

Trust System under the Revised Trust Business Law and Intellectual Property Management *

The First Subcommittee
The First Intellectual Property Management Committee

(Abstract)

As a result of the revision of the Trust Business Law, intellectual property has become acceptable as trust property, and it has become possible for entities other than financial institutions to conduct trust business, which was essentially impossible in the past. Furthermore, the revision contains special measures opening the way for intellectual property management within business groups with the use of the trust system. The types of intellectual property management carried out within business groups can be roughly divided into two, the “centralized management system” in which intellectual property rights and management functions are concentrated in the parent company, and the “decentralized management system” in which each member company holds and manages its intellectual property independently. From an interview survey targeting selected companies, we found that companies actually employ various management systems while trying to make up for the disadvantages of the centralized system and the decentralized system, although problems still remain. In this text, we will review the awareness among companies of the use of the trust system for intellectual property management within business groups, and point out that the trust-based management system will be an effective means to realize flexible intellectual property management depending on the actual situation in each business group. We also address the use of the trust system for purposes other than intellectual property management within business groups.

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1. Introduction

Based on the Intellectual Property Policy Outline published in July 2002, the Management and Market Environment Subcommittee of the Intellectual Property Policy Committee of the Industrial Structure Council under the Ministry of Economy, Trade and Industry made a group of specific recommendations in May 2003 entitled “Second Urgent Recommendations on Trust Business for Intellectual Property,” regarding the

* “CHIZAI KANRI” (Intellectual Property Management), Vol. 55, No.10, pp. 1383-1394 (2005)

necessity to conduct trust business for intellectual property in light of the importance of strategic use of intellectual property. In response to the urgent recommendations, the bill revising the Trust Business Law was passed by the extraordinary session of the Diet in November 2004, and the revised law came into force on December 30. This was the first radical revision to the Trust Business Law in the 82 years since its enactment in 1922.

In the business sector, through corporate spin-offs and mergers in the pursuit of increased efficiency in management, companies have been struggling for survival amid the wave of corporate reorganization. Under these circumstances, it has become a critical key to success to create intellectual property efficiently and utilize it effectively as a managerial resource. In particular, for business groups that have become more decentralized through spin-offs, how to implement centralized management of their intellectual property efficiently is a major challenge.

Against this background, the subcommittee discussed conventional problems that are expected to be solved under the revised Trust Business Law and new possible methods of intellectual property management from the perspective of companies that actually create and utilize intellectual property.

2. Outline of the Trust System¹⁾

Under the Trust Law, a trust is a means to transfer a property right to another party and have the party manage and dispose of the property for certain purposes. In Japan, the trust system is governed by the “Trust Law,” which provides the general principles for trusts under pri-

vate law, the “Trust Business Law,” which regulates trust companies engaging in trust business for commercial purposes, and the “Law Concerning Financial Institutions Engaging in Trust Business,” which regulates financial institutes that provide trust services in addition to banking services.

Figure 1 shows an outline of the trust system. In the trust system, the trustor (property holder) transfers a property right to a third party (e.g. trust company) under a trust contract (“transfer in trust”). The third party, as the “trustee,” invests the property transferred in trust (“trust property”) and receives commission fees. Returns from the investment of trust property belong to the person designated as the “beneficiary” under the trust contract. Generally, the “trustor” is the “beneficiary,” but in some cases, a person other than the “trustor” may be the beneficiary due to the transfer of the title to receive trust returns (“beneficial interest in trust”). On the other hand, the trustee who is in charge of management of trust property shall be regulated by duties such as the “duty of a good manager’s care,” “duty of loyalty,” and “duty of segregation.” These duties are designed to reduce risk of loss in the beneficiary’s interest due to trust operations.

In accordance with the basic principle of trust, the trustor transfers the title to trust property to the trustee, and the trustee manages the trust property at its discretion independently from the trustor’s control. As a result, the trust system has the following functions: (i) to entrust the management of trust property to the highly-capable trustee with the aim of increasing efficiency in property management and maximizing investment returns (function to change the capability); (ii) to securitize investment returns from

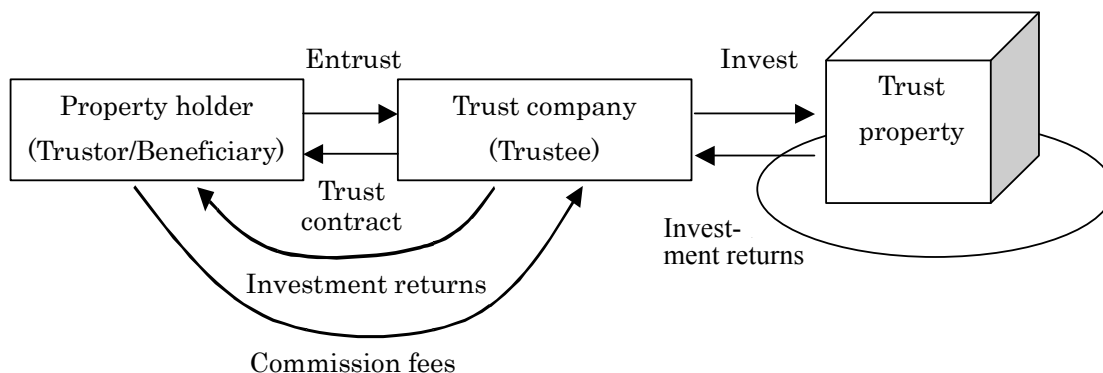


Figure 1 Outline of the trust system

trust property with the aim of raising funds (function to change the nature of property); (iii) to transfer the ownership of trust property to a third party with the aim of isolating trust property from the trustor's credit risk such as bankruptcy (function to secure bankruptcy remoteness). Furthermore, a transfer in trust is not regarded as a transfer or acquisition of assets, and therefore it is not necessary to calculate the amount of a reasonable remuneration for transfer (function to serve as a channel).

The functions mentioned above will be made available by setting up trusts for intellectual property.

3. Points of the Revision to the Trust Business Law

3.1 Reason for the revision

The revision revised the whole part of Law No. 65 of 1922, increasing the total number of articles significantly from 23 to 119 (in eight chapters).

The reason for the revision was as follows: "From the perspective of improving financial and capital markets in order to satisfy needs for the use of trusts flexibly and contribute to sound development of the national economy, it is necessary to enable diverse parties to conduct trust transactions by abolishing the restriction of

the scope of property that is acceptable as trust property, requiring additional qualifications for parties engaging in trust business, and providing for other necessary matters regarding parties engaging in trust business, trust contract agency business, and beneficial interest trading business. It is also necessary to ensure fairness in the assumption of trusts and other related transactions for the purpose of protecting the trustor and the trustee. Therefore, the Trust Business Law and other related laws shall be revised."²⁾

3.2 Points of the revision

Table 1 shows the major points in the revision of the Trust Business Law. This section gives brief outlines of Point 1 and Point 2, which are particularly related to the theme of this report.

(1) Point 1: Expand the scope of acceptable trust property

The four provisions of the old law, which limited the scope of trust property to (i) money, (ii) securities, (iii) money claims, (iv) movable property, (v) land and fixtures thereon, and (vi) superficies and leaseholds for land, have been abolished by the revision, and now property in general has become acceptable as trust property. In this way, intellectual property rights such as patent rights and copyrights, media content (e.g. visual and audio works, game software) and

Table 1 Points of the revision of the Trust Business Law³⁾

	Category	Summary
Point 1	Expand the scope of trust property	Abolition of the restriction of the scope of trust property → Intellectual property in general has become acceptable as trust property.
Point 2	Expand the scope of trustees	I) Segmentation of trustees (i) General trust companies: license (ii) Management-type trust companies: registration
		II) Exception for trusts established within business groups → Where the trustor, the trustee, and the beneficiary are companies belonging to the same business group, the trustor may assume trust business by notification.
		III) Exception for trusts established by approved TLOs → The party that has obtained approval from the Minister of Education, Culture, Sports, Science and Technology and the Minister of Economy, Trade and Industry for an implementation plan for a specific university technology transfer project (approved TLO) may, with registration by the Prime Minister, assume trust business as business to be conducted by a specific university TLO.
Point 3	Expand access to trust services	I) Establishment of the trust contract agency system II) Establishment of the beneficial interest trading system

leaseholds for buildings (term leaseholds), and hypothecs, which were requested to be made available for trust, have also been made acceptable as trust property.

(2) Point 2: Expand the scope of trustees

The old law allowed companies engaging in general business to establish trust companies to conduct trust operations under license (Articles 1 and 2 of the old law). However, due to the lack of specific provisions on the criteria for granting a license, in reality only financial institutions were authorized to conduct trust operations under the Law Concerning Financial Institutions Engaging in Trust Business. Under the revised Trust Business Law, stock corporations other than financial institutions are also allowed to conduct trust operations. The revised law also provides special rules for trusts established within business groups and trusts operated by approved TLOs, which are closely related to the theme of this report.

Trust companies are divided into (i) general trust companies (including investment-type trust companies) and (ii) management-type trust companies, depending on the contents of the business. Trust business conducted by management-type trust companies refers to the business of assuming either (I) a trust designed for managing and disposing of trust property only as instructed by the trustor, or (II) a trust designed only for preserving trust property or using or modifying it to the extent that its nature is maintained (Article 2(3)). While, in principle, only stock corporations licensed by the Prime Minister may conduct trust business (license system; Article 3), stock corporations registered by the Prime Minister are also allowed to conduct trust business as management-type trust companies (registration system: renewable every three years). Entities that deal with trusts within business groups are exceptions to management-type trust companies; where the trustor, the trustee, and the beneficiary are companies that belong to the same business group (a group consisting of a company and its subsidiaries), the trustee may, without license or registration, assume a trust by notifying the Prime Minister to this effect in advance (notification system; Article 51(1)(2)). The scope of subsidiaries is limited to companies where the parent company substantially holds the majority of votes of all shareholders or

capital investors (equity share rule; Article 51(10)). It should be noted that this scope is narrower than the scope of subsidiaries under the existing rule of consolidated accounting, which is determined depending on whether the parent company has control over the subsidiary's decision-making organ that is to decide financial, management, and business policies, while taking into account factors other than the ratio of ownership of votes, (control rule; defined by Article 8(3)(4) of the Regulations on Terms, Formats and Methods of Preparing Financial Statements). Table 2 shows the brief overview of trust companies under the revised law.

4. Intellectual Property Management within Business Groups with the Use of the Trust System

Intellectual property management within business groups with the use of the trust system has already been discussed from various aspects in a number of literary documents, and the current revision of the Trust Business Law is based on such discussions. However, this issue has not yet been sufficiently discussed from the standpoint of companies that actually use the trust system.

Being aware of this situation, we collected information from the companies participating in the subcommittee, and interviewed selected Japanese companies in the manufacturing, securities, and consulting service industries in order to investigate the actual status of intellectual property management and awareness of the use of trusts. Based on the information collected and interview results, we inquired into the needs for the use of trusts in intellectual property management within business groups and the possibility of such a use.

4.1 Current status of intellectual property management within business groups

Table 3 shows the actual status of intellectual property management within the business groups participating in the subcommittee.

There are three major types of intellectual property management carried out within business groups:

- (i) A centralized management system, un-

der which intellectual property rights held by the member companies of the business group are concentrated in the parent company (or intellectual property management company within the group);

(ii) A decentralized management system, under which each member company in the business group holds its own intellectual property rights;

(iii) A system that combines centralized management and decentralized management.

Under the centralized management system, the parent company, etc. obtains intellectual property rights, which may include rights to obtain a patent, from the member companies by transfer, and as the patent holder, manages and utilizes such rights together with its own intellectual property rights. For instance, under a contract between the parent company and each member company, the parent company obtains the patent rights from each member company by

transfer and pays some consideration to each company. The centralized management system has the advantages of simplifying the management organization, reducing maintenance costs, enhancing the organizational functions through concentration of intellectual property-related abilities, increasing operational efficiency, and forming a large intellectual property portfolio that is useful for handling intellectual property disputes that may arise with third party. However, this system has the disadvantages of requiring cumbersome procedures to evaluate intellectual property rights at market prices upon transfer and weakening member companies' awareness of their own rights.

The decentralized management system is designed to ensure each member company's individuality and independence through spin-offs and allocate intellectual property rights to the member companies as necessary while clarifying their responsibility for intellectual

Table 2 Overview of trust companies⁴⁾

	Applicable law for establishment	License/Registration	Form of organization	Minimum capital	Security for dealing	Major services
Financial institutions engaging in trust business (trust banks)	Banking Law (establishment) Law Concerning Financial Institutions Engaging in Trust Business (approval for trust business)	License	Financial institution (e.g. bank)	2 billion yen	25 million yen	Trust operations Combined sales operations Banking operations
Trust companies (including foreign trust companies)	Trust Business Law	License	Stock corporation	100 million yen	25 million yen	Trust operations Combined operations
Management-type trust companies (including management-type foreign trust companies)	Trust Business Law	Registration (renewable every three years)	Stock corporation	5 million yen	25 million yen	Management-type trust operations Combined operations
Trusts within business groups	Trust Business Law	Notification	Company			Management of property held by companies belonging to the same business group
Technology licensing organizations (approved TLOs)	Trust Business Law	Registration	Juridical person		10 million yen	Assumption of a trust as a specific university technology licensing project
Trust contract agencies	Trust Business Law	Registration	Individual/Juridical person			Agency or intermediary business for conclusion of trust contracts
Beneficial interest traders	Trust Business Law	Registration (renewable every three years)	Individual/Juridical person		10 million yen	Agency or intermediary business for beneficial interest trading

Table 3 Actual status of intellectual property management within business groups

		Creation of inventions	Application procedure	Procedure for obtaining rights	Rights holder	Licensing/ dispute settlement	Management
Major management systems	Centralized	Each member company	Parent company	Parent company	Parent company	Parent company	Parent company or Management company*
	Combined	Each member company	Parent company or Joint application	Parent company	Parent company or Joint ownership	Parent company or Joint basis	Parent company
	Decentralized	Each member company	Each member company	Each member company	Each member company	Each member company	Each member company or Management company* (under contract)

* Affiliated company specializing in dealing with operations relating to intellectual property rights

property management. This system has the advantages of making individual member companies aware of their rights in the course of obtaining, maintaining and managing, at their own discretion and on their own responsibility, intellectual property rights that are necessary to their business activities, and motivating them to utilize those rights proactively so as to gain profits arising therefrom. On the other hand, the advantages under the centralized management system are not available.

The combined management system is an intermediate between the centralized system and the decentralized system, which is implemented by giving consideration to the size of member companies. For instance, the parent company holds intellectual property rights jointly with the member companies on the conditions that the parent company shoulders part of the R&D costs, or the parent company, as commissioned by the member companies with intellectual property operations, carries out part of the procedures for filing applications and obtaining rights (e.g. discovering patentable inventions, or improving inventions or the contents of patent specifications).

Although the proportion of companies that employ the centralized system, the decentralized system or the combined system is uncertain, it can generally be said that the centralized system is selected by a business group in which the parent company holds a large proportion of the shares of the member companies and the size of the member companies are relatively small,

whereas the decentralized system is selected by a business group in which the member companies are relatively large and have strong aspirations for independence. This tendency is reflected in the results of the interviews with the selected companies, suggesting that along with the current trends of placing emphasis on consolidated management indexes and corporate consolidation as well as reviewing the corporate management methods adopted after the bursting of the bubble economy and going back to conventional methods, individual companies are trying to discover optimal management systems.

4.2 Intellectual property management within a business group with the use of the trust system (trust-based management)

(1) Outline of the trust-based management within a business group

The current revision of the Trust Business Law has made it possible to manage intellectual property rights based on a trust contract between the parent company, etc. and each member company ("trust-based management"). Figure 2 shows an outline of the trust-based management system.

Under the trust-based management system, the parent company or a designated member company serves as the intellectual property management company as the "trustee," and manages intellectual property in a centralized manner. Under the trust contract, each member company, as the "trustor," transfers intellectual property

rights (including the “rights to obtain a patent”) as trust property to the “trustee.” The “trustee,” in its own name, files applications as well as obtains, maintains and utilizes the rights as trust property. The sharing of roles between the “trustor” and the “trustee” can be determined freely under the trust contract, such as the “trustee” being entitled to receive necessary support from the “trustor” as appropriate. This also applies to the sharing of costs and the sharing of expenses for paying remuneration to inventors under Section 35 of the Patent Law.

The trust-based management system has the advantages indicated in Table 4. Apart from solving the legal issues that have been pointed

out so far, this system also makes it easy to avoid inefficiency and overcome the problem of rejections under Section 29-2 of the Patent Law in cases where the member companies engaging in similar business activities file similar patent applications redundantly. Furthermore, since only the necessary rights are centralized, it is also easy to achieve a balance between the advantages of centralization and the advantages of decentralization at the stage that the rights are utilized. Under this system, when a business group is organized or split up in relation to a particular business activity, or a company joins or leaves the group, cumbersome procedures can be omitted such as the transfer of intellectual

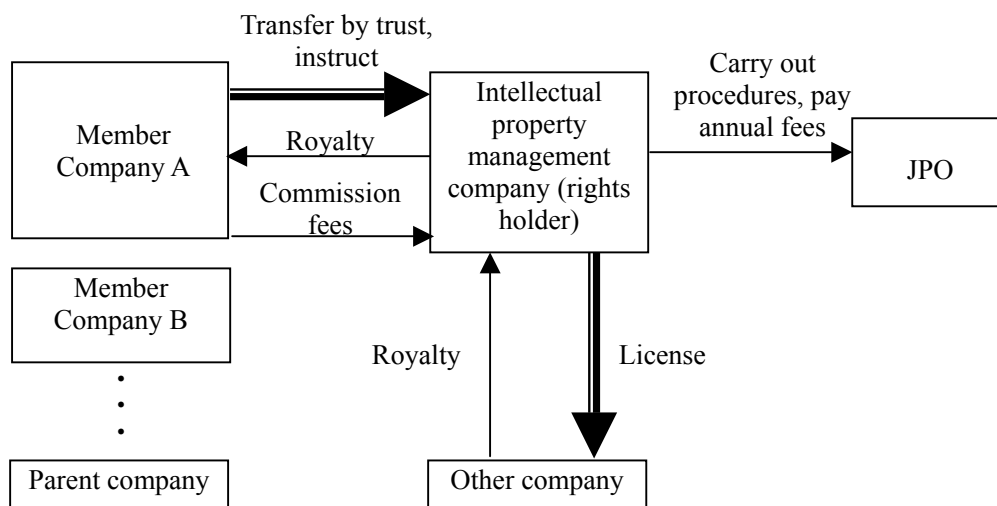


Figure 2 Outline of the trust-based management system

Table 4 Advantages of trust-based management within a business group

Category	Advantages
Management in general	1. Increase management efficiency through centralization of rights and operations (increase efficiency in the intellectual property department) 2. Set conditions on the sharing of operations and costs under a trust contract according to the prevailing circumstances within the business group
Filing applications, obtaining rights	1. Prevent member companies from filing similar patent applications 2. Avoid application rejection under Section 29-2 of the Patent Law 3. Authorize the trustee (parent company or patent management company) to take measures in a centralized manner → Increase operational efficiency and avoid dispersion of human resources and skills specializing in intellectual property
Licensing/dispute settlement	1. Gather necessary patent rights to form a useful patent portfolio → Increase the strength of intellectual property rights against a third party 2. Allow the parent company, etc. to participate in disputes involving the member companies (avoid issues arising under the Lawyers Law) → Utilize human resources and skills specializing in intellectual property effectively
Evaluation of transfer prices	1. No need to evaluate intellectual property at market price
Payment of compensation for inventions	1. Designate the party responsible for paying compensation for inventions under a trust contract (either the trustor or the trustee may be responsible for payment). 2. Provide inventors with beneficiary certificates issued by the beneficiary as consideration for employees' inventions

property rights or the evaluation of transfer prices at the market price. Regarding the issue of payment of remuneration for inventions created by employees, the trustee may be responsible, as the rights holder, for paying compensation for employees' inventions. Also, the beneficiary may issue beneficiary certificates and provide them to inventors as consideration for their inventions.

However, it is not necessary to view that the trust-based management system should be applied to all member companies of a business group. Rather, it is appropriate to understand that the strength of this system is that it can be designed flexibly depending on needs by combining centralized management and decentralized management, e.g. excluding member companies that are capable of managing intellectual property independently from trust-based management so as to enjoy the advantages of decentralized management, while applying trust-based management to small-sized member companies that lack sufficient capabilities to manage intellectual property independently.

(2) Example of the trust-based management system within a business group

Figure 3 shows an example of the trust-based management system. In this model, the business group consists of three operating companies (Company A, Company B, Company C). Company A and Company B engage in the same type of business (Business I) whereas Company C engages in a different type of business (Busi-

ness II). Each operating company concludes an intellectual property trust contract with the intellectual property management company (Contracts A to C), and Company A and Company C transfer in trust all of their intellectual property rights to the intellectual property management company, whereas Company B transfers only a part of its intellectual property rights. Different conditions of trust apply to the operating companies. For instance, Company A includes all of its rights within the scope of objects of trust but generally prohibits the management company from licensing the rights to a third party, with the intention of using the trust exclusively for the purpose of utilizing the management company's skills in filing applications and obtaining rights as well as increasing efficiency in maintaining and managing rights. Company A intends to utilize intellectual property rights for protecting its own technology and business. On the other hand, Company B transfers part of its intellectual property rights for the purpose of earning royalty income from the utilization of such rights. Company B entirely entrusts the management company with the utilization of its intellectual property rights in trust, based on its expectations of the management company's ability to utilize the intellectual property rights. The scope of objects to be transferred in trust from Company C to the management company includes rights to obtain a patent, covering the process from the filing of patent applications to the registration of patents. Company C, like Company A, relies on the management com-

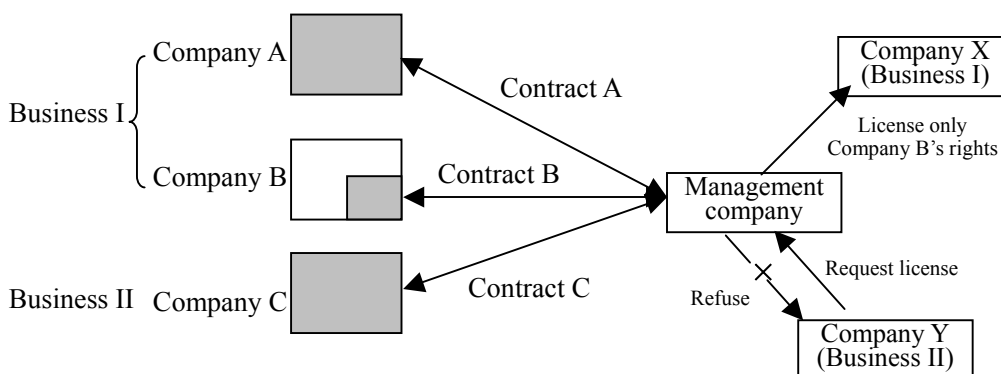


Figure 3 Example of the trust-based management system within a business group

Outline of contracts

Company	Objects of trust	Period	Licensing
Company A	All rights	Overall period	Generally not allowed
Company B	Part of rights	Overall period	Entirely entrusted to the management company
Company C	All rights	Until registration	---

pany's ability to carry out the procedures for filing applications and obtaining rights and seeks to increase operational efficiency through centralization, but at the same time, it intends to retain those rights after they have been registered and implement independent measures for the maintenance and utilization of the rights.

Company A and Company B compete with Company X. The management company licenses to Company X only the intellectual property rights entrusted by Company B, thereby protecting Company A's business while earning royalty income as desired by Company B. The royalty income obtained from Company X is paid to Company B via the management company.

When Company Y, which is in competition with Company C, requests a license for Company C's registered rights, the management company refuses the request because the trust contract with Company C does not cover the area of rights following registration.

The trust-based management system within a business group does not need to be regarded as a fixed system under which the member companies should transfer in trust all of their intellectual property rights to the intellectual property management company so that the management company will carry out the application procedures and manage the rights in a centralized manner. So far, there has been a tendency to place emphasis on enjoying the advantages of centralized management. Rather, it may be more appropriate to broaden the application of the trust-based management system, regarding it as a system that will enable flexible management and utilization of intellectual property rights based on the circumstances at each business group.

4.3 Awareness of the use of the trust system (analysis of the interview results)

This section presents the current status of the awareness of the use of the trust system for intellectual property management within a business group, based on the interview results.

We interviewed a total of nine companies (five manufacturing companies, one consulting service company, one intellectual property licensing company, one securities company, and one administrative corporation). In order to

focus on the theme of this report, intellectual property management within a business group, the discussion here mainly addresses the results of the interviews with the five manufacturing companies, which are selected from the companies that have an affiliated company specializing in intellectual property management (IP subsidiary) and large companies that have gone through the process of a business spin-off.

Table 5 shows the interview results on an anonymous basis (because the disclosure of the company names is not necessary for this discussion).

Regarding the intention of introducing the trust-based management system, Company A was relatively positive about introduction, Company B had an intention to discuss introduction, and the other companies (Companies C to E) were negative about introduction.

Company A, which was discussing the introduction of the trust-based management system, responded that its director in charge had instructed the employees concerned to positively look into the possibility of introduction. This company has not yet gone through the entire process of a spin-off, but it intends to establish a subsidiary specializing in intellectual property management and concentrate intellectual property operations at the subsidiary, thereby taking proactive steps to benefit from the advantages of a spin-off. However, the company has not yet determined whether to introduce the trust-based management system immediately; it seems to be in the process of identifying practical problems that may arise from introduction and discussing solutions to such problems.

Company B has also just begun discussing the introduction of a trust-based management system, and not yet clearly recognized concerns of the system and benefits of introduction.

The other three companies (Companies C to E) were negative about the introduction of a trust-based management system, and as reasons for their negative stance to introduction, they pointed out the following: they have already completed business spin-offs without using the trust system; they find no problem with the existing management method that does not use the trust system; and they cannot clearly see the problems and benefits of the introduction of a trust system.

Table 5 Interview results

Company name	Industry	Awareness of the use of trusts	Possibility to introduce trusts	IP subsidiary	IP management within the business group
A	Manufacturing	<ul style="list-style-type: none"> - Has not yet fully understood the trust system but discovered the following advantages. 1. The use of a trust will facilitate centralized management of patents held by the member companies. 2. Issues relating to the preparation of patent specifications will be solved. 	The director in charge gave instructions for positive discussion toward introduction. Problems to be discussed still remain.	Established	<ul style="list-style-type: none"> - Member companies that have IP departments independently manage IP rights. - The IP subsidiary deals with IP rights held by the parent company and by some affiliated companies without IP departments.
B	Manufacturing	<ul style="list-style-type: none"> - Has not yet fully understood the trust system. - The use of trusts will solve issues arising under the Lawyers Law. - What should be the objects of trust is a question. 	Introduction has already been proposed to the top management. Discussion is scheduled (concrete discussion to be undetermined).	Established	<ul style="list-style-type: none"> - Each member company has an IP department. - Each member company shoulders IP management costs. - Licensing business is conducted for the group as a whole. - Under the agreement upon spin-off, patents are jointly held by the parent company and each member company.
C	Manufacturing	<ul style="list-style-type: none"> - Interested in knowing more about the trends in the use of trusts among large companies. - The purpose of a business spin-off is to increase operational efficiency and improve cost consciousness. 	Negative	Established	<ul style="list-style-type: none"> - Member companies that have IP departments independently manage IP rights. - Most patent applications are filed by the parent company.
D	Manufacturing	<ul style="list-style-type: none"> - It is not realistic to change the already reorganized corporate structure for the purpose of introducing trusts, and therefore it will difficult to use trusts. - It may be a good idea to entrust intellectual property relating to businesses that have been withdrawn from. 	Introduction was discussed in the past but currently there is no plan to use trusts.	Not established	<ul style="list-style-type: none"> - Member companies are generally independent. - While large member companies have IP departments, small companies and companies that have just been spun off retain connection with the IP department of the parent company.
E	Manufacturing	<ul style="list-style-type: none"> - Find no problem with the existing system. - Discussion will make progress if advantages of the use of trusts are revealed. 	The possibility to use trusts was not taken into consideration at the time of spin-off.	Established	<ul style="list-style-type: none"> - IP management is centralized at the IP department of the parent company. - Patents belong to the member companies that have created inventions. Applications are filed in the name of the member companies that have created the inventions. - As operating entities, the member companies are responsible for utilizing rights, and the IP department of the parent company supports them.
F	Corporation	<ul style="list-style-type: none"> - In light of the difference in size between SMEs and large companies, the question of how to protect and utilize IP rights held by SMEs is a major issue, and one possible solution is an IP trust. - If the trustee company manages and utilizes IP rights held by SMEs as its own rights, SMEs will be able to enjoy benefits as if they were affiliated to a large company. 			

Also taking into consideration information collected from other companies participating in the subcommittee, we can find that the overwhelming majority of the companies take the same stance as the latter group (a negative stance).

Regarding specific points where the companies find questions or problems, responses can be roughly divided into those relating to the trust-based management system itself and those relating to compensation for inventions and licensing. More specifically, questions on the trust system relate to: (1) how to deal with cross licensing or licensing that also covers know-how; (2) how to specify the scope of objects of trust; (3) whether trade secrets and know-how are acceptable as trust property; and (4) how to deal with joint applications. Questions on compensation for inventions and licensing relate to: (5) whether performance-based compensation for the rights entrusted by the rights holder may be paid to a party other than the rights holder; (6) how to deal with differences in performance-based compensation that may arise from the existence of a trust; and (7) whether or not it is necessary to change the business category when using the trust system.

Thus, the companies still have many questions and concerns about the use of the trust system for intellectual property management from the practical viewpoint.

In private companies, employees who deal with intellectual property operations are responsible for considering whether or not to use trusts for intellectual property management within business groups. In reality, they do not have sufficient understanding of the trust system, which pertains to the financial sector, and they have not had enough time to discuss this issue at such an early stage after the legal revision. Considering these circumstances, the interview results mentioned above should be considered to be unavoidable at the present time.

The results of the interviews with corporations affiliated to local public entities, which are engaged in supporting small- and medium-sized enterprises (SMEs), are also indicated in Table 5 for reference purposes, although the situation is somewhat different from intellectual property management within a business group. As a measure to achieve effective use of intellectual property rights, SMEs are very interested in cen-

tralizing their rights at the trustee company through transfer in trust so that they will be able to enjoy various advantages as if they were affiliated to a large company. At the same time, the trustee companies seek to use trusts, with the expectation for the availability of centralized rights.

4.4 Measures to be taken by intellectual property departments of companies

For the purpose of quickly responding to the drastically changing market environment and clarifying the responsibility for business activities, most large companies have already started business management by forming business groups through spin-offs, and also decided to choose the centralized system or the decentralized system for intellectual property management. Since both systems have advantages and disadvantages, the desire to make up for the disadvantages is expected to motivate them to use the trust system. However, the interview survey has revealed that due to many questions and concerns from the practical viewpoint, few companies have a strong motivation to introduce the trust system by going so far as to get rid of the existing management system. This means that if these questions and concerns are cleared, the use of the trust system will be promoted. In particular, companies that are planning to carry out spin-offs or reorganization of their groups may be less hesitant to use the trust system than companies that have already experienced implementing spin-offs, and such companies are likely to consider the introduction of the trust system proactively.

Intellectual property management within a business group should necessarily be implemented in an optimal form in accordance with the group's management policy and organizational structure. Therefore, it is not appropriate to conclude that all companies should employ the trust-based management system, and it is not necessary to introduce this system to all business groups. However, since the trust-based management system can be an effective means to achieve balance between the advantages and disadvantages of both the centralized system and the decentralized system, it may be realistic to introduce the trust system flexibly where appropriate, e.g. applying the trust-based management

system only with respect to intellectual property rights pertaining to the same technical field or similar business areas.

Although the current revision of the Trust Business Law has put the necessary legal framework in place, it is still necessary to identify and respond to legal and practical problems so as to realize the introduction of the trust system for intellectual property management within business groups. For instance, the Japan Intellectual Property Association, in its report to the Secretariat of Intellectual Property Strategy Headquarters as of March 31, 2004, entitled "Review of the Intellectual Property Strategic Program," pointed out the following tasks to be achieved:

- (1) Allow the trustor (each member company of the business group) to claim damages;
- (2) Relax the duty of loyalty imposed on the trustee when it utilizes trust property in the course of conducting business;
- (3) Reduce fees for trust registration and further simplify the registration procedure (single procedure).

Though it may take a long time, pioneer companies will explore the possibility of combining seemingly incompatible concepts, i.e. a centralized system for concentrating intellectual property rights as managerial resources and intellectual property organs in order to enjoy the various advantages of increased efficiency, and a decentralized system for enjoying the advantages of spin-offs while maintaining the independence of each member company to some degree, and while doing so, they will identify various practical problems and find solutions. Therefore, while individual companies should determine whether or not to become such pioneers, the intellectual property department of companies should take charge of identifying problems in intellectual property management within their business groups and considering whether or not the introduction of the trust-based management system will contribute to solving such problems.

5. Use of Trust for Purposes Other Than Intellectual Property Management within Business Groups

Needless to say, the trust system is not only available for intellectual property manage-

ment within business groups but is also designed to utilize intellectual property rights for profit, and this has already been generally discussed in relevant literature. However, the details of discussion from the practical viewpoint have not been fully disclosed yet.

This chapter, based on the interview results, briefly discusses the possible use of the trust system for purposes other than intellectual property management within business groups.

5.1 Licensing of intellectual property rights

As already reported by the media, the government of Ota Ward, Tokyo, has launched a project to establish a support model, based on a partnership with a large trust bank, with the aim of helping many SMEs in the ward utilize the trust system. More specifically, SMEs in Ota Ward entrust their patents to the trust bank, and the trust bank, through cooperation with the partner law firm, licenses patents to third parties and returns royalties as beneficial interests in trust to the SMEs (patent holders). Although SMEs have advanced technologies, they are often unable to utilize their patented technology sufficiently due to their limited production capacity as well as limited trading area or range of customers. In light of such circumstances, the trust system is introduced to promote technology transfer to other industries and to enhance production by other companies with a larger production capacity. The use of the trust system is also helpful for SMEs in strengthening their power to deal with large companies that may seek to obtain license for their patents.

Based on media reports, the Financial Services Agency has granted the first approval for business to the trust bank, and this will accelerate the use of the trust system among SMEs.

5.2 Financing through securitization of intellectual property rights

Securitization has already been frequently employed for real estate. Currently, securities companies are considering applying this scheme to patent rights as a potential means of financing, or more specifically, establishing trusts for patent rights pertaining to technical fields where market growth is expected, and securitizing entrusted patent rights in order to raise funds from

small investors. In particular, this scheme is regarded as an effective financing means for SMEs that have useful patent rights but do not have sufficient business funds, and is also regarded as effective in protecting SMEs from bankruptcy risk.

However, problems still remain in regard to securitization such as how to evaluate patent rights and how to respond to the risk of invalidation of patent rights. In reality, securitization is only being implemented for copyrights in certain cases, and it is extremely difficult to apply it to patent rights.

5.3 Provide business support and increase business value through acquisition of intellectual property rights

One company that we interviewed conceives a business model in which the company provides financial and other necessary support for its affiliated SMEs with technical capabilities, throughout the process from discovering new technologies that the SMEs have developed to filing applications and obtaining, maintaining and managing patent rights. In this model, the rights to obtain a patent are also covered by trust. As a specific means to make profits, the company increases the value of business conducted by the SMEs by utilizing the power of monopoly based on the entrusted patent rights and earns royalty income by licensing the rights as necessary, with the aim to gain consideration for its support for the SMEs. It may take some more time to establish such a business model for comprehensive intellectual property consulting services, but this approach will provide SMEs with an effective opportunity to strengthen their capabilities in terms of intellectual property operations, and developments in this area may be worthy of attention.

6. Conclusion

We have attempted to attack the difficult subject of the trust system, which the intellectual property field is presently relatively unfamiliar

with, from various perspectives. The key to success of intellectual property trusts within a business group may be, from the viewpoint of member companies, that the trustee company is capable and skilled enough to assume intellectual property management, and what is more important is that the trustee company is also sufficiently trustworthy. We would like to express our deepest gratitude to the companies that kindly accepted our requests for interviews and provided us with very useful information including matters still at the stages of internal discussion and the exchange of frank opinions.

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Notes:

- 1) For detailed information, please refer to the article written by the JIPA Intellectual Property Trust Project Team "Shintaku katsuyō ni yoru chiteki-zaisankanri jitsugen ni mukete" (Toward realization of intellectual property management with the use of trust), *Chizaikanri*, Vol. 54, No. 3 (2004)
- 2) Financial Services Agency website, Dai 159 kai Kokkai ni okeru Kinyūchō kanren hōritsu (FSA-related laws at the 159th session of the Diet) (<http://www.fsa.go.jp/houan/159/hou159.html>)
- 3) Financial Services Agency website, Shintakugyōhō no gaiyō (Outline of the Trust Business Law) (<http://www.fsa.go.jp/policy/shintaku/>)
- 4) Trust Companies Association of Japan website, Jutakusha (shintaku kenei kinyūkikan to shintaku kaisha tō gaiyo) (Trustees (outline of financial institutions conducting trust business and trust companies)) (<http://www.shintakukyokai.or.jp/html/shintaku/a01shintaku/a1a4-2.html>)

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