

## **Program and Budget Committee**

### **Twenty-Third Session Geneva, July 13 to 17, 2015**

#### **Background Information on the Proposal to Implement a Hedging Strategy for PCT Income**

1. In the fourth quarter of 2013, WIPO instigated a treasury review project, the key objective of which was to undertake an independent and objective assessment of WIPO's current treasury management functions, policies and procedures, including a review of WIPO's treasury exposures. This review covered foreign exchange exposure at WIPO, notably that which arises with regard to Patent Cooperation Treaty (PCT) fee income, and produced a recommendation for a new foreign exchange risk management strategy, to be based on hedging.

2. Circular C.PCT 1440 (*PCT Fee Income: Possible Measures To Reduce Exposure to Movements in Currency Exchange Rates*) contains an explanation of the proposal to hedge, together with details of various other measures proposed as ways to reduce the risk of exposure of PCT fee income to movements in currency exchange rates. This Circular was sent in January 2015 to all PCT stakeholders. Responding to the feedback received with regard to the Circular, document PCT/WG/8/15 (attached) was submitted to the PCT Working Group at its eighth session in May 2015. This document addresses the questions and comments received in respect of the Circular and accordingly provides further information about the hedging proposal.

3. During the eighth session of the PCT Working Group, all of the delegations which took the floor welcomed the proposal to commence the hedging of PCT international filing fees as far as the risk resulting from transactions denominated in euro, Japanese yen and United States dollar was concerned. Details of the discussion are set out in paragraphs 21 to 36 of the Summary by the Chair (document PCT/WG/8/25 attached). The principal recommendations by the Working Group, which will be submitted to the Assembly at its October 2015 session for decision, were as follows:

- (i) to commence hedging of PCT international filing fees for transactions in euro, Japanese yen and United States dollar with effect from January 1, 2016;
- (ii) to modify the current equivalent amount process for PCT fees with a view to fixing new equivalent amounts of PCT international filing fees only once per year, to remain unchanged for a period of 12 months, and to modify accordingly the Directives of the PCT Assembly Relating to the Establishment of Equivalent Amounts of certain PCT Fees; and
- (iii) to carry out a "proof of concept" simulation for the hedging of search fees with a view to discussing a detailed proposal by the Secretariat at the next session of the Working Group in 2016.

[documents PCT/WG/8/15 and  
PCT/WG/8/25 follow]

## **Patent Cooperation Treaty (PCT) Working Group**

**Eighth Session**  
**Geneva, May 26 to 29, 2015**

**PCT FEE INCOME: POSSIBLE MEASURES TO REDUCE EXPOSURE TO MOVEMENTS  
IN CURRENCY EXCHANGE RATES**

*Document prepared by the International Bureau*

### **SUMMARY**

By way of Circular C. PCT 1440, the International Bureau (IB) consulted with PCT stakeholders on proposed measures to reduce the risk of exposure of PCT fee income to movements in currency exchange rates, with a view to providing greater predictability to the budgetary process and thereby adding to the financial stability of the World Intellectual Property Organization (WIPO).

The present document summarizes the replies received in response to Circular C. PCT 1440 and sets out a proposed way forward with regard to the various possible measures to reduce the risk of exposure of PCT fee income set out in the Circular. In particular, with regard to the proposal to hedge the risk resulting from transactions in foreign currencies, it proposes that the IB should commence hedging of international filing fees as far as the risk resulting from transactions in euro (EUR), Japanese yen (JPY) and United States dollar (USD) is concerned.

## **BACKGROUND**

Circular C. PCT 1440 set out background information and reasoning as to the need to take action to reduce the risk of exposure of PCT fee income to movements in currency exchange rates, so as to provide greater predictability to the budgetary process and thereby add to the financial stability of the Organization; for ease of reference, a copy of that Circular is reproduced in Annex I to the present document. Such a need was highlighted in reports by both WIPO's Internal Audit and Oversight Division as well as WIPO's External Auditors, the Office of the Comptroller and Auditor General of India, following a performance audit of the PCT carried out in October and November 2012, and—last but not least—by the recent sudden and very strong surge of the Swiss franc (CHF) against many major currencies, which had a significant impact on the overall income of WIPO in the months following that sudden surge.

In Circular C. PCT 1440, the IB had proposed four possible measures that could be taken to reduce the risk of exposure of PCT fee income to movements in currency exchange rates. Two of those proposed measures, namely, the proposal to start hedging and setting equivalent amounts for PCT fees for a fixed period (as set out in paragraphs 20 to 36 of the Circular, reproduced in Annex I), and the proposal to introduce a netting structure for the transfer of fees (as set out in paragraphs 37 to 53 of the Circular), were based on recommendations by an independent specialist treasury service provider, FTI Treasury (Ireland), which had been asked, *inter alia*, to review the principal foreign exchange exposures at WIPO. The recommendation by FTI Treasury was to, ideally, implement both proposals. The other proposed measures, namely, the proposal to add a margin when setting equivalent amounts (as set out in paragraph 55 of the Circular) and the proposal to have applicants pay the international filing fee in CHF and the search fee in the applicable ISA currency (as set out in paragraphs 56 to 61 of the Circular), were independent of the first two measures and, as far as the latter is concerned, indeed an alternative to the proposal to commence hedging.

## **FEEDBACK RECEIVED IN RESPONSE TO CIRCULAR C. PCT 1440**

A total of 32 replies were received in response to Circular C. PCT 1440 from IP Offices of 30 countries (Austria, Canada, Chile, China, Colombia, Czech Republic, Denmark, Dominican Republic, Finland, France, Germany, Israel, Italy, Japan, Kazakhstan, Kirgizstan, Malaysia, Mexico, Norway, Poland, Portugal, Republic of Moldova, Russian Federation, Saudi Arabia, Slovakia, Spain, Turkey, Ukraine, United Kingdom and the United States of America) and two intergovernmental organizations (the Eurasian Patent Organization and the European Patent Office).

### **PROPOSAL TO START HEDGING AND SETTING EQUIVALENT AMOUNTS FOR PCT FEES FOR A FIXED PERIOD**

Out of the 32 replies received in response to Circular C. PCT 1440, 27 Offices expressed their support in principle for the proposal to hedge the risk resulting from transactions in foreign currencies and to modify the current equivalent amount process for PCT fees so that new equivalent amounts of PCT fees would be fixed only once per year, to remain unchanged for a period of 12 months, with a hedging strategy being put in place for the same 12 month period. Five Offices either did not comment on the proposal or stated that further information was required. Several Offices which generally supported the proposal requested further information on various aspects of the proposal, such as detailed information on gains and losses in PCT fee income incurred in the past due to exchange rate fluctuations and detailed information on the proposed hedging (such as costs, risks, strategies, currencies to be hedged, hedging period, compliance with WIPO's investment policy, etc.).

#### PROPOSAL TO INTRODUCE A NETTING STRUCTURE FOR THE TRANSFER OF FEES

Out of the 32 replies received in response to Circular C. PCT 1440, 25 Offices expressed their support in principle for the proposal to introduce a “netting structure” for all PCT fee transactions between receiving Offices (ROs), International Searching Authorities (ISAs) and the IB. One Office stated that it could not support this proposal, as it would impose an excessive burden on it in its capacity as a receiving Office. Five Offices either did not comment on the proposal or stated that further information was required, notably on possible financial and IT implications for receiving Offices, before they could take a position on the proposal. One Office stated that, already today, its applicants were required to transfer the international filing fee directly to the IB and the search fee directly to the ISA, in the currencies accepted by the IB and the ISA, respectively. Several Offices which supported the proposal in principle requested further information on various aspects of the proposal, such as detailed information on the envisaged fee reconciliation procedures, its relationship to the envisaged transmittal of search copies in electronic form from ROs to the ISA “via” the IB, the mandatory nature of “netting” for smaller ROs and the need for an appropriate transition period.

#### PROPOSAL TO ADD A MARGIN WHEN SETTING EQUIVALENT AMOUNTS

Out of the 32 replies received in response to Circular C. PCT 1440, 18 Offices stated that they could not support the proposal to add a small, low percentage margin to the equivalent amounts of the international filing fee and of the search fees, for the benefit of the IB and, if no netting structure were to be introduced, the ISA, respectively. Four Offices supported the proposal, two of which only if the margin to be added would remain low and one only if neither hedging nor netting were to be introduced. Nine Offices either did not comment on the proposal or stated that further information was required before they could take a position on the proposal.

#### PROPOSAL TO HAVE APPLICANTS PAY THE INTERNATIONAL FILING FEE IN SWISS FRANCS AND THE SEARCH FEE IN THE APPLICABLE ISA CURRENCY

Out of the 32 replies received in response to Circular C. PCT 1440, 20 Offices stated that they could not support the proposal to enable applicants to pay the international filing fee in CHF and the search fee in the applicable ISA currency to the RO (note that it had not been proposed to make it mandatory for a RO to allow for or require the payment of the international filing fee in CHF and payment of the search fee in the applicable ISA currency). Eight Offices stated that, already today, they either collected (from the applicant) and/or transferred (to the IB or to the ISA) the international filing fee and the search fee in CHF or the applicable ISA currency, respectively, or that they did so in USD but could envisage switching to CHF or the applicable ISA currency, respectively. One Office stated that, already today, its applicants were required to transfer the international filing fee directly to the IB and the search fee directly to the ISA, in one of the currencies accepted by the IB and the ISA, respectively. Seven Offices either did not comment on the proposal or stated that further information was required before they could take a position on the proposal.

Almost all Offices which commented on this issue (10 Offices did so), including some Offices which had stated that they could not support the proposal to enable applicants to pay to the RO the international filing fee in CHF and the search fee in the applicable ISA currency, expressed their support in general for the proposal to further develop solutions which would allow applicants, at the time of filing using the ePCT-Filing system, and regardless of the RO with which the international application had been filed, to pay the international filing fee in CHF to the IB and to pay the search fee in the applicable ISA currency to the ISA, for example, either by way of an online credit card transaction or by furnishing details of a current (deposit) account with WIPO or the ISA, as applicable, or possibly a bank transfer transaction.

## **PROPOSED WAY FORWARD**

Taking into account the strong support received in response to Circular C. PCT 1440 on the proposal to hedge the risk resulting from transactions in foreign currencies and to modify the current equivalent amount process for PCT fees accordingly, it is proposed to commence hedging of international filing fees as far as the risk resulting from transactions in EUR, JPY and USD is concerned. Details of that proposal, including additional information on various aspects of the proposal to hedge the risk resulting from transactions in foreign currencies, as requested by Offices in response to Circular C. PCT 1440, are set out in paragraphs 0 to 0, below.

Taking into account a number of concerns, as further detailed in paragraphs 0 to 0, below, it is not proposed at this stage to also commence hedging of search fees (or, to be more precise, to commence hedging of the risks resulting from ISAs requesting to be reimbursed by the IB under Rule 16.1(e) for losses in search fee income incurred by them). Rather, as set out in paragraphs 0 to 0, below, it is proposed that the IB should run a “proof of concept” simulation as from the summer of 2015 and, in case that simulation is successful, to present a proposal with regard to hedging of search fees to the Working Group at its next session in 2016.

In view of the strong support in principle by a large majority of Offices which have responded to the Circular, it is proposed that the IB should further develop the proposal to introduce a “netting structure” for all PCT fee transactions between ROs, ISAs and the IB, taking into account the questions raised in response to the Circular, with a view to presenting a detailed proposal for discussion by the Working Group at its next session in 2016.

In view of the overwhelmingly negative replies received in response to Circular C. PCT 1440 on the proposal to add a small, low percentage margin to the equivalent amounts of the international filing fee and of the search fees, this proposal is no longer pursued.

In view of the interest by certain Offices in allowing payment of fees directly to the IB using ePCT, it is proposed that the IB further investigate appropriate mechanisms and present a proposal in a PCT Circular for an optional arrangement whereby the main fees could be paid through ePCT to the IB, acting on behalf of participating ROs. The proposal would, in particular, address:

- (a) which currencies of payment the system would be able to support;
- (b) which modes of payment (credit card, current/deposit accounts at the IB or the ISA) the system would be able to support;
- (c) whether the payment system could support the transmittal fee in addition to the international filing and search fees;
- (d) how the RO and ISA would be notified of the payment of fees; and
- (e) whether it would be necessary for participating receiving Offices also to participate in the netting arrangements in order to allow effective management of the transfer of transmittal fees.

## **HEDGING OF INTERNATIONAL FILING FEES IN CERTAIN CURRENCIES**

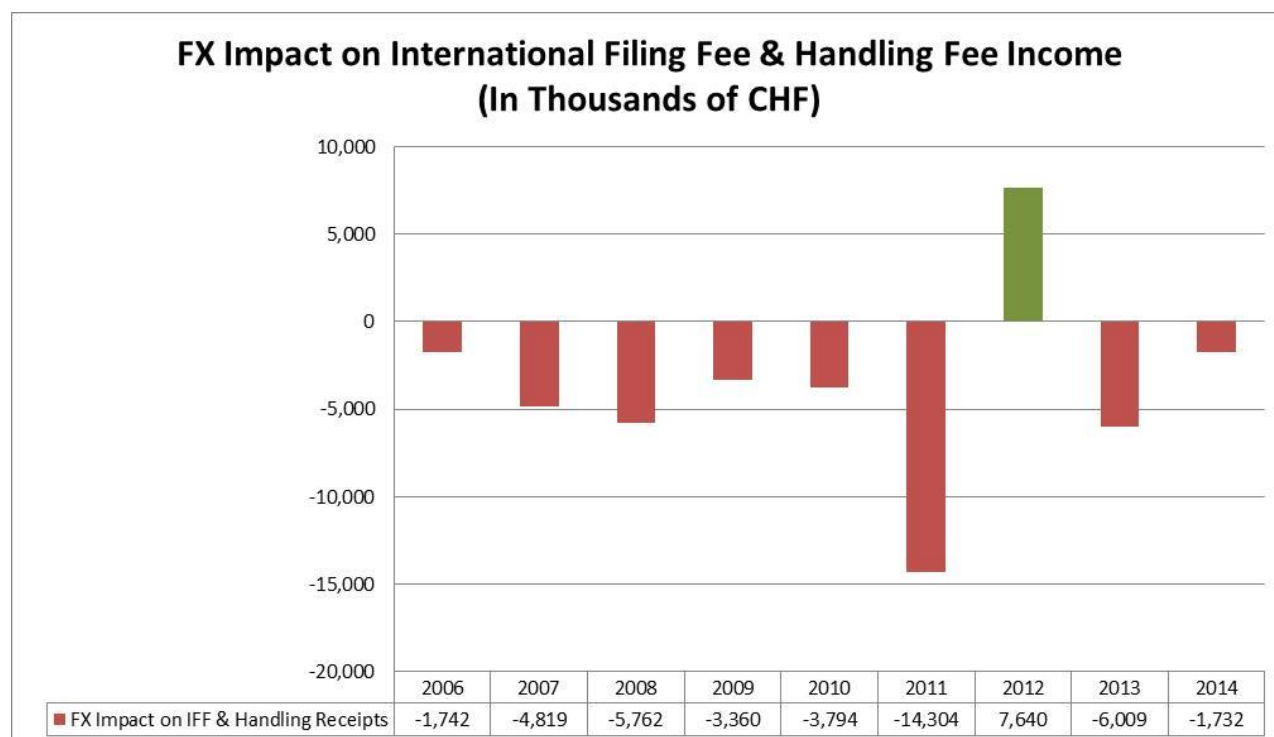
For a detailed explanation of the proposal to hedge the risk resulting from transactions in foreign currencies, reference is made to paragraphs 20 to 36 of Circular C. PCT 1440, reproduced in Annex I to the present document.

The following paragraphs set out a detailed proposal to commence hedging of international filing fees as far as the risk resulting from transactions in EUR, JPY and USD is concerned, and to modify the current equivalent amount process for PCT fees so that new

equivalent amounts of all international filing fees would be fixed only once per year, to remain unchanged for a period of 12 months, with a hedging strategy (for transactions in EUR, JPY and USD) being put in place for the same 12 month period..

#### CURRENCIES PROPOSED TO BE HEDGED

The graph below shows the exchange gains and losses incurred by the IB in respect of international filing and handling fees during the period 2006 – 2014. Further analysis regarding the currency losses is provided in paragraph 12 of Circular C. PCT 1440 (see Annex I, page 4).



As regards international filing fees, the key currency exposures are with the EUR, JPY and USD. While PCT fee income is faced with a wide range of other currency exposures also, EUR, JPY and USD have accounted for the majority of exposure risks in the past and a review of the forecasts for international applications to be filed in 2016 and 2017 indicates that this will continue to be the case.

Forecasts produced in January 2015 show that PCT fee income received in these three currencies will constitute approximately 83 per cent of PCT fee income in both 2016 and 2017. As regards international filing fees, the proposal is thus to only hedge the risk resulting from transactions in EUR, JPY and USD.

As far as other currencies are concerned, PCT international filing fee income is forecast to be received in 11 other non-CHF currencies, which are forecast to represent approximately 6 per cent of PCT international filing fee income in both years. It is not considered necessary to hedge these smaller currency exposures. However, it would be possible, in future years, to adjust the mix of currencies being hedged, to reflect shifts over time between currency income streams.

## HEDGING BY MEANS OF FOREIGN EXCHANGE FORWARD CONTRACTS

As explained in Circular C. PCT 1440, it is proposed to hedge the exposure on international filing fees to the EUR, JPY and USD by means of a series of foreign exchange forward contracts (“forwards”). A forward is one of the most straightforward financial instruments to implement and administer. It is a contractual agreement between two parties to exchange currency amounts at an agreed exchange rate at a fixed date in the future. The exchange rate contained within the agreement is known as the “forward rate”. Forward rates reflect the differential between the interest rates prevailing in the countries of the currencies involved and are not forecasts of future exchange rates.

The IB would enter into such a forward contract for each of the three currencies concerned (and for each month for which an inflow of the currencies is forecast, selling the currency and receiving CHF in return).

The IB would obtain the forward contracts from its principal banking counterparties, provided that these institutions satisfy the minimum credit rating stipulated in WIPO’s Treasury Counterparty Risk Policy (see paragraph 0, below). Given the amounts involved, the contracts would be divided across at least three banks and would be obtained through an online foreign exchange trading platform which provides real time rates for forward contracts from banks. Such a platform could be FXall, a service to which the IB already subscribes. In order to be able to enter into such contracts, the IB would have to open up credit facilities with the banks concerned.

The hedge cover would not be for the total of forecast income but would be established at a certain percentage level per currency, (say, between 70 and 90 per cent) in order to allow for variances between income forecast and income actually received.

## USE OF BLENDED HEDGE RATE FOR THE ESTABLISHMENT OF EQUIVALENT AMOUNTS

It is proposed to calculate a blended hedge rate for each of the three international filing fee currencies (EUR, JPY and USD) and to use that blended hedge rate (rather than, as at present, the “spot” or “market” rate) to establish new equivalent amounts of the international filing fee for the three hedged currencies (EUR, JPY and USD).

The use of a blended hedge rate to determine a price is standard financial practice. As set out in paragraphs 24 and 25 of Circular C. PCT 1440, a blended hedge rate takes into account the forward rate of each forward contract, with a weighting given to the amounts of currency in each contract, thus producing a weighted average forward rate (blended rate).

The new equivalent amounts established to come into force each January would be calculated by reference to the blended hedge rate, thus ensuring that the fee established reflects the conversion rates to be used during the year, rather than the spot rate available on the first Monday in October of the previous year (the rate currently used to establish new equivalent amounts). This blended hedge rate would be different from the spot rate currently used and may result in a new equivalent amount which might be slightly higher or lower than would have been the case had the spot rate been applied to calculate the new equivalent amount. This is because forward rates, as stated above, reflect the differential between the interest rates prevailing in the countries of the currencies involved and are not forecasts of future exchange rates.

Example: The IB expects three inflows of international filing fees in USD for international filing fees in 2015. 10 million USD in March, 15 million USD in June and 20 million USD in September. On October 6, 2014 (the first Monday in October) (spot rate: USD /CHF = 0.9690<sup>1</sup>), it hedges 80 per cent of these amounts and obtains forward contract rates as follows:

	<b>Amount hedged</b>	<b>Rate</b>	<b>CHF to be received</b>
<b>March</b>	8 million	0.9672	7,737,600
<b>June</b>	12 million	0.9656	11,587,200
<b>September</b>	16 million	0.9635	15,416,000
<b>Totals</b>	36 million		34,740,800

The weighted average forward rate is calculated as:  $\frac{34,740,000}{36,000,000} = 0.96502$

The rate of 0.96502 would therefore be used as the basis for establishing the equivalent amount in January. This rate would be different from the spot rate on October 6, 2014, and would result in a new equivalent amount in USD which would be slightly higher than would have been the case had the spot rate been applied to calculate the new equivalent amount of the 1330 Swiss franc international filing fee (USD 1,378 as opposed to USD 1,373). This is because forward rates reflect the differential between the interest rates prevailing in the countries of the currencies involved and are not forecasts of future exchange rates. The example above reflects the fact that, on October 6, 2014, interest rates were higher in the United States than in Switzerland. If the opposite were true and Swiss interest rates were higher than those in the United States, this would be reflected in the calculation of the blended hedge rate and the new equivalent amount in USD established on the basis of the blended hedge rate would accordingly be lower than an equivalent amount established on the basis of the spot rate (USD 1,373).

#### ACCURACY OF FORECASTS OF CURRENCY CASH FLOWS

The success of the proposed hedging strategy is heavily dependent upon the accuracy of forecast currency cash flows for international filing fees. With regard to international filing fees, the current PCT revenue forecasting process is based on the volume of international applications expected to be filed on a jurisdictional basis. These forecasts are prepared by the IB and are updated every quarter, although monthly updates can be prepared if requested. The IB has monitored the reliability of its volume forecasts over several years and has found that they enjoy a high level of accuracy, with actual yearly volumes differing from the mid-range of the forecasts by no more than 6.93 per cent during the period 2010-2014.

The mid-range volume forecast data would be combined with historical information on payment patterns to develop a cash flow forecast by currency, detailing expected currency flows in each month over the biennium. The resulting cash flow forecast would be used as the basis for implementing the hedging strategy. On a quarterly basis, (or monthly, if considered necessary), in line with revised international application volume forecasts, the currency cash flow forecasts would be updated to reflect any changes in the PCT application volumes. If this results in any significant changes in the forecasts, then these movements would be reflected in the hedging strategy by adjusting up or down the amount of foreign currency cover per currency which is in place (see paragraph 0, above).

<sup>1</sup> For the purposes of this example only, the spot rate used is that of November 24, 2014, not that of October 6, 2014.



## COSTS OF HEDGING

Forward contracts have no upfront costs for the IB. However, they do have to be included within net assets on the statement of financial position at their fair value (calculated by reference to the prevailing spot rate). As each underlying transaction takes place (for example, the IB receives PCT fees in the foreign currency), the fair value of each hedge is recalculated and the full value of the gain/loss on the hedging instrument is released from net assets to the statement of financial performance. It is possible therefore for forward contracts to generate either foreign exchange gains or losses for the IB.

Administering and monitoring the forward contracts, together with the development and monitoring of currency cash flows on the basis of forecast application numbers, would obviously involve additional work for the IB. Each month it would be necessary to examine the available levels of the hedged currencies in order to ensure that they can meet the forward contract commitments. If the amount of one or more of the currencies is lower than the contract commitments, the IB would have to determine whether this is the result of timing differences or a decrease in international filing fee or search fee volumes. If the difference is attributable to a timing difference, the forward contract would be rolled forward to a later date, using a financial instrument known as an "FX Swap" (a combination of a spot transaction and a new forward). If the difference is owing to a fall in international filing fees, the shortfall between the available currency balance and the maturing forward contract would be purchased in the spot market. This work would obviously involve time and expertise and the estimate is that several hours of work per week by a senior professional member of staff in the IB would be required. The preparation of cash flows and the tracking of the forward contracts could be carried out using Excel spreadsheets. The costs of that staff member would be partially offset by the reduction in work in monitoring the exchange rates and, where relevant, consulting and promulgating new exchange rates. However, it is likely that there would be a slight increase in staff costs overall in order to implement the system.

## RISKS OF HEDGING

Hedging would bring increased certainty to the IB's budgeted revenue with regard to PCT international filing fee income. Similarly, it would facilitate the budget control for applicants who would gain certainty, for an entire calendar year, regarding the equivalent amounts of the international filing fee payable in any local RO currency. Paragraphs 30 to 36 of Circular C. PCT 1440 provide further details of the impact upon and advantages of hedging for all PCT stakeholders.

The principal risks attached to this hedging strategy are as follows:

(f) Shortfalls between the currency inflow and the amount of currency hedged. As explained in paragraph 0, above, this could involve the purchase of an FX Swap or the purchase of the currency required in the spot market, both of which transactions could be at a rate that, depending on exchange rate movements, may be less favorable to the IB than the forward rate of the contract. The IB would therefore make a loss, as it purchased currency at the less favorable rate in order to satisfy the forward contract. Measures to mitigate this risk include close monitoring of currency cash flows and obtaining hedge cover for only a certain percentage of predicted inflows (as explained in paragraph 0, above).

(g) Default by a banking counterparty. Here, much depends on the nature of the default. If the counterparty falls into liquidation, there is a strong possibility that the liquidator would honor the forward contracts. If, however, the counterparty ceases to trade completely, the hedging cover would be lost and would have to be replaced through another counterparty. The IB would then calculate the cost of this (comparing the fair value of new forward contracts with that of the original contracts) and, if there is a loss,

would have to seek settlement, as a creditor, from the defaulting counterparty. In order to reduce this risk, the contracts would be obtained from more than one banking counterparty, as explained in paragraph 0, above.

(h) Change in filing behavior by applicants. The hedging strategy is to be accompanied by setting equivalent amounts for the international filing fee for a fixed period of one year, as further explained in paragraphs 0 and 0, below. It is therefore possible that applicants would choose to file with a different RO (notably, the RO/IB, which is available as a RO to all applicants) rather than with their local RO if the equivalent amount of the international filing fee fixed in the currency in which the local RO collects that fee is fixed for one year and thus is not adapted to changes in exchange rates (paragraph 33 of Circular C. PCT 1440 explains this further). Such change in filing behavior would have an impact on the anticipated amounts of currency inflows, as applicants who, for example, decide to file with RO/IB rather than the local RO would pay the international filing fee in a currency other than that of their local RO. On the other hand, such change in filing behavior can be expected to take place only in the case of a drastic change in exchange rates between the local RO currency and the currencies in which PCT fees may be paid in respect of international applications filed with a different RO, such as RO/IB.

#### FIXING OF EQUIVALENT AMOUNTS FOR A PERIOD OF ONE YEAR

As further explained in paragraphs 23 to 27 of Circular C. PCT 1440, a process such as the current process to fix new equivalent amounts of PCT fees in the case of exchange rate fluctuations cannot operate easily alongside the implementation of a hedging strategy, as changes in the equivalent amounts would inevitably have an impact on the total amount of currency received. As set out in the Circular, it is thus necessary to modify the Directives of the Assembly relating to the Establishment of Equivalent Amounts of Certain Fees so as to change the current equivalent amount process so that new equivalent amounts of PCT international filing fees would be fixed only once per year, to remain unchanged for a period of 12 months, with a hedging strategy being put in place (for the currencies concerned, see paragraphs 0 to 0, above) for the same 12 month period.

A proposal to modify the Directives accordingly is set out in Annex II to the present document. The main proposed changes to the Directives concern the following:

(i) Equivalent amounts of the international filing fee in the three currencies proposed to be hedged (EUR, JPY and USD) would be established according to the blended hedge rates determined by the Director General; equivalent amounts of the international filing fee in all other currencies (which are not proposed to be hedged) and equivalent amounts of all other fees (handling fees, search fees and supplementary search fees) would continue to be established according to the exchange rates determined by the Director General (as at present).

(j) All equivalent amounts in EUR, JPY and USD of the international filing fee would be established according to the blended hedge rates or the exchange rates, as applicable, prevailing on the first Monday in the month of October of each year and generally enter into force on January 1 of the subsequent year and would remain in force until the end of the calendar year. In other words, they would be “frozen” for a period of 12 months. While it is proposed to hedge the exposure on PCT international filing fees to certain currencies only (EUR, JPY and USD), the proposal is to also “freeze” the fixing of new equivalent amounts of international filing fees for all other currencies for a period of 12 months, so as to not add further complexities to the system.

(k) Similarly, so as to not add further complexities to the system and so as to treat all fees fixed in the PCT Schedule of Fees in the same manner, although it is not proposed to hedge the exposure to PCT handling fee income, it is proposed to also “freeze” the fixing of new equivalent amounts of handling fees for all currencies for a period of 12 months.

(l) On the other hand, it is not proposed to also freeze the fixing of new equivalent amounts of search fees and supplementary search fees for the same period. With regard to those fees, the current procedure, under which new equivalent amounts may be established if the exchange rate between the currency in which the search fee is fixed and the currency in which the search fee is paid changes by more than 5 per cent over the period of more than four consecutive Fridays, will continue to apply.

(m) The consultation procedure with Offices and Authorities affected by the establishment of equivalent amounts foreseen under the current Directives would be abolished. With regard to the establishment of equivalent amounts of the international filing fee in EUR, JPY and USD, this is consequential on the fact that those equivalent amounts would be established according to blended hedge rates, which would be determined by the Director General on the date on which the IB would sign the forward contracts in respect of those currencies (the first Monday in the month of October) and which would have to be “locked in” on that date, leaving no room for any subsequent consultation procedure with the Offices concerned. It is proposed to abolish the consultation procedure also with regard to the establishment of equivalent amounts of the international filing fee in other currencies and of all other fees, with a view to further shortening the delay until entry into force of new equivalent amounts and noting that, in the past, the consultation procedure has led to changes in the equivalent amounts compared to what had been proposed by the Director General in only very few exceptional cases.

#### IMPACT ON WIPO'S INVESTMENT POLICY

A hedging strategy as proposed above would have no impact on the contents of WIPO's investment policy, which is currently being revised and is to be submitted to the WIPO General Assembly for approval in October 2015. However, it may have consequences for the application of the policy if the policy provides for investments to be held, on a significant scale, in currencies other than Swiss francs, notably EUR, JPY and USD. Hedging would obviously reduce the amount of these currencies which would be available for investment in the original currency.

#### HEDGING OF SEARCH FEES

As indicated above, it is not proposed at this stage to also commence hedging of search fees or, to be more precise, to commence hedging of the risks resulting from ISAs requesting to be reimbursed by the IB under Rule 16.1(e) for losses in search fee income incurred by them. There are a number of issues which prevent the IB to move ahead with such a proposal at this stage, as set out in the following paragraphs.

The IB's currency exposure arising from search fees is different from that arising from international filing fees. It stems from the procedure under Rule 16.1(e) under which the IB has to reimburse ISAs for any losses incurred due to fluctuations in exchange rates between the date on which the equivalent amounts of the search fees have been established and the date on which the search fees are eventually paid to and transferred by the RO to the ISA, resulting in gains or losses initially for the ISA, which under Rule 16.1(e) are to be reimbursed by the IB.

The current exposure of the IB arising from search fees concerns mainly three currency pairs: USD/EUR (search fee paid in USD to the United States Patent and Trademark Office (USPTO) as RO where the international search is carried out by the European Patent Office (EPO) as ISA); pound sterling (GBP)/EUR (search fee paid in GBP to the United Kingdom Intellectual Property Office (UKIPO) as RO where the international search is carried out by the EPO as ISA) and USD/Korean won (KRW) (search fee paid in USD to the USPTO as RO where the international search is carried out by the Korean Intellectual Property Office (KIPO) as ISA).

In recent years, the volumes of international searches associated with these currency pairs account for approximately 20 per cent of all international searches, with forecasts suggesting that this percentage will decline only very slightly over the years 2015-2017. Unfortunately, while volumes of search fees are forecast by the IB, monitoring of forecasts against actual volumes is not currently carried out, making hedging of search fees difficult at this stage. It is planned to begin such monitoring during the summer of 2015, with a view to be able to assess the accuracy of the predictions and build up forecasts of currency flows as a result.

There is a further complicating factor in that requests by ISAs to be reimbursed by the IB under Rule 16.1(e) for losses incurred by them are received by the IB on an irregular basis, making hedging of the risks resulting from such requests very risky. For example, while one ISA is submitting such requests on a regular monthly basis, another ISA has submitted such a request only recently for the first time, but covering losses incurred by it over a period of several years.

Finally, there is yet another complicating factor in that search fees are fixed by each of the ISAs and not by PCT Contracting States. Contracting States (or the IB) thus have no influence over decisions by the ISAs to change the amount of search fees nor when such changed amounts should enter into force. However, changes in the amounts of search fees charged by ISAs which would enter into force during the year (as is the practice of many ISAs) rather than on January 1 of the subsequent year would inevitably have an impact on the total amount of currency received by those Authorities and thus on the total amount of possible losses to be covered by the IB under Rule 16.1(e), which would be the subject of the forward contracts to be concluded by the IB were it decided to also hedge search fees.

It is thus proposed that the IB should run a “proof of concept” simulation with regard to the possible hedging of the risks resulting from ISAs requesting to be reimbursed by the IB under Rule 16.1(e), with a view to presenting a detailed proposal for discussion by the Working Group at its next session in 2016. During that simulation, the IB would commence the monitoring of search fee volumes forecasts against actual volumes with a view to be able to assess the accuracy of the predictions and build up forecasts of currency flows, and would seek discussions with ISAs concerned as to how best to streamline and regularize the submission of requests for reimbursement under Rule 16.1(e).

*The Working Group is invited:*

*(i) to comment on the issues raised in this document, in particular on the proposed way forward set out in paragraphs 0 to 0;*

*(ii) to consider the proposed modifications to the Directives of the Assembly Relating to the Establishment of Equivalent Amounts of Certain Fees contained in Annex II to this document.*

1. [Annexes follow]

CIRCULAR C. PCT 1440

C. PCT 1440

January 19, 2015

Madam,  
Sir,

**PCT FEE INCOME: POSSIBLE MEASURES TO REDUCE EXPOSURE TO MOVEMENTS IN CURRENCY EXCHANGE RATES**

1. This Circular is addressed to your Office in its capacity as a receiving Office (“RO”), International Searching Authority (“ISA”) and International Preliminary Examining Authority (“IPEA”) and/or designated/elected Office under the Patent Cooperation Treaty (PCT). It is also being sent to Geneva-based missions and foreign ministries of PCT Contracting States, as well as to certain organizations that are invited to attend meetings of the PCT Working Group as observers.

The purpose of the present Circular is to consult on proposed measures to reduce the risk of exposure of PCT fee income to movements in currency exchange rates, with a view to providing greater predictability to the budgetary process and thereby adding to the financial stability of the World Intellectual Property Organization (WIPO).

**BACKGROUND**

**PAYMENT OF FEES IN LOCAL CURRENCY<sup>2</sup>**

The filing of an international application under the PCT requires the payment by the applicant of different fees for the benefit of different recipients. Among the fees to be paid, and of particular importance in the present context, are the international filing fee, which is for the benefit of the IB (“IB”), and the search fee, which is for the benefit of the ISA. These fees are paid by the applicant to the RO, that is, the Office with which the international application is filed. The RO subsequently transfers the international filing fee to the IB and the search fee to the ISA.

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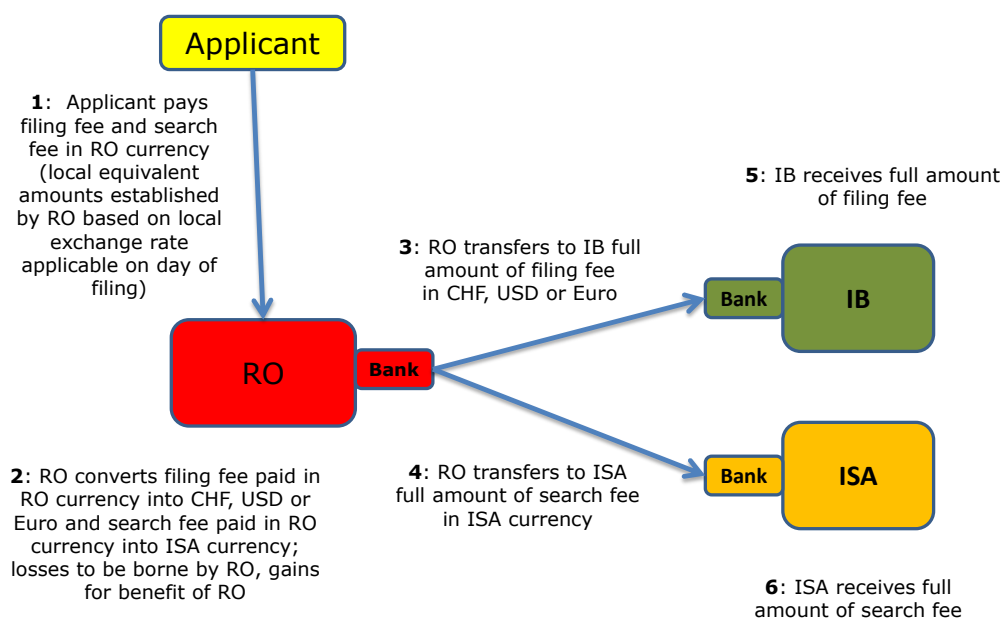
<sup>2</sup> Some of the issues set out in the present Circular also arise in the context of the handling fee (which is for the benefit of the IB) and of the supplementary international search fee (which is for the benefit of the Supplementary ISA). However, so as to not overcomplicate the issues set out in the present Circular, this Circular does not cover those fees. Should the proposals set out in the present Circular find sufficient support in general, the IB will include more detailed proposals also covering the handling fee and the supplementary international search fee in any further Circular or any document for consideration by the PCT Working Group.

While both the international filing fee and the search fee are fixed in one currency (the international filing fee is fixed in Swiss francs, the search fee is fixed in the currency of the country in which the ISA has its headquarters), these fees are usually paid by the applicant not in the “fixed currencies” but in the local currency accepted by the RO with which the international application is filed.

### LOCAL CURRENCY IS NOT FREELY CONVERTIBLE<sup>3</sup>

Where the local currency in which the applicant is required to pay PCT fees is a currency which is not “freely convertible”, the RO is required to transfer the full amount of the international filing fee in Swiss francs, United States dollar or euro and the full amount of the search fee in the currency in which the ISA has its headquarters to the IB and the ISA, respectively.

## RO Currency is Not Freely Convertible



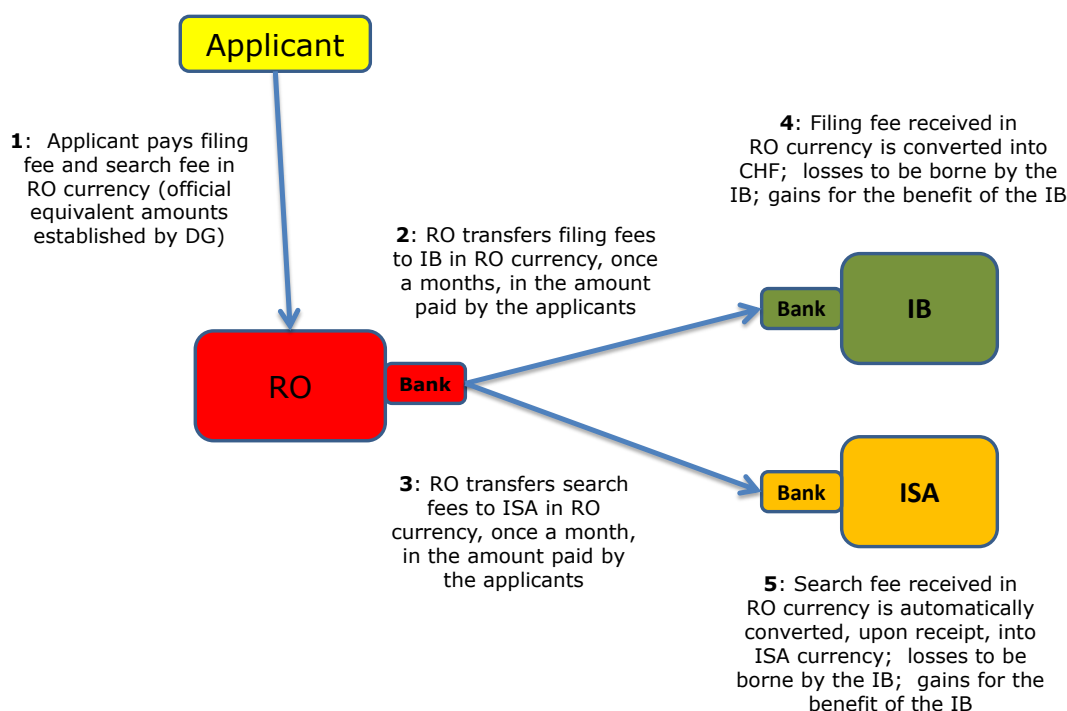
ROs which collect PCT fees in a local currency which is not freely convertible usually determine the amount of such fees payable in the local currency based on the local exchange rate, applicable on the day of filing, between that local currency and the Swiss franc, United States dollar or euro (in the case of the international filing fee) or the currency fixed by the ISA (in the case of the search fee). The RO then performs the conversion locally into either Swiss francs, United States dollar or euro (in the case of the international filing fee) or into the currency fixed by the ISA (in the case of the search fee) and transfers the full amount of those fees due (not the amount resulting from the conversion) to the IB and the ISA, respectively. Any losses resulting from the conversion process will have to be borne by the RO, whereas any gains resulting from that conversion process are to the benefit of that Office. Where, in the case of the international filing fee, the RO transfers not Swiss francs but United States dollars or euros to the IB, the same considerations as set out in paragraphs 7 to 12, below, apply as regards possible losses to be borne by the IB, or gains to be made by the IB, due to exchange rate fluctuations between those currencies and the Swiss franc.

<sup>3</sup> See PCT Rules 15.2(d)(ii) and 16.1(d)(ii).

## LOCAL CURRENCY IS FREELY CONVERTIBLE<sup>4</sup>

Where, on the other hand, the local RO currency in which the applicant is required to pay PCT fees is a “freely convertible” currency, the Director General of WIPO establishes official “equivalent amounts” of both the international filing fee and the search fee in the local RO currency. The applicant then pays the equivalent amounts of those fees in the local currency to the RO, and the RO simply transfers those equivalent amounts paid by the applicant in the local currency to the IB and the ISA, respectively.

### RO Currency is Freely Convertible



In this case, applicants pay the international filing fee and the search fee in the local RO currency according to the equivalent amounts applicable on the date of filing. However, the amounts of those fees resulting from the conversion by the IB and the ISA from the RO currency into the “fixed currencies” (Swiss franc and ISA currency, respectively) may be different from the amounts of those fees as set out in the PCT Schedule of Fees (in the case of the international filing fee) or as fixed by the ISA (in the case of the search fee). This is due to fluctuations in exchange rates between the date on which the equivalent amounts of these fees have been established and the date on which these fees are transferred to the IB and the ISA, resulting in gains or losses for the IB and (initially) for the ISA. In the case of the ISA, any losses incurred are to be reimbursed by the IB, whereas any additional amount received over the fee in the fixed currency belongs to the IB (see PCT Rule 16.1(e)).

<sup>4</sup> See PCT Rules 15.2(d)(i) and 16.1(d)(i).

Delays in the transfer of fees from the RO to the IB and the ISA may further contribute to such gains or losses due to exchange rate fluctuations. Such delays exist for various reasons, including:

- (a) delays in the payment of fees by the applicant; under the PCT Regulations, the applicant is required to pay the international filing fee and search fee within one month from the date of receipt of the application<sup>5</sup>; if the applicant has not paid these fees within this time limit, the RO will invite the applicant to pay those fees within one month from the date of the invitation, against a surcharge (which is for the benefit of the RO)<sup>6</sup>; and
- (b) delays in the transfer of the international filing fee and search fee by the RO to the IB and the ISA, respectively.

Gains or losses are further generated by the relatively slow process to establish new equivalent amounts. This process is triggered only when the exchange rate between the fixed currency and the local RO currency has changed by more than 5 per cent over a period covering four consecutive Fridays (see paragraph 5 of the Directives of the PCT Assembly Relating to the Establishment of Equivalent Amounts of Certain Fees, reproduced in Annex I to this Circular). After the process is triggered, it can take between three and five months for the new exchange rate to enter into force.

Thus, where the international filing fee and the search fee are paid in a freely convertible RO currency (which is the case in respect of the vast majority of international applications filed), all the financial risks associated with the transfer of those fees by the RO in the local RO currency and their subsequent conversion into the “fixed currencies” are solely born by the IB. While the current procedure (receipt of fees in one currency and subsequent conversion of those fees into another currency) can, of course, result in both gains and losses, it exposes the PCT fee income of the IB to a major risk of fluctuating currency exchange rates.

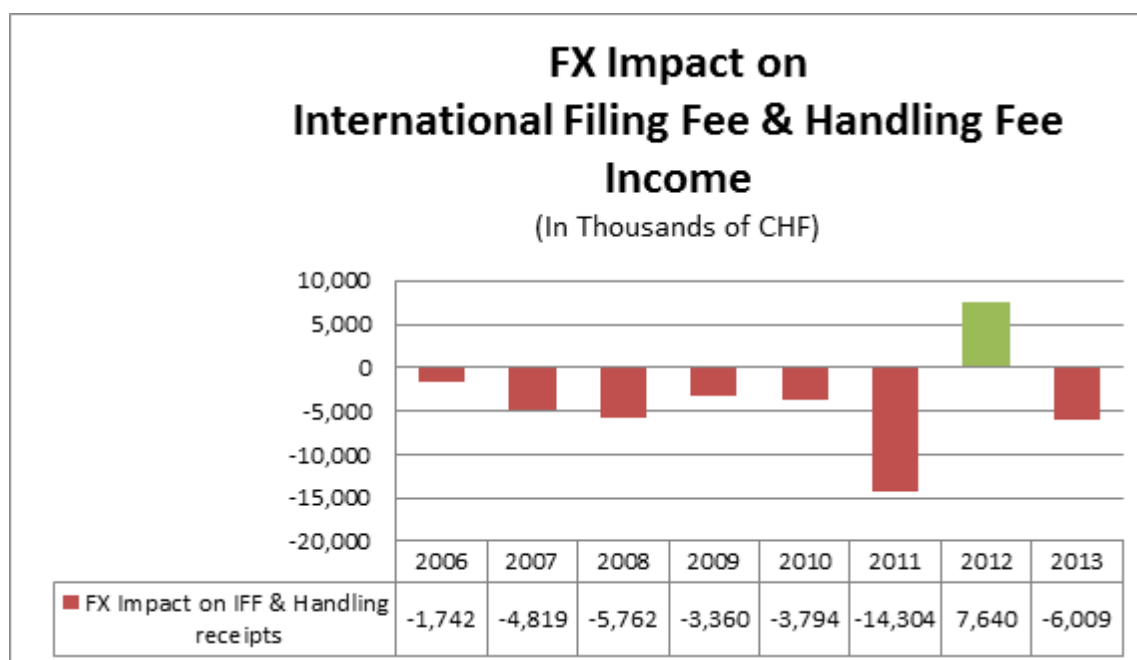
Given that PCT fee income constitutes WIPO’s largest source of revenue (in 2013, PCT fee income amounted to 257.5 million Swiss francs, which represented 73.2 per cent of total revenue), this exposure has a significant effect on overall income of WIPO. To illustrate this effect, see the graph, below: from 2006 to 2011, the IB incurred a loss in PCT fee income (international filing fees and handling fees (under Chapter II)) of more than 33 million Swiss francs, with a loss of more than 14 million Swiss francs in 2011 alone, due to the sharp appreciation of the Swiss franc against all major currencies. By contrast, in 2012, changes in exchange rates resulted in gains in PCT fee income (international filing fees and handling fees) for the IB of about 7.6 million Swiss francs, whereas in 2013, changes in exchange rates again resulted in a loss in PCT fee income of about 6 million Swiss francs. Overall, in the eight years between 2006 and 2013, the IB incurred a loss in PCT fee income of more than 31 million Swiss francs.

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<sup>5</sup> PCT Rules 15.3 and 16.1(f).

<sup>6</sup> See PCT Rule 16*bis*.1.





#### NEED TO TAKE ACTION TO REDUCE THE INHERENT RISK OF EXPOSURE OF PCT FEE INCOME TO MOVEMENTS IN CURRENCY EXCHANGE RATES

In the view of the IB, there is a need to take action to reduce the risk of exposure of PCT fee income to movements in currency exchange rates, so as to provide greater predictability to the budgetary process and thereby add to the financial stability of the Organization.

Such a need was also highlighted in reports by both WIPO's Internal Audit and Oversight Division as well as WIPO's External Auditors, the Office of the Comptroller and Auditor General of India, following a performance audit of the PCT carried out in October and November 2012.

In the fourth quarter of 2013, WIPO instigated a treasury review project, the key objective of which was to undertake an independent and objective assessment of WIPO's current treasury management functions, policies and procedures, including a review of WIPO's current treasury exposures. One of the objectives of the latter was to review the principal foreign exchange exposures at WIPO, notably with regard to PCT fee income, so as to obtain independent and objective advice on the possible need to introduce a new foreign exchange risk management strategy, including in relation to the management and accounting for any proposed hedging instruments.

Following a competitive tender process, WIPO selected an independent specialist treasury service provider, FTI Treasury (Ireland), to undertake the treasury review, which was carried out between December 2013 and March 2014. In March 2014, FTI Treasury presented its final report to WIPO. The full version of that report is available from WIPO on request. As far as the foreign exchange exposures with regard to PCT fee income is concerned, the study concluded that WIPO should:

- (c) consider implementing a hedging strategy based on net currency cash flows using forward contracts;
- (d) consider fixing equivalent amounts of PCT fees only once a year and thus leave equivalent amounts unchanged for a period of 12 months, so as to provide more certainty of currency cash flows and significantly remove risks associated with hedging strategies; and

(e) consider introducing a “netting structure” for all PCT fee transactions between the ROs, the ISA and the IB.

The detailed recommendations by FTI Treasury set out in the report as to possible actions to be taken with regard to the foreign exchange exposures of PCT fee income are contained in Annex II to this Circular.

The purpose of the present Circular is to consult on possible measures that could be taken to reduce the risk of exposure of PCT fee income to movements in currency exchange rates. Two of those measures, namely, the proposal to start hedging and setting equivalent amounts for PCT fees for a fixed period, as set out in paragraphs 20 to 36, below, and the proposal to introduce a netting structure for the transfer of fees as set out in paragraphs 37 to 53, below, are based on the recommendations by FTI Treasury referred to in paragraph 16, above, and reproduced in Annex II. The other proposed measures, namely, the proposal to add a margin when setting equivalent amounts, as set out in paragraph 55, below, and the proposal to have applicants pay the international filing fee in Swiss francs and the search fee in the applicable ISA currency, as set out in paragraphs 56 to 61, below, are independent of the first two measures which are based on the recommendations by FTI Treasury and could be implemented either together with those measures or independently.

Any comments received in response to this Circular will be considered by the IB in developing any proposals to modify the current legal and procedural framework relating to the establishment of equivalent amounts and the payment of PCT fees, for consideration by the PCT Working Group at its 2015 session.

## **POSSIBLE MEASURES**

### **I. HEDGING AND SETTING EQUIVALENT AMOUNTS FOR PCT FEES FOR A FIXED PERIOD**

#### Hedging

As stated in the report by FTI Treasury, one possible way to reduce the risk of exposure of PCT fee income to movements in currency exchange rates would be to hedge the risk resulting from transactions in foreign currencies. Hedging refers to the undertaking of offsetting positions to minimize the impact of unfavorable interest or, as in WIPO's case, exchange rate movements and is frequently achieved by purchasing financial products from commercial banks. These products are often referred to as financial instruments.

The financial instrument which has been proposed by FTI Treasury for use by WIPO is a foreign exchange forward contract (“forward”), which is one of the most straightforward financial instruments to implement and administer. A forward is a contractual agreement between two parties to exchange currency amounts at an agreed exchange rate at a fixed date in the future. The exchange rate contained within the agreement is known as the “forward rate”.

Using one currency inflow, the following example demonstrates how a forward could operate for the IB:

(f) PCT fee income in United States dollars is received on a monthly basis and these revenue inflows can be predicted with a high degree of accuracy. The amounts are converted into Swiss francs when they arrive, at the exchange rate prevailing in the market on the day of conversion. The IB has no control over the exchange rate to be used and so is unable to predict how many Swiss francs will be received.

(g) In October 2014, the IB predicts that 8 million United States dollars will be received in June 2015 and decides to cover the risk posed by a variable United States dollar/Swiss franc exchange rate by acquiring a forward for 8 million United States dollars. Details are as follows:

(i) United States dollar/Swiss franc spot rate at October 28, 2014 (date of acquiring the forward): 0.9457

(ii) United States dollar/Swiss franc forward rate for June 15, 2015: 0.9428

(h) On June 15, 2015, when the 8 million United States dollars are received, the forward will be activated and the United States dollars will be converted into Swiss francs at a rate of 0.9428 in accordance with the terms of the forward contract. The prevailing market rate may be higher (say, 0.9435), in which case the IB would be unable to benefit from this, as it would have to adhere to the contract terms and sell the 8 million United States dollars at the forward rate. The market rate could, however, be lower (say, 0.9421), in which case the IB would have ensured itself of a higher rate (the forward rate of 0.9428). In both cases (either a higher or a lower market rate), the IB would have achieved certainty with regard to its cash-flows.

#### Setting Equivalent Amounts for a Fixed Period

The example above demonstrates how important it is to ensure that the amount of currency contained within the contract (8 million United States dollars) equates to the amount of money actually received by the IB. If the currency amount received varies, the IB may find that it has over or under hedged.

For this reason, a process such as the current process to fix new equivalent amounts of PCT fees cannot operate easily alongside the implementation of a hedging strategy, as changes in the equivalent amounts would inevitably have an impact on the total amount of currency received. If, in the example above, the United States dollar were to strengthen against the Swiss franc ahead of June 2015 to such an extent that a new equivalent amount was introduced, fees in United States dollars would be less. As a result, a smaller amount of United States dollars would be received and the IB would have to purchase the difference between the amount received and the 8 million United States dollar amount specified within the contract in order to satisfy the terms of the contract. The difference would have to be purchased in the spot market at a rate which would be less favorable to the IB than the forward rate of the contract and the IB would therefore make a foreign currency loss on this purchase of United States dollars.

Hence the recommendation by FTI Treasury to modify the current equivalent amount process so that new equivalent amounts would be fixed only once per year, to remain unchanged for a period of 12 months, with a hedging strategy being put in place for the same 12 month period. In October of each year, the IB would acquire forward contracts covering the months from January to December of the following year. The currency amounts in each contract would differ according to the predicted cash-flows of the currencies and would be established as a percentage (say, 80 per cent) of predicted cash-flows in order to allow for the fact that actual cash-flows are unlikely to be of exactly the same amounts as those predicted. This is because, although the numbers of patent applications filed in a given year are reasonably predictable, it is more difficult to estimate the timing of the associated cash inflows, as ROs vary in the timeliness of their remittances to the IB. This hedging would be applied to the IB's principal currency inflows (United States dollar, Japanese yen and euro for international filing fees) and its principal exposures with regard to search fees. Currency inflows and outflows would first be netted to maximize 'internal hedging' before determining the amount to be covered by the forward contracts. For example, if, in June 2015, the IB expects to receive 8 million United States dollars (80 per cent of 10 million United States dollars) but also expects to pay out 1.5 million United States dollars, the forward contract would cover the net amount, namely, 6.5 million United States dollars (see paragraphs 37 to 53, below, with regard to the possible introduction of a netting solution).

Such a hedging strategy would bring to the IB a significant increase in the predictability of its revenues and search fee compensation payments under PCT Rule 16.1(e), which would thus improve the financial stability of the entire Organization. PCT income would be far less subject to the variances encountered within the foreign exchange market, as the exchange rates applied to its principal currency transactions would have been fixed within the forward contracts. Hedging would reduce the foreign exchange risks to which PCT income is currently subject and, as a consequence, act as protection to the budget and program delivery of the Organization.

Similar considerations as those set out in paragraphs 23 to 26, above, would appear to apply with regard to changes during a given year in the amounts of the search fees as fixed by the ISA in the ISA currency, noting that changes in those amounts would equally have an impact on the total amounts of currency received and thus would reduce the element of stability that hedging is aiming to introduce. ISAs may therefore wish to consider voluntarily moving to introducing any changes in search fee amounts only once a year, with effect from January 1 of the following year given the importance of regular currency flows to make hedging "work". However, as the search fee is set by the relevant ISA concerned for carrying out the international search and other tasks entrusted to the ISA, the Circular does not propose that ISAs should only change search fee amounts on an annual basis.

An additional recommendation from FTI Treasury concerns the use of a blended hedge rate to set equivalent amounts. A blended rate would take into account the forward rate of each forward contract, with a weighting given to the amounts of currency in each contract, thus producing a weighted average forward rate (blended rate). The fees established to come into force each January would be calculated by reference to the blended rate, thus ensuring that the fee established reflected the conversion rates to be used during the year, rather than the market rate at 1 October of the previous year (the rate currently used to establish new equivalent amounts).

Example: The IB expects three inflows of international application fees in United States dollars for application fees in 2015: 10 million United States dollars in March, 15 million United States dollars in June and 20 million United States dollars in September. On November, 24, 2014 (spot rate: United States dollar/Swiss franc = 0.9690), it hedges 80 per cent of these amounts and obtains forward contract rates as follows:

	<b>Amount hedged</b>	<b>Rate</b>	<b>CHF to be received</b>
<b>March</b>	8 million	0.9672	7,737,600
<b>June</b>	12 million	0.9656	11,587,200
<b>September</b>	16 million	0.9635	15,416,000
<b>Totals</b>	36 million		34,740,800

Weighted average forward rate is calculated as:  $\frac{34,740,000}{36,000,000} = 0.96502$

The rate of 0.96502 would therefore be used as the basis for establishing the equivalent amount in January.

### Impact on PCT Stakeholders

A change in the procedures which would result in equivalent amounts of PCT fees only to be fixed once a year and thus equivalent amounts to remain unchanged for a period of 12 months, from January 1 to December 31 of any given calendar year, would impact PCT stakeholders as set out in the following paragraphs.

#### *Applicants*

Applicants would gain certainty, for an entire calendar year, as to the equivalent amounts of the international filing fee and the search fee payable in any local RO currency, and would be protected against changes in the exchange rates between the Swiss franc and/or the ISA currency on the one hand and the local RO currency in which those fees are to be paid on the other.

Thus, if, during the calendar year, the local RO currency were to depreciate relative to the Swiss franc and/or the ISA currency, applicants would benefit from, in effect, paying a lower amount of the international filing fee and/or the search fee than they would have had to pay under the current procedures if the depreciation of the local RO currency relative to the Swiss franc and/or the ISA currency would have been such that it would have triggered—under the current procedures—the establishment of new, higher equivalent amounts of those fees in the local RO currency.

If, on the other hand, during the calendar year, the local RO currency were to appreciate relative to the Swiss franc and/or the ISA currency, applicants would only benefit from such appreciation as of January 1 the following calendar year, when new equivalent amounts in the local RO currency of the international filing fee, taking into account the appreciation of the local RO currency, would become effective. Under the current procedures, applicants would have benefited at an earlier point in time if the appreciation of the local RO currency relative to the Swiss franc and/or the ISA currency had been such that it would have triggered the establishment of new, lower equivalent amounts of those fees in the local RO currency already during the calendar year.

#### *Receiving Offices*

Receiving Offices would not be affected by such a change in procedures, other than generally benefitting from less frequent changes to the equivalent amounts of fees to be paid by applicants to ROs, as set out in paragraph 36, below.

### *International Authorities*

Other than benefitting from less frequent changes to the equivalent amounts of the search fee as set out in paragraph 36, below, International Authorities would also not be impacted by a change in the procedures which would result in equivalent amounts of PCT fees only to be fixed once a year. As at present, any losses in search fee income incurred by an ISA due to changes in exchange rates between the date on which the equivalent amounts of the search fees have been established and the date on which these fees are transferred to the ISA would be reimbursed by the IB, whereas any additional amount received over the amount fixed in the ISA fixed currency would belong to the IB (see PCT Rule 16.1(e)). Note, however, the proposed possible introduction of a “netting structure” as set out in paragraphs 37 to 53, below, which would remove the need for ISAs having to rely on the PCT Rule 16.1(e) procedure to be compensated by the IB for any losses incurred as a result of such foreign currency transactions or, where applicable, to transfer any gains resulting from such transactions to the IB, as the ISA would always receive from the IB the full amount of the search fee, in the ISA currency and in the amount as fixed by it.

### *All Stakeholders*

All stakeholders, receiving Offices, International Authorities, the IB and applicants alike, would benefit from less frequent changes to the equivalent amounts of the international filing fee and of the search fee to be paid by applicants, resulting in less frequent changes to fee data, forms, IT systems, information material for applicants, etc.

## II. INTRODUCING A “NETTING” STRUCTURE FOR THE TRANSFER OF FEES

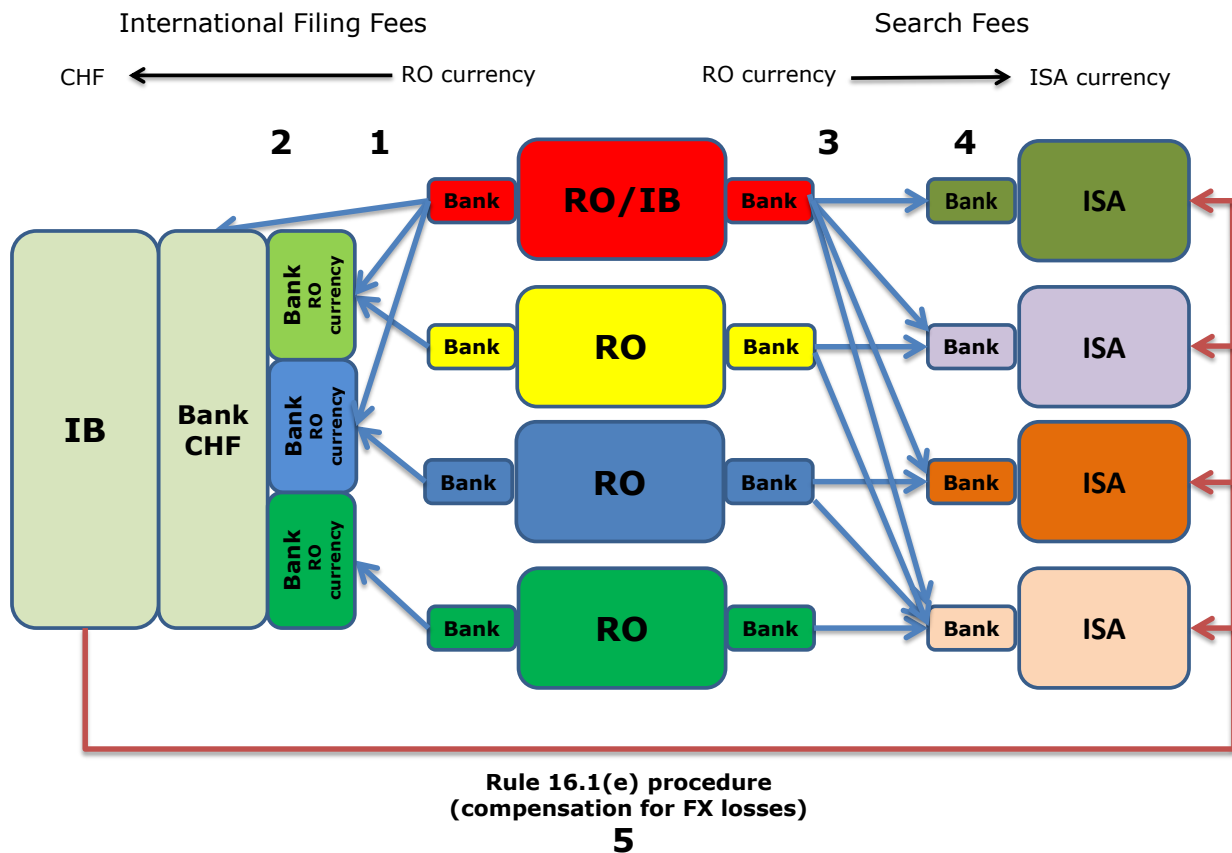
In addition to suggesting to fix equivalent amounts of PCT fees only once a year and to leave equivalent amounts unchanged for a period of 12 months so as to allow the IB to “hedge” international filing fees and search fees, FTI Treasury has further recommended the introduction of a “netting structure” for all PCT fee transactions between the ROs, the ISA and the IB.

While such a netting structure could be introduced independently of the proposal to fix equivalent amounts of PCT fees only once a year and to leave equivalent amounts unchanged for a period of 12 months, the biggest benefit would no doubt be achieved if both proposals were to be implemented at the same time.

The following paragraphs further explain the current flow of PCT fee transactions between the ROs, the ISAs and the IB, and explore the possible impact of a “netting structure” on those transactions.

### Current Flow of PCT Fee Transactions

The current flow of PCT fee transactions (in currencies which are freely convertible) between the ROs, the ISAs and the IB can be described as follows:



(i) ROs (including RO/IB) transfer international filing fees in various currencies (in Swiss franc or equivalent amounts in various other freely convertible currencies) into bank accounts held by the IB, typically once a month (see (1) in the figure, above).

(j) The IB holds bank accounts in various (but not all) RO currencies; if the RO currency in which the international filing fees are received is a currency in which the IB holds an account, the IB may use some of the currency for payments as required and then converts the remaining balance of any such fees into Swiss francs, typically once a month. If the IB does not hold an account in a particular RO currency, incoming international filing fees are received in the IB's Swiss franc account and automatically converted by the bank, upon receipt, into Swiss francs (see (2), in the figure, above). Where the amounts received are significant, the bank will first contact the IB in order to agree upon the exchange rate to be used for the conversion.

(k) ROs (including RO/IB) transfer search fees in various currencies (ISA currency or equivalent amounts in various other freely convertible currencies) into the bank accounts held by "their" (often) multiple competent ISA, typically once a month (see (3) in the figure, above).

(l) Typically, each ISA holds a bank account only in "its" ISA currency and incoming search fees in any RO currency different from that ISA currency are received in that ISA currency account and automatically converted by the bank, upon receipt, into the ISA currency (see (4) in the figure, above).

(m) To balance any losses in search fee income as a result of exchange rate fluctuations (PCT Rule 16.1(e) procedure), the ISA, typically once a month, deducts the amount it is owed by the IB under PCT Rule 16.1(e) from the amount of the international filing fees which the same Office, in its capacity as a RO, transfers to the IB. Where, on the other hand, in accordance with PCT Rule 16.1(e), the ISA owes money to the IB, the ISA adds those amounts to the amount of the international filing fees which the same Office transfers to the IB in its capacity as a RO (see (5) in the figure, above).

The current flow of PCT fee transactions as set out in paragraph 40, above, has a number of disadvantages; most notably:

(n) ROs have to transfer PCT fees to different recipients, namely, to the IB (international filing fee) and to the ISA or, where several ISAs are competent to act in respect of international applications filed with a RO, to several ISAs (search fee), involving multiple banks, different applicable procedures, different fee reconciliation mechanisms, etc., resulting in a substantial workload for finance departments in ROs.

(o) All ISAs act as a competent Authority for several ROs (one Authority has been specified to act as a competent Authority by more than 60 ROs!) and thus are receiving fees from multiple different ROs, in various different currencies, involving different (remitting and receiving) banks, different applicable procedures, fee reconciliation mechanisms, etc., resulting in a substantial workload for finance departments in ISAs.

(p) The sheer number of PCT fee transactions from and to the various actors (IB, RO, ISA) results in high transaction costs (bank charges).

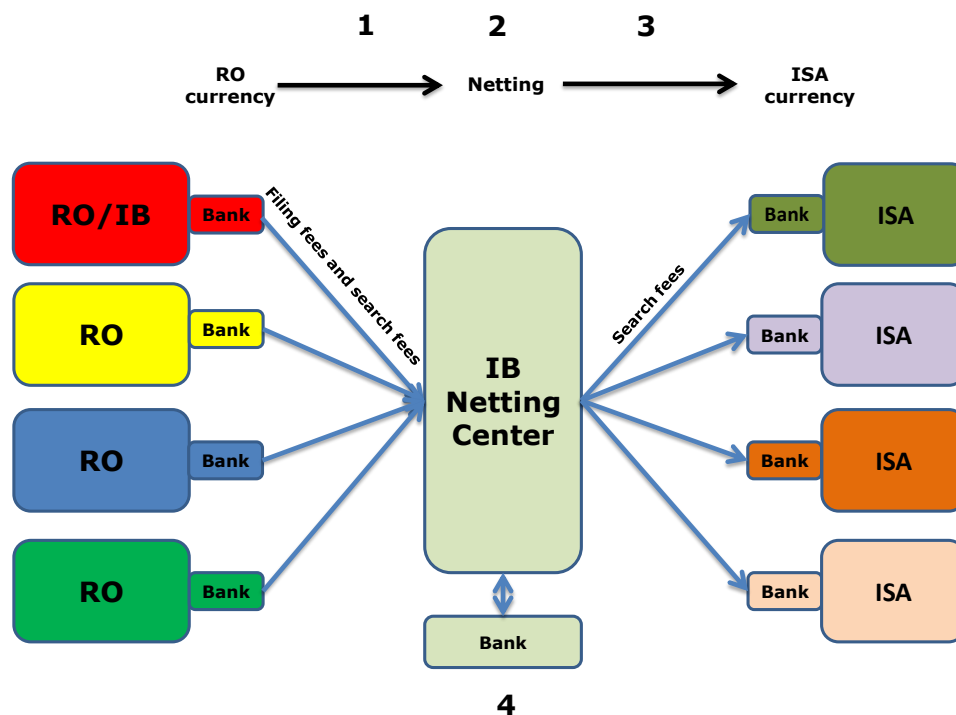
(q) Under PCT Rule 16.1(e), the financial risks associated with the transfer and conversion of search fees are solely borne by the IB. However, the IB is not involved in the transaction at all and thus has no influence on the management of the possible impact of exchange rate fluctuations. On the other hand, those actors which do, namely, the RO and the ISA, have no direct interest in better managing such possible impact. In particular, there is no incentive for the ISA to better manage the conversion of the search fee received in the RO-currency into the ISA-currency (for example, by delaying the conversion to a later date on which the exchange rate may be more favorable), noting that the PCT Rule 16.1(e) mechanism guarantees that the ISA will always (eventually) receive an amount of the search fee which is identical to the amount that it has fixed. In practice, the search fees which are being transferred to the ISA in the various RO-currencies are often simply converted, at the time of receipt by the bank at which the ISA holds its account, into the ISA-currency, without any attempt to manage that conversion process having due regard to the exchange rate between the two currencies applicable on the date of conversion.

#### Possible Netting Solution

“Netting” is a settlement mechanism used to allow a positive value (payment) and a negative value (receivable) to offset and partially or entirely cancel each other out. The netting process consolidates all transactions between participants and calculates settlement between the participants on a “net” basis, typically by means of a single payment or receipt. A netting software system and process typically is used to perform the netting administration.



In the context of the flow of PCT fee transactions between the ROs, the ISAs and the IB, a possible netting solution could be described as follows:



(r) In general, the RO would continue to collect the international filing fee and the search fee from applicants. However, instead of being required to transfer the international filing fee to the IB and the search fee directly to the ISA, the RO would transfer both fees, the international filing fee and the search fee, in the (freely convertible) RO currency, to the IB.

(s) Once a month on a prescribed date, ROs would make a single payment to the netting center, covering all their international filing fee and search fee obligations vis-à-vis the IB and the ISAs, in the (freely convertible) local RO currency in which those fees have been collected by the RO (see **(1)** in the figure, above). Of course, in the case of an RO which also acts as an ISA, that single payment to the netting center would only consist of the balance between the international filing fees the RO “owes” to the IB and the search fees which the IB “owes” to that same Office in its capacity as an ISA.

(t) Foreign currency inflows (international filing fees and search fees in RO currencies) and outflows (search fees in ISA currencies) would be “netted” to give a net foreign currency amount (see **(2)** in the figure, above).

(u) The IB would, within five working days from the day on which the RO has made its payment to the netting center and sent the necessary payment information to the IB, covering all their international filing fee and search fee obligations vis-à-vis the IB and the ISAs, after the relevant reconciliation, transfer to the ISAs the relevant search fees due, in the ISA currency concerned and in the full amount as fixed by the ISA; thus, the PCT Rule 16.1(e) procedure would no longer have to be relied upon (see **(3)** in the figure, above).

(v) If a foreign currency hedging program were in place (as set out in paragraphs 20 to 22, above), forward contracts (based on forecasts as to the expected international filing fee and search fee amounts) would mature on the netting date to convert net foreign currency payments not covered by the income flow of currencies as described in paragraph (c), above (see (4) in the figure, above).

The following example illustrates the process:

(w) In the month of May, RO "A" receives international filing fees and search fees in respect of 100 international applications in the RO currency "United States dollar"; the currency of the competent ISA "B" is the "euro". In the same month, RO "C" receives international filing fees and search fees in respect of 200 international applications in the RO currency "euro"; the currency of the competent ISA "D" is "United States dollar".

(x) ROs "A" and "C" transfer all international filing fees and search fees collected by them in the respective RO currencies (USD and euro, respectively) to the netting center hosted by the IB. The IB transfers the search fees to the competent ISA "B" in the ISA currency "euro" and in the full amount as fixed by the ISA, using the euro amount received from RO "C". The IB transfers the search fees to competent ISA "D" in the ISA currency "United States dollar" and in the full amount as fixed by the ISA, using the United States dollar amount received from RO "A".

(y) If a foreign currency hedging program was in place (as set out in paragraphs 20 to 22, above), forward contracts (based on forecasts as to the expected international filing fee and search fee amounts) would mature on the netting date to convert net foreign currency payments not covered by the income flow of currencies as described in paragraph 43(c), above.

### Benefits of Netting

A number of potential benefits for all stakeholders would arise from a netting solution.

#### *Receiving Offices*

For all PCT fee transactions, ROs would only have to deal with one other actor, namely, the IB, rather than, as at present, two or more (IB and all ISA competent to carry out international searches in respect of applications filed with the RO). A much lower volume of fee transactions would result in reduced transaction costs, noting that netting reduces the amount of money being transferred and can potentially reduce the entire settlement process to a single payment. A significant reduction in overall workload for finance departments in participating Offices could be achieved as a result of reduced operational time and effort; potential for automation of so far manual processes; and simplified reconciliation procedures for both international filing fees and search fees.

#### *International Searching Authorities*

For all PCT fee transactions relating to search fees, ISAs would only have to deal with one other actor, namely, the IB, rather than all ROs for which the ISA is competent to act. As in the case of ROs, netting would have the same general benefits for ISAs, as a much lower volume of fee transactions would result in much reduced transaction costs. A significant reduction in overall workload for finance departments as a result of reduced operational time and effort; potential for automation of so far manual processes; and simplified reconciliation procedures for search fees.

A netting solution, by way of which the ISA would receive all search fees from the IB, in the ISA currency and in the full amount fixed by it, would further remove the need for the ISA to execute foreign currency transactions with regard to its search fee income. It would also remove the need of having to rely on the PCT Rule 16.1(e) procedure to be compensated by the IB for any losses incurred as a result of such foreign currency transactions or, where applicable, to transfer any gains resulting from such transactions to the IB, as the ISA would always receive from the IB the full amount of the search fee, in the ISA currency and in the amount as fixed by it.

#### *IB*

One of the main benefits for the IB resulting from the introduction of a netting structure would be that it would facilitate the operation by the IB of a foreign exchange hedging program, as explained in paragraphs 20 to 22, above.

In particular with regard to search fee payments, setting up a netting structure would result in a much higher visibility to the IB of PCT Rule 16.1(e) foreign exchange exposures and would facilitate the management of that exposure.

Considerable savings on foreign exchange conversions could be achieved by the IB. The study by FTI Treasury referred to in paragraph 16, above, states that annual savings on foreign exchange conversions could conservatively be estimated to be 1 per cent of the gross cash flow and could be as high as 3 per cent, depending on the conversion processes used by the ISAs at present. Noting that the current gross value of the two main ISA currencies in which the IB is particularly exposed to currency fluctuations under the current Rule 16.1(e) procedure (the ISA currency "euro" vis-à-vis the RO currencies "United States dollar" and "pound sterling"; and the ISA currency "Korean won" vis-à-vis the RO currency "United States dollar") is more than 70 million Swiss francs, a 1% saving on this amount would result in a saving of 700,000 Swiss francs per annum.

Netting would further offer the opportunity for process automation, easier booking and reconciliation procedures, efficiency and control opportunities in relation to income data entry, would enhance cash collection and would facilitate liquidity management by the IB.

According to FTI Treasury, a netting solution would cost approximately 12,000 Swiss francs to implement (whether outsourced or in-house). If outsourced, there would also be an annual administration fee of approximately 50,000 Swiss francs. FTI Treasury has advised WIPO that carrying out the work in-house would be unlikely to reduce the annual fee as a large part of this relates to the technology required. This technology is heavily discounted for outsourced suppliers. An in-house netting solution would also require some staff time but this would not be significant.

Finally, it is recalled that the IB is currently running a pilot "eSearch-Copy" project, under which the IB prepares and transmits search copies electronically to the ISA on behalf of the RO where both RO and ISA so agree, allowing for faster and more efficient transfer of search copies to the ISAs. While a netting solution could be introduced independently from the implementation of the eSearch-Copy project, ideally, both netting and the eSearch-Copy project should go "hand-in-hand" and be implemented together, allowing participating ROs to rely on only one actor, namely, the IB, for its main transactions vis-à-vis ISAs (the transmittal of search copies and the transfer of search fees) rather than, as at present, two or more (IB and all ISA competent to carry out international searches in respect of applications filed with the RO).

### III. OTHER PROPOSALS

#### Adding a Margin When Setting Equivalent Amounts

One possible further way to reduce the risk for the IB's (and thus the Organization's) PCT fee income due to exchange rate fluctuations between freely convertible RO currencies and the Swiss franc and ISA currencies would be to add a small, low percentage margin to the equivalent amounts of the international filing fee and of the search fees, for the benefit of the IB and, if no netting structure were to be introduced, the ISA, respectively. For example: say, the current equivalent amount of the international filing fee in currency "XYZ" is 1000 "XYZ"; adding a margin of 1 or 2 per cent to that equivalent amount in XYZ of the international filing fee would raise that amount from 1000 to 1010 or 1020 "XYZ". That additional margin of 10 or 20 "XYZ" per international filing fee would serve to soften the possible impact of exchange rate fluctuations on fee income of the IB. Similarly, if no netting structure were to be introduced, such an additional margin per search fee would serve to soften the possible impact of exchange rate fluctuations on fee income of the ISA, resulting in fewer cases where that Authority would request reimbursement by the IB under Rule 16.1(e) of losses incurred.

#### Payment of the International Filing Fee in Swiss Francs and of the Search Fee in the Applicable ISA Currency

While all proposals set out above aim at reducing the risk of exposure of PCT fee income to fluctuating exchange rates, one possible way of eliminating that risk altogether would be to enable or indeed require applicants to pay the international filing fee in Swiss francs and the search fee in the applicable ISA currency, either to the RO or directly to the IB and the ISA, respectively.

#### *Payment to the Receiving Office*

Already at present, several ROs allow for or even require payment of the international filing fee in Swiss francs and of the search fee in the applicable ISA currency. In such a case, the RO simply transfers those fees in the currencies in which they have been paid to the IB and the ISA, respectively, and the issue of exchange rate fluctuations and subsequent loss of PCT fee income for the IB does not arise.

While it is not proposed to make it mandatory for an RO to allow for or require the payment of the international filing fee in Swiss francs and payment of the search fee in the applicable ISA currency, noting the various different financial circumstances in which ROs operate, the IB would like to strongly encourage all ROs which presently require payment of the international filing fee and of the search fee in a *freely convertible* local RO currency to review their current approach and consider collecting those fees in Swiss francs and the applicable ISA currency, respectively. In the view of the IB, today's electronic e-commerce payment systems should make such an approach much more feasible than it would have been when the PCT fee payment system was first designed.

Similarly, the IB would like to strongly encourage those ROs which presently require payment of the international filing fee and of the search fee not in their local (often not-freely convertible) RO currency but rather in a freely convertible currency different from the Swiss franc and the applicable ISA currency (notably, United States dollar) to equally review their current approach and consider collecting those fees in Swiss francs and the applicable ISA currency, respectively.

Furthermore, the IB would like to strongly encourage those ROs which presently require payment of the international filing fee and of the search fee in a *not freely convertible* local RO currency and subsequently convert those fees into a freely convertible currency different from the Swiss franc and the applicable ISA currency (notably, United States dollar or Euro) to review their current approach and consider converting those fees into Swiss francs and the applicable ISA currency, respectively.



Annex I to Circular C. PCT 1440

DIRECTIVES OF THE ASSEMBLY RELATING TO THE ESTABLISHMENT OF EQUIVALENT  
AMOUNTS OF CERTAIN FEES

*(reproduced from Annex IV to document PCT/A/40/7)*

The Assembly establishes in the following terms the directives relating to the establishment of equivalent amounts of the international filing fee, the handling fee, the search fee and the supplementary search fee (see Rules 15.2(d)(i), 16.1(d)(i), 45 bis.3(b) and 57.2(d)(i)), it being understood that, in the light of experience, the Assembly may at any time modify these directives:

*Establishment of Equivalent Amounts*

(1) The equivalent amounts of the international filing fee and the handling fee in any currency other than Swiss franc, and of the search fee and the supplementary search fee in any currency other than the fixed currency, shall be established by the Director General, in the case of:

- (i) the international filing fee, after consultation with each RO which prescribes payment of that fee in such currency;
- (ii) the search fee, after consultation with each RO which prescribes payment of that fee in such currency;
- (iii) the handling fee, after consultation with each IPEA which prescribes payment of that fee in such currency.

In the case of the international filing fee, the search fee and the handling fee, the equivalent amounts shall be established according to the exchange rates prevailing on the day preceding the day on which the consultations are initiated by the Director General. In the case of the supplementary search fee, the equivalent amounts shall be established according to the exchange rates prevailing on the day on which the Director General receives the notification of the amount of the supplementary search fee or prevailing on the day two months prior to the entry into force of the supplementary search fee, whichever is the later.

(2) The amounts so established shall be the equivalent, in round figures,

- (i) of the amount of the international filing fee and of the handling fee, respectively, in Swiss franc set out in the Schedule of Fees;
- (ii) of the amount of the search fee and the supplementary search fee (if applicable) established by the ISA in the fixed currency.

They shall be notified by the IB to each RO, ISA and IPEA, as applicable, prescribing payment or establishing fees in the currency concerned and shall be published in the *Gazette*.

*Establishment of New Equivalent Amounts Consequential on Changes in the Amount of the Fee Concerned*

(3) Paragraphs (1) and (2) shall apply *mutatis mutandis* where the amount of the international filing fee, the handling fee, the search fee or the supplementary search fee is changed. The new equivalent amounts in the prescribed currencies shall be applied from the same date as the changed amount of the international filing fee or of the handling fee set out in the amended Schedule of Fees, or from the same date as the changed amount of the search fee or the supplementary search fee in the fixed currency.

*Establishment of New Equivalent Amounts Consequential on Changes in Exchange Rates*

(4) In the month of October of each year, the Director General shall, where applicable, after consultations with the Offices or Authorities referred to in paragraph (1), establish new equivalent amounts of the international filing fee, the handling fee, the search fee and the supplementary search fee according to the exchange rates prevailing on the first Monday in the month of October. Unless otherwise decided by the Director General, any adjustment under this paragraph shall enter into force on the first day of the subsequent calendar year.

(5) Where, for more than four consecutive Fridays (midday, Geneva time), the exchange rate between Swiss franc (in the case of the international filing fee and the handling fee) or the fixed currency (in the case of the search fee and the supplementary search fee) and any applicable prescribed currency is by at least 5% higher, or by at least 5% lower, than the last exchange rate applied, the Director General shall, where applicable, after consultations with the Offices or Authorities referred to in paragraph (1), establish new equivalent amounts of the international filing fee, the search fee, the supplementary search fee and/or the handling fee, as applicable, according to the exchange rate prevailing on the first Monday following the expiration of the period referred to in the first sentence of this paragraph. The newly established amount shall become applicable two months after the date of its publication in the *Gazette*, provided that the ROs or the International Preliminary Examining Authorities concerned, as applicable, and the Director General may agree on a date falling during the said two-month period, in which case the said amount shall become applicable from that date.

2. [Annex II [to Circular C. PCT 1440] follows]

Annex II to Circular C. PCT 1440

EXCERPT FROM THE REPORT OF FTI TREASURY:  
RECOMMENDATIONS WITH REGARD TO  
FOREIGN EXCHANGE EXPOSURES OF PCT FEE INCOME

*“Foreign Exchange Exposure and Risk Management*

“PCT income constitutes WIPO’s largest source of revenue (73.7% in 2012 or CHF 248.2 million) and gives rise to the significant foreign exchange risks arising in the organization. No significant treasury issues are identified with Madrid and Hague systems. The USD flows associated with Arbitration and Mediation are small in the overall WIPO context and consequently no significant treasury issues are identified with this service. The main findings in the study in respect of foreign exchange exposure and risk management are:

- “WIPO is exposed to significant risk as a result of foreign currency exposures. The New Equivalent Amount process protects WIPO from long term structural changes in exchange rates, but WIPO is still exposed to short term volatilities. This can have a significant impact on revenues with CHF 13 million FX loss being recorded in 2011. Based on the current budgeted figures, a negative move of just 0.5% in foreign exchange rates would eliminate the budgeted surplus operating result.
- “Value at risk relating to the PCT application fees based on forecast application volumes for the 2014/15 biennium and to a 95% confidence level is estimated at CHF 38,232,712. Value at risk relating to the ISA non base currency fees based on 2012 volumes and to a 95% confidence level is estimated at CHF 8,915,917.
- “The key currency exposures in terms of PCT application fees are USD, EUR and JPY. The key currency exposures in terms of ISA non-base currency fees are /EUR/USD, EUR/GBP and USD/KRW.
- “The current accounting process means that hedging exposures on a net basis will not eliminate the FX gain/loss recorded in the P&L<sup>7</sup>. Whilst the biennium budget may still be met, any offsetting gain/loss on the PCT income line would be reflected in either increased or decreased expenditure levels in CHF terms.
- “There are a wide range of hedging strategies available to WIPO. However, the new equivalent amount process reduces the ability to accurately define FX exposures and in the case of some hedging strategies may result in an increased exposure to WIPO given certain market conditions and volatilities. WIPO could look to implement a hedging strategy based purely on financial derivatives or could look to optimize a hedging strategy by altering some internal and external pricing processes.
- 2.
- “*This report recommends that WIPO consider eliminating the New Equivalent Amount process and setting equivalent amounts for both PCT Application Fees and ISA non-base currency fees annually for a period of 12 months.* This would provide more certainty of currency cash flows and significantly remove risks associated with hedging strategies.
- 3.
- “This report recommends that WIPO consider implementing a hedging strategy based on net currency cash flows using Forward Contracts (subject to previous recommendation

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<sup>7</sup> “P&L” is the acronym commonly used to represent the ‘Profit and Loss Account’, which is a financial statement showing the financial results (income less expenditure) generated during a period. The equivalent statement, at WIPO, is the “Statement of Financial Performance”.



being adopted). We believe that this strategy would be the most suitable for implementation at WIPO for the following reasons:

- “Using forward contracts will allow WIPO to lock into FX rates which are close to the equivalent amount rate without the upfront expense of purchasing options.  
4.
  - “The use of Forward Contract strategies are at the lower end of complexity for implementation. The results are clear, transparent and easily understandable.  
5.
  - “Hedging the net currency flows will help WIPO meet the biennium budget financial goals.  
6.
  - “*This report recommends that WIPO consider using the blended hedge rate to set equivalent amounts.* If WIPO uses the blended average weighted forward rate to set the equivalent amount rate then the premium/discount would be reflected in the equivalent amounts. Therefore consideration should be given to using the average blended forward rate for setting equivalent amounts.  
7.
  - “*This report recommends that WIPO seek auditor’s opinion on application of hedge accounting to ISA non-base currency flows.* If WIPO chooses to hedge the risk associated with the foreign currency exposures on ISA non-base currency fees, we would recommend that a clear audit opinion is sought from WIPO’s external auditors confirming that hedge accounting would be permissible under IPSAS. It would be essential to receive this opinion in advance of embarking on any hedging strategy implementation.”  
8.
- “It is noted that the accuracy of the PCT filing volume forecast and the ability to forecast on a jurisdiction (and therefore currency) basis are key driving data variables for the implementation of any proposed foreign exchange hedging strategies. Therefore the historical accuracy of these forecasts provides a strong confidence factor for any potential hedging strategies.”  
9.

#### *“Added Value Services — Netting*

“WIPO has a Strategic Goal (II) to provide a premier global IP Service and is committed to supporting the efficient administration of the Systems under its remit and seeks to add value to the process by introducing ways to enhance operations. An example of this is the recent implementation of the Memorandum of Understanding between the European Patent Office (EPO), The United States Patent and Trademark Office (USPTO) and WIPO with regard to the improved management of PCT search fee transfers. This pilot project is in the form of a ‘netting’ type solution. However it should be recognized that this is a one way cash flow direction rather than a reciprocal arrangement which reduces the potential benefit to WIPO.

“*This study recommends the introduction of netting structure for PCT cash flows covering all transactions between WIPO, ROs and ISAs that would be beneficial to all participants.* While a netting technology/administration solution has an annual cost of around CHF 50,000, estimated minimum annual cost savings of CHF 730,000 (for which WIPO is liable for) makes the financial business case for this technology. Apart from financial benefits, other significant benefits arise from efficiency savings, the functionality available, management and operational enhancements.”

3. [Annex III [to Circular C. PCT 1440] follows]

Annex III to Circular C. PCT 1440

QUESTIONNAIRE

PCT FEE INCOME: POSSIBLE MEASURES TO REDUCE  
EXPOSURE TO MOVEMENTS IN CURRENCY EXCHANGE RATES

RESPONSE FROM:

Name of responsible official:

On behalf of [Office]:

I. SETTING EQUIVALENT AMOUNTS FOR PCT FEES FOR A FIXED PERIOD

Please provide your comments on the option of reducing the risk of exposure of PCT fee income to fluctuating exchange rates by changing the procedures related to the fixing of equivalent amounts of fees which would result in equivalent amounts of PCT fees only to be fixed once a year and thus equivalent amounts to remain unchanged for a period of 12 months, from January 1 to December 31 of any given calendar year, as discussed in paragraphs 20 to 36 of the main body of this Circular.

## II. INTRODUCING A “NETTING” STRUCTURE FOR THE TRANSFER OF FEES

Please provide your comments on the option of reducing the risk of exposure of PCT fee income to fluctuating exchange rates by introducing a “netting structure” for all PCT fee transactions between the ROs, the ISA and the IB, as discussed in paragraphs 37 to 53 in the main body of this Circular.

### III. ADDING A MARGIN WHEN SETTING EQUIVALENT AMOUNTS OF THE INTERNATIONAL FILING FEE AND SEARCH FEE

Please provide your comments on the proposal to add a small, low percentage margin when establishing equivalent amounts of the international filing fee and search fee, as discussed in paragraph 55 of this Circular.

#### IV. PAYMENT OF THE INTERNATIONAL FILING FEE IN SWISS FRANCS AND OF THE SEARCH FEE IN THE APPLICABLE ISA CURRENCY

Please provide your comments on the option of paying the international filing fee in Swiss francs and the search fee in the applicable ISA currency, either to the RO or directly to the IB and the ISA, respectively, as discussed in paragraphs 56 to 61 in the main body of this Circular. In particular, please address the following issues:

- Payment to the RO, as discussed in paragraphs 57 to 60 in the main body of this Circular.
- ePCT-Filing payment of fees directly to the IB and to the ISA, as discussed in paragraph 61 in the main body of this Circular.

## V. OTHER ISSUES

Please provide any other comments you may have on the potential measures outlined in the Circular, or any other actions that could be taken to reduce the exposure of the IB and Offices acting in their various capacities under the PCT to movements in currency exchange rates.

[End of Annex III *[of Circular C. PCT 1440]* and of Circular]

[Annex II follows]

PROPOSED MODIFICATIONS TO THE  
DIRECTIVES OF THE ASSEMBLY RELATING TO THE  
ESTABLISHMENT OF EQUIVALENT AMOUNTS OF CERTAIN FEES<sup>8</sup>

The Assembly establishes in the following terms the directives relating to the establishment of equivalent amounts of the international filing fee, the handling fee, the search fee and the supplementary search fee (see Rules 15.2(d)(i), 16.1(d)(i), 45 bis.3(b) and 57.2(d)(i)), it being understood that, in the light of experience, the Assembly may at any time modify these directives:

***Establishment of Equivalent Amounts***

(1) The equivalent amounts of the international filing fee and the handling fee in any prescribed currency other than Swiss franc, and of the search fee and the supplementary search fee in any prescribed currency other than the fixed currency, shall be established by the Director General. ~~the case of:~~

~~(i) the international filing fee, after consultation with each RO which prescribes payment of that fee in such currency;~~

~~(ii) the search fee, after consultation with each RO which prescribes payment of that fee in such currency;~~

~~(iii) the handling fee, after consultation with each IPEA which prescribes payment of that fee in such currency.~~

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<sup>8</sup> Proposed additions and deletions are indicated, respectively, by underlining and striking through the text concerned. A "clean" copy of the proposed amended provisions (without underlining or striking through) appears in Annex III.

(2) In the month of October of each year, the Director General shall establish:

(i) the equivalent amounts in euro, Japanese yen and United States dollar of the international filing fee according to the blended hedge rates determined by the Director General prevailing on the first Monday in the month of October;

(ii) the equivalent amounts in all other currencies of the international filing fee, and the equivalent amounts of the handling fee, the search fee and the supplementary search fee according to the exchange rates determined by the Director General prevailing on the first Monday in the month of October.

(3)(2) The amounts so established shall be the equivalent, in round figures:

(i) of the amount of the international filing fee and of the handling fee, respectively, in Swiss franc set out in the Schedule of Fees;

(ii) of the amount of the search fee and the supplementary search fee (if applicable) established by the ISA in the fixed currency.

(4) The amounts so established ~~They~~ shall be notified by the International Bureau ~~IB~~ to each receiving Office, International Searching Authority ~~RO, ISA~~ and International Preliminary Examining Authority ~~IPEA~~, as applicable, prescribing payment or establishing fees in the currency concerned and shall be published in the *Gazette*.

(5) Unless otherwise decided by the Director General, any equivalent amounts established under paragraph (2) shall enter into force on the first day of the subsequent calendar year. Subject to paragraphs (6) to (10), any such established equivalent amounts shall remain in force until the last day of the subsequent calendar year.



**Establishment of New Equivalent Amounts** ~~Consequential on Changes in the Amount of the Fee Concerned~~

~~(6) (3) Paragraphs (1) and (2) shall apply mutatis mutandis where~~ Where the amount of the international filing fee, the handling fee, the search fee or the supplementary search fee is changed, the Director General shall establish new equivalent amounts:

(i) in the case of new equivalent amounts in euro, Japanese yen and United States dollar of the international filing fee according to the blended hedge rates determined by the Director General prevailing on the day two months prior to entry into force of the changed amount of the international filing fee as set out in the amended Schedule of Fees;

(ii) in the case of new equivalent amounts in all other currencies of the international filing fee or in any prescribed currency of the handling fee, according to the exchange rates determined by the Director General prevailing on the day two months prior to entry into force of the changed amount of the international filing fee or of the handling fee, as applicable, as set out in the amended Schedule of Fees;

(iii) in the case of new equivalent amounts of the search fee and the supplementary search fee, according to the exchange rates determined by the Director General prevailing on the day on which the Director General is notified of the new amount, or the day two months prior to the entry into force of the new amount, whichever is later.

(7) The new equivalent amounts in the prescribed currencies ~~shall be applied from~~ established in accordance with paragraph (6) shall enter into force on the same date as the changed amount of the international filing fee or of the handling fee set out in the amended Schedule of Fees, or ~~from~~ on the same date as the changed amount of the search fee or the supplementary search fee in the fixed currency.

(8) Paragraphs (6)(ii) and (iii) shall apply *mutatis mutandis* where an equivalent amount of any of the fees referred to in those paragraphs is required in a new prescribed currency for which an equivalent amount has not previously been established, provided that any such new equivalent amount shall enter into force on the same date as the new prescribed currency.

(9) Paragraphs (3) and (4) shall apply *mutatis mutandis* to any new equivalent amount established under paragraphs (6) or (8). Subject to paragraphs (6) and (10), any such newly established equivalent amount shall remain in force until the last day of the calendar year.

~~(4) In the month of October of each year, the Director General shall, where applicable, after consultations with the Offices or Authorities referred to in paragraph (1), establish new equivalent amounts of the international filing fee, the handling fee, the search fee and the supplementary search fee according to the exchange rates prevailing on the first Monday in the month of October. Unless otherwise decided by the Director General, any adjustment under this paragraph shall enter into force on the first day of the subsequent calendar year.~~

(10) (5) The Director General shall establish new equivalent amounts of the search fee and the supplementary search fee where ~~Where,~~ for more than four consecutive Fridays (midday, Geneva time), the exchange rate between ~~Swiss franc (in the case of the international filing fee and the handling fee) or~~ the fixed currency ~~(in the case of the search fee and the supplementary search fee)~~ and any applicable prescribed currency is by at least 5% higher, or by at least 5% lower, than the last exchange rate applied, ~~the Director General shall, where applicable, after consultations with the Offices or Authorities referred to in paragraph (1), establish new equivalent amounts of the international filing fee, the search fee, the supplementary search fee and/or the handling fee, as applicable,~~ Such new equivalent amounts shall be established by the Director General according to the exchange rate prevailing on the first Monday following the expiration of the period referred to in the first sentence of this paragraph. Paragraph 4 shall apply *mutatis mutandis* to such newly established amounts. The newly established amount shall become applicable two months after the date of its publication in the Gazette, provided

that the ~~ROs or the International Preliminary Examining Authorities concerned, as applicable,~~  
receiving Offices concerned and the Director General may agree on a date falling during the  
said two-month period, in which case the said amount shall become applicable from that date.

5. [Annex III follows]

PROPOSED MODIFICATIONS TO THE  
DIRECTIVES OF THE ASSEMBLY RELATING TO THE  
ESTABLISHMENT OF EQUIVALENT AMOUNTS OF CERTAIN FEES  
(CLEAN TEXT)

Proposed modifications to the Directives are set out in Annex II, in which additions and deletions are shown, respectively, by underlining and striking-through of the text concerned. This Annex contains, for convenient reference, a “clean” text of the relevant provisions as they would stand after modification.

The Assembly establishes in the following terms the directives relating to the establishment of equivalent amounts of the international filing fee, the handling fee, the search fee and the supplementary search fee (see Rules 15.2(d)(i), 16.1(d)(i), 45**bis**.3(b) and 57.2(d)(i)), it being understood that, in the light of experience, the Assembly may at any time modify these directives:

***Establishment of Equivalent Amounts***

(1) The equivalent amounts of the international filing fee and the handling fee in any prescribed currency other than Swiss franc, and of the search fee and the supplementary search fee in any prescribed currency other than the fixed currency, shall be established by the Director General.

(2) In the month of October of each year, the Director General shall establish:

(i) the equivalent amounts in euro, Japanese yen and United States dollar of the international filing fee according to the blended hedge rates determined by the Director General prevailing on the first Monday in the month of October;

(ii) the equivalent amounts in all other currencies of the international filing fee, and the equivalent amounts of the handling fee, the search fee and the supplementary search fee according to the exchange rates determined by the Director General prevailing on the first Monday in the month of October.

(3) The amounts so established shall be the equivalent, in round figures:

(i) of the amount of the international filing fee and of the handling fee, respectively, in Swiss franc set out in the Schedule of Fees;

(ii) of the amount of the search fee and the supplementary search fee (if applicable) established by the ISA in the fixed currency.

(4) The amounts so established shall be notified by the International Bureau to each receiving Office, International Searching Authority and International Preliminary Examining Authority, as applicable, prescribing payment or establishing fees in the currency concerned and shall be published in the *Gazette*.

(5) Unless otherwise decided by the Director General, any equivalent amounts established under paragraph (2) shall enter into force on the first day of the subsequent calendar year. Subject to paragraphs (6) to (10), any such established equivalent amounts shall remain in force until the last day of the subsequent calendar year.

#### ***Establishment of New Equivalent Amounts***

(6) Where the amount of the international filing fee, the handling fee, the search fee or the supplementary search fee is changed, the Director General shall establish new equivalent amounts:

(i) in the case of new equivalent amounts in euro, Japanese yen and United States dollar of the international filing fee according to the blended hedge rates determined by the Director General prevailing on the day two months prior to entry into force of the changed amount of the international filing fee as set out in the amended Schedule of Fees;

(ii) in the case of new equivalent amounts in all other currencies of the international filing fee or in any prescribed currency of the handling fee, according to the exchange rates

determined by the Director General prevailing on the day two months prior to entry into force of the changed amount of the international filing fee or of the handling fee, as applicable, as set out in the amended Schedule of Fees;

(iii) in the case of new equivalent amounts of the search fee and the supplementary search fee, according to the exchange rates determined by the Director General prevailing on the day on which the Director General is notified of the new amount, or the day two months prior to the entry into force of the new amount, whichever is later.

(7) The new equivalent amounts in the prescribed currencies established in accordance with paragraph (6) shall enter into force on the same date as the changed amount of the international filing fee or of the handling fee set out in the amended Schedule of Fees, or on the same date as the changed amount of the search fee or the supplementary search fee in the fixed currency.

(8) Paragraphs (6)(ii) and (iii) shall apply *mutatis mutandis* where an equivalent amount of any of the fees referred to in those paragraphs is required in a new prescribed currency for which an equivalent amount has not previously been established, provided that any such new equivalent amount shall enter into force on the same date as the new prescribed currency.

(9) Paragraphs (3) and (4) shall apply *mutatis mutandis* to any new equivalent amount established under paragraphs (6) or (8). Subject to paragraphs (6) and (10), any such newly established equivalent amount shall remain in force until the last day of the calendar year.

(10) The Director General shall establish new equivalent amounts of the search fee and the supplementary search fee where, for more than four consecutive Fridays (midday, Geneva time), the exchange rate between the fixed currency and any applicable prescribed currency is by at least 5% higher, or by at least 5% lower, than the last exchange rate applied. Such new equivalent amounts shall be established by the Director General according to the exchange rate prevailing on the first Monday following the expiration of the period referred to in the first

sentence of this paragraph. Paragraph 4 shall apply mutatis mutandis to such newly established amounts. The newly established amount shall become applicable two months after the date of its publication in the Gazette, provided that the receiving Offices concerned and the Director General may agree on a date falling during the said two-month period, in which case the said amount shall become applicable from that date.

6. [End of Annex III and of document]

## **Patent Cooperation Treaty (PCT) Working Group**

**Eighth Session**  
**Geneva, May 26 to 29, 2015**

### **SUMMARY BY THE CHAIR**

#### **AGENDA ITEM 1: OPENING OF THE SESSION**

10. Mr. Francis Gurry, Director General of WIPO, opened the session and welcomed the participants. Mr. Claus Matthes (WIPO) acted as Secretary to the Working Group.

#### **AGENDA ITEM 2: ELECTION OF A CHAIR AND TWO VICE-CHAIRS**

11. The Working Group unanimously elected Mr. Victor Portelli (Australia) as Chair for the session. There were no nominations for Vice-Chairs.

#### **AGENDA ITEM 3: ADOPTION OF THE AGENDA**

12. The Working Group adopted the revised draft agenda as proposed in document PCT/WG/8/1 Rev. 2.

#### **OPENING STATEMENTS**

13. The Delegation of Singapore updated the Working Group on the progress of the Intellectual Property Office of Singapore (IPOS) towards beginning operations as an International Searching and Preliminary Examining Authority, following its appointment by the PCT Assembly at its forty-sixth session in September 2014. IPOS had achieved ISO 9001:2008 certification for its patent search and examination processes in November 2014 and now had more than 100 patent examiners. Moreover, processes had been put in place to handle international search and preliminary examination work, and examiners had undergone training



for their new role. IPOS intended to begin operations as an International Searching and Preliminary Examining Authority on September 1, 2015.

#### **AGENDA ITEM 4: MEETING OF INTERNATIONAL AUTHORITIES UNDER THE PCT: REPORT ON THE TWENTY-SECOND SESSION**

14. The Working Group noted the report of the twenty-second session of the Meeting of International Authorities, based on a Summary by the Chair of that session contained in document PCT/MIA/22/22 and reproduced in the Annex to document PCT/WG/8/2.

#### **AGENDA ITEM 5: PCT STATISTICS**

15. The Working Group noted a presentation by the International Bureau on the most recent PCT statistics<sup>9</sup>.

#### **AGENDA ITEM 6: PCT ONLINE SERVICES**

16. Discussions were based on document PCT/WG/8/20.

17. All delegations which took the floor expressed their appreciation for the work done on improving the online services made available by the International Bureau to applicants and Offices. The services were stated to add considerable value to the PCT process. It was stated that ePCT development should be legally sound, that is that it should be supported by the legal framework.

18. There was broad support in principle for the priorities for further work identified in the document, though various national Offices would not currently be in a position to implement some of the recommendations which were directed towards them, for legal or technical reasons. The issues included national security, certainty concerning the effective time of documents stored on a server operated by another Office and only transferred to local systems later, and the need to use specific forms of electronic signatures.

19. The International Bureau indicated that it would work with the Offices concerned to provide any necessary information on the options currently available and to discuss further requirements. It was emphasized that discussions with Offices should not only seek fixes to the immediate problems, but help the International Bureau to identify opportunities for more comprehensive work over the coming years.

20. Several delegations stated that improvement and expansion of the eSearchCopy system should be a particular priority, since it could have significant benefits if widely implemented. Machine to machine services, machine-readable data and demands for international preliminary examination in XML format were also highlighted by various delegations as being of particular interest, giving potential for efficiencies or useful new services.

21. In response to a question from a user representative, the International Bureau indicated that its services already had arrangements for handling copies of cited documents, though they were currently only routinely used in relation to documents uploaded with third party observations, rather than documents cited in international search reports. In providing services to applicants and designated Offices as required by Article 20(3), any non-patent literature documents received by the International Bureau were made privately available to applicants and designated Offices but, in order to respect copyright, were not made publicly available on PATENTSCOPE.

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<sup>9</sup> A copy of the presentation is available on the WIPO website at [http://www.wipo.int/meetings/en/details.jsp?meeting\\_code=pct/wg/8](http://www.wipo.int/meetings/en/details.jsp?meeting_code=pct/wg/8)

22. The Working Group noted the contents of document PCT/WG/8/20.

#### **AGENDA ITEM 7: SUPPLEMENT TO “ESTIMATING A PCT FEE ELASTICITY” STUDY**

23. Discussions were based on document PCT/WG/8/11.

24. All delegations which took the floor welcomed the supplement to the “Estimating a PCT Fee Elasticity” study by the Chief Economist.

25. One delegation, speaking on behalf of a regional group, underlined that financial sustainability and income neutrality should be a prerequisite for introducing any fee changes. The delegation therefore questioned whether the additional filings generated from reductions for universities and government research institutes would justify the loss in fee income. It further questioned whether it would be justifiable to differentiate between universities and research institutes from developing and developed countries. While the study showed that fee reductions for universities from developing countries appeared to be more effective than reductions for universities from developed countries, the delegation expressed the view that the development aspect had recently been taken into account when Member States had agreed, in 2014, on the revised criteria for fee reductions for applicants from developing countries.

26. One delegation supported the view that any fee reductions applied to universities and government research institutes should not differentiate between developed and developing countries. This delegation believed that universities and government research institutes were under-represented in PCT filings, which might be remedied by general fee reductions for these types of applicants.

27. Several other delegations expressed the view that fee reductions for universities and government research institutes from developing countries should be introduced first, while a possible extension of such fee reductions to these groups of applicants from developed countries should be considered at a later stage. Some of these delegations provided examples of national fee reductions for universities and public research organizations which had resulted in more patent filings from these types of applicants.

28. The Chair, in summarizing the discussions, stated that, while there was support by many delegations for PCT fee reductions for universities and government research institutes, different views had been expressed on whether such reductions should apply to all such types of applicants or only to those from developing countries. In any case, without a significant rise in the number of filings, any reductions would result in a loss in revenue to WIPO. The issue therefore needed to be considered in a holistic manner, also addressing the issue as to how to compensate for any losses. The Chair invited any Member State to come forward with proposals in this context for discussion at a future session of the Working Group.

29. The Working Group noted the contents of document PCT/WG/8/11.

#### **AGENDA ITEM 8: PCT FEE INCOME: POSSIBLE MEASURES TO REDUCE EXPOSURE TO MOVEMENTS IN CURRENCY EXCHANGE RATES**

30. Discussions were based on document PCT/WG/8/15.

31. All delegations which took the floor welcomed the proposal to commence hedging of international filing fees as far as the risk resulting from transactions in euro, Japanese yen and United States dollar was concerned, and to modify the current equivalent amount process for PCT fees with a view to fixing new equivalent amounts of PCT international filing fees only once per year, to remain unchanged for a period of 12 months.

32. Delegations emphasized the benefits such an approach would bring to the PCT system, notably in terms of added efficiency and predictability, while stressing the need for full

transparency, in particular with regard to the new process for fixing equivalent amounts in the currencies proposed to be hedged based on blended hedge rates to be determined by the Director General. To that extent, the Secretariat should further consider how best to ensure such transparency, either by including further details on that new process in the Directives themselves or, preferably, by other means, such as by way of an Understanding by the PCT Assembly setting out the details of that new process, to be adopted by the Assembly together with the Directives as proposed to be modified.

33. In response to a query by one delegation, the Secretariat offered to provide more detailed information on PCT fee income in the various currencies in which fees were received by the International Bureau.

34. In response to a suggestion by several delegations, the Secretariat confirmed that, while a final decision on the proposal to commence hedging and to modify the Directives accordingly would be for the PCT Assembly to take, it was the intention of the Secretariat to bring the matter to the attention of the Program and Budget Committee at its upcoming July 2015 session.

35. In response to a query by one delegation, the Secretariat confirmed that there was no limit on possibly “rolling forward” any forward contract, as referred to in paragraph 34 of document PCT/WG/8/15. In essence such “rolling forward” would require the conclusion of a new forward contract, which could be done, at least in theory, again and again. The Secretariat further confirmed that, if implemented, it would be happy to regularly report to Member States on any rolling forward of forward contracts and any impact hedging had on WIPO finances.

36. Upon queries by several delegations as to the compliance of the proposed new approach with WIPO’s “Risk Appetite Statement” as set out in document WO/PBC/22/17, noted by the Program and Budget Committee at its twenty-second session in September 2014, the Secretariat stated that the new approach was in full compliance with that statement, as it actually reduced the risks associated with movements in currency exchange rates compared to today’s situation, where the Organization was fully exposed to such risks.

37. Several delegations noted the importance of providing sufficient lead time for fee changes to allow receiving Offices to make the necessary updates to internal IT systems and to raise awareness of applicants before new equivalent amounts came into effect. The Secretariat confirmed that, in general, the new approach would not change the effect on receiving Offices compared to the current procedure, under which new equivalent amounts would be fixed in the first week in October of each year, to enter into force on January 1 of the following year. Exceptionally, however, the lead time in the run up to new equivalent amounts coming into force in January 2016 might be slightly shorter, noting that those new equivalent amounts could only be fixed after the PCT Assembly, scheduled to meet from October 5 to 14 this year, had formally adopted the modified Directives, thus slightly delaying the fixing of new equivalent amounts to the second half of October 2015. This would nevertheless leave a period of over two months before entry into force. Alternatively, on an exceptional basis, the entry into force of the new fees for the first year could occur later than January 1.

38. Several delegations suggested applying a similar hedging approach also to other fee collecting WIPO services, such as the Madrid or Hague Systems, although it was noted that there appeared to be a much lower risk of exposure of fee income to movements in currency exchange rates, as most fees paid under those systems were paid in Swiss francs.

39. The Working Group agreed on the proposed modifications to the Directives of the PCT Assembly Relating to the Establishment of Equivalent Amounts of Certain PCT Fees set out in Annex II to document PCT/WG/8/15 with a view to their submission to the Assembly for consideration at its next session, in October 2015, subject to possible further drafting changes to be made by the Secretariat or, alternatively, the submission to the Assembly of a draft Understanding setting out details of the new process for fixing equivalent amounts in the currencies proposed to be hedged based on blended hedge rates, to be adopted by the Assembly together with the Directives as proposed to be modified.
40. All delegations which took the floor on the matter supported the proposal not to commence hedging of search fees at this stage but rather to first carry out a “proof of concept” simulation with a view to discussing a detailed proposal by the Secretariat at the next session of the Working Group in 2016.
41. Several delegations expressed their support in general for the proposal to move to a “netting structure” for all PCT fee transactions between receiving Offices, International Searching Authorities and the International Bureau, while stating that more information was needed before being able to decide on the matter.
42. One delegation stated that it could not support the netting proposal, as it was concerned that it would result in additional work for receiving Offices.
43. One delegation expressed the hope that a netting structure could be implemented quickly, citing its positive experiences, as an International Searching Authority, with an ongoing pilot project under which it received search fees from one receiving Office “via” the International Bureau. It further stated that its expectation was that the greatest benefits would be achieved if such netting structure would be combined with the electronic transfer of search copies from the receiving Offices to the International Searching Authority “via” the International Bureau (eSearchCopy).
44. All delegations which took the floor noted with satisfaction that it was no longer proposed to pursue the proposal to add a margin to equivalent amounts of the international filing fees and search fees.
45. Several delegations stated that they did not support the proposal to enable applicants to pay the international filing fee in Swiss franc and the search fee in the applicable ISA currency, although it was noted that the proposal had not been to make such fee payments in currencies other than the local receiving Office currency mandatory.

#### **AGENDA ITEM 9: COORDINATION OF TECHNICAL ASSISTANCE UNDER THE PCT**

46. Discussions were based on document PCT/WG/8/16.
47. All delegations which took the floor welcomed the report on the technical assistance projects for developing countries. Several delegations emphasized their commitment to continue to provide such technical assistance, noting the importance of such assistance for developing countries.
48. One delegation, representing a regional group, emphasized that the information set out in the document showed that PCT-related technical assistance programs formed an essential element of broader WIPO technical assistance activities aimed at extending and enhancing the PCT system. The delegation further stated that the issue of provision of technical assistance had to be seen in a broader context and, in this context, referred to ongoing discussions in that regard in the Committee on Development and Intellectual Property (CDIP), which had devoted more time to debating technical assistance activities at its most recent session. To that extent, it continued to be of the opinion that the Working Group had to await the outcome of the

discussions in the CDIP on the External Review of WIPO Technical Assistance in the Area of Cooperation for Development (document CDIP/8/INF/1) before commencing discussions on specific PCT-related technical assistance in the Working Group.

49. Several delegations expressed their gratitude for the technical assistance activities that WIPO and a number of national and regional Offices had provided to their countries and acknowledged the benefits of technical assistance for Offices and users on a national and regional scale.

50. The Working Group noted the contents of document PCT/WG/8/16.

#### **AGENDA ITEM 10: TRAINING OF EXAMINERS**

51. Discussions were based on document PCT/WG/8/7.

52. Several delegations expressed their appreciation for the examiner training and other assistance which they had received in recent years from other Offices and from the International Bureau. This was greatly appreciated and essential to improving the quality of the work by their Offices. Several delegations outlined a variety of different ways in which their Offices as donor Offices offered such training. Nevertheless, it was widely recognized there was scope for improving the efficiency and effectiveness of the training by better coordination between Offices and learning from best practices of others. One delegation emphasized that training needed to be practical and focused on the needs of the relevant Office.

53. All delegations which took the floor strongly supported the proposal for the International Bureau to increase its role in helping to coordinate examiner training between Offices. At its most basic, this would involve a matching of needs with training capacity in a way which ensured that Offices were aware of and could complement activities of other Offices, thereby avoiding duplication. Ideally, the arrangement should also allow Offices to better understand and learn from the ways in which training was being conducted by other Offices. Several delegations reiterated the view that a physical donor conference should only be held if it were possible to do so back-to-back with another PCT-related event.

54. One delegation expressed concerns with regard to the proposal that the International Bureau should develop, jointly with partner Offices, model training components and curricula, noting that the content of such components should be left to the donor Offices and that the International Bureau should primarily act as a coordinator.

55. The Working Group requested the International Bureau to issue, as a first step, a Circular requesting information from Offices on examiner training activities carried out by Offices for the benefit of other Offices, notably from developing countries. This would better inform the next phase of discussions on how the International Bureau could act as a coordinating body to most useful effect.

#### **AGENDA ITEM 11: APPOINTMENT OF INTERNATIONAL AUTHORITIES**

56. Discussions were based on document PCT/WG/8/3.

57. All delegations which took the floor expressed their support for the recommendations by the Quality Subgroup of the Meeting of International Authorities (PCT/MIA) to focus further work on procedural issues related to the quality requirements that an Office should be required to meet to act effectively as an International Authority. Notably, delegations supported the specific recommendations to review Chapter 21 of the PCT Search and Examination Guidelines with a view to strengthening the requirements with respect to quality management systems and to develop a standard application form for any request for appointment, as set out in paragraph 7 of document PCT/WG/8/3.

58. One delegation, while fully supporting the recommendations by the Quality Subgroup, suggested that the Working Group should also consider the need for the establishment of new International Authorities and in this context requested the Secretariat to provide more detailed information as to the costs for the International Bureau resulting from the appointment of a new Authority in terms of advisory missions, training, IT development etc. In response to this request, the Secretariat stated that it would be happy to provide such information but noted that such expenses by the International Bureau appeared to be rather low compared to the investment to be made by the Office seeking appointment and compared to the assistance such an Office would often receive, in particular in terms of examiner training, by other Offices seeking to support an Office in its endeavor to be appointed as an International Authority.

59. The Working Group noted the update on the ongoing discussions in the Quality Subgroup of the Meeting of International Authorities, and in the PCT/MIA itself, on the quality related aspects of the criteria for appointment of International Authorities, in particular the recommendations by the Quality Subgroup set out in paragraph 7 of document PCT/WG/8/3.

60. The Working Group invited the International Bureau to provide information concerning the expenses typically incurred by the International Bureau in relation to the appointment of a new International Searching and Preliminary Examining Authority.

#### **AGENDA ITEM 12: PCT DIRECT — A NEW SERVICE FOR STRENGTHENING THE USE OF THE PCT**

61. Discussions were based on document PCT/WG/8/17.

62. All delegations which took the floor expressed an interest in the new PCT Direct Service offered by the European Patent Office (EPO) in its capacity as an International Searching Authority, in particular as it will become available, as of July 1, 2015, to applicants filing international applications with receiving Offices other than the EPO.

63. In response to several queries by delegations, the delegation of the EPO stated that the relatively high number of PCT Direct letters which had been received so far (which had been submitted in about 20 per cent of cases in respect of which such letters could have been sent) had confirmed applicants' interest in using the service, notably to provide further explanations to the examiner on amendments made to the international application compared to the first filing. The delegation further clarified that there was no fee for the service and that a PCT Direct letter should be submitted in any official language of the EPO for it to be taken into account. A proper dialogue between the examiner and the applicant would only take place if the applicant had filed a demand under PCT Chapter II. Furthermore, any PCT Direct letter would become accessible to third parties via PATENTSCOPE and, after regional phase entry, via the EPO's Register.

64. In response to a query by one delegation as to when a PCT Direct letter had to be submitted, the delegation of the EPO clarified that such a letter had to be filed together with the international application and indicated as an accompanying item in the request form (PCT/RO/101), which meant that the action had to be taken before the expiration of the priority period. In view of the EPO's aim to deliver regional search reports within six months of filing, this would mean that applicants would typically have six months within which to decide what action to take and to prepare the necessary documents. It further clarified that the examiner would always take such a PCT Direct letter into account, even if it was determined during the search stage that the priority claim relating to the earlier application already searched by the EPO was not valid.

65. The Delegation of Israel stated that the Israel Patent Office had also been offering a similar service since April 1, 2015, but had only received two such letters to date. It further emphasized the usefulness of the new service for applicants seeking to obtain a positive

international search report and written opinion in view of their intention to later request Patent Prosecution Highway (PPH) acceleration in the national phase.

66. In response to queries by several delegations, the Secretariat confirmed that a PCT Circular would be sent within the next few weeks to consult with Member States and users on proposed modifications to the Receiving Office Guidelines to clarify the procedures to be followed by receiving Offices when receiving such PCT Direct letters. The Secretariat further confirmed that both PCT-SAFE and ePCT would support the submission of PCT Direct letters as of July 1, 2015. Similar support could be offered for other International Searching Authorities which notified equivalent requirements to the International Bureau.

67. In response to a query by one delegation, the delegation of the European Patent Office confirmed that it would continue reporting on its experiences with the PCT Direct Service at future sessions of the Working Group.

68. The Working Group noted the contents of document PCT/WG/8/17.

### **AGENDA ITEM 13: TRANSMITTAL BY THE RECEIVING OFFICE OF EARLIER SEARCH AND/OR CLASSIFICATION RESULTS TO THE INTERNATIONAL SEARCHING AUTHORITY**

69. Discussions were based on document PCT/WG/8/18.

70. All delegations which took the floor supported the general goal of the proposal to facilitate the work of International Searching Authorities.

71. Many delegations, however, stated that, under their respective national laws concerning confidentiality, their Offices were prohibited from transmitting information on unpublished applications without the consent of the applicant. Moreover, in some jurisdictions, it was unlikely that these restrictions on transmission of information could be removed in the foreseeable future. If the proposals were to be adopted, the Offices would therefore have to make use of the possibility to "opt out" by way of a notification of incompatibility and it had to be understood that some of those Offices would not be in a position to withdraw any such notification of incompatibility in the foreseeable future.

72. In commenting on the restrictions on transmitting information on unpublished applications, some delegations of Contracting States of the European Patent Convention referred to arrangements under the European Patent Convention for their national patent Offices to exchange information with the EPO on unpublished patent applications. One of these delegations emphasized that the most important information related to an unpublished patent application was the patent specification itself. When filing an application based on an earlier priority at a different Office, the information in the specification needed to have been disclosed to the subsequent Office. This delegation considered the search results and classification of the priority application to be of lesser importance and Offices should therefore consider legal means to share this information without the specific consent of the applicant.

73. One delegation suggested providing a check box on the request form for the applicant to authorize transmission of unpublished search and classification results to the International Searching Authority.

74. In response to a question from one delegation concerning the extent to which earlier search reports established in languages not understood by the International Searching Authority would be useful, the delegation of the EPO indicated that the most important information was the list of documents, which was easily identified and essentially language neutral.

75. One delegation stated that, although its national law allowed for the transmission of documents relating to earlier national search or classification to the International Searching Authority under proposed new Rule 23*bis*.2(a), it could support the addition to the PCT

Regulations of that new Rule only if a further provision was added under which a receiving Office was entitled to provide its applicants the choice of not having any such earlier national search or classification results transmitted to the International Searching Authority.

76. Following informal discussions, several delegations proposed to further amend Rule 23*bis*.2 by adding a new paragraph (b) as follows:

“(b) Notwithstanding paragraph (a), a receiving Office may notify the International Bureau by [DATE] that it may, on request of the applicant submitted together with the international application, decide not to transmit the results of an earlier search to the International Searching Authority. The International Bureau shall publish any notification under this provision in the Gazette.”

77. One delegation, supported by several other delegations, expressed concerns with regard to proposed new Rule 23*bis*.2(b), noting that it was inappropriate to have the possibility to allow an Office to opt-out of a PCT provision without an overwhelming need to do so, such as in the case of incompatibility of that PCT provision with its national law. The delegation expressed the view that this should not become an established mode of operation. Moreover, paragraph (b) as proposed to be added was inconsistent with the goal of promoting work sharing and cooperation between Offices with a view to bringing benefits in improving the quality of patent search and examination products. The delegation therefore requested the International Bureau to monitor the use of this provision by applicants; if it were to be rarely used by applicants, prompt consideration should be given to its removal.

78. The delegation which had proposed to add new paragraph (b) stated that this new paragraph was essential for its national Office. While being able to transmit information on unpublished applications under its national law, the delegation wished to retain the possibility for applicants to request that the earlier search results should not be transmitted to the International Searching Authority.

79. The Working Group approved the proposed amendments to Rules 12*bis*, 23*bis* and 41 of the Regulations as set out in Annex I to this Summary by the Chair with a view to their submission to the Assembly for consideration at its next session in October 2015, subject to possible further drafting changes to be made by the Secretariat.

#### **AGENDA ITEM 14: REPORT ON IMPLEMENTATION AT THE EUROPEAN PATENT OFFICE OF THE MANDATORY REPLY TO A NEGATIVE SEARCH OPINION**

80. Discussions were based on document PCT/WG/8/24.

81. One delegation stated that it appreciated the idea behind the requirement for the applicant to submit, upon national phase entry, a reply to the EPO where that Office in its capacity as an International Authority had issued a negative search opinion. Further links between the international phase and the national phase were in principle desirable. However, it had concerns with the specific requirement, as it added a further burden for applicants.

82. The Delegation of the United States of America stated that it was encouraged by the positive results reported by the EPO and was investigating the possibility to implement a similar requirement under its own national law. It noted that a proposal to introduce such a procedure in the PCT had been contained in its “PCT 20/20” proposal submitted jointly with the United Kingdom and expressed the hope that that proposal would be reconsidered in the not too distant future.

83. Two representatives of user groups stated that they were not in favor of any mandatory requirement to submit a reply to a negative search opinion upon national phase entry. There were many strategic reasons as to why applicants might want to commence national phase proceedings on the basis of a negative search opinion and without immediately responding to



any negative statements set out in a search opinion; delaying such a response was at times appropriate, for example, where the applicant was awaiting the search results by other Offices. Leaving choices for applicants appeared more appropriate.

84. The representative of another user group stated that European users had become used to, and had had good experiences with, the EPO's requirement for a mandatory reply. However, such requirements should be limited to cases where the application entered the national phase before the Office which had established the search opinion in its capacity as an International Searching Authority.

85. The Working Group noted the contents of document PCT/WG/8/24.

#### **AGENDA ITEM 15: INFORMATION CONCERNING NATIONAL PHASE ENTRY AND TRANSLATIONS**

86. Discussions were based on document PCT/WG/8/8.

87. All delegations which took the floor recognized the importance of timely and complete data concerning national phase entry and strongly supported the principle underlying the proposal. Many delegations stated that they already at present furnished national phase entry data to the International Bureau on a regular basis. One delegation noted that it was only in a position to furnish national phase entry data after the international publication of the application.

88. Various concerns were raised by several delegations concerning the clarity of the terminology and the one month time limit which was suggested for providing the information. Most delegations expressed the view that two months would be more realistic and some indicated that longer would be desirable, at least in certain circumstances. Nevertheless, it was felt important to include within the Rules a target which emphasized the importance of providing timely information to the extent practical.

89. One delegation emphasized the importance of ensuring that the information was distributed to the Offices by the International Bureau in bulk format for integration into other services, in addition to being available on a case-by-case basis within PATENTSCOPE, and requested that this be made explicit in the Regulations. The Secretariat pointed out that the international phase bibliographic data for published international phase applications was already made available in bulk format without an explicit Rule. To introduce a Rule concerning bulk distribution of national phase data only could lead to doubt concerning the use and bulk distribution of other PCT data. It therefore suggested that the issue could be the subject of an Understanding of the Assembly rather than being explicitly included in the Regulations.

90. It was noted that several national Offices would require a significant lead time before the Rule came into force in order to complete the necessary work on IT systems.

91. The Working Group agreed on the proposed amendments to Rules 86 and 95 set out in Annex II to this Summary by the Chair with a view to their submission to the Assembly for consideration at its next session, in October 2015, subject to possible further drafting changes to be made by the Secretariat.

92. The Working Group agreed to recommend that, subject to further discussions between the Secretariat and the concerned delegation on possible drafting changes to the proposed Understanding or possible alternative ways to address the issue, such as explicitly addressing it in the Regulations, the Assembly adopt the following Understanding at the same time as the proposed amendments to Rules 86 and 95: "In adopting the amendments to Rule 86.1(iv), the Assembly noted that the information concerning national phase entry will be made available to the public not only by way of inclusion in the Gazette on the PATENTSCOPE website but also as part of the bulk PCT

bibliographic data offered to Offices and other subscribers to the PATENTSCOPE subscription data services.”

#### **AGENDA ITEM 16: REVIEW OF THE SUPPLEMENTARY INTERNATIONAL SEARCH SYSTEM**

93. Discussions were based on document PCT/WG/8/6.
94. All delegations which took the floor supported recommending to the PCT Assembly that the International Bureau should continue to monitor the supplementary international system for a further five years, with the PCT Assembly reviewing the system again in 2020.
95. One delegation, supported by several other delegations, proposed to remove the linkage between supplementary international search and the pilot on collaborative search and examination in the draft recommendation in paragraph 31 of the document. Supplementary international search provided the possibility of a further international search to be requested after the main international search, but under a collaborative search and examination model, the applicant would have to make a choice upfront to have an application searched by more than one International Searching Authority for a higher search fee.
96. Several delegations expressed support for further consideration of the improvements to the supplementary international search system suggested in the document. In particular, some delegations stated that they could support providing for the possibility for an applicant to request a supplementary international search on the basis of amended claims filed under Article 19, and changing the deadline for filing a supplementary search request to 22 months from the priority date to correspond to the deadline for filing a demand for international preliminary examination.
97. Representatives of user groups gave reasons for the low use of supplementary international search, such as the cost, limited choice of International Searching Authorities and languages available for a supplementary international search, sometimes needing to file a request for supplementary international search before receiving the main international search report, and the possibility of obtaining a further search through early national phase entry.
98. The Working Group invited the International Bureau to present a document to the next session of the Working Group to discuss possible improvements to the supplementary international search system.
99. The Working Group agreed to recommend to the PCT Assembly to adopt the following recommendation:
- “The PCT Assembly, having reviewed the supplementary international search system three years after the date of entry into force of the system and again in 2015, decided:
- “(a) to invite the International Bureau to continue to closely monitor the system for a period of a further five years, and to continue to report to the Meeting of International Authorities and the Working Group on how the system is developing;
- “(b) to invite the International Bureau, International Authorities and national Offices and user groups to continue their efforts to raise awareness of and promote the service to users of the PCT system;
- “(c) to invite the International Authorities which offer supplementary international searches to consider reviewing the scope of their services provided under the system and consequently the levels of fees charged for the services provided, which should be reasonable; and to invite Authorities which currently do not offer the service to reconsider whether to offer the service in the near future;

“(d) to review the system again in 2020, taking into account further developments until then, notably in relation to developments in collaborative search and examination, and in relation to efforts to improve the quality of the “main” international search.”

#### **AGENDA ITEM 17: NATIONAL PHASE ENTRY USING EPCT**

100. Discussions were based on document PCT/WG/8/19.

101. Several delegations expressed their interest in the concept of national phase entry using ePCT and indicated either a strong interest in joining a pilot group or a possible interest in doing so, subject to a better understanding of the legal and technical implications. One delegation noted that its national Office already used a very similar arrangement to assist national phase entries as part of its online case management facility.

102. Several delegations and user representatives indicated their concern that such a system might be used in a way which reduced the role of a national attorney in ensuring that the local requirements were properly met, and that this would be detrimental to the interests of the applicant – potentially increasing overall costs, losing rights or decreasing the value of any rights obtained. A system which appeared easy up-front but risked causing large problems later was not desirable. The Secretariat explained that it was not the intended purpose of the system to offer a “single click national phase entry”, reducing the substantive role of the national agent. Rather, the system was intended to eliminate retyping of data by attorneys and Offices, to reduce formalities errors and to provide a secure, multilingual common platform for shared preparation of drafts by users who might be located in different countries. In particular, the system would require an entry in the field “national attorney” as a mandatory requirement before submission. Any such national agent would at least need to have agreed to act as attorney having regard to the process which was being undertaken, and should ideally have taken a strong and early role in the preparation of the national phase entry. The interface could be designed to emphasize the importance of this point and minimize the risk that applicants indicate a non-qualified address for service.

103. Other concerns noted included:

- (a) legal issues concerning the time at which documents delivered to an IB-operated server, or payments made to an IB-operated centralized payment system, would be deemed to have been received by the relevant national Office;
- (b) practical issues of the need for instant access to information by the designated Office to ensure that deficiencies could be noted immediately and that the applicant could be given opportunities to correct within the time limits, which in some Offices were strict;
- (c) questions of whether national laws permitted roles in national processing of applications to be delegated to non-citizens of the relevant State;
- (d) whether Offices would be able to participate if their national laws did not have suitable provisions for recognizing electronic submission of documents in the national phase;
- (e) determination of responsibilities – both between “main” and “national” attorneys if preparation of national phase entries was shared, and between national Offices and the International Bureau to determine what remedies were available in the event of the system being unavailable or defective.

104. One representative of users suggested that a better approach might be simply to give access to the international phase data and a set of standard interfaces at national Offices and leave the implementation to users’ systems directly.

105. The Chair noted that many of the areas which were cited as having potential for bad practice were equally relevant to the paper world. However, the PCT system needed to face up to the reality of the digital era. It was important to take account of the issues, but using them to attempt to stop progress would simply mean that alternative mechanisms would appear and Offices and users would have lost their opportunity to help shape them.

106. The Working Group noted that the International Bureau intended to prepare a first draft interface in the Demo ePCT environment, likely in autumn 2015, which would help to inform more concrete discussions with potential pilot Offices and users. It further noted the intention of the International Bureau to invite participation by pilot Offices and users, by way of a PCT Circular, in the near future.

#### **AGENDA ITEM 18: PCT MINIMUM DOCUMENTATION: DEFINITION AND EXTENT OF PATENT LITERATURE**

107. Discussions were based on document PCT/WG/8/9.

108. Several delegations welcomed the reactivation of the minimum documentation task force, noting the importance of this subject to effective search and availability of patent information in the current digital world. One delegation stated that it considered that the work needed to ensure the qualities of correctness, completeness and timeliness of patent data, as well as ensuring that the data was made available in a barrier-free manner. It was important to consider utility models, which were now very numerous and important from a prior art point of view and to consider the importance of having certain information available in English. Moreover, the mechanism for adding new collections to the PCT minimum documentation needed to be easy.

109. The Working Group noted the contents of document PCT/WG/8/9.

#### **AGENDA ITEM 19: PCT SEQUENCE LISTING STANDARD**

110. Discussions were based on document PCT/WG/8/13.

111. The representative of a user group stated that, while he generally supported the move from Standard ST.25 to new Standard ST.26, which was in line with current technical trends, he was concerned that this move might result in applicants making errors when filing sequence listings under the new Standard; it was thus important to give sufficient time for the transition by applicants from the old to the new Standard and to ensure that measures for relief were available in the event of errors.

112. The Working Group noted the contents of document PCT/WG/8/13.

#### **AGENDA ITEM 20: REVISION OF WIPO STANDARD ST.14**

113. Discussions were based on document PCT/WG/8/10.

114. One delegation reiterated its position for maintaining category "X" and not introducing categories "N" and "I" in the citation category codes in paragraph 14 of WIPO Standard ST.14. This delegation supported a closer alignment of ST.14 with International Standard ISO 690:2010 in line with the present considerations by the Task Force rather than a full alignment.

115. The Working Group noted the contents of document PCT/WG/8/10.

**AGENDA ITEM 21: COLOR DRAWINGS**

116. Discussions were based on document PCT/WG/8/21.

117. Several delegations and representatives of user groups reiterated the importance of the work towards accepting and processing color drawings, noting that they could be important to effective disclosures of inventions in certain technological fields. It was also observed that the file formats which were required by the PCT and national patent systems were increasingly obsolete and less supported in the software generally used for preparation of other documents. One user representative suggested that it might be appropriate to begin accepting color drawings in international applications filed in XML format even before the problems were resolved for those filed in PDF format.

118. Several delegations noted that their national Offices had either complete or partial systems for processing color drawings and offered to share technical information with the International Bureau and other interested Offices.

119. In response to questions from one delegation, the Secretariat indicated that there remained some flexibility to decide the processes and further clarification may be required to the legal framework, both of which might be the subject of proposals in future sessions of the Working Group. However, the assumptions on which the work was based were that:

- (a) it was essentially impossible in the short to medium term to change Rule 11 to ensure that color drawings would be accepted in the national phase before all designated Offices;
- (b) where an international application was filed including color drawings, the international phase processing, including international search and international publication, would use those color drawings;
- (c) the International Bureau's systems might automatically render black and white views of the color drawing for use by designated Offices which required black and white drawings in the absence of provision of a better alternative by the applicant, but that the color drawing was what was filed and this would represent a formal defect before those national Offices which required black and white drawings – in the end, it would be the applicant's responsibility to ensure that a correction was made available to the designated Office which properly reflected the content of the international application as filed, without introducing added subject matter.

120. The Working Group noted the contents of document PCT/WG/8/21.

**AGENDA ITEM 22: CLARIFYING THE PROCEDURE REGARDING INCORPORATION BY REFERENCE OF MISSING PARTS**

121. Discussions were based on document PCT/WG/8/4.

122. One delegation stated that it continued to hold the strong view that, where the international application contained an (erroneously filed) set of claims and/or an (erroneously filed) description but the applicant nevertheless requested the incorporation by reference of all of the claims and/or all of the description contained in the priority application as a "missing part", such incorporation by reference was clearly covered not only by the spirit and intent but also by the wording of the current Regulations. It could not support the compromise solution set out as Option B in the document as that solution was inequitable, offering nothing to applicants from Member States whose Offices already today allowed such incorporation by reference both in their capacity as receiving Offices and designated Offices. The solution would only benefit applicants from those Member States whose Offices did not do so. It urged user groups from Member States whose Offices did not allow for the incorporation in the situation at hand to

“lobby” those Offices with a view to changing their position. It further suggested that the International Bureau should publish a list indicating the practice of Offices of all PCT Contracting States with regard to incorporation by reference in the current situation.

123. The delegation further stated that, in addition to Options A and B, there were at least two more options which should be considered. First, Rule 4.18 could be amended to specifically allow for the incorporation by reference, in the situation at hand, of all of the claims and/or all of the description contained in the priority application as a “missing part”. Second, an entirely new provision could be added to the Regulations to deal with the situation at hand.

124. One delegation recalled the original purposes of the missing parts provisions as included in the PCT Regulations, which had been to align the PCT with the provisions of the Patent Law Treaty (PLT). The provisions had been designed to provide a safety net for applicants and thus, being provisions designed to deal with exceptional situations, had to be interpreted in a strict manner. In its view, there were no provisions, either in the PLT or in the PCT, which dealt with the issue of whether or not to allow the applicant to incorporate all of the claims and/or all of the description contained in the priority application as a “missing part” where the international application as filed already contained an (erroneously filed) set of claims and/or an (erroneously filed) description. It could accept the compromise solution set out as Option B in the document but recognized that this would not appear acceptable to others. It thus suggested to focus on modifying the Receiving Office Guidelines to clarify the continued divergent practices of Offices and to raise awareness among the applicant community.

125. The Chair noted that it would appear strange to him that the Regulations allowed the applicant to validly file certain documents in “*force majeure*” circumstances after a time limit had expired without filing anything at all within the relevant time limit, but that they did not allow the applicant to correct the mistake of having filed a wrong set of claims and/or a wrong description. If it was not possible to address that situation by way of incorporation by reference of a “missing part”, then perhaps—and along the lines of the suggestion made by one delegation—an attempt should be made to explore whether it would be possible to draft an entirely new provision which would allow the applicant, in very limited and exceptional cases, to replace the wrongly filed claims and/or description of the international application as filed with the equivalent “correct” version of the claims and/or description contained in the priority application.

126. Several delegations expressed their preference for Option A as set out in document PCT/WG/8/4 (to leave the situation “as is” but modify the Receiving Office Guidelines to clarify the continued divergent practices of Offices and raise awareness among the applicant community), whereas several other delegations expressed a preference for Option B (require receiving Offices to permit incorporation for the purposes of the international phase).

127. One delegation considered that the PCT Regulations should be amended to clarify that incorporation by reference of all claims and the description should not be permitted.

128. Several delegations, including some which had expressed a preference for either Option A or B, expressed an interest in the suggestion by the Chair to explore whether it would be possible to draft an entirely new incorporation provision to address the situation at hand. The representative of a user group agreed that it would be desirable to correct an erroneously filed part, but emphasized that this needed not only to be in strictly limited circumstances, but also to be done at a very early stage in processing.

129. Several representatives of user groups stated that the current situation harmed legal certainty. Errors were made and there should be opportunities to replace erroneously filed elements of the international application in appropriate, limited situations where no damage was done to third party interests.

130. The representative of one user group suggested the Working Group might also consider amending Rule 4.18 with a view to allowing the incorporation by reference of missing elements or parts also in the situation where a priority claim was not contained in the international application as filed but was later added or corrected under Rule 26*bis*.

131. The Working Group requested the International Bureau to prepare, for discussion at its next session, a working document containing a draft of a new provision which would allow the applicant, in very limited and exceptional cases, to replace the wrongly filed claims and/or description of the international application as filed with the equivalent "correct" version of the claims and/or description contained in the priority application.

132. The Working Group further requested the International Bureau, pending the ongoing discussions of the issues at hand in the Working Group, to prepare and consult on modifications to the Receiving Office Guidelines aimed at clarifying the continued divergent practices of Offices, and to continue to raise awareness among the applicant community on the consequences of the continued divergent practices of Offices.

### **AGENDA ITEM 23: SAME DAY PRIORITY CLAIMS**

133. Discussions were based on document PCT/WG/8/5.

134. Several delegations stated that the preferred option would be what had been set out as Option 1 in document PCT/WG/8/5, namely, to refer the matter to the Paris Union Assembly with a view to seeking a common interpretation of Article 4 of the Paris Convention. However, it was recognized that it was unlikely that the Paris Union would agree on such a common interpretation and that, even if it did, a formal revision of the Paris Convention would be a cumbersome and lengthy procedure. It was further recognized that, given the small number of applications which involved same day priority claims, the issue might not be considered to be of sufficient importance to justify referral to the Paris Union Assembly at this stage.

135. A majority of delegations, including some of those which had expressed a general preference for Option 1, considered that what had been set out as Option 3 in document PCT/WG/8/5, namely, to amend the PCT Regulations to prepare the ground for a decision on the matter to be taken by designated Offices in the national phase, appeared the most realistic way forward.

136. Other delegations, again including some of those which had expressed a general preference for Option 1, expressed a preference for what had been set out as Option 4 in document PCT/WG/8/5, namely, to leave the situation "as is" and to only modify the Receiving Office Guidelines and the *PCT Applicant's Guide* to raise awareness in the applicant community of the divergent practices of Offices and their consequences.

137. One delegation stated that, in its capacity as a receiving Office, it accepted same day priority claims, noting that the PCT Regulations had been amended in 2007 to allow for the restoration of the right of priority. In that context, the express requirement that an earlier application, the priority of which was claimed in the international application, had to be filed "prior to the international filing date" had been deleted. Another delegation stated that it did not accept same day priority claims on the basis of a literal interpretation of Article 4C(2) of the Paris Convention.

138. One representative of a user group suggested that a practical way to deal with the issue at hand might be to not only apply a date stamp but also a time stamp to applications so as to record the actual time at which an application was received by an Office, allowing the identification of "earlier" applications where several applications were received on the same day.

139. In response to a query by one delegation, the Secretariat confirmed that the Office of Legal Counsel of WIPO had been consulted on the issue but that it was up to the Member States of the Paris Union to agree on how to interpret the provisions of the Paris Convention.

140. While noting the divergence of views, the Working Group requested the International Bureau to prepare, for discussion at its next session, a proposal for amendment of the PCT Regulations to expressly require receiving Offices not to cancel same day priority claims so as to prepare the ground for decisions on the matter to be taken by designated Offices in the national phase under the applicable national laws.

#### **AGENDA ITEM 24: OMISSION OF CERTAIN INFORMATION FROM PUBLIC ACCESS**

141. Discussions were based on document PCT/WG/8/12.

142. Delegations which took the floor expressed general support for the proposal, but emphasized the need for guidance on how the provisions should be applied, such as in the Administrative Instructions. In particular, some delegations requested clarity on the term “economic interests of any person” in proposed Rules 48.2(l)(ii) and 94.1(e)(ii). One delegation wondered whether the proposal to amend Rule 9.2 to require an Office to notify other Offices and the International Bureau of a suggestion made to the applicant that he should voluntarily correct his international application to comply with Rule 9.1 would really be desirable, as this could result in duplicated or redundant records, but stated that it did not propose to delete that amendment to Rule 9.2 at this stage.

143. In response to a comment from one delegation that the provisions to allow access to the file held by the designated or elected Office in Rule 94.2*bis* as proposed to be amended and Rule 94.3 appeared more restrictive than what was provided for in Article 30(2)(a), the Working Group agreed to further amend those Rules with a view to making a direct reference to Article 30(2)(a) in those Rules.

144. In response to concerns expressed by one delegation of the additional burden on receiving Offices and International Searching Authorities to provide access on request to documents contained in its file, the Working Group agreed to further amend proposed new Rules 94.1*bis* and 94.1*ter* with a view to making them optional rather than mandatory (“may” instead of “shall” provisions).

145. In response to a question by a representative of a user group, the International Bureau clarified that, where the International Bureau had not provided access to information in the file, the designated Office could request this information directly from the applicant if such information was required as evidence when considering a request for restoration of the right of priority.

146. The Working Group approved the proposed amendments to Rules 9, 48.2 and 94 of the Regulations as set out in Annex III to this Summary by the Chair with a view to their submission to the Assembly for consideration at its next session in October 2015, subject to possible further drafting changes to be made by the Secretariat.

#### **AGENDA ITEM 25: TRANSMITTAL TO THE INTERNATIONAL BUREAU OF COPIES OF DOCUMENTS RECEIVED IN THE CONTEXT OF A REQUEST FOR RESTORATION OF RIGHT OF PRIORITY**

147. Discussions were based on document PCT/WG/8/14.

148. All delegations which took the floor supported the proposal, subject to further drafting changes to Rule 26*bis*.3(h) and the addition of a new paragraph (h-*bis*) in Rule 26*bis*.3. The Working Group requested the International Bureau to modify the Receiving Office Guidelines



with a view to providing guidance on what types of information the receiving Office should withhold from transmission to the International Bureau on the basis of proposed new Rule 26*bis*.3(h-*bis*).

149. One delegation pointed to a possible need to amend paragraphs 166(C) and (O) of the Receiving Office Guidelines, since these paragraphs stated that it was preferable for the receiving Office to send declarations or evidence.

150. The Working Group approved the proposed amendments to Rules 26*bis* and 48.2(b) of the Regulations as set out in Annex IV to this Summary by the Chair with a view to their submission to the Assembly for consideration at its next session in October 2015, subject to possible further drafting changes to be made by the Secretariat.

## **AGENDA ITEM 26: DELAYS AND FORCE MAJEURE FOR ELECTRONIC COMMUNICATIONS**

151. Discussions were based on document PCT/WG/8/22.

152. Delegations expressed general support for the purpose of the proposal to excuse delays due to unavailability of electronic communications services. However, in order to address concerns voiced by some delegations on how the provisions could be applied in a consistent manner, clarification was requested to be provided in the Receiving Office Guidelines, such as on the circumstances the receiving Office should consider before excusing a delay.

153. One delegation considered that the proposed amendment was encompassed by the existing wording “or other like reason in the locality where the interested party resides” in Rule 82*quater*.1(a). The delegation pointed out that general unavailability of electronic communications would not normally be accepted as a reason to excuse a delay to meet a time limit at its national Office if alternative filing means, such as postal services, would have been available to the applicant.

154. One delegation acknowledged the need to excuse a failure to meet a time limit due to failure of electronic communications services but considered that the reason “general unavailability of electronic communication services” proposed to be added would not fit into Rule 82*quater* when considering the other reasons cited in Rule 82*quater*.1(a), all of which had a much higher level of gravity. The delegation believed that the provisions should be applied on a case-by-case basis and considered that the proposed new provision might be too prescriptive. In response to the latter remark, the Chair clarified that the failure to meet a time limit had to be caused by the general unavailability of electronic communications services, and any evidence had to be proven to the satisfaction of the Office to excuse a delay in meeting a time limit.

155. One delegation highlighted that the Working Group may need to look at further issues concerned with problems caused by electronic communications in future. For example, there had been cases where the Office had not received a document uploaded through a system for electronic submissions of documents, even though the applicant had been issued with a filing receipt which demonstrated that he had taken an action.

156. A representative of a user group expressed a desire for the proposal to also cover loss of internet access and unavailability of the applicant’s internet service provider server.

157. The Working Group approved the proposed amendments to Rule 82*quater* as set out in Annex V to this Summary by the Chair and the Understanding as set out in paragraph 25 to document PCT/WG/8/22 and reproduced below, with a view to their submission to the Assembly for consideration at its next session in October 2015, subject to possible further drafting changes to be made by the Secretariat.

“Application of Rule 82<sup>quater</sup>.1 with regard to a General Unavailability of Electronic Communications Services:

“In considering a request under Rule 82<sup>quater</sup>.1 to excuse a delay in meeting a time limit that has not been met due to a general unavailability of electronic communication services, the Office, Authority or the International Bureau, should interpret general unavailability of electronic communications to apply to outages that affect widespread geographical areas or many individuals, as distinct from localized problems associated with a particular building or single user.”

158. The Working Group requested the International Bureau to consult on proposed modifications to any of the Receiving Office Guidelines, International Search and Preliminary Examination Guidelines and Administrative Instructions, as appropriate, to clarify how delays in meeting time limits due to failure in electronic communications services should be applied, including the possibility that such delays may not be excused where other means of communication were available.

**AGENDA ITEM 27: LANGUAGES FOR COMMUNICATION WITH THE INTERNATIONAL BUREAU**

159. Discussions were based on document PCT/WG/8/23.

160. Several delegations strongly welcomed the proposal to extend the range of languages in which applicants could communicate with the International Bureau, noting that this would make the system more accessible. Noting that the pilot extension was presently limited to communications made using ePCT, some delegations expressed their hope that it could be extended to other modes of communication as soon as possible.

161. A number of delegations, while generally supporting the concept, expressed certain concerns about the implementation. First, it should not be allowed to increase costs or reduce timeliness because of added workload. Second, it was essential to ensure that this did not result in difficulties for designated Offices by allowing the submission in alternative languages of documents which were important for the Office to be able to read. Finally, it would be desirable to provide better consultation and notice for national Offices concerning impending changes to ePCT which could have an effect on the PCT Regulations and on the Offices.

162. The Working Group agreed on the proposed amendments to Rule 92.2(d) set out in the Annex to document PCT/WG/8/23 and reproduced in Annex VI to this Summary by the Chair with a view to their submission to the Assembly for consideration at its next session, in October 2015, subject to possible further drafting changes to be made by the Secretariat.

**AGENDA ITEM 28: OTHER MATTERS**

163. The Working Group agreed to recommend to the Assembly that, subject to the availability of sufficient funds, one session of the Working Group should be convened between the October 2015 and September/October 2016 sessions of the Assembly, and that the same financial assistance should be made available to enable attendance of certain delegations at this session should be made available at the next session.

164. The International Bureau indicated that the ninth session of the Working Group was tentatively scheduled to be held in Geneva in May/June 2016.

**AGENDA ITEM 29: SUMMARY BY THE CHAIR**

165. The Working Group noted that the present document was a summary established under the responsibility of the Chair and that the official record would be contained in the report of the session.

**AGENDA ITEM 30: CLOSING OF THE SESSION**

166. The Chair closed the session on May 29, 2015.

[Annexes follow]

DRAFT AMENDMENTS TO THE PCT REGULATIONS  
RECOMMENDED IN RELATION TO AGENDA ITEM 13

TRANSMITTAL BY THE RECEIVING OFFICE OF EARLIER  
SEARCH AND/OR CLASSIFICATION RESULTS  
TO THE INTERNATIONAL SEARCHING AUTHORITY

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## Rule 12bis

### Submission by the Applicant of Documents Relating to Earlier Search

#### ~~Copy of Results of Earlier Search and of Earlier Application; Translation~~

12bis.1 Furnishing by the Applicant of Documents Related to Earlier Search in Case of Request Under Rule 4.12 ~~Copy of Results of Earlier Search and of Earlier Application; Translation~~

(a) Where the applicant has, under Rule 4.12, requested the International Searching Authority to take into account the results of an earlier search carried out by the same or another International Searching Authority or by a national Office, the applicant shall, subject to paragraphs (b) to (d) ~~(e) to (f)~~, submit to the receiving Office, together with the international application, a copy of the results of the earlier search, in whatever form (for example, in the form of a search report, a listing of cited prior art or an examination report) they are presented by the Authority or Office concerned.

~~(b) The International Searching Authority may, subject to paragraphs (c) to (f), invite the applicant to furnish to it, within a time limit which shall be reasonable under the circumstances:~~

~~(i) a copy of the earlier application concerned;~~

~~(ii) where the earlier application is in a language which is not accepted by the International Searching Authority, a translation of the earlier application into a language which is accepted by that Authority;~~

~~(iii) where the results of the earlier search are in a language which is not accepted by the International Searching Authority, a translation of those results into a language which is accepted by that Authority;~~

[Rule 12bis.1, continued]

~~(iv) a copy of any document cited in the results of the earlier search.~~

~~(b) (e)~~ Where the earlier search was carried out by the same Office as that which is acting as the receiving Office, the applicant may, instead of submitting the ~~copy~~ ~~copies~~ referred to in ~~paragraph (a) paragraphs (a) and (b)(i) and (iv)~~, indicate the wish that the receiving Office prepare and transmit ~~it~~ ~~them~~ to the International Searching Authority. Such request shall be made in the request and may be subjected by the receiving Office to the payment to it, for its own benefit, of a fee.

~~(c) (d)~~ Where the earlier search was carried out by the same International Searching Authority, or by the same Office as that which is acting as the International Searching Authority, no copy ~~or translation~~ referred to in ~~paragraph (a) paragraphs (a) and (b)~~ shall be required to be submitted under ~~that paragraph~~ ~~those paragraphs~~.

~~(e) Where the request contains a statement under Rule 4.12(ii) to the effect that the international application is the same, or substantially the same, as the application in respect of which the earlier search was carried out, or that the international application is the same, or substantially the same, as that earlier application except that it is filed in a different language, no copy or translation referred to in paragraphs (b)(i) and (ii) shall be required to be submitted under those paragraphs.~~

~~(d) (f)~~ Where a copy ~~or translation~~ referred to in ~~paragraph (a) paragraphs (a) and (b)~~ is available to ~~the receiving Office or the~~ International Searching Authority in a form and manner acceptable to it, for example, from a digital library ~~or in the form of the priority document~~, and the applicant so indicates in the request, no copy ~~or translation~~ shall be required to be submitted under ~~that paragraph~~ ~~those paragraphs~~.

12bis.2 Invitation by the International Searching Authority to Furnish Documents Related to  
Earlier Search in Case of Request Under Rule 4.12

(a) The International Searching Authority may, subject to paragraphs (b) and (c) ~~paragraphs (e) to (f)~~, invite the applicant to furnish to it, within a time limit which shall be reasonable under the circumstances:

(i) a copy of the earlier application concerned;

(ii) where the earlier application is in a language which is not accepted by the International Searching Authority, a translation of the earlier application into a language which is accepted by that Authority;

(iii) where the results of the earlier search are in a language which is not accepted by the International Searching Authority, a translation of those results into a language which is accepted by that Authority;

(iv) a copy of any document cited in the results of the earlier search.

(b) Where the earlier search was carried out by the same International Searching Authority, or by the same Office as that which is acting as the International Searching Authority, or where a copy or translation referred to in paragraph (a) is available to the International Searching Authority in a form and manner acceptable to it, for example, from a digital library, or in the form of the priority document, no copy or translation referred to in paragraph (a) shall be required to be submitted under that paragraph.

*[Rule 12bis.2, continued]*

(c) Where the request contains a statement under Rule 4.12(ii) to the effect that the international application is the same, or substantially the same, as the application in respect of which the earlier search was carried out, or that the international application is the same, or substantially the same, as that earlier application except that it is filed in a different language, no copy or translation referred to in paragraphs (a)(i) and (ii) ~~paragraphs (b)(i) and (ii)~~ shall be required to be submitted under those paragraphs.



**Rule 23bis**

**Transmittal of Documents Relating to Earlier Search or Classification**

23bis.1 Transmittal of Documents Relating to Earlier Search in Case of Request Under

Rule 4.12

(a) The receiving Office shall transmit to the International Searching Authority, together with the search copy, any copy or translation referred to in Rule 12bis.1(a) related to an earlier search in respect of which the applicant has made a request under Rule 4.12, provided that any such copy or translation:

(i) has been submitted by the applicant to the receiving Office together with the international application;

(ii) has been requested by the applicant to be prepared and transmitted by the receiving Office to that Authority; or

(iii) is available to the receiving Office in a form and manner acceptable to it, for example, from a digital library in accordance with Rule 12bis.1(d).

(b) If not included in the copy of the results of the earlier search referred to in Rule 12bis.1(a), the receiving Office shall also transmit to the International Searching Authority, together with the search copy, a copy of the results of any earlier classification effected by that Office, if already available.

23bis.2 Transmittal of Documents Relating to Earlier Search or Classification for the Purposes of Rule 41.2

(a) For the purposes of Rule 41.2, where the international application claims the priority of one or more earlier applications filed with the same Office as that which is acting as the receiving Office and that Office has carried out an earlier search in respect of such an earlier application or has classified such earlier application, the receiving Office shall, subject to paragraphs (b), (d) and (e), transmit to the International Searching Authority, together with the search copy, a copy of the results of any such earlier search, in whatever form (for example, in the form of a search report, a listing of cited prior art or an examination report) they are available to the Office, and a copy of the results of any such earlier classification effected by the Office, if already available. The receiving Office may also transmit to the International Searching Authority any further documents relating to such an earlier search which it considers useful to that Authority for the purposes of carrying out the international search.

(b) Notwithstanding paragraph (a), a receiving Office may notify the International Bureau by [DATE] that it may, on request of the applicant submitted together with the international application, decide not to transmit the results of an earlier search to the International Searching Authority. The International Bureau shall publish any notification under this provision in the Gazette.

(c) At the option of the receiving Office, paragraph (a) shall apply *mutatis mutandis* where the international application claims the priority of one or more earlier applications filed with an Office different from the one which is acting as the receiving Office and that Office has carried out an earlier search in respect of such an earlier application or has classified such earlier application, and the results of any such earlier search or classification are available to the receiving Office in a form and manner acceptable to it, for example, from a digital library.

*[Rule 23bis.2 continued]*

(d) Paragraphs (a) and (c) shall not apply where the earlier search was carried out by the same International Searching Authority or by the same Office as that which is acting as the International Searching Authority, or where the receiving Office is aware that a copy of the earlier search or classification results is available to the International Searching Authority in a form or manner acceptable to it, for example, from a digital library.

(e) To the extent that, on [DATE], the transmission of the copies referred to in paragraph (a), or the transmission of such copies in a particular form, such as those referred to in paragraph (a), without the authorization by the applicant is not compatible with the national law applied by the receiving Office, that paragraph shall not apply to the transmission of such copies, or to the transmission of such copies in the particular form concerned, in respect of any international application filed with that receiving Office for as long as such transmission without the authorization by the applicant continues not to be compatible with that law, provided that the said Office informs the International Bureau accordingly by [DATE]. The information received shall be promptly published by the International Bureau in the Gazette.

## Rule 41

### Taking into Account Results of Earlier Search

#### 41.1 *Taking into Account Results of Earlier Search* [in Case of a Request under Rule 4.12](#)

Where the applicant has, under Rule 4.12, requested the International Searching Authority to take into account the results of an earlier search and has complied with Rule 12*bis*.1 and:

(i) the earlier search was carried out by the same International Searching Authority, or by the same Office as that which is acting as the International Searching Authority, the International Searching Authority shall, to the extent possible, take those results into account in carrying out the international search;

(ii) the earlier search was carried out by another International Searching Authority, or by an Office other than that which is acting as the International Searching Authority, the International Searching Authority may take those results into account in carrying out the international search.

#### [41.2 Taking into Account Results of Earlier Search in Other Cases](#)

[\(a\) Where the international application claims the priority of one or more earlier applications in respect of which an earlier search has been carried out by the same International Searching Authority, or by the same Office as that which is acting as the International Searching Authority, the International Searching Authority shall, to the extent possible, take the results of any such earlier search into account in carrying out the international search.](#)

*[Rule 41.2, continued]*

(b) Where the receiving Office has transmitted to the International Searching Authority a copy of the results of any earlier search or of any earlier classification under Rule 23bis.2(a) or (b), or where such a copy is available to the International Searching Authority in a form and manner acceptable to it, for example, from a digital library, the International Searching Authority may take those results into account in carrying out the international search.

[Annex II follows]

DRAFT AMENDMENTS TO THE PCT REGULATIONS  
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INFORMATION CONCERNING NATIONAL PHASE ENTRY AND TRANSLATIONS

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**Rule 86**  
**The Gazette**

86.1 *Contents*

The Gazette referred to in Article 55(4) shall contain:

(i) to (iii) *[no change]*

(iv) information, ~~if and to the extent furnished to the International Bureau by the designated or elected Offices, on the question whether the requirements provided for in Articles 22 or 39 have been complied with in respect of the international applications designating or electing the Office concerned~~ concerning events at the designated and elected Offices notified to the International Bureau under Rule 95.1 in relation to published international applications;

(v) *[No change]*

86.2 to 86.6 *[No change]*

## Rule 95

### ~~Availability of Translations~~

#### Information and Translations from Designated and Elected Offices

##### 95.1 Information Concerning Events at the Designated and Elected Offices

Any designated or elected Office shall notify the International Bureau of the following information concerning an international application within two months, or as soon as reasonably possible thereafter, of the occurrence of any of the following events:

(i) following the performance by the applicant of the acts referred to in Article 22 or Article 39, the date of performance of those acts and any national application number which has been assigned to the international application;

(ii) where the designated or elected Office explicitly publishes the international application under its national law or practice, the number and date of that national publication;

(iii) where a patent is granted, the date of grant of the patent and, where the designated or elected Office explicitly publishes the international application in the form in which it is granted under its national law, the number and date of that national publication.



~~95.1~~ 95.2 *Furnishing of Copies of Translations*

(a) *[No change]* At the request of the International Bureau, any designated or elected Office shall provide it with a copy of the translation of the international application furnished by the applicant to that Office.

(b) *[No change]* The International Bureau may, upon request and subject to reimbursement of the cost, furnish to any person copies of the translations received under paragraph (a).

[Annex III follows]

DRAFT AMENDMENTS TO THE PCT REGULATIONS  
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OMISSION OF CERTAIN INFORMATION FROM PUBLIC ACCESS

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**Rule 9**  
**Expressions, Etc., Not to Be Used**

9.1 [No change] *Definition*

The international application shall not contain:

- (i) expressions or drawings contrary to morality;
- (ii) expressions or drawings contrary to public order;
- (iii) statements disparaging the products or processes of any particular person other than the applicant, or the merits or validity of applications or patents of any such person (mere comparisons with the prior art shall not be considered disparaging *per se*);
- (iv) any statement or other matter obviously irrelevant or unnecessary under the circumstances.

## 9.2 *Noting of Lack of Compliance*

The receiving Office, ~~and~~ the International Searching Authority, the Authority specified for supplementary search and the International Bureau may note lack of compliance with the prescriptions of Rule 9.1 and may suggest to the applicant that he voluntarily correct his international application accordingly, in which case the receiving Office, the competent International Searching Authority, the competent Authority specified for supplementary search and the International Bureau, as applicable, shall be informed of the suggestion. ~~If the lack of compliance was noted by the receiving Office, that Office shall inform the competent International Searching Authority and the International Bureau; if the lack of compliance was noted by the International Searching Authority, that Authority shall inform the receiving Office and the International Bureau.~~

## 9.3 *[No change] Reference to Article 21(6)*

"Disparaging statements," referred to in Article 21(6), shall have the meaning as defined in Rule 9.1(iii).

## Rule 48

### International Publication

48.1 [No change]

48.2 Contents

(a) to (k) [No change]

(l) The International Bureau shall, upon a reasoned request by the applicant received by the International Bureau prior to the completion of technical preparations for international publication, omit from publication any information, if it finds that:

(i) this information does not obviously serve the purpose of informing the public about the international application;

(ii) publication of such information would clearly prejudice the personal or economic interests of any person; and

(iii) there is no prevailing public interest to have access to that information.

Rule 26.4 shall apply *mutatis mutandis* as to the manner in which the applicant shall present the information which is the subject of a request made under this paragraph.

*[Rule 48.2, continued]*

(m) Where the receiving Office, the International Searching Authority, the Authority specified for supplementary search or the International Bureau notes any information meeting the criteria set out under paragraph (l), that Office, Authority or Bureau may suggest to the applicant to request the omission from international publication in accordance with paragraph (l).

(n) Where the International Bureau has omitted information from international publication in accordance with paragraph (l) and that information is also contained in the file of the international application held by the receiving Office, the International Searching Authority, the Authority specified for supplementary search or the International Preliminary Examining Authority, the International Bureau shall promptly notify that Office and Authority accordingly.

*48.3 to 48.6 [No change]*

## Rule 94

### Access to Files

#### 94.1 Access to the File Held by the International Bureau

(a) [No change] At the request of the applicant or any person authorized by the applicant, the International Bureau shall furnish, subject to reimbursement of the cost of the service, copies of any document contained in its file.

(b) The International Bureau shall, at the request of any person but not before the international publication of the international application and subject to Article 38 [and paragraphs \(d\) to \(g\)](#), furnish, ~~subject to the reimbursement of the cost of the service,~~ copies of any document contained in its file. [The furnishing of copies may be subject to reimbursement of the cost of the service.](#)

(c) [No change] The International Bureau shall, if so requested by an elected Office, furnish copies of the international preliminary examination report under paragraph (b) on behalf of that Office. The International Bureau shall promptly publish details of any such request in the Gazette.

[\(d\) The International Bureau shall not provide access to any information contained in its file which has been omitted from publication under Rule 48.2\(l\) and to any document contained in its file relating to a request under that Rule.](#)

*[Rule 94.1, continued]*

(e) Upon a reasoned request by the applicant, the International Bureau shall not provide access to any information contained in its file and to any document contained in its file relating to such a request, if it finds that:

(i) this information does not obviously serve the purpose of informing the public about the international application;

(ii) public access to such information would clearly prejudice the personal or economic interests of any person; and

(iii) there is no prevailing public interest to have access to that information.

Rule 26.4 shall apply *mutatis mutandis* as to the manner in which the applicant shall present the information which is the subject of the request made under this paragraph.

(f) Where the International Bureau has omitted information from public access in accordance with paragraphs (d) or (e), and that information is also contained in the file of the international application held by the receiving Office, the International Searching Authority, the Authority specified for supplementary search or the International Preliminary Examining Authority, the International Bureau shall promptly notify that Office and Authority accordingly.

(g) The International Bureau shall not provide access to any document contained in its file which was prepared solely for internal use by the International Bureau.



94.1bis Access to the File Held by the Receiving Office

(a) At the request of the applicant or any person authorized by the applicant, the receiving Office may provide access to any document contained in its file. The furnishing of copies of documents may be subject to reimbursement of the cost of the service.

(b) The receiving Office may, at the request of any person, but not before the international publication of the international application and subject to paragraph (c), provide access to any document contained in its file. The furnishing of copies of documents may be subject to reimbursement of the cost of the service.

(c) The receiving Office shall not provide access under paragraph (b) to any information in respect of which it has been notified by the International Bureau that the information has been omitted from publication in accordance with Rule 48.2(I) or from public access in accordance with Rule 94.1(d) or (e).

94.1ter Access to the File Held by the International Searching Authority

(a) At the request of the applicant or any person authorized by the applicant, the International Searching Authority may provide access to any document contained in its file. The furnishing of copies of documents may be subject to reimbursement of the cost of the service.

(b) The International Searching Authority may, at the request of any person, but not before the international publication of the international application and subject to paragraph (c), provide access to any document contained in its file. The furnishing of copies of documents may be subject to reimbursement of the cost of the service.

[Rule 94.1ter, continued]

(c) The International Searching Authority shall not provide access under paragraph (b) to any information in respect of which it has been notified by the International Bureau that the information has been omitted from publication in accordance with Rule 48.2(I) or from public access in accordance with Rule 94.1(d) or (e).

(d) Paragraphs (a) to (c) shall apply *mutatis mutandis* to the Authority specified for supplementary search.

#### 94.2 Access to the File Held by the International Preliminary Examining Authority

(a) At the request of the applicant or any person authorized by the applicant, ~~or, once the international preliminary examination report has been established, of any elected Office,~~ the International Preliminary Examining Authority shall provide access to any document ~~furnish, subject to reimbursement of the cost of the service, copies of any document~~ contained in its file. The furnishing of copies of documents may be subject to reimbursement of the cost of the service.

(b) At the request of any elected Office, but not before the establishment of the international preliminary examination report and subject to paragraph (c), the International Preliminary Examining Authority shall provide access to any document contained in its file. The furnishing of copies of documents may be subject to reimbursement of the cost of the service.

(c) The International Preliminary Examining Authority shall not provide access under paragraph (b) to any information in respect of which it has been notified by the International Bureau that the information has been omitted from publication in accordance with Rule 48.2(I) or from public access in accordance with Rule 94.1(d) or (e).

94.2bis Access to the File Held by the Designated Office

If the national law applicable by any designated Office allows access by third parties to the file of a national application, that Office may allow access to any documents relating to the international application, contained in its file, to the same extent as provided by the national law for access to the file of a national application, but not before the earliest of the dates specified in Article 30(2)(a). The furnishing of copies of documents may be subject to reimbursement of the cost of the service.

94.3 Access to the File Held by the Elected Office

If the national law applicable by any elected Office allows access by third parties to the file of a national application, that Office may allow access to any documents relating to the international application, including any document relating to the international preliminary examination, contained in its file, to the same extent as provided by the national law for access to the file of a national application, but not before the earliest of the dates specified in Article 30(2)(a) ~~the international publication of the international application~~. The furnishing of copies of documents may be subject to reimbursement of the cost of the service.

[Annex IV follows]

DRAFT AMENDMENTS TO THE PCT REGULATIONS  
RECOMMENDED IN RELATION TO AGENDA ITEM 25

TRANSMITTAL TO THE INTERNATIONAL BUREAU OF COPIES OF DOCUMENTS  
RECEIVED IN THE CONTEXT OF A REQUEST FOR RESTORATION OF RIGHT OF  
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**Rule 26bis**

**Correction or Addition of Priority Claim**

*26bis.1 and 26bis.2 [No change]*

*26bis.3 Restoration of Right of Priority by Receiving Office*

(a) to (e) *[No change]*

(f) The receiving Office may require that a declaration or other evidence in support of the statement of reasons referred to in paragraph (b)(ii)(b)(iii) be filed with it within a time limit which shall be reasonable under the circumstances. ~~The applicant may furnish to the International Bureau a copy of any such declaration or other evidence filed with the receiving Office, in which case the International Bureau shall include such copy in its files.~~

(g) *[No change]*

(h) The receiving Office shall promptly:

(i) *[no change]* notify the International Bureau of the receipt of a request under paragraph (a);

(ii) *[no change]* make a decision upon the request;

(iii) notify the applicant and the International Bureau of its decision and the criterion for restoration upon which the decision was based.

*[Rule 26bis.3(h), continued]*

(iv) subject to paragraph (h-bis), transmit to the International Bureau all documents received from the applicant relating to the request under paragraph (a) (including a copy of the request itself, any statement of reasons referred to in paragraph (b)(ii) and any declaration or other evidence referred to in paragraph (f)).

(h-bis) The receiving Office shall, upon a reasoned request by the applicant or on its own decision, not transmit documents or parts thereof received in relation to the request under paragraph (a), if it finds that

(i) this document or part thereof does not obviously serve the purpose of informing the public about the international application;

(ii) publication or public access to any such document or part thereof would clearly prejudice the personal or economic interests of any person; and

(iii) there is no prevailing public interest to have access to that document or part thereof.

Where the receiving Office decides not to transmit documents or parts thereof to the International Bureau, it shall notify the International Bureau accordingly.

(i) and (j) [No change]

## Rule 48

### International Publication

48.1 [No change]

48.2 Contents

(a) [No change]

(b) Subject to paragraph (c), the front page shall include:

(i) to (vi) [No change]

(vii) where applicable, an indication that the published international application contains information concerning a request under Rule 26*bis*.3 for restoration of the right of priority and the decision of the receiving Office upon such request;

~~(viii) [Deleted] where applicable, an indication that the applicant has, under Rule 26*bis*.3(f), furnished copies of any declaration or other evidence to the International Bureau.~~

(c) to (k) [No change]

48.3 to 48.6 [No change]

[Annex V follows]

DRAFT AMENDMENTS TO THE PCT REGULATIONS  
RECOMMENDED IN RELATION TO AGENDA ITEM 26

DELAYS AND FORCE MAJEURE FOR ELECTRONIC COMMUNICATIONS

*[There are no changes to these draft amendments compared to those set out in the Annex to document PCT/WG/8/22.]*

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## **Rule 82<sup>quater</sup>**

### **Excuse of Delay in Meeting Time Limits**

#### *82<sup>quater</sup>.1 Excuse of Delay in Meeting Time Limits*

(a) Any interested party may offer evidence that a time limit fixed in the Regulations for performing an action before the receiving Office, the International Searching Authority, the Authority specified for supplementary search, the International Preliminary Examining Authority or the International Bureau was not met due to war, revolution, civil disorder, strike, natural calamity, [a general unavailability of electronic communications services](#) or other like reason in the locality where the interested party resides, has his place of business or is staying, and that the relevant action was taken as soon as reasonably possible.

(b) [No change] Any such evidence shall be addressed to the Office, Authority or the International Bureau, as the case may be, not later than six months after the expiration of the time limit applicable in the given case. If such circumstances are proven to the satisfaction of the addressee, delay in meeting the time limit shall be excused.

(c) [No change] The excuse of a delay need not be taken into account by any designated or elected Office before which the applicant, at the time the decision to excuse the delay is taken, has already performed the acts referred to in Article 22 or Article 39.

[Annex VI follows]

DRAFT AMENDMENTS TO THE PCT REGULATIONS  
RECOMMENDED IN RELATION TO AGENDA ITEM 27

LANGUAGES FOR COMMUNICATION WITH THE INTERNATIONAL BUREAU

*[There are no changes to these draft amendments compared to those set out in the Annex to document PCT/WG/8/23.]*

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**Rule 92**  
**Correspondence**

92.1 [No change]

92.2 Languages

(a) *[No change]* Subject to Rules 55.1 and 55.3 and to paragraph (b) of this Rule, any letter or document submitted by the applicant to the International Searching Authority or the International Preliminary Examining Authority shall be in the same language as the international application to which it relates. However, where a translation of the international application has been transmitted under Rule 23.1(b) or furnished under Rule 55.2, the language of such translation shall be used.

(b) *[No change]* Any letter from the applicant to the International Searching Authority or the International Preliminary Examining Authority may be in a language other than that of the international application, provided the said Authority authorizes the use of such language.

(c) *[Remains deleted]*

(d) Any letter from the applicant to the International Bureau shall be in English, ~~or~~ French or any other language of publication as may be permitted by the Administrative Instructions.

(e) *[No change]* Any letter or notification from the International Bureau to the applicant or to any national Office shall be in English or French.

92.3 and 92.4 [No change]

[End of Annex VI and of document]