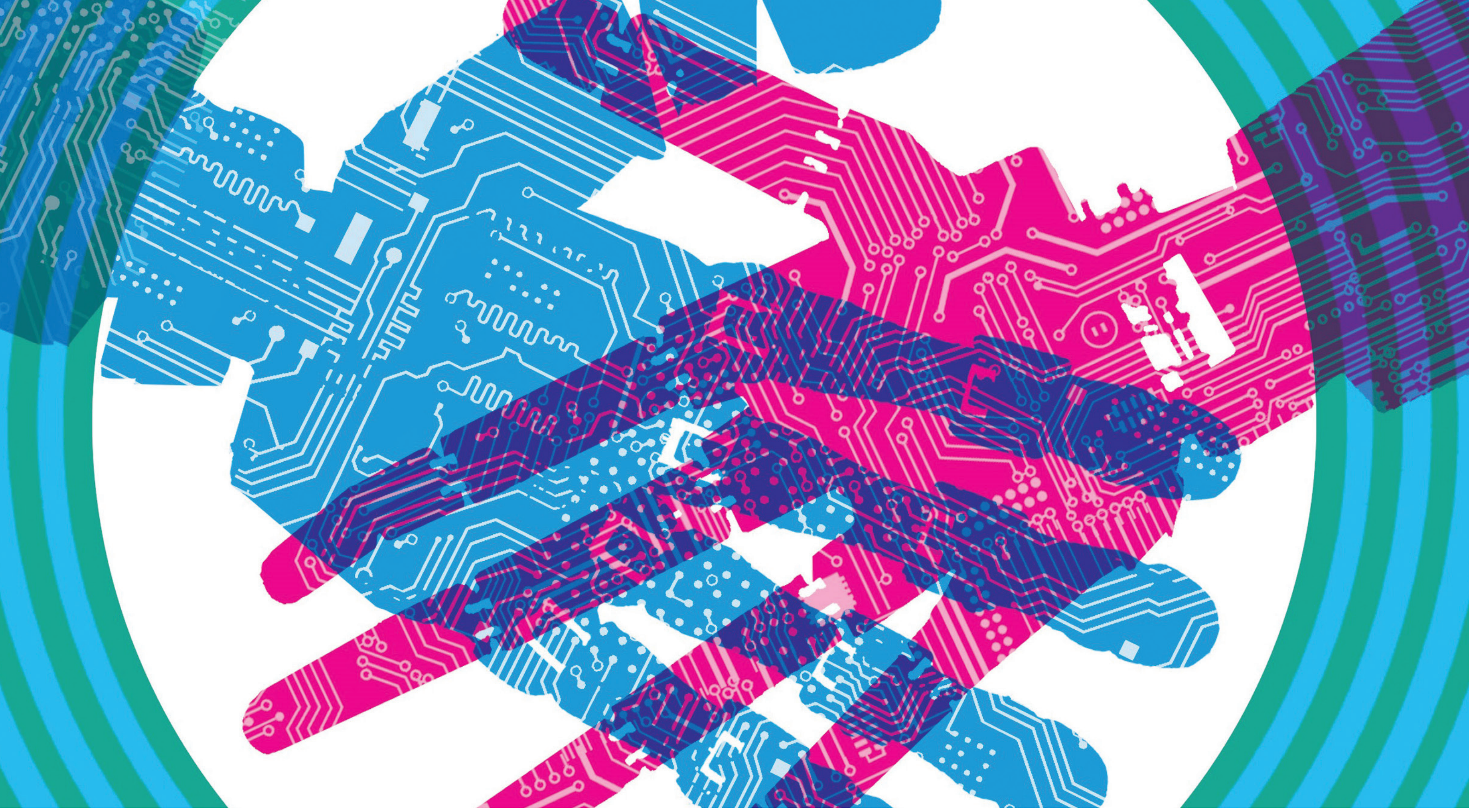


TECHNOLOGY JOINT VENTURES

PARTNERING FOR THE FUTURE

Victoria Birch, Ian Giles, Mike Knapper, Lara White and Dominic Stuttaford of Norton Rose Fulbright LLP examine key aspects of joint ventures in the technology sector and the particular issues and challenges that these joint ventures raise.

A joint venture (JV) is a business entity that is created by two or more parties who agree to co-operate to achieve a particular commercial objective. JVs are used to develop or promote a wide range of technology use cases, from artificial intelligence (AI), smart contracts, internet of things and distributed ledger technology to quantum computing. There is a broad spectrum of the types of JV that are typically seen: from two parties entering into a collaboration, such as a company collaborating with a technology provider to serve a particular need or project, to broader consortia looking to provide an industry-wide solution (*see box "Joint ventures in the technology sector"*).

This article examines:

- The factors that influence which structure to choose for a technology JV.
- The key issues to consider in the governing documents.
- Merger control and competition law issues.
- Foreign direct investment considerations.
- Intellectual property (IP) issues.
- Issues relating to the use and sharing of personal data.
- The key tax considerations for a JV in the form of a corporate entity.
- The potential impact of Brexit on issues connected with technology JVs.

STRUCTURE

The structure of a technology JV can be driven by a number of factors, including:

- The objectives of the founder members; for example, whether they are looking to create an independent community or industry platform, or to procure control for founder members with a potential return on investment.
- The timelines to launch, as some structures will require merger control clearance, or other competition law or regulatory clearances, that can cause delays to the project timetable.
- Any third-party contractual concerns; for example, the contractual relationship between members and any third-party technology provider.
- Regulatory or tax considerations, including in respect of the individual status of the founder members.

Corporate vehicles, such as English law private limited companies, are popular and continue to be the vehicle of choice for many technology JVs, particularly where the JV is being used as an investment vehicle. The many benefits of having an incorporated JV (JVCo) remain true in the technology sector, whether it is the:

- Relative ease of contracting with third parties, such as technology developers.
- Separation from the JVCo's "owners", in terms of legal liability and operations.
- Ability to provide a return to the founders or investors for the investment, costs and risks that they have incurred in the development stage.

However, other forms of entity are also used in the technology sector, such as limited liability partnerships, partnerships, registered societies and Societas Europaea. Some jurisdictions offer alternative structures that are particularly appealing to technology companies, such as foundation or co-operative models.

As one example, many crypto-asset companies are formed as Swiss foundations to benefit from the community governance model that this allows. A foundation or co-operative model can also make it much easier to admit new members, vary rights (for example, according to usage levels), and allow or compel existing members to exit. Therefore, this model has proven to be particularly attractive to technology platforms aiming for an expansive user or member base and where independence from the founder members is deemed a particularly marketable quality.

For some projects, a purely contractual framework may be preferred. Other structures include debt financing structures, and IP or asset-pooling arrangements, again often with a lead member who is financed by the other members with suitable governance, indemnification, licensing and contractual rights.

An evolving picture

It is not uncommon for an interim solution or a phased approach to the JV's structure to be adopted, therefore enabling evolution according to the growth and the nature of the JV's operations once launched.

Where the technology is in a nascent form or the platform is at the proof-of-concept stage, a phased approach to structuring can help to enable:

- The founder members to have greater control over the initial stages of development, and potentially a return on investment for the risks and investment costs that they have incurred.
- The governance and membership to be opened to a broader user base, or certain categories of participants such as high-volume users, after the platform has launched.

Competition or regulatory concerns may mean that a corporate vehicle cannot be established in the initial phases of development. The founder members' internal governance constraints may also be more onerous for an equity investment, as opposed to entering into a contractual arrangement, and this could have an impact on timelines.

In these circumstances, some form of contractual arrangement may be used in advance of the establishment or incorporation of a JV vehicle. A contractual arrangement can also make an exit from a project easier to manage in the initial stages, which can be attractive to potential investors, particularly as the benefits of the new technology may not yet have been realised in full. However, care is needed to ensure that any arrangements:

- Do not stray into early implementation of the JV before any required merger control approvals are received, known as gun-jumping, which would risk potentially significant fines and other penalties (*see "Merger control" below*).
- Do not constitute an anti-competitive agreement in breach of general competition law rules, such as Article 101 of the Treaty on the Functioning of the European Union or the Chapter I prohibition under the Competition Act 1998 (*see box "Other issues for early consideration"*).

Joint ventures in the technology sector

Each technology joint venture (JV) will have different attributes. In the case of a bilateral partnership, the parties may have different skills or assets to bring to the project, and a JV arrangement can help to recognise and regulate those differences. For example, one party may have the technology capability and rights to develop the platform, and the other party may have a strong customer base, and the regulatory licences and approvals required, to operate the platform in a particular market. In that scenario, a JV arrangement enables each party to access the skills and assets of the other parties in an agreed governance framework to promote the platform's success. For example, financial institutions may collaborate with technology providers to provide digital services to the financial institutions' customer base.

In the case of a broader consortium looking to create an industry-wide platform, such as a trade finance platform, the project's success may depend on it being accessed and used by participants across the global market. By using a JV arrangement, the project can attract investment and engagement by the key stakeholders and participants in that market to ensure that market acceptance and scalability is achieved more readily. Expansion of the participant base is also possible, in order to include a wider user community and create a governance model that is more independent of its founders and works for the industry or community as a whole.

KEY ISSUES

As with any JV arrangement, the approach taken in the governing documents of a technology JV will depend partly on the nature of the parties and the platform, but also on the respective rights and objectives that the parties are looking to achieve. However, a number of specific considerations often feature prominently in the negotiation of technology JVs.

Governance rights

The parties to a JV will need to decide whether there will be an autonomous management team or whether the management team will defer to the JV parties for consensus on key identified issues, such as through board membership, reserved matters or veto rights. This may be particularly relevant in circumstances where the objective is to develop an industry solution and a degree of independence may be essential to market acceptance. Sometimes, a balance needs to be maintained to ensure that the JVCo has the flexibility to operate efficiently and quickly in its start-up phase, while recognising that shareholder rights will also need to be respected and protected.

Funding

As the project develops, the aim is typically for self-sufficiency, particularly following commercialisation. However, further cash injections may be required before commercialisation. The circumstances in which a funding obligation can be triggered are often a key negotiation point, and the process will need to balance the need for efficiency (as one of the main triggers is likely to be an emergency funding scenario where speed will be of the essence) against protections for members who are concerned about onerous further funding obligations.

Strategy

The parties to a technology JV may have different views on the preferred end destination, from a sale or initial public offering (IPO) to general commercialisation or, in some cases, to broadening the member base among users. It is critical to understand at an early stage whether there is an agreed approach between members, and the timescale and milestones that may need to be met to achieve this.

Exit

Some members may wish to exit the project early and the rules surrounding this will need to be negotiated and agreed; for example, whether there will be a lock-in period to give the project security in its initial stages or, alternatively, freedom of transfer or exit. This may be particularly relevant if the technology is still in a development phase and greater security is essential to its success. Similarly, the rights of members on an exit will need to be agreed to ensure the continuing success of the project. These may include rights to the technology and IP developed during a member's tenure, or the potential return or realisation of contributions made by a member during their membership.

Other issues for early consideration

Depending on the nature of the joint venture (JV) parties involved and the proposed activities and mechanics of the platform, additional regulatory and other considerations may come into play. Where approvals or notifications are required, whether internally or by external regulators, this can have a significant impact on timelines.

Some of the requirements will depend on the nature of the parties involved. Large companies often have specific risk profiles for equity investments as well as specific investment committee requirements; for example, in respect of governance rights and expedited exit rights where certain trigger events occur, such as regulatory or reputational concerns. These companies may have long lead times on internal governance approvals for equity investments, which will need to be factored into the timeline.

Particularly where a financial institution is involved, there may be additional regulatory requirements, such as under the US Bank Holding Company Act of 1956, which may affect the structure and governance protocols to be adopted.

If a shareholder is a listed company, or a subsidiary of a listed company, care will need to be taken to ensure that the provisions of any relevant listing rules are taken into account. For example, in the context of the UK Listing Rules, an analysis will need to be undertaken to assess whether the terms of the JV agreement result in the transaction being classified as a class 1 transaction (*www.fca.org.uk/publication/ukla/tn-302-2.pdf*). In addition, the operation of exit provisions or forced sale provisions must be reviewed to ensure that the Listing Rules are respected and approval requirements are not triggered inadvertently.

MERGER CONTROL

Merger control filing processes can be onerous and expensive, and usually require the implementation of a JV to be delayed pending required approvals. As a practical matter, it is important to undertake merger control analysis as early as possible to ensure that any impact on timelines can be factored in. Merger control clearances offer the benefit of certainty that the JV does not raise competition concerns because relevant competition authorities will issue formal decisions approving the JV after completing their merger control reviews.

The treatment of JVs is not identical in every jurisdiction, so the same JV may qualify for merger control review in some jurisdictions but fall for assessment under general competition rules elsewhere. The notification of co-operative arrangements, that is, looser, non-structural JVs, may be required, although these typically fall outside the scope of merger control in most jurisdictions.

In the technology sector, competition authorities are paying particular scrutiny to larger companies investing in smaller emerging companies in circumstances where there is suspicion that the aim of the investment or acquisition is to remove an emerging competitive threat; that is, so-called "killer acquisitions".

There is also much ongoing debate globally about whether merger control and competition regimes remain fit for purpose regarding digital markets and the largest tech companies. In the EU and the UK, for example, new regulatory regimes have been proposed for the largest tech platforms. The EU's proposed Digital Markets Act includes an obligation on "gatekeeper" platforms to inform the European Commission (the Commission) about any intended mergers with other platforms or digital providers, even if these transactions do not meet the thresholds for notification under the EU merger control rules or the national rules in any EU member states (*https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2347*).

The UK proposals also include a bespoke mandatory merger control regime for platforms deemed to have strategic market status; that is, those with substantial market power (*www.gov.uk/government/news/cma-advises-government-on-new-regulatory-regime-for-tech-giants*). The UK's current merger control regime provides for voluntary filings, although the Competition and Markets Authority (CMA) is able to call-in transactions within its jurisdiction that are not notified. The CMA is also adapting its substantive approach to digital mergers (*see News brief "The Lear report on digital mergers: evolution, not revolution?", www.*

practicallaw.com/w-020-9330; and www.gov.uk/government/news/consultation-launched-on-cma-merger-assessment-guidelines).

While JV arrangements take many different forms, even minority investments may require merger control clearances. This may be due to the minority shareholder having veto rights over important aspects of the JV's strategy, such as its budget, business plan, major investments or the appointment of senior management. Alternatively, it may be because the regimes in some jurisdictions catch low levels of strategic influence or shareholding; for example, in the UK, merger control clearance can be required for acquisitions of material influence over a business: a concept that is interpreted broadly.

Most merger control regimes around the world, including the Commission's "one-stop shop" EU regime, require JVs to be notified where:

- They are full-function, which, in essence, means JVs that operate as self-standing, independent businesses.

- The relevant jurisdictional thresholds are met, which are usually based on the parties' turnover, assets, market share and the transaction value.

However, there are some notable merger control regimes that do not apply a full-function test to JVs, including Germany and China, which means that a JV can require clearance even if it is not full-function.

In the UK, there is also no requirement that a JV must be full-function for the CMA to be able to review it under the UK merger control rules. However, for a UK review, two or more enterprises, that is, businesses, must cease to be distinct. This means that one or more parent companies must contribute a pre-existing business to the JV or an enterprise must be acquired from a third party. Greenfield JVs cannot be reviewed under the UK regime. These are JVs that start entirely new activities, such as developing a new technology from scratch without any existing business being contributed to the JV. This differs to the EU merger control rules, which do capture greenfield JVs provided that they are full-function.

Care is needed not to miss mandatory "technical" filings in jurisdictions that may have little or nothing to do with the operational location of the JV but that assert jurisdiction on the basis of the revenues or assets held by the parent companies. Failure to make these filings could expose the parties to sanctions, including significant fines or liability for directors, regardless of whether the JV raises competition issues.

To secure merger control clearance, prospective JV partners typically need to give each other access to commercially sensitive information to validate the commercial proposition during due diligence or to make operational plans for the JV. Unrestricted exchanges of sensitive information may amount to gun-jumping or otherwise infringe general competition rules prohibiting anti-competitive agreements, including information exchange. "Clean team" arrangements, where a small group of people are authorised to access commercially sensitive information, in addition to confidentiality and non-disclosure agreements, are used to ensure that:

- Commercially sensitive information is exchanged only to the extent necessary.

- The information is used only for relevant legitimate purposes.

- The information is available only to individuals who need access to it for these purposes (*see box "Ongoing competition law compliance"*).

Ongoing competition law compliance

The parties to a joint venture (JV) should address at the outset whether the shareholders will agree to non-compete and similar goodwill protections in favour of the JV. This is often an area of contention for shareholders that have competing or overlapping activities, as technology companies may be agreeing a combination of similar technologies rather than bringing together technologies that are more naturally complementary.

It is important to ensure that these provisions do not exceed what is permissible. Non-compete obligations that are overly wide can constitute a serious infringement of competition law, so care is needed in this area. For example, in January 2013, the Commission fined Telefónica and Portugal Telecom a combined €79 million for entering into a non-compete obligation when Telefónica acquired the Brazilian mobile operator Vivo in 2010, which was until then jointly owned by the parties (*https://ec.europa.eu/commission/presscorner/detail/en/IP_13_39*). Telefónica and Portugal Telecom had agreed not to compete with each other in their home markets of Spain and Portugal, amounting to unlawful market sharing and a serious infringement of Article 101 of the Treaty on the Functioning of the European Union given that this did not relate to the activities of their former JV.

Under the EU and UK rules, non-compete obligations must generally be limited to the lifetime of the JV. They should also be limited to either the activities and geographic territories in respect of which the JV will be active from its outset, or the activities and territories of the pre-existing businesses that the parent companies contributed to the JV, including activities and territories that the parent companies were planning to enter and that were at an advanced stage.

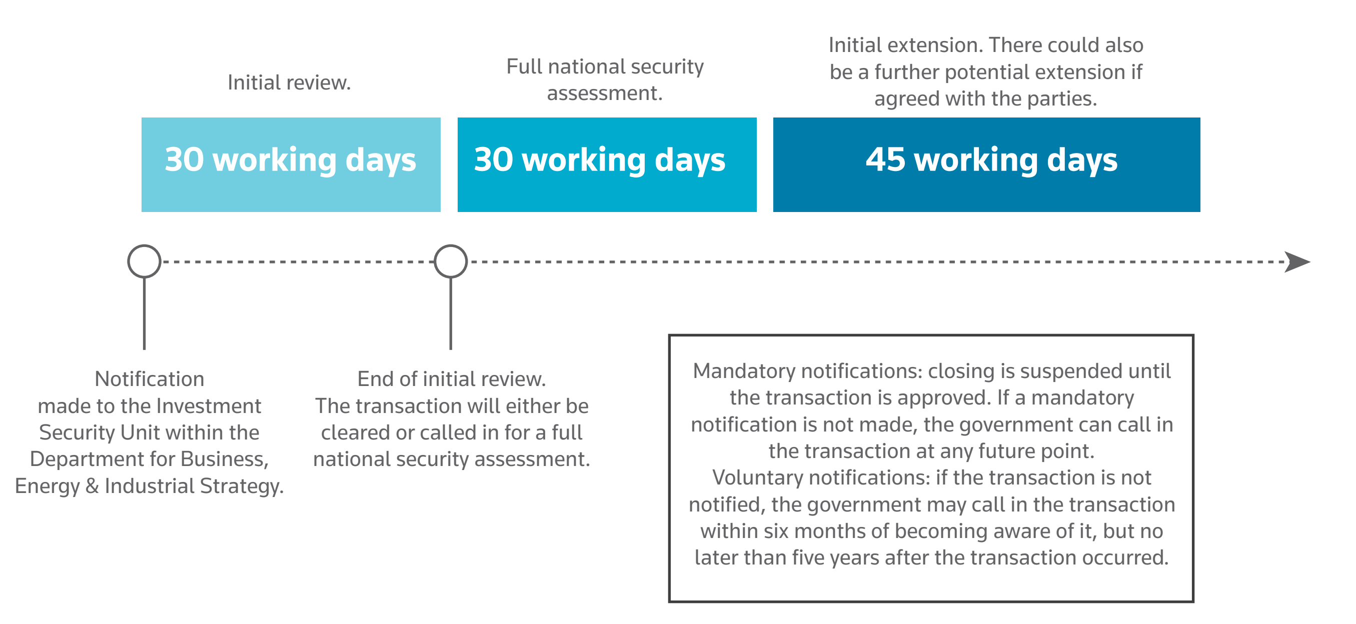
These restrictions should apply only to controlling parents, and not to minority shareholders that do not have additional control rights or influence. To the extent that one of the controlling shareholders exits the JV, it may also be possible to bind it for an additional period by applying the rules for non-compete obligations in the context of the sale of a business.

More generally, it is also important that permitted co-operation through the JV does not extend into unlawful co-operation between the shareholders in areas where they are actual or potential competitors. Clean team arrangements and confidentiality protocols may be required for the lifetime of the JV to manage risks in this regard.

FOREIGN DIRECT INVESTMENT

The global trend for the introduction of national security controls on investments

New UK national security regime



is particularly relevant to technology JVs. The US has long had a regime administered by the Committee on Foreign Investment (CFIUS), which reviews certain investments in the US. Recent developments include the creation of a new enforcement bureau within CFIUS and the provision of significant additional staff and other resources to investigate transactions that are not notified. Most European countries, including at EU level, and other developed countries globally, now have some form of control on M&A and investment activity by foreign persons on the grounds of national security. This can necessitate a global analysis where a platform operates in a number of jurisdictions.

In the EU, the Commission's Foreign Direct Investment (FDI) Screening Regulation (*2019/452/EU*) came into effect in October 2020 (*www.practicallaw.com/w-020-1606*). This does not require EU member states to establish an FDI regime (although it sets certain minimum standards for those that do), but instead establishes a co-operation mechanism to enable member states and the Commission to issue comments and opinions for a member state to consider when reviewing an investment under its local FDI rules.

In the UK, the National Security and Investment Bill, which was introduced into the House of Commons on 11 November 2020 and is expected to become law and enter into force in 2021, will empower the government to investigate and potentially block transactions in sensitive areas, such as communications, data infrastructure and computer hardware (*see News brief "National Security and Investment Bill: M&A screening on steroids", www.practicallaw.com/w-028-4684; and feature article "Public interest interventions: navigating a growing risk in UK M&A", www.practicallaw.com/w-025-9211*).

Certain trigger events that take place after 11 November 2020 may be called in for a retrospective review once the new UK regime is in force, so practitioners should already be taking the proposed legislation into consideration. Mandatory notifications will be introduced for acquisitions of entities that are active in 17 sensitive sectors. These include AI, advanced robotics, computing hardware, cryptographic authentication, synthetic biology and quantum technologies. This includes mandatory notifications for certain minority investments and, therefore, JVs.

Other types of transaction that raise possible concerns, including acquisitions of assets such as land and IP, will be subject to voluntary notification and could be called in for review if they are not notified. The new regime will catch transactions of all sizes provided that the requisite level of interest is acquired in a relevant entity or asset, with no generally applicable de minimis thresholds to exclude small transactions although certain of the sector definitions in effect exclude acquisitions of smaller entities (*see box "New UK national security regime"*).

INTELLECTUAL PROPERTY

IP rights are likely to be a key area of focus at all stages of a JV's lifecycle, particularly if any of the parties is contributing IP to the JV or wishes to use the IP developed by the JV outside of the project. While conceptually similar considerations apply to both corporate and contractual JVs, there are some critical differences. Unlike in a corporate JV, a contractual JV has no discrete legal personality and so the rights of the JV are the rights of the members jointly.

In the absence of a clear agreement regulating the position in relation to IP, the default position may lead to an allocation of rights that does not align with the commercial principles of the JV and introduces potential obstacles to its operation. There are number of different issues in relation to IP that must be considered.

Rights contributed by the parties

It is important to understand the nature of the relevant IP, including know how, that each party is expected to contribute to the JV. Where a party is contributing its existing technology, the other parties will require comfort that all rights relevant to the technology are being made available to the JV and, where patentable technology is concerned, that there is no risk that the contributor may in future be able to assert against the JV a relevant patent that it has held back or subsequently obtained. This comfort will usually be in the form of a sufficiently broad licence, potentially meaning that the parties establish a so-called "patent pool" that allows the JV to operate under their relevant patents within the scope of the project.

A common challenge here is defining the scope of the licence if the technology is at an early stage. The other parties may want the JV to have the freedom to take the technology in any direction and to apply it in ways that are yet to be determined. However, the party that owns the patent may be willing to grant rights only in respect of a narrow and specific scope so that it has certainty as to which of its patents will be engaged by the licence, or it may grant a broad licence only if it has appropriate control through the JV's governance arrangements of the direction that the technology development takes.

Due diligence

If value is being ascribed to a party's IP contribution, due diligence should be undertaken, where practicable, to confirm the ownership and status of the IP; for example, to determine that granted patents are still in force and their remaining term is as expected, and that the IP can be contributed on the agreed terms.

Assignment or licence

In general, assignment will not be the appropriate option for a party that wishes to retain control of its IP or wishes to retain the ability to use the IP for additional purposes outside of the JV. Where the IP is licensed, terms to be agreed include:

- The licensed purpose.
- The territorial scope.
- Whether the licence is exclusive or non-exclusive.
- Whether the licence is royalty-free or royalty-bearing.
- What obligations and rights the parties have in relation to maintaining and enforcing the IP.
- The duration of the licence and the circumstances in which it may be terminated.

Often, the licensor will seek to include a grant-back clause, which requires that rights in any improvements made to the licensed technology by the JV are assigned or licensed back to the licensor. The competition law implications of any grant-back clause and the tax (including transfer pricing) implications of the licence or assignment should also be considered.

In the case of a contractual JV, the parties will need to decide to which parties within the JV the IP should be assigned or licensed; for example, whether this should be to all members jointly, or to one member who holds and manages the rights for the benefit of the others (in either case, for the purposes of the JV). The approach here will typically align with how IP that has been developed or acquired by the JV is handled.

Name and branding

If the JV is to use a member's name or brand, the JV will require a licence from that member which permits and defines the terms of that use. In addition to the key licence terms considered above, the licensing member will require appropriate controls on the scope and manner of use of its brand. It will also need to regulate issues such as who may apply for trade mark registrations, domain names and social media handles relating to the brand, and what happens to these when the licence is terminated. Where joint branding is contemplated, complexity increases and the JV will need to address the extent of permitted co-branding.

IP developed or acquired by the JV

In a corporate JV, absent contractual terms to the contrary, including any grant-back clause, the JVCo will own any IP that is developed for or by it using its employees or contractors, and IP that it otherwise acquires. If development work will be performed for the JV by the personnel of any of the shareholders, this should be documented under a service agreement or secondment agreement that contains appropriate IP transfer provisions. Unless otherwise agreed, decisions in relation to IP strategy, and matters such as whether to file patent applications in respect of inventions or take action against infringers, will fall to be made in accordance with the general governance arrangements of the JVCo. The JVCo will bear the costs of these matters.

In a contractual JV, in the absence of agreement to the contrary, the position generally will be that IP will be owned by the party that created it or, if it is created jointly, the IP will be owned by the joint creators. The JV agreement will need to deal with how IP created by a party, whether alone or with others, for the purposes of the JV will be owned as between the parties and will also need to address:

- The consequences of a party ceasing to be a member (*see "JV exit scenarios" below*).
- How rights are granted to new members who subsequently join the JV, if applicable.
- The scenario in which the parties in the future may change the form of the JV to a corporate JV.

Where IP is owned jointly, agreement will be needed as to:

- What rights each party has to use the IP and to deal with its interest in the IP.
- How decisions are to be made in relation to licensing the IP to third parties and on what terms.
- How decisions are to be made, and how costs are to be allocated, in relation to the protection of the IP; for example, through filing patent applications, the enforcement of the IP against infringers and the defence of the IP from third-party validity challenges.

Any failure to deal with these topics can lead to significant issues, which will be complicated by the requirement to take account of the IP laws in the relevant jurisdictions where the JV is being carried on or the IP is to be enforced. For example, under English law, a joint owner of copyright in software cannot use or license the use of that software without the agreement of the other joint owners and a joint owner of a UK patent cannot license or deal with its interest in the patent without the consent of the other joint owners.

JV exit scenarios

In relation to branding, it is typical for the licensor to have the right to terminate any licence granted to the JV to continue using its brand, subject to an appropriate rebranding period, after it ceases to be involved in the JV. However, where the licence concerns IP that is relevant to the JV's core technology, these termination rights could present a serious imbalance in the parties' rights and, unless the JV can design-around the licensed IP, could give the exiting party the right to block the JV's use of its technology. In the context of a corporate JV, for example, this could give the IP-owning party an opportunity to demand new and better terms on a sale or IPO of the JVCo. The effect of any termination right on the business of the JVCo should also be factored into any valuation mechanism in the JV agreement relating to that party's shares in the JVCo.

Whether any licences granted by the JV to a party should continue will depend on the reason for granting the licence in the first place. To the extent that the licence does continue, typically, it would do so only in respect of the relevant IP that is in existence at the point of exit.

In a corporate JV, unless the parties provide otherwise, changes in the shareholders of, or their respective shareholdings in, the JVCo will have no impact on the JVCo's continued ownership of its IP. If the JVCo is wound up, the default position will be that the IP owned by the JVCo will be treated in the same way as any of its other assets. The parties should consider whether a distinction should be drawn so that a solvent winding up of the JVCo would trigger an automatic grant of a licence to the IP to the shareholders, or an option for a particular shareholder to buy or be granted a licence in respect of the IP.

A contractual JV will need to address what happens to a departing party's ownership interest in any IP owned by the JV; for example, whether the departing party must assign its interest to the continuing parties if the JV continues, and what the parties' respective rights to the IP owned by the JV should be if the JV is terminated.

The impact of Brexit

For joint venture (JV) vehicles that are either incorporated in the UK or have a UK element, any impact of Brexit will need to be assessed. This can include corporate elements, such as the removal of cross-border merger processes, for example where the assets from an EU party are combined into the new JV company, or more practical concerns, such as passporting rights and additional customs requirements for cross-border goods and services.

As at the date of this article, the technology sector is not the subject of detailed, separate consideration (except in relation to telecommunications) in the EU-UK trade and co-operation agreement (TCA), although it does touch on a number of areas of law relevant to the sector. Similarly, the European Union (Withdrawal Agreement) Act 2020 and the Agreement on the Withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community of 19 October 2019 provide some clarity in relation to certain areas of law affecting businesses operating in the technology and innovation sector (*see News brief "Withdrawal Agreement Act: legislating for departure and transition", www.practicallaw.com/w-023-7750*).

However, as the landscape after Brexit continues to develop, there may be some specific topics to consider, such as:

Digital services. The TCA includes a digital trade chapter with a positive obligation on the UK and EU to co-operate on the development of emerging technologies and a commitment to ensure the flow of cross-border data in order to facilitate trade in the digital economy. This includes a requirement that no customs duties be imposed on electronic transmissions.

E-commerce. The TCA includes a number of provisions specific to e-commerce, such as granting equal treatment to electronic signatures and documents, removing (except in a number of cases) a requirement to seek prior authorisation for services to be provided digitally, and commitments to ensuring consumer protection and co-operating on digital trade.

Cyber security. The TCA creates a framework for UK-EU co-operation in the field of cyber security. This includes UK participation in expert bodies, such as the European Union Agency for Cybersecurity (ENISA) and the Network and Information Systems (NIS) Co-operation Group, and a commitment to promote and protect an open, free, stable, peaceful and secure cyber space.

Intellectual property rights. A number of changes apply, such as that EU trade marks, and both registered and unregistered community design rights, no longer cover the UK; although, in most cases, an equivalent UK right will be created automatically. EU intellectual property rights holders will also be able to prevent the importation of goods lawfully placed on the market in the UK, as EU intellectual property rights are not deemed to have been exhausted in the UK, and UK businesses will not be entitled to claim EU database rights for databases created after 31 December 2020 nor be entitled to be a registrant of an .eu domain.

DATA

Technology JVs may generate significant valuable data. The extent to which personal data can be shared between and used by the parties to the JV, and the JV itself, will be governed by data protection laws. The parties will need to establish that any proposed sharing or use of personal data is not incompatible with the purposes for which the personal data were originally collected.

Within the UK and the EU, the parties will need to ensure that there is a solid legal basis to use the data under Article 6 and, where applicable, Article 9 of the EU General Data Protection Regulation (*679/2016/EU*) or the retained UK General Data Protection Regulation, and that notice obligations to individuals are satisfied (*see box "The impact of Brexit"*) (*see feature articles "General Data Protection Regulation: a game-changer", www.practicallaw.com/2-632-5285; and "GDPR one year on: taking stock", www.practicallaw.com/w-020-0982*). In some cases, they may also need to collect consent from the relevant individuals for the sharing and use of the personal data for the specific purposes contemplated in connection with the JV.

Access to data may determine the ability to "own" customer relationships in relation to the data. The parties will need to consider whether access to personal data, and therefore customer ownership, should be confined to the JV, or whether the parties should be able to have access to these data on, for example, termination or exit, so that they can commercialise the customer relationships.

Insofar as data are protected by IP rights, the considerations set out above in relation to IP will apply (*see "Intellectual property" above*). However, where the intention is that licences of data granted by members to the JV, or by the JV to members, will terminate in a relevant exit scenario, the practical impact of this may not be straightforward. If the data have been co-mingled with other data sets, or used to generate new data sets, as in the case of AI, it may be difficult to identify and extract the original data. The parties will need to consider the position in relation to the derived data. Careful mapping of data flows and data segregation may be required.

TAXATION

Tax will be an important part of the planning for the structure and operation of a technology JV in order to ensure that it is set up in a tax-efficient way to minimise tax leakage on any transfer of assets in, profits made and extraction of profits by shareholders. This article discusses the key principles in relation to tax by reference to a JV in the form of a corporate entity, rather than a partnership, with corporate shareholders, as opposed to individuals.

Transfer of assets

The transfer of assets by a shareholder into the JVCo may be treated as a disposal of assets and therefore may give rise to tax liabilities. In many technology JVs, it may be possible for the technology to be contributed before it has any significant value, so that any direct tax on contribution can be minimised and ideally sheltered by any losses that the shareholder has accrued in its development. Similarly, transferring at such an early stage may help mitigate any transfer or stamp duty and, if any VAT is chargeable, the JV may be able to recover it.

Ongoing tax matters

A number of ongoing tax issues should be considered, including:

- Whether the JVCo can benefit from any favourable tax regime, such as a patent box regime (*see feature article "Patent boxes: making the most of the new regime", www.practicallaw.com/9-521-5388*). If so, the conditions for that regime should be identified, including whether they impose constraints on any future development of the JV.

- Where the JVCo and any other companies within the structure should be tax resident. Maintaining tax residence is likely to require, at the very least, regular and full board meetings in the relevant jurisdiction.

- Whether the IP should be held in the main operating company or in a separate IP holding company.

- If the technology is to be licensed to any party, whether any withholding tax is due on any payments to the JVCo and, if so, whether any withholding tax is creditable.

- How the management team is to be incentivised and whether this can be done without a significant employment tax cost. Most management teams would prefer to receive any return that they make from their participation in a capital form, which generally benefits from a lower effective tax rate.

Other issues that are relevant to a JVCo and its shareholder relationships include whether:

- Any arrangements with shareholders are on arm's length terms. If they are not, a

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- It is sensible to include the JVCo in any form of tax consolidation so that losses, particularly in the start-up phase, can be transferred to and from the shareholders.

- The JVCo may be liable for any so-called "secondary tax"; that is, tax that relates to the profits of a shareholder but that can be collected from an affiliate by virtue of the shareholding connection.

Extraction of profits

The JVCo will be subject to tax on its own profits and so there will be tax leakage at the level of the JVCo. It may then need to distribute the after-tax profits to its shareholders, generally either through a repayment of any debt financing or the payment of dividends. These distributions can also give rise to tax leakage in the form of withholding taxes or tax on receipt by the relevant shareholder.

The withholding tax position will depend on where the JVCo is tax-resident and the identity of its investors. Some jurisdictions do not impose withholding tax on dividends; others may do so if the investor is based outside the jurisdiction.

The tax treatment of the distributions in the hands of the shareholders will depend on where the shareholder is tax-resident and how the shareholder holds its dividend. Most individuals would be expected to be subject to tax on dividends; other investors, such as many institutional investors, may be exempt from tax.

Victoria Birch is a corporate partner focusing on technology and innovation, Ian Giles is a partner and head of antitrust and competition EMEA, Mike Knapper is a partner and head of intellectual property EMEA, Lara White is a partner focusing on data privacy, and Dominic Stuttaford is a partner and head of tax EMEA, at Norton Rose Fulbright LLP.