

Intellectual Property Transactions: Japan Overview

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IP ASSIGNMENT

Assignment Basis and Formalities

1. On what basis can the main IPRs be assigned? What formalities apply?

Patents

Basis for patent assignment. Patent rights, including the right to obtain a patent (future right), can be assigned in whole or in part. Patent assignments are governed by the Patent Act (Act No. 121 of 1959) and the Civil Code.

Formalities for patent assignment. To be effective, an assignment of patent rights, utility model rights, trade mark rights, or design rights must be registered with the Japan Patent Office (JPO). A written application for registration of the assignment must be filed (in principle, jointly by the assignor and assignee) with the JPO. An assignment will not come into effect without registration. The application for registration must be substantiated by submitting relevant documents evidencing that the parties have agreed to the assignment. As such, an assignment agreement must be executed in writing. The assignee can apply for registration solely if they submit to the JPO a written assignment agreement.

The law does not specify a time limit to apply for registration of an assignment.

If a right is jointly owned, a joint owner cannot assign or pledge the right without the consent of all the other joint owners.

Utility Models

Basis for utility model assignment. Utility model rights, including the right to obtain a utility model (future right), can be assigned in whole or in part. Utility model assignments are governed by the Utility Model Act (Act No. 123 of 13 April 1959) and the Civil Code.

Formalities for utility model assignment. See above, *Patents*.

Trade Marks

Basis for trade mark assignment. Trade mark rights, including the rights deriving from an application for trade mark registration, can be assigned in whole or in part, for some or all of the goods or services for which the trade mark is registered.

Trade mark rights can be assigned separately from goodwill.

Formalities for trade mark assignment. For registration formalities, see above, *Patents*.

Copyright

Basis for copyright assignment. Copyright can be assigned in whole or in part, that is, any bundle of rights, such as the right of reproduction, exhibition, distribution, translation, and so on, can be assigned. Copyright assignments are governed by the Copyright Act (Act No. 48 of 6 May 1970) and the Civil Code.

An author's moral rights are exclusive to the author and cannot be assigned or transferred. While there is a debate over the validity of waivers of moral rights, covenants not to exercise moral rights are common in practice and are generally considered valid. An assignee should have the assignor agree to not exercise those rights against the assignee or its successors.

Formalities for copyright assignment. No formalities are required to assign copyright.

However, to be enforceable against third parties, the assignment must be registered with the Agency for Cultural Affairs (or the Software Information Center (SOFTIC) for computer programs). The application for registration must be substantiated by submitting relevant documents evidencing that the parties have agreed to the assignment.

Design Rights

Basis for design rights assignment. Design rights, including the right to obtain a design registration (future right), can be assigned in whole or in part. Design right assignments are governed by the Design Act (Act No. 125 of 13 April 1959) and the Civil Code.

Formalities for design rights assignment. For registration formalities, see above, *Patents*.

Trade Secrets and Confidential Information

Basis for assignment. There is no concept of assigning actual trade secrets or confidential information. However, trade secrets and confidential information can be disclosed (in whole or in part) by agreement. It is also possible to agree to disclose information obtained in the future. In most cases, such an agreement will be governed by the Civil Code.

Formalities for assignment. It is recommended to execute a written agreement with appropriate provisions (for example, trade secrets/confidential information to be disclosed, authorised scope/purpose of use, and so on).

Domain Names

There are no specific statutory laws or regulations on assignments of domain names.

Domain names can be assigned by agreement between the parties. It is recommended, but not mandatory, to have an assignment agreement in writing.

Main Terms for Assignments

2. What main terms should be included in an assignment of IPRs?

Patents, Utility Models, Trade Marks, and Design Rights

An assignment of patent, utility model, trade mark, or design rights should include:

- The terms of the assignment.

- Co-operation provisions relating to assignment registration procedures.
- Consideration for the assignment.

Representations and warranties, confidentiality, and governing law and jurisdiction provisions are not essential, but are highly recommended.

Copyright

The right of adaptation and the right of the original author relating to the exploitation of derivative works are presumed to be reserved to the assignor, unless otherwise specifically referred to in the assignment agreement. Since an author's moral rights are exclusive to the author and cannot be assigned or transferred, the assignee should have the assignor agree not to exercise those rights against the assignee or its successors.

Trade secrets and confidential information

See *Question 1, Trade Secrets and Confidential Information*.

IP LICENSING

Scope and Formalities for IP Licensing

3. On what basis can the main IPRs be licensed? What formalities apply?

Patents

Scope of a patent licence. Patents, utility models, trade marks, and design rights can be licensed (in whole or in part) on an exclusive basis (the exclusive right to exercise the rights for commercial purposes (*senyo-jisshi-ken*)) and non-exclusive basis (*tsujyo-jisshi-ken*).

The scope (including duration) of a licence is determined by the contract between the right holder and the licensee. IP rights under Japanese law are only effective in Japan.

An exclusive licence (*senyo-jisshi-ken*) under Japanese law has a unique meaning compared to exclusive licences under foreign IP laws. In Japan, once an exclusive licence is granted by agreement and is registered, the right owner (licensor) can no longer use the licensed right or license the right to another person, unless otherwise agreed between the licensor and the licensee.

A provisional non-exclusive licence can be granted to a person who, without knowledge of an invention claimed in a patent application, has been using the invention prior to the filing of the application. For patents, utility model rights, and design rights, there is also a ruling system for the granting of compulsory licences by the Commissioner of the JPO in cases where it is inevitable that a licensee will infringe the licensor's right in the course of using its own licensed right, and where no agreement can be reached with the licensor.

Formalities for a patent licence. There are no formalities to license patents, utility model rights, trade marks, and design rights. However, it is highly recommended that an agreement be entered into in writing.

Registration with the JPO is required for an exclusive licence (*senyo-jisshi-ken* or *kari-senyo-jisshi-ken*, which is a provisional exclusive licence for pending patent rights) to be enforceable against third parties.

Registration was previously required for non-exclusive licences (*tsujyo-jisshi-ken* or *kari-tsujyo-jisshi-ken*, which is a provisional non-exclusive licence for pending patent rights) to be enforceable against third parties. However, the registration system for non-exclusive licences was abolished in April 2012 (the Trade Mark Act (Act No. 127 of 13 April 1959) has not been amended so that registration remains necessary for trade mark non-exclusive licences).

Therefore, non-exclusive licences of patents, utility model rights, and design rights no longer need to be registered, and licensees can assert their rights against third parties without registration.

Utility Models

See above, *Patents*.

Trade Marks

See above, *Patents*.

Trade mark rights can be licensed separately from goodwill.

Non-exclusive licences (*tsujyo-shiyo-ken*) must be registered with the JPO to be enforceable against third parties (subsequent trade mark assignee, exclusive licensee, bankruptcy trustee, and so on), except for general successors through inheritance or merger. The law does not specify a time limit to apply for registration.

Copyright

Scope of a copyright licence. A copyright holder can grant exclusive, sole, and non-exclusive licences. The scope (including territorial restrictions, duration, and so on) of a licence is determined by the contract between the right holder and the licensee.

Since copyright is a bundle of rights (including the right of reproduction, exhibition, distribution, translation, and so on), copyright can be partially licensed.

When the identity a copyright holder is unknown, a compulsory licence can be granted by the Commissioner of the Agency for Cultural Affairs on deposit of the ordinary amount of royalty for the copyright.

A broadcaster can also seek a compulsory licence from the Commissioner of the Agency for Cultural Affairs if it intends to broadcast a copyrighted work but fails to reach an agreement with the copyright holder. There is a similar ruling system for the commercial use of copyrighted recordings.

Since an author's moral rights are exclusive to the author and cannot be licensed, the licensee should have the right holder agree not to exercise those rights against the licensee or its successors.

Formalities for a copyright licence. There are no formalities for a copyright licence. However, it is highly recommended that an agreement be entered into in writing.

Copyright licences do not need to be registered. Under the amended Copyright Act (Act No. 48 of 6 May 1970), which came into force on 1 October 2020, licensees can assert their rights against third parties without registration.

Design Rights

See above, *Patents*.

Trade Secrets and Confidential Information

Scope of a licence. Trade secrets and confidential information can be licensed in whole or in part, on an exclusive, non-exclusive, or sole basis, with or without jurisdictional restrictions.

Formalities for a licence. There are no formalities to license trade secrets and confidential information. However, to ensure that information remains confidential, it is recommended that a confidentiality agreement be in writing.

Main Terms for Licences

4. What main terms should be included in an IP licence?

The main terms that should be included in an IP licence are:

- The scope of the licence, including:
 - identification of the rights licensed;

- exclusivity;
- duration;
- territory; and
- terms of exploitation.
- Payment terms.
- Audit.
- Warranties and indemnities.
- Proceedings for infringement.
- Assignability.
- Term of agreement.
- Termination.
- Governing law and jurisdiction.

Since an author's moral rights are exclusive to the author and cannot be licensed, the licensee should have the copyright holder agree not to exercise those rights against the licensee or its successors.

To ensure that confidential information remains confidential, it is advisable for a confidentiality term to be included.

RESEARCH AND DEVELOPMENT COLLABORATIONS

Improvements and Derivatives

5. How should research and development collaborations address improvements and derivatives?

Before the start of a research and development collaboration, the parties should agree on the ownership of, and other terms for handling, improvements/derivatives solely or jointly created by the parties in the course of their collaboration (for example, ownership of IPRs arising from improvements/derivatives, filing of applications, notification of the creation of improvements/derivatives, licensing of improvements/derivatives to the other party and/or third parties, royalties, and so on).

The definition and scope of improvements/derivatives should also be agreed. In particular, the parties should agree on the handling of inventions created by either party without using technology/information provided by the other party (during the term of the research and development collaboration) (that is, whether these inventions are excluded from the scope of the improvements/derivatives provisions).

There are no specific restrictions on the parties creating improvements/derivatives under the law. However, the right of the original author to exploit derivative work based on their copyrighted work are presumed to be reserved to the assignor, unless otherwise specifically referred to in the assignment agreement.

Assign-back and grant-back provisions are relatively common licensing arrangements under which the patent holder require a licensee to assign/grant back certain rights to improvements or derivatives. These are generally unlikely to be anti-competitive unless particularly burdensome. However, depending on the circumstances of the transaction, they may be contrary to the Anti-Monopoly Act (Act No. 54 of 14 April 1947) if they reduce the parties' ability to innovate and develop new technologies.

Joint Ownership of IP

6. How does joint ownership of IP arise?

Joint ownership of IPRs can arise either:

- Through strategic alliances (such as joint development/venture agreements, commercialisation partnership agreements, and co-marketing agreements), and co-operative arrangements to create or develop IP (such as artistic collaborations).
- When two or more parties are involved in the actual creative process, regardless of the form of the agreement/arrangement.

The author of a cinematographic work is a person that makes a creative contribution to the overall shaping of the work through responsibility for its production, direction, staging, filming, art direction, and so on, other than the author of a novel, scenario, music, or other work that is adapted into or reproduced in the cinematographic work.

7. What key issues arise in terms of the parties' rights to exploit and enforce jointly owned IP? How should these issues be dealt with in the agreement between the parties?

Exploiting and Enforcing Jointly Owned IP

For patents, utility model rights, trade marks, and design rights, a joint owner cannot assign, pledge, or license the rights without the consent of all the other joint owners. However, each of the joint owners can use/exploit the IPRs themselves without the consent of the other joint owners, unless otherwise agreed.

A joint copyright owner cannot assign, pledge, or exercise the copyright without the consent of all the other joint owners. A joint owner cannot refuse to grant consent without justifiable grounds. The moral rights of co-authors of a joint work cannot be exercised without the unanimous agreement of all the co-authors. However, a co-author must not, in bad faith, prevent an agreement from being reached.

A joint owner can independently seek an injunction and/or damages for infringement of an IPR without the consent of the other joint owners.

Joint Ownership Provisions in Collaboration Agreements

The following IP-related provisions, among others, should be included in joint venture agreements:

- Scope and duration of the joint venture.
- Licence to the joint venture of the existing IPRs necessary for the project and related warranties.
- Terms of ownership of the IPRs developed by the joint venture and related registration and maintenance duties.
- Allocation of the IPRs licensing and other exploitation rights, and enforcement rights.
- Terms of revenue sharing.
- Termination and post-termination provisions.

IP AUDIT

8. What are the main steps in conducting an IP audit in your jurisdiction to determine the content of an IP portfolio?

Patents

For patents, utility model rights, trade marks, and design rights, the main step in an IP audit to determine the content of an IP portfolio is to conduct a search using the JPO's online database.

A right can still be held invalid after registration if a person files an invalidation action with the JPO.

Utility Models

See above, *Patents*. Unlike other IPRs, utility model rights are registered without the JPO examining their validity, so utility model rights are often held invalid when challenged.

Trade Marks

See above, *Patents*.

Copyright

Since the details of copyright cannot be searched through public sources, inquiries should be made with the author or copyright owner.

Design Rights

See above, *Patents*.

Trade Secrets and Confidential Information

Since trade secrets and confidential information cannot be publicly disclosed, details must be obtained from the holders of the trade secrets and confidential information.

IP ASPECTS OF M&A

IP Due Diligence

9. What IP-related due diligence is commonly carried out in both a share sale and an asset sale?

Share Sale or Merger

In both share sales and asset sales, the steps commonly taken during IP-related due diligence are as follows:

- Identifying all the IPRs either used or owned by the target that are necessary to conduct its business.
- Gathering further information, such as:
 - for each IPR, the details regarding the territory covered, ownership, registration number, registration date and expiry/renewal date, and ensuring the payment of periodical fees (maintenance or renewal);
 - details of proceedings or claims, actual or threatened, affecting the IPRs owned or used by the target;
 - details of all assignments, licences or other authorisations, research and development agreements, and collaboration agreements, including the main clauses of these agreements, such as exclusivity, warranties, scope, and term; and
 - details of security interests relating to the IPRs owned or used by the target.

Asset Sale

See above, *Share Sale or Merger*.

Warranties/Indemnities

10. What IP-related warranties are commonly given by the seller to the buyer in both a share sale or merger and an asset sale?

Share Sale or Merger

In both share sales and asset sales, the following warranties are typically given by the seller (among other warranties):

- The seller owns the IPRs.
- There are no proceedings, claims or other disputes involving the seller in relation to the IPRs.

- There are no infringements of the IPRs by third parties and no infringement by the seller of any third-party IPRs.

Asset Sale

See above, *Share Sale or Merger*.

Transfer of IPRs

11. How are the main IPRs transferred in both a share sale and an asset sale?

Share Sale or Merger

A share sale does not affect the ownership of the IPRs held by the target company. In a company split (demerger) (*kaisha bunkatsu*), the IPRs are automatically transferred to the successor. However, change of control clauses in existing licence or other agreements involving the relevant IPRs may require the written consent of the other party to the agreement before the share sale or merger.

Asset Sale

As an asset sale affects the ownership of IPRs, the buyer must ensure that:

- No assignment clause in existing agreements with the target can prevent the transfer of the IPRs.
- The asset purchase agreement includes a complete and accurate list of the IPRs to be transferred.

In addition, the assignment of IPRs must be registered to be enforceable against third parties (see *Question 7*).

LENDING AND SECURITY INTERESTS

12. Can security be taken over IPRs?

Pledges can be taken over each type of IPR. Assignments by way of security (*joto-tampo*) are also commonly taken over each type of IPR.

The most difficult aspect of taking security over IPRs is the valuation of secured IPR assets. IPRs can be invalidated for failure to pay registration or maintenance fees or following the filing of an invalidation action by a third party, and the economic value of an IPR often decreases due to low market demand.

When enforcing security, a limited resale market can pose a problem, as many IPRs are only created for internal use (the resale market issue is also related to the problem of asset valuation).

13. What are the main security interests taken over IPRs and how are they created and perfected?

Patents

For patents, utility model rights, trade marks, and design rights, security interests take effect through registration with the JPO. The application for registration must be substantiated by submitting relevant documents evidencing that the parties have agreed to create a security interest. Therefore, a security agreement should be executed in writing.

In principle, the right holder and security interest holder must jointly apply for registration. However, the security interest holder can apply for registration solely if they submit to the JPO a written security agreement.

Utility Models

See above, *Patents*.

Trade Marks

See above, *Patents*.

Copyright

No formalities are required to take security interests over copyright. However, registration with the Agency for Cultural Affairs (or SOFTIC for computer programs) is necessary to enforce a security interest over copyright against a third party.

Design Rights

See above, *Patents*.

Trade Secrets and Confidential Information

No security interests can be taken over trade secrets or confidential information.

SETTLEMENT AGREEMENTS

14. What are the main considerations when entering an IP litigation settlement agreement?

The following provisions, among others, are commonly included in IP litigation settlement agreements:

- Confirmation of fact (for example, infringement or non-infringement).
- Cessation of the infringing activity.
- Disposal of goods/stock infringing IP rights.
- Waiver of IP rights/no-challenge clause.
- Settlement awards.
- Terms and conditions of IP licensing (if agreed).
- Allocation of court costs and other expenses.
- Confidentiality of the settlement (if agreed).

Certain provisions may give rise to concerns under the Anti-Monopoly Act, depending on the specific circumstances (see *Question 17*).

In litigation, the court can suggest the parties to settle their dispute, although all parties must agree to conduct settlement negotiations. The parties can agree to keep the settlement agreement terms confidential.

EMPLOYEES AND CONSULTANT AGREEMENTS

Employees

15. Who owns each of the main IPRs created by an employee in the course of employment?

Ownership

For patents, utility model rights, and design rights, the ownership of IPRs created by an employee in the course of employment used to be held by the employee without exception, and the employer only had a non-exclusive licence. However, the Patent Act, Utility Model Act, and Design Act (amended in May 2015) have made it possible for employers to reserve, from the outset, the right to own IPRs in employee inventions if this is provided in employment contracts, work rules, or any other policies.

Copyright in a work created by an employee in the course of employment vests in the employer unless otherwise stipulated by contract, work rules, or similar instruments.

Compensation

When ownership of IPRs is vested in the employer or is assigned by an employee to the employer, the employer must provide reasonable consideration for the assignment. Compensation can be payable in cash or other economic benefits. An employer can stipulate in advance how to determine the amount of the consideration in the employment contract, work rules, or through other appropriate procedures. If the consideration provided is unreasonable or the method for determining the consideration is not stipulated in advance, a court can decide the amount of the consideration by taking into account the profit earned by the employer, along with any other circumstances relating to the IPRs. The Minister of Economy, Trade and Industry has formulated and issued guidelines that provide the standards for appropriate valuation procedures.

Main Steps

An employer can stipulate in advance that it owns or is assigned the right to obtain IPRs in employment contracts, work rules, or similar instruments. Many companies include these types of provisions in their work rules.

Consultants

16. Who owns each of the main IPRs created by an external consultant?

Ownership

IPRs created by an external consultant are in principle owned by the consultant.

Main Steps

It is preferable to negotiate an assignment of IPRs created by an external consultant before they are created.

KEY ISSUES IN IP TRANSACTIONS

Competition Law

17. What are the most common national competition law issues that arise in the exploitation of the main IPRs?

The exploitation of IPRs can be affected by the Anti-Monopoly Act, which prohibits:

- Private monopolisation.
- Unreasonable restraint of trade.
- Unfair trade practices.

The following, among other things, are at risk of being considered prohibited acts:

- Patent pools.
- Multiple licensing.
- Cross-licensing.
- Bundle licensing.
- Resale price fixing.
- Prohibition of competing products after licence termination.
- Unilateral termination.
- Non-assertion covenants.
- Refusing to license or bringing an action for injunction against a party who is willing to take a FRAND (fair, reasonable and non-discriminatory) licence by a standard essential patent (SEP) holder.

(Guidelines for the Use of Intellectual Property under the Anti-Monopoly Act, issued by the Japan Fair Trade Commission.)

It is highly advisable to consult an attorney specialising in IPRs or competition law at the time of making an IP-related agreement to manage the legal risks.

18. What exclusions or exemptions are available for national competition law issues involving the exploitation of the main IPRs?

Lawful parallel importation is considered to be promoting price competition. Accordingly, obstruction to lawful parallel imports can be an issue under the Anti-Monopoly Act if it is conducted to maintain the price level of a product covered by contract.

The Anti-Monopoly Act does not apply to acts taken for the exercise of rights under the Copyright Act, Patent Act, Utility Model Act, Design Act, and Trade Mark Act (*Article 21, Anti-Monopoly Act*). This means that the Anti-Monopoly Act still applies to restrictions to the use of technology that are essentially not considered as the exercise of rights. The Guidelines for the Use of Intellectual Property under the Anti-Monopoly Act issued by the Japan Fair Trade Commission set out certain examples of restrictions on the exploitation of IPRs that are prohibited under the Anti-Monopoly Act (see *Question 17*).

Tax

19. What are the main taxes payable by a licensor on the licensing of the main IPRs?

Income Tax

Royalties paid for the use of IPRs in Japan are subject to the Income Tax Act (Act No. 33 of 31 March 1965).

A licensee must withhold income tax at the rate of 20% on any royalty payments, unless a reduced rate or exemption is available under tax treaties.

Consumption Tax

Royalties paid for the use of IPRs registered in Japan (for copyright, royalties paid to a licensor whose residence is in Japan) are subject to the Consumption Tax Act (Act No. 108 of 30 December 1988). Licensors must pay consumption tax at the rate of 10% on royalty payments.

20. What are the main taxes payable by a seller on the sale or transfer of the main IPRs?

Consideration received for the sale or transfer of IPRs in Japan is subject to the same tax treatment as royalties (see *Question 19*).

Non-Tariff Trade Barriers

21. Are there any non-tariff trade barriers affecting IP development and licensing transactions?

There are no specific non-tariff trade barriers affecting IP development and licensing transactions. In its 2021 National Trade Estimate Report on Foreign Trade Barriers, the United States Trade Representative (USTR) pointed out that, while Japan generally bans the importation of infringing goods, Japan's Trademark Act does not prohibit the importation of counterfeit goods by individuals for personal use. The USTR urged Japan to revise the Trademark Act to:

- Limit the quantity of items and number of times an individual can apply for the personal use exemption.
- Disallow the exemption for items received by mail.

In this regard, the Trademark Act of Japan has been amended to abolish the private import exemption. This amendment will come into force within 18 months after 21 May 2021 (that is, the date of promulgation).

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