

Patent Cooperation Treaty (PCT) Working Group

**Eleventh Session
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PROGRESS REPORT: POSSIBLE MEASURES TO REDUCE EXPOSURE OF PCT FEE INCOME TO MOVEMENTS IN CURRENCY EXCHANGE RATES THROUGH NETTING

Document prepared by the International Bureau

SUMMARY

1. This document sets out a progress report on the International Bureau's analysis of issues relating to the possible introduction of a "netting structure" for all PCT fee transactions to reduce exposure of fee income to movements in currency exchange rates and to reduce cost and effort for receiving Offices and International Searching Authorities.
2. A pilot project with a number of receiving Offices and International Searching Authorities for the netting of PCT fees, mainly search fees and international filing fees, will commence on April 1, 2018. Should the pilot project deliver positive results, the International Bureau intends to extend the netting structure to further interested receiving Offices and International Searching Authorities and to submit proposals to the Working Group to formalize the arrangements in a consistent framework set out in the PCT Regulations and Administrative Instructions.
3. Furthermore, should the pilot be successful, it is the International Bureau's intention to invite several Offices which act as both a PCT receiving Office and as an Office of a Contracting Party to the Madrid and/or the Hague Systems to join an expanded netting process which would include all transfers of funds to and from WIPO.

BACKGROUND

4. The PCT Working Group, at its ninth session in May 2016, discussed a document prepared by the International Bureau that set out various possible measures to reduce the risk of exposure of PCT fee income to movements in currency exchange rates (document PCT/WG/9/9). The discussions are summarized in paragraphs 21 to 36 of the Summary by the Chair (document PCT/WG/9/27); paragraphs 30 to 33 of the report of the session (document PCT/WG/9/28) give details of all the interventions made by delegations during the session.

5. The International Bureau presented an update of the work carried out on one of the possible measures discussed in document PCT/WG/9/9, namely, introducing a “netting structure” for the transfer of PCT fees, at the tenth session of the PCT Working Group (see document PCT/WG/10/6). The discussions at this session are summarized in paragraphs 19 to 21 of the Summary by the Chair (document PCT/WG/10/24); paragraphs 50 to 59 of the report of the session (document PCT/WG/10/25) give details of all the interventions made by delegations during the session.

6. This document presents a further update on introducing a “netting structure” for the transfer of PCT fees. The Secretariat will give a further oral update report to the Working Group during the present session.

INTRODUCING A “NETTING STRUCTURE” FOR THE TRANSFER OF FEES

7. Building on arrangements which have been trialed between the United States Patent and Trademark Office (USPTO) as receiving Office (RO) and the European Patent Office (EPO) as International Searching Authority (ISA) for the transfer of search fees from the RO to the ISA via the International Bureau, at the time of writing the present document, a pilot project is being prepared for the netting of PCT fees. The pilot project is intended to commence on April 1, 2018, and will significantly expand on the scope of that trial in the number of participating Offices, the fee types involved and will involve balancing payments in a given currency in both directions, that is, payments from the participating Office to the International Bureau and payments from the International Bureau to the participating Office.

8. At an initial stage, the scope of the pilot will provide for the netting of the following fees and amounts:

(a) PCT fees received by Offices in their roles as RO, ISA or International Preliminary Examining Authority (IPEA) for the benefit of the International Bureau or other Offices:

- (i) international filing fees collected by the Office as an RO;
- (ii) search fees collected by the Office as an RO for transfer to other Offices as ISAs;
- (iii) handling fees collected by the Office as an IPEA;

(b) PCT fees received by the International Bureau for the benefit of International Searching Authorities:

- (i) search fees collected by RO/IB on behalf of ISAs participating in the pilot;
- (ii) supplementary search fees collected by the IB for transfer to an Authority specified for supplementary search (SISA) participating in the pilot.

- (c) Amounts owed by the IB to the ISA or owed by the ISA to the IB under Rule 16.1(e) arising from any exchange gains or losses incurred by the Office as an ISA due to search fees transferred to the ISA by ROs not participating in the pilot in currencies other than the currency in which the ISA has fixed its search fee that are freely convertible into the fixed currency.
- (d) Payments relating to other WIPO services, such as the Madrid and Hague Systems (at an initial stage, for some Offices only).
9. Software to manage the netting process has been selected and installed.
10. If successful, it is envisaged that the pilot may be further extended to support centralized payments of fees for services provided on behalf of national Offices through ePCT, as well as extending the netting concept across a wider range of transactions, including more Offices and including Madrid and Hague payments into the processes.
11. Fees collected by an Office as an RO that are subsequently transferred to the same Office in its capacity as an ISA will be excluded from the pilot.
12. A draft Memorandum of Understanding¹ (MoU) has been prepared for signature by the International Bureau and each of the ISAs participating in the pilot, covering the netting procedure and the search fee transfer process, as well as relevant documentation requirements. Unlike the MoU which forms the basis of the ongoing trial between the USPTO as RO, the EPO as ISA and the IB, the new MoUs will be only between the IB and the Offices participating in the pilot in their capacity as an ISA but will not formally include participating ROs. The IB will send a notification to each of the ROs that have designated one of the participating ISAs as competent for the international search of applications filed with the RO concerned, inviting them to participate in the pilot. In this case:
- (a) the IB would be acting as the “agent” of the participating ISA to collect the search fees on behalf of the ISA and would review the documentation submitted by the participating RO;
- (b) a timetable would need to be agreed with each participating RO with regard to the date each month on which the RO must transfer the search fees to the IB in order for those fees then to be transferred to the participating ISA concerned; furthermore, the currency in which the search fees must be transferred to the IB would need to be agreed;
- (c) transactions not received by the agreed date would be held by the IB and transferred to the participating ISA in the following month.
13. Each RO so invited to participate will have the option to either agree to participate or to indicate that it prefers to continue dealing directly with the ISA. Once an RO agrees to participate, it will be notified in writing of the banking instructions for the transfer of the fees and the mailing instructions for the submission of the documentation (electronic and, when required, in paper format).

STATUS OF DISCUSSIONS WITH PARTICIPATING ISAS

14. A first MoU has been signed by the International Bureau and the EPO in its capacity as an ISA. Due to the large number of ROs which have specified the EPO as ISA, the EPO as ISA has proposed to begin the pilot in a phased approach over a period of several months, likely to be from April 1 to November 30, 2018.

¹ An exchange of letters may be used instead for some ISAs where this is considered sufficient and is procedurally more efficient.

15. Initially, only those ROs which collect the search fees for the benefit of the EPO as an ISA in a currency other than the euro will be invited to participate. In addition, the ongoing trial between the USPTO as RO, the EPO as ISA and the IB referred to in paragraph 7, above, will continue.

16. At the time of writing the present document, a pilot with the Japan Patent Office (JPO) as ISA is intended to proceed on the basis of an exchange of letters (instead of an MoU) and to commence on April 1, 2018, with—at the outset—five ROs, all five of which collect search fees for the benefit of the JPO as ISA in United States dollars. Discussions with the relevant ROs which will be invited to participate in the pilot will commence shortly.

17. Discussions to set up a pilot with the Korean Intellectual Property Office (KIPO) as ISA are ongoing. The proposal under consideration does not initially deal with currency exchanges as an integral part of the arrangements, but would begin with two separate netting processes, one covering transactions in Swiss francs (PCT international filing fees offset by Madrid and Hague monthly distributions) and one in Korean won, covering search fees. Discussions have not yet formally commenced with the relevant ROs which will be invited to participate in the pilot.

18. Currently under discussion with the USPTO is a proposal covering the possible monthly netting of trademark and industrial design fees collected by the USPTO in Swiss francs with the Madrid/Hague monthly distributions made by the International Bureau in this currency; at present, Madrid and Hague fee payments are handled on a weekly basis.

19. Draft MoUs are at various stages of discussion for pilots envisaged with the Austrian Patent Office and the Israel Patent Office as ISAs.

ANCILLARY ISSUES TO BE ADDRESSED

20. Running the pilot will involve additional time for staff at the International Bureau to check and resolve issues in the monthly invoices compared to the equivalent operations which occur on a more limited scale today. It is necessary to train the staff and to ensure that the pilot is run in a manner which allows it to be determined whether the estimate that the benefits will outweigh the costs is correct. Particular attention will need to be given to the number and type of errors which occur and whether these can be reduced or eliminated.

21. The efficient running of the pilot assumes that all participating Offices are able to deliver their “invoices” to the International Bureau accurately and timely in a supported data format, including all the information required by the netting software and its related processes. This will require the Offices to cooperate with necessary IT changes (usually relatively minor) and staff training.

22. Offices which have separate accounting systems and bank accounts for different purposes (for example, for patents and for trademarks) will need to consider whether procedures can be revised to allow net payments across the two systems to be paid to or from just one of those accounts.

23. The procedures will have consequential effects on accounting procedures for the PCT, Madrid and Hague Systems.

24. A variety of issues remain to be decided in relation to optimizing the system for the key deliverable of minimizing the risks of exchange rate fluctuations, primarily with regard to the receipt of currencies for which WIPO currently holds no bank accounts and has few, if any, outgoings against which to net transactions. Furthermore, agreement will need to be reached on whether all netting arrangements should use the same periods or whether the different netting procedures may have different invoicing and payment dates within a month; from the perspective of the International Bureau, the use of a single period would be preferable.

25. The Working Group is invited to note the contents of the present document.

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