

ELLALAN *presents*

Licensing Your Works in Commercial Environment

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*Exclusively for HKBU Intellectual Property Forum 2023
Art-Tech and Intellectual Property Rights*



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About Charles To

Partner

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- Partner and Head of Corporate Commercial & TMT Practice, ELLALAN
- Recognized as a legal leader by LexisNexis® 40 UNDER 40
- Former Senior Legal Counsel for Tencent's Technology Transactions Group
- Former Lead Counsel for Tencent's International Business Group
- Former Fox Networks' APAC Senior Legal Counsel
- B.Sc. (Electrical Engineering; Management Science)
- Executive MBA, Kellogg-HKUST
- Founding Board Member of Hong Kong PropTech Association
- Committee Member of the Employment Law Committee of the Law Society of Hong Kong
- Deputy Leader of the Intellectual Property Vetting Group of the Law Society of Hong Kong
- Former Committee Member of the InnoTech Committee and Technology Committee of the Law Society of Hong Kong
- Secretary of Lawasia's Banking & Finance Committee
- Chairman of Thetos Foundation Hong Kong
- Civil Celebrant of Marriages





ELLALAN

健伦(北京)知识产权代理有限公司

ELLALAN (Beijing) IP Limited

ELLALAN

广东健伦君律师事务所

ELLALAN (Guangdong) Law Office

ELLALAN

張淑姬趙之威律師行

ELLALAN

(Previously known as Ella Cheong & Alan Chiu, Solicitors & Notaries)

Our Awards



WTR1000 – Firms (2021)

- Trademark enforcement and litigation
- Trademark prosecution and strategy

WTR 1000 – Firms: enforcement and litigation (Silver Tier) (2020)

ASIAN LEGAL BUSINESS

Asian Legal Business – ALB Asia IP Rankings 2021, 2022

- Practice for Copyright/Trademarks (Hong Kong) (Tier 1)
- Practice for Patents (Hong Kong) (Tier 2)



Managing IP

- 2023 Managing IP Asia Pacific Awards - Firm of the Year (HONG KONG SAR - IP Disputes & Advisory) - shortlisted



The Legal 500 – Asia Pacific guide (2023 edition) – Intellectual Property – recommended firms



Asialaw Profiles and Leading Lawyers 2022 Edition – Intellectual Property

- Senior Statesman – Ella Cheong
- Distinguished Practitioner – Alan Chiu
- Distinguished Practitioner – Rosita Li
- Rising Star – James Choi



Asia IP – 2022 Asia IP Award – Hong Kong Trademark Firm of the Year



2022 Corporate INTL Global Award – Intellectual Property Law Expert of the Year in Hong Kong



Asialaw Regional Awards 2021

- Technology and Telecommunications - Other Notable Firm - Hong Kong
- Intellectual Property - Highly Recommended - Hong Kong - Firm
- Consumer Goods and Services - Other Notable Firm - Hong Kong

ASIAN LEGAL BUSINESS

Asian Legal Business – 2022

- Asia's fastest growing law firms
- Asia's Top 15 IP Lawyers - Alan Chiu



China Business Law Award 2022

- IP (Copyright) – International Firm
- IP (Trademark) – International Firm
- Fintech & Blockchain – International Firm
- Internet & E-Commerce – International Firm
- Pro Bono – International Firm



Chambers and Partners – Greater China Region Guide 2023 – Intellectual Property

- Ranked in Intellectual Property (International Firms)
- Top lawyers in the field of intellectual property in the Greater China Region - Alan Chiu,



Agenda

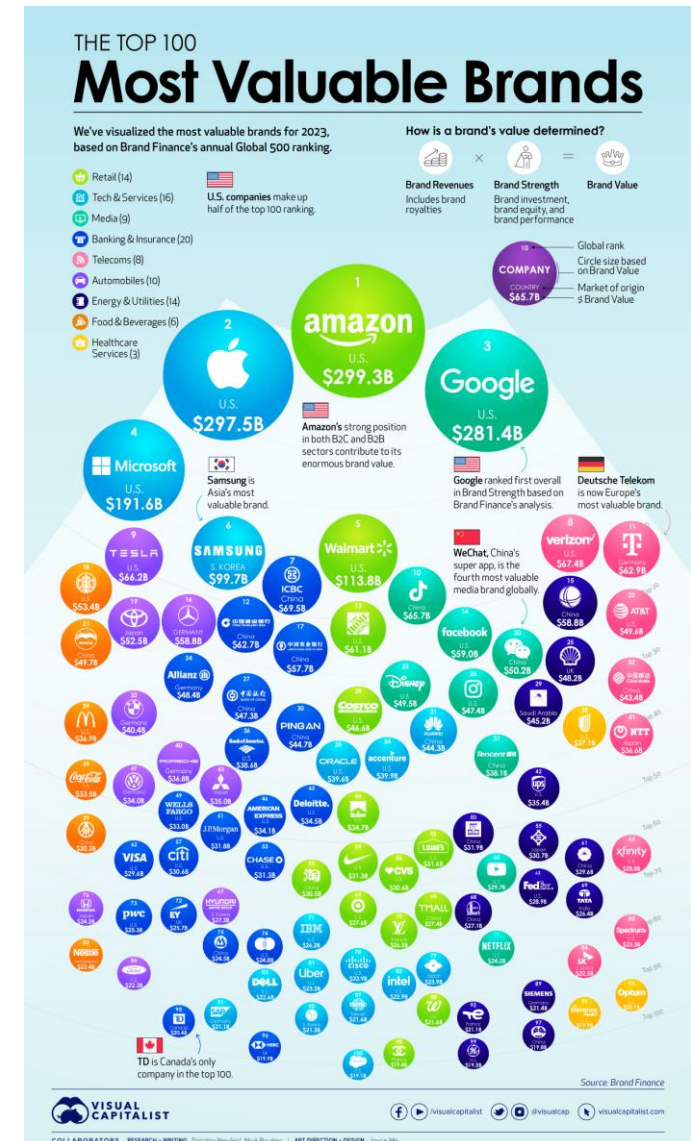
1. Introduction to commercialization of IP
2. Key considerations when licensing works
3. Potential issues when using third party works
4. Specific considerations relating to digital artworks
5. Due diligence
6. Key takeaways



Introduction to commercialization of IP

Commercialization of Intellectual Property

- Intellectual property rights are extremely valuable in this day and age.
- Commercialization of IP assets brings financial returns and enhance incentives to create and innovate.
- The exploitation and commercialization of IP assets can be achieved through different mechanisms such as assignments, licensing, franchising, merchandising, joint ventures, to generate profits and fuel business growth.



What can be licensed?

- In general, all types of intellectual property may be licensed under a licence agreement.
- A licence can come in different forms, depending on the context and different industry. Some of the common examples of the use of licensing are:
 - Film: creation of prequels or sequels of movies; distribution of a film
 - Music: using a copyrighted musical piece as the soundtrack for a movie; streaming music on streaming platforms
 - Pharmaceutical: inbound and outbound licensing of a drug or drug formula
 - Information technology: offering software or a mobile application for consumer use
 - Fast-moving consumer goods (FMCGs): printing a cartoon character on the packaging of goods





Key considerations when licensing works

Contract Terms



Specific Considerations/Terms:

- **(1) Subject Matter**

- Patent (Invention / Utility Model / Design)
- Copyright (including software)
- **Trade secret & Know-how
- The clearer the better

- **(2) Scope of Rights**

- Make, use, sell, import, or export?
- Extent of usage: Copy, display, disclose, modify, improve, make derivative, marketing?
- Exclusive or non-exclusive or sole license?
- Sub-licensable?
- Territory?
- Duration



Contract Terms



Specific Considerations/Terms:

• (3) Derivative Works

- Created based on or derived from an existing work
 - E.g. New Creations, Improvements, Modifications, Adaptations
- Trademark/Copyright/Goodwill issue
- Ownership?
- Registration?
- Assignment?



• (4) Governing Law/Dispute Resolution

- Governing Law – familiarity v enforceability
 - Neutral ✓
- Dispute Resolution –
 - Litigation
 - Arbitration
 - Industry expert, confidentiality, procedural transparency
 - Arbitration Ordinance amendments in HK
 - Use model clause!
 - Mediation / Good faith Negotiation?



Contract Terms



Specific Considerations/Terms:

- **(5) Post-Termination/Expiration**
 - Non-Compete
 - must be clear, specific and reasonable;
 - Non-Disclosure
 - mark documents as “confidential” / “trade secret”;
 - Return or destroy all “confidential” document and “trade secrets”;
 - Return/sell (with time limit)/sell-back/destroy all unsold inventories;
 - Cease using all licensor’s IPRs; and
 - Cancel license recordal (if any).



Contract Terms



Specific Considerations/Terms:

• (6) Other Important Considerations/Terms

- Ownership of background/foreground IP rights
- Licensing period
- Royalty calculation and payments (including costs for IP rights registration)
- What if the subject patent is not granted?
- Representations and Warranties
- Dispute resolutions
- Termination
- How to deal with IP infringement and split the costs incurred therefrom
- Approval standard / guideline
- Loss of control of the licensed products quality



Lets Talk Money - Common Revenue Models for licensing deals

- One-off upfront payment
- Royalty
 - Percentage of wholesale / retail revenue over the Term
 - Can be tiered
- Minimum guarantees / Advances against royalties
- Profit-Sharing based on gross / net profits
- Usage-based (per stream, download, etc).



As a licensor, how do you control the use of the IP by the licensee and third parties?

- Monitoring Use and Audits
 - Track where work is displayed and how it's used
 - Schedule regular audits to ensure compliance
 - Consider use tracking technologies
- Style guides
 - Provide specific branding and usage rules
 - Review reproductions for accuracy, quality etc.
 - Address limits on altering, modifying the work
- Notice and Takedown
 - Policy for reporting unauthorized uses
 - Establish process for issuing removal notices
 - Pursue swift removal of infringing content





**Potential issues
when using third
party works**

Potential issues when using third party works

- Do you have the right to use the works?
 - Verify you actually own or have permissions to use the work
 - Freely available works may still have usage restrictions
- Proper license obtained?
 - Get permissions in writing to avoid issues down the line
 - Understand scope of rights like territory, platforms granted, duration
- Royalty Free Artwork?
 - "Royalty free" doesn't mean you own the work
 - Carefully review allowable usage and attribution rules
 - Some RF licenses require payment or only permit personal use
- Open source
 - Verify license type permits intended application
 - Attribute original creator as license requires
 - Understand limits of rights to modify or distribute work

Derivative Works

- Ownership of Derivative Works
 - Owner of original IP typically owns derivatives
 - Unless original license carves out rights for modifications
 - Clarify in agreements who owns new adaptations
- Adaption and Transformation Rights
 - Define what changes are allowed/prohibited
 - Limit level of acceptable alterations
 - Address additions, translations or other adaptations
- Licensing modifications
 - Determine additional fees for derivatives
 - Specify attribution requirements
 - Clarify if licensee's modifications become licensee's IP

Moral Rights Protections

- Moral rights refer to certain natural rights and personality rights that are inherent to the creator of a work, separate from any economic rights. There are two main types of moral rights:
 - **Right of attribution:**
 - This is the right for an author to be credited or named as the creator of the work. It prevents others from falsely claiming authorship or denying the author's name.
 - It allows the author to publish anonymously or use a pseudonym if desired. Others cannot reveal the author's real identity without consent.
 - **Right of integrity:** This is the right to prevent derogatory treatment or distortion of the work that would damage the author's honor or reputation.
- Consider seeking waiver of moral rights from the author to allow more flexibility and to limit liability risk of non-compliance.



**Specific
considerations
relating to digital
artworks**

Who should/could be the inventor
for AI-generated invention?



Mid Journey

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If You are an employee or owner of a company with more than \$1,000,000 USD a year in gross revenue and You are using the Services on behalf of Your employer, You must purchase a “Pro” or “Mega” membership for every individual accessing the Services on Your behalf in order to own Assets You create. If You are not sure whether Your use qualifies as on behalf of Your employer, please assume it does.”

Inventorship of an AI- generated invention



- The Legal Board of Appeal of the EPO suggested the **owner** or **user** of an AI could possibly be designated as an inventor

" The Board is not aware of any case law which would prevent the user or the owner of a device involved in an inventive activity to designate himself as inventor under European patent law."

J 8/20 (Designation of inventor/DABAS) at para.
4.6.6 – 21 Dec 2021

NFT Case Study

- What rights are granted by purchasing a NFT?
 - Unique tokens confer ownership of digital asset
 - However, buyers don't automatically get copyright
 - Review underlying terms and conditions
- Licensing the Underlying Work
 - Clearly drafted T&Cs
 - Or use smart contracts to explicitly define rights
 - E.g. Personal use only vs. commercial exploitation
- Interplay with Smart Contracts
 - Programmed royalties allow ongoing payments
 - Tiered rates for different commercial applications
 - Royalties automatically enforced on resales





Due diligence



Due Diligence Concerns:

- **Competing Products:**

- Whether potential licensee handles any products that could compete

- **Experience:**

- Whether potential licensee has the right kind of experience to manufacture, distribute and market your products

- **Finances:**

- Check potential licensee's creditworthiness and general financial health to ensure they can produce, house and distribute a large amount of the licensed product

- **Reputation:**

- Potential licensee should enhance your reputation and not harm it. Check for reputation for producing high-quality products

Licensee



Due Diligence Concerns:

- **Protection:**

- Whether licensor has the right to enter into the licence agreement
- Whether relevant rights have been properly registered / registrability
- Whether such patent is likely to be challenged and how to protect it / payment of renewal fees

- **Freedom to operate (use):**

- Any exclusive licence agreements and/or financial obligations to third parties

- **Business model fit:**

- Whether the licensed product has sufficient uniqueness and interest to invest in such licence

- **Financial analysis:**

- Financial valuation of the IP to determine the appropriate royalty
- Forecast on any R&D costs & investments, etc.



Key takeaways

Key Takeaways

- Intellectual Property rights can be extremely valuable and could be the most important asset of your company
- Have proper documentation
- Know your rights and obligations
- If in doubt, seek legal advice

Q&A

Disclaimer

This presentation shall not in any way constitute legal advice.

ELLALAN and the presenter has endeavoured to share the best and most updated information but do not guarantee the accuracy of any information provided.

Thank You



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