SECURITIZATION AND INTELLECTUAL PROPERTY

Intellectual Property Based Financing for Promoting Innovation and Growth in Jamaica

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PROTECTION OF IP RIGHTS

IMPORTANCE AND ECONOMIC VALUE OF IPRS

TO PROMOTE THE PROGRESSIVE DEVELOPMENT OF IPRS IN JAMAICA

JIPO HAS A DEVELOPMENTAL FOCUS IN ADDITION TO AN ADMINISTRATIVE ONE

JAMAICA INTELLECTUAL PROPERTY OFFICE AND ECONOMIC DEVELOPMENT

CAPITAL BUSINESS ADVISORS LLC
SECURITIZATION BUILDS A BRIDGE

Application of Funds

Resulting from the technicality of the financial instrument

Capital Markets

Market
SECURITIZATION is a preferred form of funding

Bankruptcy Remoteness

Off-Balance Sheet Treatment

Extended Leverage
As the substitution of more efficient public capital markets for less efficient, higher cost, financial intermediaries in the funding of debt instruments
SECURITIZATION AND BANKING

Fragmentation of Traditional Lending

SECURITIZATION

BANKING

- Originating
- Funding
- Servicing
- Monitoring
THE IDEA OF SECURITIZATION

MOVE FUNDING FROM BANKING WORLD

TO THE INVESTMENT BANKING WORLD*

* It’s riskier; therefore, it must be properly regulated
PURPOSE OF SECURITIZATION

CONVERTING AN ASSET INTO CAPITAL MARKET SECURITY TO RAISE MONEY FROM THE CAPITAL MARKETS
Meaning of SECURITIZATION

- It’s a financial process
- It transforms an asset into a Security
- The security results in a “Asset Backed Security”:
  - A CAPITAL MARKET INSTRUMENT
ASSET BACKED SECURITY

It simply an exposure in an asset or a bunch of assets

• It is not a claim on an entity but an asset

Value added: Inter-creditor Arrangement

• Legal preference and Structural preference
ASSET BACKED SECURITY

LEGAL PREFERENCE

• Investor has a claim over the assets, before anyone else by isolating the claimed asset

STRUCTURAL PREFERENCE

• It refers to the qualitative standards of the assets

KEY TO SECURITIZATION

GOOD ASSETS

ASSETS ARE GROUPED BUT NOT "CHERRY-PICKED"
LEGAL PREFERENCE

- PERFECTED, IRREVERSIBLE LEGAL TRANSFER
- IT CREATES A CLASS OF INVESTORS WHO ARE PREFERRED
- THERE’S A STRUCTURING OF INTERESTS
- IT CREATES A HIERARCHY OF ASSET CLASS
USE OF SPECIAL PURPOSE VEHICLE

TRANSFERING ASSETS TO INVESTORS

CREATING A CAPITAL MARKET INSTRUMENT

DEVICE KNOWN AS A SPECIAL PURPOSE VEHICLE
The SPV is

- A legal outfit
- Specially and solely created to hold the assets
- Therefore, the securities are equivalent to a claim over the assets
- It is the intermediary between the originator and the investors

SECURITIZATION = ASSET- BACKED SECURITIES
SECURITIZED BONDS – STRUCTURED FINANCING

Originator Sell its Assets to a Trust or Corporation

Then Issues Securities Backed by These Assets

Only Recourse To The Assets Contained Within The SPV (Corporation/Trust)

Investors Do Not Usually Have Recourse to the Seller of The Assets

ASSET BACKED SECURITIES
PACKAGING A SECURITY

- Repayable over or after a period
- Receivable
- Homogeneous Pool
- Asset Class
- Contractual Certainty as to Payment
- Replaceable, if not performing
- Similar Risk, term, features
ASSETS TRADITIONALLY USED IN SECURITIZATION

Receiveables
- Mortgage
- Car Rental
- Credit Card

Invoices
- Electricity
- Telephone
- Insurance

Arrangements
- Equipment Leasing
- A full array of Financial Claims

Common Requirement: Tangible Economic Value
PROCESS IN SECURITIZATION

CASH FLOW CLAIMS
- Consolidated
- Separated from originating entity
- Transformed into Securities
- Offered to investors

ISSUANCE BASED ON QUALITY OF ASSET
- Origination of instrument hinges on the quality of the underlying asset

CREDIT RATING
- The issuer rating is not relevant, but the asset rating

THIS IS ASSET-BACKED FINANCE!
### PLAYERS AND INSTRUMENTS

<table>
<thead>
<tr>
<th>ORIGINATOR</th>
<th>TRANSFEROR</th>
<th>RE-PACKAGER</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Responsible for originating the claims</td>
<td>• Original underwriter of the claim or the asset</td>
<td>• Who buys the assets from the market to securitising them</td>
</tr>
<tr>
<td>• Transfers receivable</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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## PLAYERS AND INSTRUMENTS

<table>
<thead>
<tr>
<th>INVESTORS</th>
<th>ABS</th>
<th>CLAIMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Who put money into the instrument, could change over time</td>
<td>• Security supported by specific assets and repayable from such assets (certificates)</td>
<td>• Either existing claims or expected claims over time</td>
</tr>
<tr>
<td></td>
<td>• Name based on their risks or features</td>
<td>• Exclusive source of repayment (bankruptcy remoteness)</td>
</tr>
</tbody>
</table>
## PLAYERS AND INSTRUMENTS

<table>
<thead>
<tr>
<th>COLLATERAL</th>
<th>ASSIGNMENT OF RECEIVABLES</th>
<th>SPV</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Assets or receivables that back up the securities</td>
<td>• Equals to the transfer of receivables</td>
<td>• Intermediary or conduit for the benefit of the investors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• It becomes the issuer</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• May be responsible of managing the cash flow (Trust)</td>
</tr>
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</table>
Securitization and Secured Credits

**Secured Loan**
- Secured mostly by tangible asset
- Right to dispose the asset to realize the amount due
- Subsidiary recourse to borrower

**Securitization**
- It’s usually applied for funding of working capital or receivables
- Mutually exclusive AB finance
- Asset is exclusive recourse
FEATURES OF SECURITIZATION

- Substantial investment in receivables
- Receivables in future for value already provided
- The receivables are independent of originator
- Usually backed by payment schedule
- Diversification - Rating
CREDIT ENHANCEMENTS IN SECURITIZATION

REALLOCATION OF RISK

FIRST LOSS PROTECTION

SENIORITY OF CREDITORS

- SENIOR INVESTORS
- MEZZANINE LEVEL INVESTORS
- JUNIOR INVESTORS
SEURITIZATION
THE FLOW:

CONSUMER MARKET

OWNER OF RIGHTS

RECEIVABLES/ IP RIGHTS

ASSIGNMENT OF RIGHTS

SPV/ TRUST

RATING AGENCIES

ISSUE SECURITIES

PROCEEDS FROM SALE OF SECURITIES

CREDIT ENHANCEMENTS

SECURITIES PARTICIPATION

CAPITAL MARKET INVESTORS

$ $ $
ECONOMIC IMPACT OF SECURITIZATION

- Facilitates creation of markets in financial claims
- Disperses holding of financial assets
- Promotes savings
- Reduces costs
- Diversifies risk
- Focuses on the use of resources
ASSET BACKED AND FUTURE FLOWS SECURITIZATION

OVER-COLLATERALIZATION IS USUALLY HIGH

AGREEMENT TO SELL FUTURE RECEIVABLES OR REVENUES

ADVANCE AGAINST AN AGREEMENT TO SELL RECEIVABLES

IT PROVIDES A MECHANISM OF TRAPPING REVENUE AT THE SOURCE

FUTURE FLOWS SECURITIZATION
INTELLECTUAL PROPERTY AS AN ASSET CLASS IN SECURITIZATION

INTANGIBLE PROPERTY AS AN ASSET CLASS

ROYALTIES AND OTHER IP OF MUSIC STARS, PERFORMERS, AUTHORS AND CINEMA PERSONALITIES

Bowie Bonds and other relevant IP securitization
OTHER RELEVANT MUSIC
IP SECURITIZATION

ASHFORD & SIMPSON
SCORPION
JAMES BROWN
ISLEY BROTHERS
IRON LADY
IRON MAIDEN
MOWTOWN
ROD STEWART
FEATURES OF ROYALTY BASED SECURITIZATION

ORIGINATOR

- Artist, Music Publisher, Record Company manage assets to continue generating revenue (retain certain control)

ASSET

- Must be well established and quality work
- Generate steady, predictable stream of royalty
- More likely to appreciate over time

DUE DILIGENCE

- Close attention to ownership over licensed material, bankruptcy, tax and securities law, copyright and patent rights

SPV

- Holds the royalty rights until enough income is generated to repay the investors
VALUING MUSIC ROYALTIES

IT MAY PROVE TRICKY!!!

- CASH FLOW ANALYSIS AT THE OUTSET
- TRUSTEE MANAGES ROYALTY PAYMENTS
- EFFECT OF STREAMING PLATFORMS ON ROYALTIES
DUE DILIGENCE ON MUSIC ROYALTIES

SECURITY INTEREST

CREATION, PERFECTION AND ENFORCEMENT OF INTERESTS IN THE ASSET

ROYALTY RIGHTS

RATES AND VALUATION OF LICENSED IP

TRANSFER

APPROPRIATE LEGAL MECHANISM TO TRANSFER RIGHTS
DUE DILIGENCE ON MUSIC ROYALTIES

SECURITIES LAW

EITHER SOLD IN A PUBLIC OFFERING OR A PRIVATE PLACEMENT

TAXES

APPROPRIATE TREATMENT FOR ALL THE PARTIES

ACCOUNTING

APPROPRIATE TREATMENT FOR ALL THE PARTIES
CASH FLOW AND MUSIC
REPAYMENT SOURCES

CASH FLOW GENERATED FROM THE COPYRIGHTS (ROYALTY INCOME)

• LIQUIDATION PROCEEDS FROM THE SALE OF THE COPYRIGHTS

CREDIT ENHANCEMENTS IN THE TRANSACTION

• RESERVE ACCOUNTS

ASSETS MUST DISPLAY SIGNIFICANT REVENUE GENERATING HISTORY!
DETAILS ABOUT SOURCES OF REVENUE

- PUBLISHING ROYALTIES
- MECHANICAL ROYALTIES
- PERFORMANCE ROYALTIES
- SYNCHRONIZATION ROYALTIES
- ARTIST ROYALTIES
CASH FLOW SHOULD SHOW EARNING STABILITY

CASH FLOW SHOULD EXHIBIT AN UPWARD TREND

DEBT WILL BE SERVICED FOR A TERM OF 10-20 YEARS

BASE CASE ON HISTORICAL REVENUE GENERATING ABILITY

CONSIDER LIQUIDATION OF MUSIC CATALOG

CONSIDER “FIRE SALE” VALUE TO REPAY INVESTORS

ENDLESS OPPORTUNITIES FOR IP TRANSACTIONS

NOT ONLY FOR MUSIC BUT FOR PATENTS, TRADEMARKS AND CERTAIN COPYRIGHTS
### Final Remarks

**Prospects of IP Asset Based Financing in Jamaica**

<table>
<thead>
<tr>
<th>Focus on Movable Collateral Transactions</th>
<th>Identify Potential Securitization Targets</th>
<th>Focus on Reliable Due Diligence to Determine Economic Value of Suitable IP Rights</th>
<th>Focus on Promoting Credit Modeling</th>
</tr>
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GET UP, STAND UP ...

“Passion is one great force that unleashes creativity, because if you're passionate about something, then you're more willing to take risks.”

Yo-Yo Ma