

## Guidelines on IP Arrangements

### **1. Introduction**

1.1 Intellectual property (IP) includes patent, design, trademark, copyright, trade secret, etc. An R&D Centre, through carrying out different types of research projects, is expected to generate some form of new IP. In generating such IP, different parties (industry partners, research/technology partners) involved in the research projects may make contribution, e.g. in the form of cash, background IP or other form, during the research process and they may expect to have a claim on the IP rights generated from the project. While each case will have to be considered on its own merits, it is also important that all the R&D Centres adopt a broadly consistent approach in dealing with IP issues, including the IP rights<sup>1</sup> and management responsibilities<sup>2</sup>. This set of guidelines aims to set out such a broadly consistent approach for all the R&D Centres to adopt.

### **2. Guiding Principles**

2.1 An R&D Centre should follow these guiding principles when it develops its detailed IP arrangements -

- (a) the IP arrangements should be made to facilitate, but not prohibit, effective transfer of technologies developed by the R&D Centre;
- (b) to encourage participation by the industry and other research/technology partners in R&D projects, the IP arrangements should be made to allow participants to enjoy IP rights, and the form of the arrangements should be commensurate with the level of contribution;
- (c) the IP arrangements should facilitate an efficient and effective management of IP; and
- (d) the IP arrangements should contribute to building up the R&D Centre's core competence and sustainable operations.

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<sup>1</sup> IP rights include the right to use, right to share benefits, and right to hold title of the IP.

<sup>2</sup> IP management responsibility includes disclosure of inventions, record keeping, maintenance and enforcement of IP.

### 3. General Guidelines for IP Arrangements for Platform Research Projects

#### 3.1 Nature of "platform research projects"

3.1.1 "Platform research projects" refer to those that are **primarily aimed to benefit the industry or a certain sector of industry** in a general manner.

3.1.2 There should be at least two industry partners that should make contributions to the projects. As a general rule, the aggregate industry contributions should constitute at least 10% of the total project costs, which can be in cash and/or in-kind (subject to the conditions set out in paragraphs 3.1.3 and 3.1.4 below), and such contributions should be made available within the first six to nine months after the project has started. In this connection, the total project costs should be the sum of all approved expenditures (including expenditure items to be covered by in-kind contributions, if any) and the approved institution administrative overheads<sup>3</sup>.

3.1.3 In-kind contributions in the form of equipment and consumables would be accepted and counted as industry contributions provided that:

- (a) the in-kind contribution is **essential** to and **specific** for the project and should be contributed by the industry. Donation by the Centre itself will **not** be counted as industry contribution;
- (b) the value of the in-kind contribution should be presented in both income and expenditure sides of the project budget;
- (c) whenever any in-kind contribution is received, it should be reported in the progress/final reports of the projects; and
- (d) **documentary proof** to substantiate the value of contribution should be provided. Where documentary proof is not available, reasons should be given and the basis for making the estimation should be clearly specified in the project proposal.

3.1.4 Manpower contribution will be welcome but will **not** be counted as industry contribution as such in the project account.

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<sup>3</sup> Local universities, the Hong Kong Institute of Vocational Education (IVE) and the R&D Centres (except the ICT R&D Centre) are allowed to charge administrative overheads for undertaking ITF projects. The administrative overheads to be charged should be capped at 15% of the total project costs (net of administrative overheads).

### **3.2 Title of IP generated and sharing of benefits**

3.2.1 As the primary objective of platform research projects is to benefit the industry as a whole, the title of the IP derived from such projects (foreground IP) should vest in the R&D Centre concerned, with the benefits generated from the foreground IP to be shared among all related parties in proportion to their respective contributions to the project. The specific IP benefit sharing arrangements for each project should be clearly set out in the project proposal.

#### Sharing of benefits by industry partners

3.2.2 In this connection, the industry will be able to enjoy the benefits of the foreground IP generated in the following manners -

- (a) for **industry partners who have made contributions to a platform project within the first six to nine months after the project has started**, such industry partners will enjoy –
  - (i) **the right to use** the foreground IP for commercial exploitation: the R&D Centre shall grant non-exclusive licences to the concerned industry partners on a need-to-use basis and on fair terms to be agreed by the R&D Centre and the industry partners; and
  - (ii) **the right to share benefits from commercialisation of foreground IP**: an industry partner who has contributed an amount over a threshold (determined by the Board of Directors of the concerned R&D Centre<sup>4</sup>) will be eligible to share the benefits obtained from the commercialisation of the foreground IP, according to the proportion of contribution individual partners have made in relation to the total project costs. In this context, the benefits refer to the sales revenue generated from commercialisation of the foreground IP.
- (b) for companies which do not fall under paragraph 3.2.2(a) above, they may also be granted non-exclusive licences to use the foreground IP but the licensing fee should be set by the Board at a higher level as compared with the licensing fee in paragraph 3.2.2(a)(i) above. Such companies will however **not** be eligible to share the benefits of

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<sup>4</sup> The reason for leaving the question of stipulating a threshold to the Board of Director of a R&D Centre is that while recognising industry partners' expectations of benefit-sharing, the Board may also wish to take into account the costs of maintaining the benefit-sharing system.

commercialisation of the foreground IP, unless the concerned Board of Directors decides otherwise.

Sharing of benefits by local universities

3.2.3 If a local university participates in a platform project and puts in any background IP and other resources (including the remuneration of the principal investigator (PI) and all other in-kind contribution, if any) into the project as input at the project proposal stage **without** separately charging these items in the project account, and if the project is subsequently successfully commercialised by the Centre (i.e. generation of revenue from the foreground IP thus developed after project completion), the university has the right to share 15% of the sales revenue so generated. There is no need for the Centre to include such contributions by the university to the project in the budget of the proposal or provide the relevant breakdown and proof of valuation for such contributions. The 15% benefits for the university would come from the Centre's share of the benefits; **the industry partner's contribution and share of benefits under paragraph 3.2.2 above will not be affected.**

3.2.4 The university can also as an option put in the 15% administrative overhead as investment at the project proposal stage **without** charging the overhead in cash and enjoys the right to share a total of 30% of the revenue generated. The value of the administrative overhead should then be included in both the income and expenditure sides of the project budget.

3.2.5 The title of the foreground IP generated from the project is to be kept by the Centre; the option of ultimate transfer of the foreground IP to the industry subsequently will be kept open and be subject to approval by the Board of the Centre and CIT.

3.2.6 In the rare case that the project is commercialised by the university, the benefit sharing arrangement should be negotiated between the Centre and the university on a case-by-case basis.

3.2.7 Regardless of whether the foreground IP has been granted to a company exclusively or non-exclusively, the Centre would give a free licence of the foreground IP to the university for further research, i.e. the foreground IP generated from the project can be put in the further research of the university as background IP.

- (a) If the result of the further research is in a technology domain not the same as the Centre's focus, the university is permitted to create its own further IP and license them out provided that the Centre has the right to share 15% of the sales revenue generated from commercialisation of that

further IP. The university should bear all the costs and efforts of the further research and creation of further IP.

- (b) If the result of the further research is in the same domain as the Centre's, the university is permitted to commercialise the further IP generated. If such commercialisation is successful, the Centre has the right to share 30% of the sales revenue thus generated from the commercialisation. The university should bear all the costs and efforts of the further research and commercialisation.
- (c) The industry is entitled to the Centre's share of the benefits generated from the commercialisation of the further IP in proportion to its contribution to the total project costs in the original project that generates the foreground IP (from paragraphs 3.2.7(a) and (b) above) in accordance with paragraph 3.2.2(a) above.
- (d) The university is entitled to the Centre's share of the benefits generated from the commercialisation of the further IP in the original project that generates the foreground IP (from paragraphs 3.2.7(a) and (b) above) in accordance with paragraphs 3.2.3 and 3.2.4 above.

#### *Sharing of benefits by research partners and non-local universities*

3.2.8 In case a research partner (whether local or non-local) or a *non-local* university participates in a platform project and puts in any background IP and other resources (including the remuneration of the principal investigator (PI) and all other in-kind contribution, if any) into the project as input at the project proposal stage **without** separately charging these items in the project account, and if the project is subsequently successfully commercialised by the Centre, the Centre could negotiate with the research partner/non-local university and the industry partner for the specific IP and benefit sharing arrangements on a case-by-case basis before the project begins, having regard to the guiding principles set out in paragraph 2.1 above. The benefit sharing arrangements to be agreed should be commensurate with the level of the respective contributions towards the project, and be endorsed by the Centre's Technology Committee or Board.

### **3.3 *Exclusive licence***

3.3.1 Given the nature of "platform research projects", **no** exclusive licence should be granted to individual industry partners. However, if the industry partners form a consortium after the start of the project, the Board may consider granting an exclusive licence to the consortium having regard to the guiding principles set out in paragraph 2.1 above as well as meeting the following terms and conditions -

- (a) the consortium has contributed in aggregate at least 50% of the total project costs; and
- (b) the exclusive licensee would have a significant presence of industry activities in Hong Kong; or
- (c) the exclusive licensing arrangement was necessary to enable commercialisation of the IP to form industry cluster; or
- (d) the exclusive licensing arrangement could generate significant economic benefits to Hong Kong.

3.3.2 The specific terms and conditions for the assignment of exclusive licence are subject to negotiations between the consortium of industry partners and the R&D centre, and an exclusive licence should only be granted to the intended licensee for a defined period. The R&D Centre should reserve the right to grant the licence to other interested parties if the licensee does not commercialise the IP within a certain period, thus converting the original exclusive licence to a non-exclusive licence.

3.3.3 Having regard to paragraph 3.2.7, the R&D Centre should also retain a royalty-free right to use, for future research purposes only, any foreground IP generated from a platform R&D project undertaken by the Centre, regardless of whether the foreground IP has been granted to a company/consortium exclusively or non-exclusively. If new IP is thus generated from further research on the foreground IP, the R&D Centre has the right to grant license of the new IP rights to third parties. If the exclusive licensee of the current foreground IP rights so requests, the R&D Centre may consider granting the exclusive licensee a first right of refusal to use on either an exclusive or non-exclusive basis the new IP rights generated from further research on the current foreground IP.

#### **3.4 Buy-out arrangements**

3.4.1 Buy-out arrangements for the foreground IP generated are *not* encouraged for platform R&D projects because they may not be consistent with the objective of such projects. However, if the industry partners participating in the project form a consortium and propose to buy-out the IP generated, the Board may consider approving such arrangements, subject to detailed negotiations on the terms and conditions, as well as to the following considerations -

- (a) whether other interested industry players would be eligible to use the concerned IP through licensing arrangements;

- (b) whether the buy-out arrangement is in public interest and in the interest of the industry in the broader sense; and
- (c) whether the buy-out arrangement provides a better chance of successful commercialisation.

## **4. Contract Research Projects**

### ***4.1 Nature of "contract research projects"***

4.1.1 "Contract research projects" refer to projects in which a **company pays** the R&D Centre the **full costs for the R&D work done**.

### ***4.2 Title of IP generated and benefits generated***

4.2.1 As all the costs of a contract research project are borne by the sponsoring company, the IP generated from such a project and benefits generated from such IP will rest with the company concerned. The concerned R&D Centre will not claim any IP rights generated from the R&D project.

## **5. Collaborative Research Projects with Industry**

### ***5.1 Nature of "collaborate research projects with industry"***

5.1.1 "Collaborative projects with industry" refer to those projects in which an **industry partner makes a contribution**, which can be in cash and/or in-kind (subject to the conditions set out in paragraphs 3.1.3 and 3.1.4 above), that **constitutes no less than 30% of the total project costs at the start of the project**. In this connection, the total project costs should be the sum of all approved expenditures (including expenditure items to be covered by in-kind contributions, if any) and the approved institution administrative overheads <sup>5</sup>.

### ***5.2 Title of IP generated, right to use and sharing of benefits***

5.2.1 The title of the IP generated will normally rest with the concerned R&D Centre.

5.2.2 The industry partner will automatically be granted an exclusive licence to use the project IP free of charge for a defined period which is to be determined by

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<sup>5</sup> Please see note 3 on page 2.

the Board, having regard to the nature of the technology/technologies involved, and the actual level of contribution by the industry partner to the total project costs.

5.2.3 The R&D Centre should encourage the industry partner to gradually increase its contribution to more than 50%, with timeframe as appropriate, during the project period. In case the industry partner's contribution accumulates to **more than 50%** of the total project costs before the completion of the project, it will have an option to own all IPs generated from the R&D project, subject to the following conditions:

- (a) the R&D Centre will still enjoy the beneficiary rights of the IPs generated (as per paragraph 5.2.4 below). It will also have the right to take appropriate actions against the industry partner if the latter does anything which jeopardizes the Centre's beneficiary rights of the IPs concerned;
- (b) the industry partner will have to return the title of the project IPs to the Centre if the industry partner fails to commercialise the IPs within a certain period of time to be agreed by both parties;
- (c) the Centre will have the first right of refusal in case the industry partner wants to dispose of or sell to others the project IPs;
- (d) the Centre will have the right to collect from the industry partner a certain amount of guaranteed income for the commercialisation of the project IPs;
- (e) the Centre will retain a perpetual royalty-free right to use any IPs generated from the project for further research purposes; and
- (f) detailed terms and conditions should be established at the outset of the project and be properly spelt out in the agreement signed between the R&D Centre and the industry partner.

In case the industry partner chooses not to own any of the IPs generated from the project, ownership of all such IPs will be taken up by the R&D Centre.

#### *Sharing of benefits by industry partners*

5.2.4 The industry partner has the right to share the benefits generated from commercialisation of IPs generated from the project (including royalty fees), with the sharing ratio subject to negotiation between the Centre, other participating R&D partner(s) and the industry partner having regard to the respective proportion of their

contributions to the total project costs. In this context, the benefits refer to the sales revenue generated from commercialisation of the project IPs.

*Sharing of benefits by both local and non-local universities and research partners*

5.2.5 If a university or a research partner, whether local or non-local, participates in a collaborative project and puts in any background IP and other resources into the project as input **without** separately charging these items in the project account, the Centre could negotiate with the university/research partner and the industry partner for the specific IP and benefit sharing arrangements on a case-by-case basis before the project begins, having regard to the guiding principles set out in paragraph 2.1 above. The benefit sharing arrangements to be agreed should be commensurate with the level of the respective contributions towards the project, and be endorsed by the Centre's Technology Committee or Board.

5.2.6 In relation to paragraphs 5.2.4 and 5.2.5, the specific IP benefit sharing arrangements for each project should be clearly set out in the project proposal.

**5.3 *Buy-out option***

5.3.1 In case the project IP is not owned by the industry partner under the conditions of paragraph 5.2.3 above, the industry partner still has the right to buy out the IP generated by the project, including all the equipment, within the period of exclusive licence granted as per paragraph 5.2.2 above. The consideration for buying-out should be at a premium over the total project costs. The level of premium should be determined by negotiation between the R&D Centre and the industry partner on a case-by-case basis before the project starts.

5.3.2 The buy-out arrangement should include retention of a royalty-free right for the concerned R&D Centre to use, for future R&D purposes only, the IP generated from the project.

**5.4 *Licensing of other parties***

5.4 In case the project IP is not owned by the industry partner under the condition of paragraph 5.2.3 above and the industry partner chooses not to exercise the buy-out option after the period of exclusive licence it has enjoyed in accordance with paragraph 5.3.1 above, the R&D Centre will continue to hold the title of the project IP, and may grant licence to other parties to use such IP after the exclusive licence expires. In that case, the industry partner has the right to share benefits from the commercialisation of licensing to other parties in accordance with paragraph 5.2.4 above.

## 6. Collaborative Projects with Research/Technology Partners

### 6.1 *Nature of collaborate projects with research/technology partners*

6.1.1 Such projects refer to collaborative projects with **research/technology partners** (e.g. universities/technology companies) in which the latter **allow the R&D Centre to use their IP** through an assignment of such IP (likely to be in the form of a licence to the R&D Centre) and/or **provide the necessary experts to carry out the R&D project**. Such and other agreed forms of collaboration would be treated as a contribution to the R&D project. Nevertheless, the assumed monetary value of the total contribution of the research/technology partner should normally *not* exceed 50% of the total project costs, because otherwise there may not be justification for the participation of the R&D Centre.

### 6.2 *Title of IP and sharing of benefits*

6.2.1 The title of the background IP remains with the research/technology partner, but the R&D Centre retains the right to sub-licence the background IP to the industry on reasonable terms if the use of the background IP is necessary for the full exploitation of the new project IP generated (foreground IP). The background IP title owner is entitled to the full amount of the sales revenue generated from the background IP.

6.2.2 The title of the foreground IP generated from the project should normally rest with the R&D Centre. However, depending on the contribution of the research/technology partner, the R&D Centre may negotiate with the research/technology partner sharing of the legal title of the foreground IP, subject to a well-defined agreement setting out, inter alia, the rights and obligations of the respective parties.

6.2.3 In addition, the IP rights a research/technology partner may enjoy are -

- (a) right to use the foreground IP for commercial exploitation at a fee to be negotiated between the R&D Centre and the partner concerned; and
- (b) right to share benefits from the commercialisation of the foreground IP. In this context, the benefits refer to the sales revenue generated from commercialisation of the foreground IP.

6.2.4 The fee to be charged and the amount of benefits in paragraph 6.2.3 above should be determined by the Board of the concerned R&D Centre before the start of the project, having regard to the proportion of the research/technology

partner's contribution to the total project costs. The specific IP benefit sharing arrangements for each project should be clearly set out in the project proposal.

## **7. Board of Directors of R&D Centres to decide case by case**

7.1 The preceding paragraphs are intended to serve as general guidelines for R&D Centres. The Board of Directors of each R&D Centre should, on this basis, develop their own IP guidelines, and decide on the IP arrangements for each individual case.

October 2007

Innovation and Technology Commission