

Meeting of International Authorities under the Patent Cooperation Treaty (PCT)

Twenty-Sixth Session
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PROGRESS REPORT: PILOT ON NETTING OF PCT FEES

Document prepared by the International Bureau

SUMMARY

1. This document sets out a progress report on the pilot on netting of certain PCT fees, a project to analyze the possibility of introducing a “netting structure” for all PCT fee transactions. The aims of the netting structure are to reduce exposure to movements in currency exchange rates of fee income for the International Bureau and to reduce cost and effort for receiving Offices (ROs) and International Searching Authorities (ISAs) in handling PCT fees. The pilot project for netting of PCT fees began in 2018 with a number of ROs and ISAs, mainly covering search fees and international filing fees.
2. A preliminary review of the results to date indicates that the pilot project has delivered positive results. The International Bureau therefore intends to extend the netting structure to further interested ROs and ISAs. The International Bureau also plans to submit proposals to the twelfth session of the PCT Working Group, scheduled to take place in June 2019, aimed at formalizing the arrangements through amendments to the PCT Regulations and modifications of the Administrative Instructions.
3. Furthermore, the International Bureau intends to invite several Offices that act as both a PCT receiving Office and as an Office of a Contracting Party to the Madrid and/or the Hague Systems to join an expanded netting process, which would include all transfers of funds to and from WIPO.

BACKGROUND

4. The PCT Working Group, at its ninth session in May 2016, discussed a document prepared by the International Bureau that set out various possible measures to reduce the risk of exposure of PCT fee income to movements in currency exchange rates (document PCT/WG/9/9). The discussions are summarized in paragraphs 21 to 36 of the Summary by the Chair (document PCT/WG/9/27); paragraphs 30 to 33 of the report of the session (document PCT/WG/9/28) give details of all the interventions.

5. The International Bureau presented an update of the work carried out on one of the possible measures discussed in document PCT/WG/9/9, namely, introducing a “netting structure” for the transfer of PCT fees, at the tenth session of the PCT Working Group (see document PCT/WG/10/6). The discussions at this session are summarized in paragraphs 19 to 21 of the Summary by the Chair (document PCT/WG/10/24); paragraphs 50 to 59 of the report of the session (document PCT/WG/10/25) give details of all the interventions.

6. At the eleventh session of the PCT Working Group, the International Bureau presented a further update of a pilot on netting of PCT fees (see document PCT/WG/11/4). The discussions at this session are summarized in paragraphs 46 to 51 of the Summary by the Chair (document PCT/WG/11/26); paragraphs 142 to 154 of the report of the session (document PCT/WG/11/27) give details of all the interventions. The Chair summarized that there was strong support from delegations for the netting pilot and for more Offices to join the pilot, but some reservations about expanding netting to cover fees from other global IP systems at WIPO such as the Madrid and Hague Systems.

7. This document presents a further update on introducing a “netting structure” for the transfer of PCT fees.

INTRODUCING A “NETTING STRUCTURE” FOR THE TRANSFER OF FEES

8. Building on arrangements which had been successfully implemented between the United States Patent and Trademark Office (USPTO) as RO and the European Patent Office (EPO) as ISA for the transfer of search fees from the RO to the ISA through the International Bureau, the International Bureau, at the beginning of 2018, introduced a pilot project for the netting of PCT fees. This pilot significantly expanded the number of Offices participating, the fee types involved and the provisions for balancing payments in both directions.

9. At the initial stage, the scope of the pilot provides for the netting of the following fees and amounts:

(a) PCT fees received by Offices in their roles as RO, ISA or International Preliminary Examining Authority (IPEA) for the benefit of the International Bureau or other Offices:

- (i) international filing fees collected by the Office as an RO;
- (ii) search fees collected by the Office as an RO for transfer to other Offices as ISAs;
- (iii) handling fees collected by the Office as an IPEA;

(b) PCT fees received by the International Bureau for the benefit of International Searching Authorities:

- (i) search fees collected by the International Bureau in its capacity as an RO on behalf of ISAs participating in the pilot;

- (ii) supplementary search fees collected by the International Bureau for transfer to an Authority specified for supplementary search (SISA) participating in the pilot;
 - (c) amounts owed by the International Bureau to the ISA or owed by the ISA to the International Bureau under Rule 16.1(e) arising from any exchange gains or losses incurred by the Office as an ISA due to search fees transferred to the ISA by ROs not participating in the pilot in currencies other than the currency in which the ISA has fixed its search fee that are freely convertible into the fixed currency; and
 - (d) payments relating to other WIPO services, such as the Madrid and Hague Systems (for some Offices, only to be initiated in 2019).
10. Software to manage the netting process has been fully operational since the beginning of 2018.
11. If successful, it is envisaged that the pilot may be further extended to support centralized payments of fees for services provided on behalf of national Offices through ePCT, as well as extending the netting concept across a wider range of transactions, including more Offices and including Madrid and Hague payments into the processes.
12. Fees collected by an Office as a RO that are subsequently transferred to the same Office in its capacity as an ISA have been excluded from the pilot.
13. Participation in the netting pilot by ISAs is covered either in a Memorandum of Understanding (MoU) or through an exchange of letters, based on the preference of the ISA. The MoU or the exchange of letters defines the netting procedure and the search fee transfer process, as well as relevant documentation requirements.
14. The MoU is signed or the letters are exchanged between the International Bureau and the Office participating in the pilot in its capacity as an ISA. In accordance with the terms of the MoU or the exchange of letters, the International Bureau invites each of the ROs that has specified the participating ISA as competent for the international search of applications filed with the RO to participate in the pilot. In each case:
- (a) the International Bureau acts as the “agent” of the participating ISA by collecting the search fees on behalf of the ISA and reviewing the documentation submitted by the participating RO;
 - (b) the International Bureau agrees a timetable with each participating RO with regard to the date each month on which the RO must transfer the search fees to the International Bureau in order for those fees then to be transferred to the participating ISA concerned, and also agrees the currency for the transfer of the search fees;
 - (c) transactions not received by the agreed date are held by the International Bureau and transferred to the participating ISA in the following month.
15. Each RO invited to participate has the option either to agree to participate or to indicate that it prefers to continue dealing directly with the ISA. Once an RO agrees to participate, it is notified in writing of the banking instructions for the transfer of the fees and the mailing instructions for the submission of the documentation (electronic and, if required, in paper format).

UPDATE ON PARTICIPATION OF INTERNATIONAL SEARCHING AUTHORITIES AND RECEIVING OFFICES

ISAS PARTICIPATING IN NETTING

16. In 2018, the EPO, the Japan Patent Office (JPO) and the Austrian Patent Office have joined the netting pilot as both ISAs and ROs.

17. The netting pilot with the EPO became operational on April 1, 2018. Due to the large number of ROs that specify the EPO as a competent ISA, the EPO pilot has been implemented in a phased approach, which is planned to extend through to 2020. Both ROs which collect the search fees for the benefit of the EPO as an ISA in a currency other than the euro and those that collect the fees in euro have been invited to participate. In addition, the ongoing arrangement between the USPTO as RO, the EPO as ISA and the International Bureau referred to in paragraph 8, above, has continued.

18. A pilot with the JPO as ISA became operational on April 1, 2018. The pilot now includes three ROs that have specified the JPO as competent. Invitations to some other ROs which have specified the JPO as competent are in process and all remaining ROs will be invited in 2019.

19. A pilot with the Austrian Patent Office as ISA became operational on August 1, 2018 and now includes two ROs that have specified the Austrian Patent Office as competent. Invitations to some additional ROs are now in process and all remaining ROs will be invited in 2019.

STATUS OF DISCUSSIONS ON PARTICIPATION OF OTHER ISAS

20. The International Bureau is currently holding discussions with the Korean Intellectual Property Office (KIPO) on its possible participation in the pilot as an ISA. As the Korean won (KRW) is not considered to be a convertible currency, the International Bureau has made arrangements with its banks to acquire sufficient KRW at a favorable exchange rate as soon as a pilot begins. This approach should significantly reduce the exchange rate risk to the International Bureau under Rule 16.1(e). It should also reduce the work effort required by KIPO to prepare a claim for losses or gains due to exchange rates.

21. Furthermore, the International Bureau is working on arrangements to expand the netting pilot to include the USPTO, the Chinese National Intellectual Property Administration (CNIPA) and the Russian Federal Service for Intellectual Property (Rospatent) as ISAs. Discussions also continue with the Israel Patent Office and Intellectual Property Office of Singapore (IPOS) on possible future participation, should required changes to ISA information systems and procedures be resolved. These arrangements will take into consideration the particular requirements of these Offices, both as ISAs and as ROs, along with currency restrictions and the type of international fees administered by each Office.

22. Invitations will be extended to other ISAs that have expressed an interest in the netting pilot in 2019.

PARTICIPATION OF RECEIVING OFFICES

23. By the end of 2018, 27 ROs specifying one or more of the three participating ISAs as competent had joined the netting pilot. For those participating ROs, in 2018, almost all but a small number of transactions were submitted to the International Bureau by the agreed date in the relevant netting pilot.

24. Several ROs that were invited to participate in the netting pilot during 2018 have indicated that they are unable to participate due to internal regulations requiring that payment be made directly to the competent ISA. It is hoped that this issue can be addressed through amendments to the PCT Regulations and modifications to the Administrative Instructions, which will be proposed to the twelfth session of the PCT Working Group, tentatively scheduled to take place from June 11 to 14, 2019.

BENEFITS REALIZED TO DATE

25. No formal evaluation of the impact of the netting pilot has been conducted to date. However, based on a review of the results through to the end of November 2018 and discussions with participating ISAs, four areas of mutual benefit to participating ISAs and the International Bureau have been identified:

(a) The claims for reimbursement of foreign exchange gains and losses under Rule 16.1(e) from participating ISAs have been reduced to negligible amounts. Through its centralized currency management, the International Bureau has also been able to take advantage of the more advantageous exchange rates offered by banks for converting larger tranches of currency.

(b) Verification by the International Bureau of the amount of fee paid and the status of the applicant has simplified the work effort of participating ISAs.

(c) The netting of the search fees due to each ISA against international filing fees and handling fees has had a positive impact on cash management; particularly important in this period of negative interest rates. By grouping these fees into a consolidated single payment, participating ISAs account for only one monthly receipt or payment to or from the International Bureau, the elements of which are detailed in a netting statement available for confirmation by the ISA prior to the settlement date. The bank charges that would have been incurred using multiple transfers have been eliminated.

(d) ROs now have the option of submitting one payment combining search fees due to participating ISAs with international filing fees due to the International Bureau, thus reducing payments and bank transfer charges.

26. It is anticipated that an internal evaluation of the results will begin in April 2019 when the expanded pilot has been in operation for one full year. The results will be made available to the PCT Working Group at its twelfth session in June 2019.

ANCILLARY ISSUES TO BE ADDRESSED

27. Running the pilot has required additional time for staff at the International Bureau to check and resolve issues in the monthly netting exercise. It has been necessary to train the staff and to ensure that the pilot is run in a manner which allows a determination of whether the estimate that the benefits will outweigh the costs is correct. Particular attention is being given to the number and type of errors which occur and identifying ways in which these can be reduced or eliminated.

28. The efficient running of the pilot assumes that all participating ROs are able to deliver their application information and payment of fees to the International Bureau accurately and timely in a supported data format, including all the information required by the netting software and its related processes. This will require participating ROs to cooperate with IT changes (usually relatively minor) and staff training. At present, ROs are able to continue to submit their payments and application information to the International Bureau in the same format as had been sent to each participating ISA. However, the goal is for information to be submitted in a consistent XML format. Efforts to achieve this through the introduction of additional IT tools and through the use of ePCT are in progress.

29. Offices which have separate accounting systems and bank accounts for different purposes (for example, for patents and for trademarks) will need to consider whether procedures can be revised to allow net payments across the two systems to be paid to or from just one of those accounts.

30. The procedures will have consequential effects on accounting procedures for the PCT, Madrid and Hague Systems, which have as yet not been fully analyzed.

31. A variety of issues were examined in 2018, including optimizing the system for the key deliverable of minimizing the risks of exchange rate fluctuations. This has resulted in opening new bank accounts for the receipt of currencies for which WIPO currently has limited outgoings and arranging for the sale of these currencies to acquire currencies against which to net transactions. Previously, the International Bureau received PCT international filing fees in these currencies from the ROs into a Swiss franc account, which were thus not converted at preferential exchange rates. By receiving international filing fees and search fees in accounts based on each currency and then converting the unused balance to a currency needed to meet outgoing requirements, cash management has been enhanced and better exchange rates have been achieved. Furthermore, the initial use of netting arrangements using the same invoicing and payment dates proved successful to date in 2018 and it is planned to continue with this approach in 2019.

32. *The Meeting is invited to note the contents of the present document.*

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