

THE MUTTART FOUNDATION

Consultation on Charities and Intellectual Property

*23-27 April 2019
Banff, Alberta*

A Summary of the Discussion

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This report is a summary of one of a series of periodic discussions convened by the Muttart Foundation on voluntary sector regulatory issues. The session was held to promote an exchange of ideas and to develop a fuller understanding of the concerns of both sector groups and government regulators. Any remarks included in the report are intended to reflect the discussions. No undertakings or commitments from either regulators or sector participants are expected or made, notwithstanding any of the wording in the Report.

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A Summary of the Discussion

DAY 1

INTRODUCTIONS

The facilitator welcomed participants to the consultation, which focused on the practices of charities in using and protecting their intellectual property (IP) and on questions that may arise about IP issues within the context of the laws and rules that apply to charities.

All charities own some form of intellectual property. This intellectual property may be as simple as the charity's name or logo (usually trademarks) or it may include other major components of the charity's assets, such as copyrighted material, patents or industrial designs. The IP can be dealt with by the charity itself or through arrangements with spin-off companies or other legally distinct parties.

Many aspects of IP: developing it, protecting it, using it and disposing of it may raise issues for a charity. Among common regulatory questions around such work are: Is there impermissible private benefit? Is there public dissemination of research related to the IP? Is there a business being carried on? and, If so, is that business in keeping with the *Income Tax Act* requirements that apply to charities having businesses?

Leaving aside these specific questions, there is a concern that the rules that apply to charities in this area have not kept up with the realities of using intellectual property in the 21st century.

The facilitator began by reviewing the logistics and ground rules for the consultation. Participants were encouraged to be open and to make comments freely under Chatham House Rules. (These rules allow participants to share the gist of the discussions following the conclusion of the consultation, without identifying comments made by specific individuals.)

Participants were then invited to introduce themselves and share their experiences in responding to issues dealing with intellectual property. Themes emerging from the introductions included a) the need for charities to have a greater understanding of intellectual property and how the system works. Many charities are not aware of the value of the assets they own; therefore, they may not be sufficiently protecting these assets whether it's their names, patents or copyrights. b) Potential conflicts with a charity's brand may arise when working with sponsors. c) Issues with licensing rights to organizations who are not qualified donees.

OVERVIEW PRESENTATIONS

The consultation began with a presentation on intellectual property followed by a second presentation on selective issues in branding and copyright for charities, particularly groups of more modest size. (Copies of the two presentations can be found in the appendix section of this report.)

Presentation 1: An Overview of Intellectual Property

The most common types of intellectual property are **Patents, Trademarks, Copyright** and **Industrial Designs**.

Patents are the most powerful form of intellectual property and relate primarily to technology. The subject matter must not be previously disclosed in a publicly available document, it must be inventive, and it must have a practical application. The term of protection is 20 years from the date of filing and international protection is available. It can take between three to five years to file a patent and it is expensive. Patents are assigned on a 'first-to-file' basis rather than a 'first-to-invent' system, so it is essential that the inventor does not disclose the subject matter of patent application.

Trademarks are a useful tool when the technology involved is not necessarily innovative. They protect the branding behind a product and can relate to a name or logo or non-functional shape that defines the origin of a product. Trademarks are very important where style, quality or reputation is of high importance to business success. There is a 10-year term of protection, which is renewable, and there is international protection available.

Copyright is a narrow scope of intellectual property and is an excellent tool when other types of intellectual property protection are not appropriate. It protects creative expression in any form and the term lasts about 50 years from the author's death. The exact term of protection varies somewhat from jurisdiction to jurisdiction. It is very affordable and offers instant protection.

Industrial Designs are also a narrow scope of intellectual property and are directed to the aesthetic of an item. They are especially useful when the technology involved is not necessarily innovative. Industrial designs are very important where the style and aesthetics are of high importance to the success of a business. Affordable protection is available domestically for ten years and international protection is also available.

Following the presentation on intellectual property, the facilitator invited a participant to present issues associated with intellectual property for small and mid-size charities.

Presentation 2: Selective Issues in Branding and Copyright for Charities

Brand

The identification of different aspects of a charity's brand includes corporate, operating and domain names in addition to design logos and slogans. Protecting a charity's brand can create a number of challenges for a charity including:

- Confusion with respect to similar names being used by other charities
- Intentional misappropriation of the charity brand by third parties
- Disputes between national and provincial branches over a charity's brand
- Disputes between international and national charities over a charity's brand
- Failure to enforce trademark rights against offending third parties
- Failure to license trademarks in writing with third parties
- Failure to document sponsorship arrangements in writing

There are a number of steps available to a charity to protect its brand including:

- Registering corporate/business/domain names
- Employing common law remedies
- Registering trademarks
- Overcoming limitations of what are known as section 9 official marks
- Registering foreign trademarks
- Enforcing trademarks
- Licensing trademarks with thirds parties
- Using a portfolio management approach to maintaining the charity brand

Copyright

The identification of different aspects of copyright for a charity includes:

- Educational materials for the charity
- Research by the charity
- Program materials resulting from charitable activities of the charity
- Promotional materials prepared by the charity

As with branding, there are some challenges when protecting copyright of the charity which include:

- Inability to identify authorship
- Failure to document assignment of copyright
- Failure to enforce copyright against offending third parties
- Failure to license copyright with third parties

The steps available to a charity to protect copyright include:

- Registering copyright
- Marking copyright
- Enforcing copyright
- Licensing copyright with third parties

GENERAL DISCUSSION

Following the two presentations the facilitator invited the participants to share their observations and thoughts.

- A comment was made that a charity's rights can be usurped if there is a significant lapse in the use of the trademark by the charity.
- Small and mid-size charities want a level playing field regarding the regulations that govern them and the larger charities; i.e., universities and hospitals.
- It was noted that charities may experience copyright issues with their contractors and volunteers.
- A participant from a large research university indicated that the university has policies in place relating to inventions, copyright, publication and technology transfer. In the research and commercialization of a biologic (a preparation synthesized from living organisms or their products), for example, the university looks for sponsorships that will enrich the learning of the students.

- The university supports start-up organizations and involves its students through programs located on campus. It is up to an entrepreneur (from within or outside of the university) to decide to form a start-up organization. If a start-up company is formed, the university will negotiate with a representative of the company to grant licensing rights to the company.
- Entrepreneurship and mentoring programs are also available at major universities. As well patent activities have been scaled up in recent years.
- Valuation of ideas can be very challenging especially with a start-up company. The university will look at market comparables where appropriate. The university will also look at licensing the right of the intellectual property, and will articulate milestones and standards.
- Steps are in place for both the development and the transfer of intellectual property. Intellectual property rights belong to the university when university resources are involved.
- There is a commitment that all research results are made public. This can be done through publications, graduate students entering the workforce and through relationships with government bodies, industry and not-for profit organizations.
- A comment was offered that there may be issues with the reproducibility of academic research where there is a rush to publish.
- A perspective regarding intellectual property and a Canadian health foundation was discussed. Its counterpart foundation based in the United States charges licensing fees for all of its materials. However, licensing their educational materials for training has been very fruitful.

This health foundation has experienced privacy issues with intellectual property in innovation in the social finance space.

- Significant changes are occurring in the business of health research grant making. The system was designed largely by researchers for researchers which led to 'pay and pray for results' e.g., Thalidomide for the treatment of nausea during pregnancy and the HIV/Aids clinical trials. In the case of Thalidomide it was pulled off the market because of birth defects and in the HIV/Aids crisis patients were dying before clinical trials could be completed.
- Patient activism and the rising tide of individuals living with chronic and/or life-threatening illnesses are shaking research health foundations. There is a risk that patient activism can be fueled by fake representations (e.g. autism and

vaccinations, and the liberation movement in Multiple Sclerosis (MS)). This also fuels access to experimental and unproven treatment in less well-regulated jurisdictions.

- There is often a challenge with the timeframe. The system of grant funding, the processes and the time required for drug development from basic discovery to market access (including reimbursement) in Canada can be more than 20 years. Canada is viewed as one of the slowest OECD jurisdictions to achieve 'real' access.
- To get a new drug to market can cost approximately \$1 Billion, which doesn't include the cost of failures. A comment was made that disclosure of failures is acceptable and should be part of the process.
- There are challenges with the size of the Canadian market and challenges with issues of naturally occurring compounds such as vitamin D and cannabis. Research with naturally occurring compounds doesn't attract funders because there is no patent protection.

ENGLAND & WALES PERSPECTIVE

After the general discussion on intellectual property, the facilitator invited a participant to share England and Wales' perspective on charities and intellectual property.

The following points were made:

- Overall, there is now a greater awareness of intellectual property rights in England and Wales than previously. Also, broad training on this topic has been introduced and is available for board members.
- It was noted that the copyright period is 70 years compared to 50 years in Canada. Trademarks can be registered across different classes of property.
- A charity may license its name and logo in cause-related marketing activities. The Charities Commission has guidance in place, as does Her Majesty's Revenue & Customs (HMRC). Tripartite agreements are structured between the charity, the charity's trading subsidiary and the commercial organization.
- In 1997 the Association of Medical Research Charities (AMRC) developed guidance for its members in the following three areas:
 - Prior notification and reporting when intellectual property is exploited

- Charity involvement, management and ownership of intellectual property
 - Revenue sharing
- Revised guidance was issued in 2018 to incorporate best practice changes regarding revenue sharing models. This guidance will be reviewed in 18 months' time to reflect any changes identified in the wider environment.
- The current guidance states that technology transfer fees should not be permitted. However, universities should be able to request a 5%-10% translation fee plus the direct costs related to the protection of its intellectual property. The remaining net income should be distributed evenly between the institution and the funder on a 50-50 basis once the direct costs and translation fee are accounted for.
- AMRC members are able to adopt the guidance as they see fit and it is acknowledged that not all members will adopt it entirely.
- The AMRC also published a guide in 2004 titled ***An Essential Partnership: A guide for charities working with industry***. The guide covers what charities should consider when developing research partnerships as well as the types of agreements and contracts that might need to be in place. The guidance provided is based on the high level principles of integrity, independence and transparency.
- Intellectual property doesn't come up as a major regulatory issue because universities are exempt organizations.
- As outlined in The Charity Commission's guidance on ***Research by Higher Education Institutions***, the Commission is not likely to intervene to assess whether a private benefit is legitimately incidental unless it could be shown that:
 - the charity trustees acted outside the charity's objects and powers; or
 - they took into account factors that were irrelevant, improper or irrational when making a decision that was within the charity's objects and powers; or
 - they failed to properly manage a conflict of interest; or
 - their decision is one which no reasonable body of charity trustees could have taken.

UNITED STATES PERSPECTIVE

The facilitator then invited a participant to share the United States perspective.

The following observations were made:

- There are some differences; e.g. the copyright protection term is 120 years from creation or 95 years from publication, but there are many similarities regarding intellectual property between Canada and the United States.
- There is an incentive to bind researchers to the charity. This arrangement has been blessed by the Internal Revenue Service and it will sometimes change the dynamic of compensation for charities and nonprofits.
- Section 1.501(c)(3)-1(d)(5)(iii) of the Internal Revenue Code regulations states that scientific research will be seen as being carried out in the public interest if:
 - The research results ‘including any patents, copyrights, processes or formulae are made available to the public on a nondiscriminatory basis.’
 - The research is carried out for the United States, or any of its agencies or instrumentalities, or for a state or a political subdivision thereof; or
 - The research is ‘directed toward benefitting the public.’ Examples of research that benefits the public include research that is:
 - intended to aid in the scientific education of college or university students;
 - published in a form that is ‘available to the interested public’;
 - carried on for the purpose of discovering a cure for a disease; or
 - carried on for the purpose of aiding a geographical area by attracting, developing, or retaining industry in the area.

AUSTRALIAN (AND NEW ZEALAND) PERSPECTIVE

Rounding out the international perspectives on charities and intellectual property, the facilitator invited a participant from Australia to share some thoughts.

The following points were made:

- The themes in our jurisdictions regarding intellectual property are similar but are on a smaller scale. Charities in Australia and New Zealand tend to undervalue their assets.
- The Destination of Income Test is applied in the two countries, which means that if the income generated furthers the purpose of the charity then it is considered non-taxable.
- With respect to government grant contracts with not-for-profit organizations, the intellectual property resides with the government.

- In Australia, universities are treated as tax-exempt charities even though they don't meet the criteria to be a charitable institution.

Canada Revenue Agency (CRA)

The facilitator invited the regulator as well as other consultation participants, to offer comments or recommendations, on the important questions: with respect to charities and intellectual property, what problem(s) need to be resolved, and where should priority be placed?

- It was suggested that it would be helpful to identify what is compulsory from the regulator's perspective. The following categories were suggested for further analysis: 1) stewardship of intellectual property; 2) intellectual property in dealings with third parties; and 3) the monetization of intellectual property.
- It was recommended that guidance or guidelines be created with respect to good stewardship of intellectual property. The guidance or guidelines would likely be produced by someone other than the CRA, and should highlight that intellectual property is a charitable asset that can be used to further a charity's purpose.
- It was suggested that the **existing guidance dealing with third parties could be amended**. Intellectual property dealings with third parties should include transfers to achieve the charity's purpose through contracts and grant agreements. The focus of these third party agreements should be on the purpose rather than the valuation of the intellectual property.
- Likewise, when looking at the **commercialization/monetization** of the intellectual property for business related purposes, it was suggested that the existing relevant policies could be strengthened or wording added to address issues related to intellectual property.
- The regulator stated that their focus is on a) assessing whether there is an undue or excessive benefit; b) whether there is an unrelated business; and c) whether the charity is making a gift to a non-qualified donee.

The day concluded with the facilitator assigning the participants to small groups and asking them to generate their top five questions needing to be resolved over the next two days.

DAY 2

The participants were welcomed back to the second day of the consultation where the facilitator presented them with a list of synthesized questions from the previous day's small group discussions. Below are the questions that were highlighted.

1. **What steps should be taken to educate charities on *the proper stewardship* of their intellectual property?**
2. **What *principles* should guide a decision on the part of a charity to properly recognize and protect its intellectual property?**
3. **With increasing interest in social enterprise and social innovation, what questions should charities considering a *partnership with a for-profit corporation, government or other entity* be asking with respect to ownership and licensing of intellectual property?**
4. **Would guidance on intellectual property be more helpful if there was greater clarity on the *distinction between public and private benefit* or should the focus instead be on purpose?**
5. **Should there be guidelines for charities, such as museums, *which receive intellectual property* and then license related images?**
6. **What best practice guidelines should be available to charities interested in exploring the *possible commercialization* of their intellectual property?**
7. **What *guidance or resources* on the commercialization of intellectual property should be developed by the Charities Directorate, or provincial regulators?**
8. **Should CRA have a role in *avoiding confusion in charity branding* during registration, or are there jurisdictional concerns that block this option?**
9. **What guidance should be available to charities wishing to *conduct an external evaluation* of their intellectual property, in order to establish its fair market value, its risk profile and its profit potential?**

DISCUSSION OF SELECTED QUESTIONS

1. **What steps should be taken to educate charities on *the proper stewardship* of their intellectual property?**

- The elements of proper stewardship are to identify, manage and protect the assets of a charity – keeping in mind the obligations of the charity to further its purpose(s). Rather than promoting intellectual property, it was suggested that the focus should be on creating an awareness of a charity's intellectual property and how best to manage and protect it; e.g. the vulnerability of brands and trademarks.
- It was suggested that the economic potential associated with the use of intellectual property should not be ignored owing to fears of being offside the Canada Revenue Agency rules. Charities, even those working with non-traditional partners, could generally exploit this economic potential while still meeting the *Income Tax Act* requirements for registration.
- A comment was made that there are barriers to charities in accessing the federal government's resources on intellectual property, and that it would be helpful if these were removed. Currently, access to these federal resources is through contacts on a charity's board of directors.
- It was suggested that charities look to umbrella groups such as the United Way to help in the dissemination of information and training regarding intellectual property. Story telling through audio and video is an effective means of education. The Muttart Foundation indicated that it would explore, with potential partners such as the Intellectual Property Institute of Canada (IPIC), an online resource on intellectual property for charities.
- Universities and larger non-university charities may have the potential to work with smaller charities, and build their capacity in this area. For example, a research university's Innovation, Science, & Economic Development's (ISED) intellectual property strategy might be a valuable resource for smaller charities. Professional societies are another resource for small- and mid-size charities. An observation was made that the voice of charities needs to be stronger in the arena of professional societies.
- A suggestion was made that the government's intellectual property strategy for small businesses be reviewed to see if it might be broadened to allow it to apply to charities.

2. What *principles* should guide a decision on the part of a charity to properly recognize and protect its intellectual property?

- A recommendation was made to have a single point of contact in the charity to manage and protect its intellectual property. Responsibilities in this area should include stewardship, accountability, transparency and sharing of best practices.
- When a charity owns intellectual property that has value this should trigger certain questions. What is the risk of not protecting this asset? Is the cost of protecting this asset too prohibitive? Assessing the risks and the opportunities is the first step in graduating to more sophisticated solutions.

The following matrix of questions was suggested as an evaluation tool:

Inventory of Assets/Intellectual Property	
(Identify each of the charity’s intellectual property assets or class of assets. The question matrix should be applied separately to each asset or class of assets.)	
Does having and using the Intellectual Property Asset relate to furthering the charity’s purposes?	
YES?	NO?
Commercial Potential	Unrelated Business
Is it commercially feasible?	Can asset be transferred to non-qualified donee?
YES?	NO?
<hr style="width: 80%; margin: 0 auto;"/>	
<i>Develop Business Plan</i>	
License or transfer ownership? Consider:	
<ul style="list-style-type: none"> - Who will benefit? - Public or private benefit? - Does the public benefit outweigh the private benefit? - Does it make sense to protect the intellectual property? - What is the risk of not protecting the intellectual property? - Does the cost justify protecting the intellectual property? 	
<ul style="list-style-type: none"> • Obtain or determine credible Valuation 	

Information in the following areas is required from CRA:

- What are the criteria for transferring an asset to a non-qualified donee?
- What is considered an excessive private benefit?
- How does the relationship between public and private benefit, and the assessment of private benefit, work?

3. With increasing interest in social enterprise and social innovation, what questions should charities considering a *partnership with a for-profit*

corporation, government or other entity be asking with respect to ownership and licensing of intellectual property?

- The contexts for entering into partnership agreements are 1) the charity owns the intellectual property and there is a transfer by assignment to a qualified donee or non-qualified donee or 2) the intellectual property is co-created with an option for licensing.
- In any partnership arrangement the driver should always be in furtherance of the charity's purpose. A comment was offered that it would be helpful for CRA auditors to focus on whether use of intellectual property rights is furtherance of the charity's purpose rather than who owns the asset. A suggestion was made that the sector could help with training in this regard.
- What are the risks in partnership agreements and how can they be mitigated? Every agreement should contain a clause in which either party can change their mind. Small- and mid-size charities may not know they're offside so it is best to start with small projects. Another challenge for smaller charities is protecting their licensing rights (e.g. contact lists) and ensuring their assets are used appropriately. However, monitoring is never easy.
- Important questions for consideration by the charity include: Are there overlaps in what the potential partner and the charity do well? What is needed from the partnership? What expertise does the charity have? Is the charity better off outsourcing? Is the partner a qualified donee or a non-qualified donee? If they are a non-qualified donee, how does the charity work with them? What are its options?
- What is the governance program of this potential partner? Is accreditation applicable? How meaningful is the relationship to this potential partner? Do they have previous experience working with charities?
- CRA guidance is available on conducting due diligence when working with a non-qualified donee outside of Canada. A comment was made that a plain language due diligence checklist would be helpful.
- It was recommended that a policy be developed on how to work within partnerships.
- A comment was made that there is a lot of co-creation of intellectual property happening with charities working with indigenous communities. Discussions regarding risk and due diligence can be interpreted negatively leading to distrust. However, this can sometimes be addressed through attentive listening.

- It can be quite challenging working with organizations in China because of the differences in culture, language and law. It was suggested that it is important to assess a potential partner's values for compatibility.
- Contractual agreements should outline what each party is bringing to the table including the terms and conditions. In addition, there should be a clause that allows for renegotiation when things are either not working well or are wildly successful.
- It is important to manage milestones and deliverables when working with third party partners. A comment was offered that it is hard to predict what type of problems will surface in sophisticated contracts. The contract should include a clause on the relationship. It was suggested that it's okay to state one's needs as well as to 'push back' where appropriate. Indeed, this is the norm in some cultures.
- It was acknowledged that any negotiation comes down to leverage. With government contracts it is important to ensure that the intellectual property clauses are appropriate and don't automatically default to the government. The charity needs to be clear on its role, i.e., a service provider to the government, a partner with a merchant or a co-developer of an innovation.

4. Would guidance on intellectual property be more helpful if there was greater clarity on the *distinction between public and private benefit* or should the focus instead be on purpose?

- A recommendation was made that the CRA guidance emphasize the purpose of the charity as the starting point for analysis. However, the benefits that flow from achieving the purpose may be either public or private. So the focus needs to be on assessing both the purpose and the benefits.
- Another area of consideration is whether any of the activities conducted by the charity are considered a related business.

5. Should there be guidelines for charities, such as museums, *which receive intellectual property* and then license related images?

- There is guidance on the topic of a charity receiving intellectual property and then licensing it. This is a complex environment because further intellectual property is being created. Charities need to understand what they need to own and what they need access to.
- There are risks to commercializing an intellectual property asset and a fair amount of sophistication is required. As stated earlier on, it is essential to

have clauses in the contractual agreement that speak to the management of the relationship.

- If an intellectual property offering is provided by an open source, robust waivers must be in place to protect the charity. This option as well as the option to license should be explored by the charity when making a decision on which approach is appropriate.

6. What best practice guidelines should be available to charities interested in exploring the *possible commercialization* of their intellectual property?

- The commercialization or monetization of a charity's intellectual property can be done either internally through charitable programs based on a brand, e.g. selling Girl Guide cookies, or it can be done externally. In the external context, the brand or copyright is owned by a charity and can be licensed, endorsed or sponsored by another charity or business.
- In any commercialization activity the charity must also make an investment. Appropriate documentation must be in place to show how the trademark is being used. For the charity to fully benefit from the arrangement, steps need to be taken to ensure the goodwill associated with the trademark flow back to it.

7. What *guidance or resources* on the commercialization of intellectual property should be developed by the Charities Directorate, or provincial regulators?

- A suggestion was made that it would be very helpful if the CRA could highlight questions a charity needs to think about regarding the commercialization of its intellectual property. As an example reference was made to the guidance material issued by the Charities Commission of England and Wales titled ***Research by Higher Education Institutions***.
- The guidance should emphasize that a charity's brand is intellectual property and therefore has value. A comment was offered that this should also be emphasized in any training carried out by the sector. It was suggested that a better understanding of the concept of private benefit, within the context of intellectual property, would be beneficial for charities.
- Provincial regulators of charities tend to focus on risk. Greater clarity regarding an unrelated business and eligible and ineligible investments defined by level of risk would be helpful. Professional assistance is required when assessing risk. Directors of a charity need to understand their

responsibilities. The scope and size of a charity is relevant. Complexity means more time and due diligence are required. The appropriate people with the appropriate skills are required when entering the commercialization of intellectual property.

- Resources from the provincial regulator could also be educational, e.g., explaining investment policy and in what circumstances social investments that further a charity's purpose are acceptable.
 - Charities need capacity in order to take measured risks. They cannot afford to stand still. It was recommended that licensing agreements and the identification of potential risks be addressed together as part of training or guidance on the management of intellectual property. A comment was offered that a 'boiler plate approach' in contracts was unlikely to work.
 - An observation was made that intellectual property lawyers need to have knowledge of charity law when working with charity clients.
 - A comment was made that large charities will approach CRA but that isn't the case with small- and mid-size charities. Education of the sector can be best achieved through the issuing of guidelines or other accessible materials.
 - Ideally, in order for a charity to determine whether to proceed with the commercialization of its intellectual property three components need to be in place: guidance, guidelines and context. In particular, guidance on what auditors are looking for, e.g. a process protecting the intellectual property asset, is assessing compliance with registered charity rules. Availability of this sort of information will increase confidence in the sector. It was recommended that CRA auditors communicate the expectations of the regulator with respect to intellectual property when auditing a charity.
 - Monetization is a broader term than commercialization and a recommendation was made to use that term.
 - An observation was made that a number of the questions raised are business issues rather than regulatory issues so it's important to involve the Canadian Bar Association and professional accounting bodies in educational processes.
- 8. Should CRA have a role in *avoiding confusion in charity branding* during registration, or are there jurisdictional concerns that block this option?**
- It is not the role of CRA to defend or protect the intellectual property of a charity. It does, however, have a role in addressing predatory fundraising.

- CRA has partnered with the Office of the Public Guardian and Trustee (OPGT) and will look at updating its website and provide links in regard to this partnership. The OPGT material includes pamphlets and a list of questions for charities to consider in how it operates.
- The law requires CRA's name and its website address appear on all charitable receipts.
- The Charity Commission in England and Wales has the authority to force a name change at time of registration if the name is too familiar to an existing registered charity. However, they are reluctant to do so.

9. What guidance should be available to charities wishing to *conduct an external evaluation* of their intellectual property, in order to establish its fair market value, its risk profile and its profit potential?

- The evaluation of intellectual property is a complex issue. The charity should identify a professional individual or organization qualified to assist with the valuation. A comment was made that the process of valuation can at some times appears somewhat 'magical'.
- Auditors have questioned appraisals or valuations. It was recommended that valuations be conducted by credible organizations or individuals. There may be situations where more than one valuation is required in order for comparisons to be provided.

SCENARIOS

In order to assess whether the significant issues faced by charities in dealing with intellectual property had all been addressed during the consultation, two scenarios were presented to the participants.

Scenario #1

Charity A has a strong brand – it raises significant assets from its brand. A clothing manufacturer who wants to create a line of clothing and use the name and logo of the charity on the clothing approaches Charity A. The clothing manufacturer has confirmed that the cost of each product is X and the profit expected is Y and is proposing to split the profit from the sales with the charity.

Should Charity A agree to this proposal?

Does it make a difference if the Clothing Manufacturer is owned by the founder of Charity A?

What regulatory concerns, if any, does this scenario raise?

- It was suggested that it would be best to have a licensing agreement with a separate business since manufacturing of clothing is an unrelated business. The nature of the arrangement speaks to the intellectual property rights that underlie it. The reputation of the charity could be damaged if, for example, the manufacturing is done using child labour.
- Trademarks may imply that a licensing agreement has been signed so it would be important to have proper documentation in place.
- From a regulatory perspective, the regulator would look to see if the arrangement furthered the purpose of the charity and whether there was an undue private benefit to the owner of the clothing manufacturing business.
- From a management perspective, consideration would have to be given to the following components: insurance, indemnification, brand and advertising.
- In the United States a passive, royalty arrangement is acceptable. The fair market value of the item would be the focus for the regulators rather than what the item sold for.
- In the UK this arrangement is considered a passive investment and if it carries on for longer than one year a subsidiary business would have to be set up. Guidance is in place regarding related and non-related business activities.
- Cause marketing is often used in fundraising under three types of scenarios: licensing, promotional items and running an unrelated business.
- Sponsorship does not always mean that the business donation is a gift. It may be an advertising or promotional expense. The valuation of a sponsorship is a fiduciary responsibility of the board of directors.

Scenario #2

As a revenue-generating initiative a charity enters into a contract with a credit card company. The contract provides that the entities will market an affinity card, including featuring the charity's logo on the card and using its alumni mailing list to promote the card. The charity receives either a flat fee or percentage transaction-based fee as payment for the arrangement.

Are there circumstances under which this initiative would constitute an unrelated business? If so, what are the relevant factors in determining this?

- It would be important to identify what are the intellectual property rights and ensure they are properly conveyed. In a licensing agreement it is very important to have an exit clause and the ability to renegotiate terms and conditions.
- An assessment would need to be done to determine if this falls within a charitable activity or is an unrelated business. If the charity's resources are being used it would likely be considered an unrelated business.
- There are different regulatory considerations depending on the context; e.g. fundraising, running a business or passive investing. A suggestion was made that a decision tree from the regulator would be very helpful.

FINAL REFLECTIONS

At the conclusion of the consultation the facilitator offered the participants an opportunity to share their personal reflections over the past three days. The following are some of comments offered:

- This consultation was a great opportunity to get a holistic view of the sector. The setting was magnificent and the conversations engaging.
- I'm walking away with so much more knowledge regarding intellectual property. I appreciate the comments and insights offered. The international perspective was very informative.
- It's important not to hive off intellectual property as a separate asset.
- As we move to a service economy intellectual property will become critically important. We have an opportunity to get ahead of the game.
- It's a privilege to attend these consultations. Thank you to the Muttart Foundation, our government colleagues, and to the international participants. Also, thank you to the sector representatives and to the experts who advise the sector.
- The topic is complex. The process allowed us to discuss this issue in a congenial manner.
- Thank you to the facilitators.

- I appreciated the quality of the pre-reading material.
- Thank you for the hospitality. I learned a lot, but I also appreciate that I still have a lot to learn!
- A representative from the Muttart Foundation thanked the participants for taking time out of their busy schedules and for contributing so generously in the interests of the charitable sector. On behalf of the Foundation, he wished everyone safe travels home.

Appendix A

Introduction -Bio

- ▶ Adam M. Tracey
- ▶ B.Sc. (Mech. Eng.) from Queen's in 2004
- ▶ L.L.B. from Windsor in 2007
- ▶ Called to the Ontario Bar as a lawyer in 2008
- ▶ Trademark Agent in 2009
- ▶ Patent Agent in 2011

Types of Intellectual Property

- ▶ Patents
- ▶ Trademarks
- ▶ Copyright
- ▶ Industrial Designs
- ▶ Etc. (IC's, CI, GIs)



Patents

- ▶ Directed to technology
- ▶ 20 year term of protection from filing date
- ▶ First-to-file system (rather than first-to-invent)
- ▶ International protection available
- ▶ Time (3-5 years) and resource (\$\$\$) intensive
- ▶ Most powerful form of IP protection

Patents

- Subject matter must be new, not obvious and useful
- **New:** Not previously disclosed in a previous, publically available “document”
- **Not obvious:** Inventive; not a readily appreciated combination of known technology
- **Useful:** has a practical application

Patents

- ▶ It is essential that the subject matter of a patent application has not been previously disclosed by the inventor
- ▶ Examples of suitable subject matter:
 - A new method for sorting data
 - A new pharmaceutical formulation for treating topical wounds
 - A new low power antennae
 - A new strain gauge

Trademarks

- ▶ Protects the branding behind a product
- ▶ Directed to a name or logo or non-functional shape that defines the origin of a product
- ▶ Renewable 10 year term of protection
- ▶ International protection available

Trademarks

- ▶ Arises as soon as you pick a trademark and use it in commerce
- ▶ Registration with government conveys a host of additional benefits
- ▶ A trademark owner has the right to prevent others from using its trademark, or a confusingly similar trademark
- ▶ Denoted by TM or ®

Trademarks

- ▶ Incredibly important where style, quality or reputation is of high importance to business success
- ▶ For example: Food and Beverage - Coca Cola®; Clothing - Gucci®; Automobiles BMW®; Jewelry – Rolex®
- ▶ Great tool when technology is not necessarily innovative

Copyright

- ▶ Protects creative expression
- ▶ Term lasts from 50 years from author's death
- ▶ Arises upon the authorship of the work
- ▶ Additional rights are conferred upon registration
- ▶ Narrow scope of IP protection

Copyright

- ▶ Owner of Copyright has the right to prevent any reproduction, sale, alteration (limited), display etc. of copyrighted work
- ▶ Denoted by ©
- ▶ Excellent tool when other types of intellectual property protection are not well suited to the situation
- ▶ Very affordable and instant protection

Industrial Designs

- ▶ Directed to the aesthetic of an item
- ▶ Purely decorative protection
- ▶ Does not cover the technology behind the design
- ▶ 10 year term of protection
- ▶ International protection available
- ▶ Affordable Protection

Industrial Designs

- ▶ Narrow scope of IP protection
- ▶ Incredibly important where style and aesthetics is of high importance to business success
- ▶ Another great tool when technology is not necessarily innovative
- ▶ Example: Design of a unique lab notebook or medical device (no technical aspect)

Appendix B

Muttart Consultation on Intellectual Property

April 24, 2019

Selective Issues in Branding and Copyright for Charities (Non-Universities)

Terrance S. Carter

A. IDENTIFICATION AND PROTECTION OF THE CHARITY BRAND AS TRADEMARKS

1. Identification of different aspects of the charity brand:
 - a. Corporate names
 - b. Operating names
 - c. Domain names
 - d. Design logos and slogans

2. Common challenges encountered in protecting the charity brand:
 - a. Confusion in similar name charities
 - b. Intentional misappropriation of charity brand by third parties
 - c. Disputes between national and provincial branches over charity brand
 - d. Disputes between international and national charities over charity brand
 - e. Failure to enforce trademark rights against offending third parties
 - f. Failure to licence trademarks in writing with third parties
 - g. Failure to document sponsorship arrangements in writing

3. Steps to protect the charity brand:
 - a. Corporate name registration
 - b. Business name registration
 - c. Domain name registrations
 - d. Common law remedies
 - e. Trademark registrations
 - f. Overcoming limitations of section 9 official marks
 - g. Foreign trademark registrations
 - h. Enforcement of trademarks
 - i. Licensing of trademarks with third parties
 - j. Portfolio management approach to maintaining the charity brand

B. IDENTIFICATION AND PROTECTION OF COPYRIGHT OF THE CHARITY

1. Identification of different aspects of copyright of the charity:
 - a. Educational materials of the charity

- b. Research by the charity
 - c. Program materials resulting from charitable activities of the charity
 - d. Promotional materials by the charity
2. Common challenges encountered in protecting copyright of the charity:
- a. Inability to identify authorship
 - b. Failure to document assignment of copyright
 - c. Failure to waive moral rights
 - d. Failure to enforce copyright against offending third parties
 - e. Failure to licence copyright with third parties
3. Steps to protect copyright:
- a. Copyright registration
 - b. Copyright marking
 - c. Enforcement of copyright
 - d. Licensing of copyright with third parties

C. SELECT CRA ISSUES CONCERNING BRANDING AND COPYRIGHT FOR CONSIDERATION

- 1. Recognizing trademarks and copyright as charitable property
- 2. Educating charities on their fiduciary duty to identify and protect charity brand and copyright
- 3. Does CRA have a role in avoiding confusion in charity brands during registration?
- 4. How to practically determine FMV of a charity brand and/or copyright when assigning and/or licencing arrangements with non QDs
- 5. Ownership and licensing issues involving copyright and trademarks from charitable programs funded by charities in conjunction with non QDs
- 6. Public benefit v. private benefit
- 7. Do sponsorship arrangements involving licencing of trademarks and/or copyright constitute fundraising, related business, or unrelated business?