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## **WHO OWNS THE INTELLECTUAL PROPERTY DEVELOPED IN INDIA**

### **INTRODUCTION**

India has been a favourite destination for global companies for information technology activities, research and development, resulting in a variety of intellectual property ("IP") development. To ensure effective ownership of IP developed in India, it is imperative that the companies understand the legal and practical aspects.

In a typical project, the overseas clients ("Client") execute agreements ("Development Agreement") with their Indian vendors ("Vendor") prior to commencement of the projects, and in most of such agreements, the Vendors confirm that they have assigned and/or agree to assign all Vendor developed IP rights.

However, based on the applicable Indian law and also the practices followed in India, such Development Agreements alone may not ensure the Client's ownership of India developed IP rights.

The below write up addresses some of the practical concerns on the aspects such as: (i) who owns the India developed works' IP rights; (ii) and how to ensure that the Client owns the IP developed by the Indian Vendor; (iii) the stages of IP development and related ownership; and (iv) the documents required and the explanation of such documents' necessity.

### **WHO OWNS THE IP AT THE FIRST INSTANCE**

The IP ownership in India varies under different IP laws. For instance, in case of an employee developed copyright, the employer will be the first owner of the copyright. Therefore, the Indian Vendor will own its employee developed copyright. However, this will not apply in case of an independent contractor developed copyright. As regards patents, the inventor will be the first owner, irrespective of whether it is an employee or a contractor.

### **IP TRANSFER FROM INDIAN VENDORS**

#### **IP Assignment Provisions in Development Agreements from Indian Vendor to a Client**

In most cases, the standard templates of Development Agreements normally provide that (i) all the IP

developed by the Indian Vendor's employees and contractors under the agreement will be assigned to and owned by the Client; or (ii) the Vendor "hereby assigns" (and in some cases, agrees to assign), to the Client, the IP developed under the Development Agreement. However, the Development Agreement may not provide for any specific deeds of assignment or other documentation to effect the transfer of IP from the Indian Vendor to the Client, although the Development Agreement may contain an undertaking in that regard.

However, the important legal and practical concern in cases where the Vendor promises that its employees and contractors will assign the IP rights to the Client is whether it is advisable to make such assignments directly with the Client and create such contractual relationships between the Client and the Vendor's employees and contractors. Further, in cases where the Vendor itself promises to assign the IP rights to the Client, the concern is whether the Vendor owns all the IP rights in the work product developed by its employees and contractors.

Unless extremely necessary and supported by detailed agreements and documentation, it is better for a Client to avoid direct IP assignment and creation of contract relationships with the Vendor's employees and contractors. Therefore, this issue is not further discussed in this write-up.

Therefore, this write-up recommends that the Vendor may assign the IP rights to the Client under a two-level IP assignment process. The first level will be between the Vendor and its employees and contractors to ensure that the Vendor owns the IP in the work product developed. The second level will be between the Vendor and the Client under which the Vendor will assign the IP rights obtained from its employees and contractors. Further, the Client and the Vendor must agree in the Development Agreement to execute specific deeds of assignment to assign all the IP rights. A format of the deed of assignment must be agreed upon and preferably a draft should be annexed to the Development Agreement, broadly identifying and the development work to be carried out by the Vendor. This will act as *prima facie* proof of the nature of IP rights that may be developed and that the parties have validly

agreed that the Client will own such Vendor's developed IP.

**(i) IP Assignment From the Indian Vendor's employees / independent contractors to the Indian Vendor**

At the outset, the below mentioned IP laws govern the ownership and assignment of IP rights in India:

- a. **Copyrights:** As regards the services rendered (and IP developed) in India, Indian IP laws will govern such IP rights. Under India's Copyright Act, 1957 (the "CR Act"), any work product, including source code, if developed by an employee, the employer will be the first owner of the copyright in such work product, in the absence of any contract to the contrary. (Section 2(o) r/w section 17 of the CR Act.) Therefore, at the first instance, the Indian Vendor will own the copyright in any work product developed by its employees in India, for the Client.
- b. **Patents:** Under India's Patent Act, 1970, (the "Patent Act") an inventor will be the first owner. There is no automatic assignment in case of patents and therefore, a patent assignment must be in writing specifying the terms and conditions.
- c. **Designs:** As regards assignment of designs, the Designs Act, 2000, mandates a procedure similar to patent assignments.

The assignment of inventions provisions under the employment agreements normally specify that the employee "hereby assigns" to the Indian Vendor all inventions that the employee might develop or conceive during the period of employment with the Indian Vendor. Further, the employment agreement may also provide that the employee agrees to assist the Indian Vendor, by executing necessary documentation, to ensure the Indian Vendor's ownership of the employee developed IP. Although prima facie, the agreement's provisions will confirm the employee's intention to assign the IP to the employer (Vendor), and in case of copyrights developed by the employee, the employer can automatically be deemed as the owner of such copyrights, there are certain practical aspects to be addressed to ensure absolute ownership of the employee developed IP.

Further, as there is no automatic assignment of any IP rights on the works developed by independent contractors, the Indian Vendor will have to enter into separate deeds of assignment with such independent contractors, specifying the terms and conditions of assignment.

**(ii) IP Assignment From the Indian Vendor to the Client**

The Client, after ensuring that the Vendor owns the IP rights developed by its employees and contractors, must

ensure that the Indian Vendor executes the deeds of assignment in the Client's favor to assign any copyright, invention, patent, design rights and all other IP that is developed.

To achieve this, the Development Agreement between the Client and the Indian Vendor should clearly make the Indian Vendor liable to ensure that the Indian Vendor's contracts with its employees have the above mentioned provisions for IP protection.

Additionally, under the Development Agreement, the Indian Vendor should provide a power of attorney to the Client, authorizing the Client to adopt steps to own the IP rights developed and agreed to be assigned by the Indian Vendor, in the event the Indian Vendor is not available to do so. Similarly, the Indian Vendor should also obtain a similar power of attorney from its employees.

**OTHER LEGAL ASPECTS**

The CR Act prescribes certain provisions for a valid assignment of copyright developed in India. Under the CR Act, the deed of assignment must identify the work and specify the duration, territorial extent and the nature of rights assigned. If no duration is specified, the term of the assignment will be limited to five (5) years from the date of the assignment, and if the territory for the copyright is not identified, the assignment will only be valid for India. Therefore, the deed of assignment must specify that it is a perpetual and worldwide assignment. Further, under the CR Act, unless otherwise agreed, the assigned rights will lapse if an assignee does not exercise the rights within a period of one (1) year from the date of assignment. Therefore, the deed of assignment must specify that the assignment will not lapse even after one (1) year of non-use.

The CR Act deals with present assignment of a future work. The assignment of copyright in the future work will take effect only when the work comes into existence. Further, for clarity and to avoid future disagreement, the future work to be assigned should be identified in the deed of assignment and agreements at the time of commencement of the project.

**CONCERNS ON VENDOR EMPLOYEES AND CONTRACTORS DEPARTING DURING THE PROJECT**

Please note that absence of a deed of assignment from the employees to the Vendor can cause greater challenges if the Vendor's employees leave the employment in the middle of a partly developed project. This is why there must be a deed of assignment at the commencement of the project, which will broadly identify the nature of work handled by the employees, and their agreement to assign those. Thereafter, when the work product/project is complete, the key employees involved in the project must execute another deed of assignment assigning all the IP rights in such work product to the Vendor.

In this regard, US' Supreme Court has observed in a case that the future IP to be developed was not adequately assigned under a development agreement. (*Satyam Computer Services Ltd. v Upaid Systems Ltd*, [2008] APP.L.R. 01/17)

Therefore, to avoid any scope for disputes regarding the work product to be assigned, the Client should enter into a separate deed of assignment with the Indian Vendor (similarly, between the Indian Vendor and its employees/independent contractors) each time a specific work comes into existence.

### **HOW AND WHEN TO EXECUTE THE DEEDS OF ASSIGNMENT**

Many companies deem the IP assignment as absolute and complete by signing a standard template IP assignment agreement with the assignee. As explained above, it is preferable to execute a template of the deed of assignment at the time of commencement of the project and specific deeds of assignment to assign the existing IP and also each time an IP is created. The deeds of assignment must be adequately stamped in India, prior to execution.

### **CONCLUSION**

A Client, whose critical and valuable IP is at stake as part of a development project, should not rely on standard templates and IP assignment clauses under the agreements with the Indian Vendors. The Client must exercise diligence and ensure the execution of multi-level specific assignment agreements to ensure absolute ownership of IP from the Indian Vendors.

**ANA Law Group** is a full-service law firm based in Mumbai, India.

ANA Law Group has a distinguished intellectual property practice and represents a niche clientele. The Firm's IP clients include top multinational corporations including a large number of pharmaceutical companies, universities and educational institutions, etc.

The Firm's IP team comprises of Indian and internationally qualified and experienced attorneys and former senior officials of Indian IP Offices who have vast statutory and practical knowledge and exposure in all areas of IP laws. The solution-driven pragmatic IP advice coupled with speed, consistency, quality and ability to deliver under pressure are the unique attributes of the Firm's IP practice. Our team has significant experience in franchising/licensing matters as well.

The Firm manages the trade mark portfolios for prestigious brands across India and in the neighbouring countries such as Pakistan, Afghanistan, Bangladesh, Nepal, Sri Lanka, Maldives, Bhutan, Myanmar, etc., through our local associates.

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