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INTERNATIONAL SECURITIES MARKET ASSOCIATION

P R E S S R E L E A S E

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New ISMA report says caution needed over EU patent developments

(LONDON, UK) BANKS AND securities houses in Europe may need to prepare for a more widespread, US-style, application of patent rights in the financial services sector. This is the conclusion of a new independent report published today by the International Securities Market Association (ISMA).

Patenting Finance: Financing Patents provides a contemporary commentary on the way in which patents have been sought and, in some cases, successfully obtained to protect business methods and software systems developed by some of the major global financial institutions.

The report reveals how the boundaries of patentability have been extended by courts in the United States to cover business methods, such as methods for managing mutual fund structures and monitoring the value of an index-linked bond. It further explains how guidelines issued by the US patent authorities make it possible for software to be afforded the protection of a patent. The broadening reach of 'financial' patents in the US is also being driven by insufficient understanding of business methods and software on the part of patent examiners. This, according to the report, is fuelled by difficulties in gauging whether the subject of a patent application is genuinely new or whether it constitutes so-called 'prior art'.

Clear differences exist, however, between the position in the US and developments in Europe. For example, a patent granted in the States on a method of administering a pension fund was ruled out by European patent officials on the grounds that, as a business method, it was not patentable. The approach towards patenting software is likewise more restrained in the EU, to the extent that the relevant regulatory frameworks specifically exclude computer programs from their reach. But European Patent Office guidelines requiring patents to have a "technical character" have not stopped patents being granted for software that solves technical problems or involves technical considerations.

This lack of certainty means that the future development of the laws relating to patents in Europe will increasingly require the attention of participants in financial markets throughout the EU. The report contemplates the possibility of patenting a particular kind of stock exchange or bond market - an issue of considerable relevance to the electronic trading environment in which many banks and intermediaries are investing.

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It also highlights how investors in financial markets world wide are taking increasing exposure to companies whose earning stream, particularly in the case of biotechnology firms, depends on patents.

Whilst patent law in the European Union is left to national legislation, all 15 member states are signatories to the European Patent Convention (EPC), which steers patent law in currently 19 European countries. ISMA's publication follows the outcome of a key diplomatic conference - held in Munich in November 2000 - where members agreed to defer a decision on expanding the EPC to include business processes and software. Additionally, ahead of plans for a draft directive relating to patents, the European Commission has published a consultation document canvassing opinions on whether or not software could be patented.

The report warns participants in the financial services sector to be alert to these developments and, where feasible, to seize the opportunity to influence the debate. Firms will have mixed views on the extension of patents to business methods and software. Whilst banks and securities houses may wish to safeguard their investment in new concepts through the protection afforded by a patent, they must also weigh up the disadvantages of the requisite need to publish details of the invention into the public domain. Firms may also want to consider the dangers of patents that are broad enough to allow monopolists to strangle competition, particularly given the costs involved in some jurisdictions of challenging a patent.

Whatever the outcome, author Julian Walmsley suggests a number of ways in which banks and securities houses in Europe can help protect themselves in relation to patent rights, including the following key proposals:

- Firms should consider whether their business methods - whether inside or outside the US - might be affected by patents that have so far been granted in the States or, moreover, become the subject of a patent lawsuit. This applies particularly to e-commerce, given its inherently global nature.
- Firms should consider assessing US patents granted in respect of their lines of business in the event that it becomes necessary to object to the filing of applications for a parallel patent in Europe or elsewhere.
- Whether defending against or seeking to enforce a patent claim, firms should have documentation in place to demonstrate when a specific business method and its associated computer system was implemented or 'invented'.

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Notes for editors

1 Obtaining copies

Patenting Finance: Financing Patents is available for download free of charge from ISMA's web site at www.isma.org.

2 ISMA

The International Securities Market Association (ISMA) is the self-regulatory organisation and trade association for the international securities market. For some 600 member firms in almost 50 countries world wide, ISMA oversees the efficient functioning of the market through the implementation and enforcement of a self-regulatory code covering trading, settlement and good market practice. The Association also provides its member firms - and other users - with a range of services, products and support. Via a UK holding company, ISMA is the majority shareholder in COREDEAL, the pan-European electronic exchange for international debt-related securities.

3 Disclaimer

Patenting Finance: Financing Patents has been commissioned by ISMA to provide an overview of the current trends and possible future developments regarding the impact of intellectual property rights on financial services and other areas of business. All opinions expressed in the report represent the personal opinions of the author and do not represent the opinion of ISMA, which has not taken an official position on the matters discussed within.

4 About the author

Julian Walmsley is Visiting Research Fellow at the ISMA Centre at the UK's University of Reading and Managing Director of Askeaton Associates Ltd., a consulting firm.

After completing a degree in Economics at Cambridge, Walmsley worked in the Economics Department at Barclays Bank, London before joining its foreign exchange dealing operation in 1977. In 1981 he moved to a similar job with Barclays, New York. In 1983 he helped set up Barclays' US interest rate and currency swap operation, before joining what is now NationsBank in London to set up its swaps group. In 1988 he became Senior Investment Officer at Oil Insurance Ltd., Bermuda, returning to London in 1990 as Chief Investment Officer at Mitsubishi Finance International in London. He is the author of *Guide to Foreign Exchange and Money Markets* (John Wiley, 1992) and *New Financial Instruments* (John Wiley, 2nd edition, 1998) and co-author of several reports for ISMA and others including *Derivatives in the Context of the Single European Securities Market* (ISMA, 1994); *Risk Management in International Securities Markets: Are Today's Standards Appropriate?* (ISMA, 1996); *The Impact of Credit Derivatives on Securities Markets* (ISMA, 1998); *Adjusting VAR Models for the Euro* (ACI Foundation, 1998); *The Flow of Funds Through Euro Securities Markets* (CSC, 1998); *Likely Developments in EU Capital Markets* (Fundacion de los Cajas de Ahorro de España, 1999); and *New Frontiers in Clearing and Settlement* (ISMA, 1999). During 2000 he was engaged in a strategic study for a major clearing organisation.

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