Intellectual Property Commercialisation Guidelines

Section 1 - Purpose

(1) The aim of these Guidelines is to provide general guidance information on and explanation of several key aspects relevant to the commercialisation of the University of Canberra's (University) Intellectual Property (IP).

(2) These Guidelines contain general information on:

a. commercialisation revenues;
b. commercialisation expenses;
c. calculation of net revenue;
d. determination of equity in a start-up company;
e. taxation matters;
f. the duration of benefits; and
g. implications of potentially (or actually) benefiting from the Commercialisation of Intellectual Property on the reporting of scientific outcomes and applying for research grant.

Section 2 - Policy

(3) Refer to Intellectual Property Policy

Section 3 - Procedure

(4) Refer to Intellectual Property Procedure

Section 4 - Guidelines

Commercialisation Revenues

(5) Commercialisation revenues include, but are not limited to:

a. royalties upon sales by a licensee;
b. royalties from sub-licence fees received from a licensee;
c. lump sum licence fees;
d. proceeds of sale of the intellectual property;
e. signing fees;
f. milestone payments;
g. minimum annual payments;
h. reimbursement of patent prosecution and maintenance expenses;
i. dividends upon shares owned by the University in a start-up company to which it grants a licence;

j. proceeds of sale of shares owned by the University in a start-up company to which it grants a licence, and;
k. damages from infringement proceedings.

(6) No commercial transaction will involve the receipt of all these types of revenues. For example, sometimes only royalties will be received.

(7) The determination of whether a particular revenue is a commercialisation revenue available for distribution to inventors will be made by the Deputy Vice-Chancellor.

Commercialisation Costs

(8) Commercialisation Costs include, but are not limited to:

a. patent expenses, including registration fees and patent attorney fees;
b. legal expenses incurred on the project (and not just on the particular deal giving rise to the Commercialisation revenue). Includes if relevant any litigation expenses, whether incurred in prosecuting a patent, pursuing infringers, or defending an action of infringement;
c. proof of concept funding;
d. external professional expenses incurred on the project. These this might include:
    i. financial and technical advice;
    ii. accountant's expenses;
    iii. valuer's expenses; and
    iv. other consultant expenses (commercialisation consultants, negotiators etc);
e. insurance;
f. marketing costs;
g. creation of prototypes;
h. travel and accommodation expenses incurred on the project by any person for a relevant activity; and
i. fringe benefits tax payable by the University in relation to commercialisation.

(9) The above list is not exhaustive and the determination of whether a particular expense is a Commercialisation Cost will be made by the Deputy Vice-Chancellor.

(10) Commercialisation Costs do not include:

a. the University's administration expenses; or
b. the cost of undertaking research.

Calculation of Net Proceeds

(11) Net Proceeds is revenue from which all allowable expenses, including overheads (Commercialisation Costs), have been deducted.

Determination of Equity in a Start-up Company

(12) Where the University negotiates a transaction where equity in a company, typically a start-up company, is to be received, there are two common ways that this might be dealt with:

a. The University retains the equity in the company; or
b. The University makes part of the equity in the company available to be held directly by the Creators.

The University retains all equity in a company based on University Intellectual Property.

(13) If the University retains all the equity in the company:

a. dividends may be paid by the start-up company and any such dividends received by the University are a Commercialisation Proceeds and subject to distribution to Creators after deduction of Commercialisation Costs; and
b. when the University sells any shares, the proceeds of sale are a Commercialisation Proceeds, and subject to distribution after deduction of Commercialisation Costs.

(14) In this situation, in relation to the start-up company, Creators:

a. do not personally own shares;
b. have no control over when shares are sold;
c. do not have voting rights that may be attached to the shares; and
d. have no control over or influence over dividend declaration decisions made by the start- up company.

Creators personally hold equity in a company based on the University Intellectual Property.

(15) Some Creators will prefer to personally own equity (via a shareholding) and in this situation Creator(s) will:

a. have any voting rights attached to those shares, and
b. be able to personally decide when to sell those shares.

(16) Subject to the taxation considerations referred to below, it may well be appropriate for Creators to personally hold shares, after they have considered the taxation implications of doing so. In these cases, the number of shares to be held by the Creators will be determined in accordance with the same principles as are described in relation to the distribution of Commercialisation Revenues, so that Creators receive their share of the “net” shares, not the gross shares.

(17) In the same way that inventors receive “net” income, after deducting the expenses such as out of pocket Commercialisation Costs, similarly, inventors should receive “net” shares after deducting an appropriate allowance for expenses.

(18) The following example will illustrate the process:

a. IP is licensed into a start-up company (“SU”).
b. SU pays the University $1,000,000 for that licence.
c. 1,000,000 shares (valued at $1) are created to allocate equity in that company.
d. Commercialisation out of pocket expenses have been $150,000.
e. The “gross” number of shares is 1,000,000.
f. The “net” number of shares is 1,000,000 less 150,000 = 850,000.
g. The “net” number of shares that are accordingly available to be distributed to inventors is 850,000.

(19) In all cases, whether a Creator may personally hold shares in that company is a matter for the determination of the Deputy Vice-Chancellor.

Taxation Aspects

(20) The comments below are general comments and are not a substitute for professional advice. It is the responsibility of individual Creator(s) to obtain their own financial and legal advice in relation to holding equity in a

spin-off company, and to fulfill their personal legal and taxation obligations.

Commercialisation Revenue

(21) The Creator's employer must deduct Pay as You Go (income) tax from the payments of Net Revenue to be made to Creators from companies where the University retains all equity in a company based on University Intellectual Property.

Issue of Shares to Creators – Personal Taxation Issues

(22) The taxation implications of the issue of shares to a Creator in a start-up company needs to be carefully considered. This is because the issue of shares to the Creators in a start-up company is a benefit received by Creators in the course of their employment.

(23) This could cause difficulties for the Creators. For example, a Creator may receive $100,000.00 worth of shares, and on a marginal tax rate of 45%, will have to pay tax of $45,000.00. As the shares are not marketable at this stage, none of the shares can be sold to obtain the funds to pay this tax, and the Creator will have to resort to the Creator's own funds to pay this tax.

Issue of Shares to Creators – Fringe Benefits Tax Issues to Employer

(24) A separate consideration is that the University has to consider the fringe benefits tax implications of an employee holding shares. Fringe benefits tax is payable by the University upon the value of any fringe benefit given by the University to an employee. As such, these considerations do not apply where shares are to be held by a Creator that is a Student, because of the absence of an employment relationship.

The Duration of Benefits

(25) Creators will receive the benefit of the Creators' share for the duration that Commercialisation Revenue is received. This may be as long as 20 years, such as the duration of a patent. Receipt of benefits is not dependent upon employment continuing. Intellectual Property rights exist for certain statutory periods:

a. In the case of patents: 20 years from the date of the patent application (although the duration of some patents can be extended);
b. In the case of copyright: the period equal to the life of the author, plus 70 years;
c. In the case of Confidential Information, for so long as it generates revenues, which is linked to how confidential it remains over time, and continues to be outside the public domain, which may be a short period, or a long period.

(26) It is customary for the duration of benefits to Creators to be for these periods, namely, for as long as Net Revenue from Commercialisation is received, and this will be the case. When a Creator dies, it is customary for benefits to continue to be paid to the Creator's estate, and this also will be the case.

Implications of Benefiting From the Commercialisation of IP on the Reporting of Scientific Outcomes and Applying for Research Grants

(27) Creator(s) benefiting or likely to benefit from the provision of equity in spin-out companies or from Net Proceeds from Commercialisation of University Intellectual Property, should be aware of their disclosure obligations arising from the provision of these benefits.

(28) For example, declarations of Conflict of Interest will need to be made to a wide range of organisations under different circumstances. These include making declarations of actual or perceived conflict of interest when submitting papers for publication in academic journals whenever the results being reported may represent an actual or perceived

conflict of interest with the commercial interests of any of the authors.

(29) Similarly, when applying for grants from external funding organisations such actual or perceived conflicts of interest will usually need to be declared to those funding organisations.

(30) In some cases, such conflicts of interest, whether perceived or actual, may make applications from Creator(s) ineligible. For example, the Australian Research Council (ARC) in the 2020.5 version of the Australian Research Council Conflict of Interest and Confidentiality Policy, state that "When undertaking ARC business, an individual must disclose any material personal interests that may impact, their ability to perform the role for which they have been engaged." Material personal interests that must be declared to the ARC include "financial interests".

(31) Failure to disclose and manage such conflicts of interest is considered to be a very serious breach of behaviour by the ARC. E.g. "Researchers named in ARC funding applications or ARC-funded projects who do not follow proper processes in disclosing and managing their interests may also be in breach of the Code, which in some serious cases, may amount to research misconduct. Institutions are required to investigate such matters and report to the ARC on any research integrity breaches or research misconduct in accordance with the ARC Research Integrity Policy."

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