

## Q&A: due diligence for tech M&A in Brazil

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Brazil | September 20 2023

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### Due diligence

#### *Typical areas*

**What are the typical areas of due diligence undertaken in your jurisdiction with respect to technology and intellectual property assets in technology M&A transactions? How is due diligence different for mergers or share acquisitions as compared to carveouts or asset purchases?**

While conducting a technology M&A transaction, the purchaser shall verify the ownership and validity of the technology and IP assets held by the target company. Ongoing disputes (judicial, administrative and/or extrajudicial) shall also be analysed. The status of industrial property assets (patents, trademarks, industrial designs, geographic indications and integrated circuit topographies) can be verified at INPI's website.

Regarding software, non-registered technologies and other copyrights, the purchaser shall ensure that the target company has all the documents that show its ownership (such as an assignment agreement from authors, proof of creation, etc).

In any case, limitations on the use of the referred technology and IP assets shall be disclosed by the target company.

Unlike M&A transactions where the assignment of IP rights is undertaken integrally, carve-outs and asset purchases require individual assignment agreements specifying the IP asset and granting IP rights partially, (eg, trademark licence agreement, industrial design licence agreement) that also subject the asset purchase to the compatibility of the activities to the corporate purpose.

In the case of merger or share acquisition, the due diligence must involve the target as a whole (all other areas such as labour, tax, litigation, consumer protection, etc). In the case of carve-outs and assets purchased due diligence, in addition to investigating the technology and IP assets, it is important to assess the possibility of the holder to dispose of assets (which implies confirming the existence of administrative, judicial or arbitration proceedings that may prevent or make the disposition of assets ineffective or fraudulent).

#### *Customary searches*

**What types of public searches are customarily performed when conducting technology M&A due diligence? What other types of publicly available information can be collected or reviewed in the conduct of technology M&A due diligence?**

Generally, when conducting technology M&A transactions, the main public searches are made in INPI's online database, which provides information about patents, trademarks, industrial designs, geographic indications and computer programs. Searches at the website Registro.br (for domain names) and MAPA's website (for plant

varieties) are also available.

This public information provided by these entities include, among other things, the name of the applicable holder or holders, validity and pending administrative issues.

It is also possible to carry out public search on the distribution of claims and legal suits (of a civil/commercial nature, consumer protection, tax and labour) against the target or holder of the technology of IP rights.

#### *Registrable intellectual property*

### **What types of intellectual property are registrable, what types of intellectual property are not, and what due diligence is typically undertaken with respect to each?**

Among intellectual property rights we have copyrights and industrial property rights, and both can be registered in Brazil. Industrial property assets must be registered with the INPI, as a mandatory condition to ensure the legal title to such an IP asset, thus, protecting the rights of the holder. For industrial property assets (eg, trademarks, patents, industrial design) the due diligence includes:

- confirming within the public records of the INPI the ownership of the IP asset or assets;
- verifying the status of the IP asset (like validity term); searching for ongoing disputes within the administrative scope and also judicial disputes; and
- analysing documents and agreements (licensing and assignment agreements).

Contrary to industrial property, the registration of copyrights (artistic, literary and scientific creations) is not mandatory. However, the author can register the copyrights to ensure the authorship of the work which comprises the following: evaluating the legal status of the intellectual property to assess the authorship of the work; confirming whether it is settled or not in the contract that ensure the assignment of the authorship of the work developed by the employees to the creator; verifying if there are any ongoing disputes; analysing documents and agreements (licensing and assignment agreements).

#### *Liens*

### **Can liens or security interests be granted on intellectual property or technology assets, and if so, how do acquirers conduct due diligence on them?**

Intellectual property and technology assets, including trademarks, patents, industrial designs, and software, can be subject to liens and security interests. Other IP assets that are not registered, such as copyrights and know-how, may be subject to liens and security interests as well, but their enforceability may be more difficult.

In any case, all these assets need to be evaluated and included in the company's balance sheet before being subject to liens and security interests. The agreements related to such encumbrances shall be registered with the Registry of Deeds and Documents and/or with INPI, as applicable, in order to be effective against third parties. The release of such encumbrances shall also be recorded by the Registry of Deeds and Documents and/or with INPI. To release such encumbrances and security interests, the agreement that perfected these restrictions must be formally terminated and a formal release shall be registered in the same registrar's office (Registry of Deeds and Documents or with INPI, or both).

#### *Employees and contractors*

### **What due diligence is typically undertaken with respect to employee-created and contractor-created intellectual property and technology?**

There is no specific due-diligence for employee or contractor created IP, so the typical due diligence for IP matters will be carried out in these cases.

The Industrial Property Law and the Software Law generally provide that inventions and computer programmes shall belong to the employer when resulting from a labour, service relationship or agreement. This means that the assignment of IP rights to the employer (the target company) in such cases are automatic – the inventors or developers do not need to specifically assign their rights to the employer or contracting parties. To demonstrate ownership, the employer or service contracting party, may only show the respective labour or service agreement.

On the other hand, the Copyright Law does not provide for ‘work for hire’. Thus, in this regard, it is advisable to have express copyright assignments from the authors to the employer or service contracting party.

*Transferring licensed intellectual property*

**Are there any requirements to enable the transfer or assignment of licensed intellectual property and technology? Are exclusive and non-exclusive licences treated differently?**

Technology Transfer Agreements, which include the assignment or licence of (1) industrial property (patents, trademarks, industrial designs and geographic indications); (2) integrated circuit topographies and (3) non-patented technology under Brazilian rules, should be subject to registration at INPI as a condition for: producing effects in regards to third parties, ensuring intellectual property rights, allowing payments abroad and allowing deductibility of paid amounts for tax purposes. If not recorded at INPI, the contractual instrument shall be valid between the signatory parties and for use as evidence. Since the enactment of INPI Resolution No. 199/2017, which provides on the Examination Guidelines for annotation or registration of these contracts, INPI is more flexible while registering these Technology Transfer Agreements. The guidelines for registration provided for in this Resolution basically demand a clear indication of the qualification of the parties, a definite term, price and scope of such agreements, including if they are exclusive or non-exclusive. Nonetheless, these licences are not treated differently.

*Software due diligence*

**What types of software due diligence is typically undertaken in your jurisdiction? Do targets customarily provide code scans for third-party or open source code?**

Software due diligence usually encompasses the analysis of technical and legal matters. The assessment of technical features shall be performed by software experts, so that they can verify the quality and security standards of the target software, as well as identify possible errors and bugs. After entering into a non-disclosure agreement, the seller customarily provides code scans for the potential purchaser.

On the other hand, the legal due diligence will include all the documents related to the ownership of the software (developers’ service agreements, copyright assignments) and the analysis of possible disputes.

In any case, there are aspects that should be analysed by both teams, like the software bill of materials. The technical expert can indicate all the required licences related to each component of the target software, while the legal team will analyse all the licence agreements related thereto. In this regard, it is important to understand if the target software is proprietary or open-source based, since this information is essential to determine its purchase value.

*Special or emerging technologies*

**What are the additional areas of due diligence undertaken or unique legal considerations in your jurisdiction with respect to special or emerging technologies?**

Although there are a lot of public debates regarding artificial intelligence and internet of things (IoT) in Brazil, regular due diligences do not typically cover these matters. In 2019, the government published a ‘National Plan for IoT’, but such plan does not regulate IoT per se, it only tries to develop these emerging technologies in Brazil.

Notwithstanding the above, due diligence involving data privacy matters (which relates to big data) is becoming more common, since the Brazilian General Data Protection Law was enacted in 2018 and entered into force in 2020. In such cases, legal (for example, privacy policies) and technical (such as cybersecurity systems) aspects shall be analysed to assess potential risks.

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