

## 9 Practical Issues Arising from the Introduction of the Trust System for Intellectual Property

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*As one of the methods for centralized management of intellectual property rights (IPRs) in business groups and Technology Licensing Organizations (TLOs) or one of the schemes for financing secured by intellectual property (IP) or IP securitization, the trust system has attracted attention for its usability. Meanwhile, a clear direction of the revision of the Trust Business Law has been indicated toward enabling IP to be accepted as trust property on business.*

*With the establishment of IP trust business having become a real possibility, this research focused on trust and considered practical issues upon the introduction of IP trust business following the research in FY 2002 titled “Legal Issues Concerning the Use of Trusts for Intellectual Property.”. More specifically, this research discussed: the acceptability of each IP as trust property; the applicability of requirements for IP trust establishment and setting it up against a third party; duties of the trustee focusing on license contracts and the allocation of revenues; settlement of IP-related trust disputes; taxation and accounting treatments related to IP trust. This research also compiled the Guidelines for IP Trust Operation Manuals including draft model contracts.*

### I Introduction

As one of the methods for centralized management of intellectual property rights (IPRs) in business groups and TLOs, or one of the schemes for financing secured by intellectual property (IP) or IP securitization, the trust system has attracted attention for its usability. In “Strategic Program for the Creation, Protection and Exploitation of Intellectual Property” (by Intellectual Property Policy Headquarters) and “Interim Report on a Desirable Form of Trust Business” (by Financial Service Agency) both published in July, 2003, a clear direction of the revision of the Trust Business Law was indicated toward enabling IP to be trusted on business, and the introduction of the IP trust system has become a real possibility. In light of such a situation, this research was conducted with the objective of identifying practical issues and suggesting solutions to such issues.

### II Trust Property

Issues concerning trust property in relation to IP trust include: (i) whether IP is acceptable at all as trust property; and (ii) if it is acceptable as trust property, what procedures should be required for establishing a valid trust (requirements for an IP trust to take effect and to set up against a third party). This chapter discusses these issues and other related issues

focusing on a patent right, and also considers the validity of a comprehensive trust, which is desired for IP management trust within business groups.

#### 1 Acceptability of IP as Trust Property

The existing Trust Business Law restrictively lists several types of property that are acceptable as trust property. IP has been excluded from the list, but the law is expected to be revised to expand the scope of trust property and include IP in its scope. According to the interpretation of the Trust Law, trust property must satisfy following four requirements: (1) be convertible into money; (2) be positive property; (3) be transferable and disposable; and (4) be in existence and specific in nature.<sup>(\*)1</sup>

The study on such acceptability of a patent right/right to obtain a patent, an IPR under a foreign law, trade secrets/know-how, and a copyright has reached the conclusion that all these types of property, except for trade secrets/know-how, can basically be accepted as trust property. However, the extent of a right to obtain a patent, and in particular a right to obtain a patent before the filing of a patent application,<sup>(\*)2</sup> cannot be clearly defined and such rights might not satisfy the requirement of being specific in nature; therefore, due consideration is required to sufficiently specify the contents of the right when concluding a trust contract for such rights.

Trade secrets/know-how are mere information

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(\*)1 Makoto Arai, *Shintakuhō* (Trust Law) (*Yūhikaku*, 2002), 193

(\*)2 A right to obtain a patent after the filing of a patent application can be identified by the application number, and the contents of the right can also be specified to some degree based on the description of the specification attached to the application materials.

that has not been established as a statutory right<sup>(\*)3</sup> and might not satisfy the requirement of being transferable.<sup>(\*)4</sup> For this reason, the acceptability of trade secrets/know-how as trust property is disputable. However, even if such acceptability is denied, it would be possible to entrust an IP management company with the management of trade secrets/know-how by establishing a trust for the license for trade secrets/know-how or concluding a mandate contract on the management of such license.

## 2 Requirements for a Trust to Take Effect and to Set Up against a Third Party

A trust for a patent right takes effect when it is registered as trust property at the Patent Office,<sup>(\*)5</sup> and at the same time it set up against a third party. A trust for a right to obtain a patent before the patent filing takes effect under a trust contract between the parties concerned, and sets up against a third party upon the filing of the application. (There are some dissenting opinions). A trust for a right to obtain a patent after the filing of a patent takes effect when it is notified to the Commissioner of the Patent Office,<sup>(\*)6</sup> and at the same time it sets up against a third party.

Where a trust is established for a right to obtain a patent before the patent filing, the matters relating to the trust should be described in the request for application (Article 26(1) of the Regulations under the Patent Law), and where a trust is established for a right to obtain a patent after the patent filing, the matters relating to the trust should be described in the notification of transfer of the right to obtain a patent (Article 26(2) of the Regulations). If these procedures are performed satisfactorily, upon the registration of the establishment of the patent right, the trust for the patent right shall be registered automatically without going through any additional procedures.

Article 3 of the Trust Law provides that a trust for a property right, which is required to be registered, shall not set up against a third party unless it is thus registered or otherwise made public. Accordingly, the requirement of an IP trust for setting up against a third party under a foreign law might be affected by whether the foreign law requires registration of a trust.

It may be allowable to establish a comprehensive trust for several patent rights under a single trust contract. The questions in this respect are whether it is possible to establish a comprehensive trust for all patent rights that pertain to a certain technical field,

without specifying patent numbers, and whether it is possible to comprehensively include in the scope of trust, in advance, any inventions to be made after the conclusion of the trust contract. These practices might be possible if some measures are taken to satisfy the requirement of being specific in nature. Provided, however, a trust for a patent right shall not be effective at all unless it is registered with the specified patent number, because a registration is construed as effective requirement for such trust.

## III Duties of the Trustee

### 1 Characteristic Features of IP Trust and Practical Needs

When establishing a trust for IP, due consideration should be given to characteristic features of IP: (1) it is considerably difficult to assess economic value of the IP; (2) the IP can never prove its worth sufficiently unless it is utilized appropriately, and therefore the trustee is required to promote active and appropriate use of the IP; (3) IP is more vulnerable to an infringement by a third party than traditional types of trust property such as real property, money, and money claims and it is also unstable due to trials for invalidation and lawsuits for injunctions. For these reasons, the trustee is also required to take appropriate measures to cope with such disputes. These characteristic features of IP impact significantly on the duties of the trustee under the Trust Law, such as duty of care, duty of loyalty, duty of impartiality between beneficiaries, duty of segregation of trust property from his own property or other property, and duty not to delegate trust services.

Due consideration should also be given to the differing nature of beneficiaries depending on the practical forms of IP trusts, including: (1) a trust in a business group mainly for centralized management of IP; (2) a trust for commercial management of third party's IP; and (3) a trust as a special purpose vehicle for financing secured by IP.

### 2 Duties of the Trustee

The duties of the trustee of an IP trust were studied while focusing on a license contract and the allocation of royalty revenues.

A problem could arise as to the duty of care in the case of licensing and cross-licensing without charge

(\*)3 Under the Unfair Competition Prevention Law, a trade secret is defined as "technical or business information useful in commercial activities, such as manufacturing or marketing methods, which is kept secret and not publicly known." It shall be protected under the law but shall not be established as an exclusive right.

(\*)4 Trade secrets are not compatible with the concept of "transfer" because: (1) Information that is once licensed or disclosed cannot be recovered even though the license contract can be cancelled; (2) Even after the transfer, the information will substantially be in the possession of not only the trustee, but also the trustor; (3) information is not exclusive property.

(\*)5 Patent Office, Application Support Division, Registration Office, *Kaitei shinban kōgyōshoyūken tōroku no jitsumu* (Practice of registration of intellectual property rights: revised new edition) (Keizaisangyō chosakai, 2002), 537.

(\*)6 Section 34(4) of the Patent Law

(or under advantageous terms). However, as the duty of care is not a mandatory requirement,<sup>(\*)7</sup> a breach of the duty will not occur if it is allowed under a trust contract to grant a license to a third party. In the case of cross-licensing, a problem could also arise as to the duty of impartiality or duty of loyalty where the revenues from a license granted by a third party as consideration for the licensing are not provided to the entire trust property but only to some beneficiaries. However, this problem could be avoided if approval is obtained from each beneficiary or by a trust deed.

Problems that might be raised as to the duty of loyalty are whether the trustee is able to obtain a license for the IP in trust and how the trustee should cope with any possible conflict of interest between several trusted IPs. According to the dominant view, the trustee who has obtained a license for the trusted IP is deemed to have “obtained a right” for the trust property, which is prohibited under Article 22 of the Trust Law.<sup>(\*)8</sup> As this provision is mandatory, the trustee shall not be allowed to obtain a license, with or without the beneficiary’s approval. Recently, some scholars are negative about construing Article 22 of the Trust Law as a mandatory provision; they suggest that the trustee’s duty of loyalty be broadly construed as meaning the “prohibition of acts causing a conflict of interest” and this duty or restriction be lifted if certain requirements are satisfied, such as obtaining the beneficiary’s approval.<sup>(\*)9</sup>

An act causing a conflict of interest between the beneficiary and a third party and an act causing a conflict of interest between beneficiaries or between trusted IPs are also deemed to be breach of the duty of loyalty, though it is not directly provided by the Trust Law. As typical cases of a conflict of interest, where the trustee receives patent rights in trust from several trustors, (1) a dispute could occur between the beneficiaries with respect to the trusted patent rights, or (2) a third party would not need a license for one of the trusted patent rights if the party could obtain a license for another one of them. As the duty of loyalty in relation to acts causing such conflicts of interest is not construed as a mandatory requirement, the trustee is construed as being allowed, with the beneficiary’s approval, even to act causing a conflict of interest. However, it is difficult for the trustee to obtain the beneficiary’s approval while assuming, in advance, all specific cases at the time of establishing a trust deed, and therefore there would be no option but to comprehensively provide for the handling of a conflict of interest in the initial stage.

The duty of impartiality, which means the duty to impartially treat several beneficiaries of a single trust, is generally recognized, though it is not expressly provided by the Trust Law. Because of this duty, revenues should, in principle, be allocated equally among the beneficiaries of a single trust. However, it is construed as being allowable to expressly exempt the trustee, with a trust deed, from the duty of impartiality to the beneficiaries.<sup>(\*)10</sup>

The duty of segregation includes (1) the duty to segregate trust property from the trustee’s own property, and (2) the duty to segregate trust property from other trust property. According to the common view, the former is construed as a mandatory requirement whereas the latter is construed as a discretionary requirement; therefore, the trustee can be exempted, by a special agreement, from the duty of segregation of several trusted IPs.<sup>(\*)11</sup> Revenues from a license of the trusted patent right also form part of trust property. A particular problem in this respect would be how to allocate revenues from a comprehensive license, under a single contract, of the IPs that belongs to several trusts. Article 28 of the Trust Law provides, as an exception, that money as part of the trust property may be segregated by clarifying individual accountings, but it is practically difficult to clarify accountings. When receiving IPs in trust, the trustee should, while assuming to grant a comprehensive license of the IPs, obtain prior approval from the beneficiaries for the exception to the duty of segregation.

The trustee is required not to delegate but to personally conduct trust services. However, it is possible for the trustee to use a third party under a special agreement, for example, use a patent attorney as its representative in carrying out the procedures for obtaining an IPR.

#### **IV Sales Restriction of Beneficial Interests and Compensation for Employees’ Inventions**

The act of enabling a person to obtain beneficial interests in trust is regarded as sale of a financial instrument and the right to the share of revenues from the trust is regarded as beneficial interests in commodity funds, each of which shall be regulated under the Financial Instruments Sales Law or the Commodity Fund Law. The Special Credit Law shall apply to beneficial interests in trust for special credits set forth under the law. However, the Securities

(\*)7 Kazuo Shinomiya, *Shintakuhō* (Trust Law) (Yūhikaku, new edition, 1989), 247

(\*)8 Shinomiya, *supra* note 7, 233

(\*)9 Article 22(2) of the 4th draft of the revised Trust Law provides as follows: The trustee shall not own or obtain a right for the trust property, or otherwise act in conflict with the interests of the beneficiary unless the trustee has obtained the beneficiary’s approval or obtained a court’s permission because of unavoidable circumstances. Article 434(2) of the Outline of the Commercial Trust Law provides as follows: The trustee shall not act in conflict with the interests of the beneficiary unless (1) the act is done as provided under the trust contract, (2) the trustee has disclosed important facts concerning the act and obtained the beneficiary’s approval, or (3) the act is justifiable.

(\*)10 Yoshihisa Nomi, “Gendai shintakuhō kōgi (Contemporary study on the Trust Law) (4),” *Shintaku* 203 (2000), 4-5

(\*)11 Shinomiya, *supra* note 7, 220-221

Exchange Law shall not apply to most beneficial interests because they do not fall under the category of securities set forth under the law.

Regarding an issue of providing compensation for employees' inventions, the trust company may directly pay a reasonable remuneration to an inventor who is employed by the trustor/beneficiary, on behalf of the beneficiary, from part of the dividends to be paid to the beneficiary. In such case, no particular taxation problem would be raised.

In the case of a trust for the benefit of the trustor, the amount of profits obtained by the employer from the exclusive use of the invented technology, which is the basis for the calculation of a reasonable remuneration for an employee's invention to be paid to the inventor, should be the amount of dividends based on the beneficial interests. However, if the amount of license fee applicable to member companies within a business group is set at a lower price than the normal economic value of the license, the amount of profit obtained by the beneficiary might be calculated as the possible amount of license fee as if the license was granted to an outside company other than the business group.

## V Settlement of Disputes over Trust Property

Disputes over IP in trust may occur between the trustee and a third party. The issue of dispute settlement was studied in relation to: (1) the case where the trustee stands as plaintiff; (2) the case where the trustee stands as defendant; (3) the case of a securitization trust; and (4) the relationship with the Practicing Attorney Law and the Patent Attorney Law.

### 1 Trustee Standing as Plaintiff

The trustee who has received a patent right in trust may, in the capacity of the patentee, file a lawsuit for injunction against an infringer. The patentee, registered exclusive licensee under Section 77 of the Patent Law, and non-registered exclusive licensee may claim damages against the infringer<sup>(\*12)</sup> whereas non-exclusive licensees may not claim damages.<sup>(\*13)</sup> Lost profits as prescribed in Section 102(1), estimated profits gained by the infringer as prescribed in Section 102(2), or money

equivalent to the reasonable license fee as prescribed in Section 102(3) of the Patent Law may be claimed as damages, provides, however, the claimant must be working the patented invention in order to claim damages under Section 102(1) or (2). Consequently, the trustee may claim damages in the capacity of the patentee, but may not claim damages under Section 102(1) or (2) if the trustee is not working the patented invention by itself.

When the trustee intends to claim damages as the plaintiff on behalf of the operating company that has a registered or non-registered exclusive license, the trustee may act as an representing party under the Code of Civil Procedure.<sup>(\*14)</sup> Several parties having a mutual interest may appoint from among themselves one or more parties who will pursue the lawsuit under the Code. The trustee may act as plaintiff for a mutual interest of the beneficiaries who have the right to claim damages for money equivalent to the license fee and of the registered or non-registered exclusive licensee who has the right to claim damages for lost profits or for estimated profits gained by the infringer.

### 2 Trustee Standing as Defendant

An Issue arises as to whether the trustee is allowed to intervene in the lawsuit as defendant and defend the operating company from which the trustee has received a number of patent rights in trust where the company is sued for having infringed another company's patent right. The trustee might be able to intervene in the lawsuit as an assistant participant or a conventional agent. However, there must be a legal interest in the former case, whereas there must be reasonable rationality in the latter case;<sup>(\*15)</sup> therefore, the trustee might not be able to intervene in the lawsuit just because the trustee has a trust relationship with the party concerned or the trustee is capable of cross-licensing with its own related patents.

Parties other than the patentee may not demand a trial for correction, stand against a demand for a trial for invalidation, or stand as plaintiff or defendant in a lawsuit against a trial/appeal decision; therefore, the trustee shall act as the party concerned in these cases.

(\*12) The eligibility of the patentee and registered exclusive licensee to claim damages is provided in Section 102 of the Patent Law. The eligibility of the non-registered exclusive licensee is based on the judicial precedents: 1977(Wa)No. 2236 and 1977(Wa)No. 3461, judgment of the Osaka District Court of February 28, 1979, *Mutaisaishu* Vol. 11, No. 1, at 92 (hair implantation device); 1984(Ne)No. 2594 and 1984(Ne)No. 2648, judgment of the Osaka High Court of June 20, 1986, *Mutaisaishu* Vol. 18, No. 2, at 210 (design for hair brush); 1982(Wa)No. 7035, judgment of the Osaka District Court of December 20, 1984, *Hanji* No. 1138, at 137; 1993(Wa)No. 11876, judgment of the Tokyo District Court of October 12, 1998, *Chisaishu* Vol. 30, No. 4, at 709 (patent for cimetidine)

(\*13) 1983 (Wa)No. 3453, judgment of the Osaka District Court of April 26, 1984, *Mutaisaishu* Vol. 16, No. 1, at 271 (utility model for structure materials)

(\*14) Article 30 of the Code of Civil Procedure

(\*15) 1967 (O) No. 1032, Judgment of the Grand Bench of the Supreme Court of November 11, 1970, *Minshu* Vol. 24, No. 12, at 1854

### 3 Securitization Trust

In the case of a securitization trust, on the other hand, the trustee may request the trustor, beneficiary, or licensee to respond to a lawsuit.

To respond to a lawsuit, the trustor and the beneficiary may: (1) terminate the trust to have the patent right concerned returned to the trustor or beneficiary; (2) intervene in the lawsuit as an assistant participant ; and (3) intervene as a conventional agent. However, in the case where the trustor is requested to respond to a lawsuit, if it is agreed in advance that the patent right shall be returned to the trustor in the event of a dispute, an issue would be raised as to “true sales,” e.g. whether the patent right can be regarded as having been completely transferred to the trustor at the time of the establishment of the trust. On the other hand, in the case of the beneficiary, any of the measures from (1) to (3) may be applicable because the beneficiary seems to have an interest in the lawsuit as the person entitled to revenues from the trust property. As for licensees, the registered or non-registered exclusive licensee may independently claim damages as the party to a lawsuit. Such exclusive licensee may also claim damages on behalf of the trustee if represented as party to the lawsuit with the trustee’s approval. However, a non-exclusive licensee may not directly claim damages but may only be allowed to intervene in the lawsuit as an assistant participant or a conventional agent.

### 4 Relationship with the Attorney Laws

Article 72 of the Practicing Attorney Law and Article 75 of the Patent Attorney Law prohibit relevant legal affairs from being handled by those other than attorneys or patent attorneys. However, no problem will be raised when the trustee handles IP-related affairs because the trustee is the owner of the trusted IP and is eligible to handle legal affairs and application procedures for its own property. The trustee will not be deemed to be in violation of the provision of Article 73 of the Practicing Attorney Law that prohibits any person from commercially enforcing another person’s property that has been transferred to him, if the IP trust is included in the scope of justifiable affairs from a social and economic perspective.

The trustee will also not be deemed to be in violation of the provision of Article 11 of the Trust Law that prohibits a trust from being established for the primary purpose of conducting acts of procedure,

except for the case where an IPR is being infringed and a trust is established for the claim for damages with the intention or objective of deviating from the provision of Article 72 of the Practicing Attorney Law or otherwise violating public order and morals.

## VI Accounting Treatments and Issues

### 1 Accounting Policy

Key points for designing an accounting policy are for whom, and for what, the accounting is to be processed. According to the current trust practices, the accounting is processed as if the beneficiary substantially owned the trust property.<sup>(\*)16)</sup> For this reason, the trustee’s accounting should be processed and disclosed in accordance with the beneficiary’s objective for the trust.

The trustee, under the Trust Law, should process its accounting by segregating the trust property from its own property,<sup>(\*)17)</sup> and should store books, record the details and calculate the results for each trust contract, and report the consequence of the management of the trust property.<sup>(\*)18)</sup> The accounting may be processed under the principle of accountability, and accounting rules that are reasonable and suitable for the purpose may be chosen by an agreement between the beneficiary and the trustee.

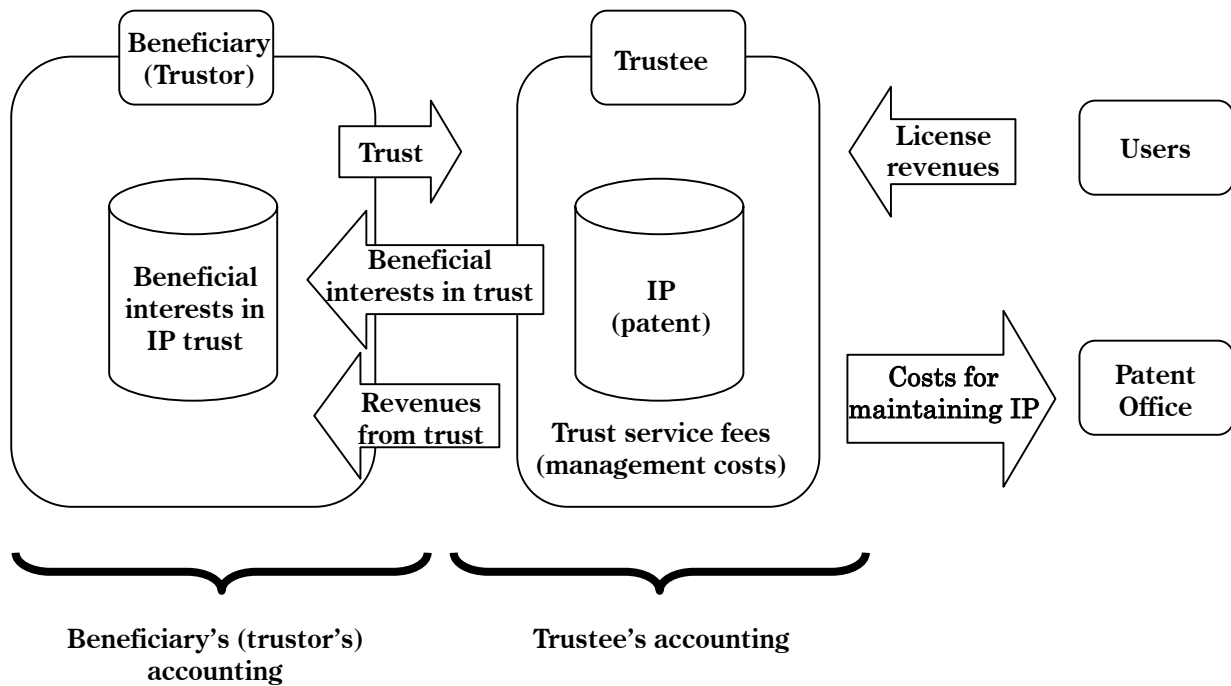
Where the beneficiary is a company, its accounting shall be processed under the “accounting rules that are generally considered fair and appropriate,” namely, the Commercial Code (including the Regulations under the Commercial Code) and the Securities Exchange Law (including the regulations concerning the terms and formats of financial statements and methods for preparing them). Where the beneficiary is an individual, its accounting shall be processed under the Income Tax Law. The beneficiary’s accounting may be processed and disclosed under the gross amount principle (reporting the contents of the balance sheet and profit-and-loss statement as reported by the trustee) or under the net amount principle (reporting in the balance sheet the difference between assets and liabilities from trust business as beneficiary interests in trust while reporting in the profit-and-loss statement the profits and losses from trust business as profits in trust or losses in trust).

(\*)16) The accounting is processed based on the recognition that a trust is nothing but a pipe for allocating income to the beneficiary who is deemed to directly own the trust property, and therefore income arising from the trust property shall be attributed to the beneficiary.

(\*)17) Article 28 of the Trust Law

(\*)18) Article 39 (1) of the Trust Law

Figure 1 Outline of IP Trust



## 2 Accounting Treatments and Issues

Accounting treatments and issues in relation to IP trust were studied separately for: (1) the case where a trust is used for centralized management of IP within a business group; (2) the case where a trust is used for IP management within a TLO; (3) the case where a trust is used for IP securitization for the purpose of financing; and (4) common issues concerning these three cases.

In the case of centralized management of IP within a business group, consideration should be given to the same treatment as consolidated accounting and the disposal of the beneficial interests in trust. In the case of IP management by a TLO, consideration should be given separately to the case where the inventor establishes a trust and the case where a university or other corporation establishes a trust. In the former case, the accounting should be processed under the Income Tax Law while in the latter case, the accounting should be processed according to the rule that the trustee should report to the corporation.

In the case of IP securitization, if beneficial interests in trust are divided into fractions, the relationship between the beneficiaries and the trust property becomes weak. In such cases, the accounting may be processed while regarding the trust property as an independent entity and

attributing profits and losses arising from the trust property to the trust property.<sup>(\*19)</sup> More specifically, this accounting procedure may apply to a joint operation trust, a group trust (e.g. investment trust), and a special purpose trust which are treated as types of trust listed in the provisos of tax laws.

Common issues include how to decide the amount of trust service fees and how to handle the case where the trust property becomes deficit. Issues concerning the accounting for IP trust do not only include lack of study on the accounting system on the part of the trustee but also issues specific to IP. Further consideration should be required for effective use of IP trust.

## VII Taxation Treatments of Patent Rights

### 1 Taxation for Trust

One of the major general principles under tax laws is the "principle of taxation on the actual beneficiary." Under the trust system, trust property formally belongs to the trustee but it substantially belongs to the beneficiary. For this reason, under tax laws, trust property is in principle recognized as belonging to the beneficiary and taxes are imposed on the beneficiary with respect to incomes, etc. arising from the trust property.<sup>(\*20)</sup> Under tax laws

(\*19) The principle of regarding a trust as an independent entity under tax laws

(\*20) Article 12 of the Corporation Tax Law, Article 13 of the Income Tax Law, Article 14 of the Consumption Tax Law, Article 4 of the Inheritance Tax Law, Article 9 of the Land Price Tax Law, Article 24-3 (prefectural tax), Article 72-3 (business tax), Article 72-8 (local consumption tax), Article 73-7 (real estate acquisition tax), Article 294-3 (municipal tax), and Article 587 (special landholding tax) of the Local Tax Law, and Article 7 of the Registration and License Tax Law

such as the Corporation Tax Law and the Income Tax Law, the transfer of trust property from the trustor to the trustee shall not be regarded as transfer or obtainment of assets whereas the transfer or obtainment of beneficial interests in trust shall be, in principle, treated as transfer or obtainment of the trust property concerned. However, different taxation treatments shall apply to exceptional trusts as prescribed in the provisos under the Corporation Tax Law and the Income Tax

Law, such as a joint operation trust, investment trust, and special purpose trust.

The Registration and License Tax Law and other related laws provide for registration and license taxes applicable to registration procedures relating to trust such as the registration of trust property. Major registration/license taxes applicable for the registration of IP trust are as follows (Exhibit I of the Registration and License Tax Law).

(per case)

Patent right	Utility model right	Design right	Trademark right	Copyright
3,000 yen	3,000 yen	3,000 yen	9,000 yen	3,000 yen

## 2 Taxation for Centralized Management within a Business Group

Even in the case where a patent right is transferred between member companies within a business group, the transfer is regarded as a transaction between different corporations and therefore the principle of corporation tax, the market price principle, shall apply. Consequently, if the transfer price is not appropriate, the difference shall be treated as contribution in the taxation procedures.

On the other hand, if a patent right is transferred by establishing a trust for the benefit of the trustor while designating the trustor as the beneficiary, the patent right shall be deemed never to have been transferred under tax laws and the issue of taxation on contribution will not arise, because trust-related taxes are, in principle, imposed on the beneficiary. In this respect, the trust system may be useful for IP management within a business group from a taxation perspective.

Trust service fees to be paid to the trustee shall be, under the Corporation Tax Law, recognized in accordance with the accounting rules that are generally considered fair and appropriate. If the amount of trust service fees is not appropriate, the differential from an appropriate amount may be regarded as contribution in the taxation process.

## 3 Taxation for Securitization of a Patent Right

There are three types of securitization of an IPR such as a patent right: (1) using a special purpose company (SPC); (2) having the investors directly holding beneficial interests in trust; and (3) through asset management. Among them, the securitization by using a SPC will raise relatively few problems because taxation matters will be decided as if the trust relationship were a “pipe,” and therefore taxes will be, in principle, imposed on

the beneficiary.

In the case of the securitization by having the investors directly holding beneficial interests in trust, securities are sold for beneficial interests in a special purpose trust or for beneficial interests in a trust other than a special purpose trust. In the latter case, taxation matters will be decided as if the trust relationship were as a “pipe,” as in the case with the use of a SPC. On the other hand, taxation for a special purpose trust will be treated under the principle of regarding a trust as an independent entity, because exceptional taxation treatments shall apply to a special purpose trust, which is one of the types of trusts listed in the provisos of tax laws.

Procedures for establishing and handling an investment trust, a type of securitization through asset management, are regulated not only by the Trust Law and the Trust Business Law but also by the Law Concerning Securities Investment Trusts and Securities Investment Corporations. Taxation for an investment trust will also be treated under the principle of regarding a trust as an independent entity, because exceptional taxation treatments shall apply to an investment trust, which is also one of the types of trusts listed in the provisos of tax laws.

## VIII Guidelines for Developing IP Trust Operation Manuals

### 1 Nature of the Guidelines

The Guidelines for Developing IP Trust Operational Manuals have been formulated to give suggestions on practical problems that may arise from handling an IP trust as the trustee. An IP trust is used for various purposes, such as centralized management of IP within a business group or TLO, as means for investment or financing secured by IPRs, and as means for effective management of IPRs owned by small and medium-sized

corporations.<sup>(\*21)</sup> In light of this, companies that intend to handle IP trusts as trustees should establish practices that are most suitable for individual purposes depending on their own position, beyond the limits of precedents and references (including the Guidelines).

When establishing an IP trust for any of these purposes, measures should be particularly considered in advance to cope with major common issues, such as the confirmation of the specificity and perfect existence (or imperfect existence recognized consciously) of trust property, the handling of a conflict of interest, and the sharing of various risks or costs between the trustor or beneficiary and the trustee.

## 2 Points in Handling Trust Services

As it is impossible to completely check the specificity and perfect existence of trust property, to what extent the trustee should check it and to what extent the trustor's declaration and guarantee can be relied upon should be determined. The trustee should also consider in advance to what degree the trustee should undertake the imperfectness in existence of trust property according to the purpose of the trust and whether the trustee is capable of performing trust services for such imperfect trust property.

A conflict of interest in an IP trust, in particular a trust for a patent right, would become a substantive problem that cannot be disregarded. Therefore, deliberate consideration is required to choose whether a trust will be established by taking possible measures to avoid any conflict of interest or by specifically providing exemptions in an agreement based on the recognition that a conflict of interest is unavoidable. It should not be disregarded that, in the case of a trust within a business group, a conflict of interest might suddenly turn into a serious and outstanding problem when the trustor breaks away from the group.

Decisions should also be made in advance when concerning the sharing of various risks or costs for lawsuits and trials, such as whether the trustee is capable of undertaking such risks, whether the trustee should undertake the risks in light of the purpose of the trust, and how to share the costs between the trustor/beneficiary and the trustee in the case where the trustee undertakes the risks.

## 3 Points in Drafting Trust Contracts

The Guidelines provide samples of three types of trust contracts: trust contract for patent management; trust contract for patent management (securitization); and trust contract for copyright management. These samples only suggest the minimum provisions of relevant trust contracts, and needless to say, actual contract provisions will inevitably be more complicated (except, however, provisions could be simplified on purpose).

Where a trust is established for rights to obtain a patent, patent applications filed based on such rights might conflict with one another (as an invention claimed in one of these applications affects the novelty or inventive step of another invention claimed in another application). There is no option but to take measures, depending on individual purposes of trust, to avoid such conflict or exempt the trustee from the responsibility for such conflict. For this reason, the Guidelines do not specify such measures but just make reference to this issue.

When a trust is established for a trademark right, attention should be paid to the designated goods or services. Furthermore, it is often the case that the reputation of a product that has been secured by a patent right is embodied in a trademark and the trademark right maintains the advantage of the product even after the invalidation or expiration of the patent right. In light of this, it should be remembered that it is desirable to establish a trust for a patent right together with a relevant trademark right when making investment or financing secured by IPRs.

## IX Conclusion

Concluding the discussion at the committee, the following major issues are presented concerning institutional arrangements for active use of the IP trust system:

- (1) Methods for specifying trust property so as to establish a valid comprehensive trust while assuming IP that will be generated in the future;
- (2) Simplified requirements for an IPR under a foreign law such as a foreign patent right to set up against a third party;
- (3) Legislative measures to enable the trustee to obtain an exploitation right for the IP in trust;
- (4) Measures to be taken by the trustee to avoid being deemed to be in breach of the duty of loyalty

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(\*21) There could be a significant difference between a trust within a business group and a trust handled by an outside trust company or trust bank as trustee, with respect to the functions entrusted by the trustor to the trustee and risk to be assumed by the trustee. Even in the case of a trust within a business group, the trustee may play an active role in performing the management of IPRs owned by the member groups including coping with disputes and selecting licenses, or may receive IPRs in trust for the purpose of reducing IPR management costs incurred by the trustor and follow instructions of the trustor for the licensing. On the other hand, in the case where a party outside the business group is the trustee, the trustee may often fail to play an active role whereas the trust company with know-how in IPR management may voluntarily cope with disputes or select licenses with the aim of obtaining a large amount in service fees.



in the event of a conflict of interests between IPs in trust;

(5) Methods for allocating license fees from a comprehensive license so that the trustee will not be deemed to be in breach the duty of loyalty (acting in conflict with interests) and to have received contribution under tax laws;

(6) Legislative measures to allow the trustee or trustor to claim damages for lost profits.

It is hoped that the discussion will be further developed toward promoting active use of the IP trust system while the industries become aware of the issues, the practices are legally rationalized, and people engaging in IP trust services suggest solutions.

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