ISSUES RAISED IN THE LAW ON THE VALUATION OF ASSETS CONTRIBUTED AS CAPITAL ARE INDUSTRIAL PROPERTY RIGHTS

Tran Cao Thanh¹, Doan Duc Luong²
¹²University of Law, Hue University, Vo Van Kiet Street, An Tay Ward, Hue City, Vietnam

ABSTRACT

Under Vietnamese law, the capital contribution is the contribution of assets to form a company’s charter capital. The capital contribution includes a capital contribution to establish an enterprise or to contribute additional capital to an already established enterprise. Intellectual property rights are the rights of organizations and individuals to intellectual property, including copyrights and rights related to copyrights, industrial property rights, and rights to plant varieties. The law also stipulates that capital contribution is intellectual property rights in particular and industrial property rights in general, but there are still some shortcomings. Moreover, the valuation of assets contributed as capital as industrial property rights have not been specifically regulated by law. On the basis of analyzing the current state of the law on capital contribution and valuation of assets contributed as capital is industrial property rights. This study proposes solutions to supplement and improve this law.

Keywords: Law on the valuation of assets, contributed as capital, industrial property rights, issues raised

I. INTRODUCTION

WIPO’s study titled “World Intellectual Property Report 2017: Intangible capital in the global value chain” shows that, on average, intangible capital accounts for 30.4% of the total value of manufactured goods. In general, during this period, intangible assets grew 75% to $ 5,900 billion in 2014, double the amount that tangible assets, such as homes, factories, and machines contribute to the total value of manufactured goods. That is the conclusion of a study of items produced by global value chain companies published by the United Nations World Intellectual Property Organization (WIPO on November 20, 2017).

WIPO CEO Francis Gurry (2017) said that in the age of global value chains, intangible assets increasingly determine the fate as well as the assets of companies. This asset class lurks behind a product’s general appearance, feel features, and appeal and determines its success in the marketplace. Meanwhile, intellectual property is the tool for companies to secure a competitive advantage from this intangible capital.

Intangible capital types, such as brands, design, and technology, are increasingly playing a decisive role in the market’s success, given that nearly a third of the value of manufactured products comes from these intangible assets.

With the advancement of science, technology, and technology, the need to contribute capital with the property as intellectual property rights in general (including industrial property rights) is increasingly popular around the world and in Vietnam. An asset is an intellectual property right that is a special asset (an intangible asset class), and the valuation of it requires special methods. Since the special nature of an asset is intellectual property rights, the inaccurate valuation of the property against its true value is inevitable. Therefore, in order to attribute the responsibility of the valuation organization or individual to limit the wrong valuation, the regulations on the valuation of assets contributed as capital by intellectual property rights in general and industrial property rights, in particular, must be strict, avoid unfortunate damages from occurring.

THE LEGAL PROVISIONS ON CAPITAL CONTRIBUTION ARE INDUSTRIAL PROPERTY RIGHTS

What are intellectual property rights? What are industrial property rights?

What are intellectual property rights?
Wisdom is the ability to perceive a reason to a certain level. Intellectual property rights include ownership rights to products of intellectual and spiritual activities such as literary, artistic, scientific, invention, industrial design, or circuit design integrates semiconductors, trademarks, trade names, trade secrets, geographical indications, and plant varieties.

The objects of intellectual property protected by the State include Objects of copyright: Literary, artistic and scientific works; objects related to copyrights such as performances, phonograms, video recordings, satellite broadcasts carrying encrypted programs. Industrial property right objects: Patents, industrial designs, trademarks, geographical indications, business secrets, trade names, layout design of semiconductor integrated circuits; Objects of rights to plant varieties: Plant varieties and propagating materials (Article 3, Intellectual Property Law, 2019).

Intellectual property rights are the rights of organizations and individuals to intellectual property, including copyrights and rights related to copyright, industrial property rights, and rights to plant varieties (Article 4, Intellectual Property Law, 2019).

What are industrial property rights?

Industrial property rights are one of the subjects of intellectual property rights and are governed by the Law on Intellectual Property of Vietnam. So what is the concept of industrial property rights?

Science, technology, and technology are human creations and have become an integral part of the production force that is decisive to labor productivity. However, “scientific, technical” assets that man creates have characteristics unlike other assets, which are intangible assets that the creator himself cannot possess for themselves, they are very easy to be taken and appropriated.

Protecting the fruits of creative activity takes many different forms. In today’s era, diversified and diversified industrial property activities are not only confined to a country but also global. The State’s regulations on intellectual property in general and industrial property rights, in particular, are aimed at protecting the rights of persons operating in special domains of social and economic significance.

According to the provisions of Vietnamese law, “Industrial property rights are the rights of organizations and individuals to inventions, industrial designs, layout designs of semiconductor integrated circuits, trademarks, trade names, geographical indications, trade secrets created or owned by them, and the right to oppose unfair competition” (Article 4, Intellectual Property Law, 2019).

Thus, industrial property rights are the law of industrial property or in other words, a synthesis of legal regulations governing social relations arising after human creation of intellectual products and is the law is considered to be industrial property objects. In this sense, industrial property rights are property rights to intangible assets, on the other hand, industrial property rights also include the provisions of international treaties to which Vietnam is a signatory.

Regulations of Vietnamese law on capital contribution with intellectual property rights

Capital contribution with intellectual property rights:

According to the provisions of Vietnamese law, “Capital contribution is the contribution of assets to form the charter capital of a company, including capital contribution to establish a company or to contribute additional charter capital of an established company” (Clause 18, Article 4, Enterprise Law, 2020)

The Law on Enterprises 2014 provides for capital contribution with intellectual property rights as follows:

“Intellectual property rights used for capital contribution include copyrights, copyright-related rights, industrial property rights, rights to plant varieties, and other intellectual property rights in accordance with the provisions of law intellectual property law. Only organizations and individuals that are the lawful owners of the aforementioned rights are entitled to use those assets for capital contribution (Article 35);
For assets with ownership registration or land use right value, the capital contributor must carry out the procedures, transfer the ownership of that asset or the land use right to the company at the competent state authority (Article 36);

For assets whose ownership rights are not registered, the capital contribution must be made by the delivery and receipt of the property to be contributed as capital, certified in writing with the full content and signature of the capital contributor and legal representative. Law of the company in accordance with the law (Article 36)

Accordingly, the property is intellectual property rights can only be used to contribute capital when it is registered with a competent state agency and has been granted a protection title, only the owner (who is named as the owner above) only those intellectual property assets have the right to use those assets to contribute capital to the enterprise. Assets that are intellectual property rights must be valued by members, founding shareholders, or professional valuation organizations and expressed in VND prior to capital contribution.

However, in the Enterprise Law 2020, Article 34, “Assets contributed as capital” has removed specific provisions on assets contributed as intellectual property rights.

**Types of intellectual property rights are allowed to contribute capital**

Intellectual property rights are the rights of individuals and legal entities to intellectual products created by humans. These intellectual products must be recognized and recognized by law. The right to protection for intellectual product objects is exercised through protection titles issued by competent state agencies.

Objects of intellectual property rights include (i) Copyrights of literary and artistic works; (ii) Inventions, utility solutions; (iii) trade secrets; (iv) industrial design; (v) trademarks or service marks; (vi) geographical indication, the appellation of origin of goods; (vii) trade name; (viii) new plant varieties; (ix) layout design of semiconductor integrated circuits; (x) the right to oppose unfair competition in relation to industrial property.

Conditions for capital contribution with intellectual property rights:

The capital contributor must be the owner of the intellectual property objects;

The objects of intellectual property contributed as capital must be non-disputed assets that cannot be mortgaged or guaranteed anywhere;

This capital contribution only applies to moral rights associated with property rights and property rights in copyright to literary, artistic, and scientific works (except for the contribution of capital by the right to use the content, scientific works are basic and applied research in the field of social sciences and humanities); property rights of the owner of related rights; industrial property rights to inventions, trademarks, industrial designs, layout designs, trade names (only in case of capital contribution with the ownership of trade names and such capital contribution must be accompanied by the basis of business and business activities under that trade name); rights to plant varieties.

**THE LAW ON PRICING CAPITAL CONTRIBUTION PROPERTIES**

**Valuation capital contribution properties**

According to the provisions of Vietnamese law: “1. Contributed assets are Vietnam Dong, freely convertible foreign currencies, gold, land use rights, intellectual property rights, technology, technical know-how, and other assets that can be valued in Vietnam Dong. 2. Only individuals and organizations that are the lawful owners or have the right to use lawfully the property specified in Clause 1 of this Article have the right to use such property to contribute capital according to the provisions of law” (Article 34, Enterprise Law, 2020).

Currently, Vietnamese law, although there are provisions on asset valuation, is not strict and specific about the valuation of assets contributed as capital in general and property is intellectual property rights in particular. Regarding the valuation of assets contributed as capital is specified in Article 36 of the Law on Enterprises 2020 as follows:
1. Contributed assets other than Vietnam Dong, freely convertible foreign currencies, gold must be valued by members, founding shareholders, or a professional valuation organization and expressed in Vietnam Dong.

2. Assets contributed as capital upon the establishment of an enterprise must be valued by founding members or shareholders on the principle of consensus or by a professional valuation organization. In case the professional valuation organization conducts valuation, the value of assets contributed as capital must be approved by a majority of members, founding shareholders.

In case the assets contributed as capital are valued at a higher price than the actual value at the time of capital contribution, the founding members and shareholders jointly contribute by the difference between the valued value and the real value economics of the assets contributed as capital at the end of the valuation; at the same time, to be jointly liable for damages caused by the intentional valuation of the assets contributed as capital higher than the actual value.

3. Assets contributed as capital in the course of operation, as agreed upon by the owner, the Members’ Council, for limited liability companies and partnerships, the Board of Directors, for joint-stock companies and capital contributors pricing or by a professional appraisal of prices. In case the professional valuation organization conducts valuation, the value of the assets contributed as capital must be approved by the capital contributor and the enterprise.

If the value of the assets to be contributed as capital is higher than the actual value at the time of capital contribution, the capital contributor, the owner, or a member of the Members’ Council, for a limited liability company and a partnership, members of the Board of Directors for joint-stock companies to contribute additionally equal to the difference between the valued value and the actual value of the assets contributed as capital at the end of the valuation; at the same time, to be jointly liable for damage caused by the intentional valuation of the assets contributed as capital higher than the actual value” (Article 36, Vietnam Enterprise Law, 2020).

In addition to the above law, up to now, there has been no document or regulation governing the valuation of assets contributed as capital, especially the valuation of assets contributed as capital, which is general intellectual property rights and public property rights industry in particular. And only with this regulation, we all find that it is too general and difficult to apply in practice.

The law of professional valuation organizations

According to Article 34 of the Law on Enterprises 2020, assets contributed as capital can be VND, convertible foreign currencies, gold, land use right value, intellectual property rights, technology, technical know-how, and other assets that can be valued in Vietnamese Dong. Thereby, it can be seen that if the members of the business contribute capital in cash or in gold or foreign currencies, it is easy to convert into a unit of calculation as VND. In case a member contributes capital with assets other than cash such as Vehicles, land use rights, the value of intellectual property rights, technology, technical know-how, and other assets, the valuation of the asset how is real estate done? And who is in charge of the valuation of that equity?

The Article 36 of the Law on Enterprises 2020 only mentions a professional valuation organization without mentioning which organization is selected in any order, by which subject is selected.

Under Vietnamese law, it is not necessary for the parties to choose a professional valuation organization for each particular asset class. Thus, it may lead to an incorrect valuation of the assets to be contributed as capital. Meanwhile, according to the law of some countries (French Republic), the Capital Council is selected in the list of Auditing Council or among the experts registered in the list of the court. Experts on the court’s list are in many different fields, so when the equity is in any field, the expert in that field will be selected. Professionals have in-depth knowledge of their field so it will not lead to mispricing. The court of authority to designate is the court in which the business is headquartered.

Responsibility for wrong pricing

With that said, intellectual property is more special than other tangible assets, so it’s hard to avoid mistakes in pricing. The law only generally stipulates that founding members and shareholders jointly contribute by the
difference between the valued value and the actual value of the assets contributed as capital at the end of the valuation in case capital is priced higher than its actual value at the time of capital contribution; at the same time, to be jointly liable for damages caused by the intentional valuation of the assets contributed as capital higher than the actual value. Compared with the Enterprise Law (2005), the Enterprise Law (2014) defines the responsibilities of founding members and shareholders when valuing higher than the actual value of intellectual property assets to be contributed as capital. However, the law has not yet defined the responsibility of a professional valuation organization when it evaluates contributed assets in general and intellectual property rights in particular. The Enterprise Law (2020) has not mentioned this case yet.

The problem arises here, the law should stipulate both civil and criminal liability for those who conduct wrong pricing. If the Capital Contribution Council conducts the valuation of intellectual property contributed as capital to a limited liability company, it is responsible for the accuracy of the valuation value. If there is no capital contribution council or when the value determined is different from the value determined by the capital contribution council, the members shall be jointly liable with a third person within five years for the value of capital contribution with the intellectual property when establishing the company.

When the valuation is higher than the actual value of the assets in case of capital contribution in kind, including intellectual property rights when contributing capital to a joint-stock company, the shareholder/person has conducted the valuation of the value of the capital contribution may be liable to other shareholders when other shareholders suffer losses due to the act of overvaluation of assets. Damage suffered by other shareholders due to an unjustified increase in the rights of the capital contributor to mispricing are damages that are not a consequence of the company’s losses, the shareholder may love. Claim compensation for each individual damaged, criminal liability is similar to the case of a joint-stock company.

An urgent issue in Vietnamese law is the timing of the end of the valuation:

Under the Article 35 of the Law on Enterprises 2020, a member is jointly responsible for the difference between the valuation value and the actual value of the intellectual property at the end of the valuation. The problem is that when the time of discovery of pricing deviates from the end of the valuation, it is not possible to determine the gap to fix the valuer’s liability. Intellectual property is a special type of property whose value changes over time. So, determining the price at the time of pricing is very difficult.

**SOME LIMITATIONS OF THE LAW**

Regarding the order and procedures for determining the valuation organization:

Article 36 of the Law on Enterprises 2020 only mentions a professional valuation organization without mentioning which organization is selected in any order, by which subject is selected.

Under Vietnamese law, it is not necessary for the parties to choose a professional valuation organization for each particular asset class. Thus, it may lead to an incorrect valuation of the assets to be contributed as capital. Therefore, it is necessary to establish a Board of Capital that is selected in the list of Auditing Councils or among the experts registered in the list of the court.

Experts on the court’s list are in many different fields, so when the equity is in any field, the expert in that field will be selected. Professionals have in-depth knowledge of their field so it will not lead to mispricing. The court of authority to designate is the court in which the business is headquartered.

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About the end of the valuation

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Capital contribution when the company has been in operation

According to the law of Vietnam, the valuation of intellectual property upon capital contribution is made by owners, the Members’ Council for limited liability companies and partnerships, the Board of Directors for joint-stock companies and capital contributors. When the valuation is higher than the actual value of the assets contributed as capital, the owner, members of the Members’ Council, for limited liability companies and partnerships, or members of the Board of Directors, for joint-stock companies the co-contributed additional share equals the difference between the valued value and the actual value of the assets contributed as capital at the end of the valuation; at the same time, to be jointly liable for damages caused by the intentional valuation of the assets contributed as capital higher than the actual value. This regulation can determine which individuals or groups of individuals in the business conduct valuation.

In the case of capital contribution, while an enterprise is in operation, the valuation of the assets to be contributed as capital must be approved by the enterprise and the capital contributor. Here, again, the same problem as the Enterprise Law 2020 is that it is impossible to determine which subjects of the enterprise have the authority to accept the valuation of the valuation organization. Are the previously listed entities with valuation authority presumed to have the authority to approve the valuation of a professional valuation body? And similar to the problem when contributing capital to the establishment of a business, this regulation still does not address the process of selecting a professional valuer nor its responsibility when it comes to valuing higher than its actual value. Capital contribution, in particular, is property, which is intellectual property rights in general.

If the capital contribution to a joint-stock company is operating, the capital contributor will sign a capital contribution contract with the enterprise. On the business side, the person who signs this capital contribution contract is the Chairman of the Board of Directors after obtaining the permission of the Board of Directors and under the approval of the General Meeting of Shareholders. For asset valuation, one or more Capital Contribution Boards are appointed by the Chief Commercial Court, at the request of the Chairman of the Board of Directors.

SOME RECOMMENDATIONS

Complete the process of establishing industrial property rights and relevant legal regulations such as the law on contracts, the law on secured transactions, and the law on technology transfer

Regulations on establishing industrial property rights need to be amended and supplemented to accommodate the expansion of protection coverage for sound marks, odor marks, and industrial designs of a part of products form of use, etc. The process of establishing rights should be simple, transparent, facilitate the applicant, and enhance the application of information technology.

To encourage entrepreneurship and innovation, the most important thing is the access to capital of innovation and start-up businesses. Therefore, the law on secured transactions and the law on technology transfer need to define more clearly the mechanism of receiving security with intellectual property, clearly identify the types of
intellectual property that can be used as assets guaranteed products. At the same time, it is necessary to research and learn from foreign experiences in promoting intellectual property secured lending.

**Completing the law on pricing**

**About professional valuation organization:**

The regulation of a professional valuation organization should be replaced by a Capital Contribution Council. The Council on capital contribution shall be appointed by the founding members, if it cannot or cannot be appointed, it shall comply with the decision of the Economic Court of the People’s Court where the enterprise is registered to do business. The capital contribution committee member must be selected from the list of experts registered in the court.

Responsibility for inaccurate pricing of assets contributed as capital:

Regarding this provision, the law should provide both civil and criminal liability for those who have behaved inaccurately valuing the value of assets contributed as capital. Specifically, it is necessary to clearly state the responsibilities of a founding member of the shareholder and/or the member or shareholder conducting the valuation of the remaining members or shareholders of the company and the responsibility to the company when applicable mispricing behavior. This liability may be civil and/or disciplinary responsibility.

Criminal liability should also be applied in the case of mispricing of the real value of an IP asset as a capital contribution. Criminal liabilities should be in the direction of calculating the value difference from the real value of the property. If the valuation is equal to or greater than twice the actual value of the IP asset, the valuation member or shareholder shall be subject to criminal liability.

It is also advisable here to distinguish the responsibility of a professional valuation organization and the responsibility of the founding members/shareholders/persons responsible for approving capital plans when the business is operating when the valuation is wrong the value of the property to be contributed as capital. When a professional valuation organization should send reports to founding members/shareholders if the members/founding shareholders/responsible person approve the capital plan when the business is in operation agree with If the price is reported by the Capital Contribution Council, the Capital Contribution Council is responsible for the valued value within five years from the date of ending the valuation. In case members/founding shareholders/responsible person approving the capital plan when the operating enterprise disagrees with the price proposed by the Capital Contribution Council, these persons are responsible or civil or criminal about their decision.

**About pricing when the company is active:**

In this respect, the law should provide for a valuation agreement between a company and a capital contributor or a professional valuation organization. When a professional organization conducts valuation, the value of the assets to be contributed as capital determined by this organization must be approved by the Chairman of the Board of Directors/the Chairman of the Board of Members under the permission of the Board of Directors/Board of Directors members and approved by the General Meeting of Shareholders. If that value is higher than the actual value of the assets contributed as capital at the time of capital contribution, the capital contributor or a professional valuation organization and the legal representative of the enterprise are jointly responsible for the assessed value price within five years from the date of valuation.

II. **CONCLUSION**

During the establishment of an enterprise or in the course of its operation, in order for the enterprise to operate well, it is necessary to ensure the company’s charter capital. The current Vietnamese law on enterprises allows to the creation of charter capital for enterprises, not necessarily from the capital of the owner or the legal representative, but to receive a capital contribution from outside. Regulations on capital contribution help enterprises to be more flexible in the process of operating and doing business as well as create conditions for those who want to do business or set up a business but do not have the capital to mobilize capital sources in addition to establishing eligibility. However, not all assets can be contributed as capital, and not in any case, enterprises can also receive capital contribution with assets.
Intellectual property rights in general, industrial property in particular, registered for protection, will be recognized. This is defined as a registered property. Thus, the prerequisite for capital contribution with intellectual property rights is that such ownership has been registered for protection at a competent state agency; is recognized by the law through diplomas and vouchers and only the owner whose name is on that diploma is allowed to contribute capital. Capital contribution herein is understood as the contribution of the value of intellectual property rights and is made through the transfer of the named owner on the certification and recording this ownership in the list of assets of the charter capital enterprise.

If during the course of its operation, the assets contributed as capital are valued at a higher value than the actual value at the time of capital contribution, the capital contributor, the owner, or a member of the Members’ Council, for a limited liability company and partnerships, members of the Board of Directors, for joint-stock companies to contribute additionally equal to the difference between the valued value and the actual value of the assets contributed as capital at the end of the valuation; at the same time, to be jointly liable for damages caused by the intentional valuation of the assets contributed as capital higher than the actual value.

REFERENCE