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A photograph of a busy office hallway with several people in business attire walking. The image is blurred to convey a sense of motion. In the foreground on the right, a man in a grey suit and red striped tie is walking towards the camera. Other people are visible in the background, some carrying briefcases or bags.

10 Questions: IP ISSUES IN THE FINANCIAL SERVICES SECTOR

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**ALSTON
+ BIRD** LLP



FW speaks with Mike Connor, a partner at Alston & Bird LLP, about IP issues in the financial services sector.



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Mike Connor co-chairs Alston & Bird LLP's overall Intellectual Property Practice Area and is a past chair of the IP Litigation Group. He handles patent infringement and other IP litigation matters. Mr Connor has handled intellectual property disputes in technologies such as cardiovascular implants, mobile telephone networks, debit card processing, financial services, diagnostic imaging, electronic music downloads, robotics, textile machinery, orthopedics, consumer electronics, electric power systems, RFID and semiconductor manufacturing. He has led trial teams in federal courts across the United States and before the United States International Trade Commission, and has argued appeals at the Federal Circuit and regional circuit courts. He can be contacted on +1 (704) 444 1022 or by email: mike.connor@alston.com.

FW: In your view, how important is intellectual property to financial institutions? Are they doing enough to maximise and safeguard the inherent value in these assets?

Connor: While intellectual property for many years was underappreciated in the financial services area, the field has begun to recognise its importance. Today, IP rights are as important to financial services companies as has long been the case for high tech companies. As financial services companies have migrated their businesses to technology platforms, opportunities for protecting new developments with patents, copyrights, trade secret and other legal means have grown. 'Patent trolls' may have awakened many in the industry to the power and importance of IP rights, but today's sophisticated financial institutions have developed institutional programs to identify and protect their IP rights. This is vastly important to the development of new systems, as solid IP protection, and avoidance of IP rights of third parties, are necessary to safeguard major investments in business platforms and new products and services. Recognition and adoption of IP protection processes have been

uneven, but most significant financial companies today have IP programs and procedures in place. Larger entities may have in-house IP counsel and IP committees in place.

FW: Are you seeing growing popularity in the patenting of payments processing systems?

Connor: The technology-driven nature of this area of financial services led payments companies to recognise early on that IP rights were important. There is a fair amount of IP litigation in the United States concerning payments systems, relating to patents on POS devices, communications protocols and methods, and overall systems. Licensing of technology platforms and software packages to run the platforms is often an important part of a payments processor's business. Industry standards that are necessary for the compatibility of linked systems may come into play in some of these matters and may affect the availability of IP rights. Early innovators who protected their systems have secured their market positions and have reaped substantial rewards from excluding later entrants or licensing them. The payments field is a

rapidly evolving business, and new patents in this area are being issued at a high rate.

FW: Could you outline some of the key issues surrounding the patentability of business method claims?

Connor: The claims in a business method patent cannot be too abstract and cannot be directed solely to mental processes. In the United States, recent cases stemming from the Federal Circuit Court of Appeals' famous *In re Bilski* case in 2008, and the Supreme Court's affirmation of that decision in 2010, have addressed patentability of business method claims. *Bilski* concerned a claim for a method of hedging risks in commodities trading that was held not to be patent-eligible. One way to avoid the problem of unpatentable subject matter is to have the claim implemented in a meaningful way with a computer or using other technological elements.

FW: What provisions are now available to address concerns of patent invalidity?

Connor: Financial services companies that are concerned that patents may be invalid have multiple ways to seek determinations from courts or the US Patent and Trademark Office (PTO), and they will soon have new ways to seek redress. First, for substantial disputes where subject matter jurisdictional concerns are met, financial services companies may petition a federal district court to rule that an issued patent is invalid. Federal court litigation of invalidity is a frequent defence in patent infringement suits, as an invalid patent cannot be infringed. An action for declaratory judgment of patent invalidity may be filed in appropriate situations. Alternatively, a company concerned with patent validity has been able to seek review from the PTO in a re-examination proceeding. There have been two versions; inter partes re-examination and ex parte re-examination. Strategic decisions and cost have influenced the choice of these avenues. The recent America Invents Act is introducing new procedures that come into effect beginning in September 2012 that are known as post grant review and inter partes review. The extent to which these new vehicles will be used remains to be seen, but they may be popular alternatives to district court litigation where cost is a concern.

FW: Do you expect patent pools and cross-licensing among financial entities to become more prevalent? What licensing issues might come into play as a

result?

Connor: As financial services entities acquire more and more patents, in time we would expect that some institutions may cross licence each other, especially where each has patents that block the other, or where each entity needs its system to be compatible with the systems of other entities. Patent pools, or cross-licensing encompassing larger industry groups, are likely to become more popular, although competition law issues will become important in these situations. Where standards are involved, licences may be required on reasonable and non-discriminatory terms. Some technology-driven businesses such as telecommunications already face these issues every day, and I would expect that financial institutions that must deal with each other regularly will in time develop a similar, although perhaps less entangled, environment.

FW: What effect have 'patent trolls' had on the financial sector? Will they continue to be a source of disputes, or might we see an increase in disputes between financial institutions themselves?

Connor: Patent trolls were among the first entities to engage in active and widespread patent assertion and licensing programs in the financial sector. Their activities awakened some banks and trading companies to the power of IP rights that had previously been overlooked or ignored. Some of the early trolls were successful because financial services companies were not very sophisticated in IP matters. They had not prepared for the onslaught of patent assertions by trolls and had not taken steps to be prepared to defend themselves in patent litigation. Since that time, many in the financial sector have instituted IP programs, both for defensive and offensive purposes. They have begun to secure legal counsel, including formal opinions where appropriate concerning patents of third parties. These programs may also seek to identify opportunities to protect the company's IP rights, and to licence or sell IP rights as supplemental revenue streams.

FW: Do you believe financial institutions need to be more sophisticated in mapping and monitoring their competitors' patent rights and identifying their own IP rights worthy of protection? What steps can they take to improve in this area?

Connor: Financial institutions are becoming more sophisticated about managing and monitoring

competitors' patent rights, and in identifying their own IP rights, but many of them are not as experienced in these matters as high technology, pharmaceutical and manufacturing companies have been for years. Because patents have not held the prominent position in the financial sector that they have in other fields, development of awareness and capabilities in this area lags, too. But the financial sector is becoming more sophisticated very rapidly. They are developing programs for patent mapping of competitors' patent rights, in which they watch for and analyse published applications and patent applications in their fields. As the numbers of patents in the financial sector grows, these systems are going to be stretched, and will of necessity become more robust. One important step is to identify an in-house person, ideally an in-house lawyer with deep knowledge of the institution's business, to take responsibility for IP matters. In house management of IP defence and procurement matters is best coordinated through in-house counsel working in conjunction with an IP committee formed of representatives from relevant business units.

FW: Data privacy has become a significant area of risk for financial institutions. What advances are being made to protect the confidentiality of customer and account information?

Connor: While technological advances are trying to keep pace (with some success) with internal and external threats to customer and account information, intellectual property and other data assets, advances are being made in the areas of institutional security awareness and employee appreciation of the varying privacy regimes that global companies often encounter. We see an increasing number of boards, in-house counsel, and C-level executives that are adopting and implementing policies and initiatives to combat cyber threats in their organisations, by implementing privacy by design concepts, updating incident response plans, and examining data collection practices. These may be developed in response to security incidents, but of course it is better to anticipate problems. We often see incidents involving foreign threats to corporate networks concerning theft of core intellectual property, financial and payment card information, and other data assets. Financial sector companies can develop and adopt privacy policies and initiatives to coordinate and facilitate compliance and awareness with an assortment of data privacy regimes and regulations that may be in conflict.

FW: Given that banks are turning to outsourcing more frequently, how important is it to address indemnity issues with suppliers?

Connor: Addressing indemnity issues with suppliers of goods or services can be tremendously valuable and can add certainty to the success of a business venture by eliminating risk of loss due to unforeseen IP disputes. Outsourcing agreements should include robust indemnity provisions that shift to the supplier the obligations to defend and indemnify the bank in the event of an IP assertion by a third party against the bank or its customers. Banks may consider imposing indemnity provisions on suppliers that provide only a portion of an accused infringing method, system or product. Warranties of noninfringement may be appropriate. If patent rights of third parties are identified prior to negotiation of the outsourcing agreement, these may be specially identified. In matters of particular concern, provision for suspension of payments or creation of reserve funds, or specified amounts for indemnity payments, may be noted in the agreement.

FW: Looking ahead, can we expect the financial services sector to remain a fertile ground for IP disputes? If so, what should companies do to prepare?

Connor: Financial services companies are almost certainly going to see continued litigation of IP issues. I would guess that the frequency and significance of IP disputes will increase. Patent trolls have identified the financial sector as a lucrative target area. They have devoted resources to developing or aggregating patent estates for their assertion and monetisation efforts. In addition to continued troll activity, we also foresee more disputes between established companies in the financial sector, because these companies have begun active programs to identify and protect their intellectual property with patents. Patent applications may require a few years to mature into issued patents, so there is a latency period prior to litigation of patents. Financial sector companies should institute IP committees if they haven't done so already. They should develop programs for dealing with notice letters of patent trolls or competitors. They should educate employees about appropriate procedures for dealing with IP matters. And they should consider instituting patent watch or mapping programs to keep an eye on their competitors' activities.