



New Licensing Rules by the Israeli Innovation Authority for Multinational Corporations

At the beginning of September, the Israeli Innovation Authority, a division of the Israeli Ministry of Economy and Industry and the successor to the Office of Chief Scientist (“**IIA**”), issued new rules (“**New Rules**”) regarding the licensing of know-how developed and obtained by Israeli companies that received grants from the IIA (“**Funded Companies**”), to multinational corporations.

The New Rules are another attempt of the IIA to incentivize and facilitate investments in, and acquisitions of, Israeli Funded Companies – a position first initiated in May 2017 when the IIA published updated rules regarding the transfer of know-how of Funded Companies outside of Israel (as detailed in our previous [Legal Update](#)).

The New Rules are intended to further simplify the process of licensing know-how of a Funded Company to its group companies, including Multinational Corporations, offering an alternative route to that of a full “transfer exit-fee” payment to the IIA, in order to permit the access to such company’s intellectual property.

According to the New Rules, subject to the approval of the IIA, Funded Companies which are part of a “**Multinational Corporation**” (an Israeli or non-Israeli multinational corporation whose consolidated annual turnover was more than US\$2 billion in the calendar year preceding the filing of the application for the approval of a Group License by the IIA, in accordance with the New Rules) may license the know-how it developed and obtained using grants received from the IIA (“**Funded IP**”) within the Multinational Corporation’s group companies (“**Group License**”). The Group License enables the license of Funded IP both by a Funded Company, which is wholly owned (directly or indirectly) by the Multinational Corporation, to the multinational corporation, or by a Funded Company, which is a Multinational Corporation, to entities it wholly owns (directly or indirectly).

If a Group License is approved by the IIA, the Funded Company will be required to pay the IIA a royalty fee equal to 5% of the revenues the Funded Company receives from the Group License (the revenues are calculated based on a transfer pricing analysis/economic valuation, as further described below) (“**IIA Royalty Fee**”), and up to a maximum amount of 150% (plus accrued interest) of the total aggregate amount received by the Funded Company in connection with the

licensed know-how. The payment, which is based on the income that the Funded Company actually receives in consideration for the Group License, can potentially be much lower than the amount otherwise required to be paid under the current rules concerning the license of Funded IP to foreign companies that are not part of a Multinational Corporation.

The New Rules also distinguish between the manner of payment of the IIA Royalty Fee, based on the income the Funded Company receives from the licensee in respect of the license (i.e., if the licensee pays a one-time fee with respect to the license of the Funded IP, then the royalties will be paid in one installment, and if the licensee pays license fees with respect to the Funded IP in installments, then the royalties will be payable in installments).

According to the New Rules, IIA will grant an approval for a Group License under the following conditions: (i) the licensed Funded IP is not the primary product developed in connection with the grant received by the Funded Company from the IIA; (ii) the license can only be used by the Multinational Corporation, cannot preclude the Funded Company from using the licensed Funded IP, and the ownership and title to the licensed Funded IP cannot be transferred to the licensee; (iii) the IIA must be convinced that the license will not harm or limit the Funded Company's activities in any way; and (iv) the Israeli economy would benefit more from the approval of the Group License than if no license was granted ("**Positive Return**").¹

A Funded Company applying for an approval for a Group License must submit the following documents to the IIA:

- 1) A business plan of the Funded Company and the relevant Multinational Corporation, demonstrating that the grant of the Group License will not harm the activities of the Funded Company (the IIA may require additional details and documents to prove this) ("**Business Plan**"). The Business Plan must be approved by the IIA;
- 2) An undertaking by the Funded Company and the Multinational Corporation stating that any new know-how developed under the Funded IP following the effective date of the Group License will be owned by the Funded Company; and
- 3) A transfer pricing analysis or an economic valuation regarding the consideration the Funded Company will receive from the Multinational Corporation following the grant

¹ "**Positive Return**" is defined under the Encouragement of Industrial Research and Development Law, 1984, as enhancement of the economic benefit for the economy that stems from research and development or from its results, above and beyond the return for persons directly involved in that research and development. As this definition is not very clear, the existence of a Positive Return can be estimated by certain criteria's, such as the technological advantages of the Funded IP (the level of innovational technology and technological complexity, the intellectual property, patents, etc.), the potential international collaboration due to the Funded IP and its contribution to the Israeli economy (both in the business and technological aspects), the creation of new employment opportunities following the approval of the Group License, and more. Although the IIA still reserves broad discretion as to determining the existence of "Positive Return", this may also be an advantage for Funded Companies, enabling them to base their request for a Group License on wide parameters to support the existence of Positive Return.

of the Group License.

The IIA may determine the time period of the validity of the Group License and any other additional conditions it deems necessary.

If the Group License is approved, the Funded Company and the Multinational Corporation that received the Group License must submit a report regarding their compliance with the Business Plan at the end of each calendar year during the license period. Should the IIA determine that any of the conditions for the Group License were not satisfied in accordance with the Business Plan, the IIA may amend the provisions of the Group License, and may even require the Funded Company to pay the full “transfer exit-fee”, as if the Funded IP was fully transferred outside of Israel (which could result in a payment of up to six times the grant amount received by the Funded Company from the IIA, as further detailed in our previous Legal Update).

Sincerely,

Hi-Tech, Technology & Venture Capital Practice

Fischer Behar Chen Well Orion & Co

Updated written by: Adv. Raz Tepper, Adv. Talia Shekel

For further information, please contact:

Adv. Raz Tepper

rtepper@fbclawyers.com

+972-3-6944194

.....
The information provided herein is solely for informational purposes and shall not be construed as a legal opinion or legal advice of any sort. All rights reserved to Fischer Behar Chen Well Orion & Co. In order to subscribe to or be removed from the distribution list please e-mail: news@fbclawyers.com