

## ADDRESSING OF EXISTING PROBLEMS OF INTELLECTUAL PROPERTY VALUATION IN VIETNAMESE SYSTEM OF LAWS

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### ***Abstract:***

*The intellectual property (IP) valuation was conducted in Vietnam long years ago before the promulgation of the Intellectual Property Law (IP Law) in 2005. Nevertheless this activity does not follow any standards due to the actual situation of legal documents in this field which, in many cases, remain simple and overlapping. The actual legal documents of Vietnam for IP valuation do not govern directly the pricing aspects of IP assets themselves but only give conceptual regulations of computational procedures (based on book values) of intangible assets including IP ones. Even in legal documents specifically applied for IP field, such as IP Law and related Circulars, there are no regulations applied for IP valuation. The set-up of an integrated system of IP valuation in a close future definitely requires a unified system of legal documents to cover actually existing shortcomings in this field.*

### **I. INTRODUCTION**

IP assets play the crucial role for enterprises in determining their business effectiveness, competitiveness and development potential in future. The valuation of their IP assets helps them to identify their market position and credibility and to conduct conveniently the transaction of their IP assets. The IP valuation in Vietnam, however, does not follow any standards. It is clearly seen through the USD5 million valued deal of ownership transfer, in 1995, of the “P/S” tooth paste trade mark from Phong Lan Cosmetics company to England-Netherlands Unilever Group. Another example is the transaction of transfer of the “Da Lan” tooth paste trade mark from Son Hai Group to American Colgate Company which was priced of USD3 million [1]. 14 years later, in 2009, the “TISCO” trade mark of Thai Nguyen Steel Company was priced, during equitization, only VND39.5 billion (less than 3% of the total asset value of the company - VND1,084 billion) [8]. In addition, many other enterprises, such as *Kem Trang Tien* (an ice cream

trade mark) or *Banh tom Ho Tay* (a shrimp pancake trade mark) during equitization procedure, did not pay enough attention to their IP assets,

The problem of IP valuation was in focus of studies by many local and overseas researchers, namely:

(1) For matter of the role of IP valuation and techniques: Céline Lagrost, Donald Martin, Cyrille Dubois and Serge Quazzotti, *“Intellectual Property Valuation: How to approach the selection of an appropriate valuation method.”*[11]; Daryl Martin and David Drews, *“Intellectual Property Valuation Techniques”* [5]; John Turner, *“Valuation of Intellectual Property Assets, Valuation Techniques: Parameters, Methodologies and Limitations”* [2];

(2) For matter of American IP valuation standards:

There are some papers introducing American IP valuation standards such as: Micheal R. Annis & Brad L. Pursel, *“IP valuation by GAAP and implications to disputes of IP assets”*; Ian McClure, *“Economy Pulse Check: Valuation, Finance and Exchange of Intellectual Property”* [9]; J. Timothy Cromley, *“Intellectual Property Valuation Standards”* [6].

The IP valuation is a rather new topic in Vietnam but it was in the focus of attention of some local researchers, namely:

(1) For matter of necessity, purpose and techniques of IP valuation: Vu An Khang, *“Needs of IP valuation and related financial and accounting matters”*; Dr. Vu Thi Hai Yen, *“IP assets and IP valuation techniques in business activities”*;

(2) For matter of IP valuation during equitization of State owned enterprises (SOE): Dr. Tran Van Hai, Mr.Sc. Tran Diep Thanh, *“Some attentions for IP valuation of businesses during equitization process”*; Mr.Sc. Nguyen Thi Tuyet, *“Role of IP assets and actual awareness of Vietnamese businesses and authorities for IP assets in equitization of businesses”*;

(3) For matter of IP valuation during capital contribution: Ass. Prof., Dr. Tran Van Nam, *“Capital contribution by IP assets of Vietnamese businesses: Actual situation and existing problems”*.

The absence of standards in IP valuation in Vietnam comes from shortcomings of legal regulations. This paper, therefore, has purposes to indicate the shortcomings in Vietnamese legal regulations in IP valuation field as well as to provide recommendations for enhancement of effectiveness and uniformity of this activity in the close future.

## II. DEFINITION OF TECHNICAL TERMS

The term “**IP assets**” in this paper is referred to the objects of IP rights which are protected and transferable under the IP Law [10].

The term of “*valuation*” can be interpreted through the analogous concept of “*immobile asset valuation*” and “*technology valuation*”, namely:

“*Immobile asset valuation is the activity of consulting and pricing of an actual immobile asset at certain time moment*” (Point 9, Article 4, Law on Real Estate Business - 2006);

“*Technology valuation is the activity of pricing of technologies*” (Point 14, Article 3, Law of Technology Transfer, 2006).

Accordingly, “*the valuation*” is the action to fix the value of assets at certain time moment and location. The valuation includes the actions of consulting and price fixing for actual types of assets which would serve as background for market transaction of these assets. The price fixing of assets is conducted with participation of individual(s) or organization(s) which hold their ownership rights.

The concept of “**valuation**” (of price) cannot be identical to the concept of “**appraisal**” (of price). Point 2, Article 4 of Ordinance on Prices, 2002, stipulates: “*the appraisal (of price) is the act of examination or re-examination of the value of assets to market rates at certain time moment and location in conformity to Vietnamese standards or international practice*”. According to this definition, the “*appraisal*” is understood as the determination of market value of assets. The appraisal is the identification of prices of market transacted assets. The appraisal is conducted by price examiners in conformity to the State controlled appraisal procedure and standards.

In this paper, the term of “**IP valuation**” is referred to assessment of values of IP assets at certain time moment and location.

## III. LEGAL REGULATIONS ON IP VALUATION

### 1. International regulations on IP valuation

#### 1.1. International regulations on IP valuation

Actually there is no international legal regulation to govern the IP valuation. Therefore the IP valuation is carried out mainly on basis of Guidance Note No. 4 for intangible assets issued by the International Valuation Standards Council (IVSC) [12]. This guidance is an important reference document for

global instruction of international standards for valuation of IP assets, in particular, and of intangible assets, in general.

### ***1.2. Legal regulations on IP valuation of some countries***

The US legal system has no legal document as guidance for valuation of IP assets, in particular, and of intangible assets, in general. Actually in the US, there exist only a few guidelines, of reference nature, from some associations. In 2001, Financial Accounting Standards Board announced two statements on financial accounting standards which include some rules of valuation of intangible assets and IP assets upon business combination or merge, namely Statement No. 141, *Businesses Combinations*; and Statement No. 142, *GoodWill and Other Intangible Assets* [3], where Standard IX regulates the valuation of intangible assets [7].

The Chinese regulation system has no legal documents specifically applied for IP valuation. The IP valuation actually is carried out mainly on basis of valuation standards of intangible assets stipulated in the Circular for valuation standards of intangible assets by the Ministry of Finance in 2001 (which was amended in 2008).

## **2. Legal regulation for IP valuation of Vietnam**

Vietnam issued some legal documents related to IP valuation, namely: Law of Enforcement of Civil Judgments, 2008, Resolution No. 102/2010/ND-CP guiding the implementation of some articles of the Law of Enterprises, Accounting Standards No. 04 for fixed and intangible assets issued as attachment to Decision No. 149/2001/QD-BTC by Minister for Finance (afterwards referred to as Accounting Standards No. 04), Circular No. 203/2009/TT-BTC guiding the system of management and use of amortization values of fixed assets (afterwards referred to as Decision No. 203/2009), Circular No. 202/2011/TT-BTC guiding the financial assessment and value determination of enterprises during their transfer from SOE status to JSC status according to Resolution No. 59/2011/ND-CP, and etc.

The legal system of Vietnam, however, for IP valuation remains simple. The above noted documents almost do not deal directly the IP valuation aspects but only some principal features and computational procedures (book based) of intangible assets including IP ones). Even, the Law of Intellectual Properties in 2005 which was revised and amended in 2009 and related Circulars for implementation (afterwards referred to as IP Law) specifically applied for IP field do not have any clause to regulate the IP valuation.

#### **IV. SHORTCOMINGS IN LEGAL REGULATIONS OF VIETNAM FOR IP VALUATION**

##### **1. Inconsistent use of technical terms in legal documents applied for IP valuation**

Accounting Standards No. 04 which was promulgated in 2001 uses technical terms not in conformity to the IP Law which was promulgated later, in 2009. Namely it lists out IP assets as: “*patents, copyrights, computer softwares, trademarks*” which were invested by businesses are considered as their intangible assets [4]. The term of “*patent*” or, more exactly, “*patent certificate*” is used to indicate the certificate of exclusive protection to record information of patent owner(s), name(s) of author’s), protection objects, protection scope and protection term. The “*patent certificate*”, therefore, is not an IP asset as well as intangible assets of businesses. By this way, the “*patents*” which are protected by Laws are themselves the intangible assets but not the “*certificates*” themselves which keep only information related to protected patents. In addition, “*computer softwares*” cannot be listed as objects of IP rights but only “*computer programmes*” can be listed among objects of copyrights, according to Point 1, Article 22, IP Law. It is incorrect, therefore, to list “*computer softwares*” among IP assets as it was done in Accounting Standards No. 04.

Point b, Clause 1, Article 6 of Circular No. 203/2009/TT-BTC uses the term of “*invention certificate*” to refer to one of the intangible assets. The IP Law, however, did not have this term but used another term which is the “*patent certificate*”. The concern is that Circular No. 203/2009/TT-BTC issued on 20 October 2009, after the promulgation of the IP Law (revised and amended) on 19 June 2009 did not use the terms used in the IP Law. More than that, as analyzed, only “*patents*” are protected by Laws and they are, in fact, intangible assets but not “*invention certificate*”. In addition, this Circular used the term of “*plant species*” and “*propagation material*” to refer to the rights toward plant species. This interpretation is not correct according to regulation of the IP Law, because the objects of rights toward plant species are “*propagation material*” and “*post-harvest material*”.

##### **2. Contradicted interpretation of IP assets as fixed assets for fixing of values of businesses**

According to Accounting Standards No. 04, *only some objects of IP rights* can be interpreted as intangible fixed assets, such as patents, copyrights, trademarks (in case the marks are not created by the businesses but purchased or capital contributed). But Clause 2, Article 4 of Circular 203/2009/TT-BTC stipulates that *all the objects of IP rights* are considered

as intangible fixed assets and then they are used as background for valuation of businesses.

Point b, Clause 1, Article 6 of Circular 203/2009/TT-BTC considers the “*geographical appellation*” as intangible fixed asset which contradicts Clause 4, Article 121 of the IP Law which stipulates: “*the owner of geographical appellation of Vietnam is the State*”. It is impossible, therefore, to interpret it as intangible fixed asset of businesses.

There exists also the contradiction in interpretation of “*trade mark*” as intangible fixed assets. According to Point a, Clause 7, Article 18 of Circular No. 202/2011/TT-BTC, the value of “*trade mark*” (including “*trade label*” and “*trade name*”) are considered as value of businesses for equitization. Accounting Standards No. 04, however, does not regulate the “*trade mark*” as fixed asset for valuation of businesses.

### **3. Regulation of subjects of IP valuation remains unreasonable**

According to Article 30 of Law of Business, IP assets are a category of assets which can be used a capital contribution and then the owner has rights to fix their value for capital contribution.

- *When doing the capital contribution, the IP assets used for capital contribution must be priced on unanimous basis (100% votes for) of founding members and shareholders.*

According to Clause 2, Article 30 of Law of Businesses, the founding members and shareholders fixed directly the price of IP assets. The valuation is not subject to any actual market calculation or benefit consideration of those IP assets. Therefore we have two cases:

**Case 1:** IP assets are valued (priced) lower than their real value at the capital contribution moment.

**Case 2:** IP assets are valued (priced) higher than their real value at the capital contribution moment.

- *When the business starts operating, IP assets are priced by the business and capital contributors or by a professional valuating organization.*

Clause 3, Article 30 of Law of Businesses stipulates the binding regulation of liabilities for capital contributors, valuating organizations or legal representatives of businesses when the IP assets are priced higher than their real value at the capital contribution moment. This regulation is applied to debts and financial duties in case of losses and bankruptcy of businesses. This regulation, however, does not make a clear separation of their own status for liabilities, namely who are “*capital contributors and their legal*

*representatives of businesses*” and *“valuating organization and legal representative of businesses”*. It does not indicate also the situations when all of these three entities are liable for this action.

#### **4. Shortcomings in techniques applied for valuation of IP assets**

Clause 2, Article 4 of Circular 203/2009/TT-BTC stipulates the regulation for original value of intangible fixed assets: *“the original value of intangible fixed assets includes copyrights, industrial property rights, rights toward plant species, according to IP Law, with their actual costs the businesses had paid”* (Point e), and *“the original value of software as fixed assets is defined as the total actual costs the businesses paid to have these softwares”* (Point g).

Therefore, according to Circular No. 203/2009/TT-BTC, the valuation of fixed assets is based on the past costs.

Circular No. 202/2011/TT-BTC regulates that the valuation of *“trade mark”* is to identify the actual value of businesses for equitization, namely: *“The value of trademarks is determined on basis of actual costs made for establishment and protection of trade labels, trade names during the operation of the businesses before the time moment of determination of the value of businesses...”*.

Therefore, accordingly, Circular No. 202/2011/TT-BTC indicates only the technique to calculate the value of *“trademarks”* which is based on the value of *“trade labels”* and *“trade names”*, as well as the technique to calculate the past costs.

It is possible to see that, according to legal regulations, the technique for IP valuation in Vietnam actually is based on the calculation of past costs. The advantage of this technique is to make IP assets present in books appear as accountable assets, and by this way, to make businesses aware of the value of their IP assets. This technique, however, has also many shortcomings which make this technique inapplicable widely in practice of IP valuation. The most important shortcoming is that the technique takes to consideration *only one element* (which is the cost) to price IP assets and ignores absolutely the economic benefits they may generate in future. This approach does not reveal the economic potential of IP assets.

#### **V. SOME RECOMMENDATIONS TO IMPROVE VIETNAM’S LEAGAL REGULATIONS FOR IP VALUATION**

The nature of IP valuation is the negotiation between the sides for the value of IP assets. This process is, in fact, a civilian-economic relation and,

therefore, the legal system cannot intervene too deeply the IP valuation. But the State needs to issue the guidelines for IP valuation. A Circular by the Government for IP valuation can not only settle the contradictions and shortcomings in actual documents dealing with IP valuation but can also play the role of a more integrated set of standards for IP valuation. The subjects of such a circular would be IP assets which fall under protection by IP Law and which can be transferred in civilian transactions. The following is some recommendations for this purpose.

## **1. Category of IP assets which do not fall under IP valuation**

### ***1.1. IP assets prohibited for transfer of IP rights***

- *Geographical appellation*: Geographical appellation is owned by the Vietnamese State of which the property right is not transferable.
- *Trade name*: No valuation applied to them if the transfer of the trade name is not bounded to the whole commercial facilities and activities under this trade name.

### ***1.2. IP assets not permitted for valuation for transfer of rights to use IP assets***

- *Geographical appellations*: Because the right to use geographical appellations is not transferable.
- *Collective mark* (in case the valuation is made for transfer to other organizations/individuals which are not members to the collective property of the collective mark).

### ***1.3. IP assets not permitted for valuation for transfer of trade rights***

The nature of transfer of trade rights is the grant of permission of right of use of trade rights in business activities. According to Clause 1 Article 284 of Trade Law, under transfer of trade rights the IP assets such as *marks, trade name and trade secrets* are components to form “*trade rights*” and they are permitted for valuation. According to considerations of the author of this paper, in addition to these IP assets, *industrial designs* and *inventions* are also the categories of IP assets permitted for valuation under transfer of trade rights. Therefore, *other IP assets, except marks, trade names and trade secrets, industrial designs and inventions*, are not permitted for valuation under transfer of trade rights.



#### ***1.4. IP assets not permitted for valuation for capital contribution***

In case of capital contribution by IP assets the pre-condition is that the contributor must keep the ownership right of the IP assets. There are two types of capital contribution by IP assets, namely contribution by ownership rights and contribution by rights of use of the IP assets. The following categories of IP assets are not permitted for valuation for capital contribution purpose.

- *Geographical appellations;*
- *Trade names* (in case of valuation for capital contribution by ownership rights of the trade names without being bound to transfer of trade facilities and activities under the trade names, and capital contribution by the rights of use of the trade names).

The IP valuation would serve other purposes, in addition to the valuation of IP assets for the above purposes, such as the valuation of businesses (including the value of IP assets) for equitization (in case of State owned businesses), purchase, merge, separation, re-construction, bankruptcy formality, public issue of bonds, management, definition of losses during disputes of IP assets and etc. In these circumstances it is necessary to identify which fixed assets would be admitted as IP assets of businesses, namely;

- The following IP assets are considered as fixed assets of businesses: works of literature, arts and science; shows, sonic records, video records, radio-TV broadcasting programs, encoded satellite program signals; inventions, marks, industrial designs, lay-out designs, trade secrets, trade names, breeding materials and harvest materials;
- We should not define the value of “trade marks” as basis to define the value of businesses for equitization as it was stipulated in Circular No. 202/2011/TT-BTC. In order to fit IP Law it would be necessary to define “*trade names*” and “*marks*” as basis to define the value of businesses for equitization purpose because “*trade marks*” are not listed among objects of IP rights.

## **2. Regulations for subjects entitled for IP valuation**

IP valuation is a process of civilian-economic transaction and, therefore, the subjects participating in valuation process are parts to this transaction. The parts can negotiate for valuation or agree to hire specialized valuating organizations. For valuation of State owned businesses, however, the author of this paper proposes to hire specialized valuating organizations for maximal accuracy of IP valuation. In addition it is necessary to issue

regulations for cases of valuation higher or lower than the actual values of IP assets.

### **3. Regulations for techniques of IP valuation**

The IP valuation uses three widely popularized techniques, name based on costs, benefits and market. Therefore the Circular to govern the IP valuation should have regulations of the above mentioned techniques, scope of application, advantages and disadvantages of every technique. Because the nature of valuation is the negotiation between the parts participating in the price fixing process and, therefore, the Laws should stipulate also that the parts can select another techniques, other than the above mentioned three techniques, for their transaction.

For accuracy of IP valuation, it is also necessary to consider some other elements, namely the exclusivity, IP assets of main market competitors, actual or potential, rights of first use of inventions, industrial designs and parallel imports [13], competition factors (direct or indirect).

In comparison to valuation of tangible assets, the IP valuation is a complex activity because of the invisible nature of IP assets. Many countries do not have their own legal regulations for IP valuation but only regulations for pricing of intangible assets. The proposals presented by the author in this paper, therefore, are only initial suggestions to address the existing problems of IP valuation in Vietnam. The preparation of legal regulations for IP valuation is a long lasting process and requires contributions of experts./.

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