

Technology M&A 2021

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Published by

Law Business Research Ltd

Meridian House, 34-35 Farringdon Street

London, EC4A 4HL, UK

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First published 2018

Third edition

ISBN 978-1-83862-412-5

Printed and distributed by

Encompass Print Solutions

Tel: 0844 2480 112



Technology M&A 2021

Contributing editors**Arlene Arin Hahn and Neeta Sahadev**

White & Case LLP

Lexology Getting The Deal Through is delighted to publish the third edition of *Technology M&A*, which is available in print and online at www.lexology.com/gtdt.

Lexology Getting The Deal Through provides international expert analysis in key areas of law, practice and regulation for corporate counsel, cross-border legal practitioners, and company directors and officers.

Throughout this edition, and following the unique Lexology Getting The Deal Through format, the same key questions are answered by leading practitioners in each of the jurisdictions featured. Our coverage this year includes a new chapter on Russia.

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Every effort has been made to cover all matters of concern to readers. However, specific legal advice should always be sought from experienced local advisers.

Lexology Getting The Deal Through gratefully acknowledges the efforts of all the contributors to this volume, who were chosen for their recognised expertise. We also extend special thanks to the contributing editors, Arlene Arin Hahn and Neeta Sahadev of White & Case LLP, for their continued assistance with this volume.



London

October 2020

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This article was first published in November 2020

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Indonesia

Agus Ahadi Deradjat and Kevin Omar Sidharta

ABNR

STRUCTURING AND LEGAL CONSIDERATIONS

Key laws and regulations

1 | What are the key laws and regulations implicated in technology M&A transactions that may not be relevant to other types of M&A transactions? Are there particular government approvals required, and how are those addressed in the definitive documentation?

The key laws and regulations are all pieces of legislation that govern intellectual property (IP) rights: copyright, industrial design, trade secrets, patents and integrated circuit layout design (IC layout designs). The transfer of IP must be recorded by the Directorate General of Intellectual Property (DGIP).

Upon recordation of the transfer, the applicant will obtain a receipt of the submission and another upon recordation by the DGIP. Further, the DGIP will issue a notification of the transfer recordation as an attachment to the existing IP certificate, as the certificate will be issued only once.

Recordation requires the following documents:

- IP transfer agreement;
- power of attorney;
- a copy of the certificate of fiduciary security and written approval from fiduciary security holder (if the IP is encumbered with fiduciary security); and
- a copy of the certificate of trademark, industrial design, IC layout designs or patent.

For copyright, no registration of ownership is necessary, as these IP rights are obtained automatically by the appearance of the creation (although for evidentiary purpose, recordation would strengthen the copyright's existence); for trade secrets, registration of ownership is not necessary either, as the object concerned must not be disclosed (to protect its value).

Government rights

2 | Are there government march-in or step-in rights with respect to certain categories of technologies?

The Indonesian government may exploit a patent registered in Indonesia under the following circumstances:

- it relates to state defence and security; or
- due to an emergency situation, if it is in the public interest.

The exploitation of a patent by the Indonesian government should be limited to fulfilling domestic demand and should be non-commercial in nature.

The exploitation of a patent by the Indonesian government relating to state defence and security can include:

- firearms;
- ammunition;

- military explosives;
- interception;
- wiretapping;
- surveillance;
- encoding devices and code-analysis devices; or
- the nation's other defence or security needs or equipment.

The exploitation of a patent by the Indonesian government relating to emergency conditions can include:

- a pharmaceutical or biotechnology product that is expensive or required to mitigate a disease that may cause large numbers of sudden deaths, significant disability or constitutes a public health emergency of world significance;
- a chemical- or biotechnology-based agricultural products required for food security;
- an animal medicine required to mitigate pests or a widely contagious animal disease; or
- a process or product to mitigate a natural or environmental disaster.

In 2004, the Indonesian government issued a presidential decree as the means to exploit an anti-retroviral medicines patent to mitigate HIV/AIDS in Indonesia, and unilaterally determined the patent royalty to be paid to the patent holder.

Legal assets

3 | How is legal title to each type of technology and intellectual property asset conveyed in your jurisdiction? What types of formalities are required to effect transfer?

Type of technology /IP asset and how title is obtained:

Copyright	by virtue of the appearance of the creation; formal registration is not necessary but highly advisable as evidence of ownership before a court if necessary, on a future occasion;
Mark	via registration;
Patent	via registration;
IC lay-out designs	via registration;
Industrial Design	via registration;
Trade Secret	by virtue of its existence; formal registration is not necessary as the trade secret cannot be disclosed (in order to protect its value).

Different types of formality are required to effect a transfer:

- 1 transfer of the technology and IP asset through a transfer agreement;
- 2 recording the transfer/assignment of IP with the DGIP as required by IP Laws in Indonesia.

The following documents are required to effect transfer:

- IP transfer agreement;
- power of attorney;
- a copy of the certificate of fiduciary security and written approval from fiduciary security holder (if the IP is encumbered with fiduciary security); and
- a copy of the certificate of trademark, industrial design, IC layout designs or patent.

DUE DILIGENCE

Typical areas

- 4 | What are the typical areas of due diligence undertaken in your jurisdiction with respect to technology and intellectual property assets in technology M&A transactions? How is due diligence different for mergers or share acquisitions as compared to carveouts or asset purchases?

IP registration and IP transfer

IP as an intangible asset constitutes one of the most valuable assets of a company subject to a technology M&A. Due diligence here would focus on specifically checking the legal title of the IP by way of verifying it with the official registry or the Directorate General of Intellectual Property (DGIP).

There is no different arrangement for due diligence of an IP assets transfer between mergers or share acquisitions as compared to carveouts or asset purchase.

For mergers or share acquisitions in a technology M&A, it is important to check and verify whether the legal title of the IP stays with the company to be merged or (which shares) are to be acquired ('the Target').

In this regard, the chain of ownership of the IP title will need to be traced. If the IP right stays with the Target, the IP title would then stay with the Target (upon share acquisition) or the surviving entity (upon merger), regardless of the shareholder of the Target. In addition, if there are licensing agreements in place, the change of control provision in the licensing agreements may need to be reviewed in detail.

For carve-outs or asset purchases, besides checking whether the IP's legal title is transferable, we would also need to check and verify the transferability of the licensing agreements in place (eg cost, termination).

Customary searches

- 5 | What types of public searches are customarily performed when conducting technology M&A due diligence? What other types of publicly available information can be collected or reviewed in the conduct of technology M&A due diligence?

Ownership searches of IP via the registry maintained by the DGIP: Through the search, one may obtain details of the mark and information of the applicant such as name and address of the applicant or mark owner and the scope of protection of the mark, such as presentation of the protected mark and classification and details of the protected goods or services and validity.

Registrable intellectual property

- 6 | What types of intellectual property are registrable, what types of intellectual property are not, and what due diligence is typically undertaken with respect to each?

Registrable IP in Indonesia includes patents, trademarks, industrial designs, and IC layout designs, while copyright is recordable. Trade secrets are not registrable since a trade secret should not be disclosed (in order to protect its value). The due diligence typically undertaken with respect to each is by way of searching for registration data on online databases. For non-registrable trade secrets, due diligence can

only rely on a declaration made by the Target on trade secret ownership. For verification, the Target should confirm which trade secrets it owns.

Liens

- 7 | Can liens or security interests be granted on intellectual property or technology assets, and if so, how do acquirers conduct due diligence on them?

The security interests can be granted on IP or technology assets in the form of fiduciary security. Please note, however, other than patent and copyrights, the regulations do not explicitly mention that IP can be used as collateral. Therefore, the application of the use of IPs other than patent and copyrights as collateral may still need to be tested in the Indonesian legal practice.

To create security, a fiduciary security agreement as a notarial deed is executed in Indonesian language and registered with the fiducia registration office. This is done online and can generally be completed within one to two days. The release of fiduciary security is typically carried out after either the full payment of the underlying obligations being secured by such fiduciary security or the termination of the fiduciary security by the fiduciary security holder and the release of the security should also coincide with the submission of release to the fiducia registration office.

Employee IP due diligence

- 8 | What due diligence is typically undertaken with respect to employee-created and contractor-created intellectual property and technology?

Specific requirements or formalities exist to ensure IP or technology is transferred to or vested with the Target by transfer agreement and the recordation of a transfer agreement. Checking on the working or service agreement between the employee or contractor with the employer in this case is necessary to ascertain the arrangement for ownership of IP invented or created during the service period. On the other hand, if there is no arrangement for the new invention, its ownership would rest with the employer.

Transferring licensed intellectual property

- 9 | Are there any requirements to enable the transfer or assignment of licensed intellectual property and technology? Are exclusive and non-exclusive licences treated differently?

There are no express requirements to enable the transfer or assignment of licensed IP and technology. However, in practice, recordation of a prior licence agreement should be updated at the DGIP in order to record the name of the new licensor. There is no difference in treatment between exclusive and non-exclusive licences.

In the case of a change of IP ownership or change of licensor due to the transfer or assignment of the licensed IP, the IP Laws does not explicitly stipulate an arrangement. However, Government Regulation No. 36 of 2018 on the Recordation of IP License Agreements (GR 36) states that Recordation may be revoked based on: (1) an agreement between Licensor and Licensee, including termination of a licence agreement; (2) court decision; and (3) other matters in accordance with the prevailing laws.

GR 36 also states that license agreements already recorded may be amended if certain information contained therein changes, namely: (1) name of licensor or licensee or object of the licence agreement. If so, licensors or licensees are required to submit a new recordation application; and (2) other information (eg, address of relevant parties, provisions relating to licence exclusivity, etc). Should this information change, licensees are required to notify the amended information and also pay a fee.

The regulation is silent on differences in treatment of exclusive and non-exclusive licences.

Software due diligence

- 10 | What types of software due diligence is typically undertaken in your jurisdiction? Do targets customarily provide code scans for third-party or open source code?

Currently, software due diligence is not yet commonplace in Indonesia. It usually involves a process separate from the due diligence carried out by a legal consultant, and is normally undertaken by a qualified information technology or software consultant due to its technical nature.

In cases where software constitutes the main and most important assets of the target, the target may provide code scans in the course of the software due diligence.

Other due diligence

- 11 | What are the additional areas of due diligence undertaken or unique legal considerations in your jurisdiction with respect to special or emerging technologies?

Other than the privacy law issues, the Indonesian law and regulation have not been developed to cater to regulating the emerging technologies (specifically, artificial intelligence, Internet of Things and big data). These emerging technologies are still uncharted territory for Indonesian legal system and therefore for the due diligence undertaken there has no specific legal point to be considered, apart from the proprietary rights and general compliance aspects on the operation of electronic systems (eg, personal data protection, mandatory electronic systems registration and electronic systems feasibility test). Nevertheless, the current implementation of the compliance aspects have not been maturely developed and the enforcement thereof is considerably low. Currently, the emphasis of these emerging technologies is greater on the practical and commercial aspects matters than the legal aspects.

PURCHASE AGREEMENT

Representations and warranties

- 12 | In technology M&A transactions, is it customary to include representations and warranties for intellectual property, technology, cybersecurity or data privacy?

It is customary to include representations and warranties for IP, technology, cybersecurity or data privacy.

For example, for IP it is true and valid that the target company is the IP owner, and that the IP is not legally encumbered. No disputes existed either before or after registration of the IP.

Customary ancillary agreements

- 13 | What types of ancillary agreements are customary in a carveout or asset sale?

Transitional trademark licence and cross-licence agreements are customary.

Conditions and covenants

- 14 | What kinds of intellectual property or tech-related pre- or post-closing conditions or covenants do acquirers typically require?

There is an agreement upon the purchase of software to submit the source code, or to deposit the source code with a third party for safe-keeping should the company go bankrupt.

Survival period

- 15 | Are intellectual property representations and warranties typically subject to longer survival periods than other representations and warranties?

Representations and warranties typically survive during the period of IP protection. Where the IP protection is no longer valid, the representations and warranties are typically not valid anymore. Therefore, checking the legal title (including the protection period) of the IP with the official registry or the Directorate General of Intellectual Property (DGIP) is very important.

Breach of representations and warranties

- 16 | Are liabilities for breach of intellectual property representations and warranties typically subject to a cap that is higher than the liability cap for breach of other representations and warranties?

Such liabilities are not specifically regulated in Indonesian IP law. The liabilities for breach of IP representations and warranties should be set out in a contract and agreed by the parties.

- 17 | Are liabilities for breach of intellectual property representations subject to, or carved out from, de minimis thresholds, baskets, or deductibles or other limitations on recovery?

There is no specific restriction on liabilities for breach of IP representation. The liabilities for these breaches should be set out in a contract and agreed by the parties.

Indemnities

- 18 | Does the definitive agreement customarily include specific indemnities related to intellectual property, data security or privacy matters?

There are no restrictions on indemnities related to IP. The specific indemnities related to IP, data security or privacy matters should be set out in the contract and agreed by the parties.

Walk rights

- 19 | As a closing condition, are intellectual property representations and warranties required to be true in all respects, in all material respects, or except as would not cause a material adverse effect?

Representations and warranties should be specified in as detailed and clear a way as possible in order to prevent loss to the parties involved.

UPDATES AND TRENDS

Key developments of the past year

- 20 | What were the key cases, decisions, judgments and policy and legislative developments of the past year?

Although not explicitly addressing the covid-19 pandemic, it seemed that the introduction of the Presidential Regulation No. 77 of 2020 in July 2020 (Perpres 77/2020) to renew the regulation concerning patent by government, may among others relate to the pandemic.

Perpres 77/2020 provides that the exploitation of a patent by the Indonesian government relating to emergency conditions can include a pharmaceutical or biotechnology product that is expensive or required to mitigate a disease that may cause large numbers of sudden deaths,

significant disability or constitutes a public health emergency of world significance. The Indonesian government may appoint third party to exploit the patent, if it cannot do so by itself.

Reasonable compensation must be given to the patent holder for the exploitation of a patent by the Indonesian government or its appointee, which will be stipulated in a specific presidential decree on the patent exploitation by government. Perpres 77/2020 nevertheless removed the provision in the previous regulation allowing the patent holder to raise objection on the amount of compensation by filing a lawsuit to the commercial court.

Coronavirus

21 | What emergency legislation, relief programmes and other initiatives specific to your practice area has your state implemented to address the pandemic? Have any existing government programs, laws or regulations been amended to address these concerns? What best practices are advisable for clients?

The Directorate General of Intellectual Property (DGIP) of the Ministry of Law and Human Rights was continually developing online systems as planned long before the covid-19 pandemic struck. To date, all arrangements between the public and the DGIP can be accessed online (remotely). Emergency legislation relief programmes and other initiatives are running normally, and all time-limited submissions can be carried out online.

The authors would like to thank their colleagues, Evelyn Irmea Sinisuka, Amir Angkasa, Reynard Kevin Munando and Mahiswara Timur for their invaluable assistance in the preparation and finalisation of this chapter.

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