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**Patent Cooperation Treaty (PCT)**

**Working Group**

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Progress Report: Possible Measures to Reduce Exposure of PCT Fee Income to Movements in Currency Exchange Rates Through Netting

*Document prepared by the International Bureau*

# Summary

1. This document sets out a progress report on the International Bureau’s analysis of issues relating to the possible introduction of a “netting structure” for all PCT fee transactions to reduce exposure of fee income to movements in currency exchange rates and to reduce cost and efforts for receiving Offices and International Searching Authorities. The International Bureau proposes to continue to study this approach and to commence a pilot project with a number of receiving Offices and International Authorities for the netting of search fees and international filing fees. Should the pilot project deliver positive results, the International Bureau intends to submit a proposal to the Working Group in 2018 aimed at extending a “netting structure” to as many PCT receiving Offices and International Searching Authorities as possible.
2. Furthermore, it is the International Bureau's intention to invite several Offices which act as both a PCT receiving Office and as an Office of a Contracting Party to the Madrid and/or the Hague Systems to join an expanded netting process which would include all transfers of funds to and from WIPO.

# Background

1. The Working Group, at its ninth session in May 2016, discussed a document prepared by the International Bureau that set out various possible measures to reduce the risk of exposure of PCT fee income to movements in currency exchange rates (document PCT/WG/9/9). The

discussions are summarized in paragraphs 21 to 36 of the Summary by the Chair (document PCT/WG/9/27); paragraphs 30 to 33 of the Report of the session (document PCT/WG/9/28) give details of all the interventions.

1. The present document presents an update of the work carried out on one of the possible measures discussed in document PCT/WG/9/9, namely, introducing a “netting structure” for the transfer of PCT fees.

# Introducing a “Netting Structure” for the Transfer of Fees

1. “Netting” is a settlement mechanism used to allow a positive value (“payment”) and a negative value (“receivable”) to offset and partially or entirely cancel each other out. The netting process consolidates all transactions between participants and calculates a settlement between the participants on a “net” basis, typically by means of a single payment or receipt. A netting software is used to perform the administration of the netting process.
2. In the PCT context, a possible netting process for PCT fees would involve netting the transactions between the receiving Office, the International Searching Authority and the International Bureau. It would require the receiving Office to transfer to the International Bureau both the international filing fee and the search fee. This would eliminate the need for the receiving Office and the International Searching Authority to deal with transfers and receipts of fee payments to and from multiple Offices. Instead, the receiving Office and the International Authority would only have to deal with transfers and receipts of fee payments to and from the International Bureau.
3. The transfer of fees from the receiving Office to the International Bureau only (and no longer also to the International Searching Authority) would require regular exchange of payment information and timing of fee transfers between the International Bureau and the receiving Offices. Generally, it would take place once a month on a prescribed date in the local currency in which the fees had been collected if that currency was freely convertible into Swiss francs. Where the fees had been collected by the receiving Office in a currency which was not freely convertible into Swiss francs, the transfer to the International Bureau would take place in one of the currencies accepted by the International Bureau, that is, Swiss francs, euros or United States dollars (similar to what at present is provided for under Rule 15.2(d)(ii) with regard to the transfer of the international filing fee).
4. While the international filing fee, paid for the benefit of the International Bureau, would remain with the International Bureau, the search fee, paid for the benefit of the International Searching Authority, would be transferred by the International Bureau to the International Searching Authority, which would always receive the full amount of the search fee in the currency fixed by the International Searching Authority. Under the envisaged “netting structure”, it would thus no longer be necessary for the International Searching Authority to rely on the procedure under Rule 16.1(e) to recuperate any losses in search fee income due to exchange rate fluctuations. In turn, this would eliminate WIPO’s exposure to exchange rate losses incurred by International Searching Authorities and reimbursed by the International Bureau to those Authorities under Rule 16.1(e).
5. For a receiving Office which also acts as an International Searching Authority, for each currency, that Office and the International Bureau would exchange payment information on the international filing fees collected as a receiving Office (which the receiving Office “owes” the International Bureau) and the total search fees (transferred to the International Bureau by other receiving Offices) payable to the International Searching Authority (which the International Bureau “owes” the International Searching Authority). In the case of a net amount in a given currency in favor of the International Bureau, the transfer from the receiving Office would consist of the difference between the total of the international filing fees collected as a receiving Office and the total search fees payable to the International Searching Authority. The amount would be transferred to the International Bureau either in the local currency in which the receiving Office had collected the international filing fee (if that currency was freely convertible into Swiss francs) or in Swiss francs, euros or United States dollars (if the local currency in which the receiving Office had collected the international filing fee was not freely convertible into Swiss francs). In the case of a net amount in favor of the International Searching Authority in a given currency, the International Bureau would transfer the net amount it owes to that Office, in the currency in which that Authority had fixed the search fee, shortly after it had received the necessary payment information from the receiving Office.

# Progress Report

1. Following the discussions at the ninth session of the Working Group, in order to study the procedural issues related to the possible setting up of a netting structure, the International Bureau recruited a consultant, who took up his duties in the third quarter of 2016. In addition, a second consultant has been recruited to assist in the analysis of issues related to the management of the banking elements related to the setting up of a netting structure.
2. A detailed analysis of the implications of the possible setting up of a “netting structure” for all PCT fee transactions between the receiving Offices, the International Searching Authorities and the International Bureau is ongoing. The goal would be to reduce as much as possible the exchange-rate losses incurred by International Searching Authorities which at present are being reimbursed to those Authorities by the International Bureau under Rule 16.1(e), noting the substantial payments that have been made under this Rule in the recent past. A detailed simulation of the impact a netting structure as outlined above would have had on PCT fee income in the years 2014, 2015 and 2016 is currently being carried out.
3. As mentioned in paragraph 4, above, a netting software would be used to perform the administration of the netting process. In November 2016, WIPO issued a request for proposal (RFP) to various software manufacturers in order to acquire netting software that would be compatible with International Bureau’s accounting system. Two software manufacturers responded to the RFP and submitted full proposals. At the time of writing of the present document, the software from both manufacturers was being reviewed in detail in a test environment to determine whether it meets the International Bureau’s requirements, notably whether it contains all of the necessary functionality to allow for detailed reporting, the establishment of netting statements and the automatic transmittal of data to receiving Offices and International Searching Authorities, as well as whether it meets WIPO’s strict security requirements. At the time of writing the present document, the RFP process was in its final stages; it is expected that the netting software will be available for use by the International Bureau in the pilot project in the second quarter of 2017.
4. Following more extensive testing and configuration of the software to meet the International Bureau’s requirements, a pilot project will commence with several receiving Offices and International Searching Authorities. The International Bureau is planning to approach several Offices and International Searching Authorities with high volumes of PCT fee transfers to invite them to participate in the netting pilot. It is anticipated to commence with the pilot in the third quarter of 2017. Initially, several of the larger receiving Offices that also function as International Searching Authorities would be invited to participate in the pilot in a test environment only and would be invited to join the “live” pilot at a later stage.
5. At present, Rule 16.1 provides that the receiving Office shall promptly transfer any search fees collected by it to the competent International Searching Authority. For the purposes of the pilot, under which any participating receiving Offices will no longer transfer the search fees directly to the International Searching Authority concerned, it will therefore be necessary for each participating pair of receiving Office and International Searching Authority to enter into an agreement with the International Bureau under which the transfer of the search fee by the receiving Office to the International Bureau (either in the local currency of the receiving Office or one of the currencies accepted by the International Bureau, see above) and the subsequent transfer of the search fee by the International Bureau to the International Searching Authority (in the currency fixed by that Authority) shall be considered to be the transfer of the search fee under Rule 16.1. In effect, the International Bureau would be acting as an agent for receiving Offices and International Searching Authorities in a sense which is not so different from the banks acting as agents in the context of the transfer of fees.
6. It is the intention of the International Bureau to inform Member States about the progress of the pilot by way of one or more PCT Circulars. Should the pilot prove to be successful, a proposal would be submitted to the Working Group for consideration at its 2018 session to extend the approach to as many receiving Offices and International Searching Authorities as possible, together with proposals for necessary changes to the current legal framework governing the transfer of PCT fees, if any.

# Additional Netting Processes

1. In addition to the netting of PCT international filing fees and search fees as described above, the International Bureau, as the administrator of both the Madrid System and the Hague System is also transferring fees paid under the Madrid and Hague Systems to participating Contracting Parties in Swiss francs and is receiving assessed contributions, also in Swiss francs, from the same States in their capacity as WIPO Member States. For the payment of the assessed contributions, WIPO Member States must purchase Swiss francs whereas, in their role as Contracting Parties to the Madrid and/or the Hague Systems, they may have to convert the fee income from those systems, transferred to them by the International Bureau in Swiss francs, into their local currencies for use in their operations.
2. At the same time, the International Bureau must convert PCT fees received in currencies other than Swiss francs into Swiss francs for use in its operations. In 2016, the International Bureau exchanged the equivalent of 148 million Swiss francs from other currencies into Swiss francs. All of this currency conversion is costly and is subject to the risk of exchange rate losses. While, in 2016, the International Bureau was able to successfully manage its currency conversion without incurring significant losses, it is to be noted that, in the past, major events outside of WIPO’s control, such as the revaluation of the Swiss franc by the Swiss National Bank in January 2015 and the decline in value of the pound sterling in mid-2016, have resulted in significant losses.
3. Therefore, the International Bureau is interested in inviting several Member States whose respective Office acts as both a PCT receiving Office and as an Office of a Contracting Party to the Madrid and/or the Hague Systems to consider expanding the netting process to include all transfers of funds to and from WIPO. Should the pilot PCT netting process prove successful, further information on such an expanded netting process will be made available to the PCT Working Group and also to the Madrid and the Hague Unions.
4. *The Working Group is invited to take note of the contents of the present document.*

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