



Alan Adcock
Partner
Deputy Director, Intellectual Property
alan.a@tillekeandgibbins.com

Intellectual Property in Financial Services

With the increase in corporate awareness of the importance and value of intellectual property (IP), many companies are looking deep into their businesses to identify areas that could serve as value drivers. The financial service industry is one of the fastest-growing sectors in IP registration and IP commercialization across the globe. Banks, credit card companies, credit unions, consumer finance companies, insurance companies, stock brokerages, and investment funds are catching up with what are considered more traditional IP-generating industries such as pharmaceutical firms, information technology companies, and industrials. There are numerous aspects of financial service businesses that are worth protecting.

Trademarks

With the increases in financial service product offerings available in the market today, financial institutions are striving to differentiate their products from their competitors by strategic branding and trademarking. In order to better market financial products, a wide variety of product names, slogans, and brands, such as HSBC Premier and Chase Mobile (the mobile phone banking services of JP Morgan Chase & Co), are commonplace. Credit and debit cards are co-branded with airlines. Mutual funds may also be trademarked, a good example being the four Jupiter Merlin portfolios of the UK asset manager, Jupiter Investment Management. While the use of such trademarks helps customers associate certain financial products with a specific provider, they can also be used to defend against competitors—both legitimate and illegitimate—who may try to drive business their way by using trademarks similar to yours.

Patents

With recent curtailments in the United States on business method patents by way of *In re Bilski* and the U.S. patent law amendments providing for an eight-year post-grant review period for business method patents, many financial institutions may think patents are no longer relevant to their businesses. Hardware, software (or in some countries, such as Thailand, when converged with electronics into machines), data manipulation and output processes for credit risk and credit management, fraud prevention, identity and personal data security technologies, and of course mobile and online banking products may all qualify for patent protection in many jurisdictions, such as the U.S., Canada, Europe, Japan, Australia, and China, to name a few. Financial transactions are increasingly electronic and global in nature, so industry is looking to those jurisdictions where patents might be available in order to exploit their inventions in those countries or to avoid those countries where they might infringe or be subject to an injunction order.

Copyright

To prevent unauthorized use and maximize earning potential, intellectual property relating to corporate technology, computer software, and Internet content should be safeguarded by recording copyright ownership in the appropriate jurisdictions. For financial services, this may mean protecting the software code of a lending evaluation assessment program or a mobile device personal banking application or the proprietary customer interface experience at an ATM.

Financial institutions create, distribute, and gather great quantities of business information in their everyday trade. For example, all institutions correspond through letters and e-mails; a bank might advertise its financial products to its clients in a sales brochure; an equity research house might disseminate company analysis reports amongst its clients; while a hedge fund might produce performance tracking charts which may or may not be linked to trading indices. This business information is all copyright protectable and can therefore be used as an important earning tool for financial institutions. In addition, there is a cost associated with the use of another's material. Herein lies the value and applicability of intellectual property.

The widespread availability of business information continues to grow as technology promotes greater access to knowledge formats through the Internet and software. The opportunity to exploit the use of another's material is equally evident, so the protection of this material via copyright should be high on the agenda of financial institutions for defensive as well as for monetizing purposes.

Trade Secrets

Some financial service businesses enjoy such commercial advantage from their IP that they choose to maintain it as a trade secret rather than as a patent, as patents are open to the public to see and are definite in terms of how long they last. Trade secrets are maintained by the strength of the secrecy mechanisms owners build around them and the strength of the contracts under which others are allowed to use them. International and domestic trade secret licenses must contain effective critically important terms, such as confidentiality, control, and noncompetition clauses, in order to maintain this commercial advantage.

IP Holding Companies

With the growing value of intellectual property, a trend has developed among multinationals to centralize ownership of their IP assets in offshore holding and licensing vehicles. IP-intensive companies look to locate the IP portfolios in low-tax jurisdictions with strong IP registration and protection laws. The company then licenses the IP to operating companies in the group or to third-party licensees, franchisees, agents, distributors, etc., in return for royalties or license fees.

IP Holding Companies are popular because they can help corporations to:

- ▶ Minimize tax
- ▶ Gain tax benefits/concessions
- ▶ Protect IP from bankruptcy or other claims against the parent company
- ▶ Focus management attention on the IP portfolio in order to see it as an income generator

Continued on page 9

IP Holding Companies are also regularly used when the parent corporation seeks to acquire new IP whereby the IP Holding Company will take on the role of the buyer rather than the parent.

Tax and Deciding on Your IP Holding Company

Tax is the primary reason most companies park their IP in separate IP holding vehicles. Sometimes, companies select a no-tax, low-tax, or preferred-tax jurisdiction in which to establish their IP Holding Company that is close to their home country. This may make for easier operational function or be beneficial in distribution or warehousing of goods connected to the IP.

Of course, the IP Holding Company has to function in some demonstrable sense and it must take on the appropriate risks of IP ownership (creation, maintenance, exploitation/licensing, marketing direction/control, regula-

tory compliance (if any), etc.) to justify what will likely be an eventual transfer of profits from one company within the group to another.

The selected jurisdiction should also be a country with a large and well-established tax treaty network. The existence of double tax treaties is a key factor in jurisdiction shopping. If the IP assets need to be pledged as a security for future borrowings or if they are to be included in the parent company's asset sheets prior to a public listing, having those IP assets in a respected, transparent country is always beneficial. Also, depending on whether any R&D might be planned, many countries have attractive tax benefits for such activities as a way to encourage local innovation and technology transfer into the country. If the parent has other business operations in the selected country, it very well may be that such items as development or operational costs, company losses in respect of certain activities, or amortization schemes may be available to offset against profit-generating activities. 🦄