

Practical Guide for IP Managers

(Summary Version)



Practical Guide for IP Managers – Summary Version

This Guide (Summary Version) is compiled by ELLALAN as commissioned by the Intellectual Property Department of the HKSAR Government

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1. Managing existing intellectual property (“IP”)

IP assets are important intangible assets. They can have great potential economic value and contribute to an organisation’s value and goodwill. Here are some tools that can help your organisation clearly identify and manage the IP that it already owns.

1.1 Conduct an IP audit

An IP audit is a systematic, comprehensive and periodic review of an organisation’s IP assets. The goal of the exercise is to ensure that:

- important IP assets are identified and properly managed;
- idle IP assets (e.g. undeveloped or discontinued brands) are better commercialised or disposed of;
- infringement threats and risks are identified and resolved at the earliest opportunity; and
- resources are allocated to new or better opportunities in a timely fashion.

1.2 IP audit review checklist

1 Critical documents: <ul style="list-style-type: none"><input type="checkbox"/> Assignments<input type="checkbox"/> Licences<input type="checkbox"/> Employment contracts<input type="checkbox"/> Independent contractor agreements<input type="checkbox"/> Confidentiality agreements<input type="checkbox"/> Joint venture agreements<input type="checkbox"/> Collaboration agreements<input type="checkbox"/> Grant conditions<input type="checkbox"/> Distributorship agreements<input type="checkbox"/> Consultant agreements<input type="checkbox"/> Research contracts<input type="checkbox"/> Outsourcing agreements<input type="checkbox"/> Professional opinions related to the IP assets' ownership, validity, infringement risk, use, and enforcement	3 Any documents containing: <ul style="list-style-type: none"><input type="checkbox"/> No-challenge obligations (assess their reasonableness)<input type="checkbox"/> Non-compete obligations (assess their reasonableness)<input type="checkbox"/> Restrictions on other parties' ability to review enforceability
2 Materials for safekeeping and proper record keeping: <ul style="list-style-type: none"><input type="checkbox"/> Copyright works and updates/modifications<input type="checkbox"/> Designs and their updates/modifications<input type="checkbox"/> Trade mark materials and their updates/modifications<input type="checkbox"/> Confidential documents and updates/modifications	4 Operational efficiency: <ul style="list-style-type: none"><input type="checkbox"/> Identification process of IP asset creation<input type="checkbox"/> Reporting mechanisms for IP assets<input type="checkbox"/> Maintenance protocols (especially confidentiality)<input type="checkbox"/> Alert system for risks and potential problems
	5 Information and dispute management: <ul style="list-style-type: none"><input type="checkbox"/> Disputes threatening or challenging the validity of IP rights<input type="checkbox"/> Actions and proceedings related to IP rights<input type="checkbox"/> Assessment of the level of risk involved<input type="checkbox"/> Formulated solutions or evaluations of any enforcement actions

1.3 Build an IP database

A centralised database is crucial for keeping track of important deadlines, reducing the chances of costly oversights. It is also vital to retain supporting documents and keep them in an organised manner.

A docketing system should be in place, containing key information of your IP assets, including:-

- specimens/description of IP rights;
- registration numbers;
- all original registration certificates and their renewals;
- creation dates (applicable to copyright);
- application dates;
- publication dates;

- dates of actual grant of certificates;
- renewal/expiry/annuity payment dates;
- dates to file statement of use (applicable to trade marks);
- registered classes and goods and/or services (applicable to trade marks);
- evidence of first use and continued use (applicable to trade marks); and
- details of any licences.

1.4 Establish guidelines on IP use

It is important for organisations to have in place comprehensive internal guidelines and policies to ensure that employees know how to use their IP correctly and consistently. The guidelines can also serve to clearly define the importance of IP protection and the role that employees play in protecting the organisation’s IP from infringement and misuse.

Type of IP	Guidelines on use	Indicia to denote registration	Indicia to denote a pending application
Trade marks	<ul style="list-style-type: none"> • Use each trade mark consistently, in a form that matches trade mark registration. • Use a trade mark notice alongside your trade mark. • Maintain evidence of use. • File renewal applications promptly. 	“®” or “registered”	“TM”
Patents	<ul style="list-style-type: none"> • Mark your product or its packaging with an appropriate patent notice to show that it has patent protection. • Monitor renewal deadlines and file renewal applications promptly. 	“patent” or “patented” (patent registration number [HKXXXXXXXX])	“patent pending” or “patent applied for”
Designs	<ul style="list-style-type: none"> • Use a design notice in all instances where the design is used. • File renewal applications promptly. 	“registered”, “registered design”, or “reg. des.” (design registration number [HKDXXXXXXXX])	“registered design applied for” or “registered design pending”
Copyright	<ul style="list-style-type: none"> • Put a copyright notice on copyright works. • Maintain detailed records of the creation process and all iterations of the work. • Consider voluntary copyright registration (e.g. available in China, the US and Malaysia) 	<p>Indicia to denote subsistence</p> <p>“copyright” or “© [Year] [copyright owner’s name]. All rights reserved.”</p>	N/A

1.5 Enforce your rights

A well-formulated IP enforcement policy serves to ring-fence the brand image, deter infringement and send out the right message to the market. A robust approach against counterfeits and infringements can boost consumer confidence and improve sales.

When infringement occurs, rights holders should decide whether enforcement action is required, and if so, what action is appropriate. This will depend on:

- the extent of infringement;
- any adverse impact on your market and brand image;
- whether the infringer is at the retail or wholesale level;
- whether the infringers are related to your business (such as former employees or OEM manufacturers);
- the likelihood that other traders may be encouraged to infringe;
- whether defences of laches or acquiescence may be raised;
- whether dilution may result and whether the IP value may be undermined;
- the main objective of the enforcement action – injunction, damages or otherwise;
- how urgently you need to stop the infringement and how aggressively you wish to respond;
- the merits of your case – whether it is a straightforward counterfeit case, or a marginal infringement case; and
- choice of jurisdictions and enforcement channels if infringements are found in multiple jurisdictions; and whether parallel actions are warranted.

It is advisable to seek advice from your legal advisors to determine the best course of action. This may include conducting further investigations, test purchases, sending cease and desist letters, administrative measures, online takedowns, customs actions, litigation and other methods of dispute resolution.

2. Capturing new intellectual property

2.1 Document ownership of newly created IP

The individuals and organisations involved in creating and shaping a new product or service may include employees, contractors and other third parties. Assess whether IP ownership is vested in the intended party under existing agreements, or whether additional documents may be necessary.

Situation	IP ownership
IP created by employees	Generally, IP developed by an employee in the course of his employment is owned by his employer.
IP created by external third parties (commissioned works)	Generally, if someone commissions (or orders) a work to be created and there is an agreement in place, then the copyright in it is determined by the terms of the agreement.
Collaborative IP creations	When engaging in a collaborative project with another enterprise, it is essential to predetermine and explicitly specify IP ownership in the agreement.

2.2 Creating new IP

When creating new IP rights, you will have to decide what, how and where to register. While IP is intangible and may exist without registration, some forms of IP such as trade marks, designs and patents require registration in order for exclusive rights in them to be granted.

- **Trade marks:** Pick a distinctive brand to improve your chances of successful registration. Avoid using descriptive words that directly convey the nature or other attributes of the goods or services.
- **Patents:** If your new project involves an invention that significantly diverges from existing technologies and brings tangible improvements, it is likely eligible for patent protection. To safeguard its novelty, the invention should be kept confidential until a patent application has been filed.
- **Designs:** New designs related to the external appearance of a product can also be subject to protection. Like patents, these designs should be kept confidential until a formal design application is submitted.

Copyright, on the other hand, automatically subsists without registration as long as the work is created without copying from others. However, a good record of the creation process is needed to prove authorship and the date of creation, and to defend against any allegations of copyright infringement. New content such as text, illustrations or web content may be eligible for copyright protection. The key is originality, regardless of aesthetic appeal.

For trade secrets, strict compliance of security procedures is required to maintain the confidentiality and commercial value of the information.

2.3 Clearance searches

Before launching any new brand, service or product, it is important to conduct clearance searches to assess the potential risk of infringing existing IP rights. Here are the recommended time frames for conducting clearance searches:

- **Trade marks:** Search immediately upon creating a new trade mark, prior to starting the registration process or market introduction.
- **Patents:** Search at the invention conceptualisation stage, especially before public disclosure.
- **Designs:** Search right after formulating a new product design, but before public display or registration.
- **Domain names and company names:** Search around the same time as the trade mark search to maintain consistency and strategic alignment.

2.4 IP registration

- **Selection for registration:** Select trade marks for registration based on current or intended use. If you do not use your mark in the form it is registered, it could be vulnerable to non-use revocation.
- **Geographical issues:** Prioritise registration in regions where the trade marks will primarily be used, regions with higher infringement risks, or where main competitors operate. Be aware of local intricacies which may affect your IP strategy. Pre-emptively register your IP in potential future markets. Make the most of collective agreements for multi-country protection e.g. EU trade mark registration.
- **Trade mark classification:** Define the relevant goods and services. Avoid registering in excessive classes. Applications covering a broad range of classes without justified use may be challenged.

- **Ownership consistency:** Consistent ownership can simplify management, licensing and enforcement processes and help avoid potential legal disputes. It can also offer better leverage in negotiating licensing or assignment.

3. Using third party IP

IP rights are exclusive rights. Using third party IP without authorisation may amount to infringement or passing-off. In principle, a licence or consent should be obtained from a third party IP rights owner to use their IP.

Type of IP	Guidelines on use of third party IP
Trade marks	<p>Before using any third party trade marks:</p> <ul style="list-style-type: none"> • carefully vet all product packaging and advertising materials before their publication or distribution; • identify third party trade marks being used and check whether necessary authorisations have been granted; • consider if the use of any third party trade marks would cause confusion to the public; • consider if such use falls within the exceptions in the law; and • obtain express authorisation from the trade mark owner if needed.
Copyright	<p>When using materials developed by a third party, the following steps should be taken:</p> <ul style="list-style-type: none"> • consider whether there are copyright materials involved; • consider if the intended use of the materials amounts to copying; and • consider if the intended use is authorised by the copyright owner or falls within any statutory exceptions.
Company names and domain names	<p>It is important to consider accuracy, legality, ethics when referencing third party company names or domain names. Necessary steps to be taken to avoid the risk of passing-off are set out below.</p> <ul style="list-style-type: none"> • Conduct thorough research to ensure the accuracy of the company name or domain name being referenced. This includes verifying the correct spelling, punctuation and formatting to avoid any potential confusion or misrepresentation. • Provide proper, clear and accurate attribution of the company name or domain name to its respective owner or entity. This is crucial to avoid any misleading or false associations, and it ensures transparency in the reference. • Include a disclaimer stating that the mention of the company name or domain name does not imply endorsement, affiliation, or sponsorship. This helps prevent any confusion or misinterpretation of the reference. • Avoid any false or misleading statements, respecting the reputation and privacy of the referenced company or domain name.

4. IP commercialisation

Commercialisation of IP assets can bring financial return and encourage further creation and innovation. The five main business models involved in the commercialisation of IP are: (i) assignment; (ii) licensing; (iii) franchising; (iv) character merchandising; and (v) joint ventures.

4.1 Licensing

Licensing is one of the most common methods of IP commercialisation. By granting a licence, the licensor allows a third party to exploit their IP assets for a fee. The form of the licence will depend on the industry and the licensor's and licensee's respective commercial needs. The finalised terms of a licensing agreement will be a result of commercial negotiations reflecting the bargaining power and skills of the respective parties.

In a licensing agreement, parties should consider:

- the type of licence: exclusive or non-exclusive;
- duration and geographical scope;
- right to sub-licence or sub-contract;
- distribution channels;
- quality control;
- warranties and indemnities;
- licensor's audit rights; and
- improvements to the IP and rights to modify the IP.

4.2 Assignment

IP assignment is when the exclusive rights to an owner's IP assets are transferred to another legal entity or individual. It is important to ensure that assignments are properly and carefully drafted to reflect the parties' intentions. Some important considerations for the assignee and assignor in an assignment are set out below.

Assignor's considerations	Assignee's considerations
<ul style="list-style-type: none">• Option to request the IP assets to be assigned back to the assignor if the assignee fails to commercialise it within a given period of time• Whether further assignment of IP assets is allowed• Inclusion of restrictive covenants• Confidentiality clause and non-disclosure agreement• Representations and warranties from the assignee (e.g. authority to enter into assignment agreement, sufficient funds to pay for consideration of assignment, etc.)	<ul style="list-style-type: none">• Value of IP assets (e.g. scope of IP protection, commercial viability, life cycle of the IP assets)• Whether the assignment of the IP assets is prohibited by any existing restrictive covenants• Whether they will be able to successfully commercialise the IP assets as agreed between the parties• Full or partial control of the IP assets• Representations and warranties from the assignor (e.g. ownership of IP assets, absence of existing litigation, authority to assign, etc.)• The necessity of an interim licence pending the execution and recordal of the assignment

4.3 Franchising

A franchise is a business model whereby numerous independent businesses trade under a common style and common standard as if they were branches of a larger enterprise. A franchise agreement typically comprises a licence of trade marks, trade secrets and know-how in the form of business methods, work systems and processes. Typically, a franchisor will provide reasonable guidance to the franchisee and exert extensive control in order to maintain the integrity of the franchise system.

A typical franchise agreement will include the following key terms:

- Fees and payment method
- Content and methods for providing business guidance and technical support
- Business training or other services
- Quality provisions, standards and guarantees for the product or service
- Sales promotion, advertising and publicity about the product or service
- Protection of rights and interests of consumers and assumption of compensation liabilities
- Variation and termination of the franchise

4.4 Character merchandising

Character merchandising refers to the promotion of goods or services by associating them with a famous character. The character may be human, animal or inanimate, and may be fictional or non-fictional. The subject matter of the merchandise may include a trade mark, copyright, and/or design. Character merchandising can enable both parties to the merchandising agreement to increase brand visibility and market appeal.

A typical character merchandising agreement will include the following key terms:

- Subject matter and scope of use
- Payment of licence fees and royalties
- Whether there are rights to modify, improve or alter the licensed IP
- Marketing obligations of each party
- Allocation of liability for infringement
- Termination
- Dispute resolution mechanisms

4.5 Joint venture

A joint venture is a business alliance between two or more parties who agree to share resources and risks in order to achieve a mutually beneficial goal. Joint ventures usually exist in the following forms:

CONTRACTUAL JV

The JV parties collaborate by entering into a strategic alliance. Each JV party retains its assets and neither is liable for the debts and liabilities of other parties. It is easy to form and dismantle. Usually suitable for short-term collaboration or as an interim arrangement before the parties decide to form an equity JV.

PARTNERSHIP JV

A JV carried out by two or more parties under a partnership agreement. Formation and termination of the JV must comply with the requirements for registration under the Business Registration Ordinance. Each partner is inseparable from the partnership's business, resulting in them having unlimited liability on a joint and several basis for the debts and obligations of the partnership, and on a joint and several basis for the wrongful acts of the other partners.

EQUITY JV

This is the most popular JV structure. The JV is carried on through a separate legal entity so that each JV party's liability is limited. The parties' relationship is governed by a shareholders' agreement and the articles of association of the JV company.

JV parties will need to agree on their respective contributions, responsibilities and obligations. It is important to set out:

- What is the end product intended to be developed by the JV – a product, process, technology or service?
- How will the end product be developed – from scratch or by improving existing products, processes, technologies or services?
- Are the JV parties going to pursue the same or a related business?
- How will the parties bear the risks and liabilities in respect of the contributed assets or rights?
- Who will be responsible for the maintenance of the contributed assets or rights – one of the JV parties or the JV company?
- How will these assets be dealt with upon the termination of the JV?

5. Due diligence



IP due diligence is an exercise that is conducted on an IP portfolio to objectively assess its value and evaluate risks associated with it. It is often conducted prior to commercial transactions such as mergers and acquisitions, joint ventures, licensing and assignments.

Through conducting due diligence, parties to the transaction will gain a better understanding of:

- **Ownership:** Whether the contributing party has a good title to such IP rights being transferred. In particular, whether there are any encumbrances against the IP rights that could affect the rights assigned or granted.
- **Value:** The value of the IP may directly impact the pricing of the commercial deal.
- **Restrictions:** Whether there are any restrictions or weaknesses in the IP rights which could affect the parties' ability to exploit them. The contributing party should be required to provide appropriate representation and warranties over the contributed IP rights, including that the contributed IP rights are valid and subsisting and do not infringe upon any third party's rights.
- **Authorisation:** Whether the contribution of such IP rights, whether by way of assignment or a licence, requires a third party's consent or authorisation.

6. Ten top tips for IP managers

1. Develop a comprehensive IP strategy tailored to the specific needs and goals of the business, outlining the approach for acquiring, protecting, and leveraging IP assets.
2. Acquire a deep understanding of the IP assets held within the business and ensure familiarity with their nature, scope, and potential value.
3. Establish and maintain meticulous records of all IP assets, including their ownership details. Promptly initiate the registration process to secure legal protection for the IP assets.
4. Allocate sufficient and appropriate resources, both in terms of finances and personnel, to effectively build and manage the portfolio of IP assets, ensuring their ongoing development, maintenance, and protection.
5. Regularly conduct systematic audits and reviews of the IP inventory to assess its current status, identify any potential issues or gaps, and strategise for the future.
6. Ensure strict adherence to internal policies and procedures that govern IP matters within the organisation, promoting a culture of compliance and safeguarding the integrity of IP assets.
7. Vigilantly monitor and proactively identify any infringing acts or unauthorised filings that may pose a threat to the business's IP rights. Promptly take appropriate measures to address and mitigate such infringements.
8. Take decisive and appropriate enforcement action, such as legal proceedings or negotiations, to safeguard and protect the business's IP rights against infringement, unauthorised use, or misappropriation.
9. Strategically exploit and commercialise the IP assets to maximise the returns and value derived from the IP inventory, leveraging licensing, partnerships, or other business arrangements.
10. Prioritise conducting thorough due diligence on IP assets in any transaction. Carefully assess the legal status, potential risks, and commercial viability to optimise returns and minimise any potential risks associated with these transactions.