

# **Intellectual Property Management for SMEs**

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Promotion Invention and Innovation

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# CONTENTS

1. Introduction.....	1
2. SMEs in Japan .....	2
(1) Definition of SME .....	2
(2) Definition of Small and Micro Enterprise .....	2
3. Intellectual Assets and Intellectual Property in SMEs .....	3
(1) Characteristics of SMEs .....	3
(2) Intellectual Assets of SMEs .....	4
(3) Visualization of Intellectual Assets.....	5
(4) Intellectual Assets Combined with Intellectual Property.....	6
4. Characteristics of Intellectual Property in SMEs.....	7
(1) Challenges SMEs are Facing with respect to Intellectual Property .....	7
(2) Trend of Filings by SMEs.....	7
(3) Patent Filings by SMEs .....	9
(4) Utility Model Filings by SMEs.....	10
(5) Design Registration Filings by SMEs.....	11
(6) Trademark Registration Filings by SMEs.....	12
(7) Filings of International Applications under PCT by SMEs .....	12
(8) Filings of International Applications for Trademark Registration by SMEs .....	13
5. Support for SMEs .....	14
(1) Support System.....	14
(2) IP Total Support Center.....	16
(3) Accelerated Examination System/Accelerated Appeal Examination System.....	19
(4) Use of Accelerated Examination System/Accelerated Appeal Examination System by Foreign Enterprises .....	20
(5) Fee Reduction/Exemption System.....	22
(6) Use of Fee Reduction/Exemption System by Foreign Enterprises .....	24
(7) Financial Support.....	25
(8) Regional Support .....	25

6. IP Management in SMEs .....	27
(1) In-house IP Management Structure.....	27
(2) Roles of IP Staff.....	27
(3) Management of Industrial Property Rights.....	29
(i) Specifying an Invention of a Technology .....	29
(ii) Specifying the device of an article.....	32
(iii) Similarity works of design.....	34
(iv) Works with Similar Trademarks .....	35
(4) Management of Trade Secrets.....	36
(i) Management of Trade Secrets.....	36
(ii) Identifying Trade Secrets.....	37
7. Strategies for Utilizing Intellectual Property in SMEs .....	38
(1) Strategy of establishing a leading position in a niche business .....	38
(2) Brand Building.....	39
(3) Patent Pooling.....	42
(4) IP-Secured Loan System.....	44

## **1. Introduction**

SMEs, including Small and Micro Enterprises as defined below, employ 40 million people in total or one third of the total population of Japan, and span the entire range of industry including manufacturing, wholesaling and services, and are located throughout the country.<sup>1)</sup> At present, many SMEs have no dedicated organization for IP management such as an intellectual property department or legal department. Their approaches to intellectual property management vary depending on their scale of operation, classification or category of business, and geographical location, thus preventing them from pursuing a uniform policy for intellectual property management.

In Japan, the Small and Medium-Sized Enterprise Agency and the Patent Office play key roles in supporting SMEs under the umbrella of the Ministry of Economy, Trade and Industry. The former is mainly engaged in developing strategies for and providing support for the development and better management of SMEs; the latter provides various support measures mainly in the area of intellectual property. Such support measures include holding explanatory meetings for familiarizing people with the intellectual property system, providing comprehensive advice on intellectual property, subsidizing the cost of acquiring and maintaining intellectual property in the country and overseas, providing support for accelerated examination, and so forth. APIC provides cooperation in developing human resources in the Asia-Pacific region under contract with the Patent Office.

The author has been serving as a patent attorney dedicated to SME clients for approximately 40 years. This textbook focuses on practical aspects of IP management for SMEs based on many years of experience.

## 2. SMEs in Japan

### (1) Definition of SME

The Small and Medium-Sized Enterprise Basic Act sets forth matters relating to the basic principles and policies of support measures for SMEs and other matters that form the basis of such policies. In Article 2 (1) (i) through (iv), the Act defines the term “SME” by category of business as shown below. An enterprise that falls within the definition will be eligible for various support measures intended for SMEs. For example, for manufacturing businesses, an enterprise with capital exceeding 300 million yen or with more than 300 employees is considered a large business enterprise and hence will be ineligible for such support measures.

[Table 1]<sup>2)</sup> Definition of SME

Category of business	Definition of SME	Small and Medium-sized Enterprise Basic Act
Manufacturing, others	An enterprise with capital of 300 million yen or less or with 300 or fewer employees, or an individual	Article 2 (1)(i)
Wholesale business	An enterprise with capital of 100 million yen or less or with 100 or fewer employees, or an individual	Article 2 (1)(ii)
Retail trade	An enterprise with capital of 50 million yen or less or with 50 or fewer employees, or an individual	Article 2 (1)(iii)
Service industry	An enterprise with capital of 50 million yen or less or with 100 or fewer employees, or an individual	Article 2 (1)(iv)

Source: Reprinted from the definition of SME specified by the Small and Medium Enterprise Agency

### (2) Definition of Small and Micro Enterprise

In addition, the Act defines SMEs with fewer employees than those stipulated therein for SMEs as small and micro enterprises as shown in the table below. Conceptually, the term SME includes small and micro enterprises; however, more extensive support measures are provided to small and micro enterprises. In Japan, there are some 3.4 million small and micro enterprises which account for 90% of all the SMEs, and they are located throughout the country. Therefore, they are particularly important for supporting the local economy and employment, and hence the Small Enterprise Activation Act was enacted. Various additional support measures are provided to small and micro enterprises under the Small Business Operator Support Act, the Small Business Credit Insurance Act, and the Small Enterprises Mutual Relief Projects Act.

[Table 2]<sup>3)</sup> Definition of Small and Micro Enterprises

Category of business	Definition of small and micro enterprises	Small and Medium-sized Enterprise Basic Act
Manufacturing, Others	Employees: 20 or less	Article 2 (5)
Commercial/Service industry	Employees: 5 or less	Same as above

Source: Reprinted from the definition of small and micro enterprises specified by the Small and Medium Enterprise Agency

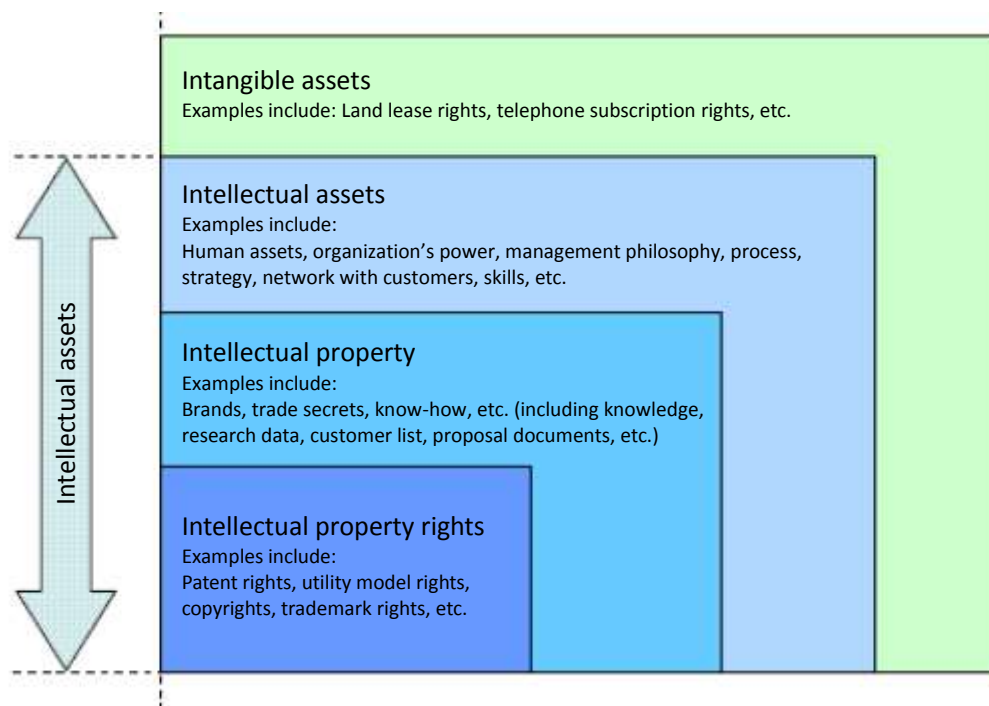
### **3. Intellectual Assets and Intellectual Property in SMEs**

#### **(1) Characteristics of SMEs**

Given that the managers and employees of SMEs typically work extremely hard together to develop technology or improve services, they tend to be keen to receive appropriate support for protecting their proprietary intellectual assets under the intellectual property system. Although support organizations and patent attorneys are eager to offer advice on appropriate measures and strategy, there is no way for them to know what proprietary intellectual assets or management resources SMEs have. This is because an SME, as a closed company, has no disclosure obligation, and so outside parties cannot obtain an accurate view of their proprietary intellectual assets. Therefore, gaining an overview of the intellectual assets of the manager and employees of each SME may provide a springboard for intellectual asset management in SMEs.

## (2) Intellectual Assets of SMEs

[Fig. 1]<sup>4)</sup> Conceptual Diagram of Intellectual Assets Underlying Management for Enhanced Business Value



(Source) Reprinted from “Report on Management for Enhanced Business Value,” Organization for Small & Medium Enterprises and Regional Innovation, Japan

The term “intellectual assets” as used herein refers to all management resources other than intangible fixed assets reported on the balance sheet. As shown in Fig. 1, intellectual assets include intellectual property rights, intellectual property and intangible assets, and provide the foundation of competitiveness for the enterprise. SMEs have management resources that offer unique and particular strengths, and have many such strengths as proprietary assets. Although an SME runs a business by itself taking advantage of these unseen but unique strengths, it may not have a clear idea of its intellectual assets as unique management resources, and hence it may not make active use of its intellectual assets.

From a management perspective, human resources as a constituent part of intellectual assets include: management philosophy, executive skills, managers’ power of ideas, managers’ network of personal contacts, managers’ administrative ability, availability of a successor, and a good relationship with financial institutions. From the employees’ perspective, they include: skills, team of skilled workers, teamwork between employees, cross-trained workers, an ability to design a production line, and morale of employees and others. From the enterprise’s overall perspective, they include: intellectual property rights, technical know-how, research and development capabilities, manufacturing capabilities, sales capabilities, customer list, brand power, customer satisfaction, rules for managing trade secrets, rules for employee inventions, security policy, and service rules. More specifically, the term “intellectual assets” is used in the

broad sense of the word to mean management resources which encompasses intellectual property rights.

### **(3) Visualization of Intellectual Assets**

SMEs need to visualize their intellectual assets by organizing them so that people inside and outside the company can identify what intellectual assets they have.

If SMEs are aware of their intellectual assets, they can publicize them externally as strengths to attract the attention of financial institutions (in negotiations for financing), customers (in sales activities or written proposals), job applicants (in hiring) or business partners (in business partnerships). Internally, they can utilize intellectual assets for management planning (as a member of the management team), employee training programs (as an employee), business improvement (as an employee) and business succession (as a successor).

To identify and organize intellectual assets, SMEs should follow the model given in the revised version of the manual for creating a “Report on Management for Enhanced Business Value” available on the website of the Organization for Small & Medium Enterprises and Regional Innovation. This document is attached hereto as Exhibit 1.<sup>5)</sup> The report can be created by following the step-by-step procedure given in sections: “I. Overview”; “II. Internal Environment (Workflow)”; “III. Internal Environment (Strengths and Weaknesses)”; “IV. Internal Environment (Opportunities and Threats)”; “V. Vision for the Future (Policy/Strategy)”; and “VI. A Story of Value Creation.” The section “II. Internal Environment (Workflow)” can be created using value chain analysis. Include pictures and drawings as necessary to improve clarity. Sections “III. Internal Environment (Strengths and Weakness)” and “IV. Internal Environment (Opportunities and Threats)” can be created using SWOT value chain analysis.

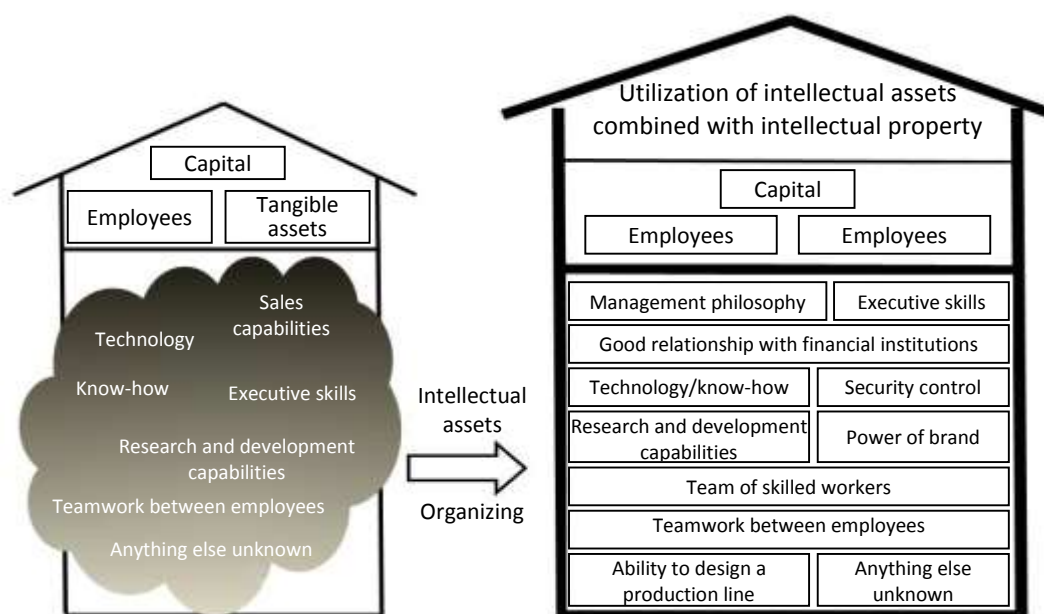
By drawing up this report once a year, SMEs can get into the habit of identifying and organizing the intellectual assets of the enterprise. The reports can then be compared year by year, clearly showing the progress of the enterprise. To ensure confidentiality of know-how, SMEs should create two versions of the report, one for internal use and the other for external use.



#### (4) Intellectual Assets Combined with Intellectual Property

In Fig. 2, the left-hand side shows the status of intellectual assets before being organized and the right-hand side shows the status after being organized. In the following description, it is assumed that Company A, an SME, has obtained a patent right for an innovative product it has developed.

[Fig. 2]<sup>6)</sup> Image of the Status of Intellectual Assets Before and After Organizing



(Source) ©YOSHIDAIPO November 2015

As shown on the left, Company A does not have a clear idea of its intellectual assets. Since it does not disclose information on its intellectual assets either, it is not known whether the company actually manufactures products. If it routinely subcontracts manufacturing, it must start by selecting subcontractors, thus preventing it from effectively using its patent right. Because Company A has not visualized its intellectual assets, financial institutions and prospective sellers will be reluctant to do business with it without hesitation.

In contrast, in the state on the right, Company A has a team of skilled workers and has no difficulty in designing a dedicated production line for producing and distributing the new product. If a report on management for enhanced business value is available, it will help financial institutions and prospective sellers to understand what intellectual assets Company A has and encourage them to help produce and distribute the new product.

By visualizing its business assets, an SME can gain a clear idea of the implications of its intellectual assets for utilizing its patent right as shown in the diagram above. It will help the company make financial arrangements, secure sellers, and increase its industrial competitiveness in developing and launching innovative products. In order for SMEs to become more successful, they must combine their intellectual property with their intellectual assets.

## **4. Characteristics of Intellectual Property in SMEs**

### **(1) Challenges SMEs are Facing with respect to Intellectual Property**

The 2009 White Paper on Small and Medium Enterprises in Japan<sup>7)</sup> cites the following issues as challenges SMEs are facing with respect to intellectual property management: (i) Insufficient knowledge concerning intellectual property; (ii) Insufficient human and monetary resources; (iii) Lack of specialists to consult; (iv) Prevalence of copied and counterfeit products; (v) Leakage of trade secrets by employees who have resigned; and (vi) Disclosure of technology via clients or parent companies. The first two issues, i.e. insufficient knowledge concerning intellectual property and leakage of technology, are partly attributable to SMEs' lack of a department responsible for managing intellectual property.

Among others, many SMEs tend to cite these two issues, particularly those SMEs which have obtained intellectual property in the past, but not recently. In the light of this trend, the Japan Patent Office (JPO) took action to enhance the provision of information on intellectual property and improve the training system for intellectual property management. In addition, the JPO established 55 IP Total Support Centers all over Japan to boost financial support for SMEs.

### **(2) Trend of Filings by SMEs**

According to the Japan Patent Office Annual Report 2015, the number of patent applications filed by business enterprises in Japan in fiscal 2014 totaled 270,000, of which those filed by large enterprises accounted for 87% and those filed by SMEs for 13% (35,000 filings). To explain these data, the "Report from the Advisory Committee on Support for Small and Medium Enterprises and Regional Innovations: Status of Working of IP Rights" published by the JPO on March 17, 2015 analyzes the situation in more detail by category of business and local aspects of SMEs ("JPO Publication 1").

[Table 3]<sup>8)</sup> Filings by SMEs by Category of Business

Category of business	Manufacturing	Wholesale and retail trade	Service industry
Classification by type	<b>In-house development type:</b> Enterprises that have high product development capabilities and are capable of overseas expansion with their own technology <b>Subcontractor/locally-based industry type:</b> Enterprises aiming at departing from subcontracting based on their technological capability built while working as a subcontractor	<b>Design type:</b> Enterprises selling design oriented consumer products (such as foodstuffs)	<b>Regional brand based type:</b> Enterprises aiming at spreading regional brands to the whole country utilizing local resources
Number of enterprises	430,000 (11%) Patent: 70% Design: 61%	920,000 (24%) Design: 30% Trademark: 29%	1,560,000 (40%) Trademark: 17%
Proportion of patent filings	70%		
Proportion of filings of design registration application	61%	30%	
Proportion of filings of trademark registration application		29%	17%

(Source) Adapted from “Report of Advisory Committee on Support for Small and Medium Enterprises and Regional Innovations: Status of Working of IP Rights” published by JPO

SMEs engaged in manufacturing are classified into two types: (i) In-house development type and (ii) Subcontractor/locally-based industry type. An SME of the in-house development type is able to develop products using its own technology and is attempting to expand overseas or holds a dominant position in niches through its technological capabilities. An SME of the in-house development type generally has an IP department or IP staff in its organization and actively files patent applications at home and abroad.

An SME of the subcontractor type performs processing or supply at the request of a prime contractor, and so does not need to acquire patent rights in the ordinary course of business. However, drawing on its technical capabilities to carry out manufacturing and/or processing requiring complex skills, it actively obtains IP rights for such technical capabilities and develops its own products in an attempt to acquire the innovativeness of SMEs of the in-house development type.

An SME of the locally-based industry type manufactures specialty products unique to the region, such as lacquerware, textiles, dolls, ceramics, etc. using raw materials available in specific areas for extensive distribution at home and abroad. In view of exporting its products, it files applications for design registration and trademark registration primarily abroad.

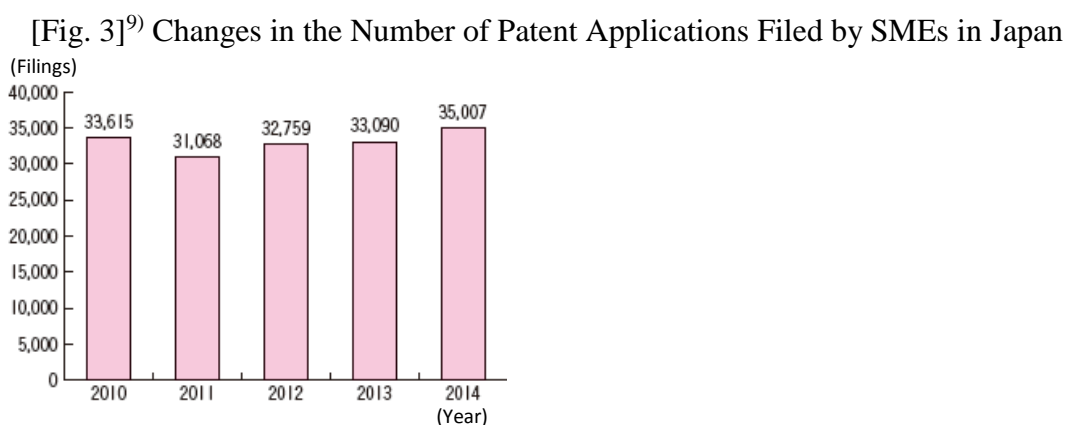
An SME of the design type mostly deals in design-oriented consumer products and

tends to file applications for design registration and for trademark registration from the perspective of sales and distribution.

An SME of the regional brand based type should consider utilizing the geographical indication system and other systems for presentation of goods, in addition to the trademark registration system and the regional collective trademark registration system.

### (3) Patent Filings by SMEs

Figure 3 shows the changes in the number of patent applications filed by SMEs in Japan from 2010 to 2014. In 2014, the number of patent filings increased by 5.8% from the previous year to 35,007. Whereas patent filings by large enterprises are on the decrease, those by SMEs have been increasing since 2011 (Source: Japan Patent Office Annual Report 2015).



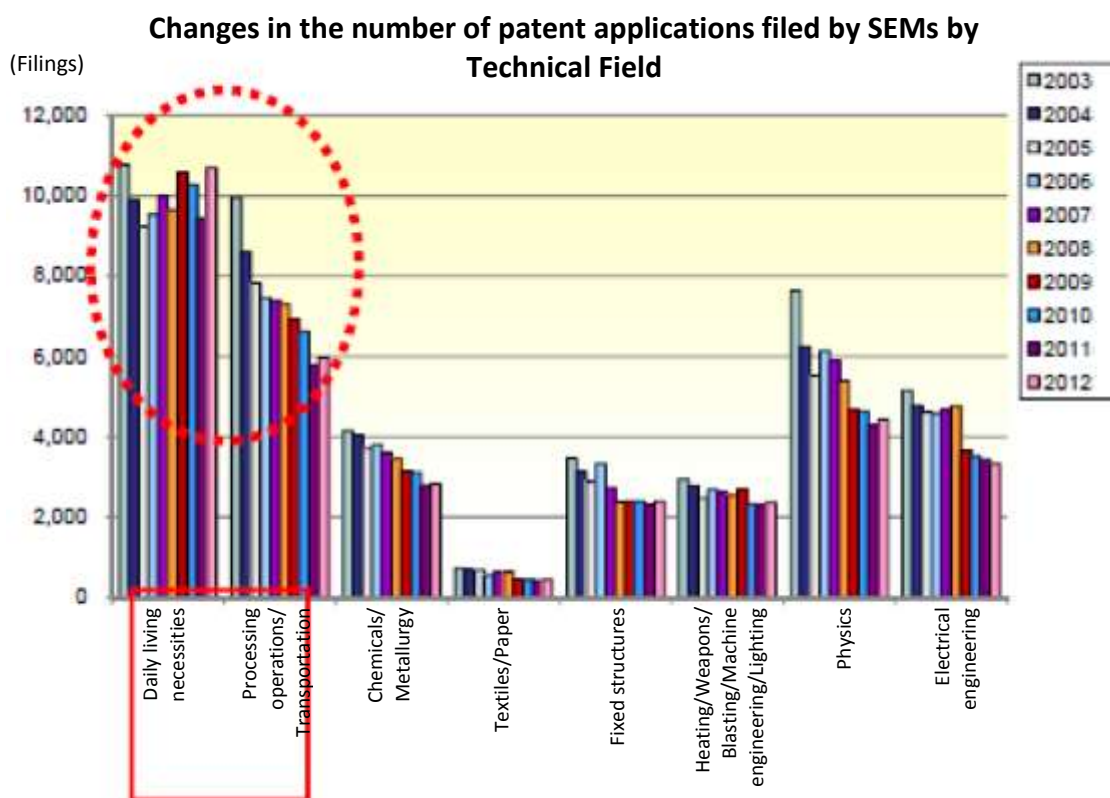
(Source) Prepared by the Japan Patent Office

Further details on the breakdown of patent filings by SMEs are based on the report “Status of IP Filings by SMEs” published on May 16, 2014 by the Information Dissemination and Policy Promotion Division, Policy Planning and Coordination Department of the JPO (hereafter referred to as “JPO Publication of 2013”). By type of business, manufacturing accounts for 70%, wholesale and retail trade 12% and service industry 7%, of the total patent filings by SMEs. By segment of manufacturing business, the ranking is as follows: Manufacturing of general machinery and appliances such as amusement machinery and medical equipment (48%); electrical and electronic equipment (11%); chemical industry (9%); plastics manufacturing (6%); and metal products manufacturing (6%). In terms of the number of SMEs that filed a patent application by segment of manufacturing business, the ranking is as follows: General machinery and appliances, such as metal working machinery, metal molds, food machinery, etc. (29%); electrical and electronic equipment such as electrical measuring equipment (14%); metal products such as metal stamping (10%); chemical industry (9%); and plastics manufacturing (5%).

Figure 4 shows the changes in the number of patent filings by SMEs according to IPC subdivision. Daily living necessities, such as games/amusement, medical and

sanitation-related products, account for the majority of total patent filings by SMEs, followed by processing operation/transport, such as conveyance, packaging, and machine tools. These subsections combined account for 50% of the total patent filings by SMEs.

[Fig. 4]<sup>10)</sup>



(Source) Investigation by Information Dissemination and Policy Promotion Division, Policy Planning and Coordination Department, JPO

#### (4) Utility Model Filings by SMEs

Figure 5 shows the changes in the number of applications for utility model registration filed by SMEs in Japan from 2010 to 2014. In 2014, the number of utility model filings decreased by 7.6% from the previous year to 2,757. Filings by SMEs account for 50.8%, over half of the total applications for utility model registration filed in the year. (Source: Japan Patent Office Annual Report 2015)

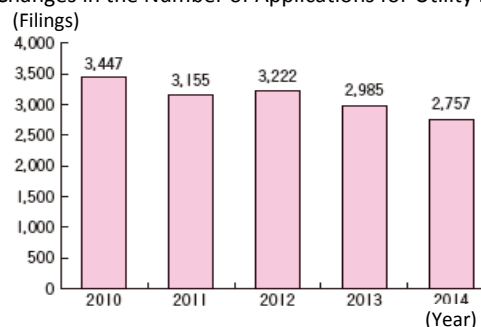
By IPC subdivision, the percentage of the total is ranked in descending order as follows: Furniture (A04); Conveyance/packaging/storage (B65); Medicine (A61); Agriculture, forestry, fisheries and livestock (A01); Architectural structure (F04); Basic electrical element (H01); Clothing (A41); Take-alongs/Traveling gear (A45); Sport gear/games/amusement machinery (A63); and Machine member (F16). (Source: Japan Patent Office Annual Report 2015).

SMEs are recommended to file an application for utility model registration in countries such as China, Thailand, Taiwan, Vietnam, Malaysia, and Indonesia that have

introduced the utility model registration system as an effective compensatory measure to cover the time gap between filing for a patent and the granting of a patent right. If it is necessary to allow enough time to take property under the Paris Convention, SMEs are recommended to base their utility model filings in Japan.

[Fig. 5]<sup>11)</sup> Changes in the Number of Applications for Utility Model Registration Filed by SMEs in Japan

Changes in the Number of Applications for Utility Model Registration Filed by SMEs in Japan



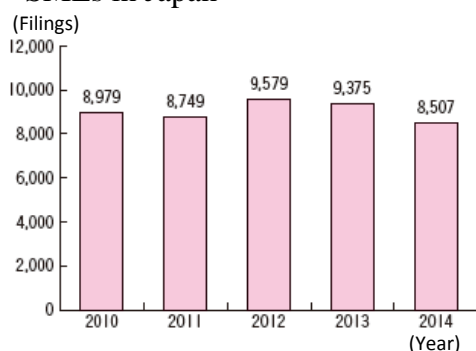
(Source) Prepared by the Japan Patent Office

## (5) Design Registration Filings by SMEs

Figure 6 shows the changes in the number of applications for design registration filed by SMEs in Japan from 2010 to 2014. In 2014, the number of design registration filings decreased by 9.3% from the previous year to 8,507, and the rate of utilization of the design registration system was relatively high, at one third of all SMEs. (Source: Japan Patent Office Annual Report 2015)

JPO Publication of 2013 indicates that, by type of business, manufacturing accounts for 61%, wholesale and retail trade 30% and service industry 5%, of the total filings by SMEs. By segment of manufacturing business, the ratio ranking is as follows: General machinery and appliances, such as machine tools and medical equipment (17%); plastic products such as plastic daily goods, tableware and containers (16%); and manufacturing of metal products such as metal architectural members (15%).

[Fig. 6]<sup>12)</sup> Changes in the Number of Applications for Design Registration Filed by SMEs in Japan



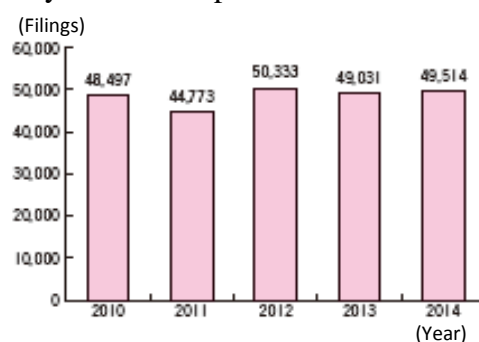
(Source) Prepared by the Japan Patent Office

## (6) Trademark Registration Filings by SMEs

Figure 7 shows the changes in the number of applications for trademark registration filed by SMEs in Japan from 2010 to 2014. In 2014, the number of trademark registration filings increased by 1.0% from the previous year to 49,514, and the rate of utilization of the trademark registration was high at 49.5%. (Source: Japan Patent Office Annual Report 2015)

JPO Publication of 2013 indicates that, by type of business, wholesale and retail trade accounts for 29%, manufacturing 27% and service industry 17%, of the total filings by SMEs. By segment of manufacturing business, the ratio ranking is as follows: Food products such as bakery/beverage/feed manufacturing (33%); chemical industry such as cosmetics (19%); manufacturing of general machinery and appliances such as service/amusement machinery and medical equipment (11%).

[Fig. 7]<sup>13)</sup> Changes in the Number of Applications for Trademark Registration Filed by SMEs in Japan

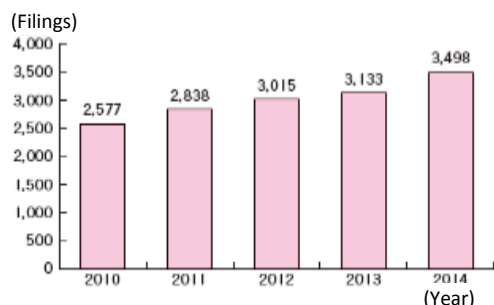


(Source) Prepared by the Japan Patent Office

## (7) Filings of International Applications under PCT by SMEs

Figure 8 shows the changes in the number of international applications under the PCT filed by SMEs in Japan from 2010 to 2014. In 2014, the number of filings of international applications under the PCT increased by 11.7% from the previous year to 3,498. The rate of utilization of the system of international applications under the PCT has increased each year during the period, reaching 8.6% in 2014 compared to 7.3% in the previous year (Source: Japan Patent Office Annual Report 2015). With SMEs continuing to focus on exporting their products and/or expand overseas, staff at SMEs appear to have increased their understanding of the usage of international applications under the PCT.

[Fig. 8]<sup>14)</sup> Changes in the Number of International Applications under PCT Filed by SMEs in Japan

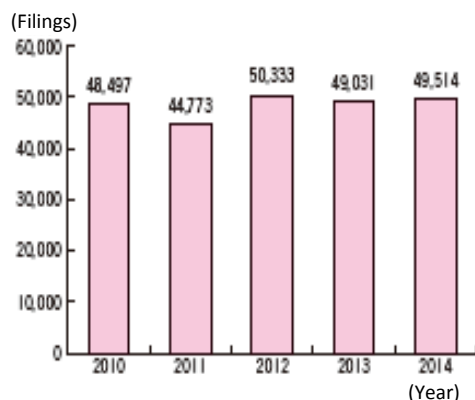


(Source) Prepared by the Japan Patent Office

### (8) Filings of International Applications for Trademark Registration by SMEs

Figure 9 shows the changes in the number of international applications for trademark registration under the Madrid Protocol filed by SMEs in Japan from 2010 to 2014. In 2014, the number of filings of international applications for trademark registration under the Madrid Protocol increased by 16.3% from the previous year to 964. The rate of utilization of the system of international applications under the Madrid Protocol by SMEs has increased each year during the period, reaching 8.6% in 2014, an increase of 44.3% from the previous year (Source: Japan Patent Office Annual Report 2015). Apparently, staff at SMEs appear to have increased their understanding of the usage of international applications under the Madrid Protocol, and have also found it to be greatly beneficial for reducing cost.

[Fig. 9]<sup>15)</sup> Changes in the Number of International Applications for Trademark Registration Filed by SMEs in Japan



(Source) Prepared by the Japan Patent Office



## **5. Support for SMEs**

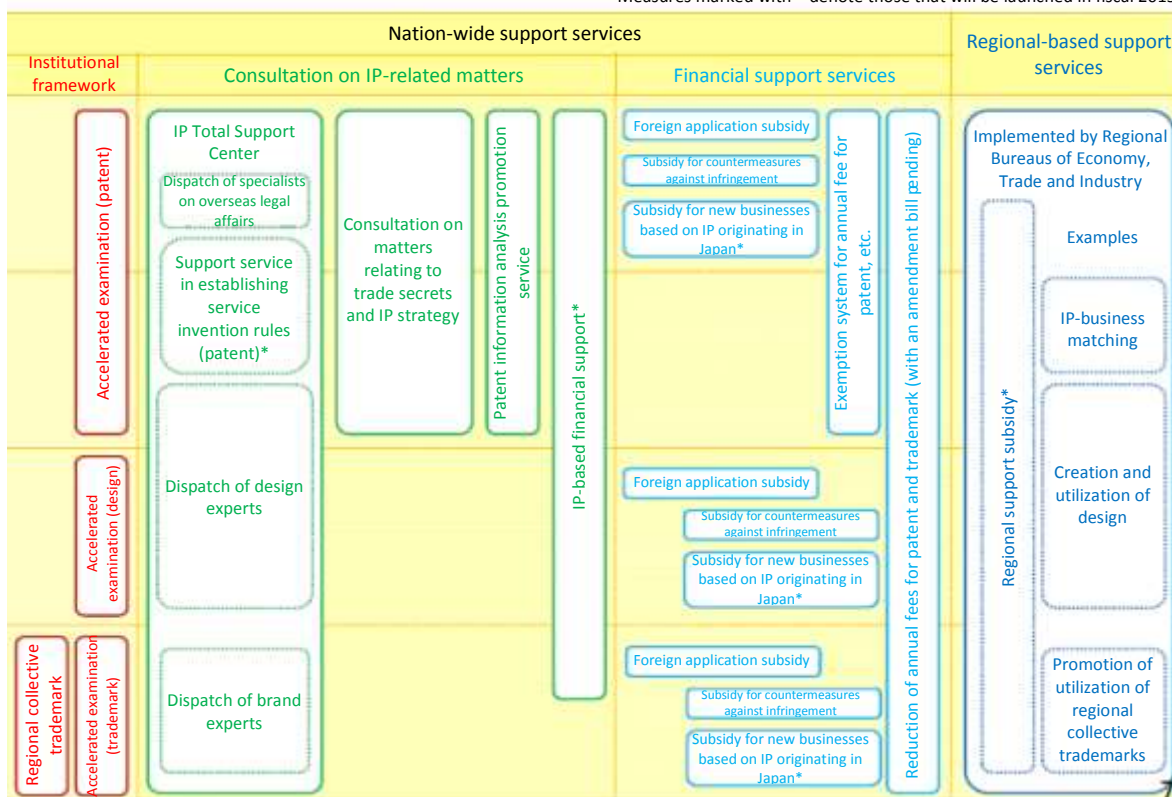
### **(1) Support System**

This section describes the various IP support services available to SMEs based on Fig. 10 below. The Patent Office includes “support for SMEs” among its list of priorities. First, the nationwide support services shown in the left-hand column are described in terms of the institutional framework, support center and IP-related services and financial support available under the system. Then, the various regional support services available under the system as shown in the right-hand column are described. Regarding the institutional framework, the accelerated examination system designed to enable an examination to be conducted more quickly than in the regular examination process is available to any enterprise that falls within the definition of SME. In addition, the regional collective trademark system is designed to allow a trademark consisting of a string of characters for the name of a specific geographical region and the name of a specific product produced in the region to be registered quickly, thereby promoting local business innovations by using regional collective trademarks.

Regarding support center and IP-related services, in addition to the Total IP Support Office, the Trade Secret/IP Strategy Consultation Office has been set up to provide guidance on how an SME can create a trade secret management system. The Ministry of Economy, Trade and Industry has published the “Guidelines for the Management of Trade Secrets” and a prescribed form of trade secret management rules.

[Fig. 10]<sup>16)</sup> Utilization of IP Support Measures According to SMEs' Characteristics

Measures marked with \* denote those that will be launched in fiscal 2015.

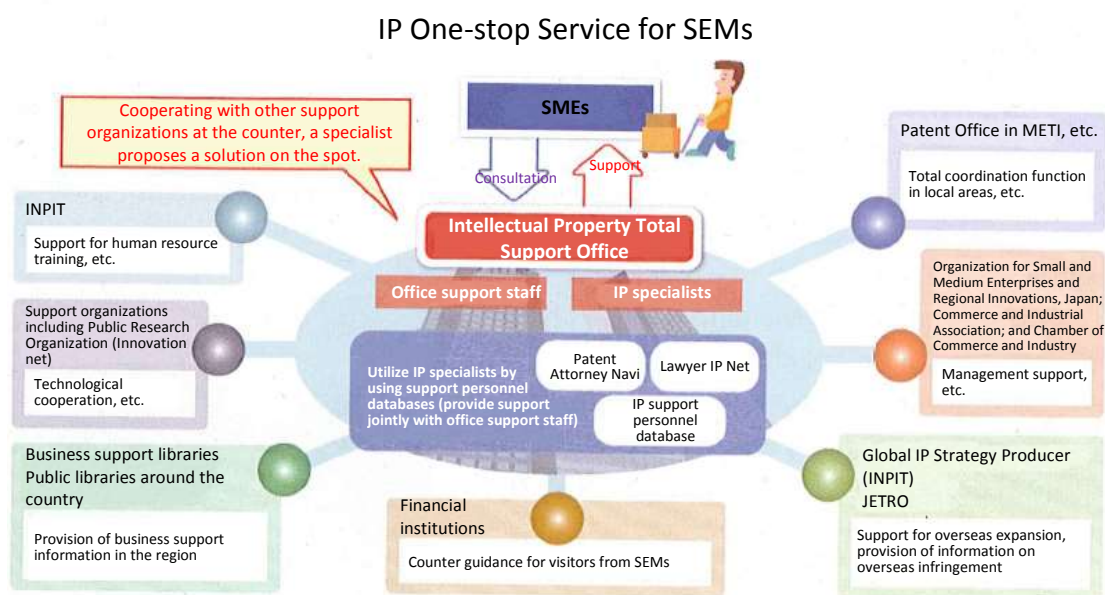


(Source) Partly reprinted from “Report of Advisory Committee on Support for Small and Medium Enterprises and Regional Innovations” published by the JPO

## (2) IP Total Support Center

Outline: Recognizing the necessity of a one-stop service, the JPO set up IP Total Support Centers to help solve IP-related problems faced by SMEs during each step from conception to commercialization in an integrated manner in collaboration with IP specialists and other support organizations.

[Fig. 11]<sup>17)</sup> Overview of IP Total Support Centers



(Source) Reprinted from the Japan Patent Office Annual Report 2012

IP Total Support Centers are located at 55 places around the country that have good access to transportation.

### Support staff:

Support staff based at the Center include patent attorneys, attorneys-at-law, small and medium business consultants, design/brand experts, former senior IP staff from private enterprises, and so forth. The patent attorneys have been trained in providing face-to-face support services, and the attorneys-at-law are listed with the IP Lawyers Network, Japan.

### Support Organizations

Support organizations include: INPIT (support for human resources training, etc.); Public Research and Development Institute (technological cooperation, etc.); business support libraries and public libraries (provision of business support information in local areas), regional Bureaus of Economy, Trade and Industry (overall coordination in local areas, etc.); Organization for Small and Medium Enterprises and Regional Innovations, Japan; Commerce and Industrial Associations and Chambers of Commerce and Industry

(management support, etc.); Global IP Strategy Producers (INPIT/JETRO); and financial institutions (face-to-face guidance for visitors from SMEs).

Global IP Strategy Producers as shown above support leading medium-sized firms and SMEs in filing applications for IP registration and conducting IP searches as a part of their efforts to expand their business overseas.

The Public Research and Development Institute shown above was established within the national and local governments as an industrial laboratory, technical art laboratory, agricultural experimental station, livestock experimental station, fisheries laboratory or forestry experimental station to conduct research and provide business support services in the respective areas. These institutions have now become a single economic unit under the name of the Public Research and Development Institute.

The Organization for Small and Medium Enterprises and Regional Innovations, Japan, which was established to promote infrastructure development for vitalization of SMEs and small business operators, provides financing for enhancing SMEs' industrial activities while organizing small enterprise mutual assistance projects and operating the mutual assistance system to help prevent bankruptcies among small and medium enterprises, etc.

Chambers of Commerce and Industry largely provide business support services to SMEs in cities. Commerce and Industrial Associations mainly support management by providing business support services to small and micro enterprises in towns and villages. In an area which is geographically distant from the IP Total Support Offices, an invention consultation counter may be set up separately.

### **Consulted Matters/Record of Performance**

With regard to matters for which consultation was sought at the counters, help with preparing applications and searching for similar technologies accounts for the majority, followed by overseas expansion and management of trade secrets. According to the JPO Report, there were 150,000 consultations in fiscal 2013.

### **(3) Accelerated Examination System/Accelerated Appeal Examination System**

#### **Outline**

The accelerated examination system/accelerated appeal examination system is a system that enables an examination to be conducted more quickly than in the regular examination process at the request of the applicant or appellants. At first, these systems were intended for SMEs and were built around the working of inventions under application, then the scope of application was extended. An accelerated (appeal) examination will be made upon submitting a request for accelerated (appeal) examination, together with a "Written Explanation of the Need for Accelerated (Appeal) Examination."

#### **Past Results of Shortened Pendency**

The 2012 data show that the actual waiting time for examination averaged almost 1.9 months for patent applications for which accelerated examination had been requested, a substantially shorter time compared with that for patent applications under regular

processing. In addition, the data show that patent applications for which accelerated appeal examination had not been requested took an average of 3.3 months from the date on which they became available for trial/appeal before the written trial/appeal decision was issued. Applications (appeals) eligible for accelerated examination are shown in Table 4 below.

<sup>18)</sup> **Table 4. Applications/Appeals Eligible for Accelerated Examination System/Accelerated Appeal Examination System**

Eligible Applications/Appeals	Written Explanation of the Need for Accelerated (Appeal) Examination
<ul style="list-style-type: none"> <li>Working-related applications</li> </ul>	<ul style="list-style-type: none"> <li>The applicant or appellant is required to carry out a search for prior art documents and describe, in the Written Explanation, the search results in relation with the application concerned.</li> <li>Applications (appeals) that have been filed by an applicant who has already commercialized the invention or plans to commercialize the invention within two years from the filing date of a request for accelerated (appeal) examination.</li> </ul>
<ul style="list-style-type: none"> <li>Internationally-filed applications</li> </ul>	<ul style="list-style-type: none"> <li>The applicant or appellant is required to carry out a search for prior art documents and describe, in the Written Explanation, the search results in relation with the application concerned.</li> <li>If any prior art search result is available from at least one foreign IP Office, such search result may be used as a substitute.</li> </ul>
<ul style="list-style-type: none"> <li>Applications filed by SMEs, individuals, public research institutes, etc.</li> </ul>	<ul style="list-style-type: none"> <li>The applicant (appellant) is required to describe, in the Written Explanation, prior art known by it in relation with the application concerned.</li> </ul>
<ul style="list-style-type: none"> <li>Green-related applications</li> </ul>	<ul style="list-style-type: none"> <li>The applicant (appellant) is required to carry out a search for prior art documents and describe, in the Written Explanation, the search results in relation with the application concerned.</li> </ul>
<ul style="list-style-type: none"> <li>The Act for Promotion of Japan as Asian Business Center-related applications</li> </ul>	<ul style="list-style-type: none"> <li>Same as above</li> <li>A written notice of certification as a research and development project program under the Act for Promotion of Japan and an application for certification to that effect are required.</li> </ul>
<ul style="list-style-type: none"> <li>Earthquake Disaster Recovery Support-related applications</li> </ul>	<ul style="list-style-type: none"> <li>The applicant (appellant) is required to describe, in the Written Explanation, prior art known by it in relation with the application concerned.</li> <li>In addition, the applicant (appellant) is required to describe the circumstances faced by the applicant (appellant) affected by an earthquake in the Written Explanation.</li> </ul>

(Source) Reprinted from “Guidelines for Accelerated Examination and Accelerated Appeal Examination for Patent Applications” (in Japanese), JPO

#### **Details of Eligible Applications/Appeals**

- (i) Working-related applications: Given that patent applications falling under this category have been filed by an applicant or a licensee who has already commercialized the invention or plans to commercialize the invention, there is a substantial need for early acquisition of right. Eligible applicants include large enterprises as well as SMEs and individuals if they have already commercialized the invention. If they plan to commercialize the invention, they

are required to submit a plan to commercialize the invention within two years from the filing date of a request for accelerated examination. A request for examination and a request for accelerated examination may be filed at the same time.

An applicant or an appellant who has filed a request for accelerated examination or accelerated appeal examination with respect to working-related applications is required to carry out a search for prior art documents and include in the written explanation the search results in relation with the application concerned. An applicant may attach a proposed written amendment/correction to a request for accelerated examination or accelerated appeal examination to emphasize differences from prior art.

- (ii) Internationally-filed applications: In order to ensure prompt and smooth acquisition of rights on a global level, applications (appeals) falling under this category are eligible for the accelerated (appeal) examination system if they have been filed with the IP Office as the Receiving Office under the PCT or the Paris Convention and then entered the national phase in Japan or if they have been filed with the JPO as domestic applications and also filed with the Receiving Office under the PCT. An applicant or an appellant who has filed a request for accelerated examination or accelerated appeal examination with respect to internationally-filed applications may use the results of prior art search conducted by at least one foreign IP Office in place of a written explanation of the needs of accelerated examination (appeal) examination.
- (iii) Applications filed by SMEs, individuals, public research institutes, etc.: In order to enable SMEs and individuals to quickly establish a competitive edge in the market on the one hand, and in order to allow universities and public research institutes to quickly share research products for the common good on the other hand, patent applications falling under this category are eligible for the accelerated examination system and the accelerated examination system. The term “SMEs” as used herein is defined in Section 2. (1) Definition of SMEs given above; small and micro enterprises fall within the definition. Early establishment of a patent right provides SMEs and small and micro enterprises with strong competitiveness both from a legal perspective and a business perspective.
- (iv) Green-related applications: In order to quickly provide protection to green inventions (a kind of invention that has an energy-saving effect and helps reduce CO<sub>2</sub>), patent applications falling under this category are eligible for the accelerated examination system and the accelerated appeal system. Green-related applications are eligible for accelerated examination or accelerated appeal examination regardless of the scale of the applicant.
- (v) The Act for Promotion of Japan as Asian Business Center-related applications (enforced as from April 2015): In order to promote activities to attract research and development bases and supervisory bases of global enterprises to Japan, the accelerated examination system/accelerated appeal examination system has been made available to global enterprises that intend to establish an affiliated company in Japan with the aim of newly engaging in research and development

or supervisory business under the Act for Promotion of Japan as an Asian Business Center. Domestic enterprises concerned are eligible for the accelerated examination system/accelerated appeal examination system regardless of their business scale. Under the Act, access to the accelerated examination system/accelerated appeal examination system and the fee reduction/exemption system is offered to target companies as support measures.

- (vi) Earthquake Disaster Recovery Support-related applications: Patent applications falling under (a) or (b) below are eligible for the accelerated examination system/accelerated appeal examination system:
  - (a) Applications filed by all or some of the applicants who have an address or temporary residence in the specified affected areas and applications by people affected by the earthquake.
  - (b) If the applicant is an incorporated entity, and the incorporated entity's business establishment in the specified affected areas suffers damages from an earthquake or related disaster and if the applicant intends to file an application for an invention related with business operations of such business establishments as an invention that is created or licensed as business operations of such business establishment.
- (vii) A prerequisite for a patent application's eligibility for the accelerated examination system/accelerated appeal examination system is that a request for examination is filed with respect to the application. A request for examination and a request for accelerated examination may be filed at the same time.
- (viii) Another prerequisite for a patent application's eligibility for the accelerated examination system/accelerated appeal examination system is that the application shall not be deemed to have been withdrawn in accordance with the provisions of Article 42 (1) of the Patent Act. This means that those patent applications falling under the earlier application on which a priority claim is based under Article 41 (1) of the Patent Act and which are deemed to have been withdrawn when one year and three months have elapsed from the filing date of the application are not eligible for the accelerated examination system/accelerated appeal examination system.
- (ix) Other Applications  
The accelerated examination system/accelerated appeal examination system is available with respect to applications for design registration and applications for trademark registration.

#### **(4) Use of Accelerated Examination System/Accelerated Appeal Examination System by Foreign Enterprises**

##### **Outline**

The accelerated examination system/accelerated appeal system can be used by foreign enterprises that meet specified requirements. Foreign enterprises as an applicant are required to submit a certificate issued by their home country together with a Japanese translation thereof.

Accelerated (appeal) examination will be made by submitting a request for

accelerated (appeal) examination, together with “Written Explanation of the Need for Accelerated (Appeal) Examination.” Depending on the circumstances, a certificate issued by the IP Office in the relevant country and a Japanese translation thereof may be required.

<sup>19)</sup>**Table 5. Applications/Appeals Eligible for Use of Accelerated Examination System/Accelerated Appeal Examination System by Foreign Enterprises**

Eligible Applications/ Appeals	Written Explanation of the Need for Accelerated (Appeal) Examination
<ul style="list-style-type: none"> <li>Working-related applications</li> </ul>	<ul style="list-style-type: none"> <li>Applications that have been filed by an applicant or a licensee who has already commercialized the invention or plans to commercialize the invention; Applications falling under this category include those filed by large foreign enterprises.</li> <li>The applicant or appellant is required to carry out a search for prior art documents and describe, in the Written Explanation, the search results in relation with the application concerned.</li> <li>Applications (appeals) must have been filed by an applicant (appellant) who has already commercialized the invention or plans to commercialize the invention within two years from the filing date of a request for accelerated (appeal) examination.</li> </ul>
<ul style="list-style-type: none"> <li>Internationally-filed applications</li> </ul>	<ul style="list-style-type: none"> <li>Applications (appeals) that have been filed with the JPO as domestic applications and also filed with the Receiving Office under the PCT; Applications falling under this category include those filed by large foreign enterprises.</li> <li>The applicant (appellant) is required to carry out a search for prior art documents and describe, in the Written Explanation, the search results in relation with the application concerned.</li> <li>If the results of prior art search conducted by at least one foreign IP Office are available, such documents may be used as a substitute.</li> </ul>
<ul style="list-style-type: none"> <li>Applications filed by SMEs, individuals, public research institutes, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Applications (appeals) that have been filed by foreign enterprises which meet the definition of SMEs under the Small and Medium-Sized Enterprise Basic Act of Japan (In the case of a manufacturing business, an enterprise with capital of 300 million yen or less or with 300 or fewer employees); Applications (appeals) that have been filed by foreign enterprises fall under the heading of applications (appeals) filed by individuals; This category of application (appeals) does not include those filed by foreign public research institutes.</li> <li>The applicant (appellant) is required to describe, in the Written Explanation, prior art known by it in relation with the application concerned.</li> </ul>
<ul style="list-style-type: none"> <li>Green-related applications</li> </ul>	<ul style="list-style-type: none"> <li>Applications (appeals) that have been filed by foreign enterprises; this category of application (appeals) includes those filed by large foreign enterprises.</li> <li>The applicant (appellant) is required to carry out a search for prior art documents and describe, in the Written Explanation, the search results in relation with the application concerned.</li> </ul>



<ul style="list-style-type: none"> <li>• The Act for Promotion of Japan as an Asian Business Center-related applications</li> </ul>	<ul style="list-style-type: none"> <li>• Applications (appeals) that have been filed by global enterprises that intend to establish an affiliated company in Japan with the aim of newly engaging in research and development business or supervisory business</li> <li>• A written notice of certification as a research and development project program under the Act for Promotion of Japan and an application for certification to that effect are required.</li> </ul>
<ul style="list-style-type: none"> <li>• Earthquake Disaster Recovery Support-related applications</li> </ul>	<ul style="list-style-type: none"> <li>• Applications (appeals) that have been filed by a Japanese branch of a foreign enterprise, and the Japanese branch was established in a specified affected area and was affected by the Great East Japan Earthquake</li> <li>• The applicant (appellant) is required to describe, in the Written Explanation, prior art known by it in relation with the application concerned.</li> <li>• In addition, the applicant (appellant) is required to describe the circumstances faced by the applicant (appellant) affected by an earthquake in the Written Explanation.</li> </ul>

(Source) Reprinted from “Guidelines for Accelerated Examination and Accelerated Appeal Examination for Patent Applications” (in Japanese), JPO

## (5) Fee Reduction/Exemption System

Under the Industrial Competitiveness Enhancement Act that came into force in January 2014, the fee reduction/exemption system is available to SMEs as a part of the support measures intended to boost their industrial activities. In this system, those SMEs which meet specified requirements are eligible for a reduction of fees when requesting examination of patent application, patent fees for each year during the period from the first year to the tenth year and fees for international applications, to one third or one half of the regular fees. The applicant is required to file a request for fee reduction/exemption together with the specified certificate.

<sup>20)</sup> Table 6. Targets of Fee Reduction/Exemption

Targets	Governing Law	Details of Measures
Small and medium venture enterprises and small and micro enterprises (provided that the procedure is completed by the end of March 2018)	Article 75 of the Industrial Competitiveness Enhancement Act	<ul style="list-style-type: none"> <li>• Fees for request for examination of patent application: Reduced to 1/3</li> <li>• Patent fees for each year during the period from the first year to the tenth year: Reduced to 1/3</li> <li>• Search fee and handling fee: Reduced to 1/3</li> <li>• Preliminary examination fee: Reduced to 1/3</li> </ul>
Corporate bodies (non-taxable corporations, etc.)	Article 109 and Article 195 (2) of the Patent Act	<ul style="list-style-type: none"> <li>• Fees for request for examination of patent application: Reduced to 1/2</li> <li>• Patent fees for each year during the period from the first year to the third year: Reduced to 1/2</li> </ul>

SMEs engaging in research and development business	Article 18 of the Industrial Competitiveness Enhancement Act; Article 9 of the Basic Act on Promotion of Core Manufacturing Technology	<ul style="list-style-type: none"> <li>• Fees for request for examination of patent application: Reduced to 1/2</li> <li>• Patent fees for each year during the period from the first year to the tenth year: Reduced to 1/2</li> </ul>
SMEs engaging in research and development business (within the framework of the Act for Promotion of Japan as Asian Business Center)	Article 10 of the Act for Promotion of Japan as Asian Business Center	<ul style="list-style-type: none"> <li>• Fees for request for examination of patent application: Reduced to 1/2</li> <li>• Patent fees for each year during the period from the first year to the tenth year: Reduced to 1/2</li> </ul>
Universities, colleges of technology and inter-university research institute corporations	Article 17 of the Industrial Competitiveness Enhancement Act	<ul style="list-style-type: none"> <li>• Fees for request for examination of patent application: Reduced to 1/2</li> <li>• Patent fees for each year during the period from the first year to the tenth year: Reduced to 1/2</li> </ul>
Research and Development Incorporated Administrative Agencies	Article 17 of the Industrial Competitiveness Enhancement Act	<ul style="list-style-type: none"> <li>• Fees for request for examination of patent application: Reduced to 1/2</li> <li>• Patent fees for each year during the period from the first year to the tenth year: Reduced to 1/2</li> </ul>
Public Research and Development Institutes	Article 17 of the Industrial Competitiveness Enhancement Act	<ul style="list-style-type: none"> <li>• Fees for request for examination of patent application: Reduced to 1/2</li> <li>• Patent fees for each year during the period from the first year to the tenth year: Reduced to 1/2</li> </ul>
Local Research and Development Incorporated Administrative Agencies	Article 17 of the Industrial Competitiveness Enhancement Act	<ul style="list-style-type: none"> <li>• Fees for request for examination of patent application: Reduced to 1/2</li> <li>• Patent fees for each year during the period from the first year to the tenth year: Reduced to 1/2</li> </ul>
Accredited TLOs	Article 8 of the Act to Facilitate Technology Transfer from Universities to the Private Sector	<ul style="list-style-type: none"> <li>• Fees for request for examination of patent application: Reduced to 1/2</li> <li>• Patent fees for each year during the period from the first year to the tenth year: Reduced to 1/2</li> </ul>
Accredited TLOs	Article 13 of the Act to Facilitate Technology Transfer from Universities to the Private Sector	<ul style="list-style-type: none"> <li>• Fees for request for examination of patent application: Reduced to 1/2</li> <li>• Patent fees for each year during the period from the first year to the tenth year: Reduced to 1/2</li> </ul>

(Source) Reprinted from “The Fee Reduction/Exemption System,” JPO

(Note) The “Act for Promotion of Japan as Asian Business Center” is an abbreviation of the Act on Special Measures for the Promotion of Research and Development Business, etc. by Specified Multinational Enterprises.

## (6) Use of Fee Reduction/Exemption System by Foreign Enterprises

### Outline

The fee reduction/exemption system can be used by foreign enterprises that meet specified requirements. Foreign enterprises are deemed eligible for the fee reduction/exemption system if they meet the definition of “SMEs” in Section 2. (1) above or the definition of “small and micro enterprises” in Section 2. (2) above. Foreign enterprises as an applicant are required to submit a certificate issued by the relevant authorities in their home country together with a Japanese translation thereof. Depending on the circumstances, a certificate issued by the relevant authorities in the foreign countries concerned and a Japanese translation thereof may be required. For example, any small or micro enterprise as an applicant for the reduction/exemption system under Article 75 (2) of the Industrial Competitiveness Enhancement Act is required to submit an attested document (its own signed statement) with regard to the qualification requirements for “small and micro enterprises” and a document evidencing that, as the applicant for a patent, it is not controlled by any other corporation (shareholder registry). Under the system, the stated examination fee of 178,000 yen will be reduced to one-third (53,330 yen).

<sup>21)</sup> Table 7. Foreign Enterprises as Eligible Applicants for Fee Reduction/Exemption

Eligible applicants	Governing Law	Details of Measures
Small and medium venture enterprises and small and micro enterprises (provided that the procedure is completed by the end of March 2018)	Article 75 of the Industrial Competitiveness Enhancement Act	<ul style="list-style-type: none"> <li>• Fees for request for examination of patent application: Reduced to 1/3</li> <li>• Patent fees for each year during the period from the first year to the tenth year: Reduced to 1/3</li> <li>• Search fee and handling fee: Reduced to 1/3</li> <li>• Preliminary examination fee: Reduced to 1/3</li> </ul>
SMEs engaging in research and development business	Article 18 of the Industrial Competitiveness Enhancement Act; Article 9 of the Basic Act on Promotion of Core Manufacturing Technology	<ul style="list-style-type: none"> <li>• Fees for request for examination of patent application: Reduced to 1/2</li> <li>• Patent fees for each year during the period from the first year to the tenth year: Reduced to 1/2</li> </ul>
SMEs engaging in research and development business (within the framework of the Act for Promotion of Japan as Asian Business Center)	Article 10 of the Act for Promotion of Japan as Asian Business Center	<ul style="list-style-type: none"> <li>• Fees for request for examination of patent application: Reduced to 1/2</li> <li>• Patent fees for each year during the period from the first year to the tenth year: Reduced to 1/2</li> </ul>

(Source) Adapted from “The Fee Reduction/Exemption System,” JPO

## **(7) Financial Support**

Financial support measures for SMEs include: (i) Subsidy for filing foreign applications; (ii) Subsidy for countermeasures against overseas IP right infringements; and (iii) Support for creating IP Business Valuation Report.

### **Subsidy for filing foreign applications**

Under this program, the Patent Office subsidizes one half of the expenses incurred by SMEs in filing foreign applications. Specifically, the amount subsidized is 1,500,000 yen for a patent application and 600,000 yen for each of the following: application for utility model registration, application for design registration and application for trademark registration. Subsidies for filing foreign applications for regional collective trademark registration are given to relevant chambers of commerce and industry, etc.

### **Subsidy for countermeasures against overseas IP right infringements**

Under this program, the Patent Office supports SMEs' efforts to take countermeasures against overseas IP infringement by subsidizing two-thirds of the expenses of a lawsuit incurred by SMEs, including the costs of researching overseas IP right infringements, and the costs involved in issuing a warning to and officially prosecuting the producer of counterfeit products.

### **Creation of IP Business Valuation Report**

Under this program, SMEs may have a valuation report created by a specialized research firm with regard to their patent rights and trademark rights based on an evaluation of the technology contained and the overall state of their business, with the expenses involved defrayed by the Patent Office. Given the objectivity of the evaluation made by a third party, SMEs can use such report to reinforce the efficacy of IP security in negotiating the possibility of financing with financial institutions. Internally, they can also use the report as objective management data.

## **(8) Regional Support**

Regional support measures for SMEs include: (i) The regional collective trademark registration system; and (ii) the IP business matching program.

### **Regional Collective Trademark Registration System**

In this system, a cooperative business association, commerce and industry association, chamber of commerce and industry or a specified non-profit corporation may have a trademark consisting of a string of characters for the name of a specific geographical region and the name of a specific product produced in the region registered as a regional collective trademark if the trademark has attained widespread recognition among consumers through its efforts to encourage its members to use it on their products. An example of a trademark registered under this system is "Tokyoringo," a combined word of "Tokyo" as the name of a geographical region with "ringo" as the name of a product meaning apple in English. As of the end of October 2015, 585 regional collective trademarks had been registered. This program is designed to promote local business

innovations by using regional collective trademarks.

**IP business matching program**

This program is designed to provide SMEs with opportunities to utilize licensable/transferable patents owned by large enterprises, including dormant patents, for developing new products and new businesses. Under this program, matching is arranged between the needs of SMEs and large enterprises' technologies, and if matching works well, large enterprises will license SMEs to use their patents and disclose associated know-how by giving technical guidance to SMEs so that SMEs can work such patents according to the scale of their operations.

Regional Bureaus of Economy, Trade and Industry are in a strong position to arrange matching because they are well aware of the trend of R&D activities and production technologies of the SMEs in their respective regions as well as the inventory of research subjects being explored by universities and public research institutes in their respective regions. Combined with the framework of cooperation with regional support organizations, including financial institutions, in preparing for manufacturing, this program has been producing good results, with meetings on arranged matching being held throughout the country.

## **6. IP Management in SMEs**

This section describes the following aspects of IP management by SMEs: (i) In-house IP management structure; (ii) role of IP staff; and (iii) management of intellectual assets (industrial property rights).

### **(1) In-house IP Management Structure**

For SMEs, the key to success in IP management is management behavior. Firstly, the top manager of the SME should not exclusively handle communications with patent firms. Specifically, the top manager should not serve concurrently as an IP staff. Given that the top manager of an SME single-handedly faces, on a daily basis, important business challenges such as business planning and financial planning, he/she may be slow to deal with IP-related matters despite fully realizing the importance of speed, which often leads to a delay or a later application. A top manager concurrently serving as IP staff is one of the major reasons for failure in IP management in SMEs, so it is important to prevent this from happening. Therefore, top managers are urged to officially appoint a person to liaise with patent firms at the beginning.

Secondly, the top manager of the SME should openly inform employees that the company will pursue a policy of managing its intellectual assets based on the utilization of intellectual property. This is because SMEs have few personnel and so the commitment by the top manager will help build a consensus among employees. Since intellectual assets as visualized under paragraphs (2) and (3) of Section 3 above help employees to understand the management resources of their company and the contributions they can make to the company, a top manager's commitment will actively encourage individual initiative. This will help make employees more familiar with intellectual assets and associated intellectual property.

Thirdly, the top manager of the SME should appoint IP staff and announce the appointment in the presence of employees, asking for their support. Employees at SMEs tend to disregard IP staff partly because their activities do not directly contribute to the company's profits unlike manufacturing and sales departments, and partly because of their lack of knowledge about the roles of IP staff. A top manager's official announcement will help prevent such tendency from developing.

### **(2) Roles of IP Staff**

SMEs' in-house IP management structure is described below in two stages: (i) The first stage ( $A^+$ ) and (ii) the second stage ( $A^{++}$ ).

**The first stage (A<sup>+</sup>)**

Major tasks assigned to IP staff include: (a) making official gazettes accessible in the office; (b) managing deadlines; and (c) organizing in-house explanatory meetings. To facilitate their work, it is advisable to have IP staff who hold another post concurrently at the beginning. Such IP staff will send, via e-mail, patent information available from JPlatPat, which is a database of the JPO, to relevant departments for review. Such patent information includes publications of unexamined applications and patent gazettes relating to their company's products and those of competitors' in the relevant fields. First, they will hold a meeting to explain to employees how to read a patent gazette. Next, they will distribute, via e-mail, information from official gazettes on a monthly basis, with the recipients limited to the engineering, design and manufacturing departments, to encourage the habit of reading official gazettes. The frequency of distribution will be increased to twice a month at the most, with the scope of distribution extended to include the sales department. One way to encourage the habit of reading official gazettes is to require the recipients to send back an e-mail after reading them.

The targets of deadline management include: (a) Request for an application before launching and/or posting the product on the website; (b) the time period required for procedures; and (c) payment of annual fees. IP staff holding another post concurrently must organize a system for working with a patent attorney to double-check these deadlines to avoid missing any of them.

An in-house explanatory meeting enables IP staff and outside patent attorneys to explain IP-related matters to employees in the office to deepen their understanding of intellectual property.

**The second stage (A<sup>++</sup>)**

In this stage, it is preferable to have full-time IP staff rather than IP staff who concurrently hold another post. IP staff will discover inventions, implement the employee invention rules and encourage the discovery of inventions. They will also create a document for encouraging inventive activities and a deed of transfer for an invention involved in a discovery of invention and disseminate related information. As a part of their activities to discover inventions, they will grant an award for the achievements of the inventors. In addition, they will review the employee reward program relating to the utilization of intellectual assets and improvement of business operations.

Next, IP staff will develop an IP strategy and organize an explanatory meeting at which they will present the strategy based on a patent map.

In addition, they will explain the importance of trade secret management, setting the stage for implementing the trade secret management rules. Because of differences in the degree of enthusiasm among employees toward the trade secret management rules, an external professional should be asked to explain to employees the necessity of the rules.

### **On-the-job Training of IP Staff at Patent Firm**

In the light of my own experience in serving as an IP staff in SMEs, the author provides a training program designed to develop the skills required of IP staff in each of the first and second stages, which is held in the author's patent office. After a non-disclosure agreement has been signed, the trainee comes to the patent office with a laptop computer to attend a training session ranging from one week (5 business days) up to one month. On the basis of the actual case faced by the client that has sent the trainee, the trainee will receive on-the-job advice from a patent attorney in charge in addressing different tasks involved in IP management including: prior art search; creation of a proposal document for inventive activities; preparation of the description and drawing of a patent application; preparation of a written argument/opinion and a written amendment/correction against a notification of reasons for refusal; the method of deadline management; explanation of the employee invention rules; explanation of the trade secret management rules; and others. Thus, the trainee will follow a curriculum designed to master the art to the level of a patent attorney.

As discussed, given that SMEs normally have a single IP person in charge, it entirely depends on that person's capability as to whether SMEs can build high-quality IP management. The author hopes that IP staff will actively tackle their work.

### **(3) Management of Industrial Property Rights**

This section describes the management of patent rights, utility model rights, design rights and trademark rights.

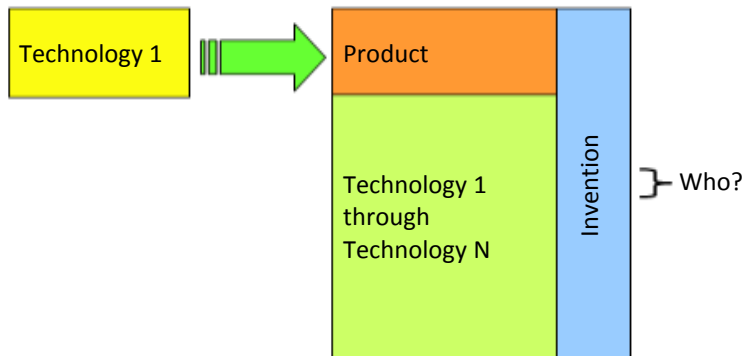
#### **(i) Specifying an Invention of a Technology**

- I. Given that most SMEs and small and micro enterprises have no organization for IP management, they are more likely to file a patent application after completing their products. Requests for filing a patent application are mostly based on animated images and fabrication drawings of the product, leaving little room for invention proposals. It would appear that SMEs believe a product represents a patentable invention. In order for them to obtain broad and strong patent rights, it is necessary to specify the product (technology) as a patentable invention. See Figure 12 below. Although the product using technology 1 shown therein is offered for sale on the market, it merely represents an embodiment of an invention in the patent specification. In other words, specifying an invention of a technology refers to the work of amplifying the underlying technical idea to cover technology 1 through technology N thereunder.

Patent specifications are based on the principle of documentary proceedings that involve characters and drawings as opposed to the principle of the actual thing. A patent specification with the underlying technical idea amplified to cover technology 1 through N therein makes the invention a broad and strong one specified with characters and drawings.



[Fig. 12]<sup>22)</sup> Implications of a Product (Technology 1) for Invention



(Source) ©YOSHIDA IPO 2014

II. The work of specifying the invention of a technology involves creating a proposal based on free discussions in a brainstorming session. Creating a proposal involves preparing documents as shown in Table 8. When a brainstorming session is held within the enterprise, the inventor will explain technology 1 under the leadership of an IP staff holding another post concurrently. Manufacturing people will give an opinion on the underlying technical idea from the standpoint of production lines; sales people will give an opinion through the eyes of customers; and purchasing people will give an opinion from the standpoint of cost-based pricing. As the occasion demands, the inventor's rival may be asked to give an opinion about the underlying technical idea. When a brainstorming session is held in the patent office, a patent attorney, the inventor and an IP staff will attend it. In either case, it is preferable to provide a relaxed atmosphere which will encourage freewheeling thinking.

The invention proposal thus created will cover more than one of technologies 1 through N, which will enable the patent attorney to write a broad and strong patent specification. Any different technical idea shared therein can be utilized in exploring another development theme. Large enterprises seem to have started introducing the work of specifying an invention of technologies based on free discussions in a brainstorming session as a part of normal business practice.

[Table 8] <sup>23)</sup> Procedure for Creating an Invention Proposal

Preparatory document	<ul style="list-style-type: none"> <li>• List of conventional technical gazettes and techniques</li> <li>• List of applications filed by and patents obtained by competitors</li> </ul>
Product	<ul style="list-style-type: none"> <li>• Original design drawing; • Sample; • Product design drawing; • Product; and • List of itemized features</li> </ul>
Attendant	<ul style="list-style-type: none"> <li>• IP staff holding another post concurrently; • The inventor; and • Manufacturing people (• Sales and purchasing people)</li> </ul>
Method of conducting discussions	<ul style="list-style-type: none"> <li>• Preparation by IP staff holding another post concurrently; • Explanation of the product by its developer; and • Brainstorming sessions</li> <li>• Arrangements, such as organizing beverages, for creating a relaxed atmosphere</li> </ul>
Proposal	<ul style="list-style-type: none"> <li>• Draft one or a couple of proposals based on multiple technical ideas.</li> <li>• Add an inventor(s) upon provision of additional technical ideas.</li> <li>• Utilize any different idea shared for exploring another development theme.</li> </ul>

(Source) ©YOSHIDA IPO 2015

III. Using an invention of automated manufacturing equipment for straw-seared bonito as an example, the work of specifying an invention of technology is illustrated below. Figure 5 and Figure 6 in the patent specification show the upper conveyor carrying raw bonito slices thereon and the lower conveyor carrying burning bundles of straw thereon which run in the direction of the arrow shown, respectively. A brainstorming session was held which was attended by four people: a person from the seared bonito manufacturer as the inventor, a person from a conveyor design firm, a clerk and myself. Technical ideas underlying technology 1 envisaged by the inventor and others are shown in the left column and the required steps in the work of specifying the invention are shown in the right column of Table 9 below.

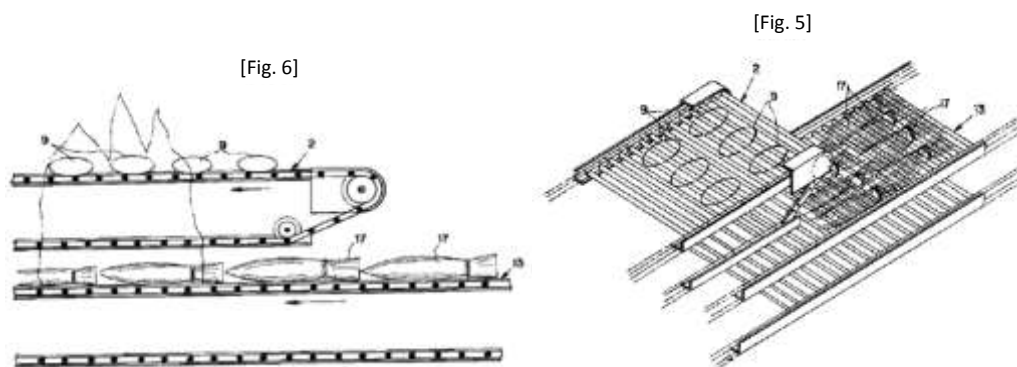
[Table 9] <sup>24)</sup> Technology 1 Envisaged by the Inventor and the Work of Specifying the Invention thereof

Technology 1 envisaged by the inventor	Work of specifying the invention
Double-tiered structure of the metal net conveyors	<ul style="list-style-type: none"> <li>• Metal net → Conveyance belt (to allow for metal, ceramic, metal net, metal strip conveyors)</li> <li>• Double-tiered → Remove the limitation (to allow for double-, three- and multi-tiered structures).</li> </ul>
Conveyor carrying raw bonito slices thereon	<ul style="list-style-type: none"> <li>• Bonito slices → Heated objects (to allow for bonito, tuna, salmon, beef, chicken, pork, mutton, etc.)</li> <li>• Slices → Remove the limitation (to allow for slices and blocks).</li> <li>• Carrying → Should the limitation be removed (to allow for carrying, hanging, etc.)?</li> </ul>
The lower conveyor carrying bundles of straw thereon	<ul style="list-style-type: none"> <li>• The lower conveyor → Replace the limitation.</li> <li>• Straw → Combustibles (to allow for straw, leaves, plants of grass or sedge, wood chips, firewood, charcoal, briquette coal, etc.)</li> <li>• The technology of a conveyor running with burning bundles of straw thereon has novelty.</li> </ul>
With the upper and lower conveyors running	<ul style="list-style-type: none"> <li>• The upper and lower → Remove the limitation (to allow for other numbers of tiers than two involved in the conveyor structure).</li> <li>• Searing → Remove the limitation (to allow for processing methods other than searing).</li> </ul>

(Source) ©YOSHIDA IPO 2015

- IV. During the process of examination, the term “heated objects” has been corrected to read “bonito, tuna, salmon, beef, chicken, etc.” The invention of automated seared bonito manufacturing equipment was patented under Patent Number 3113826 through examination and appeal and trial. Claim 1 in the patent specification as granted through amendment reads: “A method for heating food products characterized by that, whereas the first conveyor belt carrying bonito, tuna, salmon, beef, chicken, etc. thereon moves, the second conveyor belt carrying burning combustibles thereon moves in parallel with said first conveyor belt, thereby cooking bonito, tuna, salmon, beef, chicken, etc. carried on said first conveyor belt.”
- V. The seared bonito manufacturer concluded a joint application agreement with the conveyor design firm and has purchased conveyors from the latter under the patent right obtained, thus successfully mass-producing straw-seared bonito. The claim of the patent has effectively precluded the entry of followers in the niche market, thus enabling the seared bonito manufacturer to hold a dominant position in the market.

25) [Fig. 13] Drawing of Straw-Seared Bonito Manufacturing Equipment in Patent Specification



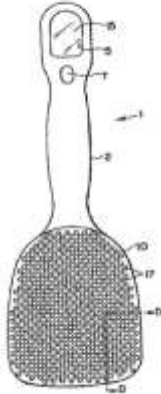
(Source) Figure 5 and Figure 6 were reprinted from Patent Gazette No. 3113826.

## (ii) Specifying the device of an article

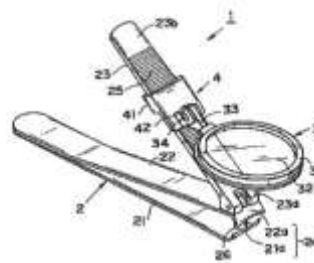
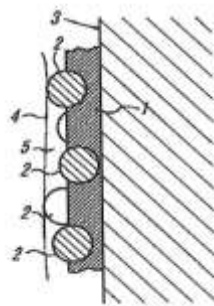
The Utility Model Act stipulates that a device which concerns the shape or the structure of an article or a combination thereof is registrable as a utility model without examination in about two months from the date of filing of the application for utility model registration. In Figure 14 below, the left-hand segment shows the shape of the patterned indented surface of a rice paddle. The central segment shows the external structure of an outdoor fitting 1 as placed on a utility pole or outer walls of a building 3 with spherical objects 2 exposed therefrom to prevent bills or posters from being attached thereon. The left-hand segment shows an article representing a combination of a nail clipper and a magnifying glass.

[Fig. 14] <sup>26)</sup> Examples of Device which concerns the Shape or the Structure of an Article or a Combination Thereof

(a) The shape of the patterned indented surface of a rice paddle



(b) The external structure of an outdoor fitting



(c) A nail clipper combined with a magnifying glass

(Source) Reprinted from “Strategy for Utilizing Intellectual Property Rights in the Global Age” (in Japanese), Yoshiharu Yoshida, p.34

In fiscal 2013, the number of applications for utility model registration filed by business enterprises in Japan totaled about 7,500, of which those filed by SMEs accounted for about 3,000. Filing an application for utility model registration should involve the process of specifying a device of an article that is equivalent to the process of specifying an invention of technology described above, the explanation of which is omitted here.

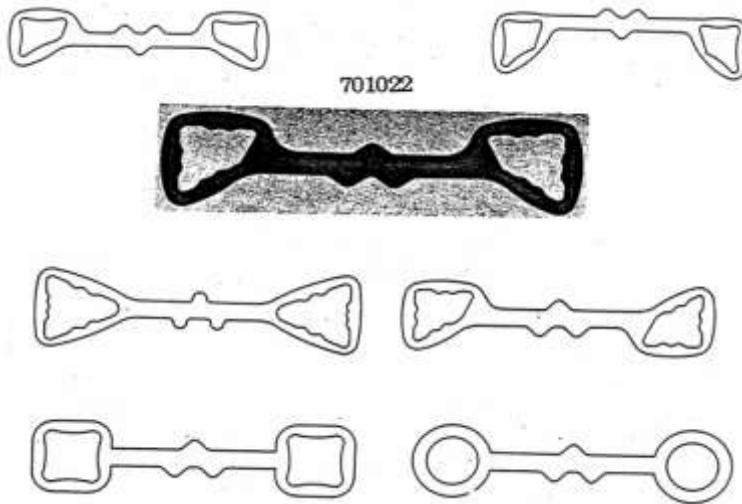
This section describes the rationale behind the usability of the utility model registration system for SMEs.

- I. The application fee is less expensive (21,200 yen for an application with three claims, compared to 145,000 yen for a patent application);
- II. A product having a short life cycle (fashion goods and seasonal goods) does not need long-term protection;
- III. A utility model right can provide quick protection for an article, and thereafter a patent right can provide long-term protection for the manufacturing process thereof; and
- IV. The utility model registration system can be used as an effective compensatory measure to cover the time gap between filing for a patent and granting of a patent right in Asian countries.

### (iii) Similarity works of design

- I. The effect of design right shall apply to the registered design and designs similar thereto (Article 23 of the Design Act), and whether a registered design is identical with or similar to another design shall be determined based upon the aesthetic impressions that the design would create through the eyes of their consumers (Article 24 (2) of the Design Act). More specifically, a determination of similarity depends on the aesthetic impressions that the design would create through the eyes of their consumers and hence often gives rise to a dispute among the parties concerned, and therefore similarity works of design should be carried out beforehand to have related/similar designs specified (Article 10 of the Design Act).
- II. The exercise aid (Design Registration No. 701022) shown below is designed for use in forward bending or stretching the side of the body or applying finger pressure by the central protrusions, with the handgrips on the two sides held in both hands, and is adopted as a versatile exercise aid by the Tokyo Metropolitan Rod Exercise Association. In launching the black molded article shown in the central part of the figure below onto the market, the author taught the creator how to carry out similarity works of design. Out of a total of 17 designs presented, the six designs shown below were specified as similar/related designs for application for design registration.

[Fig. 15]<sup>27)</sup> Example of Similarity Works of Designs



(Source) Reprinted from “Strategy for Utilizing Intellectual Property Rights in the Global Age” (in Japanese), Yoshiharu Yoshida, p.42

- III. The design is characterized by that it has a pair of approximately triangular handgrips formed symmetrically on the right and left, the said handgrips being connected by a connecting rod, the said connecting rod having protrusions in its central part and the said connecting rod being connected to each of the said handgrips at a slight distance from the internal angle between either of two sides of equal length of the isosceles triangle and the remaining side thereof.

The examination at the JPO held that designs other than those which concerned the sporting aid with rectangular handgrips and the one with circular handgrips shown in the bottom of the figure are registerable as similar designs. This suggests that the examiner determined that the article is characterized by the design of triangular handgrips.

- IV. An SME is strongly recommended to register not only a design created by it but also designs which are similar (or are presently related) thereto. Note that this will establish the presumption that all of these designs fall within the scope of similarity regardless of the differences in the position where the connecting rod is connected to the handgrip and in the configuration of protrusions, thereby preventing unwanted imitations while extending the scope of right.

#### **(iv) Works with Similar Trademarks**

- I. The Trademark Act stipulates the effects of trademark rights in terms of the scope of an exclusive right of its holder to use the registered trademark in connection with the designated goods or services (Article 25) and in terms of the scope of a prohibitive right of its holder concerning the use of the registered trademark or a similar trademark by others (Article 37). Whether a registered trademark is identical with or similar to another trademark shall be comprehensively determined based upon sounds (reading), appearance, and association (of the idea that the trademark would create through the eyes of their consumers). The similarity of designated goods or services shall be determined according to the Examination Standards for Similarity of Goods or Services. A trademark search should involve similarity of trademarks and similarity of goods or services.
- II. With respect to the registered trademark “白い恋人,” the mark “白い恋人” as written in Chinese characters falls within the scope of an exclusive right of its holder to use the registered trademark, and the mark “シロイコイヒト” falls within the scope of a prohibitive right of its holder concerning the use of the registered trademark or a similar trademark by others on the ground of similarity of sound, the mark “WHITE LOVER” which is a literal English translation of the registered trademark on the ground of similarity of idea, and the mark “白い変人” which has the Chinese character “恋” in the registered trademark replaced with an apparently similar Chinese character “変” on the ground of similarity of appearance. In terms of designated goods or services, “Class 30: Confectionary, bread” falls within the scope of an exclusive right of its holder to use the registered trademark and “Class 35: Provision of facility to customers conducting retail or wholesale business of confectionary and bread” falls within the scope of a prohibitive right of its holder concerning the use of the registered

trademark or a similar trademark by others.

- III. As described above, it is important that SMEs understand that the effect of a registered trademark applies to the registered trademark and trademarks similar thereto and the designated goods or the designated services and goods or services similar thereto. In particular, SMEs should be very careful about the meaning or idea which the sounds of the registered trademark would convey to consumers in foreign countries and interlingual differences in the scope of similarity.

[Table 10]<sup>28)</sup> Example of Scope of Similarity of Registered Trademark

	Registered trademark		Goods/Services
Scope of exclusive right	 Trademark Registration No. 1435156		30: Confectionary, bread
	Similarity of registered trademark		Similar goods/services
Scope of prohibitive right	Sounds (reading)	Shiroi Koihito	35: Provision of facility to customers conducting retail or wholesale business of confectionary and bread
	Idea	WHITE LOVER	
	Appearance	白い変人	

(Source) ©YOSHIDAIPO 2014

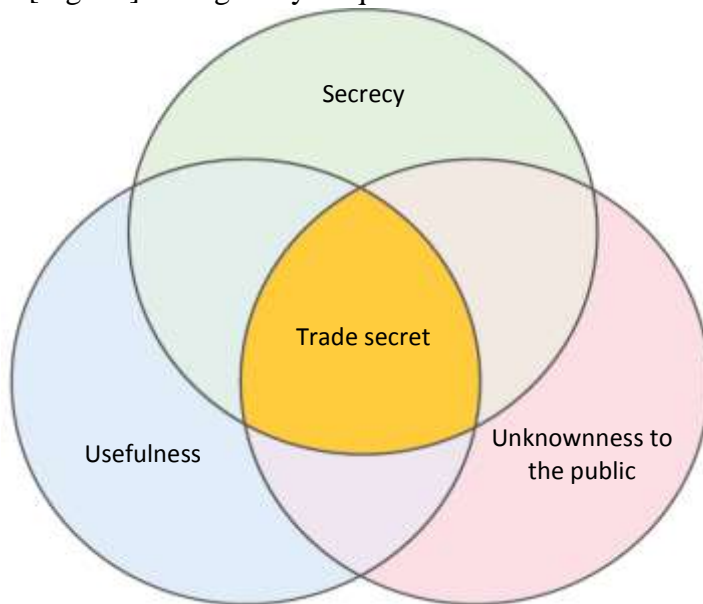
#### (4) Management of Trade Secrets

This subsection describes matters relating to the management of trade secrets, including governing law, its implications for SMEs, in-house enforcement of trade secret management rules and other control documents, structure of in-house trade secret management rules and other control documents, and the method for identifying trade secrets.

##### (i) Management of Trade Secrets

- I. The Intellectual Property Basic Act stipulates in Article 2, paragraph 1 that the term “intellectual property” as used in this Act shall mean inventions, devices, new varieties of plants, designs, works and other property that is produced through creative activities of human beings ... and trade secrets and other technical or business information that is useful in business activities, clearly stating that trade secrets constitute intellectual property. The Unfair Competition Prevention Act stipulates in Article 2, paragraph 6 that information that meets the following requirements shall only be eligible for protection as a trade secret: (i) technical or business information useful for business activities; (ii) information that is not publicly known; and (iii) information that is kept secret.

[Fig. 16]<sup>29)</sup> Eligibility Requirements for Protection as a Trade Secret



(Source) Reprinted from the Manual for Strategic Management of Know-how for Managers of SMEs, the Tokyo Metropolitan Government

- II. Although the management of trade secrets is a critical issue for SMEs, it is still the case that sufficient countermeasures have not been taken. SMEs should make their staff understand that protection of their trade secrets is directly linked to the lives of the people.

The procedure for working for this involves two steps: (a) establishing in-house trade secret management rules and creating other control documents including a standard confidentiality covenant that sets forth employees' obligations during the term of employment and after termination of employment, checklists of disclosure in an application against their know-how, followed by a briefing on the education program to management; and (b) making a tour of offices and factories to give presentations to familiarize employees with the procedure for managing trade secrets. Employees are more likely to listen closely to a presentation by an outside instructor such as a patent attorney than by IP staff.

- III. During such a presentation, employees may ask a number of tough questions about the effectiveness and term of the obligation not to compete. If this happens, the instructor should make employees think about the topic based on the implications of the constitutionally-guaranteed freedom to choose their occupation (Article 22 (1) of the Constitution of Japan) and reports on legal cases relating thereto by going into greater depth as far as the actual circumstances of individual companies are concerned.
- IV. After giving presentations to employees, the step of enforcing the trade secret management rules and executing a confidentiality covenant while making necessary revisions to the working rules and establishing the company's security policy will be undertaken, starting with those in managerial positions. Trade secrets as an object of management should be identified by level of



confidentiality as “Strictly Confidential,” “Confidential” and “For Internal Use Only, and such classification of trade secrets according to the level of confidentiality should be reviewed from time to time thereafter.”

In addition, measures should be taken to manage employees and subcontractors/suppliers who enter and leave the company’s premises and to sign confidentiality agreements with relevant outsiders.

- V. The trade secret management system will be built around the trade secret management rules, with the rules for handling trade secrets established in accordance with the trade secret management standard and with a confidentiality covenant (agreement) concluded between the company and all officers and employees. Table 11 below outlines the trade secret management rules and other relevant control documents, examples of which are attached hereto as Exhibit 2.

<sup>30)</sup> [Table 11] Brief Overview of Trade Secret Management Rules and Other Relevant Control Documents

Rules and Other Control Documents	Brief Overview
Trade secret management rules	Sets forth the most basic matters relating to trade secret management, including eligibility requirements for protection as a trade secret under the Unfair Competition Prevention Act.
Trade secret management standard	As a subordinated component part of trade secret management documents, sets forth the rules for handling trade secrets by level of confidentiality as “Strictly Confidential,” “Confidential” and “For Internal Use Only.”
Covenant (to be executed when employed)	Lacks effectiveness because trade secrets are only specified roughly therein.
Same as above (to be executed when promoted)	Specifies particular secrets under control.
Same as above (to be executed when working on a project)	Specifies the theme for the project to prevent contamination.
Same as above (when quitting)	Requires the collection of electronic record media, etc.; imposes an obligation not to compete; and whether or not an allowance will be paid for maintaining confidentiality.

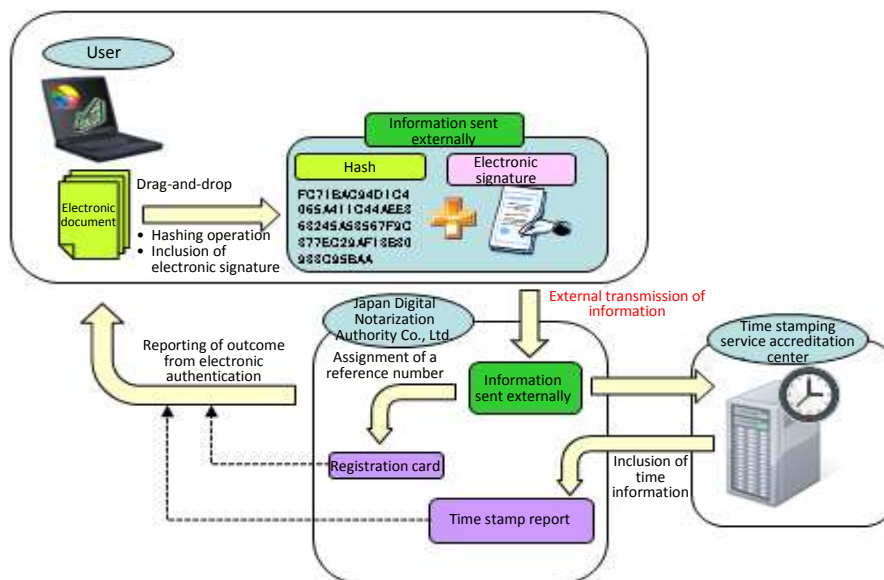
(Source) ©YOSHIDA IPO 2015

Exhibit 2 (in Japanese) was reprinted from the website of the Ministry of Economy, Trade and Industry, with its English translation attached at the end thereof.

## (ii) Identifying Trade Secrets

- I. It is necessary to clearly identify confidential information intended for management as a trade secret. With regard to identification of trade secrets, getting trade secrets notarized in a notary public office would provide great probative value.
- II. Use of an electronic authentication service available from private electronic authentication organizations would facilitate efficient management of trade secrets. In such a system, an electronic authentication is obtained for trade secrets identified as targets for trade secret management. To start an authentication program, the user of such a service merely needs to drag and drop the documents concerned into the electronic document folder on his/her personal computer. The electronic documents contained therein will then be hashed and signed electronically, and then will be transmitted to an outside authentication organization which will report to the user the outcome of the electronic authentication comprising a registration card with a reference number together with a time stamp report made by a time stamping service accreditation center. The user of such a service can easily create, on the user's personal computer, evidence of trade secrets under its control, of its possession of know-how when launching a joint research project with a third party and of chronological records of research data. The author uses Japan Digital Notarization Authority Co., Ltd. as an outside authentication organization.

[Fig. 17]<sup>31)</sup> Authentication by a Third Party in the Private Sector



(Source) Reprinted from the website of Japan Digital Notarization Authority Co., Ltd.

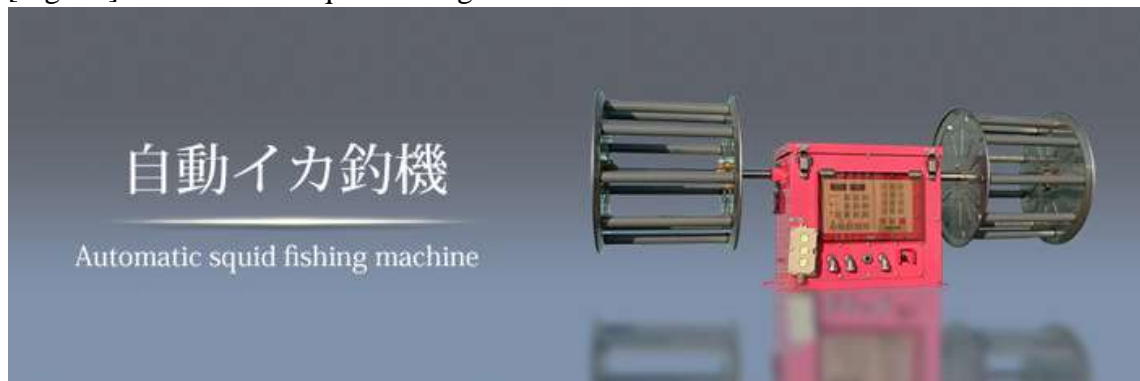
## 7. Strategies for Utilizing Intellectual Property in SMEs

This section gives examples of strategies for utilizing intellectual property that may be helpful to SMEs, including the strategy of establishing a leading position in a niche market, branding strategy, patent pool and IP secured loan.

### (1) Strategy of establishing a leading position in a niche business

- I. A known development approach involves offering a number-two product that has a similar construction to that of an innovative product newly developed by a competitor with equivalent functionality or slight improvement over the latter at a lower price. A number-two product is unlikely to outperform the new product, though it may have mixed success.
- II. Towa Denki Seisakusho Co., Ltd., a fishing equipment manufacturer based in Hakodate, Hokkaido Prefecture, is the leader in a niche business on a global basis as shown by the fact that it has a combined 70% share of the domestic and international markets for automatic squid-fishing machines. Towa Denki has obtained a patent on its automatic squid-fishing machine characterized by a “jerking movement” of the fishing line which involves the fishing line being pulled up once, followed by being dropped into water repeatedly. Word spread that the jerking movement worked very well for attracting squid and getting a good catch, which apparently provided a springboard for Towa Denki’s rapid progress toward success.

[Fig. 18]<sup>32)</sup> Automatic Squid-fishing Machine



(Source) Reprinted from the website of Towa Denki Seisakusho Co., Ltd.

- III. At Towa Denki, development themes are selected as follows: Firstly, the president and/or the factory manager personally go off on a fishing vessel to gain firsthand knowledge of the needs of fishermen on board. Apart from design work at the factory, such firsthand knowledge of problems and/or difficulties experienced on fishing vessels gives them ideas for development. Moreover, the on-board assembler of such firsthand knowledge is an engineer with decision-making authority. Secondly, employees at Towa Denki make ceaseless efforts to improve the ease of use of their products and quickly serve customers’

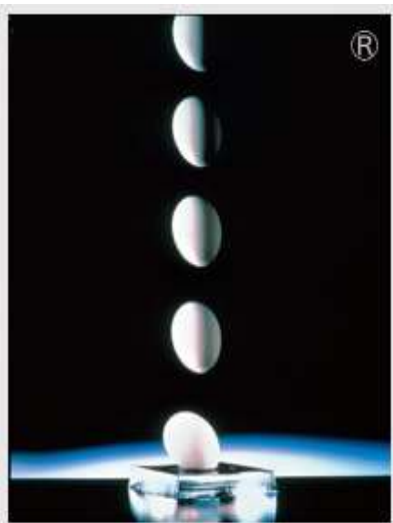
maintenance needs. Timely response to customers' needs serves as a guide to improvements, thereby building up the customer base.

- IV. Thirdly, Towa Denki files a patent application for every improvement technology developed in chronological order to shore up its IP defenses against the entry of competitors with improvement technology. Built on improvement technology for easing the problems experienced by fishermen on board, Towa Denki's chronological portfolio of intellectual property provides a powerful barrier to entry by competitors with improvement technology. In the same way, Towa Denki has been effectively utilizing its patent rights in other niches such as scallop-related equipment, pole-and-line tuna fishing machine, and LED fish lamps, thereby making further progress.
- V. A product portfolio that meets customers' needs combined with a chronological IP portfolio constructed to defend the product portfolio will enable an SME to establish a leading position in a niche business.

## (2) Brand Building

- I. An SME should carefully nurture its house mark and the name of its flagship products or services as they offer a direct means by which consumers gain an image of the enterprise.
- II. Taica Corporation, an in-house development type company based in Minato-ku, Tokyo, is mainly engaged in multifunctional materials and wellness businesses.<sup>33)</sup> Its flagship product is a highly shock-absorbing multifunctional material for which multiple modes of indication have been registered, including “アルファージェル®,” “ALPHA-GEL®,” “α-gel®” and “αGEL®” across multiple classes. It is important to note that the picture of a falling raw egg as shown in Figure 11 has been registered as a figure trademark across multiple classes.

[Fig. 19]<sup>34)</sup> Picture of a Raw Egg Impacting on αGEL® Sheet without Breaking



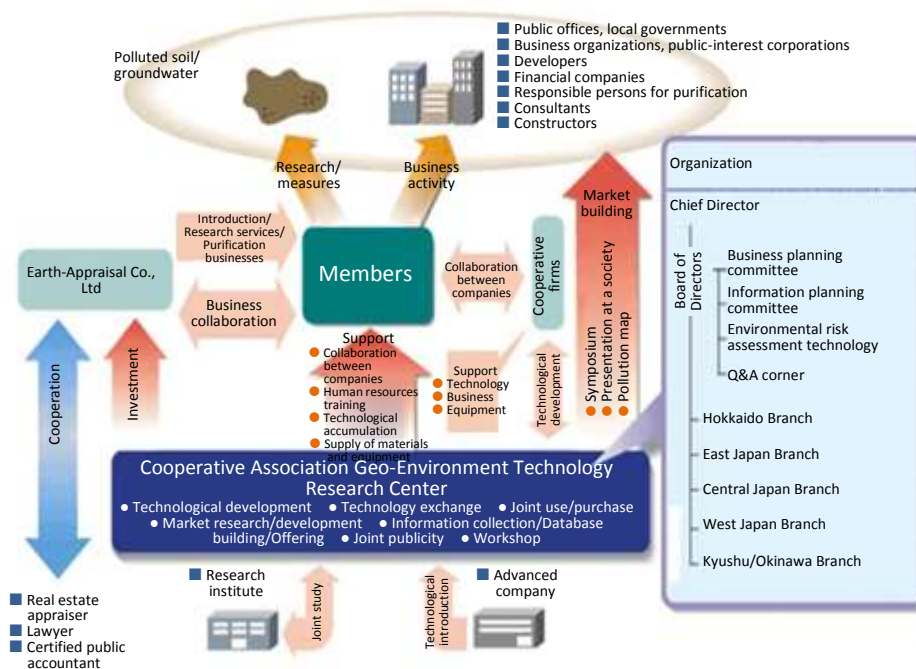
(Source) Reprinted from the website of Taica Corporation

- III. The picture shown above was taken during a drop test in which a raw egg was dropped from the sixth floor of a building (18 meters above the ground) onto a  $\alpha$ GEL® sheet 2cm thick, indicating that the falling egg came to a dead halt on the  $\alpha$ GEL® sheet without breaking. The BBC's coverage of the picture as Japanese miracle technology focused global attention on the technology. The picture of a falling egg as a figure trademark is closely associated with the miraculous performance of  $\alpha$ GEL®. Conversely, the brand of  $\alpha$ GEL® reminds consumers of the picture of a falling egg as a figure trademark. In the light of the close association between the picture of a falling egg and  $\alpha$ GEL®, Taica Corporation has had the picture registered as a figure trademark to preclude the possibility of free riding on the image among consumers and the spread of imitations.
- IV. As is the case with Taica Corporation, an SME should devote resources to carefully nurture its house mark and the brand image of its flagship products or services to enhance their value as trademarks. In particular, the strategy for instilling an image in consumers' minds based on a close association between the picture of a falling egg as a figure trademark and  $\alpha$ GEL® constitutes a remarkable branding strategy.

### **(3) Patent Pooling**

- I. The term "Patent Pooling" refers to a system in which a membership organization is entrusted with its members' patent rights and makes the same available for licensing to its members. Geo-Environment Technology Research Center <sup>35)</sup>, a cooperative association, is entrusted with its cooperative members' patents on soil inspection technology, reagents, etc. and makes the same available for licensing to its members at their request. In the capacity of administrator of the entrusted patents, the cooperative association receives licensing fee payments and distributes them among its cooperative members. This system enables the cooperative members to reduce red tape while the increased working of such patents facilitates the progress of the standardization of soil inspection technology and hence increases society's confidence in soil inspections.

[Fig. 20]<sup>35)</sup> Schematic View of Geo-Environment Technology Research Center



(Source) Reprinted from the website of Geo-Environment Technology Research Center

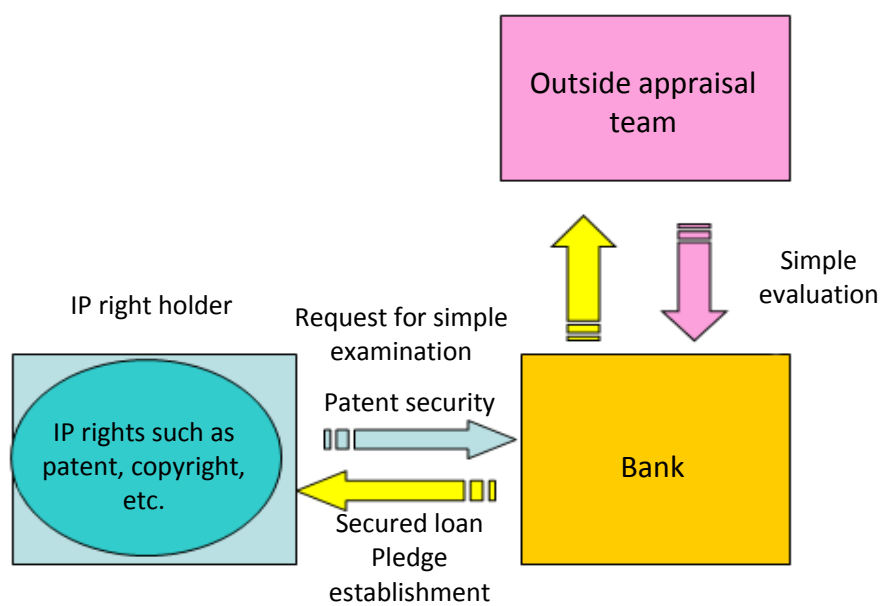
- II. The patent pooling system provides the following benefits to SMEs. Firstly, a pool of patent rights on geo-environment technology grows in scope beyond the boundaries of individual SMEs. Secondly, the system enables SMEs to work a desired patent on geo-environment technology, thereby increasing the utility value of patent rights. Thirdly, the increased working of patent rights by SMEs improves society's evaluation of geo-environment technology. Fourthly, the increased working of patent rights by SMEs facilitates the progress of standardization of soil inspection technology.
- III. The usefulness of the patent pooling system for SMEs could be demonstrated as follows: For example, a pool of patent rights built with respect to each industrial segment or each business relationship will facilitate the smooth performance of business activities under the guardianship of the patent portfolio externally and will eliminate waste through technological standardization internally.

#### **(4) IP-Secured Loan System**

- I A trademark right is registered in connection with the goodwill, house mark or name of goods or services. Continued use of a trademark increases the brand value of goodwill and marks in connection with which the trademark is used, thereby enhancing the business reputation of the trademark holder and hence the security value of the trademark right. According to brand rating by Interbrand<sup>36)</sup>, Apple Inc.'s image of an apple ranks first at 20,433.1 billion yen (converted at 120 yen to the dollar) in terms of appraisal value, and Toyota Motor Corp.'s logo combining the Toyota mark with the logotype of "TOYOTA" sixth at 5,765.8 billion yen.
- II. According to a news release<sup>37)</sup>, Shoko Chukin Bank has extended a loan to a number of corporations on security of IP including patent rights on edible oils and fats, health foods, etc. The bank has also provided a loan to a sake brewery based in Toyama Prefecture. Given that the JPO is promoting business valuation based on IP value assessment intensively from the current fiscal year, it is expected that financial institutions will extend more IP-secured loans in the future.
- III. Figure 22 illustrates the scheme of IP-Secured Loan with Appraiser. The Appraiser has been assembling an outside appraisal team consisting of patent attorneys in each area of specialization to serve as "IP connoisseurs" in collaboration with the credit research department of a certain bank for the last decade or so.

Granting of security is sought in the following manner. The author will provide a briefing on the scheme of IP-secured loans at a meeting with officers for credit research of a certain bank. The credit research officer will forward an IP-secured loan proposal to an outside appraisal team which will evaluate the workability of the patented invention. Upon completion of the evaluation, the loan proposal will be reforwarded to the credit research department. Past records show that about 30% of IP-secured loan proposals put forward have been determined to be feasible and hence granted. If the evaluation process determines a set(s) of international patent applications to be necessary, the IP-secured loan proposal will include the expenses involved in filing the necessary set(s) of international patent applications for the proposed loan amount.
- IV. A trademark right in a house mark or brand in use is likely to be valued highly because the use of such trademark makes itself better known and thus subject to extensive business use. In fact, trademark rights in current use are much more likely to be accepted as security for a loan than patent rights are.
- V. Given that the IP-secured loan system provides SMEs and small and micro enterprises with an opportunity to optimize the utility of IP, the author hopes that the system will become widely used, with its remarkatability-related problem resolved.

[Fig. 21]<sup>38)</sup> Illustration of the Scheme of IP-Secured Loan with Appraisers



(Source) ©YOSHIDAIPO 2002



#### Endnote

- 1) The figures for employees of SMEs and small and micro enterprises were extracted from materials published by METI in 2012.
- 2) Table 1 was reprinted from the definition of SME specified by the Small and Medium Enterprise Agency.
- 3) Table 2 was reprinted from the definition of small and micro enterprises specified by the Small and Medium Enterprise Agency.
- 4) Figure 1 titled “Conceptual Diagram of Intellectual Assets Underlying Management for Enhanced Business Value” was reprinted from “The Secrets of Obtaining a Loan Based on Evaluation of Management for Enhanced Business Value,” Ministry of Economy, Trade and Industry and Organization for Small & Medium Enterprises and Regional Innovation, Japan.
- 5) “Report on Management for Enhanced Business Value” available on the website of the Organization for Small & Medium Enterprises and Regional Innovation is attached hereto as Exhibit 1.
- 6) Figure 1 represents an image of the status of intellectual assets before and after organizing.
- 7) Extracted from the 2009 White Paper on Small and Medium Enterprises in Japan, p. 79.
- 8) Table 3 showing filings by SMEs by category of business was adapted from “Report of Advisory Committee on Support for Small and Medium Enterprises and Regional Innovations: Status of Working of IP Rights” published by the JPO.
- 9) Figure 3 showing changes in the number of patent applications filed by SMEs in Japan was reprinted from “The Japan Patent Office Annual Report 2005,” p. 58.
- 10) Figure 4 was reprinted from “The Status of Filing of IP Applications by SMEs,” May 16, 2014, Information Dissemination and Policy Promotion Division, Policy Planning and Coordination Department, JPO, p. 26.
- 11) Figure 5 showing changes in the number of applications for utility model registration filed by SMEs in Japan was reprinted from “The Japan Patent Office Annual Report 2015,” p. 58.
- 12) Figure 6 showing changes in the number of applications for design registration filed by SMEs in Japan was reprinted from “The Japan Patent Office Annual Report 2015,” p. 58.
- 13) Figure 7 showing changes in the number of applications for trademark registration filed by SMEs in Japan was reprinted from “The Japan Patent Office Annual Report 2015,” p. 59.
- 14) Figure 8 showing changes in the number of international applications under PCT filed by SMEs in Japan was reprinted from “The Japan Patent Office Annual Report 2015,” p. 59.
- 15) Figure 9 showing changes in the number of international applications for trademark registration under the Madrid Protocol filed by SMEs in Japan was reprinted from “The Japan Patent Office Annual Report 2015,” p. 59.
- 16) Figure 10 was partly reprinted from “Report from Advisory Committee on Support to Small and Medium Enterprises and Regional Innovation: Status of Working of IP Rights,” March 17, 2015, Information Dissemination and Policy Promotion Division,

- Policy Planning and Coordination Department, JPO, p. 7.
- 17) Figure 11 was reprinted from “The Japan Patent Office Annual Report 2012.”
  - 18) Table 4 titled “Applications/Appeals Eligible for Accelerated System/Accelerated Appeal Examination System” was adapted from “Guidelines for Accelerated Examination and Accelerated Appeal Examination for Patent Applications” (in Japanese), JPO.
  - 19) Table 5 titled “Applications/Appeals Eligible for Use of Accelerated Examination System/Accelerated Appeal Examination System by Foreign Enterprises” was adapted from “Guidelines for Accelerated Examination and Accelerated Appeal Examination for Patent Applications” (in Japanese), JPO.
  - 20) Table 6 was reprinted from “The Fee Reduction/Exemption System,” JPO.
  - 21) Table 7 titled “Foreign Enterprises as Eligible Applicants for Fee Reduction/Exemption” was adapted from “The Fee Reduction/Exemption System,” JPO.
  - 22) Figure 12 shows the implications of a product (Technology 1) for invention.
  - 23) Table 8 shows the procedure for creating an invention proposal.
  - 24) Table 9 shows Technology 1 envisaged by the inventor and the work of specifying the invention thereof.
  - 25) Figure 13 which represents a drawing of straw-seared bonito manufacturing equipment in the patent specification was reprinted from Patent Gazette No. 3113826.
  - 26) Figure 14 showing examples of a device which concerns the shape or the structure of an article or a combination thereof was reprinted from a Utility Model Gazette published by the JPO.
  - 27) Figure 15 shows an example of similarity works of designs.
  - 28) Table 10 shows an example of the scope of similarity of registered trademark.
  - 29) Figure 16 showing eligibility requirements for protection as trade secrets was reprinted from the Manual for Strategic Management of Know-how for Managers of SMEs, the Tokyo Metropolitan Government.
  - 30) Table 11 shows a brief overview of trade secret management rules and other relevant control documents.  
(Note) Exhibit 2 (in Japanese) was reprinted from the website of the Ministry of Economy, Trade and Industry.
  - 31) Figure 17 showing the scheme of authentication by a third party in the private sector was reprinted from the website of Japan Digital Notarization Authority Co., Ltd.
  - 32) Figure 18 showing an automatic squid-fishing machine was reprinted from the website of Towa Denki Seisakusho Co., Ltd.
  - 33) The website of Taica Corporation
  - 34) Figure 19 showing a figure trademark that is closely associated with the miraculous performance of  $\alpha$ GEL® in which a falling raw egg has come to a dead halt on the  $\alpha$ GEL® sheet without breaking was reprinted from the website of Taica Corporation.
  - 35) Figure 20 showing a schematic view of Geo-Environment Technology Research Center was reprinted from the website of Geo-Environment Technology Research Center.

- <sup>36)</sup> Extracted from the 2015 Brand Rating by Interbrand.
- <sup>37)</sup> Reprinted from the news release of Shoko Chukin Bank.
- <sup>38)</sup> Figure 21 represents an illustration of the scheme of IP-secured loans with appraisers.

Material 1 : Report on Management for Enhanced Business Value

Report on Management for Enhanced Business Value

Trade Name:

Date created: MM/DD/YYYY

Catch phrase

I. Corporate Identity (Corporate Vision)

II.1. Outline of Business

II.2. Corporate History

II.3. Awards won, Certifications, Qualifications acquired, etc.

II.1. Internal Environment (Workflow)

(1)

(2)

(3)

(4)

(5)

Value delivered to customers

Value delivered to customers

Value delivered to customers

Value delivered to customers

Value delivered to customers

Workflow

(1)

(2)

(3)

(4)

(5)

Value delivered to customers

Efforts for creating differentiation

II.2. Internal Environment (Strengths and Weaknesses)

[Strengths]

[Weaknesses] (Business Issues)

[Underlying reasons I]

[Underlying reasons II]

IV. External Environment (Opportunities and Threats)

Opportunities

Threats

V. Vision for the Future (Policy/Strategy)

Value for the future with external environment and intellectual assets in mind

Efforts to fulfill the future vision

VI. Scenario of Value Creation

[Scenario followed in the past] (YYYY to YYYY)  
Usage status of intellectual assets

[Scenario to be followed in the future] (YYYY to YYYY)  
Targeted use of intellectual assets

Human assets

Structural assets

Related assets

Others

High

Flow

In the future

KGI

## Material 2

# EXAMPLES OF REGULATIONS, ETC. FOR MANAGEMENT OF TRADE SECRETS

## Regulations for the Management of Trade Secrets

### CHAPTER I GENERAL PROVISIONS

#### Article 1 (Purpose)

These Regulations set forth the matters required for the management of trade secrets, to ensure proper management and utilization of such secrets.

#### Article 2 (Scope of Application)

These Regulations shall apply to officers and employees (hereinafter collectively, “Employees”).

#### Article 3 (Definitions)

The definitions of the terms used herein shall be as provided below.

- (i) “Trade Secret” refers to technical or business information that is managed as a secret and is useful for production methods, sales methods, or any other business activity, and additionally that is designated under item 1 of Article 7 among information not in the public domain.<sup>(\*)1</sup>
- (ii) “Documents” refer to documents, drawings, photographic images, literature, magnetic tapes, CD-ROMs, DVDs, hard disk drives, and other means which contain or record information.
- (iii) “Electronic Information” refers to information that is electromagnetically recorded on magnetic tapes, CD-ROMs, DVDs, hard disk drives, and other electronic media, and that is in a form that may be processed on an information system.
- (iv) “Property” refers to goods, products, facilities and things other than Documents.

#### Article 4 (Classes of Trade Secrets)

For the management of Trade Secrets, Trade Secret Classes are set as follows.

- (i) Strictly Confidential Trade Secrets that may lead to an extremely significant loss or disadvantage, or a risk thereof, to the Company in the case of their external leakage, and that may be, in principle, disclosed only to designated persons
- (ii) Confidential Trade Secrets that are not Strictly Confidential, but may lead to a significant loss or disadvantage, or a risk thereof, to the Company in the case of their external leakage, and that may be, in principle, disclosed only to persons belonging to the departments dealing with such secrets in the course of business
- (iii) Internal Use Only Trade Secrets that are not Strictly Confidential or Confidential, and that may be, in principle, disclosed only to persons belonging to the Company

## CHAPTER II MANAGEMENT SYSTEM FOR TRADE SECRETS

### Article 5 (Administrators)

- (1) A General Manager of Trade Secrets (hereinafter, “General Manager”) shall be appointed among officers by the Board of Directors, in order to control the Trade Secrets of the Company.
- (2) The head of each department and the head of each operational unit in each department shall be in charge of managing Trade Secrets of the respective department and operational unit as Trade Secret Administrators (hereinafter, “Administrator”) in accordance herewith.

### Article 6 (Trade Secret Management Committee)

- (1) The Trade Secret Management Committee (hereinafter, “Committee”) shall be established for any revision hereof and the formulation and revision of the Trade Secret Management Standards (hereinafter “Management Standards”).
- (2) The General Manager shall serve as the chairperson of the Committee, and the head of each department shall be a member of the Committee.
- (3) Upon receipt of audit results as provided in Article 14, the Committee shall examine whether or not any revision hereof or of the Management Standards is required, and take any necessary measures on the basis of such results.

### Article 7 (Designation)

- (1) Administrators shall, as separately provided, designate the information the Company holds as Trade Secrets, classify these secrets into Trade Secret Classes, and specify the period of retention of such secrets, and the scope of the persons authorized to access such secrets (hereinafter, “Access-authorized Persons”).
- (2) Administrators shall specify that Documents, Electronic Information and Properties containing the information designated pursuant to the preceding paragraph constitute Trade Secrets, by employing appropriate methods such as affixing the separately designated seals to such Documents, etc. according to Trade Secret Classes, incorporating data indicating Trade Secret Classes, and setting a password, etc.
- (3) In the case where the confidentiality of the information designated pursuant to paragraph 1 has weakened, or has been lost, due to such reasons as the elapse of time, Administrators shall, in each case, change its Trade Secret Class or cancel the designation of the information as a Trade Secret.

### Article 8 (Handling of Trade Secrets)

Employees shall handle Trade Secrets in accordance with the Management Standards separately established by the Committee.

## CHAPTER III EMPLOYEES

### Article 9 (Reporting)

In cases where Employees, in the course of business, obtain or generate any matter falling within

the scope of information designated as a Trade Secret, they shall promptly report the contents obtained or generated to the respective Administrators, who shall in turn designate such matter as a Trade Secret in accordance with paragraph 1 of Article 7.

#### Article 10 (Obligation of Confidentiality)

- (1) Employees shall not disclose Trade Secrets to anyone other than Authorized Persons without the permission of their Administrators.
- (2) Employees shall not use Trade Secrets for any purpose other than designated business activities without the permission of their Administrators.

#### Article 11 (Written Oath)

- (1) Administrators shall require Employees to submit a written oath of confidentiality in the form separately stipulated.
- (2) In the case where any Employee is considered to have accessed Trade Secrets of third parties at his/her previous place of work before joining the Company, and if the Administrator of the unit to which the Employee is assigned finds it necessary, such Employee shall be interviewed by the Administrator or General Manager at the time of joining the Company, and submit an individual written oath, for the purpose of preventing any infringement of the Trade Secrets of said third parties.

#### Article 12 (Retired Employees)

- (1) Employees shall observe the obligation of confidentiality stipulated in item 1 of the preceding article even after they have left the Company.<sup>(\*2)</sup>
- (2) When an Employee is to retire, the relevant Administrator (in the case of the retirement of an Administrator, this shall be read as “General Manager”; the same shall apply to the remainder of this Article) shall check the details of the obligation of confidentiality for the Employee, for example, by identifying the Trade Secrets that the Employee has come to know during his/her term of employment.
- (3) At the time of retirement, Employees shall not take any Document or Property outside the Company, and shall return all the Documents and Properties that they have retained to the Company.
- (4) At the time of retirement, Employees shall delete all the Trade Secrets recorded on their own Documents, and submit to their respective Administrators a written oath that the Employees have deleted Trade Secrets (in the case of no Trade Secret recorded on their own Documents, a written oath to that effect).
- (5) In the case where an Employee finds after retirement that s/he has failed to return or delete any of the Documents, Properties or Trade Secrets under the two preceding paragraphs, said Employee shall promptly take the actions stipulated under the same two paragraphs.

#### Article 13 (Training)

Administrators shall provide Employees with proper training to thoroughly familiarize them with the contents hereof and of the Management Standards, and make efforts to enhance and maintain

Employees' awareness of the protection of Trade Secrets.

#### Article 14 (Audit)

Administrators shall implement audits in the departments and units for which they are responsible in order to maintain the secrecy management level based hereon and on the Management Standards, and report the results of such audits to the General Manager.

### CHAPTER IV HANDLING OF EXTERNAL MATTERS

#### Article 15 (Contracts Requiring Disclosure of Trade Secrets, etc.)

In the case of subcontracting any production or operation of the Company to a third party such as staffing agencies, contract processing companies and contractors, if any transaction with such third party involves licensing, joint development or any other form of disclosure of Trade Secrets, the obligation of confidentiality shall be imposed upon said third party in contracting with it, and the maintenance of confidentiality shall be duly considered.

#### Article 16 (Handling of Confidential Information of Third Parties)

(1) In the case of receiving information disclosed by third parties, Employees shall confirm with the third parties whether or not this information is confidential, and if it is, whether or not such parties are duly authorized to disclose the confidential information concerned.

(2) In the case of the preceding paragraph, Employees shall not accept the disclosure of information when third parties are not duly authorized or when it is uncertain whether or not third parties are duly authorized.

(3) With regard to confidential information disclosed in accordance with paragraph 1, the limiting conditions on the use and disclosure of such confidential information that apply to the Company shall be clarified between the Company and the third party.

(4) In the case where the confidential information disclosed under paragraph 1 is to be used or disclosed, the limiting conditions applicable to the Company pursuant to the preceding paragraph shall be met. Further, such confidential information shall be handled in the same manner as the Trade Secrets of the Company.

#### Article 17 (Guests and Visits)

Upon obtaining consent of the General Manager, the chiefs of workplaces shall, as required, establish operation procedures (including details on the execution of non-disclosure agreements, the setting of restricted areas, and other measures for the maintenance of confidentiality) for dealing with guests, visits to facilities, etc.

### CHAPTER V MISCELLANEOUS PROVISIONS

#### Article 18 (Penalty)



In the event where an Employee violates these Regulations intentionally or by gross negligence and consequently is subject to any of the disciplinary actions stipulated in the Rules of Employment, such action shall be taken in accordance with said Rules.

(\*1) There are various definitions and names for information that must be kept confidential (e.g. “trade secret,” “company secret,” “confidential matter,” “classified information” and “confidential information”). Each business operator should take into consideration the consistency with its own rules of employment and other documents and the need to clarify the purpose of protecting trade secrets, and make appropriate decisions in this regard.

(\*2) Both the Company and the Employee should be able to reach a consensus taking account of differences in their respective positions, in order to prevent the violation of public policy (Article 90 of the Civil Code) in terms of the necessity and rationality of the obligation of confidentiality after retirement. Accordingly, the obligation of confidentiality after retirement under paragraph 2 of Article 12 should preferably be identified clearly, for example, by executing a separate non-disclosure agreement.

## Trade Secret Management Standards

### 1. Handling of Strictly Confidential Trade Secrets

The handling of Documents and Electronic Information containing Strictly Confidential Trade Secrets shall be as follows. The handling of Properties containing Strictly Confidential Trade Secrets shall be as provided for Documents containing Strictly Confidential Trade Secrets.

#### \* Distribution

- When distributing a Document, assign a serial number to it and record the number and recipients of the Document.
- When forwarding Documents, take appropriate measures such as tightly sealing the Documents and then marking them with “For Your Eyes Only”. When sending Documents by post, use registered mail.
- Do not send Documents by fax.
- When sending Electronic Information by email, take appropriate measures such as encryption.

#### \* Browsing

- The permission of the Administrator shall be obtained when allowing other Access-authorized Persons to browse Documents.
- Do not allow anyone other than Access-authorized Persons to browse Documents.
- When displaying Electronic Information on screen, use a terminal installed in an entry- and exit-controlled area or in a private room occupied by the person handling the information, and take care to prevent others from reading the information.
- The Administrator shall record the browsing person and the time and date of browsing.

#### \* Duplication

- Do not create any photocopies of Documents.
- Only the Administrator may duplicate Electronic Information.
- When printing Electronic Information, use a printer installed in an entry- and exit-controlled area or in a private room occupied by the person handling the information, and take care to prevent others from reading the information.

#### \* Taking-out from the Company

- The permission of the Administrator shall be obtained when taking out Documents from the Company.
- When taking out Documents from the Company with permission to do so from the Administrator (after appropriate actions such as encryption have been taken in the case of Electronic Information), the person handling such Documents shall carry them and store them in a proper storage at the place of his/her stay.

#### \* Retention

- When retaining Documents containing Strictly Confidential Trade Secrets (excluding information system devices and external recording media), separate such Documents from other documents, store them in a lockable storage, and lock the storage, which may be opened only when the Documents are to be used. The Administrator shall manage the key to this storage.

- When retaining Electronic Information in information system devices, install such devices in an entry- and exit-controlled area, after appropriate measures such as encryption have been taken.
- When retaining Electronic Information on external recording media, store such media in a locked safekeeping room or a locked storage after appropriate measures such as encryption have been taken, which may be opened only when the media are to be used. The Administrator shall manage the key to this safekeeping room or storage.

\* Disposal

- The permission of the Administrator shall be obtained for the disposal of Documents.
- When disposing of Documents with the permission of the Administrator to do so, employ appropriate methods such as shredding, incineration or dissolution. The recipient of distributed Documents shall dispose of their Documents in the same manner.
- The permission of the Administrator shall be obtained to delete Electronic Information.
- Dispose of Documents with the permission of the Administrator to do so after implementing appropriate processes so as to prevent any third person from reading residual information. The recipient of disclosed Electronic Information shall implement the same processes.

## 2. Handling of Confidential Trade Secrets

Documents and Electronic Information containing Confidential Trade Secrets shall be handled as follows. The handling of Properties containing Confidential Trade Secrets shall be as provided for Documents containing Confidential Trade Secrets.

\* Distribution

- When distributing a Document, record its recipients.
- When forwarding Documents, take appropriate measures such as tightly sealing Documents and then marking them with “For Your Eyes Only,” if required.
- When sending Documents by fax, request the recipient in advance to wait by the fax machine.
- When sending Electronic Information by email, take appropriate measures such as encryption.

\* Browsing

- The permission of the relevant Administrator shall be obtained when allowing anyone other than Access-authorized Persons to browse Documents.
- When displaying Electronic Information on screen, take care to prevent others from reading the information.

\* Duplication

- Photocopying of Documents is permitted only when it is unavoidable in the course of business. Handle photocopies created in the same manner as Documents containing Confidential Trade Secrets.
- Only the Administrator and the Access-authorized Persons permitted by the Administrator may duplicate Electronic Information.
- When printing Electronic Information, use a printer installed in an entry- and exit-controlled area or in a private room occupied by the person handling the information, taking care to prevent others from reading the information.

- When printing Electronic Information, if a printer installed in a normal office area is to be used, stand by at the printer from the time the information starts being printed out, and immediately collect the printed information upon the completion of printing.

\* Taking-out from the Company

- Unless it is necessary in the course of business, do not take out Documents from the Company.
- When taking out a Document from the Company is unavoidable, the person handling the Document shall carry it and store it in a proper storage at the place of his/her stay (after appropriate actions such as encryption have been taken in the case of Electronic Information).

\* Retention

- When retaining Documents (excluding information system devices and external recording media), store them in a lockable storage and lock this storage, which may be opened only during business hours. The Administrator shall manage the key to this storage.
- When retaining Electronic Information in information system devices, install such devices in an entry- and exit-controlled area, after appropriate measures such as encryption have been taken.
- When retaining Electronic Information on external recording media, store such media in a locked safekeeping room or a locked storage after appropriate measures such as encryption have been taken, which may be opened only during business hours. The Administrator shall manage the key to this safekeeping room or storage.

\* Disposal

- When disposing of Documents, use appropriate methods such as shredding, incineration or dissolution.
- When deleting Electronic Information, implement the procedures required to prevent any third party from reading residual information.

### 3. Handling of Internal-Use-Only Trade Secrets

The handling of Documents and Electronic Information containing Trade Secrets for Internal Use Only shall be as follows. The handling of Properties containing Trade Secrets for Internal Use Only shall be as provided for Documents containing Trade Secrets for Internal Use Only.

\* Distribution

- When distributing and forwarding Documents, take care to prevent Trade Secrets from leaking outside.
- When sending Electronic Information by means other than internal networks, take appropriate measures such as encryption.

\* Browsing

- When displaying Electronic Information on screen, take care to prevent others from reading the information.

\* Duplication

- Unless it is necessary in the course of business, do not create any photocopy of Documents.

- Unless it is necessary in the course of business, do not create any duplicate of Electronic Information.
- When printing Electronic Information, immediately collect the printed information upon the completion of printing so as to prevent others from reading it.

\* Taking-out from the Company

- When taking out a Document from the Company, the person handling the Document shall carry it and store it in a proper storage at the place of his/her stay.
- When taking out Electronic Information from the Company by recording it on an external recording medium, take appropriate measures such as encryption.

\* Retention

- When retaining Documents (excluding information system devices and external recording media), employ appropriate methods such as storing them in a storage.
- When retaining Electronic Information in information system devices, install such devices as servers and peripheral devices in an entry- and exit-controlled area. If it is not possible to install such devices in an entry- and exit-controlled area, store Electronic Information in information system devices after appropriate measures such as the encryption of Electronic Information have been taken.
- When retaining Electronic Information on external recording media, store such media in a locked safekeeping room or a locked storage, which may be opened only during business hours. The Administrator shall manage the key to this safekeeping room or storage.

\* Disposal

- When disposing of Documents, employ appropriate methods such as shredding, incineration or dissolution.
- When deleting Electronic Information, implement the procedures required to prevent any third party from reading residual information.

## EXAMPLES OF WRITTEN OATH OF CONFIDENTIALITY

### Upon joining the Company

#### WRITTEN OATH OF CONFIDENTIALITY

I make this solemn oath that I will comply with the following matters upon joining the Company.

#### DETAILS

##### Article 1 (Maintenance of Confidentiality During Term of Office)

I swear that I will comply with the Company's Rules of Employment and Regulations for the Management of Trade Secrets, and I will not, without the Company's permission, unduly disclose or use the following trade secrets of the Company<sup>(\*1)</sup> <sup>(\*2)</sup>.

(i) Information relating to products of the Company, which includes technical materials relating to product development, costs of manufactured goods, and decisions on sales prices

(ii) (The remainder is omitted)

##### Article 2 (Maintenance of Confidentiality after Retirement)

I swear that I will not unduly disclose or use the trade secrets under each item of the preceding Article even after I have retired from the Company.

##### Article 3 (Damages)

I confirm that I will be legally liable in the case of unduly disclosing or using any of the trade secrets under each item of Article 1, and I swear that I will compensate the Company for all losses the Company suffers due to such disclosure or use.

(\*3)

(\*4)

XXX XX, 20XX

Kabushikikaisha \_\_\_\_\_

President: Mr./Ms. \_\_\_\_\_

Address \_\_\_\_\_

Name \_\_\_\_\_ Seal

## Upon Participating in a Project

### WRITTEN OATH OF CONFIDENTIALITY

XXX XX, 20XX

Mr./Ms. \_\_\_\_\_

Project Name: \_\_\_\_\_

Current Address: \_\_\_\_\_

Name: \_\_\_\_\_ Seal

Date of Birth: XXX XX, 19XX

In participating in the aforementioned project (hereinafter, “Project”), I confirm that with regard to the maintenance of trade secrets I will assume obligations based on the Rules of Employment, the Regulations for the Management of Trade Secrets and the already submitted written oath (among these, except any document not applicable to me, if any). Furthermore, I make this solemn oath on the following matters.

### DETAILS

#### Article 1 (Oath to Maintain Confidentiality)

I swear that I will not disclose the matters designated as trade secrets by the Company in relation to the Project (hereinafter, “Trade Secret Matters”) to any person other than the participants of the Project, or use such Trade Secret Matters for purposes other than the execution of the Project. <sup>(\*)1</sup>

(\*)2

#### Article 2 (Maintenance of Confidentiality after Completion of Project)

(1) I swear that I will not unduly disclose or use Trade Secret Matters after the completion of the Project (including after retirement), except those Trade Secret Matters that have already come into the public domain.

(2) I will promptly return to the Company all the documents and properties of the Company that I retain, on which Trade Secret Matters are recorded, at the completion of the Project, when I become no longer in charge of the Project, or upon request of the Company, and I will report to that effect to the Company in writing.

(3) In the case of the preceding paragraph, if any Trade Secret Matter is recorded on my own documents, etc., I will delete such Trade Secret Matter and report its deletion to the Company in writing (if no Trade Secret Matter is recorded on my own documents, etc., I will report to this effect).

#### Article 3 (Compliance with Confidentiality in Relation to Third Parties)

I swear that I will comply with confidentiality obligations I assume to third parties in relation to the information over which such obligations arise, regardless of whether I came to know such information under the Project or I knew it prior to engaging in the Project.

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## Upon Retirement

### WRITTEN OATH OF CONFIDENTIALITY

Upon my forthcoming retirement from the Company on XXX XX, 20XX, for personal reasons, I make this solemn oath to comply with the following matters in relation to trade secrets of the Company.

#### DETAILS

##### Article 1 (Confirmation of Confidentiality)

Upon my retirement from the Company, I confirm that I will return, and not personally keep, any original copy, duplicate copy or relevant material of all information materials relating to the following trade secrets of the Company.<sup>(\*1)</sup>

(i) Information relating to products of the Company, which includes technical materials relating to product development, costs of manufactured goods, and decisions on sales prices

(ii) (The remainder is omitted)

##### Article 2 (Oath to Maintain Confidentiality after Retirement)

I swear that I will not unduly disclose or use the Trade Secrets under each item of the preceding Article even after I have retired from the Company.

##### Article 3 (Term and Termination of Oath)

This Oath shall be effective for a period of XX years; provided, however, that this Oath shall come to an end at the time the trade secrets under each item of Article 1 have come into the public domain.<sup>(\*2)</sup>

<sup>(\*3)</sup>

<sup>(\*4)</sup>

<sup>(\*5)</sup>

XXX XX, 20XX

Kabushikikaisha \_\_\_\_\_

President: Mr./Ms. \_\_\_\_\_

Address \_\_\_\_\_

Name \_\_\_\_\_ Seal

(\*1) There are various definitions and names for information that must be kept confidential (e.g. “trade secret,” “company secret,” “confidential matter,” “classified information” and “confidential information”). Each business operator should take into consideration the consistency with its own rules of employment and other documents and the need to clarify the purpose of protecting trade secrets, and make appropriate decisions in this regard.

(\*2) With regard to the duration of the oath, the duration of the obligation to maintain confidentiality should also be set, if possible. If it is difficult to set such a duration, it should be clearly indicated that the confidentiality obligation persists until the relevant trade secrets cease to be present.

(\*3) With regard to the obligation not to compete, some oaths include such provisions as those below. However, in order to ensure the effectiveness of post-retirement non-competition obligation, assuming the existence of benefits that the Company should protect, such obligation must be rational under specific circumstances including the position of the employee concerned, regional limitations, the period of duration of non-competition obligation, the scope of competing activities to be prohibited, and compensating measures.

#### Article X (Confirmation of Non-competition Obligation)

Upon retiring from the Company, I swear that I will not perform the following actions for a period of one year after retirement, unless permitted otherwise by the Company.

(i) Recognizing that the experience and knowledge I have obtained through my duties relating to the development of XX at the Company are important company secrets or know-how of the Company, I will not engage in duties relating to the same or similar development at other companies in competition with the Company (including the case where I establish a new company that would compete with the Company; the same shall apply hereinafter).

(ii) I will not accept any order or contract from other companies in competition with the Company for the performance of duties relating to the development of XXX in which I have engaged at the Company or relating to similar development, irrespective of the form of such order or contract.

(\*4) Depending on circumstances, some oaths include such provisions as the one below with regard to compensation.

#### Article X (Compensation)

I confirm that I have received XXXX yen as compensation, apart from wages and retirement benefits from the Company, for my compliance with each of the items herein.

(\*5) Some oaths include such oath clauses as the one below with regard to the attribution of trade secrets.

#### Article X (Attribution of Trade Secrets)

I confirm that the trade secrets under each item of Article Y are attributed to the Company. Further, I will transfer to the Company all of my rights that relate to such trade secrets, and will not make any claim against the Company to the effect that such trade secrets are attributed to me.