

Switzerland

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Structuring and legal considerations

1 What are the key laws and regulations implicated in technology M&A transactions that would 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?

Generally, there are no specific key laws and regulations applicable to technology M&A transactions that would not be relevant to other types of M&A transactions too. So, to make one of the currently most relevant examples, the access to and transfer of personal data abroad (in connection with M&A transactions or otherwise) is subject to certain restrictions. If the legislation of the foreign country does not offer an adequate level of protection for personal data, under Swiss data protection laws and regulations, transfer or access outside Switzerland is allowed only if certain specific requirements with respect to such disclosure abroad are met. In this context one should, however, note that European legislation (the GDPR) has introduced standards that are even more stringent than those of Switzerland. Obviously, restrictions in data transfers are already relevant at the stage of due diligence, in particular with regard to access to virtual data rooms.

Switzerland traditionally has a very liberal approach towards technology transfer and, generally, foreign investments. Accordingly, as a rule, no government approvals are required for technology M&A transactions. In certain industries (eg, telecommunications, broadcasting), however, the licensing authority may refuse to grant licences to companies incorporated under foreign law unless reciprocal rights are granted to Swiss citizens or Swiss companies by the respective foreign states.

In light of recent prominent transactions involving, particularly, Chinese state-owned buyers of Swiss companies (eg, takeovers of Syngenta by ChemChina, or Gategroup and Swissport by HNA), a number of motions have been submitted in the Swiss federal parliament advocating increased 'protection' of Swiss companies from takeovers by foreign (particularly state-owned) investors. The Swiss government has taken the position that existing regulations are sufficient but the political debates on this issue are far from over.

In conclusion, in the field of technology M&A, Switzerland has a very liberal legal and regulatory framework, with a high level of freedom of contract and in which the main driver is the parties' will.

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

Under the current legislation, there are, generally, no applicable Swiss acts that provide for governmental march-in or step-in rights with respect to certain categories of technologies. With regard to possible changes in laws and regulations, see question 1.

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?

Under Swiss law, IP rights are transferable within certain limits, whereby one must distinguish the property rights from the moral rights to intellectual property. Property rights to intellectual property, such as patents, copyrights, design rights and trademarks can be transferred without restrictions. Contrary to that, moral rights (eg, the right to be

named as inventor) to patents and copyrights cannot be transferred on a contractual basis, but only by way of hereditary succession.

The transfer of property rights to intellectual property requires a legal cause and an act of disposition. Legal cause can be an agreement (eg, a purchase, donation or a barter contract), a court decision, the decision or act of administrative bodies (eg, in debt enforcement proceedings) or inheritance. The act of disposition for the transfer of patents (and patent applications), designs and trademarks must be in writing to be valid, whereas, in contrast, for the transfer of copyrights no formal requirement applies (for practical reasons, the transfer should nonetheless be made in writing). Since neither the general principles of tradition of tangible property nor of contractual assignment are directly applicable with respect to the act of disposition of intellectual property under Swiss law, the transfer is considered as a form of transfer *sui generis*.

Due diligence

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?

In general terms, due diligence with respect to IP assets is aimed at revealing the value of the target company's intangible assets by means of analysing the relevance of intellectual property for the valuation of its business. The scope and depth of a due diligence depends on the relevance of intellectual property for the valuation of the target company's business and, hence, its impact on the value of the transaction.

The typical areas of due diligence undertaken in Switzerland include the identification of business related intellectual property of the target company and the review whether the IP rights used for its business are actually owned by the company. If the intellectual property used by the target company is owned by third parties or shareholders, due diligence includes the analysis whether the target company has concluded sufficient licence agreements for a continued use of such intangible assets (and may include an analysis as to the prerequisites for the transfer of the intellectual property to the target company, if such transfer is contemplated).

The due diligence undertaken with regard to ownership includes the assessment whether the IP registrations are up to date, whether a clear and complete chain of title can be identified and the review of whether there are security interests or liens created over the intellectual property. The key focus of due diligence undertaken with respect to IP assets is to ensure the title to and scope of protection of the IP assets. The buyer has to analyse whether the IP rights are owned by the target company and validly registered in the countries where the company is conducting business.

Further areas of due diligence include the review of any IP-related litigation by and against the target company. The aim is to verify whether any third party is, or is suspected to be, infringing the target company's IP rights and to verify that the target company is not infringing a third party's IP rights (freedom to operate).

The sale of a company by way of a share deal entails the transfer of the company as a whole, with all assets and liabilities – which means that assets or liabilities do not have to be transferred individually.

Conversely, this also means that any liability in the company must be detected and assessed, because it will have a negative impact on the target – and, thus, also on the value of the technology. Accordingly, in transactions in the legal form of a share deal, a comprehensive due diligence with respect to all of the company's intellectual property must be undertaken.

In an asset deal, to the contrary, the buyer acquires specific assets (and, if so agreed, liabilities) from the target company, often in a series of individual, although simultaneous and connected transactions. The due diligence of IP rights undertaken for transactions in the legal form of an asset deal is, therefore, limited to the IP asset or assets the buyer intends to acquire.

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?

The public searches that are customarily performed when conducting technology M&A due diligence in Switzerland include the verification of ownership of registrable IP rights in the IP registries. The Swiss Federal Institute of Intellectual Property (IPI) operates a database, which allows searches for registered Swiss and European patents and patent applications, Swiss trademark and design registrations and applications as well as registered topographies.

Further public searches that a buyer would typically perform when conducting IP due diligence include the database of the Swiss commercial register to ascertain publicly available information on Swiss registered company names, as well as publicly accessible internet domain name databases operated by Swiss registries.

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?

In Switzerland, registrable intellectual property include trademarks, patents, designs, topographies and some specific indications of source while copyrights (rights of authorship) are not registrable. There is no copyright registration system under Swiss copyright law. With respect to the registrable type of intellectual property, due diligence includes the verification that the respective IP rights are registered in the name of the target company through searches in the relevant databases.

With regard to non-registered (whether non-registrable or not) technical know-how, data and secrets, key due diligence areas will typically include employment and employees as well as advisers (contracts, non-competition agreements, remuneration and incentives), organisation (measures in place to preserve the confidentiality of know-how and data) and customers (customer base and behaviour, customer contracts).

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

Swiss law provides for the possibility of granting security interests over IP rights. The types of security interests that are typically used in relation to intellectual property under Swiss law are the granting of a lien (or pledge) on intellectual property or the assignment of intellectual property for security purposes. The provisions governing the creating of security interests over IP rights are set out in the general provisions of the Swiss Civil Code (SCC) and in the individual codes governing specific types of intellectual property (eg, the Federal Act on Patents for Inventions, the Federal Copyright Act, the Federal Trademark Act).

The Swiss Federal Trademark Act, as well as the Swiss Federal Design Act, specifically mention the possibility to create a lien on trademark and design rights. The creation of a lien over other IP rights is governed by the general provisions of the SCC and, in general terms, requires the transfer of the property rights to intellectual property. As a rule, property rights to intellectual property are transferable under Swiss law. There are, however, exceptions to this rule including, for example, name and company name rights as well as moral rights to intellectual property, such as the right to be named inventor. These rights are considered as non-transferable under Swiss law.

The lien granted on a registrable intellectual property may be recorded in the pertinent IP registries. If a lien is not recorded, it is not effective *vis-à-vis* a bona fide acquirer of the underlying IP right.

Accordingly, due diligence must include the search of the applicable registers to ascertain whether intellectual property is subject to a lien. For the cancellation of the recorded lien, IPI requests an explicit waiver by the pledgee, which must be provided by the trademark or design right owner with a written request for cancellation.

Under Swiss law, IP rights can further be transferred for security purposes. The assignment of intellectual property for security purposes is governed by the general principles of contract law. A security assignment entails the transfer of full ownership to the security interest beneficiary. The security interest provider typically requires an exclusive licence in return for transferring ownership in the IP asset. The release of a security assignment over an IP right or technology assets requires that ownership of the IP right or technology asset be transferred back in accordance with the provisions applicable to the individual IP rights. Due diligence undertaken with respect to intellectual property that has been transferred by the company for security purposes includes the review of the underlying security assignment agreement and an analysis whether the company has ensured the continued use of the intellectual property based on a licence agreement.

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

Under Swiss law, employee-created inventions, designs and software for computer programs created during the course of work while performing an employee's contractual duties belong to the employer, provided that nothing else is agreed in the employment agreement. Employee-created inventions, designs or computer programs created during the course of work, but which are not part of the employee's contractual obligations, must be reported to the employer if this has been agreed in writing. The employer can then decide whether he wants to obtain the invention, design or computer program in question for a reasonable consideration. Accordingly, due diligence undertaken with respect to employee-created intellectual property includes the review of the respective employment agreements in place with employees.

There is no general rule under Swiss law whether contractor-created intellectual property belongs to the contractor or the customer (principal) but, rather, this depends on what is agreed in the contractor agreement. Hence, due diligence includes the review of the respective contractor agreements to ascertain information whether it has been contractually agreed that any inventions or designs originated by the contractor shall be transferred to the target company.

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?

Under Swiss law, a licence is a contractual right granted by the licensor to use certain IP rights according to the provisions set forth in the licence agreement. Therefore, the transfer of a licence from a current licensee to a new licensee generally requires approval by the licensor. This is not the case if the licence has been designated as transferable in the licence agreement. If an approval for the transfer of a licence is necessary, the licensor can give it in a form-free way (ie, no formal requirements apply). These same principles apply both to exclusive and to non-exclusive licences.

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?

Under Swiss law, software is usually protected by copyright. Unlike trademark and patent protection, copyright protection arises when work is created, and there is no copyright register.

In Switzerland the types of software due diligence include the due diligence of the target company's own software and the due diligence of the third-party software used by the target company. In relation to the company's own software, the key element of due diligence consists of the verification of the ownership of or adequate licensed rights to use the software.

To that purpose, due diligence includes the review of the originator of the source code underlying the software and whether the copyrights have been effectively vested in or transferred to the company. If the source code was developed by an employee while performing his employment activity and contractual duties, the copyrights belong to

the employer. If the source code was developed by a non-employed contractor, copyright transfer agreements are necessary to ensure the company's title in the software. If several persons contributed to the development of the source code, a software is considered to be co-owned. As a rule, co-owners may only use the software with the consent of all owners.

With respect to third-party software used by the company, due diligence typically includes the review of the relevant licence agreements to ensure continued use of the software. It is not customary in Switzerland for targets to provide code scans for third-party or open source code software.

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

Additional areas of due diligence undertaken with respect to companies with a digital business model include the due diligence of the company's data handling. Data handling due diligence includes the review whether the company complies with the applicable data protection regulations of the relevant jurisdictions, as well as the review of the company's data security measures against the misuse of data and to protect business and trade secrets.

One important legal aspect with respect to artificial intelligence is that under Swiss law only individuals can be the inventor of a patentable invention or the author of copyright protected work. Based on current Swiss law, it will, therefore, be difficult to protect inventions and works created by machines using artificial intelligence. For this reason, in IP law it will become unavoidable to adapt legislation to a certain extent to new technologies such as artificial intelligence or the internet of things.

With respect to big data, one legal aspect to consider is that under Swiss law, data (at least raw data) is not protected by IP rights and there are also no other ownership rights to data by operation of statutory law.

Purchase agreement

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

The inclusion of representations and warranties is not only customary, but, owing to the characteristics of the Swiss legal framework, necessary. The legal framework for representations and warranties, which is mainly of dispositive manner (ie, it applies by way of default, to the extent that the parties do not provide for specific provisions in the contract), is largely inadequate for M&A transactions, particularly for share deals where the target is a whole business, and does not offer an appropriate protection to buyers.

Accordingly, in technology M&A transactions it is customary to include specific representations and warranties for intellectual property, technology, cybersecurity or data privacy. The extent and contents of these representations will vary depending on a number of factors, such as the relevance for the transaction of the technology and of the business model of the target (the more relevant, the more specific and stringent the representations), the kind of technology and intellectual property involved and, last not least, the bargaining power of the parties.

Typically, these representations include:

- registered or registrable IP representations:
 - complete and accurate list of intellectual property, as well as licences granted and received;
 - legal and beneficial ownership and absence of liens;
 - existence and enforceability of intellectual property;
 - taking action for maintenance and prosecution of registrations;
 - absence of any pending or threatened challenge (eg, opposition); and
 - due assignment of IP rights by employees and persons who have created or participated in the creation of intellectual property;
- non-registrable IP representations:
 - proper recording and documentation of the intellectual property;
 - proper storing and observance of measures to protect the confidentiality of the intellectual property; and

- non-disclosure of confidential information, which is, respectively, only subject to contractual obligation of counterparts to preserve confidentiality;
- IT representations (see 'cybersecurity representations'):
 - fitness of IT systems and assets for the conduct of the business of target;
 - taking of actions for preserving operation and security of the IT assets (including backups, disaster recovery and avoidance, and security protocols); and
 - where applicable, compliance with sector and industry standards;
- data protection representations:
 - compliance with privacy laws, as well as with spamming, automatic software downloads regulations, etc;
 - implementation and observance of compliance procedures and policies; and
 - absence of investigations and litigation (actual or threatened) in these fields; and
- cybersecurity representations (see 'IT representations'):
 - performance of security checks, elimination and mitigation of vulnerabilities; and
 - absence of any incidents (unauthorised access, modifications and corruption of systems).

Beyond that, IP and technology-related representations and warranties will follow along the scope of the due diligence undertaken (see questions 4 to 11). Also, representations will include compliance with regulations, practices and standards that apply to specific technologies and businesses (eg, financial services or fintech, medical product candidates or medical devices).

For technology businesses, an extension of IP warranties will often also be achieved through the use of a very wide definition of 'Intellectual Property Rights', which will generally include, besides specific categories of (registered or unregistered) IP, know-how and any category of relevant data and information. IP representations and warranties will, thereby, apply to this expanded definition.

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

In carveout or asset deals it is customary for the parties to the transaction to enter into the following agreements:

- transition services agreement;
- license-back agreements (if ownership in intellectual property is transferred as part of the carveout or asset deal);
- licence agreements (if ownership in certain intellectual property is not transferred as part of a carveout or asset deal transaction but only licensed to the acquirer); and
- co-operation or partnership agreements (eg, to facilitate transfer of assets or intellectual property or for continued research and development work between the entities involved).

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

Typical pre-closing conditions or covenants include:

- invention and IP assignment clauses, notably from current and - if necessary - former employees and consultants;
- re-registering or otherwise updating registered intellectual property with the relevant registries so as to correct any issues detected;
- entering into ancillary or separate agreements, including:
 - (transitional) licensing or co-operation or transition services agreements; and
 - third-party consents: the buyer may require the seller to attempt to obtain consent from counter-parties to some or all of the purchased IP or IT agreements that, for example, prohibit assignment to the buyer, include a change-of-control prohibition or provide for restrictions of the intended use of the technology (eg, owing to restrictive exclusivity provisions). This would also apply to instances where the chain of title for the intellectual property needs to be corrected;
- conduct of business covenants (eg, prohibition to dispose of assets without buyer's consent); and
- covenant that representations and warranties are correct.

Post-closing

In an asset purchase or carveout transaction (less so in a share deal transaction), certain post-closing steps usually are necessary to document the transfer of the purchased IP assets in connection with the transaction. The buyer may have to file assignment documents with IP registries to update the record ownership of all IP registrations and applications included in the purchased assets.

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

The most widely encountered survival or warranty expiration periods in transactions in Switzerland range between 18 and 24 months, with shorter or longer periods of a minimum of 24 and maximum of 36 months also being agreed to in a number of cases. Basically, these same periods also apply to intellectual property and technology-related representations, particularly in the case of share deals. In asset deals, particularly where the object is registered intellectual property (such as patents), representations related to title to and right to use such intellectual property often have 5 or 10 years' survival periods. The same is sometimes encountered – or is at least regularly the object of intensive negotiations – in share deals, where the main or predominant asset of the target is an intellectual property.

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?

Usually IP representations and warranties are embedded in the general liability cap. This is particularly the case where they have the same survival periods as the other representations. Where intellectual property and technology are the main drivers to the value of the target, they will primarily affect the amount of the liability cap (ie, drive it upwards). On the other hand, in Switzerland it is rather unusual to have different liability caps for single categories of representations – title to shares or key assets being the exception. For these latter categories of representations, specific caps are usually much higher (between 50 per cent and 100 per cent of the purchase price) than the general caps (which normally range between 20 per cent and 30 per cent of the purchase price, or sometimes even less).

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?

With regard to *de minimis* thresholds, liabilities for breach of intellectual property will in principle follow along the rules generally agreed by the parties in the contract. Following the logic already described above,

where IP representations will be more stringent (eg, in terms of survival periods and caps) limitations on recovery will be more reduced.

Beyond that, in certain cases, parties will agree on specific indemnities (see questions 18 and 19), to which the limitations on recovery for breaches of representations will usually not apply.

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

Specific indemnities are usually only included if specific issues have been identified in due diligence. In some instances (and where bargaining power or market situation allows), indemnities are included with regard to assets (eg, a patent) which are considered to be of fundamental importance for the value of a target. If not, then definitive agreement usually provide for the normal remedies for breaches of representations and warranties (ie, damage, which usually is limited to direct damage and subject to limitations, qualifications and caps).

The scope of these indemnities depends on the issue identified in due diligence (and for which the buyer is seeking specific protection). Generally, indemnities are structured as an obligation of seller to fully indemnify purchaser (or, as applicable, the target) for any and all losses, damage, costs (including defence and legal costs), whereby the indemnity is not restricted or qualified in any way (specifically by disclosure, purchaser deemed or actual knowledge, or seller best knowledge). Also, typically neither *de minimis* nor caps apply to indemnities.

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?

Traditionally, representations and warranties are given as at the time of signing of the agreement and as of closing, with the same level of accuracy. Thereby, it is rather usual to see that representations and warranties must, generally, be true in all respects (with materiality, best knowledge or other qualifiers applying to individual representations) – sometimes, though, a general materiality qualification of all, or at least many, representations is encountered (particularly in a seller market situation).

As a recent development, sometimes parties agree not to have accuracy of representations and warranties as a specific condition precedent. On the other hand 'no material adverse effect' (not directly related to the representations and warranties) is often seen as a condition precedent. It is also not unusual to see that, when brought down at closing, IP representations and warranties are required to be true in all material respects only. In conclusion it can be said that the treatment of representations and warranties as a closing condition and the level of breach accepted or required before an acquirer has the right not to close or complete the transaction is a matter of negotiation.

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