# Switzerland

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## 1. Patents, SPCs and know-how: foundations for transactions

### 1.1 Patents and supplementary protection certificates

#### *(a) Patenting in Switzerland*

A patent is a protective right for a technical invention. 'Invention', in this legal sense, means a solution to a technical problem. First, to be patentable, an invention must be novel. An invention is considered novel when it is not part of the prior art. Knowledge which belongs to the prior art is any information which has been made accessible to the public in any form anywhere in the world before the date of the patent filing. Secondly, the invention must not be derived from the prior art in an obvious way by a person skilled in the art.[1] Unexpected characteristics of products or surprising effects of processes are indications that this criterion has been satisfied. An inventive step may also exist if the solution to the technical problem overcomes a prejudice – "things just don't work that way" – or satisfies a pre-existing need. Thirdly, the invention must be commercially applicable, implementable and reproducible.

Switzerland and Liechtenstein form a unified territory for patent purposes and have the same patent regulations based on a bilateral patent treaty. This bilateral treaty provides common legislation in the field of registration and validity of patents for Switzerland and Liechtenstein. A Swiss patent is valid in Liechtenstein in the same way that a patent in Liechtenstein is valid in Switzerland. Designation of one country under the European Patent Convention implies the other; they cannot be designated separately.[2]

One possible way of filing for a patent that is valid in Switzerland is by applying to the Swiss Institute of Intellectual Property (the Institute). National patent applications are subject to limited examination only: the Institute does not examine novelty and inventive step as part of the national examination process.[3] However, since these two criteria are essential for patentability in Switzerland, an applicant should research the novelty and inventive step himself. As of January 2014 the fees

1 Articles 1 and 7 of Switzerland's Patent Act.
2 Supplementary Agreement between the Swiss Confederation and the Principality of Liechtenstein to the Agreement dated December 22 1978 concerning the protection of patents (hereinafter the Patent Protection Treaty; SR 0.232.149.514.0).
3 Article 59(4) of the Patent Act.

for a national Swiss patent are CHF200 (about USD225) for filing and CHF500 for the examination. Annual patent fees will be due from the fourth year after filing, starting with CHF100, and will then increase annually by CHF50.[4]

In addition, Switzerland is a member of the European Patent Convention. So, secondly, patent protection can be obtained through an application to the European Patent Office (EPO). Since European patent applications are examined for novelty and inventive step, this way leads to a fully examined patent in Switzerland.[5]

Thirdly, the Patent Cooperation Treaty provides the possibility of filing a single international application for a patent in any of the treaty member states. This international route consists of a centralised filing and search procedure. The international patent application is the subject of an international search by an authority specialising in this area, the results of which are made available to the applicant in an international search report. The applicant may opt to request an international preliminary examination, which may be considered to be an expert opinion on the patentability of the patent application. The national or regional offices designated in the application are then responsible for granting the patent within their area of jurisdiction. Switzerland may be designated either via the national route or via the regional route (ie, through a European patent application).[6]

***(b) (Unitary) European patents***

The Unified Patent Court (UPC) will be a court common to all the contracting member states of the Agreement on a Unified Patent Court and Statute, as signed on February 19 2013. The UPC will become operational after ratification of the agreement by 13 countries, including the three countries where most European patents are registered: France, Germany and the United Kingdom. After a transitional period, it will have exclusive competence in respect of European patents and European patents with unitary effect. The UPC's rulings will have effect in the territory of those contracting member states that will have ratified the above-mentioned UPC agreement at the given time.

As a result of an opinion by the European Court of Justice dating from 2011,[7] the UPC agreement is not open to states outside the European Union. Thus Switzerland and other non-EU states belonging to the European Patent Convention may not join the new European patent jurisdiction. European patents with validity in Switzerland and Liechtenstein will continue to fall under the jurisdiction of the newly established Swiss Federal Patent Court that became operational in January 2012. Because of the head start the Swiss Federal Patent Court has on the European patent court and the attractive procedural rules it offers (eg, cases may be presented in English), patent owners of Swiss patents or so-called 'classic' European patents already have the option today to go before a competent court in Switzerland composed of technically as well as legally trained specialist judges.[8]

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4 "New Fees – Regulation of the Swiss Institute of Intellectual Property", effective from January 1 2014.
5 European Patent Convention, revised in Munich on November 29 2000 (SR 0.232.142.2).
6 Contract on International Cooperation on the Patent Cooperation Treaty (SR 0.232.141.1).
7 Opinion 1/09 of March 8 2011.

*(c) Supplementary protection certificates*

In order to at least partially compensate for the loss in the effective period of patent protection caused by the delay in obtaining an official marketing authorisation for pharmaceutical drugs and plant protection products, the Institute can grant supplementary protection certificates (SPCs) which extend the patent protection period for active ingredients or combinations of active ingredients by up to five years. An SPC is granted for a product if, at the time of the application, the product itself, a process for its preparation or a use thereof is protected by a patent (either a Swiss national patent or the Swiss part of a European patent) and an official marketing authorisation has been granted for the product to be marketed in Switzerland.[9]

The certificate takes effect on expiry of the maximum term of the patent for a period equal to the period which elapses between the date of filing and the date of the first authorisation to place the product on the market as a medicinal product in Switzerland, minus five years. It is valid for no more than five years.[10]

The current law does not provide for a paediatric extension, but this will most likely change in the course of the current revision of the Swiss Therapeutic Products Act. In Switzerland as in other jurisdictions, efforts are being made so that more medicinal products appropriate for children will be authorised and brought onto the market. To offset the additional work involved in the development of medicinal products for children, the new Swiss provisions particularly provide for a six-month extension to the duration of the SPC, which will be made dependent on the submission of studies that have been carried out according to an agreed paediatric investigation plan. In order to align the Swiss level of protection to the one in the European Union with regard to medicinal products for children, the incentives for the development of such products are planned to be added to the Patent Act in the course of the upcoming revision of the Therapeutic Products Act. In particular, it is proposed and planned for 2016 to introduce a new Article 140n to the Patent Act, which grants a six-month extension to the duration of a granted SPC, provided that the authorisation to place the product on the market as a medicinal product in Switzerland contains a statement that the information concerning the medical product reflects the results of all studies that have been carried out in compliance with the paediatric investigation plan considered during the marketing authorisation.[11]

Since Switzerland is a member of neither the European Economic Community (EEC) nor the European Economic Area (EEA), an approval for marketing of the product in the EEC or EEA has no effect on the granting or duration of an SPC in Switzerland. Hence, the copy of the first official marketing authorisation, which must be enclosed with the application for the SPC, must be the first marketing authorisation of the product in Switzerland.[12]

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8 Federal Act on the Federal Patent Court (Patent Court Act; SR 173.41).
9 Article 140a and following of the Patent Act.
10 Article 140e of the Patent Act.
11 K Schärli, "The supplementary protection certificate for medicinal products, with special consideration of the requirements for protection and the scope of protection in Switzerland and in the EU", Schulthess Juristische Medien AG, Zurich *et al.*, 2013, N 58 and following.

In contrast, Liechtenstein is a member of the EEA and since Liechtenstein (as a basic principle) automatically accepts Swiss marketing authorisations for pharmaceutical products, the Court of Justice of the European Union (CJEU) held in several decisions that a Swiss marketing authorisation triggers the deadline for the application for an SPC in the EEA.[13] However, as a reaction to these decisions of the CJEU, Switzerland and Liechtenstein entered into an agreement on July 1 2005 that delays the automatic recognition of Swiss marketing authorisations in Liechtenstein for new chemical entities. This agreement has been extended several times and remains in force. The automatic recognition of Swiss marketing authorisations in Liechtenstein is now delayed by a time period of 12 months and at least until the grant of a marketing authorisation for the same new chemical entity in the EEA.[14]

Despite the fact that the Swiss legislature decided to adopt the same substantive SPC solution as was chosen in the European Union,[15] there are important differences. First, the key term 'products' is interpreted slightly differently. In Switzerland, the mere existence of identical active ingredients does not necessarily mean that they are the same product. If, based on an already known product, a new invention is made (such as a more effective dosage regime or the treatment of a new indication with a known substance) and if there is a product claim for this new invention in the basic patent, the new invention may constitute the basis for a new, independent product for which an additional SPC can be granted.[16] Secondly, the Swiss and the European granting practices for combination products diverge on the question of whether a product for which an SPC has been applied is protected by a basic patent. For testing whether the product is protected by a basic patent, the testing in Switzerland embraces the scope of protection of the basic patent. Thus, the product has to be examined to determine whether it would fall within the scope of protection of the basic patent (the so-called 'infringement test'). Pursuant to the CJEU, however, an SPC can only be granted for active substances and combinations of active substances which are specified or identified in the wording of the claims of the basic patent. As a consequence, in certain circumstances (eg, combination products) different SPCs may be granted based on the same basic patent in Switzerland and in the European Union.[17]

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12 "Guidelines for the examination of national patent applications from Swiss Federal Institute of Intellectual Property", dated July 1 2011, N 13.2.2, p108 (available in German and French).

13 Judgment of the CJEU of April 21 2005, *Novartis AG v Comptroller-General of Patents, Designs and Trade Marks for the United Kingdom* (C-207/03) and *Ministre de l'Économie v Millennium Pharmaceuticals Inc* (C-252/03); order of the CJEU of November 14 2013, *AstraZeneca AB v Comptroller General of Patents, Designs and Trade Marks* (C-617/12).

14 For further details see K Schärli, "The supplementary protection certificate for medicinal products, with special consideration of the requirements for protection and the scope of protection in Switzerland and in the EU", Schulthess Juristische Medien AG, Zurich *et al.*, 2013, N 287 and following.

15 "Official Notice on the Patent Act 1993", p711 and following.

16 *Arzneimittel* decision of the Swiss Federal Court dated November 17 1998, 2/1999, 153 and following; *Cyclosporine* decision of the RKGE dated April 30 1999, 4/1999, p449 and following; "Guidelines for the examination of national patent applications from Swiss Federal Institute of Intellectual Property", dated July 1 2011, N 13.1, p106 and following; K Schärli, "The supplementary protection certificate for medicinal products with special consideration of the requirements for protection and the scope of protection in Switzerland and in the EU", Schulthess Juristische Medien AG, Zurich *et al.*, 2013, N 73 and following.

Swiss courts are not bound by the decisions of the CJEU. Nevertheless, with regard to SPCs the Swiss Federal Administrative Court held that a Swiss legal provision that was copied from European law on purpose must be interpreted in conformity with European law, subject to the Swiss methodology of legal analysis.[18]

As from January 2014 the fees for an SPC are CHF2,500 for registration. Annual renewal fees will be due from the first year after filing, starting at CHF950 and increasing annually by CHF50.[19]

### 1.2 Who owns the patent?

For national Swiss patent applications and patents, the rules regarding ownership are set forth in the Federal Act of June 25 1954 on Patents for Inventions.[20] Pursuant to Article 3(1) of the Patent Act, the inventor, his successor in title, or a third party owning the invention under any other title has the right to the grant of the patent.

The inventor is the person who has actually created the invention or, expressed otherwise, discovered the patent's teaching. Given that the actual creation of an invention is decisive, legal entities such as companies cannot be inventors in terms of the Patent Act; indeed, inventors can be natural persons only. When several persons are involved in the creation of an invention, these persons may well be regarded as co-inventors. However, co-inventors have to have contributed brain work to the solution of a technical problem; it is not sufficient that they have simply carried out the instructions of other persons (eg, the inventors) or supported an invention (eg, by funding).

#### *(a) Employees' inventions*

Regarding third parties who may own an invention and therefore have the right to the grant of a patent,[21] the most important cases are those where an employee creates an invention in the course of his work for his employer (see Article 332 of the Swiss Code of Obligations).[22] In respect of such inventions (whether patentable or not), it is necessary to distinguish between inventions created in performance of contractual obligations and inventions made outside the scope of those obligations. Whereas the former belong to the employer, the latter remain with the employee unless the employer has reserved the right to acquire such inventions in the employment contract. In this last case, the employee who created an invention is obliged to notify

17 *Fosinopril* decision of the Swiss Federal Court dated July 10 1998, BGE 124 III 375 and following; *Panitumumab* decision of the Federal Administrative Court dated October 18 2011, B3245/2010; "Guidelines for the examination of national patent applications from Swiss Federal Institute of Intellectual Property", dated July 1 2011, N 13.2.1, p107 and following; K Schärli, "The supplementary protection certificate for medicinal products, with special consideration of the requirements for protection and the scope of protection in Switzerland and in the EU", Schulthess Juristische Medien AG, Zurich *et al.*, 2013, N 218 and following; Schärli/Holzer, "ECJ: supplementary protection certificates for combinations products? Judgments of the ECJ of 24 November 2011 'Medeva' (C-322/10) and 'Georgetown' (C-422/10)", 2012, p284 and following.

18 *Etanercept* decision of the Federal Administrative Court, September 13 2010, BVGE 2010/46, consideration 3.

19 "New Fees – Regulation of the Swiss Institute of Intellectual Property", dated January 1 2014.

20 Known in brief as the Patent Act, SR 232.14.

21 See Article 3(1) of the Patent Act.

22 Federal Act of March 30 1911 on the Amendment of the Swiss Civil Code, Part Five: The Code of Obligations (SR 220).

his employer, which, in return, has to inform the employee within six months if it wishes to acquire the invention (for a reasonable remuneration) or to release it to the employee.[23]

***(b) Other service contracts***

If an inventor makes his invention under a service contract other than an employment agreement (eg, under a contract for work and labour, or under an agency contract), Swiss law lacks specific rules concerning the transfer of the invention from the inventor to the customer. Without a clear rule in the contract it depends on the circumstances of the individual case whether the invention remains with the inventor or whether it is automatically transferred to the customer.[24] As a rule of thumb, under an agency agreement the invention is often seen to belong to the principal, whereas under a contract for work and labour it often remains with the inventor. Because of the huge uncertainties regarding the attribution of an invention in general, it is crucial to provide clear rules in the respective contract, whatever its legal nature might be.

***(c) Joint inventorship***

Where several inventors have made an invention jointly, they own the right to the patent jointly.[25] Swiss doctrine disagrees on the legal treatment of joint inventions. While most authors have previously argued in favour of either a co-ownership or a joint ownership similar to the general provisions on property set forth in the Swiss Civil Code of December 10 1907 (the Civil Code),[26] the prevailing doctrine nowadays argues in favour of a patent-specific co-ownership *sui generis*: each co-owner may independently dispose of his share in the right to the grant of a patent and his right to the patent.[27] Since it might often not be practicable to assess the contributions of each co-inventor, the share of each co-inventor in a patent will mostly be an equal share. Furthermore, every co-owner retains the individual right to bring an action for infringement of the patent or to pay the renewal fee (even if not supported by the others). However, other rights may only be exercised with the consent of all other co-inventors, including (but not limited to) the right to apply for the grant of a patent, to grant licences to third parties or even to use the invention on his own.[28] In any event, it is of the utmost importance to agree on rules regarding the rights of co-inventors in a (potential) future invention in the respective contracts, as otherwise considerable legal uncertainty or even stand-offs might arise.

The situation is different where two or more inventors have made the same invention independently of each other. For such cases, the Patent Act sets forth that the person who makes the earlier application or whose application has the earliest

23 It is noteworthy that similar rules usually also apply to employment relationships which are governed by public law – eg, those of employees of the Swiss Federal Institutes of Technology in Zurich and Lausanne (see Article 36 of the Federal Act of October 4 1991 on the Federal Institutes of Technology) or of universities which are governed by cantonal law.

24 Article 393 and following and Article 363 and following, respectively, of the Code of Obligations.

25 Article 3(2) of the Patent Act.

26 Article 646 and following and Article 652 and following, respectively, of the Civil Code (SR 210).

27 Article 33(2) of the Patent Act.

28 Articles 33 (2) and 34(2) of the Patent Act.

priority date has the right to the grant of a patent (the so-called 'first to file' system as opposed to any 'first to invent' system).[29] The slower applicant will have no right in the patent at all and might even be prevented by the patent owner from using the invention, unless the invention had been commercially used in Switzerland or special preparations for that purpose had been made before the filing or priority date of the patent application.[30]

### 1.3 Inventor compensation

In cases where the inventor and the patent owner are different persons, the question arises whether or not an inventor shall be entitled to special remuneration for the invention. In this context, the most important case is the one where employees are creating inventions in the course of their work for their employer. If inventions are created in performance of contractual obligations (eg, often in cases where inventions are created by employees who are working in the research and development department of a company), no remuneration from the employer will be due, unless agreed on in the employment contract, because the inventive activities are considered to be the performance due under the employment contract and therefore covered by ordinary salary payments. In contrast, if the invention was created outside the performance of contractual obligations and the employer decides to acquire the invention based on a contractual right to do so, the employee is entitled to an adequate additional remuneration for the invention.[31] This right cannot be waived by the employee in advance.[32] The amount of the remuneration depends, among other things, on the economic value of the invention, the contribution by the employer (including the involvement of the employer's staff or the use of its facilities) and the efforts made by the inventor.[33]

The issue of inventor compensation might also arise in cases of inventions that have been made under other service contracts – for instance, under agency contracts or contracts for work and labour.[34] In this context, the wording of the respective agreement is crucial. There is no statutory provision that provides for automatic remuneration for such inventions. Therefore, it is of the utmost importance not only to attribute ownership in the invention but also to determine whether remuneration is due and, if so, in what amount.

### 1.4 Know-how and trade secrets

In Switzerland there is a long tradition in regard to protection of confidential

29 Article 3(3) of the Patent Act.
30 Article 35(1) of the Patent Act.
31 Article 332(2) of the Code of Obligations.
32 Article 362(1) of the Code of Obligations.
33 "Guidelines of the German Minister of Labour for the Remuneration of Employees' Inventions in the Private Sector", dating from July 20 1959 and available online at www.verwaltungsvorschriften-im-internet.de/bsvwvbund_20071959_IIa4.htm (last accessed December 23 2013) are sometimes also referred to in Swiss legal doctrine. However, it should be kept in mind that, pursuant to the German Act on Employees' Inventions, dating from July 25 1957 and available online at www.gesetze-im-internet.de/arbnerfg, (last accessed December 23 2013), employees are entitled to remuneration even in respect of inventions created in performance of their contractual obligations.
34 Article 393 and following and Article 363 and following, respectively, of the Code of Obligations.

information. Therefore, different provisions governing confidential information can be found in contract law, in unfair competition law and in criminal law. At the same time, this means that there is no general definition of confidential information that applies in all legal fields in Switzerland.

Article 321a(4) of the Code of Obligations prohibits employees from disclosing or making use of confidential information or trade secrets. The confidentiality of production and business secrets is protected by Article 162 of the Criminal Code of December 21 1937.[35] Espionage relating to such secrets for foreign governments or organisations or for private companies is also subject to criminal sanctions under Article 273 of the Criminal Code. Professional secrets (eg, those of lawyers or doctors) are protected by Article 321 of the same code. The use of confidential information and trade secrets can also qualify as unfair competition under the Federal Law of December 19 1986 on Unfair Competition (hereinafter the Unfair Competition Act),[36] particularly if the information is used by third parties.

Pursuant to the views expressed by courts and legal writers, the definition of 'confidential information' contains three key elements:

- the information must be confidential (ie, it must not be disclosed to the public);
- it must have commercial value because of its confidentiality; and
- the holder of the confidential information should have made reasonable efforts to keep it confidential.

### 1.5 Employees, consultants and protecting know-how

According to Article 321a(1) of the Code of Obligations, each employee must loyally safeguard his employer's legitimate interests. This includes an obligation not to make use of or inform others of confidential information that comes to his attention while he is in his employer's service. Even after termination of the employment relationship, an employee must continue to be bound to the secrecy obligation to the extent required to safeguard the ex-employer's legitimate interests.[37]

Similarly, an agent's general liability for faithful performance includes the same obligations as those lying upon the employee under an employment contract.[38] Further, in the case of an agency contract, the agent may not exploit, or inform others of, the confidential information with which he has been entrusted, or of which he has obtained knowledge in the course of his agency relationship. These obligations shall apply even after termination of the contract.[39]

Swiss civil law contains a number of sanctions where confidential information is published or used in breach of the implied obligations of confidence. There is the right to file for preliminary injunctive relief and permanent injunctions, as well as an entitlement to compensation of damages and/or accounting for and payment of profits.

35 SR 311.0.
36 SR 241.
37 Article 321a(4) of the Code of Obligations.
38 Article 398(1) and (2) of the Code of Obligations.
39 Article 418d of the Code of Obligations.

## 2. Context and features of patent transactions

### 2.1 The principal dealings in a patent

According to Swiss law, the assignment of a patent application and of a patent is only valid if evidenced in writing and signed by both parties. Patents may be transferred without the transfer being recorded in the Swiss patent register; however, until an entry is made, any action provided for in Switzerland's Patent Act may be taken against the former proprietor of the patent. In addition, licensees acting in good faith can still render their contractual performance to the former patent owner.

The patent applicant or the patent owner may grant third parties the right to use the invention (the grant of licences). Where a patent application or a patent is owned by two or more persons, a licence may not be granted without the consent of all entitled persons. Licences of patents are not subject to particular formalities; however, it is advisable to have a written licence agreement. Licences of third parties not recorded in the Swiss patent register are invalid against persons who have acquired in good faith the rights to the patent. Any person who holds an exclusive licence, irrespective of the registration of the licence in the Swiss patent register, is entitled to bring legal action against a potential patent infringer provided this is not expressly excluded by the licence agreement.

An 'exclusive' licence means that no other person or entity other than the licensee is allowed to exploit the relevant patent rights. Importantly, the licensor is also excluded from exploiting these rights. A 'non-exclusive' licence means that the licensor remains free to exploit the same intellectual property and to allow other licensees also to exploit the same patent. A 'sole' licence typically means that the licence is exclusive, except that the licensor also reserves full rights to exploit the intellectual property itself.

Unless stipulated in the licence agreement, or where it results from the nature of the licence that sub-licences are inevitable and have been planned from the very beginning, a licensee may not grant sub-licences.

Any person who holds an exclusive licence is entitled to bring legal action against potential patent infringers independently, provided this is not expressly excluded by the licence agreement.

### 2.2 Patent rights in corporate transactions

Patents, patent applications, licence rights and other intellectual property rights are often a substantial component of a company's overall value and they therefore play a crucial role in merger and acquisition (M&A) transactions. Such M&A transactions can be implemented by way of a so-called 'asset deal' or a 'share deal'. In the case of an asset deal, the purchaser directly acquires legal title to the patents and licence rights along with the title to the target's other assets. In a share deal, the purchaser acquires the shares of the legal entity that holds the patents and licence agreements. Consequently, in an asset deal, legal title to the patents and licence rights passes from the seller to the purchaser; in a share deal, however, only the beneficial ownership of the patents and licence rights changes from the selling owner to the purchaser.

***(a) Asset deals***

Traditional asset deals are challenging under Swiss law. They require that the title to each asset be transferred individually pursuant to the specific requirements applicable to the transfer of each type of asset. For the transfer of title to patents, an assignment needs to be signed by the seller in favour of the purchaser, which will subsequently apply to register the change of title in the patent register. Under Swiss law, the written assignment is sufficient to legally effect the change in ownership, and the subsequent amendment of the registration in the patent register is only of a declaratory nature and aims at informing the market that the title to the patent has passed to another. In the case of the sale of a portfolio of patents, a written assignment relating to each patent is required to effect the transfer.

In an asset deal, the first step for the sale of a patent consists in the execution of the (global) asset sale-and-purchase agreement; under the Swiss concept of contract, the execution of such an agreement forms the legal obligation for one party to sell and the other party to purchase the assets. The completion of the sale-and-purchase transaction is effected at the closing where the patents are assigned and transferred.

It is advisable in an international transaction that the assignments and transfer agreements meet the requirements set forth by the jurisdiction under which the patent is registered. This structure may lead to a multi-jurisdictional agreement: whereas the asset sale-and-purchase agreement is governed by Swiss law, the assignment and transfer agreements on the patents are usually governed by foreign laws. The international nature of patent rights generally requires the engagement of foreign counsel in each of the jurisdictions where patent applications are pending or patents have been issued. Furthermore, at the closing, the seller typically hands over to the purchaser a written declaration confirming the transfer of title to the patents. This declaration is useful for the subsequent registration of the new owner in the patent registers.

Licence rights may be a substantial part of the business to be sold. Under Swiss contract law, licence agreements may only be transferred with the prior consent of the contractual counterparty, regardless of whether these agreements contain so called change-of-control clauses.

Compared with the traditional asset deal just described, Switzerland's Merger Act[40] provides for a simplified transfer of assets and liabilities.[41] Under this act, the transfer of the assets and liabilities is effected by operation of law and, consequently, without the need for the prior consent of the counterparty.

***(b) Share deals***

As described in the introductory paragraph to this section 2.2, an acquisition of the shares of a company holding patents and licence rights does not lead to a legal but to an economic change in ownership in the patents (ie, there is a new beneficial owner). The acquisition of patents and licence rights through a share deal is less complex than through an asset deal. However, should any of the licence agreements contain a change-of-control clause, the consent of the counterparty to the licence

40 SR 221.301.
41 Article 69 and following of the Merger Act.

agreement should be obtained prior to the completion of the transaction unless the purchaser is willing to take the risk that such licence agreement will be terminated by the counterparty.

*(c) Dealing with the transaction risks*

The risks surrounding a transaction involving the transfer of patents, patent applications and licences mean that a due diligence exercise should always be performed in order to safeguard a potential purchaser's position. Particularly when a technology-driven company or business is to be acquired, the potential purchaser should conduct a thorough analysis of the intellectual property rights owned and utilised by the target company or the seller, as part of the purchaser's pre-investment due diligence review. Such due diligence will enable the purchaser to better assess the value of the target company or target business.

In the course of a due diligence review, the focus will typically be on the following main aspects:

- The purchaser has to review whether the seller or the target company to be acquired has legal title to the patents, the patent applications and the priority rights (if divisional applications are planned), as it is well understood that a seller (in an asset deal) or the target company (in a share deal), respectively, has to have title to the patent rights before it can sell them. Further, a patent owner cannot assert its patent rights against a potential patent infringer unless it is the owner of such rights. It is, however, not unusual that in a group company structure the patents relevant for the purchaser are held by several legal entities of the group, which might have their registered offices in different jurisdictions. With such a structure, should the purchaser be interested in acquiring only a selected number of group companies, the purchaser has to make sure under the relevant jurisdiction that such a company holds legal title to the patent. Typically, other complex issues involving chain of title arise due to the fact that a review of documents filed with the relevant patent register may not in fact disclose the actual owner of the patent in question. In practice, many patents are owned by companies that, over time, have gone through several rounds of corporate reorganisation; as a result, patent rights might have been assigned from one corporate entity to another within the same group. The patent assignments related to these reorganisations may well not be filed in the competent patent registers.
- The purchaser has to verify that all maintenance fees of the patent registers have been paid and all formalities for a due and continued registration of the patents are fulfilled. If such fees have not been paid when due, this could render a patent application irrevocably abandoned or even invalidate an issued patent.
- The purchaser should focus on whether there are any indications of patent infringements by the patent holder on the one hand, or whether there are any infringements of the patent of the target company by third parties on the other.
- Where the patent is of fundamental importance for the business and the existence of the business or company to be purchased, the purchaser is well

advised to verify whether the invention which is the basis for the patent fulfils the requirements to benefit from patent protection (see section 1.1 above) in all the jurisdictions that are or may become relevant for the business operations of the purchaser.

In the due diligence, the purchaser also needs to review carefully patent licence agreements to or from the target company. The purchaser should verify whether the target company retains appropriate rights after completion of the M&A transaction (when the target company is the licensor) or receives appropriate rights (when the company is the licensee). In cases where the target company has entered into a joint development agreement or similar agreements with third parties, a careful review of the rights granted and retained under such an agreement is crucial.

If the M&A transaction is carried out as an asset deal, the transferability of licences granted to the company needs to be analysed. As explained above, contracts are not assignable under Swiss law unless the contractual counterparty (ie, the licensor) has given its consent.

A purchaser of patent assets will also necessarily want to make sure that the sale-and-purchase agreement (regardless of whether it is an asset deal or a share deal) contains representations and warranties from the seller that the patents being acquired exist and are valid and are thus worth the purchase price agreed to as part of the M&A transaction. Specifically, they should state that the seller or the target company holding the patent holds unrestricted title and is registered as owner in the competent patent register. Moreover, the seller should represent and warrant there are no infringements of the patents to be sold. Should there be any infringement claims made by a third party against the patent to be sold or should the patent holder infringe any patents of a third party, such infringement claims should be disclosed. In these situations, the purchaser is well advised to insist on specific remedies and indemnities to be set out in detail in the sale and purchase agreement. The purchaser should also seek to obtain representations and warranties of the seller that the patent is valid and that the patented invention is safe from any challenges of its patent protection. In practice, the seller often gives such a representation and warranty only "to the best of its knowledge" and thus limits the scope.

With regard to the material licence agreements entered into by the target company, the sale-and-purchase agreement should, among other things, contain representations and warranties of the seller that these agreements are valid, have not been terminated or threatened to be terminated, and no counterparty has the right to terminate or modify its rights or obligations under a change-of-control or other specific provision in such an agreement as a result of the transactions contemplated by the sale-and-purchase agreement, and that the target company is not in default under or in material breach of any such agreement.

***(d) Joint ventures and consortium agreements***

From a Swiss law perspective, it is possible to assign patent rights to a joint venture entity or to the members of a consortium. Patents can also be part of a contribution in kind.

If the shareholders of a joint venture or the members of a consortium provide patent rights, often the joint venture or the consortium does not become the new owner, but only receives a licence to use the patented invention. The scope of the licence might be defined in the joint venture or consortium agreement or in a separate licence agreement.

Due to the lack of specific provisions under Swiss law, the parties to a joint venture or consortium agreement must find appropriate solutions at least for the ownership issue and the right to use of inventions and patents that were generated by the parties before entering into the joint venture or consortium agreement (often called 'background IP') and inventions and patents generated by the joint venture entity or members of the consortium during the term of the joint venture or consortium (often called 'foreground IP'). Sometimes parties also provide specific rules on how to handle 'sideground IP', which is generated during the collaboration phase, but not in project related activities.

## 2.3 Particular business transactions

### *(a) Material transfer agreements*

A material transfer agreement (MTA) governs the transfer of tangible research materials (chemical compounds, biological materials such as cell lines, reagents, plasmids and vectors) between a providing and a receiving party, when the recipient intends to use the material for its own research purposes.

MTAs provide specific provisions defining the transferred material, the scope of and limitations to the planned research, confidentiality rules and delay in publication rules to protect potentially patentable inventions. In addition, they often contain language that prohibits the use of the material in research that is subject to licensing or consulting obligations to any third party, including the sponsor of the research project.

No specific Swiss law allocates the rights in and to the invention arising from research based on material provided under an MTA. The parties to an MTA should therefore provide explicit language to allocate such rights.

### *(b) Research and development agreements*

Swiss law allows research and development agreements where an order is given to an undertaking to perform research and development for a principal (non-collaborative research and development agreements) and agreements between two or more parties on research and development on an equal level (joint or collaborative research and development agreements). Even in connection with non-collaborative research and development agreements, Swiss statutory law provides no clear answer to the question of whether the principal acquires all rights in and to possible inventions stemming from the research and development. The parties should thus include specific answers to this question in their agreements.

If universities and universities of applied sciences are involved in research and development, public law normally provides guidelines regarding the allocation of IP rights that result from such activities. The same applies if research and development

are (partially) financed by the Swiss Federal Commission for Technology and Innovation (CTI). The CTI encourages the transfer of knowledge and technology between higher-education institutions and businesses through applied research projects. Essentially, the CTI finances salaries. The revised Swiss ordinance on the law on funding of research and innovation[42] imposes limits on how the parties can allocate IP rights and requires that the parties agree on the specific allocation of IP rights in a separate agreement.

Although Switzerland is not a member of the European Union, Swiss antitrust authorities consider the principles of the revised European Block Exemption Regulation for Technology Transfer Agreements when examining the lawfulness of provisions in a research and development agreement dealing with the access to the results of collaborative research and development.

## 3. Issues associated with patent transactions

### 3.1 Regulatory law and compliance

***(a) Transfers of marketing authorisations***

If a purchaser acquires a set of patents and is interested in distributing the product that is covered by the patents, the authorisations to do so have also to be transferred. This is of particular relevance in the pharmaceutical sector. A marketing authorisation for the distribution of a pharmaceutical product in Switzerland may be assigned to another company upon written request with Swissmedic at least three months prior to the assignment. That request must be supported by various documents, such as the authorisation of the future holder of the market authorisation, a declaration of assignment signed by the previous holder of the market authorisation, and current excerpts from the commercial register of both companies.[43]

A change of the name and/or domicile of a holder of a marketing authorisation (including the change of the legal form of the company) must be requested at least three months prior to the planned implementation, which also requires various documents, such as the authorisation of the company (see below) and a signed communication regarding the planned change.

***(b) Regulatory data protection***

In the regulated pharmaceutical sector, the protection of innovation is not solely left to the patent system. Regulatory data protection provides protection (ie, exclusivity periods) for the technical data generated by innovator companies for the authorisation of their preparations – that is, data generated by drug firms through preclinical and clinical trials to prove the efficacy and safety of the products concerned. By providing exclusive rights to this data, the relevant regulatory

42 SR 420.11.

43 See Swissmedic publication, "Manual transfer of a marketing authorisation and change of name or residence of the marketing authorisation holder", dated January 1 2013.

provisions prevent competitors from obtaining marketing authorisations for low-cost versions during the period of exclusivity.

Current Swiss legislation on regulatory data protection was strongly influenced by the legislation of the European Union at the turn of the millennium, when the current Swiss law was enacted. In Switzerland, subsequent applicants who are not in possession of written permission issued by the holder of the marketing authorisation for the original preparation may apply for a marketing authorisation relying on the data submitted by the first applicant, but not earlier than 10 years after the marketing authorisation was first granted. Under Swiss law, data filed in support of authorisation for new indications, new modes of administration, new preparation forms and new dosages of a known substance are protected for three years. If the applicant proves that the new product brings significant clinical benefits compared with existing therapies, Swissmedic might extend the data exclusivity period to up to five years. Although Swiss law does not contain explicit provisions, Swissmedic takes the view that only the first applicant – that is, only the holder of the first marketing authorisation for the relevant chemical entity – is entitled to data exclusivity of three to five years for new indications, new modes of administration, new preparation forms or new dosages. Second applicants, even if they apply for new indications, new modes of administration, new preparation forms or new dosages of a known substance, do not benefit from regulatory data protection.

The Federal Office of Public Health has issued a preliminary draft amendment to the Swiss regulatory data protection system. The plan is to implement the amendment in the course of the current revision of the Law on Therapeutic Products. The new Swiss regulatory data protection system is intended to implement the European Union's '8+2(+1)' system (i.e. eight years of full data protection, two additional years of marketing exclusivity, and one additional year of marketing exclusivity for new indications of significant clinical benefit). Even though the revised Swiss regulatory data protection system is projected to introduce harmonisation with the EU system, the new Swiss regime leaves noteworthy loopholes. For example, compared with the European law, the proposed revision does not consider the required data protection for new drug combinations or cases of a change of classification of a medicinal product. In addition, the definition of the term 'original preparation' by Swissmedic is still much stricter than the reference products that enjoy regulatory data protection under Directive 2001/83/EC.[44]

### 3.2 Disputed matters

If Swiss courts have jurisdiction over a dispute in connection with patent transactions, this dispute can be brought before the cantonal courts or the new Swiss Federal Patent Court, which commenced operations on January 1 2012. However, questions of validity and infringement of a patent must be decided by the new Federal Patent Court. Where the nullity or infringement of a patent is to be adjudicated before a cantonal court on a preliminary question or defence basis, the

44 See S Holzer, "Regulatory data protection of medicinal products from a Swiss perspective", *Bio-science Law Review*, Lawtext Publishing Ltd., vol 12 issue 5, 2012, pp184–191.

cantonal judge shall grant the parties a reasonable period to file the validity or infringement action before the Federal Patent Court.[45] The cantonal court shall stay the proceedings until a final and binding decision has been issued on the action. If no action is filed before the Federal Patent Court within the specified timeframe, the cantonal court will resume the proceedings and the preliminary question or defence will be disregarded. No recent case law has been published concerning specific questions regarding patent transactions.

### 3.3 Competition rules

As a general rule, the Federal Act on Cartels and other Restraints of Competition (hereinafter the Cartel Act)[46] does not apply to effects on competition that result exclusively from the legislation governing IP rights. However, the competitive effects of IP rights which do not arise out of mere existence, but (for example) from the abuse or the licensing of IP rights, may be reviewed by the Swiss competition law authorities. There is no specific legislation dealing with limitations imposed by antitrust law on patent licensing practices and only limited case law is available in this respect. The general rules of the Cartel Act, dealing with anticompetitive agreements (Article 5) and the behaviour of dominant undertakings (Article 7) are applicable.

Other jurisdictions face the problem that drug makers have been able to sidestep competition by offering patent settlements that pay generic companies not to bring lower-cost alternatives to market. These 'pay-for-delay' patent settlements can block generic drug competition for a significant number of branded drugs. However, to date there have occurred neither proceedings nor decisions regarding pay-for-delay cases in Switzerland.

### 3.4 Securitisation of patent rights

Lending partly or wholly against intellectual property assets is a more recent phenomenon, in particular if the concerned asset generates sufficiently sustainable cash flow. Normally, it is not the patent which is securitised, but rather the income it generates through licence agreements. The royalties stemming from the patent can be pooled and transferred to a special purpose vehicle, which then issues securities in the capital market.

### 3.5 The effect of insolvency

Swiss bankruptcy law does not deal explicitly with IP rights; the general bankruptcy rules apply. For example, in the event of insolvency, the total assets of the debtor including its IP rights form a single mass.[47]

Article 211 of the Swiss Bankruptcy Law can have a considerable impact on licence agreements, as it provides for the conversion of contractual claims into monetary claims of corresponding value. As a general rule, this leads to the

45 See article 26 para. 3 Federal Act on the Federal Patent Court, SR 173.41.
46 SR 251.
47 Article 197 of the Swiss Federal Act on Debt Enforcement and Bankruptcy (SR 281.1).

termination of the contract. However, the administrator of a bankrupt estate is given the choice to prevent conversion by fulfilling a synallagmatic contract. So if the owner–licensor of a set of IP rights falls into bankruptcy, typically the licensee would lose its rights under the licence as these are converted into a monetary claim. If however, the administrator of the bankrupt estate chooses to fulfil the licence contract, the contract remains in force under its original terms.

If the administrator of a bankrupt estate decides to fulfil the licence contract and then sells the IP rights to a third party, legal writers have suggested that the third party acquires the IP rights together with all the obligations resulting from the licence(s) granted. Consequently, the new owner would be bound by the licence agreement. However, no case law exists on this question.

Furthermore, Articles 82 and 83 of the Code of Obligations grant the creditor the possibility of holding back its own contribution in the event of the insolvency of the other contractual party. If the licensor becomes bankrupt, the licensee may retain the licence fee payments, except if there is sufficient surety that the licensee can continue to exploit the licensed rights as before the bankruptcy. If, alternatively, the licensee goes bankrupt, then the licensor may enjoin him from using the licensed rights, unless the licensee gives sureties that the licence fees will continue to be paid.

### 3.6 Taxation

Switzerland has always been a preferred location for IP holding activities. Besides the generally low tax rates, another reason from a tax perspective is the relationship between taxpayers (and their advisors) and the tax authorities, which is based on mutual trust and cooperation. The Swiss tax-ruling practice is unique in the world: it is best practice to discuss beforehand any critical or uncertain tax-related transaction or structure with the competent tax authorities and to agree on the tax consequences in a written and binding tax ruling. As long as the fact pattern remains unchanged, such a ruling provides legal certainty and the tax authorities adhere to the tax consequences outlined in the ruling.

From an international tax perspective, Switzerland is in a very competitive position for IP holding companies as there is no withholding tax on royalty payments based on domestic law. Thus, based on the principle of reciprocity in many of the more than 80 double-taxation treaties that Switzerland has concluded with other jurisdictions, a full refund of withholding tax is granted to a Swiss IP company.

Other IP-specific tax considerations include the full tax deductibility of R&D cost (also against operating income), tax credits for withholding taxes suffered abroad, and the possibility of applying for a tax holiday for up to 10 years, provided that significant investments are made in Switzerland.

### 3.7 Hot topics

One of the hot topics in Switzerland is currently the taxation mechanisms.

Switzerland offers highly competitive income tax rates starting at around 12% for corporations. One canton (Nidwalden) applies an ‘IP box’ regime with an overall effective tax rate of less than 9%.

The IP box regime allows all IP and research and development related activities

of a legal entity that has its statutory domicile in the Canton of Nidwalden (in particular, licence income) to be attributed to the IP box within the company. Income generated by the IP box is subject to a reduced tax rate. The definition of licence income is based on the Organisation for Economic Cooperation and Development Model Convention and is defined very broadly.

In other cantons, IP companies usually benefit from the 'mixed company' privilege, resulting in an effective income tax rate of approximately 8–12%. As Switzerland has faced international pressure to abolish the mixed-company privilege, the Swiss government is currently evaluating the possibility of introducing an IP box regime throughout Switzerland. It is likely that such a regime will anyway be introduced by many cantons over the next few years, with the conversion of any mixed-company set-ups in those cantons in a tax-neutral manner, and that the applicable income tax rates will be in the range of today's mixed companies.

Depending on the specific situation of an international group and on the size of the IP operations in Switzerland, tailored solutions may be available which further reduce the effective tax rate. Such solutions include a foreign IP branch of a Swiss corporation or the use of hybrid instruments to finance a Swiss IP company. Also, structuring opportunities are available in order to ensure that no stamp duty is levied upon entry into Switzerland.