

INTELLECTUAL PROPERTY PORTFOLIO MANAGEMENT

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Week : 07

Lecture: 32

Welcome friends, in our IP portfolio management. We are discussing different types of issues and when we are keeping that what is there in my portfolio this type of account we are keeping it is a very interesting topic which is IP accounting. The meaning is that what you have what type of you have you need to discuss what type of classification you are following in keeping your IP. only when you have appropriate accounting of your IP you will be able to manage them effectively. So, in any portfolio activity, generally this term portfolio comes from the finance background.

You have a portfolio of your investment that what investment have you done? You have done investment in gold, you have done investment in dollars, you have done investment in property, you have done investment in securities, you have done investment in fixed deposits. So, all these are the different types of investments you have done. And then once you know that how my investments are spread over various instruments then only you will be start managing when to liquidate a particular investment, where to strengthen a particular investment and all these things happen by seeing the external environment as well as your objectives also. I am a service class person and I am doing some kind of investment at this moment because I have some expectations.

That after my retirement my financial objective is this much and to fulfill that financial objective I am doing investment. Now I am doing investment not in one type of IP rather I am doing investment in different types of IP so that my risk is also reduced. To reduce my risk, I do investment in property, I do investment in dollars, I do investment in bitcoins, I do investment in gold, I do investment in securities, etc., etc. And I regularly account my all these investments. Same is the process of IP accounting which we are going to discuss in this particular session.

Some of the content is what we have already discussed in various other sessions also and some new things which are very specific to accounting we are going to discuss in this particular session. So, the content which we are going to cover in this particular session are the list of assets as I was explaining about my financial portfolio. Similarly, in the IP portfolio the list of assets accounting practices for patents particularly We will also talk because when we are talking of portfolio, portfolio is generally of your assets. But generally when we talk of IP, we say that it is our right, intellectual property right.

So, we will focus a bit on whether intellectual property is a right, an asset or both. Then what is the relationship between IP, IPR and intangible assets? You remember in one of the classes of innovation management system, we discussed what is innovation, what is innovation management and innovation management system. Similarly, here we are going to talk of IP, IPR and intangible assets. Then, we will talk about some contrasting assumptions of IPR and intangible assets.

difference between accounting for intangible assets and legal requirements of intellectual property rights. So, all this we are going to cover in this particular session. So, when we start like IP we all know are like patents and copyrights, industrial knowledge, trade secrets, design, trademark etc. All these are considered as capital assets and may be recorded on a company's balance sheet.

This we have already discussed in various other sessions also but again in very black and white we are bringing it today that these are capital assets. And capital assets are generally given place in your company's balance sheet. For example, of some other capital assets to understand is like plant machines these are some common examples of capital assets. So, these IP particularly patent copyrights etcetera these are also given the equal status and you can therefore, record them in your company's balance sheet.

You can give a value to your these IP assets and that value can be the part of your balance sheet. In one of the session where we discussed IP valuation you already know that how to value your different types of IP assets. IP is we all know intangible form of property and as such the accounting practices for IP and other tangible properties are quite different. Because something which you can see you can easily identify what is the value of this pen.

You may have a guess that what can be the value if I want to write the value of this pen that I have 50 pens with me. So, let us say every pen has 10 rupees value So, 10 into 50 I have pants worth 500 rupees. I can easily write this in my balance sheet, but I have a shirt

having this logo and now what should be the value of this logo should I write in my balance sheet that is a very important question where answer in black and white may not be possible.

So, therefore, the practices accounting practices which are used for intangible assets and tangible assets are quite different. patents, copyright are generally are associated with cost and are capitalized as assets on the balance sheet of the company and are amortized over the remaining useful life of the asset. Particularly, this term amortization has become very popular in current environment because if you see these days this term EBITDA. has become very popular in terms of innovation ecosystem when we are talking of funding to startups. So, we ask what is EBITDA and in this EBITDA this last A is basically amortization.

That whatever cost of creating that IP you are actually incurring that is the easiest way to account that in your balance sheet. Now, when we follow this concept of EBITDA we are not going to put that cost in just one single year. We are going to distribute that cost over the entire useful life of that particular IP. For example, if let us take an example of patent. So, if in developing a patent I incur a cost of let us say 2 lakh rupees and in the third year I got the grant of this patent.

So, 2 lakh I spent in 3 years but the remaining useful life of this patent is just 17 years. Now, in this case for these 17 years I will distribute these 2 lakh rupees that is the principle of amortization. So, based on the cost it cost itself you can write them in the balance sheet. So, that is the easiest way but otherwise we all know that value of your IP can be found through market approach also the hybrid approach also.

Now, let us come to the more accounting related discussions. The national accounting practices these generally demand a very fair representation of company's financial status because all the investors They want to invest in your company, in your organization considering the balance sheet of your company. And therefore, your balance sheet should be a true and fair representation of your financial health. And in fact, it is very unfortunate that many a times the founders they try to manipulate their financial status.

And therefore, a lot of emphasis is continuously happening on this term known as CG. corporate governance that you should not misrepresent your financial status and when I am saying that true and fair it means you have to include all assets including intangible assets on the balance sheet. However, you sometime inflate the value of these assets. So,

the assets value may be just 10 rupees but may be because of your inflation. because of your, you can say,

unfair representation of the assets, this 10 rupee you may represent as 100 rupees. So, you have actually the value of the asset is 10 rupee, but you are showing in your balance sheet as 100 rupees. So, the investor get confused and investor will actually feel that you are having assets worth 100 rupees, but actually you have assets worth just 10 rupees. So, that type of you can say corporate frauds happens unfortunately. So, there are various regulatory agencies

which work day in day out for actually making the entire financial statement systems very transparent, robust where such type of malpractices can be minimized. Now startups particularly they are not having and in fact not only startup but technology driven firms also they do not have much capital investments. You can run your technology company from a small house, a small hostel room itself where you need only one good let us say laptop and maybe some space is available in the AWS that will be sufficient to start your technology driven firm in the present environment. Similarly, startups who are working in incubators, they also do not have much of the capital investments. These days the business models which are developing all these business models are asset light business models.

So, when we are talking of asset light business models, you will not have many things to show as tangible assets in your balance sheet. So, in these asset light organizations, your IP portfolio can be a very important source of assets. When you have plant, machineries, raw material and various other kind of tangible assets, maybe IP portfolios value is not so significant. But it becomes even more significant in the present environment when we have more technology driven organizations, more startups and they do not have the capital investments in terms of tangible assets. So, their intangible assets that is their IP portfolio is a major source of assets on their balance sheets.

Here it is very important to know that the fair market value of the patent including potential licensing and royalties is often disregarded because it is why it is disregarded that we can also discuss future but it is very easy to understand as IP creator I will always give very high value to my IP but as a customer as a user you may not give or you will never give that high value to my IP. And therefore, because of this subjectivity involved, we generally disregard the IP related mentions in the balance sheets of the organizations.

So, different types of assets which we are talking in terms of our IP accounting. One is related to marketing.

So, marketing related intangible assets. These are companies market or promotional activities such as trademark, brands, trade names, trade race, internet domain names, newspaper headings. All these are part of your IP assets which can be classified under the marketing related assets. So, these are giving you a special recognition. Particularly, the recall value, many times you may not be able to remember the product, but you may remember its logo, you may remember its brand, you may remember its, you can say, trade name, etc.,

So, the uniqueness all these things because of which you can be easily recognized that is a marketing related assets for IP. Second is customer related assets. These customer related intangible assets include assets used in developing, acquiring, managing, retaining a company's customer base such as customer list, customer contracts, associated relationships and non-contractual customer relationships. Let me give you one example that what I mean to have this with customer list.

In every higher educational institute, we have a huge database of our alumni. Now, that database of alumni itself is a very important kind of resource available with us. Because it gives them, it gives us their personal email IDs, their personal mobile numbers, their positions in the organizations where they are president, where they are CMDs, where they are CEO etc. That is one type of list. Another type of list which many coaching institutes want to access legally or through some other means from us.

The list of students who appears in JEE examinations, who appear in GATE examinations, that is another type of interesting list. Another type of list is list of mobile numbers, email IDs of HR heads of various recruiters who are coming to our campus. So, all these important lists are also the part of your you can say important knowledge base available with you. And organizations keeps these list in a very very secretive manner because it may you can say create problem of the trust, it may create problem of unnecessary inviting to your organization.

list of assets related to artistic activities. So, these are the intangible assets pertaining to creative products or services safeguarded by contractual or legal rights such as copyrights which can cover plays, operas, ballets, books, magazines, newspapers, musical compositions, pictures etcetera etcetera we all know for how many different fields copyrights are available. So, all those things records creative products which you are

having because of the legal arrangement between the producer and performance. So, that is another set of you can say list of assets. Contract based like intangible assets represent the value derived from contractual arrangements including know-hows.

These assets encompass licensing, royalty, standstill agreements as well as contracts for advertisements, construction, management, service, supply and also include lease agreements. So, all these things there are different types of agreements. Sometime if you go to IIT Roorkee website there is a long list of MOUs which IIT Roorkee has signed with various corporates, various universities in India as well as abroad. So, that is also a list.

Now, we do not consider that list as a confidential list, but in some other organization it may be considered as a confidential list, it is a list of assets in some of the cases. Then another important list of assets can be the technology based list of assets. Where intangible assets associated with technology encompass the value derived from innovation or advancements in the technology. These assets can be safeguarded by legal and contractual means and include patented technology, computer software, unpatented technology which may be like trade secrets, databases, etc. So, all these things which is a protected or non protected technologies they are list that when we talk in our case every organization looks that what type of technologies you have and then there may be a classification of technologies based on their domains also.

So, that is the another type of list of assets. Now, when we are talking of accounting for patents. So, recording the cost to acquire or create the patent as the initial asset cost. As I already said that this is the simplest type of thing which is possible in the accounting for IP that how much cost you have incurred in procuring that IP or creating that IP that is the simplest which includes let us say the license fee you are giving or the R and D cost, cost of filing the patent, cost of acquiring the patent, documentation etcetera that all is the part of this first kind of accounting issues.

Then the second issue is as I already mentioned about the amortization the cost of patent over the useful life of the patent. As I said that you incurred 4, 5, 6 lakh in developing the technology and then getting the registration of that technology. Now, you have to amortize this cost over the lifespan of the protection which is available by the patent and that way. you will see that how you are incurring a cost 6 lakhs but you have divided it over 20 years or 18 years over whatever useful life is available to you and that is the

second important thing the process of amortization. Then after this another important debate in this discussion is there and that discussions debate is whether IP is a right asset or it is something between rights and assets. There is a popular debate which already is there that is whether management is science or art. There are people who believe management is science, they are who say it is art, but then there are large number of people who do not want to be part of this debate and they say that it is art and science both. They are taking the middle path. Same thing there are people who say that IP is a right because it gives you the concept of exclusivity and then because we are able to use IP in our balance sheets so they say that it is an asset also.

Now what we are saying that all IPs cannot be exactly your intangible assets and therefore it is this particular statement which is in bold. not all IPRs are recognized as intangible assets and therefore all intangible assets are not IPR also. So, therefore this issue of intellectual property right and asset it is a kind of both there may be some IP which are more towards the asset side there may be few IPs which are more about the right side. those IPs which are easy to convert into a product appears to be more towards the asset side. But those IPs which are helping you in process improvement etcetera they may be more towards the right side.

So, right versus asset we will say that it depends upon IP to IP that whether it part of asset or right. And you see in this diagram that how IP is initially intellectual property when you protect it becomes IPR and in that you have different types of IPRs which are possible for example, patent etcetera is one and then you see the intangible assets. So, there are so many other type of intangible assets also, all these which I am hatching at the moment. But out of all these intangible assets, there are some intangible assets which are patents. There may be few intangible assets which may be trademarks.

There may be few intangible assets which may be let us say trade secrets also. So, IP is a very important component in the intangible assets, but there may be other intangible assets also. For example, we have given one that is goodwill. This goodwill is generally you will find in most of the balance sheets but it is not part of our IP or IP related activity. It is the general perception of your company in the market and on the basis of that you say how much goodwill you enjoy.

So, that is generally a more or the bigger pie of intangible assets then the IP or IPR like in this diagram it is very simply visible to all of us. Then, this particular slide give you the idea that with respect to intangible issues like what is their legal and accounting

discourses. So, there is a difference between legal discourse and accounting discourse. When we are talking of intangibility, it is creativity, innovation, human endeavour. But when we talk in terms of accounting discourses, it has to be identifiable.

It is non-monetary. It is clear without having any physical substance. But you need to have a measured reliability. if you measure it of 100 rupees I should also be able to measure it as 100 rupees. So, ability to reliably measure is a very important accounting discourse for intangibility.

Similarly, with respect to rights and rules there are issues related to legal discourses and issues related to accounting discourses. So, when we are going to use IPR In our balance sheets, we are talking of IP accounting, we need to understand that what are the accounting discourses because legal discourses are handled by intellectual property offices, accounting discourses are handled by the company laws or different other audit agencies. So, for various aspects, we have given these kind of differences. So, finally,

We come to this conclusion that IP accounting is a very important thing and in this IP accounting creating different lists of assets is a very very important thing. When we are talking of IP accounting generally IP is part of intangible assets but there are various other components also in that intangible assets IP is just one of them. For example, we just gave the example of goodwill that how goodwill is a bigger pie within the intangible assets. And then we also discussed that for intangibility, the legal discourse and accounting discourses are different. When we are using IP accounting, we need to understand the accounting discourse related to intangibility.

So, with this, we come to end of this particular session. Thank you very much.