

## SECURITIZATION OF INTELLECTUAL PROPERTY ASSETS IN THAILAND <sup>\*</sup>

*Chaowaporn Kittikongwat*

*Master of Laws Program in Business Laws (English Program)*

*Faculty of Law, Thammasat University*

*Email address: chaowapornk@gmail.com*

Received 22 June 19

Revised 5 August 19

Accepted 21 August 19

### **Abstract**

This article presents new challenge of the securitization of intellectual property, as well as, examines how the securitization of intellectual property rights has developed in the U.S. and Japan. Generally, it is perceived that intellectual property could be used for securitization. However, the evolution of securitization in Thailand is in a slow phase. The precedents of use of intellectual property rights as an asset-backed for securitization are limited and a statute supporting intellectual property securitization is also unclear. Analysis of the strong and weak points of intellectual property securitization will help furnish a different approach to develop Thailand's future securitization. Even though the use of intellectual property securitization is currently on the low side, its potential is enormous and intellectual property securitized is a lucrative way for many companies. Enactment of any act should be done on an awareness of the possible barrier toward securitization of the intellectual property.

**Keywords:** Securitization, Intellectual Property, Royalty fee, IPRs.

---

<sup>\*</sup> This article is summarized and rearranged from the thesis "Securitization of Intellectual Property Assets in Thailand" Master of Laws Program in Business Laws (English Program), Faculty of Law, Thammasat University, 2018.

## 1. Introduction

There are many emerging trends that rely on intellectual property, since it can be securitized to create greater opportunities for commercializing new products and developing the business of intellectual property's owners<sup>1</sup> and firms can use their intellectual property to get accessed to many alternative markets.<sup>2</sup> Using intellectual property as collateral is not a new concept, as Section 8(5)<sup>3</sup> of the Business Collateral Act B.E. 2558 (2015) brings in the new method of collateralization and currently recognized intellectual property as collateral. On the other hand, using the intellectual property assets for securitization is a new financing tool, and it helps driving organizations to access more sources of fund.

In general, securitization refers to the pooling of various financial assets<sup>4</sup> and then issues new debt securities backed by such assets to support such financial products. Underlying assets for securitization can be any assets which have predictable cash flow.<sup>5</sup> Thus, future royalty fees of intellectual property can be used as assets for securitization.<sup>6</sup>

In Thailand, traditional securitization normally uses commercial mortgages, residential mortgages, auto loans or credit card receivable

---

<sup>1</sup> J. Paul Forrester, 'Securitization of Project Finance Loans' NYU Journal <<http://people.stern.nyu.edu/igiddy/ABS/projectloans.htm>> accessed 15 September 2018

<sup>2</sup> Bruce Berman, *From Ideas to Assets: Investing Wisely in Intellectual Property* (John Wiley & Sons, Inc., New York, John Wiley & Sons, Inc 2002)

<sup>3</sup> Business Collateral Act B.E. 2558 (2015), Section 8(5) (For the purpose of this Act, property includes: Intellectual property.)

<sup>4</sup> Forrester (n 1).

<sup>5</sup> 'The Securitization of Intellectual Property Assets - A New Trend' <[https://wipo.int/sme/en/ip\\_business/finance/securitization.htm](https://wipo.int/sme/en/ip_business/finance/securitization.htm)> accessed 15 September 2018

<sup>6</sup> *ibid*

obligations<sup>7</sup>, which all of these can generate receivables to back securities. However, intellectual property rights are not defined as the underlying assets used in securitization process under Section 3<sup>8</sup> of current Emergency Decree on Special Purpose Juristic Persons for Securitization B.E. 2540 (1997), since the intellectual property rights are not rights of claim. Nevertheless, they are, in some cases, necessary to be transferred to the special purpose vehicle.

## **2. Securitization of intellectual property in foreign countries**

In developed countries, a value of intellectual property is much higher than the intellectual property created in Thailand because technology in such countries is far more evolved.<sup>9</sup> The laws concerning intellectual property securitization in the high-valued-intellectual-property countries are expected to be models for emerging countries, i.e. Thailand. Considering the efficiency of securitization of intellectual property in foreign countries, the writer particularly pays attention to the securitization laws in the U.S., because the U.S. has large intellectual property markets and reliable experiences in the relevant laws governing the intellectual property securitization for many years. With regard to the study of Japanese law, given its legal system is similar to Thai law, the development in the field of modern securitization is comparable to Thai law, and it can ultimately

---

<sup>7</sup> Stephen Bennett, 'Securitisations in Thailand'

<[http://www.globalsecuritisation.com/08\\_GBP/GBP\\_GSSF08\\_127\\_134\\_Thailand.pdf](http://www.globalsecuritisation.com/08_GBP/GBP_GSSF08_127_134_Thailand.pdf)>  
accessed 23 May 2019

<sup>8</sup> Emergency Decree on Special Purpose Juristic Persons for Securitisation B.E. 2540 (1997), Section 3 ("assets" means (1) rights of claim which generate a flow of receipts in the future; or (2) rights of claim coming into existence in the future which determine debt repayment in cash and generate a flow of receipts in accordance with the rules specified by the SEC)

<sup>9</sup> Philip Elmer-Dewitt, 'Apple's brand value rises to No. 2 in the world, after Google' (2011) Fortune Media IP Limited. <<http://fortune.com/2011/09/15/apples-brand-value-rises-to-no-2-in-the-world-after-google/>> accessed 28 April 2019

indicate the facts whether Thai law is ready for intellectual property securitization or whether something is still missing and needed to be improved.

## **2.1 Securitization of intellectual property in the United States**

Although the U.S. government did not enact the act specifically governing the securitization, the existing laws regarding securities and trust indenture can be applicable and sufficient to regulate every framework of securitization.<sup>10</sup> Section 3(79) of the Securities Exchange Act of 1934 gives the definition for the “Asset-Backed Security” which does not explicitly determine what is eligible to be securitized. However, the assets must have character of (1) a fixed-income or (2) any type of self-liquidating financial asset. Thus, any assets which can generate adequate incomes to return to lenders can fall within the term<sup>11</sup> “self-liquidating financial asset.”

## **2.2 Securitization of intellectual property in Japan**

Act on Securitization of Assets of 1998 gives the broad definition for assets that are capable of being securitized. The asset shall be acquired by the SPC and have value as it can be used to issue the asset-backed securities or shall be able to be administrated and dispositioned in order to generate incomes. Although there is no court case regarding the intellectual property securitization found in a Japanese court, there is some evidence

---

<sup>10</sup> Patrick D Dolan and others, ‘Structured Finance & Securitisation’ (Getting the deal through, 1 March 2018)

<<https://gettingthedealthrough.com/area/74/jurisdiction/23/structured-finance-securitisation-2018-united-states/>> accessed 14 October 2018

<sup>11</sup> Michael Urschel and others, ‘Risk Retention Update: Spring 2018’ (2018) King & Spalding

<<https://kslaw.com/attachments/000/005/731/original/ca032618.pdf?1522090057>> accessed 14 October 2018

indicating that companies have used intellectual property securitization for fundraising purpose.<sup>12</sup>

There are some other factors that make intellectual property securitization in Japan become unpopular. For example, the development of technology is rapidly dynamic. The use of the cassette tape was very popular in the past, and it is obsolete now. This gives adverse influence on the value of the intellectual property and devalues the royalty incomes generated from cassette tape. Furthermore, the litigation risks on the validity of the ownership, transfer, and license agreement of the intellectual property may not attract conservative investors to purchase the intellectual property backed securities. Lastly, the absence of a secondary market for asset-backed securities results in the lack of liquidity. Thus, the investors seldom sell the securities to other investors during the securitization period. The investors are more likely satisfied with interest gain and capital money at the end of securitization project.<sup>13</sup>

### **3. Problems concerning securitization of intellectual property in Thailand**

In Thailand, the securitization of intellectual property still lacks experiences since it is a new financing mechanism for intellectual property industries. Plus, the markets for asset-backed securities are small because of the limitation of buyers and sellers in the capital market. These problems should be recognized as well as the uncertainties of the relevant law. In the writer's view, the current Emergency Decree on Special Purpose Juristic Persons for Securitization B.E. 2540 is still not practicable to comply with an intellectual property securitization. Therefore, it should at least have the

---

<sup>12</sup> Dr. Mark Fagan, 'Facilitating Securitization in Japan' (2009)

<<http://derecho.uba.ar/institucional/pacem/japan-mark-fagan.pdf>> accessed 20 November, 2018

<sup>13</sup> Takahiro Kobayashi, 'IP Securitization', (2004) IFLR

<<https://iflr.com/Article/2026741/IP-securitization.html?ArticleId=2026741>> accessed 20 April 2019

provision that makes a transfer of royalty streams from intellectual property at the same time with intellectual property rights of copyrights, trademarks, or patents to a special purpose vehicle become possible.

### **3.1 The definition of “assets”**

The Emergency Decree on Special Purpose Juristic Persons for Securitization B.E. 2540 limits the assets for securitization, only the rights of claim. Therefore, the definition of assets does not cover some rights such as intellectual property rights of copyrights, trademarks, or patents, namely, ownership or exclusive rights. Nonetheless, considering the potential of the intellectual property rights which have a value in the global market and an ability to be exploited.<sup>14</sup> The intellectual property rights of copyrights, trademarks, or patents can be sold, licensed, used for collateral, or transformed into securities. Like other valuable assets, the intellectual property rights can be recognized as financial assets because the intellectual property owners can manage the intellectual property rights to earn future cash flow streams.

### **3.2 Difficulty in predicting future cash flow**

There is a difficulty in predicting future cash flow due to the intellectual property's specific factors and a complexity to assess the value of intangible assets.<sup>15</sup> Various kinds of intellectual property risks and the valuation of the royalty streams from intellectual property still remains in a developing area, and there are various arguments over methodology and fact of the method used. The technical and precise valuation of intellectual property rights is necessary for the development of securitization.

---

<sup>14</sup> Shigeki Kamiyama and others, 'Valuation and Exploitation of Intellectual Property' (2006) OECD Science, Technology and Industry Working Papers 2006/05  
<[https://www.researchgate.net/publication/5206043\\_Valuation\\_and\\_Exploitation\\_of\\_Intellectual\\_Property](https://www.researchgate.net/publication/5206043_Valuation_and_Exploitation_of_Intellectual_Property)> accessed 18 November 2018

<sup>15</sup> Kenan P. Jarboe and others, 'Intangible Asset Monetization' (2008) Athena Alliance  
<<https://www.issuelab.org/resources/2875/2875.pdf>> accessed 22 November 2018

### **3.3 Characteristics of intellectual property**

Characteristics of the assets to be securitized is one of the obstacles in the securitization process since the assets targeted for securitization are the intellectual property royalties which have unexpected risks all the time. To successfully securitize the assets, it is necessary to identify whether the intellectual property rights are appropriate to be securitized. Thus, a finance analyst must, from the first place, verify the ownership of intellectual property by tracking the record of the past performance of their intellectual property for estimating future revenue generate from intellectual property rights.<sup>16</sup>

### **3.4 Balance of disclosure**

The intellectual property owner faces the problems of disclosing financial status and adequate information to support the investment decision because some confidential technical information related to the intellectual property must be hidden during the issue of the debt securities. Since the offering securities backed by royalty streams from intellectual property and/or intellectual property rights will be subject to the requirement of disclosure according to Notification of the Capital Market Supervisory Board, sometimes, it causes difficulty to the intellectual property owner to balance what should be disclosed and what should not.

## **4. Conclusion**

The World Intellectual Property Organization described the securitization of intellectual property as “a new trend”<sup>17</sup> since it becomes more acceptable by financial markets as a financing tool to convert fewer

---

<sup>16</sup> Nora Wouters, ‘IP SECURITIZATION – THE CASE FOR BELGIUM’ (2011) IPEG, <<https://www.ipeg.com/ip-securitization-the-case-for-belgium/>> accessed 25 April 2019

<sup>17</sup> ‘The Securitization of Intellectual Property Assets - A New Trend’ <[https://wipo.int/sme/en/ip\\_business/finance/securitization.htm](https://wipo.int/sme/en/ip_business/finance/securitization.htm)> accessed 15 September 2018

liquid assets into bonds that can be sold in a capital market to investors. Nevertheless, securitization of only royalty streams from intellectual property can occasionally constitute various difficulties. The problem will occur when rights of claim derived from intellectual property license agreement are transferred without the intellectual property rights of copyrights, trademarks and patents because an originator still possesses the exclusive rights. The originator, therefore, can still exercise the exclusive rights by reproducing, adapting, assigning, and granting licenses to others which may lead to unintended outcomes to investors who purchased the securities backed by intellectual property rights.

The market relating to the securities backed by intellectual property is not popular. The reasons are probably that several factors which are needed to be deterred are still in progress and the intellectual property securitization is not an effortless process so that it needs professionals in various areas to deal and participation from many stakeholders, better regulations as well as interdisciplinary study and laws comprising intellectual property law, laws and finances regarding corporate and other aspects. With regard to the risks of the securitization of intellectual property rights of copyrights, trademarks, and patents, the law needs to provide regulation with efficient procedures including the criteria for assessment of the value of intellectual property rights. Problem-solving by amending the definition in the Emergency Decree on Special Purpose Juristic Persons for Securitization B.E. 2540 as stated above will make securitization more efficient and will promote the development of a bond market which is part of the capital market. It also promotes the development of intellectual property, helping entrepreneurs to have more funding options and making investors to have more diversified financial instruments.



## Bibliography

### Book

Berman B, *From Ideas to Assets: Investing Wisely in Intellectual Property*  
(John Wiley & Sons, Inc., New York, John Wiley & Sons, Inc 2002)

### Journals

Forrester P, 'Securitization of Project Finance Loans' *NYU Journal*  
Kenan P. Jarboe and others, 'Intangible Asset Monetization' [2008]

*Athena Alliance*

### Electronic Sources

'The Securitization of Intellectual Property Assets - A New Trend'  
<[https://wipo.int/sme/en/ip\\_business/finance/securitization.htm](https://wipo.int/sme/en/ip_business/finance/securitization.htm)> accessed  
15 September 2018

Stephen Bennett, 'Securitisatioin in Thailand'  
<[http://www.globalsecuritisation.com/08\\_GBP/GBP\\_GSSF08\\_127\\_134\\_Thailand.pdf](http://www.globalsecuritisation.com/08_GBP/GBP_GSSF08_127_134_Thailand.pdf)> accessed 23 May 2019

Patrick D Dolan and others, 'Structured Finance & Securitisation'  
(Getting the deal through, 1 March 2018)  
<<https://gettingthedealthrough.com/area/74/jurisdiction/23/structured-finance-securitisation-2018-united-states/>> accessed 14 October 2018

M Urschel and others, 'Risk Retention Update: Spring 2018' (2018)  
*King & Spalding*  
<<https://kslaw.com/attachments/000/005/731/original/ca032618.pdf?1522090057>> accessed 14 October 2018

Kobayashi T, 'IP Securitization', (2004) *IFLR*  
<<https://iflr.com/Article/2026741/IP-securitization.html?ArticleId=2026741>>  
accessed 20 April 2019

Kamiyama S and others, 'Valuation and Exploitation of Intellectual Property' (2006) *OECD Science, Technology and Industry Working Papers* 2006/05  
<[https://researchgate.net/publication/5206043\\_Valuation\\_and\\_Exploitation\\_of\\_Intellectual\\_Property](https://researchgate.net/publication/5206043_Valuation_and_Exploitation_of_Intellectual_Property)> accessed 18 November 2018

Fagan M, 'Facilitating Securitization in Japan' (2009)

<<http://derecho.uba.ar/institucional/pacem/japan-mark-fagan.pdf>> accessed 20 November, 2018

Wouters N, 'IP SECURITIZATION – THE CASE FOR BELGIUM' (2011)

IPEG, <<https://www.ipeg.com/ip-securitization-the-case-for-belgium/>> accessed 25 April 2019

Dewitt P, 'Apple's brand value rises to No. 2 in the world, after Google' (2011) Fortune Media IP Limited.

<<http://fortune.com/2011/09/15/apples-brand-value-rises-to-no-2-in-the-world-after-google/>> accessed 28 April 2019

'The Securitization of Intellectual Property Assets - A New Trend'

<[https://wipo.int/sme/en/ip\\_business/finance/securitization.htm](https://wipo.int/sme/en/ip_business/finance/securitization.htm)> accessed 15 September 2018