A Study on Patent Trust System in Korea

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With the importance of intellectual property rights, utilization of IP is the key strategy at both firm level and national level. Patent trust system is the system to manage and utilize the intellectual property rights produced by public sector in Korea. In this study, patent trust system and its contribution to vitalize intellectual property right minimizing unused patents is being analysed. In order to fulfill research aims, the numerous Acts and Regulations including both domestics and foreign were used. From the findings, this study suggests that the top priority in revitalization of patent trust system should be the procurement of excellent patent. The trust agencies must procure patents that consumer corporations need. The second concern is the introduction of a patent royalty trust and insurance system. Also, patent portfolio auction needs to be introduced. Finally, patent portfolio auction needs to be introduced for vitalization of patent trust system in Korea.

Keywords: Asset-Backed Securitization Act, patent trust, intellectual property rights, asset securitization, patent trust management model, trust business entity, asset-backed securities

Patent trust system was introduced in Korea in 1995. For all applications and registrations of domestic industrial properties that has reached the world top level, the substantive side is that commercialization by using the patents in Korea is still far behind the advanced countries. In 1998, the Korean government enacted the Technology Transfer and Commercialization Promotion. The government also introduced patent trust system to launch and expand its various support facilities for the purpose of developing technology transfer and commercialization. As such, this paper will present discussions on the patent trust system, which has been implemented in Korea since September 2008.

The purpose of patent trust is to encourage those who lack the managerial capability of utilizing or commercializing a patent to entrust it to a specialized management agency, thereby enhancing the extent of utilization and facilitating the private technology market. Under the law currently in effect, specialized management agency only accepts dormant patents in a trust, which is in contrast to its foreign counterparts that select excellent patents out of all the numerous patents so that they are placed under active marketing efforts, allowing them to ultimately reach the stage of technology transfer and commercialization.

The patent trust system in Korea has certain problems that need to be properly addressed. First, patent trust is only available to dormant patents that have not been utilized for long. This causes difficulty in securitization, which leads to the underperformance of technology transfer within Korea’s present situation where the technology transfer market has not been sufficiently developed. Second, trust utilized for this purpose is of the management-type trust, which is used to conduct transactions or licensing as commissioned by a trustor who entrusts various patent rights. Thus, the roles of trust management agencies are focused on paying patent maintenance fee and marketing activities for patent transfer. As such, attention is not fully given to the commercialization of an entrusted patent by clustering or packaging. Aimed to address these problems, this study analyzes statutory sources (e.g., the Framework Act on Intellectual Property, the Patent Act, the Technology Transfer and Commercialization Promotion Act, and the Financial Investment Services and Capital Markets Act) and academic literatures, searching for an optimal solution to revitalize the patent trust system.

The patent trust system was introduced to facilitate the utilization of a dormant patent in Korea. Intellectual property is in a broad sense, the ‘technological, literary and artistic achievement

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produced by the human activity of creation, such as invention, contrivance, design, trademark, work of art, and public performance. As such, intellectual property right is the product of human intellectual activities to which property value is attributed in the form of industrial property rights and copyrights. Those intellectual property rights that share vague conceptual boundaries with industrial property rights and copyrights are subsequently classified into a new intellectual property right. Such utilization of intellectual property right refers to all activities related to the creation, protection, and utilization of intellectual property. With the importance of every intellectual property growing daily, anything that remains a dormant patent can be viewed as a social cost. The concept of a dormant patent is broad. Generally, a dormant patent refers to ‘all patents (registered) that remain unutilized for industrial or strategic purpose.’ In case firms do not utilize the patent in order to protect their business, that patent is regarded as dormant patent. In Korea, after three years from its registration, a patent can become a dormant patent. In universities, public research institutes, and companies, patents after five or seven years will be classified as dormant patents that need more active and intensive management. As such, the utilization of dormant patents through patent trust should bring a greater social welfare benefits.

**Patent Trust System**

Patent trust defined as ‘an arrangement whereby the patentee transfers patent, or otherwise, disposes of the patent to the trustee, who is commissioned to manage or dispose of the patent for the trustor’s interest.’ By virtue of this facility, any institution that lacks financial source or capability to protect the patent is unable to utilize and commercialize the patent (e.g., universities, research institutes, or small-and medium- sized companies) may elect to entrust its patent to a specialized agency for its management and/or disposal. As mentioned earlier, this constitutes a legal relationship wherein a trustor conveys or disposes a particular property right to the trustee to enable the trustee to manage the property right. This is a transaction with certain traits distinguishable from the general management of property such as patent or technology. The trustor who researched and developed the technology, instead of remaining a passive spectator after having completed the transfer, is expected to conduct further technological development. Moreover, the trustee should maintain a close relationship with the trustor for additional technology transfer or knowledge.

Patent trust provides multiple advantages. In particular: (a) for a company, it can intensively manage intellectual property right; (b) university can create new technology; (c) agency so called technology transfer–specialized division can more concentrate the technology transfer; (d) a comprehensive patent and brand management is possible for those owned by ventures or small-and medium-sized enterprises; (e) it stimulates the utilization of dormant patents; (f) it enables adjustment of right vested in the joint inventors or in the patent pool; and (g) it provides researchers with incentives. Whereas no part of the Patent Act directly mentions the concept of patent trust, Article 51 of the Decree on the Registration of Patent Right states that the trustor and the trustee shall be registered as a registration oblige and registration obligor, respectively.

In order to protect the beneficiary’s interest and the trust company’s credit, the Trust Act places some restrictions on the type of eligible trust property. In the case of patent right, it is managed in the form of ‘management by trust,’ whereby the title of the patent is transferred to the trust management agency, which will manage the patent as a right holder. In accordance with the partial amendment to the Technology Transfer and Commercialization Promotion Act (Act No. 10251), the patent trust was redefined as technology transfer with an expanded scope of protection covering the technological information as a trust asset, in addition to patent. In Article 2, sub-paragraph 8 of the Act, a provision for the basis of management-type trust, trust is defined as ‘a business to receive technology and the license to use it from the owner of the technology and conduct such management service, as prescribed by the Presidential Decree including technology selection and transfer, royalty collection and distribution, supplementary development of technology, and technology assets securitization.’

**Patent Trust Pattern**

As previous mention, management-type trust is a type of patent trust that is currently implemented in Korea. Management-type trust is an outsourcing transaction that entrusts a patent to a trust management agency. For this type of trust, the trust company conducts patent management, patent
maintenance, and patent suit on behalf of the university or company whose capability to manage the trusted patent is insufficient. Once the trustor (patentee) entrusts the patent right to the trustee (patent- trust management agency), the agency manages the patent right by granting licenses to the technology consumer (user) or otherwise. The agency also pays the proceeds to the trustor (or beneficiary). Another method is asset securitization- type trust, a main topic of this study. Under the Asset-backed Securitization Act, asset securitization- type trust is defined as follows: ‘Asset-backed securitization’ refers to activities falling under one of the following items:

(a) Series of activities involving the issuance of asset-backed securities by a special purpose company that uses securitization assets transferred to the special purpose company by the originator as the underlying assets, and payment by the special purpose company of the principal and interest or dividend amounts, with respect to the asset-backed securities out of the earnings, loans, etc., accruing from the management, operation, or disposition of the securitization assets;

(b) Series of activities involving the issuance of asset-backed securities by a trust business entity under the Capital Market and Financial Investment Business Act (hereinafter referred to as a ‘trust business entity’) using securitization assets received in trust by the trust business entity from the originator as the underlying assets, and payment by the trust business entity of the asset-backed securities proceeds out of the earnings, loans, etc., accruing from the management, operation, or disposition of the securitization assets concerned;

(c) Series of activities involving acquisition by a trust business entity of securitization assets from the originator using the funds received in trust by the trust business entity through issuance of asset-backed securities and payment by the trust business entity of the asset-backed securities proceeds out of the earnings, loans, etc., accruing from the management, operation, or disposition of the securitization assets; or

(d) Series of activities involving the issuance of asset-backed securities by a special purpose company or a trust business entity using securitization assets or asset-backed securities issued on the basis of such securitization assets, which are transferred or entrusted to the special purpose company by another special purpose company or trust business entity as the underlying assets, and payment by the special purpose company or trust business entity of principal, interest, dividends, or earnings of the asset-backed securities issued by the special purpose company or trust business entity out of the earnings, loans, etc., accruing from the management, operation, or disposition of the securitization assets or asset-backed securities originally transferred or trusted. (Article 2 of the Asset Securitization Act).

The patent trust management business is composed of transactions such as, transfer of the patent right to the patent trust management agency (trustee), and the truster is granted a non-exclusive license to use the patent right in the same manner as prior to the trust establishment. Below is an illustration of the patent trust management model as it is presently implemented in Korea.

Traditionally, intellectual property right trust management has been concentrated on copyright. Put differently, the most typical trust management of intellectual property right is the system of ‘copyright trust management.’ Under this system, individual uses of individual copyrighted works are independently managed in the mode of blanket authorization mode. Thus, the interest of copyright holders is properly represented and users are able to use the copyrighted works at a reasonable cost.

In contrast, in the case of industrial property rights such as, patent, the mode of trust management is not a norm. Whereas copyright management is conducted in the form of ‘single versus multiple’ or ‘multiple versus multiple’ repeatedly, industrial property rights management (e.g. patent) is based on single versus single relationship, which is mostly completed through a single contract execution. For industrial property right, the role of the trust management organizations is important, in light of the acquisition and maintenance of the underlying rights.  

Intellectual Property Rights and Asset Securitization

Securitization can be defined as the transformation of a liquid asset into a security. Therefore, a security is tradable. Securitization of intellectual property rights is a type of asset securitization that involves the issuance of securities, based on underlying intellectual property right to attract investment from the general
In general, asset-backed securities (ABS) refer to securities issued on the value of underlying assets to procure money from the capital market and such securitization provides the assets with a high degree of liquidity. The asset securitization law in Korea, covers the conventional contents (Table 1): A series of activities involving issuance of asset-backed securities by a special purpose company or a trust business entity using securitization assets, or asset-backed securities issued on the basis of such securitization assets, which are transferred or entrusted to the special purpose company by another special purpose company or trust business entity as the underlying assets, and payment by the special purpose company or trust business entity of amounts of principal and interest, dividends, or earnings of the asset-backed securities issued by the special purpose company or trust business entity out of the earnings or loans, etc. accruing from the management, operation, or disposition of the securitization assets or asset-backed securities originally transferred or trusted.

In order to facilitate the intellectual property rights, Asset Securitization law can be made in effect recognizing two methods to procure a fund through intellectual property right securitization: (a) by issuing asset securities through securitization of a special purpose company (SPC) under the Asset Securitization Act; and (b) by issuance of beneficiary certificates through trust, so that the asset owner transfers and assigns his/her assets to a trust agency in return for the beneficiary’s right with respect to the assets.

![Fig. 1—Patent Trust Management Business Model](image)

<table>
<thead>
<tr>
<th>Category</th>
<th>Asset Securitization Mode</th>
<th>Trust Mode</th>
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<tbody>
<tr>
<td>Statutory source</td>
<td>Asset Securitization Act</td>
<td>Special Purpose Trust (SPT)</td>
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<tr>
<td>Vehicle</td>
<td>Special Purpose Company (SPC)</td>
<td>Transferred</td>
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<tr>
<td>Title to the intellectual property right</td>
<td>Transferred</td>
<td>Entrusted</td>
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<tr>
<td>Monetary credit such as, royalty receivables</td>
<td>Transferred</td>
<td>Entrusted</td>
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<tr>
<td>Mode of fund operation</td>
<td>Securities (bond)</td>
<td>Securities (beneficiary certificate)</td>
</tr>
<tr>
<td>Assignability, liquidity</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Fund procurability</td>
<td>Low</td>
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<tr>
<td>Small fund procurability</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Procurement of fund for production and development</td>
<td>Low</td>
<td>High</td>
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Since its introduction in Korea in 1998, the asset securitization system has been expanding its utilization to the point that it is perceived as a significant part of asset investment. Investment banks and venture capitals have been playing a key role in having patent rights and trademark rights conceived as an investment object or business opportunity. By virtue of securitization of intellectual property right, an intellectual property right becomes the objective of investment made through trust or a fund for indirect investment. As a result, corporations can procure the money more conveniently at a lower procurement cost. Furthermore, securitization of patent royalties receivable by corporations may produce asset liquidity—such as quick recovery of R&D cost—at the early stage. In particular, trust-type securitization is needed as it enables small- and medium-sized corporations, including venture capitals whose assets mostly consist of intangibles, to more readily procure funds through a sale of the trust beneficiary’s certificate based on the intellectual property right. As mentioned earlier, securitization of intellectual property right is subject to the application of the Asset-backed Securitization Act and the Capital Markets Act. In addition, the Act on Security over Movable Property, Claims, Etc. (Act No. 10366) was recently enacted, which permits borrowing from a financial institution with established pledge on movable property, claims, or intellectual property right. Under this Act, security right over intellectual property right is subject to the application of the provision on security right over movable property. Also, Article 352 of the Civil Act is anticipated to provide financing opportunities to small-and medium-sized companies that have limited security sources. The other is the securitization-type trust, which is also discussed in the present study.

**Intellectual Property, Asset-backed Securities and Legal Issues**

To become trust assets, a property right needs to have such elements that would allow it to be convertible to cash; it must constitute a positive wealth; and it must be presently identifiable and in existence. Although the trust property belongs to the title of the trustee, it must be separately managed from his/her inherent property and from other trust assets (Article 37 of the Trust Act). Therefore, in order to give trust legality in transactions that involve a third person, the trust assets must be publicly disclosed. However, in the case of a trust-type asset-backed securitization, it shall be promptly registered with the Financial Services Commission (Article 6 of the Asset Securitization Act). Moreover, any asset-backed security shall be deemed to have satisfied the defense element meaning the authorities against third party as set forth in Paragraph 2, Article 450 of the Civil Act (Article 7(2), Asset Securitization Act). Thus, when securitization assets to be transferred or entrusted pursuant to the asset- backed securitization plan are claims secured by the maximal mortgage and the originator has sent the obligor a notice expressing his intention to transfer or entrust all of the claims, fixing the amount of claims secured by the maximal-mortgage with no additional claim, by content-proof mail, the claims shall be deemed to have been fixed on the day following the date of service of the notice,- provided that this shall not apply where the obligor has raised an objection thereto within 10 days therefrom.

Trust assets independently exist as separated from the trustees’ general properties and where a trustee has engaged in a dispositive act in violation of the purpose of the trust, the beneficiary may revoke such legal act done by the trustee (Article 75 of the Trust Act). Therefore, the effect of a trust that has a potential to deliver significant impact to a third person’s interest must only be recognized to the extent that any third person’s interest is not injured. To this end, the trust property must publicly notified to the effect that it is seen as a trust property. In case of a property right to be registered —such as real estate or vehicles—in creating a trust, two issues are involved: (a) a requirement to constitute a transfer of the property ownership to the trustee; and (b) a requirement for such transferred property to constitute a trust property.

In accordance with the Trust Act and with respect to any property right that can be registered, the fact that the property belongs to trust property may contest against a third person by completing the registration of the property. With respect to any property right that cannot be registered, the fact that the property belongs to a trust property may contest against a third person upon indication of such fact on a book prescribed by the Presidential Decree (Article 4 of the Trust Act). If such trust property is a patent right, which is a property that needs registration, the trustor shall transfer the patent right to the trustee
complete the registration thereof. Registration of the trust to obtain the power of contestation against a third person (creditor of the trustee) shall be subsequently completed. If a right to claim a patent to be issued is placed in a trust and the patent is registered later, there would be two perspectives of this trust relationship. One views that the claim for a patent was extinguished and a new patent right has been established; the other views that the claim for a patent to be issued has been converted to the patent right.

**Rights and Responsibilities of Trustee and Beneficiary**

In compliance with the purpose of the trust, the trustee is obliged to manage and dispose of the right to the trust property received from the trustor.\(^3\) The trustee’s management activities include all actions to protect the patent right from any infringement, management of annual fee, and granting of non-exclusive licenses. In the Trust Act, non-exclusive licenses are not mandated by law. However, Trustee can grant non-exclusive license for providing trustor with lucrative source of income. As the patent trust management is to utilize patented inventions and distribute proceeds to the trustor, it is essential that the trustee be granted a power of decision in relation to the management and disposition. Where a patent constitutes a trust property, one of the important issues is whether it complies with the duty under the Trust Act and with various elements taken into consideration such as, the difficulty in determining the economic value of the trust property, necessity of active marketing by the trustee, and vulnerability to infringement by a third person as distinguished from other monetary credits.

The trustee has rights, wherein the first is the right to remuneration. As the trust is based on the special trust relationship between the parties, the trustee will have no remuneration in the absence of a specific agreement on such remuneration (Article 47 of the Trust Act). The adoption of this approach in the Trust Act traces back to the old English law that accepted the principle of non-remuneration in a trust relationship. Exercise enforcement upon the trust property based on the right to remuneration and maintain the trust property\(^13\). Under the Trust Act, the remuneration right of a trustee who received remuneration from the beneficiary can be exercised by selling the trust property and prioritize the appropriation of the proceeds over other claimants. The trustee must pay the tax, impost, charge, and interest imposed on the trust property out of the trust property itself. The reimbursement of any expenses incurred by the trustee that is not his/her fault can be paid out of the trust property as part of the prioritization over other claimants (Article 46 of the Trust Act). Any cash that exists in the trust asset must be first appropriated to reimbursement. If it is insufficient, a trustee may sell the trust property and appropriate proceeds therefrom, for appropriating the settlement of claims as a part of the prioritization over other claimants (Article 48 of the Trust Act).

**Responsibilities of the Trustee**

The Trust Act imposes on the trustee the duties of a good administrator’s fiduciary care, separate management, loyalty, and impartiality subject to liability for damage incurred by any breach of such duties. In this regard, a patent trust involves matters subject to potential disputes on the trustee’s duty in relation to the license agreement or royalty distribution. Furthermore, as patent trust relates to a patent whose economic value is difficult to estimate because of the inherent nature of the patent, a trustee is obliged to utilize trust property in an active and proper manner. Therefore, the discussion will be made on the duty of a good administrator, the duty of loyalty, and the duty of impartiality.

Article 32 of the Trust Act provides that a trustee shall perform trust affairs with due fiduciary care as required of a good administrator. In the case of a patent trust, potential issues with regard to the breach of the duty of a good administrator include the following: (a) where a license is granted to the beneficiary (including the trustor) or a third person for no or on a favorable condition; and where cross licensing is only beneficial to a part of the entire beneficiaries or to any third person who is not a beneficiary.\(^14\)

In a patent trust, it is not a breach of trust agreement that the trustee grants license to a particular beneficiary or a third person for no consideration or on a favorable condition. This is
because imposing fiduciary care required of a good administrator is not a mandatory rule and it can be considered as similar with responsibility creation. Cross licensing is transaction whereby the trustee permits its patent right that constitutes part of the property asset to be used by a third person in return for obtaining a license to other intellectual property owned by the same third person\(^9\). As only part of the persons involved in the trust property benefits, this does not breach the agreement as long as the terms and conditions are set forth in the agreement.

In a patent trust, the following issues may arise when a mutual conflict between the trust properties occurs. In this case, a conflict of interest may arise between the trust properties. Thus, the trustee may: (a) terminate the trust agreement and let the beneficiaries attempt to resolve the dispute on their own; (b) lay down in advance the relevant provisions in the trust agreement to be complied with; or (c) may opt to do what he/she thinks is optimal at any time concerned. However, in practice, it is not possible to take (b) and (c) without breaching a good manager’s duty. As such, a broad provision must apply. That is, every time a conflict of interest arises, the trustee may make a judgment and propose a solution to the beneficiary or refer the matter to an impartial third person for a final decision. However, this part needs further prospective discussion.

Rights and Responsibilities of Beneficiary

The Trust Act requires that beneficiaries be separately designated from the trustor (Article 58 of the Trust Act). Although the beneficiary is not part of a party to the trust, he/she obtains the right to receive the trust benefit as a result of the trust creation. The beneficiary may delegate its power to supervise how trust affairs are lawfully processed. Beneficiaries need not be existing or designated at the time of trust creation. Moreover, if no such beneficiaries exist, the trustor may designate himself/herself as the beneficiary. Whereas the trustor may become a beneficiary, the trustee cannot be a beneficiary, except in cases where he/she can be one of the joint beneficiaries. This is because if the trustee is in a position of a beneficiary that will enjoy the benefit from the trust, a situation may occur wherein he/she breaches the duty of loyalty.\(^{14}\)

Right of the Beneficiary (Right to Benefit)

The right of a beneficiary is also referred as right to benefit. The right to benefit is a payment claim from the trustee. As its legal nature is a credit, it can be a subject matter of transfer, pledge establishment, and inheritance, which is subject to notification to or approval by the trustee (Article 450 of the Civil Act). Furthermore, a pledge of rights must be created on the right to benefit through the method with regard to the transfer of the right to benefit (Article 346 of the Civil Act). If a beneficiary is one of the several joint beneficiaries, he/she may legitimately acquire pledge on the right to benefit from the trust property. In the case of an intellectual property right trust, separation between the trustor and beneficiary deserves some consideration during the initial stage of management, but this is considered as inappropriate. It is necessary to restrict the transfer of right to benefit at the time of creating the trust.

Legal Issues of Trust Patent Infringement Suit

As the main purpose of any trust is to have the trustee proceed with litigation that is null and void under the Trust Act (Article 6 of the Trust Act), it is necessary to look into the purpose of the trust, including its compliance with the former. In case of a trust that have a patent right as its trust property, the trustee is eligible to be a party for the injunctive relief or a damage claim as the patentee.\(^9\) If the trustee creates an exclusive license of the patent right, the trust agency, as the patentee, may exercise claim for injunctive relief or damage compensation. As such, it is disputable whether—in case where the trustee abstains from implementing the patented invention for itself—Article 128 of the Patent Act relating to the presumption of lost profit in case a patented invention is not implemented and the estimated enrichment to the infringer may be applied \textit{mutandis mutatis}.

If the trustee becomes a plaintiff in a patent infringement suit, as he/she is the right holder of the trust property by receiving the trust property, he/she must be granted the power to seek injunction or damage compensation suit based on the patent right, if such patent right has been or is likely to be infringed. To be a plaintiff to claim damage compensation of a trustor, he/she must be a designated party under the Civil Procedure Act (Article 53 of the Civil Procedure Act). However, as the present mode of patent trust management under the Technology Transfer Promotion Act is on the premise that the trustee receives the patent from the trustor and grants nonexclusive license to any entity that needs such technology, he/she is unlikely to have an exclusive license or monopolistic nonexclusive license.
designating himself/herself as the beneficiary and management-type trust executes a trust agreement 'exclusive licensee.' With this, as a trustor in a regardless of his/her legal status of either 'patentee' or has monopolistic interest based on the patent right, compensation is determined by whether the person

means that the eligibility to claim for damage compensation if the trust agreement and profit on the patent, it is possible to claim for damage theorizes that with regard to monopolistic profit based on the patent to the trustor or reinstate the patent right or exclusive license for losses caused by the infringer’s transfer of infringing articles, the amount of losses may be calculated by multiplying the number of transferred articles by the profit per unit of the articles that the patentee or exclusive licensee might have sold in the absence of said infringement. In such cases, the compensation may not exceed an amount calculated by multiplying the estimated profit per unit by the amount obtained by subtracting the number of articles actually sold from the number of products that the patentee or exclusive licensee could have produced, provided, that where the patentee or exclusive licensee was unable to sell his/her product for reasons, other than infringement, a sum calculated according to the number of articles subject to the said circumstances shall be deducted.’

For the estimation of profit gained by the infringer, Paragraph 2 states: ‘Where a patentee or an exclusive licensee claims compensation for losses from a person who has intentionally or negligently infringed his/her patent right or exclusive license for losses caused by the infringer, as a result of the infringement, shall be presumed to be the amount of damage suffered by the patentee or exclusive licensee.’

In case, where the trustee grants the trustor with an exclusive license or a monopolistic non-exclusive license, the trustor may file a damage claim in his/her own name. This is in contravention of the purpose of the trust as the trustee may not grant license to a third person other than the trustor. An academic view theorizes that with regard to monopolistic profit based on the patent, it is possible to claim for damage compensation if the trust agreement and profit situation can be viewed in a substantive unity. This means that the eligibility to claim for damage compensation is determined by whether the person has monopolistic interest based on the patent right, regardless of his/her legal status of either ‘patentee’ or ‘exclusive licensee.’ With this, as a trustor in a management-type trust executes a trust agreement designating himself/herself as the beneficiary and acquires the license from the trustee or monopolizes royalty and other profit received from the trustor or a third person, the trustor is placed in a substantially identical position with the patentee. Therefore, it should be reasonable to conclude that the trustor (beneficiary) is, like the trustee, entitled to claim for damage compensation based on patent infringement. The same is true for fund-procuring trust, where both the trustor and trustee are viewed to have right to claim for damage compensation based on Article 128(1) and (2) of the Patent Act.

The Case of Asset-Backed Security Trust
In the case of a fund-procurement type trust, patent management is not the primary concern of the trust company. Rather, it securitizes the patent as a process to procure capital. For that reason, it is reluctant to participate in the patent suit as a party to the dispute. In this case, an issue may arise on how the trustee, beneficiary, licensee, and others may take part in the lawsuit\(^3\). After entering into a trust agreement, the trustor (beneficiary) cannot seek an injunction from infringement or claim for damage compensation, unless he/she is without an exclusive license or exclusive general license. In the case of patent invalidation trial requested by a party, only the trustee can be the defendant. For the trustor to participate in a suit, he/she must: (a) terminate the trust agreement and the trustor procures the patent right; (b) seek to participate in the suit in the form of sub-intervention in case of trust’s negligent for suit; and (c) seek an elective representation of suit in case of additional or complement explanation of the patent issues.

Through the first method, the trustor may participate in a suit provided that the trustor re-assigns the patent to the trustor or reinstate the patent right to the trustor through a delivery of the physical object upon expiration of the termination agreement. This is not suitable for a management-type trust and, in the case of asset-backed security trust, participation in the dispute as a direct party may be required when the asset-backed securities are in a precarious status. In the case of sub-intervention, it is a requirement that a legal interest of participation exists. Thus, a trustor’s duty to respond should be set forth in the trust agreement. Also, in the case of an elective representation of lawsuit, an important issue is whether it is reasonably necessary for the trustor to conduct a lawsuit on behalf of the trustee. Unlike management-type trust, in the case of
fund-procurement type trust, to permit an elective representation to the trustor who, as an expert of the relevant patent, may bear the responsibility for reacting to a dispute over the right. As such, this conforms to the policy purport of the patent trust.

As no statutory provision exists for granting the beneficiary to a securitization-type trust with the power to exercise his/her right to injunction, a more positive construction is justifiable in order to allow a beneficiary to participate in a lawsuit. For example, the beneficiary could participate in the form of sub-intervention as a substantial stakeholder or he/she may be allowed to participate through an elective representation of suit.

Under the present laws, any licensee who has acquired technology transferred from the trustee is entitled to a claim for damage compensation. As an exclusive general licensee has legal interest from monopolizing the market by using the patented invention, the majority of academic sources view that he/she may exercise his/her own damage claim against the infringer. Although a non-exclusive licensee is not given his/her own injunction claim, he/she can exercise the right to injunction on behalf of the patentee. However, general nonexclusive licensees may not claim damages.

With regard to the structure of securitization of intellectual property rights, the problems associated with trust-type securitization are that as trust banks or trust companies have the ability to accept multiple intellectual properties as trust property, conflict of interest situations may occur if it competes with other entities in the same industry, in terms of intellectual property management. Also, a sharp conflict may arise between the two trust properties under its trust in cases where, for example, utilization of patent by an exclusive patentee after the patent is entrusted to a trust company causes the patent to be infringed. For example, in the case of a patent invalidation trial, the trustee must participate in the trial and take the invalidation trial procedure. In order to exercise the right to claim compensation damage against an infringer, a patentee’s creation of the trust is not sufficient. Instead, the trustee must obtain an exclusive license from the patentee. With these relations taken into account, it should be desirable that a securitization special purpose company receives the license and the exclusive licensee becomes the trustor.

Unlike ownership, whose key element is to control the subject matter, the main function of the patent right is to prohibit another person’s utilization of the invention. Even after the patent right ceases to exist, an exclusive licensee may continue its business by utilizing the invention. A problem of not having to pay royalty to a securitization special purpose company may occur. There are two modes of securitization available: one is to use a trust company as an SPC, such as cooperative under the Civil Act, or as an anonymous cooperative under the Commercial Act and cause such SPC to issue asset-backed securities; the other is to receive and securitize beneficiary certificates issued under the Capital Markets Act as a trust beneficiary’s certificate. Under the Asset-backed Securitization Act, the special purpose vehicle includes a securitization-specialized company as an SPC and a trust company as Special Purpose Trust (SPT) (Article 2 of the Act). An SPT is a trust company under the Capital Markets Act that can engage in a series of activities involving the issuance of asset-backed securities using securitization assets received in trust from the originator as the underlying assets, including payment by the trust business entity of the proceeds of the asset-backed securities out of the earnings or loans, etc., accruing from the management, operation, or disposition of the securitization assets concerned. (Article 2(1) of the Act) This is the mode that is most likely to be utilized in intellectual property securitization.

**Utilization of Intellectual Property Rights and Asset-backed Securities**

In order to facilitate the securitization of intellectual properties, an introduction of the trust mode under the Asset Securitization Act is necessary. As a trust property, intellectual property has the following characteristics: (a) an asset whose value is realized only by use; (b) its distribution market has yet to be organized; (c) instability as a right; and (d) industry-specific elements.

Unlike real property or money credit, intellectual property faces problems that need to be overcome, such as suitability for the subject matter of trust, issues arising in connection with transfer and valuation, and unreliability because of inconsistent cash flow. For the property owner, it provides cost savings and convenience when procuring fund. By virtue of separation upon bankruptcy, investors may only invest in intellectual property as the subject property, which is a characteristic that is suitable as a trust property.
In Korea, it is possible to receive and securitize the assets transferred from securitization SPC or entrusted by a trust company or assets-backed securities that have been issued on such assets. In the case of utilizing a trust to securitize assets under the current law, Article 110 of the Capital Markets Act places a restriction wherein the beneficiary’s certificates may not be securitized, except in the case of a monetary trust. It should be legally allowed to securitize the intellectual property beneficiary’s right as the sale of beneficiary right to trust may lead to the utilization of a money-procurement source. The intellectual property subject to securitization may affect the company’s credit rating as per its value assessment. To enhance the credit, a credit-enhancement agency that specializes in providing a payment guarantee to intellectual property may be commissioned to reinforce liquidity or IP portfolio experts may structure a well-designed marketable portfolio to enhance credit rating. If money procurement is facilitated by such efforts, innovative small- or medium-sized enterprises may particularly benefit from this type of securitization.

It should also be noted that, in order to vitalize asset securitization, relaxation of the trustee’s duty not to delegate is necessary. Article 10 of the Asset Management Act excludes a trust company from the entities to which management of securitization assets is entrusted. As the instrument of trust is based on a trust relationship between the trustor and the trustee, the trustee should handle the trust affairs through direct engagement, as a matter of principle. Furthermore, with regard to the right claim reimbursement by which the trustee may claim for damage compensation from the beneficiary in certain situations (Article 42(1) and (3) of the Trust Act) places indefinite burden to the beneficiary. This provision should be reconsidered for removal.

Conclusions and Implications

The patent trust system was initially introduced with an optimistic perspective. The dormant patents scattered around universities, research institutes, and enterprises were expected to be incorporated into systematic management, thus saving on search and transaction costs. The trust agencies were also anticipated to take the position of a right holder on behalf of the trustor and exert its power of negotiation and management in relation to intellectual property. Attempts were made to search and excavate excellent technology from patents that remain unutilized in universities and public research institutes in expectation of competitiveness enhancement of small-and medium-sized companies and of the whole country. However, the system is still underutilized because of legal intricacies and restrictions, including the underdeveloped domestic intellectual property market.

What we have positive sides for settlement of patent trust system in that the number of utilization of Patent trust system increases over time. According to the outputs released by incumbent trustee agencies, in 2010, the number of patents trusted were 10, but in 2014, the number of patents trusted and used as commercialization were 45. When analyzing the results with more detail, we can find fast growth ratio in Korea. During 5 years, around 12,000 patents were applied for patent trust and 1,829 patents were accepted, so they were used as commercialization. By utilization of the number of patents trusted, from 30,743 dollar as of 2010 to 717,336 dollars as of 2014 was made. When going over the results, excellent patent brought the successful commercialization. It can be assumed that patent trust system can play a role to ignite the technology transfer using the unused patent if patent is excellent. This study suggests that the top priority in revitalization policies of this system should be the procurement of excellent patent.

The trust agencies must procure patents that consumer corporations need. To procure excellent patent, care must be taken so that the life span cycle of the patents would not be long. In general, the lifespan of a patent is less than five years from its registration. With respect to technology transfer, those techniques that were three to five years from creation are in the greatest demand and those over five years have little record of transfer or utilization. Accordingly, in order to procure excellent patent, the criteria for selection and valuation of patent trust needs to be amended so that the dormant patent period will be defined as less than five years. Moreover, packaging-friendly patent should be given more consideration for selection as an excellent patent. Also, the present patent trust system must incorporate overseas patent, aside from domestic patents, as trust property. The second concern is the introduction of a patent royalty trust and insurance system. It is a recent phenomenon that SMEs (small and medium-sized Enterprises) suffer from lawsuits filed by patents and other potential entities that do not directly manufacture products such as patent trolls. To resolve this, the introduction of patent royalty trust and
insurance to reduce risk upon patent infringement litigation and prevent conflict is recommended.

With regard to a trustee's duty in the law of trust in time of job performance by a trust management agency, this study did research on legal issues that might arise around duty of loyalty or duty of care, and suggested the predicted issues related to the duty of protection and solution plans.

References
1 According to the definition of intellectual property by WIPO, intellectual property is achievement produced by the human activity of creation, such as invention, contrivance, design, trademark, work of art, and public performance. In the Act on Intellectual property Article 3, intellectual property is also intangible things, which can be changed into property rights.
15 Report for Technology Commercialization of Korea Institute for the Advancement of Technology, 2015, 2-5.