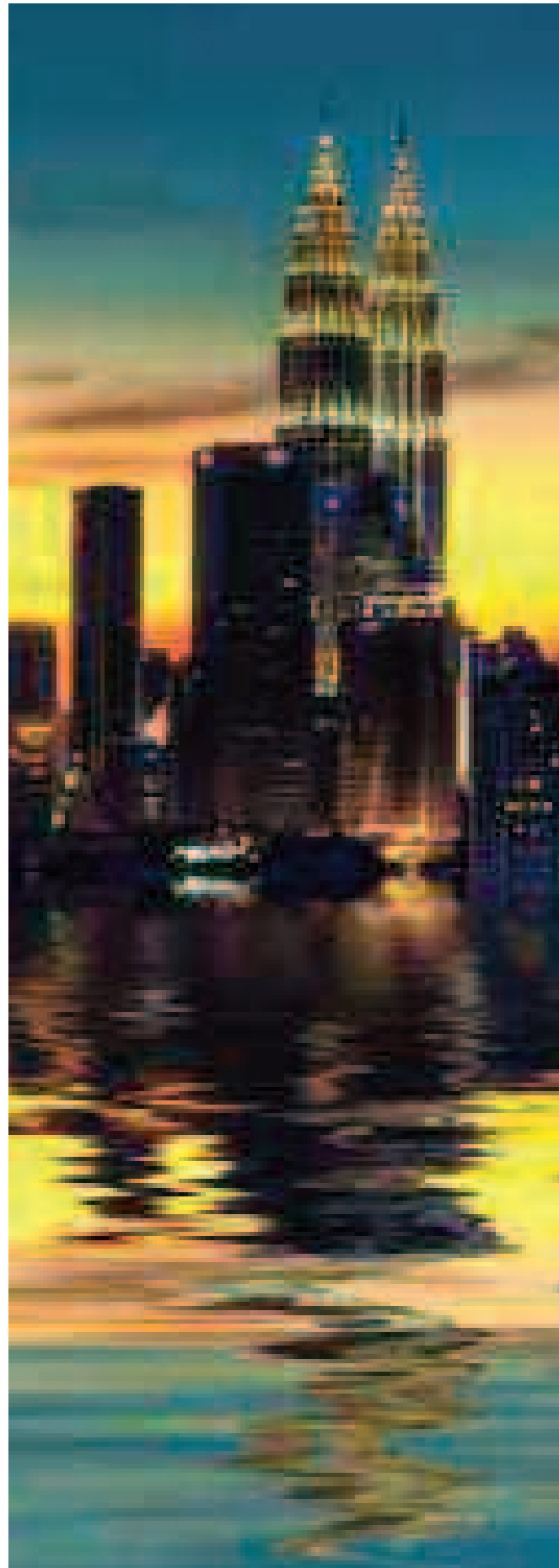


Monetising IP assets

Karen Abraham of Shearn Delamore & Co discusses how Malaysia is harnessing the benefits of regional IP co-operation, spurred by recent IP monetisation initiatives

In tandem with its ranking as one of the most competitive countries in the world (ranking 14th in 2015), Malaysia has taken concrete steps towards harmonising and internationalising its legal IP regime. Malaysian IP law is now largely in conformity with its obligations under the WIPO administered treaties it has acceded to and is also constantly evolving to adapt its obligations under regional IP-related treaties such as the ASEAN (Association of Southeast Asian Nations) Framework in Intellectual Property Cooperation.

Two notable areas of intellectual property have seen drastic progress over the last few years. First, there has been significant progress in the development and implementation of IP monetisation



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mechanisms, essentially with the aim of harnessing the value of locally-nurtured IP as revenue generating streams. Second, in efforts to accelerate realising the ASEAN Economic Community (AEC) by the end of 2015, there has been an increase in Malaysian participation in regional collaboration to streamline IP protection in ASEAN member states.

Recent developments in IP monetisation

The increasing importance in monetising intellectual property was reflected in the Malaysian 2013 Budget, where it was proposed that efforts will be undertaken to enable small and medium enterprises (SMEs) to further expand their businesses by using IP rights (IPR) as collateral to obtain financing. Additionally, the IP Financing Scheme (IPFS) was introduced especially for SMEs, providing them with easier access to credit through their IP assets instead of moveable assets. RM19 million (\$4.5 million) alone was also allocated for training programmes for local IP evaluators conducted by the Intellectual Property Corporation of Malaysia (MyIPO) as well as to create an IPR market platform.

There have been further efforts to allow intellectual property to be used as collateral. The Industrial Designs (Amendment) Act 2013, which came into operation on July 1 2013 and substitutes sections 29 and 30 of the Industrial Designs Act 1996, provides that a registered industrial design may be the subject of a security interest in the same way that other tangible assets are. The Act also provides that notice in the Register of Industrial Designs will allow for the transmission of the registered industrial designs.

The Multimedia Development Corporation of Malaysia (MDec) developed the IP Valuation Module which was launched on the March 7 2013 to help SMEs in valuing their IPRs. Under this programme, participants are exposed to valuation methods, negotiation, IP management, drafting of

practical valuation reports and other relevant training modules in IP valuation.

Further, an IP marketplace for IP trading in Malaysia is pivotal to offering SMEs new opportunities in putting up their rights for sale and licensing. Under MyIPO's efforts to provide SMEs with this platform, an online IP listing portal service was proposed to facilitate the trading of IP rights. Such service would also build the confidence of financial institutions to recognise and accept IP as collateral against loans.

Valuation of intellectual property

Although in theory, IP proprietors will benefit from these alternative methods of generating revenue if intangible assets are monetised, Malaysian authorities understand that in reality most companies do not have sufficient knowledge or expertise to accurately value their patent portfolio. Rigorous legal, technical and economic analyses are involved, which could give rise to unnecessary costs. Most opposition and doubt that has been casted upon the monetisation of intellectual property relates to valuation.

In valuing IP assets, careful consideration is expected of the company when it identifies its assets and assigns a justifiable value. The problem in this is two-fold. First, the intangible nature of IP assets means that some may be overlooked; second, it is nearly impossible (and largely impractical) to fairly value a company's IP assets.

Three methodologies have been identified to value IP assets, namely: (i) the cost approach; (ii) the market approach; and, (iii) the income approach. The cost approach focuses on the idea of substitution where the worth or value of an IP asset cannot be greater than the cost of obtaining or reproducing the asset. The value of the IP asset is therefore ascertained by substituting or recreating the asset. Alternatively, the market approach gives an IP asset a value by analysing the interaction between supply and demand in a market. However, this is only relevant for IP assets that have been bought, sold or licensed regularly enough in the market. It is therefore often necessary to adjust and analyse existing comparables to arrive at an accurate value. The income approach is perhaps most used to value IP assets. This approach gives IP assets a value based on the potential financial benefits that can be derived from that particular intellectual property in the future. This approach requires substantial knowledge and judgment in predicting and estimating the possible financial gains from the IP asset.

While all three approaches to valuation of intellectual property in Malaysia have their inherent disadvantages, a common problem with IP valuation across the board is that IP assets can have multiple correct values at the same time. This is because, unlike a tangible asset like land, the value of IP assets is relative to the owner and the

owner's intended use. The complexity in this process means that monetising IP assets may be unfeasible, impractical and costly.

Some situations where IP valuation is required are commercial transactions (sales, mergers, and joint ventures), bankruptcy, licensing, and litigation. The need to monetise intellectual property becomes particularly relevant when IP assets are used as financing instruments and as investment assets by Malaysian financial institutions and venture capitalists.

AEC Action Plan 2015

The AEC's goal of regional economic integration in ASEAN by 2015 can only be achieved with a significant increase in collaboration to facilitate the free movement of goods, services, investment, skilled labour and flow of capital.

As the AEC promotes the movement of capital and investment, the inherently regional nature of intellectual property will prove slightly problematic. IPR holders will be required to seek IP protection in the ASEAN member states.

In efforts to ensure the protection of IP rights, the Intellectual Property Rights Action Plan 2011-2015 (IPR Action Plan) was introduced to strengthen IP institutions in the region. This action plan is designed to transform the ASEAN region into an innovative and competitive region through the use of their IP. The IPR Action Plan was formulated to: (i) help accelerate the pace and scope of IP asset creation, commercialisation and protection; (ii) improve the regional framework of policies and institutions relating to intellectual property and IPRs, including the development and harmonisation of enabling IPR registration systems; (iii) promote IP cooperation and dialogue within the region and with the region's dialogue partners and organisations; (iv) strengthen IP-related human and institutional capabilities in the region, including fostering greater public awareness of issues and



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Karen has crafted numerous brand management programmes for many leading multinational companies both locally and throughout the world and had designed anti-counterfeiting and anti-piracy programmes and strategies for global IP brands. She strongly advocates the mediation of IP disputes. She is on INTA's panel of neutrals and is an accredited mediator of the Malaysian Mediation Centre and an association member of the Chartered Institute of Arbitrators (UK).

Karen is the first Malaysian woman to be appointed on the board of directors of INTA. She is also the first Malaysian to sit on the International Association for the Protection of Intellectual Property (AIPPI), headquartered in Zurich where she holds the position of assistant secretary general. She has represented leading multinational companies in IP litigation and this year alone has represented British American Tobacco (UK), Hermes International (Paris), the Marriott Group (USA) and Avon (US) in court.

implications, relating to intellectual property and IPRs.

Through efforts to streamline IP standards in the region, Malaysia will benefit from the expertise and experience in IP protection of neighbouring countries. More importantly, Malaysian businesses will be able to ensure sufficient protection for their IPRs. This offers Malaysian businesses more opportunities to expand in the ASEAN region and access to a market of 600 million. An effective IP system of governance and regulation will also attract a higher degree of foreign investment into Malaysia and the region as a whole.

Through the IPR Action Plan, Malaysia will lead ASEAN countries in efforts to enhance the capability of SMEs in the region to generate and fully utilise their IPRs. This includes strategic plans to promote innovation among SMEs in member states. Malaysia will also spearhead efforts to introduce training modules that are designed for SMEs on the identification and acquisition of IPRs, exploitation and enforcement of IPRs, cost-effective search for IP-related information, and IPR registration. Additionally, Malaysia will lead ASEAN into comprehensive collaborative programmes between IP offices and science and technology, research and development institutions, and universities. This is done to improve the capacity to identify, protect and manage the IPRs of ASEAN member states. Malaysia co-leads (with Singapore) initiatives to increase the region's capacity for patent examiners. Malaysia and Singapore will devise structured training programmes for patent examiners and organise institutionalised patent examiners' exchange programmes.

programmes.

Malaysia is also demonstrating its experience in IP protection through chairing the Global Intellectual Property Valuation Conference (GIPVC) 2015, which aims to commercialise and capture the value of intellectual property as a new asset class. This also serves as an avenue for discourse

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between private and public sectors on challenges encountered by industry players in the ASEAN IP community.

The accession of Malaysia and ASEAN member states to several treaties by 2015 confirms the increase in IP protection not just in the region but internationally. First, Malaysia's accession to the Madrid Protocol by all member states will improve trade mark protection in the region and provide better access for local companies to overseas registration. An ASEAN-wide trade mark is also a possibility in the long term. Additionally, Malaysia's accession to the Patent Cooperation Treaty (PCT) makes it possible for patent protection upon invention to be simultaneously available in several countries by filing a single international patent application. Next, the Hague Agreement Concerning the International Registra-

tion of Industrial Designs, acceded to by at least seven ASEAN countries, provides a practical business solution for registering designs in over 62 territories by filing a single international application.

The implementation of the ASEAN Patent Examination Cooperation (ASPEC) as a regional patent work sharing programme involving all ASEAN member states (except Myanmar) aims to: (i) reduce complexity; (ii) be more time-efficient; and (iii) improve the quality of search and examination. This speeds up patent applications and allows member states, including Malaysia, to take advantage of the expedited processes of the more efficient IP offices in the region.

Securing government backing

The Malaysian authorities are cognisant of the fact that IP monetisation requires considerable efforts by the government before it can be valued accurately and treated as collateral. Nonetheless, this is an area of increasing importance and models of effective IP valuation can be adopted in Malaysia in time.

Efforts to streamline regional IP protection under the AEC 2015 shows promise for businesses intending to capitalise on the ASEAN market of 600 million. The collaboration involved in realising the AEC 2015 can provide Malaysia with many value-adding models to increase the effectiveness of its IP protection.

On the whole, these developments demonstrate that Malaysia is showing great promise. It is willing to adapt to international standards and to promote local initiatives to meet increasing IP demands both regionally and nationally.

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