their own accounts. Other participants agreed with this and acknowledged that in these situations, the intermediary would be the only point of contact for the Registrar with regard to such registrations and due diligence was important.

27. One participant noted that the Registry was not supposed to perform the role of a notary whereby the notifications it issued indicated sufficient evidence to support agency relationships in court. As such, it was not entirely necessary to obligate it to collect such documentation. *Another participant* noted that while this was true, certain safeguards needed to be built into the Registry in order to ensure that its records were correct and that wrongful registrations were not made.

28. One participant noted that these issues would not exist if the intermediary was a direct entry point operated by a government agency, as those would deal with agency related issues. It was also added that practically, under the Aircraft Registry, intermediaries often set up their own PUE account, as well as a Transaction User Entity (TUE) account for their clients, and managed both at the same time.

29. *The Chair* queried whether the Aircraft Registry performed verifications for TUE accounts. It was clarified by *the participant* that the Aircraft Registry would first check who the administrator of the TUE was, which normally would be an intermediary (such as a law firm). Thereafter, it would also check whether the TUE existed through relevant company or individual identification documents (such as documents of incorporation or passports). The Aircraft Registry would also request a form to be filled which indicated the TUE's consent for the management of its account by the intermediary. It was noted that while these processes were presently handled manually, they could be managed even more efficiently through the use of technology.

30. The Chair summarised the discussion noting that with respect to intermediaries/PUEs, the Working Group agreed that they should be facilitated. It was noted that there were three types of fact patterns for a holder of an international interest to transact, all of which should be facilitated by the Regulations:(i) a holder of an international interest created an account and registered the interest by itself; (ii) a holder of an international interest owned an account but authorised an intermediary as its representative to register on its behalf; and (iii) a holder of an international interest did not have an account and directly authorised an intermediary to register on its behalf. The Working Group had not agreed on the extent to which the Registrar would be expected to verify an authorisation.

Notifications

31. The Chair introduced the issue and noted that as there was a possibility that more than one item of equipment could have the same serial number on the MAC Registry, under the present Regulation 6.3, which was modelled after the Aircraft Registry Regulations, it was possible that users would receive notifications from the Registrar relating to an item they did not have an interest in. This could create confusion. It was recalled that the Working Group had acknowledged the importance of these notifications, and was yet to decide on whether they should be provided to users on an opt-in or an opt-out basis.

32. *A participant* noted that for the Registrar to limit its liability, it would need to send out notifications in all instances where a particular registration was registered against a particular serial number. As such, an opt-out mechanism would be better, as it would transfer any liability as a result of not having received information onto the party that opted out. *Several participants* agreed with the importance of sending out notifications in all necessary instances, similar to the Aircraft Registry, and to provide an opt-out option for receiving notifications for a particular serial number.

33. *Participants* noted that Regulation 6.3 required notifications to be sent to all the named parties and the registering person. This presented the issue of what would happen if a named party did not have its own account on the Registry. However, should a named party not interact with the Registry, the opt-out could be assumed. It was added that there would not be any legal effect or liability with respect to notifications as they would be automatically generated by the system. Additionally, the Registrar should have a disclaimer with regard to their accuracy. Lastly, it was also added that the opt-out mechanism should be kept simple, rather than providing unnecessary customisation options.

34. *A participant* noted that under the Aircraft Registry, notifications were sent when the full object identification criteria of an aircraft were the same as for an existing registration, not just the serial number. Keeping in mind the different types of identifiers for MAC equipment, *the Chair* noted that this would not be possible under the MAC Registry and notifications would need to be sent out when serial numbers matched.

35. Noting that a debtor needed to provide consent for the registration of an interest, it was queried by *a participant* whether the debtor would be asked about this opt-out at the point of providing consent. It was suggested by *another participant* that by default notifications would be sent, and any party could decide to opt-out, should it want to do so.

36. It was queried by *a participant* how notifications delivered to intermediaries would function should a party need to change its intermediary. It was clarified by *another participant* that this option should always be available to the named party.

37. The Chair summarised that the Working Group agreed that the Registry would always send notifications by default, but would allow parties to opt-out of receiving them should they decide so.

Designated Entry Points

38. *The Chair* drew attention to the amended Section 13 of the draft Regulations. He welcomed discussion on the substance of this provision.

39. It was noted by *participants* that it would be useful to clarify that Section 13.1 related to the location of the debtor at the time of the creation of the international interest. The Working Group agreed with this proposition.

40. The Chair summarised that the Working Group agreed to propose the current draft of Section 13 to the Preparatory Commission for consideration, subject to the change proposed to Section 13.1 and any appropriate tidying-up of the drafting.

Discharges

41. *The Chair* recalled that at its first meeting, the Regulations Working Group agreed to examine the discharge provisions in the draft Regulations (Section 5.15) to ensure they were consistent with the operation of Article XIX of the MAC Protocol. The Working Group was also invited to consider the information required to effectuate a discharge as well as consent-related requirements.

42. *A participant* noted that the discharge rules in the MAC Protocol were broader than those in the Aircraft Protocol, as they provide that the Registrar may be required to effectuate a discharge by order of a court of competent jurisdiction, and not just with consent of the parties. This should be reflected in the Regulations.

43. *Some participants* noted that this was a matter of domestic law and such a provision would be unnecessary in the Regulations. Additionally, should a provision in this regard be included for discharge, others would also be needed to be included for any other types of instructions a court may issue to the Registrar. Moreover, the Registrar would need to comply with a court order whether or not this was noted in the Regulations.

44. It was also noted by *a participant* that the information required in Section 5.15.1(a) to discharge a registration was not necessary, as it was simply a restatement of all the information already previously provided. The discharge of a registration would normally only require the consent of the party effectuating the discharge and the file number of the relevant registration.

45. It was noted by *a participant* that the Aircraft Registry frequently received orders from the court to discharge registrations. Following this, the Registry would issue a message to the relevant parties which would include the relevant court order. Provisions in this regard were found in other sections of the Aircraft Registry Regulations.

46. *The participants* discussed whether the Regulations should provide any guidance to the Registrar on the issue of recognising or acting upon judgements from various different jurisdictions. It was noted that this was already addressed in Article 44 of the Cape Town Convention and was not a matter for the Regulations to address.

47. *Some participants* noted that the Regulations should at least indicate that once a Registrar acted upon a court order, it must notify the relevant parties to the registration.

48. The Chair summarised that the Working Group agreed to incorporate a provision with regard to court orders in Section 5.15 of the Regulations, and agreed to give this matter further consideration at its next session.

Block Assignments

49. *The Chair* opened the discussion on block assignments and noted that the Working Group may wish to consider whether block assignments would override the general requirements set out in Section 5.4 in the draft Regulations.

50. It was noted by *several participants* that Section 5.5 of the draft Regulations would not override any requirements set out in Section 5.4. However, Section 5.5(a) failed to refer to assignments of prospective international interests, which was contradictory to the Cape Town

Convention. It was advised that should this section be retained, the language should also accommodate future assignments.

51. One participant noted that block assignments had never been used in under the Aircraft Registry and this provision would be deleted from the next version of the Aircraft Registry Regulations. This was because the Closing Room covered all such activities. It was also noted that block assignments were only to be used when a party was transferring all its interests at the same time.

52. The Chair summarised that the Working Group agreed that it would be useful to retain Section 5.5 on block assignments in the Regulations, and that it should be amended to cover future assignments as well. It was acknowledged that the Closing Room may cover the functionalities offered. As such, should a Closing Room be created, it was agreed that this provision may not be necessary and the same could be reflected in a footnote.

Non-Convention Fillings

53. *The Chair* queried whether provisions relating to non-Convention filings should be retained in the Regulations.

54. Several participants proposed to delete the section on non-Convention filings from the Regulations. It was noted that it was not certain what these filings would be, and that notifications relating to non-Convention filings could lead to confusion for users. Additionally, the language of Section 7 of the draft Regulations was unclear. It was also added that the MAC Registry was expected to generate a much higher number of registrations that the Rail Registry, and as such, the economic case for non-Convention filings was not as relevant.

55. The Chair summarised that the Working Group decided not to include Section 7 in the draft Regulations.

Registration Criteria

56. With respect to registration criteria, *the Chair* noted that the Preparatory Commission had requested the Secretariat to conduct background research on the likelihood that manufacturers might use the same serial number for different products. The *UNIDROIT Secretariat* confirmed that it was conducting this research and welcomed support from the Regulations Working Group in this regard. It was noted that this research would be discussed at the Working Group's next session.

Consents

57. *The Chair* opened the discussion on the issue of how parties could give consent with regard to transactions in the MAC Registry. It was noted that as long as a party had a user account on the Registry, or a party they had authorised to act on their behalf had a user account, consent would be easy to obtain through the Registry itself. The issue was primarily relevant when trying to obtain consent from a debtor who did not have its own account on the Registry.

58. *A participant* noted that the consent mechanism in the Registry should be kept as simple as possible. One practical solution could be a click-based mechanism whereby named debtors would receive a link they would need to click to confirm their consent.

59. It was proposed by *a participant* that the notion of consent could be tied to a party giving an electronic signature for a transaction. This was the approach which the Aircraft Registry was going to adopt for the 9th version of its Regulations. It was confirmed that this could include an exchange

of emails between the Registrar and an authorised party, or a click on the Registry system. It was noted that the Regulations would set out the minimum standards in this regard, thereafter allowing the Registrar to further elaborate on the process in its own operational documents.

60. With regard to debtors which did not have an account on the Registry, *a participant* noted that one option could be to allow a creditor to give consent on behalf of the debtor, whereas another was for the Registry to communicate with the debtor directly.

61. *A participant* noted that authenticating a debtor without an account would not be challenging in practice as they could be verified by the Registry, the entry point, or the creditor. In order to allow the Registry to verify debtors, they would need to be identified by the creditors. This could be through the provision of an email address or a phone number by the creditor. *One participant* added that it would be important to detail which parties should be allowed to identify debtors for the purposes of obtaining their consent.

62. *The Chair* queried whether the operational documents of the Registry would be easier to amend, as compared to the Regulations. The *UNIDROIT Secretariat* noted that these would likely be approved by the Supervisory Authority, and might also need to approved by the *UNIDROIT* General Assembly

63. *A participant* noted that for the Aircraft Registry, while the Regulations and Procedures were approved by the Council of ICAO, the operational documents were not. It was also added that the operational documents of the Aircraft Registry complied with three different ISO standards: ISO 27001 on Information Security, ISO 22301 on Business Continuity and ISO 9001 on Quality Standard.

64. The Chair summarised the discussion and noted that the Secretariat would provide provisional drafts of provisions relating to Consent and Access for consideration at the next session of the Working Group.

Item No. 5 Timetable and planning of further work

65. It was noted that the Secretariat would propose dates for the fourth session of the Working Group, following the collection of research relating to the issue of Registration Criteria.

66. The Secretariat noted that it would prepare an updated version of the draft MAC Regulations and Issues Paper and circulate the documents in advance of the fourth session.

Item No. 6 Any other business

67. No other business was raised under this item.

Item No. 7 Closing of the Session

68. *The Chair* thanked all the participants for their attendance and positive contributions to the discussion.

69. The Chair closed the second session of the Working Group.

ANNEX I

LIST OF PARTICIPANTS

REPRESENTATIVES

STATES

AUSTRALIA	Mr Bruce WHITTAKER Senior Fellow University of Melbourne
CHINA (People's Republic of)	Ms YANG Yuan Deputy General Manager Research & Strategy Department of Credit Reference Center The People's Bank of China
GERMANY	Mr Ole BÖGER Judge Hanseatic Court of Appeal in Bremen
JAPAN	Ms HARA Megumi Professor, Gakushuin University
SOUTH AFRICA	Adv André R SMIT State Law Adviser (International Law) Office of the Chief State Law Adviser (International Law) Department of International Relations and Cooperation
SPAIN	Ms Teresa Rodríguez de las Heras Ballell Associate Professor in Commercial Law Departamento de Derecho Privado Universidad Carlos III de Madrid
UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND	Reverend Mark Winton SMITH Deputy Director, Rescue, Restructure, Insolvency and Easter - Rescue Restructure and Insolvency Law Team BEIS Legal Advisers, Government Legal Department
UNITED STATES OF AMERICA	Mr Padraic SWEENEY Machinery Team Supervisor Industry and Analysis International Trade Administration

U.S. Department of Commerce

Mr Henry GABRIEL JR. Professor of Law Elon University School of Law

Ms Karin KIZER Attorney Adviser Office of the Legal Advisor U.S. Department of State

Mr Jeffrey KLANG Assistant Chief Counsel Office of International Affairs and Legal Policy U.S. Federal Aviation Administration

Ms Ifeanyichukwu EGBUNIWE Senior Counsel Trade Finance, Insurance and Small Business United States Export-Import Bank

OBSERVERS

STATES

Mr Cathal KELLY International Financial Services Department of Finance

Ms Deirdre MORGAN Legal Services Division Department of Agriculture, Food and the Marine

INTERNATIONAL NON-GOVERNMENTAL ORGANISATIONS / ORGANISATIONS INTERNATIONALES NON-GOUVERNEMENTALES

KOZOLCHYK NATIONAL LAW CENTER (NatLaw)

Mr Marek DUBOVEC Executive Director

EX OFFICIO OBSERVERS

Mr Rob COWAN Managing Director

IRELAND

AVIARETO

SECRETARIAT

INTERNATIONAL INSTITUTE FOR THE UNIFICATION OF PRIVATE LAW

Mr Ignacio TIRADO Secretary-General

Ms Anna VENEZIANO Deputy Secretary-General

Mr Hamza HAMEED Legal Consultant

Ms Tianshu LIU Legal Assistant

ANNEX II

ORDER OF BUSINESS

- 1. Opening of the session
- 2. Adoption of the order of business of the session
- 3. Approval of the Report of the Second Session of the Regulations Working Group
- 4. Consideration of issues associated with draft Regulations
- 5. Timetable and planning of further work
- 6. Any other business
- 7. Closing of the session