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Swiss IP & Competition Briefing

January 2005

The new Merger Act and its IP relevance

by Dr Alesch Staehelin

Switzerland's new Federal Act on mergers, demergers, conversions and transfer of assets and liabilities of 3 October 2003 (Merger Act) entered into force on 1 July 2004. The Merger Act regulates the civil law aspects for mergers and acquisitions in Switzerland and establishes the new M&A framework. The previously existing provision under article 181 of the Swiss Code of Obligations regarding the assumption of assets and liabilities or of a business is now limited to associations and sole proprietorships that are not registered in the commercial register.

From an intellectual property law perspective, one section of the new Act is of particular importance: The transfer of assets and liabilities by way of partial universal succession, which allows all forms of companies and sole proprietorships registered in the commercial register to transfer in a single act (universal succession) - rather than by singular succession - all or part of their assets and liabilities to other legal subjects.

The basis of a transfer of assets and liabilities is the inventory that defines the transaction's scope. All assets and liabilities (including all types of intellectual property rights and related rights) to be transferred must be included in the inventory. Accordingly, everything that is not included in the inventory and, hence, cannot be allocated to the transfer of assets and liabilities remains with the transferor. Moreover, only an inventory that shows a net surplus allows a transfer of assets and liabilities to become valid.

In this context, it is important to note that only assets and liabilities that have a quantifiable impact on the asset position in the balance sheet and that can be capitalised may be included in the inventory.

Article 71 para. 1 (b) of the Merger Act establishes that "intangible values" must be individually listed in the inventory. Ever since the entry into force of the Merger Act, the Swiss IP community has raised the question whether the words "intangible values" deliberately introduce a new term (as opposed to, e.g., "intellectual property rights") or are rather an example of "lax wording" by the legislator. To date, the prevailing

view is that the term "intangible values" should be broadly interpreted and includes intellectual property rights, know-how, goodwill, etc. Nevertheless, some voices claim that items that cannot be capitalised and quantified, such as goodwill, may not be entered into the inventory and, thus, cannot be transferred. It will be up to the courts to clarify these issues.

A transfer of assets and liabilities may also include legal relationships, namely agreements involving third parties (e.g., license agreements). In general, none of the specific formal requirements that would apply for the transfer of individual assets and liabilities need to be met. Due to the new law, a third party may now be facing a new contractual partner without being involved in a transaction at all. This significant interference with the freedom of contract has been partially criticised but seems now to be accepted by the prevailing opinion in Switzerland.

This raises the question how a contractual party (in IP related agreements, in particular, the licensor) can protect itself against an unwanted change of its contractual partner (i.e., the licensee): (i) Appropriate drafting of a change of control clause that allows the party to properly terminate the agreement once it becomes clear that its contractual partner will no longer be the same, (ii) adjustment of the agreement (e.g., shorter term), (iii) termination of the agreement for valid reasons, i.e., showing that due to the change of the contractual partner the other party cannot in good faith be expected to continue the contractual relationship, and (iv) imposing a contractual prohibition on a transfer of the agreement. However, the question whether a contractual or statutory prohibition on a transfer of an agreement can be overridden by the new regime of the Merger Act is highly controversial. The prevailing opinion appears to be that standardised transfer prohibition clauses will be void while specific transfer prohibition clauses containing language explicitly referring to the Merger Act might be successfully used to prevent the transfer of an agreement.

Upon its entry in the commercial register a transfer of assets and liabilities becomes legally effective. That said, it becomes apparent that from now on in any case of discrepancy the legal position according to the commercial register prevails over the legal position according to the specific IP register. This will be an important aspect to be borne in mind when conducting IP searches.

Finally: Electronic and hand written signatures equivalent

by Dr Florian S Jörg

On 1 January 2005, new legislation regarding certification services in the domain of electronic signatures became effective in Switzerland. Electronic signatures are based on a certification infrastructure which is managed by third party providers, the so-called Certification Service Providers. Basically, these service providers issue a public and a private key which are attributed to an identified individual. This individual, the signature holder, distributes the public key to all receivers of its messages while it attaches its private key, which is the electronic signature, to all its communications. Once a message is received, the recipient's system compares the sender's public key with the attached signature (private key) and verifies authenticity of the message as well as the sender's identity.

In order to establish a higher level of trust, the law enables such providers to be recognised on a voluntary basis. The Federal Act defines the requirements for such recognition. These are further specified in the accompanying Ordinance and the technical and administrative Regulations which also became effective on 1 January 2005. Such requirements embrace, among others, entry in the commercial register, sufficient qualified personnel, technical knowledge and financial means, necessary insurance coverage, technical details with respect to the algorithm used, the format of the certificate, the minimal prerequisites for identification of a signature holder, the prohibition to copy the customers' keys and instructions with respect to directory services, entries in a daily journal, security issues and others.

With respect to such recognition, Switzerland chose the system of supervision of the Certification Service Providers by private Recognition Bodies which are themselves accredited by the Swiss Accreditation Service of the Federal Office of Metrology and Accreditation (SAS). Such accreditation is based on the general system applied in Switzerland for inspection and certification bodies and other testing and calibration laboratories. It is up to the Recognition Bodies to ensure compliance by the Certification Service Providers with the requirements set forth by law.

A Certification Service Provider is liable to the key holder and third persons who rely on a qualified valid certificate for all damage arising out of a violation of its duties set forth in the new legislation. The burden of proof with respect to the compliance with the law is upon the Certification Service Provider which may neither escape from liability by proving that it was not at fault nor enter into an agreement waiving its liability. Similarly, the Recognition body is liable

to the signature holders and third persons for damage incurred because it violated its duties under the law. Finally, the signature holder is liable for damages incurred by third parties unless he can prove that he took the necessary and reasonable care to prevent any misuse of the electronic signature.

Most importantly, the new law modifies a very old provision in the Code of Obligations (Switzerland's Commercial Code) stating that electronic signatures are legally to be treated equally to hand written signatures. However, this is only true for signatures issued by recognized Certified Service Providers. Consequently, starting from 1 January, 2005, it will be possible to enter electronically into agreements that are subject to the statute of frauds and must, therefore, be in writing.

It may be noted that in January 2005 there is only one Recognition Body that is accredited and so far not a single private Certification Service Provider has been certified. Hence, the factual implementation of this new legislation cannot be expected before mid-year.

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