

January 2009 e-BULLETIN

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MEMBER CONFERENCES & EVENTS

45th International PRAC Conference - Boston, Massachusetts
April 25 - 28, 2009
Hosted by Wilmer Cutler Pickering Hale and Dorr LLP

Details coming soon for 46th International PRAC Conference - Beijing, PRC
October 17 - 20, 2009 **NEW DATES**
Hosted by King & Wood

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**BAKER BOTTS LLP
ADDS CORPORATE SECURITIES M&A
PARTNER; ANNOUNCES NEW SPECIAL
COUNSEL**

HOUSTON, January 7, 2009 -- Steven M. Tyndall, who has built an extensive legal practice in general corporate law, securities law and mergers and acquisitions, joined Baker Botts L.L.P. on January 1, 2009, as partner in the Corporate Department. He will be based in the firm's Austin, Texas office.

A majority of Tyndall's clients are based in the technology, life sciences, oil and gas and energy sectors. His corporate and securities practice includes representing issuers, underwriters and venture capital investors in public and private offerings of equity and debt securities, as well as clients involved in mergers and acquisition transactions. He also represents public and private companies in general corporate and transactional matters.

Tyndall has represented issuers and investors in venture capital financings with an aggregate transactional value in excess of \$300 million. His public offerings work includes representing issuers and underwriters in transactions ranging to \$800 million.

"Steven adds depth to our corporate department team in traditional key industries for Baker Botts, as well as in targeted practice areas where we continue to see the potential for growth," said Baker Botts Managing Partner Walt Smith.

Tyndall earned his undergraduate degree from Southern Methodist University and his law degree from the University of Tulsa. Prior to joining Baker Botts, he was a partner at Fish & Richardson P.C.

"I have long admired the strength and sophistication of Baker Botts' corporate practice and am impressed by the varied and extensive expertise of the firm's intellectual property practice, an area that is important to many of my clients," Tyndall said. "I am excited to be building my practice at a firm with the capability, reputation and history of Baker Botts."

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HOUSTON, January 8, 2009 -- New Special Counsel at Baker Botts L.L.P. effective January 1, 2009, were announced today by Managing Partner Walt Smith.

Gail Foster, Litigation
Nancy Ithyre, Tax
Andy Grubert, Intellectual Property
Hamish McArdle, Global Projects
Katya Akkush, Global Projects
Michael Pattillo, Litigation

These lawyers represent a number of the firm's departments and are based in Austin, Houston, London, Moscow and Washington offices.

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About Baker Botts L.L.P.

Baker Botts L.L.P., dating from 1840, is a leading international law firm with offices in Austin, Beijing, Dallas, Dubai, Hong Kong, Houston, London, Moscow, New York, Palo Alto (California), Riyadh and Washington. With approximately 820 lawyers, Baker Botts provides a full range of legal services to international, national and regional clients.

For more information, please visit www.bakerbotts.com

**CLAYTON UTZ
PROMOTES NEW TALENT TO PARTNERSHIP**

17 December 2008: Clayton Utz is pleased to announce the appointment of eight new partners, effective 1 January 2009.

The new partners are:

Niro Ananda – Corporate M&A
Maurice Baroni – Workplace Relations
Zac Chami – Commercial Litigation
Stuart Cosgriff – Construction and major projects
Stephen Fall – Construction and major projects
Nikki Robinson – Real Estate
Kathy Santikos – Debt finance
Robyn Schofield – Taxation

Commenting on the appointments, Clayton Utz' Chief Executive Partner David Fagan said: "At Clayton Utz we are proud to recognise and promote outstanding legal talent and these appointments reflect that."

For additional information visit www.claytonutz.com

**DAVIS WRIGHT TREMAINE
BUILDS ON CLEAN TECHNOLOGY PRACTICE; NAMES EIGHT TO PARTNERSHIP***Ted Bernhard brings industry expertise to growing practice*

PORTLAND, ORE., Dec. 18, 2008 – Ted Bernhard, former managing director and a leader of the clean technology group at Cascadia Capital LLC, has joined Davis Wright Tremaine's Portland office. His move to Davis Wright further enhances the firm's growing sustainable/clean energy and technology practices.

"We believe that the long term financial success of the clean/sustainable energy industry will be driven by technology-based innovations," said Michael Phillips, partner in the firm's Portland office. "We believe that Ted's extensive experience assisting clients in both the energy as well as technology sectors, when combined with his contacts in the investment community will prove to be an invaluable asset in advising clients and will allow us to further our presence in these sectors of the economy."

Bernhard focuses on rapid-growth clean and other high technology enterprises, as well as on innovative renewable energy development companies. He has handled complex transactions for more than 100 of the Pacific Northwest's fastest growing public and private technology companies, represented some of the nation's leading investors in the sector, served as a general partner for a venture capital fund, and, most recently, acted as managing director of the region's largest boutique technology investment bank, focusing on clean tech deals.

"It is an honor to join a firm with as outstanding a reputation for excellence as Davis Wright Tremaine. I am very excited because the firm has a wonderful platform for offering the full range of services needed to properly support clients in the clean technology sector," said Bernhard. "My industry expertise will help the firm continue to expand its well-established focus on this sector and reinforce its commitment to its clients' success."

SEATTLE, Jan. 9, 2009 – Davis Wright Tremaine LLP has announced that it has named eight attorneys from four of its nine offices to partnership. "These individuals put our commitment to partnering with our clients and our communities into action every day," said firm-wide managing partner David C. Baca. "They've made significant contributions to our firm through their excellent client service and their dedication to pro bono and community work, and we are honored to have them as partners."

The new partners, age, office location, and primary practice area(s) are as follows:

Cameron J. Cohen; 33; Seattle; Finance & Commercial Law

Emilio G. Gonzalez; 40; Los Angeles; Employment Law and Litigation

Kevin H. Kono; 39; Portland, Ore.; Media Law, Appellate and Litigation

Sean P. McCann; 36; Seattle; Business Transactions

Aaron A. Roblan; 35; San Francisco; Labor and Employment Law

Charles S. Wright; 39; Seattle; Litigation

Salle E. Yoo; 38; San Francisco; Litigation and Energy Law

Ryan J. York; 34; Seattle; Business Transactions and Securities Law

About Davis Wright Tremaine LLP

Davis Wright Tremaine LLP is a national full-service law firm with approximately 540 attorneys in nine offices: Seattle and Bellevue (Wash.), Portland (Ore.), Los Angeles, San Francisco, New York, Washington, D.C., Anchorage (Alaska) and Shanghai, China.

For additional information visit www.dwt.com

**FRASER MILNER CASGRAIN
STRENGTHENS COMMERCIAL LAW PRACTICE WITH MONTREAL ADDITIONS**

January 7 2009 - Montréal - Fraser Milner Casgrain LLP (FMC), one of Canada's leading business and litigation law firms, is pleased to announce that Norman Issley and Steven Chaimberg have joined FMC's Montréal office as partners. Their addition strengthens the firm's Commercial Law Practice and reflects FMC's commitment to providing clients with high-profile legal resources.

Norman Issley's 30-year law career has focused primarily in the area of mergers and acquisitions. He also brings a wealth of experience in commercial law, including franchising.

Steven Chaimberg has been practising law for more than 25 years and specializes in real estate law and commercial leasing. He developed a leading-edge expertise in landlord-tenant issues and devoted a significant part of his practice to general commercial matters. Lexpert has named him a leading practitioner in the field of property leasing.

"We are pleased to welcome Norman Issley and Steven L. Chaimberg as partners in FMC's Commercial Law Practice, as their addition in the current economic situation is timely" says Claude Morency, Managing Partner, FMC Montréal. "Their vast experience in mergers and acquisition, franchising and real estate law reinforces FMC's positions as a leader in those fields and the firm's commitment to providing our clients – from small and mid-sized businesses to large and foreign multinationals companies – with strategic legal counsel."

For additional information visit www.fmc-law.com

**GIDE LOYRETTE NOUEL
APPOINTS 6 NEW PARTNERS**

31 December 2008 Gide Loyrette Nouel is pleased to announce that on 1 January 2009, it is appointing 6 new partners:

Margaret Boswell (London)

Julien David (Casablanca)

Jean-Gabriel Flandrois (Paris)

Rebecca Silli (Hong Kong)

Axelle Toulemonde (Moscow)

Nicholas Tse (London)

For additional information visit www.gide.com

HOGAN & HARTSON LAUNCHES POLITICAL LAW, GOVERNMENT ETHICS AND LOBBYING COMPLIANCE PRACTICE

WASHINGTON, D.C., January 5, 2009 – Hogan & Hartson LLP announced today the expansion of the firm's practice groups to include a political law, government ethics, and lobbying compliance practice. This group formalizes the firm's existing vast experience in federal election, government ethics, lobbying disclosure, political broadcasting, and Foreign Agents Registration Act matters.

This group will work with clients on federal election law matters including administration, compliance, and litigation. In addition, lawyers in this practice will assist clients in maneuvering through government compliance and disclosure requirements, keeping them informed of changes to the federal election laws, and actions taken by the Federal Election Commission. Hogan & Hartson lawyers in this area will also continue to assist corporations and associations in establishing and administering political action committees.

"We are happy to expand our extensive network of legal services to further cater to the needs of our clients and to develop opportunities for the firm," said Michael Gilliland, director of this group and a partner in the firm's Washington, D.C. office. "We anticipate that the political law, government ethics, and lobbying compliance practice will have an essential role in responding to the growing need for legal counsel affecting corporations, trade associations, nonprofit organizations, and others who face governmental compliance issues."

Other key members of the **political law, government ethics, and lobbying compliance practice** include Washington, D.C. partners John C. Keeney, Jr., former President of the D.C. Bar, and Mike House, director of Hogan & Hartson's legislative group and former Administrative Assistant, Chief of Staff to Sen. Howell Heflin of Alabama

Hogan & Hartson Elevates Eight to Partnership and Twelve to Counsel

WASHINGTON, D.C., January 5, 2009 – Hogan & Hartson LLP has elevated eight associates to the partnership and 12 associates to counsel, effective January 1, 2009. These lawyers represent five different practice areas from 11 of the firm's offices worldwide.

"We are proud to recognize the achievements of these highly-skilled lawyers," said J. Warren Gorrell, Jr., Chairman of Hogan & Hartson. "These new partners and counsel have made significant and lasting contributions to the firm and to our global clients."

About Hogan & Hartson

Hogan & Hartson is an international law firm founded in Washington, D.C., with more than 1,100 lawyers in 27 offices worldwide. The firm has a broad-based national and international practice that cuts across virtually all legal disciplines and industries.

Hogan & Hartson has offices in Abu Dhabi, Baltimore, Beijing, Berlin, Boulder, Brussels, Caracas, Colorado Springs, Denver, Geneva, Hong Kong, Houston, London, Los Angeles, Miami, Moscow, Munich, New York, Northern Virginia, Paris, Philadelphia, San Francisco, Shanghai, Silicon Valley, Tokyo, Warsaw, and Washington, D.C.

For more information about the firm, visit www.hhlaw.com.

**MORGAN LEWIS
U.S. ATTORNEY FOR DISTRICT OF DELEWARE JOINS FIRM**

PHILADELPHIA, PA- Morgan Lewis announced the addition of Colm F. Connolly as a partner in its Litigation Practice, resident in the firm's Philadelphia office. Mr. Connolly, who has served as the U.S. attorney for the District of Delaware since 2001, will focus his practice on corporate investigations and white collar matters. His first day at the firm will be Tuesday, January 20, 2009.

"As corporate investigations increase and prosecutors look closely at white collar activity in a variety of substantive areas—including healthcare, environmental crimes, financial institution crimes, federal procurement, and the Foreign Corrupt Practices Act—Colm's unique experience and insight as a U.S. attorney will be invaluable," said James D. Pagliaro, leader of the firm's Litigation Practice. "We are thrilled to welcome him to the firm."

Morgan Lewis was recently ranked as one of the top global litigation firms and its clients include a number of the world's leading companies. Mr. Connolly will be instrumental in assisting clients with litigation in the Delaware federal courts—a jurisdiction of choice for intellectual property and bankruptcy litigation—and the Delaware Chancery Court, a critically important forum for corporate governance litigation. He joins a litigation team that spans 18 offices worldwide and comprises more than 700 litigators covering a full spectrum of industries.

An honors graduate of Duke Law School and Notre Dame, who also holds a Master's Degree from the London School of Economics, Mr. Connolly began his career as a clerk for Judge Walter K. Stapleton of the U.S. Court of Appeals for the Third Circuit. Following his clerkship, he joined the U.S. Attorney's Office in Wilmington, where he initially gained national attention for the successful investigation and prosecution of a prominent lawyer for the murder of the secretary to the governor of Delaware.

About Morgan, Lewis & Bockius LLP

Morgan Lewis is an international law firm with more than 1,500 lawyers in 22 offices located in Beijing, Boston, Brussels, Chicago, Dallas, Frankfurt, Harrisburg, Houston, Irvine, London, Los Angeles, Miami, Minneapolis, New York, Palo Alto, Paris, Philadelphia, Pittsburgh, Princeton, San Francisco, Tokyo, and Washington, D.C.

For more information about Morgan Lewis, please visit www.morganlewis.com

**NAUTADUTILH
CASSATION SPECIALIST APPOINTED PARTNER****NautaDutilh Cassation specialist Freerk Vermeulen appointed partner**

NautaDutilh is now going to focus firmly on cassation practice in the Supreme Court. By attracting one of the best lawyers specialised in cassation, Freerk Vermeulen, NautaDutilh will be in an even better position to serve its clients from its own, strong cassation practice in Amsterdam.

For NautaDutilh, cassation is an essential element of its high-quality litigation practice, which is why it is so important to have substantial cassation expertise. Not only does this allow NautaDutilh to assist its clients up to and including proceedings in the Supreme Court but this expertise can also be deployed to assess the possibilities for cassation at an early stage when providing legal advice in the lower courts.

For additional information visit www.nautadutilh.com

**WILMERHALE
NAMES NEW PARTNERS AND COUNSEL FOR 2009**

January 1, 2009

We are very pleased to congratulate our colleagues who became partners in the firm effective January 1, 2009

Brian Boynton
Matthew B. Holmwood
James H. Millar
Joseph J. Mueller
Jeannie S. Rhee
Tonya T. Robinson
Julie Hogan Rodgers
George W. Shuster, Jr.
Emily R. Whelan
Joseph K. Wyatt

We are also very pleased to announce the elevation of the following associates to counsel, also as of January 1, 2009:

Christina C. Ashworth	Michael Mugmon
Christopher E. Babbitt	Jeffrey A. Munsie
Joseph R. Baldwin	Amy L. Nash
Kenneth D. Beale	Rachel Nelson
Sanket J. Bulsara	Christopher R. Noyes
Catherine M.A. Carroll	Saniya O'Brien
Julie Murphy Clinton	Shannon Rozner
Lisa J. Cole	Kate Saxton
Matthew Draper	Suzanne A. Spears
Michael R. Dube	Florian Steinhardt
MJ Edwards	Rachel Z. Stutz
John M. Faust	Jamaica P. Szeliga
Lauren B. Fletcher	Kimberly J. Wade
Jason N. Golub	Joanne E. Waters
Tori T. Kim	Paul Winke
Thomas J. Koffer	Jamie T. Wisz
Jason L. Kropp	Jennifer Zepralka
Kohki M. Kubota	Christopher B. Zimmerman
Evelyn C. Mak	
Patricia McDermott	

For additional information visit www.wilmerhale.com

FRASER MILNER CASGRAIN P3 TEAM ASSISTS QUEBEC'S MINISTRY OF TRANSPORTATION ON CLOSING OF QUEBEC'S A-30 PROJECT

Fraser Milner Casgrain LLP has announced that it has concluded its work in representing the Québec Ministry of Transportation throughout the request for qualifications, the request for proposals and financial close process for the A-30 Completion Project, a Québec-based public-private partnership (P3). The A-30 Highway will become an economic corridor linking eastern Québec and the Maritimes with western Québec and Ontario and eventually the northern United States, facilitating the access of goods and services to external markets.

The FMC team, based in Montréal, was led by Michel Jodoin and assisted by Nicolas Roy, Allan Mass, Mylène Henrie and Morgan Kendall.

"FMC's P3 group is one of the strongest in the country and its depth of experience has helped facilitate a very positive result for Québec's Ministry of Transportation and for Quebec as a whole," said Michel Jodoin, Partner, FMC Montréal. "The A-30 Completion Project has set the precedent for how future P3 projects will be financed in Canada, and FMC leveraged its extensive experience to help direct the project's conclusion."

Prior to working on the A-30, FMC created the base model for Québec's P3 Road Infrastructure Concession Agreement and acted as counsel before launching the request for proposal for the province's other major P3 highway project, the A-25.

The A-30 Highway project is the most important P3 concluded in the Province of Québec and among the most important in Canada. The A-30 Highway is located southwest of Montréal. The net present value of the payments to be made by the Québec Transportation Minister, calculated in dollars as of September 2008, totals to approximately \$1.5 billion. Because of the economic and strategic advantage proposed by the highway, federal and provincial governments aligned themselves in this extension of the Canadian and Québec transportation network.

The 74-km A-30 project encompasses the design, construction, rehabilitation, maintenance and financing of approximately 42 kms of highway, including five major works, among which are a 2.5-km bridge over the St. Lawrence Seaway, and the operation, maintenance and rehabilitation of an additional 32-km stretch of highway located between Châteauguay and La Prairie, Québec.

For additional information visit www.fmc-law.com

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Tilleke & Gibbins Consultants Limited

announces the relocation of its Ho Chi Minh City office to:

Suite 1206, Citilight Tower
45 Vo Thi Sau Street, District 1
Ho Chi Minh City
Vietnam
Tel: 84 8 3936 2068
Fax: 84 8 3936 2066
E-mail: vietnam@tillekeandgibbins.com
with effect on December 8, 2008.

GIDE LOYRETTE NOUELPARIS LEGAL COUNSEL ON PPP FOR THE PORT
REUNION CEREAL STORAGE TERMINAL

The Chamber of Commerce and Industry for the Island of La Réunion (CCIR) and SAS Terminal Céréaliier de Port Réunion entered into a Public-Private Partnership (PPP) agreement on December 4, 2008 for the construction and maintenance of a cereal storage terminal. The PPP was signed by the Chief Administrative Officer (*Préfet*) for the Island of La Réunion, the Chairman of the Chamber of Commerce and Industry and a representative of the project company (SAS Terminal Céréaliier de Port Réunion). Arrangements for the financing of the project were completed on the same day.

This PPP involves a long term lease agreement, granting rights in rem on the terminal built on public land (*Autorisation d'OccupationTemporaire - AOT*), combined with a lease and maintenance agreement (*Convention de Mise à Disposition - CMD*). The project company SAS Terminal Céréaliier de Port-Réunion is a special purpose vehicle incorporated by the winning consortium comprising Caisse des Dépôts & Consignations, Financière Océor (Caisses d'Epargne Group) and OCIDIM (Vinci Group).

The purpose of this 30 year PPP is to provide for the design, building, financing and maintenance of a 60,000 ton-capacity cereal storage port terminal. This industrial facility is essential for securing supplies of grain to La Réunion and the endogenic development of the island. It will be designed and built by OCIDIM under a contract of real estate promotion. OPTÉOR (Vinci Group) will be responsible for the maintenance of the terminal.

This is the first PPP entered into by the Island of La Réunion.

Gide Loyrette Nouel advised OCIDIM. The legal team involved Marie Bouvet-Guiramand, Hassen Chouchane, Estelle Carrère and Thomas Courtel.

For additional information visit www.gide.com

HOGAN & HARTSON

ACHIEVES SIGNIFICANT VICTORY FOR MYSPACE

LOS ANGELES, January 8, 2009 – Hogan & Hartson LLP achieved a significant victory on behalf of firm client MySpace. On December 22, 2008, the United States Court of Appeals for the Ninth Circuit affirmed the dismissal by Judge A. Howard Matz of the U.S. District Court for the Central District of California of an antitrust case brought by LiveUniverse, Inc. against MySpace.

LiveUniverse, which owns social networking Web site vidilife.com, had alleged that MySpace violated state and federal antitrust laws by disabling all "links" on myspace.com to vidilife.com and by blocking the functionality of vidilife.com's video player on MySpace's Web site. Lawyers from Hogan & Hartson successfully argued that the complaint was properly dismissed because LiveUniverse had failed to allege sufficiently both exclusionary conduct and antitrust injury. Specifically, the Ninth Circuit found that LiveUniverse failed to allege that there was a prior course of dealing between LiveUniverse and MySpace. As such, LiveUniverse could not show that MySpace had forsaken short-term profits to achieve an anticompetitive end. The court also found that LiveUniverse failed to allege antitrust injury because its allegations only pertained to actions by MySpace on its own Web site (i.e., disabling links to vidilife.com). The Ninth Circuit explained that such actions do not diminish consumers' choices or the quality of consumers' experiences on other social networking Web sites. As a result, such actions do not constitute antitrust injury.

The Hogan & Hartson team representing MySpace included attorneys from the Washington, D.C. and Los Angeles offices, including partners Rick Stone, Corey Roush, and David Singer, as well as associates Logan Breed and Jessica Ellsworth.

For additional information visit www.hhlaw.com

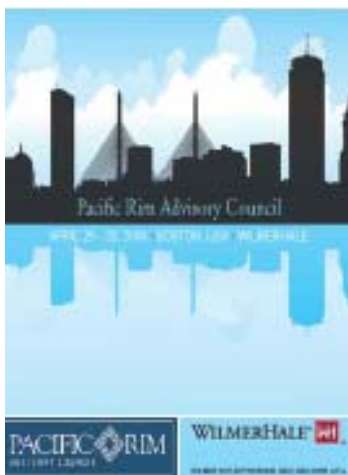
KING & WOOD

ADVISES CHINA INTERNATIONAL CAPITAL CORPORATION LIMITED ON JIANGXI COPPER CO. BOND ISSUE

Jiangxi Copper Company Limited, one of the largest copper producers in China, publicly issued convertible corporate bonds with detachable warrants at the Shanghai Stock Exchange on 22 Sept, 2008. King & Wood acted as legal counsel to the underwriters China International Capital Corporation Limited in this issuance.

The aggregate amount of the issued bonds is RMB 6,800,000,000, and the expected total amount of the proceeds raised by the exercise of all related warrants will not exceed the amount RMB 6,800,000,000.

For additional information visit www.kingandwood.com



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**MUNIZ RAMIREZ PEREZ-TAIMAN
& LUNA VICTORIA**

ACTS IN PURCHASE OF ATACOCHA

MUNIZ acted in the purchase of Atacocha's 70% voting shares by Votorantim and its Peruvian affiliate Compañía Minera Milpo S.A.A.

The transaction amounted to US\$ 117 million. Muniz participated as the purchaser's legal counsel. (November 2008)

For additional information visit www.munizlaw.com

NAUTA DUTILH BRUSSELS

ADVISES FPIM FOLLOWING ISSUE OF DEBT INSTRUMENTS BY KBC

NautaDutilh has assisted FPIM following the underwriting of 3.5 billion euros of debt instruments by KBC. KBC is issuing these shares without voting rights in order to strengthen the confidence of the Belgian public in the group and also to strengthen the core tier 1 ratios that apply to its banking and insurance activity.

The term sheet for this transaction was signed on 27 October 2008 and closing took place on 19 December 2008. The NautaDutilh team consisted of Dirk Van Gerven, Marc van der Haegen, Charles van Sasse, Jan Werbrouck, Thomas Verstraeten, Maxime Colle and Elke Janssens.

For additional information visit www.nautadutilh.com

RODYK & DAVIDSON

ACTS FOR WNS HOLDING LTD

Rodyk acted for WNS (Holdings) Limited, a leading provider of global BPO services, in its transaction with Aviva, the world's fifth largest insurance group with US\$95 billion revenue in 2007. The transaction comprised of a share sale and purchase agreement, backed by a master services agreement, to acquire Aviva's offshore BPO operations.

The Master Services Agreement is expected to generate approximately US\$1 billion in revenue for WNS over an eight-year period. The total purchase consideration paid to Aviva is approximately GBP115 million (US\$228 million), subject to adjustments for cash and debt. WNS funded the acquisition through a combination of cash and a bank loan facility of approximately US\$200 million.

Partner Gerald Singham led on this transaction, assisted by partner Chou Ching, senior associate Sarah Choong and associate Seow Jiaxian .

For additional information visit www.rodyk.com

SIMPSON GRIERSON

ACTS FOR DB TOLL NZ ON SALE OF NEW ZEALAND NATIONAL RAIL BUSINESS BACK TO CROWN

Simpson Grierson acted for the Australian owned Toll NZ on the sale of the New Zealand national rail business back to the Crown, a highly publicised transaction valued at over NZ\$700 million and PH van den Brink Limited and associated entities, in relation to the sale of its poultry business Tegel Foods Limited.

For additional information visit www.simpsongrierson.com

TOZZINI FREIRE

STOCK PURCHASE AGREEMENT APPROVAL REACHED FOR SALE OF ANDARKO PETROLEUM CORPORATION INTEREST IN PEREGRINE FIELD AND KASKIDA UNIT

TozziniFreire - Brazil National Petroleum Agency approved the sale of Andarko Petroleum Corporation interest in Peregrino field and Kaskida unit

The National Petroleum Agency (ANP) has approved the sale of Anadarko Petroleum Corporation's 50-percent interest in the Peregrino field offshore Brazil and its 25-percent interest in the BP-operated Kaskida Unit in the deepwater Gulf of Mexico to StatoilHydro. Estimated value of the deal is US\$ 1.8 billion plus additional consideration valued at \$ 300 million.

Date of execution of the Stock Purchase Agreement March 4, 2008; ANP approval December 11.

Lawyers of TozziniFreire acting in transaction- Luiz Antonio Maia Espínola de Lemos – Partner ; Gustavo Pequeno Peretti - Associate; Luis Antonio Menezes da Silva – Associate

For additional information visit www.tozzinifreire.com

*PRAC Conference Materials
Available online at www.prac.org*

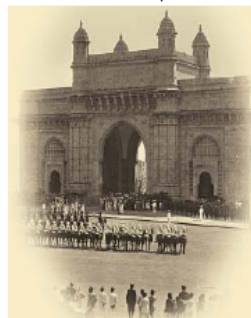
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& Craigie Blunt & Caroe
Advocates, Solicitors and Notaries

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Gide Loyrette Nouel



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Member Firms are encouraged to contribute articles for future consideration. Send to editor@prac.org.
Deadline is 10th of each month.

alert

18 December 2008

New prudential framework for general insurance groups finalised by APRA print

The Australian Prudential Regulation Authority has released the latest tranche of prudential reforms, this time affecting Level 2 insurers, which are general insurance groups that have either an APRA-authorized general insurer or an APRA-authorized non-operating holding company as the parent entity of the group.

General insurance groups have commercial advantages, such as greater pool of resources and risk diversification, but the trade-off is that financially sound insurers can be dragged down by failures in other parts of the corporate group. The new framework attempts to supervise those insurers in a way that will reduce the risk of infection from the financially troubled parts.

The new Prudential Standards are the result of a consultation process that started in 2005 after the HIH collapse. They are substantially the same as the drafts released earlier this year, and come into effect on 31 March 2009.

Broadly, the framework sets out the following:

- **Prudential Standard GPS 001 Definitions:** Subsidiaries that are not APRA-authorized insurers can be consolidated or treated as non-consolidated subsidiaries, as APRA determines. Consolidated subsidiaries will usually include related service entities, insurance intermediaries and controlled entities that provide a financing role to the insurance business. Unrelated subsidiaries operating in other industries, unrelated to the general insurance business, would usually need to be deconsolidated.
- **Prudential Standard GPS 111 Capital Adequacy:** Level 2 Insurance Groups: The parent entity's board is responsible for capital management. The Minimum Capital Adequacy and Concentration Risk Capital Charge are determined using prudential requirements similar to those applying to Level 1 general insurers. A Level 2 insurance group's capital base is assessed on a group basis.
- **Prudential Standard GPS 221 Risk Management:** Level 2 Insurance Groups: The group must have a group-wide framework for risk management and reinsurance, and have adequate rules for outsourcing and business continuity. Annual declarations must be sent to APRA dealing with risk management, financial information, and reinsurance arrangements. A group can apply to APRA to adjust or exclude a prudential requirement in GPS 221 from applying to an entity in the group.
- **Prudential Standard GPS 311 Audit and Actuarial Reporting and Valuation:** Level 2 Insurance Groups: Each group will need a Group Auditor and a Group Actuary, and report semi-annually to APRA. APRA has made some changes to the draft Standard, in particular to the treatment of insurance liability valuations.

Disclaimer

Clayton Utz News Alert is intended to provide commentary and general information. It should not be relied upon as legal advice. Formal legal advice should be sought in particular transactions or on matters of interest arising from this bulletin. Persons listed may not be admitted in all states.

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***Lipson*: Supreme Court Hands CRA Biggest Ever GAAR Victory in a Cliff-Hanger**

The Future of GAAR Once More in Doubt

A badly fractured seven-member panel of the Supreme Court of Canada gave the Canada Revenue Agency its biggest ever GAAR victory in *Lipson v. The Queen* (2009 SCC 1).

In a rare 4-2-1 decision, LeBel J. writing for the majority invoked a new "overall result" analysis to support the finding of the Tax Court. In dissent, Binnie J. (with whom Deschamps J. concurred) rejected the approach advocated by LeBel J. on the basis that the majority's decision did not further the interests of consistency, predictability and fairness in the tax system. In a separate dissent, Rothstein J. concurred with much of the analysis of Binnie J. but went further to hold that the presence of a specific anti-avoidance rule (subsection 74.5(11)) precluded the use of GAAR to cover the same ground even where, as was the case in *Lipson*, the Minister did not rely upon that specific anti-avoidance rule.

The overall result in *Lipson* did not come as a surprise to the professional tax community. A convergence of factors led to what might be termed a "perfect judicial storm." In the first place, the decision under appeal was a carefully reasoned judgment of the Tax Court of Canada. Second, the Supreme Court sat a seven-member panel because of the retirement of Bastarache J. The result was that Chief Justice McLachlin, one of the more expert tax jurists on the Court, did not take part in the decision. Finally, there was a delay of almost nine months between the hearing of the appeal (April 23, 2008) and the issuance of the judgment (January 8, 2009). Such a very long delay is usually indicative of serious divisions within the Court.

The unfortunate result of *Lipson* is that whatever clarity emerged from the decision of the Supreme Court of Canada in *Canada Trustco v. The Queen*, ([2005] 2 S.C.R. 601) has essentially been dissipated by this new decision. The majority in *Lipson* arguably went much further than the trial judge's carefully reasoned decision and appears to have endorsed what many will argue comes very close to a judicial "smell test."

The future of GAAR now lies in the hands of two remaining judges of the Supreme Court: the most senior – Chief Justice McLachlin, and the most junior – Justice Cromwell (appointed December 22, 2008). Until the Court revisits GAAR there is no way of knowing how Chief Justice McLachlin and Justice Cromwell will approach these issues. While there is some reason to think that Chief Justice McLachlin may lean more in the direction of Justice Binnie's "consistency, predictability and fairness" analysis, we as yet know nothing of Justice Cromwell's approach to income tax issues.

Fraser Milner Casgrain LLP is pleased to provide our clients with the benefit of years of experience dealing with the application of GAAR to existing or proposed transactions.

Link to *Lipson* judgment: <http://scc.lexum.umontreal.ca/en/2009/2009scc1/2009scc1.html>.

If you have any questions or would like further information, please contact [William Innes](#), [Chia-yi Chua](#) or [Carman McNary](#).

This newsletter is a general discussion of legal and related developments and should not be relied

upon as legal advice. If you require legal advice, we would be pleased to discuss with you the issues raised in this newsletter in the context of your particular circumstances.



FRASER MILNER CASGRAIN LLP

***Perfect 10, Inc. v. CCBill LLC* — Insights on the Applications of the Safe Harbor Principle**

By He Wei* and Wang Yaxi**

In recent years, search engine providers, P2P website or other Internet service providers are often challenged in the courts by content owners. While the legal actions brought by international record companies are constant headaches for major Chinese search engine providers, including Baidu, Yahoo and Sogou, international search engine giants like Google and YouTube have also been struggling to resolve various lawsuits internationally.

These cases raise the same issues for legislators and judges in all jurisdictions -- how to evaluate the business models of Internet Service Providers or Online Service Providers (“ISPs” or “OSPs”, collectively “ISPs”) and the responsibilities and obligations for copyright protection of the ISPs?

In 2007, the US Ninth Circuit Court of the State of California (the “California Court”) rendered its judgment in the second instance trial for the case widely known as *Perfect 10, Inc. v. CCBill LLC*¹. The California Court granted CCBill LLC immunity under the Safe Harbor Principle on the ground that the removal notice sent by Perfect 10, Inc. failed to provide sufficient information and should not be deemed as effective notice. The California Court’s decision has been interpreted by US legal professionals as another affirmation of the application of “Safe Harbor Principle” to the ISPs. It also specified the notification procedures that the right owners shall follow, providing guidance to future similar cases. The Judges addressed the following three issues:

1. Whether the Notice of the Plaintiff satisfied all the requirements for the application of the Safe Harbor Principle?
2. Whether the Defendant was aware of the acts of copyright infringement based on the Red Flag Principle?
3. Who should be responsible for overseeing third party copyright infringement acts?

This article will discuss the reasoning and rulings of the Judges on these three issues with a comparative analysis on *Regulations on the Protection of the Right of Information Network Dissemination of China* (“the PRC Regulations”)².

I. *Perfect 10, Inc. v. CCBill LLC*

Perfect 10, the Plaintiff, is a publisher of an eponymous adult entertainment magazine and the owner of a pornography website. The Plaintiff has created approximately 5,000 images of models for display in its website and magazine and holds registered copyrights for these images. The Plaintiff found that a large number of the images appeared on adult websites of its competitors.

CCBill LLC, the Defendant, and its affiliated companies, provide webhosting and online credit card payment service for such adult websites. For example, if a user wants to log-on to a particular adult website, he needs to provide his credit card number to the Defendant. Only after the Defendant contacts the credit card company on behalf of the website operator, and a fee is paid, will the Defendant connect the user to the gateway of the adult website.

¹ 488F.3d 1102; 2007 U.S. App.LEXIS 12508.

² *Regulations on the Protection of the Right of Information Network Dissemination* was promulgated on May 10, 2006, and became effective as of June 1, 2006.

The Defendant was found providing this service to many of the websites which posted copyrighted images. Therefore, the Plaintiff sued the Defendant and other infringing website owners (collectively “Defendants”) for contributory copyright infringement.

The Defendant argued that it only provided hyperlinks towards the infringing adult websites and, according to the Safe Harbor Principle under the Digital Millennium Copyright Act (“DMCA”)³, it was not liable for infringement.

The Central District Court of California (the “California District Court”) and the Ninth Circuit Court of the state of California respectively ruled in the first instance and appeal that the Defendant shall be entitled to protection under the Safe Harbor Principle. The Courts explained in detail the application of the Rules of “Notice-to-Remove”.

II. What information shall an effective notice contain?

Section 512 of DMCA provides that an ISP shall not be liable for monetary relief if the ISP promptly removes the infringing contents upon receiving the notification of infringement from the copyright holder. This provision is commonly known as the Safe Harbor Principle.

In the *Perfect 10* case, the Judges of the Ninth Circuit Court of the State of California held that DMCA requires that “a notification of claimed infringement must be a written communication provided to the designated agent of a service provider”. The notification should include substantially the following:

- 1) a physical or electronic signature of a person authorized to act on behalf of the owner of an exclusive right that is allegedly infringed;
- 2) Identification of the copyrighted work claimed to have been infringed;
- 3) Identification of the material that is claimed to be infringing or to be the subject of infringing activity and that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate the material;
- 4) Information reasonably sufficient to permit the service provider to contact the complaining party;
- 5) A statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law; and
- 6) A statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

In the *Perfect 10* case, the Plaintiff had sent three notices to the Defendant. As such, the Plaintiff pleaded the California Court to consider the sufficiency of the notices by combining information contained in all three notices together and claimed that the information in three notices combined included all the required elements for an effective notice.

The Ninth Circuit Court of the state of California denied such plea and ruled that each notice individually did not substantially comply with the requirements to form an effective notice. If the Plaintiff’s plea was found acceptable, it would place undue burden on the Defendant to collect adequate information from various loose documents. Based on this ground, the California Court dismissed the plaintiff’s claim confirming that none of the plaintiff’s

³ *Digital Millennium Copyright Act* was issued by the American congress on 1998.

notices contained all the elements for an effective notice. Under the Safe Harbor Principle, the right owner shall provide a single complete document containing all of the six elements to the ISP and such document shall be signed on the condition that the plaintiff agrees to bear the penalty of perjury.

In China, a principle similar to the Safe Harbor Principle (the “Chinese Safe Harbor Principle”) is established by Article 23⁴ of the PRC Regulations. Under such principle, an ISP shall be immune from compensation liability if the ISP removes the links to the infringing work, performance, and audio or video products upon receiving the notice from the right owner. Article 14⁵ of the PRC Regulations requires the notice issued by the copyright owner to include the following information:

- 1) the right owner’s name, contact information, and physical address;
- 2) the description and network address of the infringing work, performance and audio or video products that are required to be removed; and
- 3) the preliminary evidential materials that prove the alleged infringement.

The PRC National Copyright Administration (the “NCA”) provides on its official website a standard format of the Notification for Requesting Removal or Disconnection of Internet Links which Containing Infringing Contents. The Form requires information from the copyright owner such as the name, domain name and IP address of the infringing website.

Accordingly, it is clear that Chinese laws and regulations have also set forth a reasonably complete provision regarding the formality requirements of a notice of the right owner. If a copyright owner fails to provide a notice that satisfies all the requirements, such notice will be regarded as ineffective. The ISP may refuse to remove or disconnect the links to the infringing content on the grounds that the information provided by the notice is incomplete.

III. Are the Red Flags obvious enough?

According to DMCA, a prerequisite for applying the Safe Harbor Principle is that the ISP “does not have actual knowledge that the material or activity is infringing or, in the absence of such actual knowledge, is not aware of the facts or circumstances from which infringing activity is apparent.”⁶ This requirement, which is described as the Red Flag Principle, means that an ISP shall not be entitled to infringement immunity on the grounds of not receiving the removal notice from the copyright owner if the infringing facts are obvious.

⁴ Article 23 of the Regulations provides that: “A network service provider providing search or link service to its clients shall not be liable for damages or compensation where such service provider removes the link to any infringing works, performances, or audio-visual products upon receiving a notice from the copyright owner according to this Regulation. However, such service provider shall be liable for contributory infringement, where such party has known or has reason to know that any of the works, performances or audio-visual products that the links direct to infringes the copyright of another party.”

⁵ See the office website of the National Copyright Administration of the People’s Republic of China <http://www.ncac.gov.cn/GalaxyPortal/inner/bqj/include/detail.jsp?articleid=11110&boardpid=63&boardid=1150101011160107> (last visited October 14, 2008).

⁶ DCMA §512 (d) Information Location Tools.—A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the provider referring or linking users to an online location containing infringing material or infringing activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link, if the service provider—(1) (A) does not have actual knowledge that the material or activity is infringing; (B) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent;...

In *Perfect 10, Inc. v. CCBill LLC*, the Plaintiff argued that the defects with the notices shall not release the Defendants from infringement liabilities, since the Defendants should be aware that the links were illegal without any notification from the Plaintiff. The Plaintiff also pointed out that many URLs to the adult websites serviced by the Defendants are named as “illegal.net” or “stolencelebritypic.com” and believed that the Defendants should have been aware of such red flags that signaled apparent infringement.

However, the Ninth Circuit Court of the State of California dismissed the Plaintiff’s claim and ruled that:

When a website traffics in pictures that are titillating by nature, describing photographs as “illegal” or “stolen” may be an attempt to increase their salacious appeal, rather than an admission that the photographs are actually illegal or stolen. We do not place the burden of determining whether photographs are actually illegal on a service provider.⁷

The Plaintiff also mentioned that some websites receiving the Defendant’s service were hacking websites that provided their clients with the passwords to other subscription websites or works protected by copyright. The Defendants should have knowledge of the obvious infringements of these hacking websites.

Again, the California Court did not support the Plaintiff’s argument. The Judges ruled that:

“the burden of determining whether passwords on a website enabled infringement is not on the ISP. The website could be a hoax or out of date. The owner of copyrighted content may have supplied passwords as a short-term promotion, or as an attempt to collect information from unsuspecting users. The passwords might be provided to help users to maintain anonymity without infringing on copyright. There is simply no way for a service provider to conclude that the passwords enabled infringement without trying the passwords and verifying that they enabled illegal access to copyrighted material. We impose no such investigative duties on service providers. Password-hacking websites are thus not *per se* “red flags” of infringement.”⁸

In short, although the infringements were likely to be deviated from the facts as argued by the Plaintiff, these facts alone were not affirmative facts to establish infringements. Therefore, the Judges did not believe that these facts were sufficient to justify the application of the Doctrine of Red Flags.

The PRC laws do not contain the doctrine of “Red Flags”. However, the last paragraph of Article 23 of the PRC Regulations provides an exception to the “Notice-to-Remove” procedure, namely, “the ISP shall be liable for contributory infringement if such party has known or should have known the links to the works, performances, or audio -video products are illegal”. In practice, debates have arisen as to under what situation an ISP shall be deemed as “having known or having reason to know” the existence of the infringing works. In this respect, *Perfect 10, Inc. v. CCBill LLC* has provided two viewpoints for us to consider this issue.

First, there are many uncertain factors in the process of determining an infringing act engaged by a third party, especially when the right owner is not involved in this process. Therefore, it would be difficult to demand the ISPs to make a judgment on its own to decide if a particular act is an infringing act.

Second, it would also be inappropriate to place obligations on the ISPs to decide if a particular third party act is an infringing act.

⁷See 488 F.3d 1102; 2007 U.S. App. LEXIS 12508

⁸ See 488 F.3d 1102; 2007 U.S. App. LEXIS 12508

Accordingly, we believe that when considering the intention of the ISPs, the Chinese courts may consider two factors.

- (1) Whether it is the ISPs' obligation to actively investigate third party infringing acts; and
- (2) Whether the ISPs have the ability to independently make a judgment on third party infringing acts.

IV. Considerations behind the Safe Harbor Principle

In *Perfect 10, Inc. v. CCBill LLC*, the Judges were very discreet in application of the Doctrine of Red Flags and imposed very strict notification obligations on the copyright owner. In the California Court decision, the Judges explained the reason and consideration behind such ruling.

First, the intention of the US Congress when adopting the Safe Harbor Principle in DMCA was to ensure the liabilities are shared fairly between the parties by requiring the copyright owner to bear the burden of proving the existence of infringement. Therefore, the notification procedure is crucial for the right owners to realize its obligations. Consequently, the right owners must "substantially comply with" the requirements of the notification procedure and provide complete and accurate information to the ISPs. Under the DMCA, an ISP is not required to play the role of Internet police and take initiatives to search for potential infringements. In other words, where the ISP is unable to get adequate information from a "defective notice (from the copyright owner)", the ISP has no obligation to search the vast pool of web pages to find the complete information.

Second, a strict application of the notification requirements under the DMCA is also a necessary means for protecting freedom of speech. A claim against a third party for infringement is a serious matter and will result in drastic consequences. The ISP should not be required to initiate procedures to remove allegedly infringing content, if the alleging party is unwilling to make an announcement on behalf of the copyright owner towards an infringing act and to claim in good faith that the dissemination of material by the alleged party is unauthorized. Any inappropriate removal will constitute an infringement to the freedom of speech of the third party.

The rulings for *Perfect 10, Inc. v. CCBill LLC* provides a clear message that the "Notice-to-Remove" mechanism and the freedom of speech should not be shaken. The DMCA notification procedures place the obligations of identifying, determining and notifying the infringing acts "squarely on the copyright owners".

This ruling is particularly relevant to China with the environment for e-commerce in China rapidly evolving. Internet technology has enabled new business models to develop; at the same time, it has also affected the interests of certain traditional industries. The legislative intent of intellectual property law is to protect the intellectual achievements of the authors and inventors, encourage creativity and invention and promote the development of the technology of a society. However, placing undue obligations upon the ISPs for the purpose of increasing the efficiency of cracking down on infringements will invite more lawsuits against ISPs and ISPs may be forced out of business. As a result, such approach may curb the development of Internet technology, or even damage the Internet users' freedom of speech. ISPs are not Internet police. Therefore, they should not be required to initiate investigations on the legality of a third party's acts. Further, ISPs do not have the ability and knowledge to make judgment on the legality of a third party due to the complexity and diversity of Internet activities.

The purpose of the Safe Harbor Principle, which defines clearly the rights and obligations of copyright owners and ISPs, is to balance the interests of the said two parties. The Chinese courts shall consider the Safe Harbor Principle under similar situations. The key point is that the Chinese courts should consider carefully whether an effective notification is given by the copyright owner to the ISP, and whether the ISP removes the hyperlinks to the infringing contents promptly once the notification requirements are satisfied. Exclusions to the Safe Harbor Principle should be applied cautiously to avoid adverse consequences.

(The article was originally written in Chinese, the English version is a translation.)

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Update

Banking & Finance



New rules on fees and credit advertising

5 January 2009

This newsletter is sent from NautaDutilh

On 1 January 2009 the rules on fees (including remuneration or compensation in any form) for the provision of financial services and on credit advertising were amended. On that date, most of the provisions of the "Decree amending the Financial Institutions Business Conduct Supervision Decree with a view to the harmonisation of the rules on fees applicable to offerors and intermediaries, and the Decree on Fines under the Financial Supervision Act" (the "**Decree**") came into effect.

The Decree imposes new, stricter rules on the fees for the provision of financial services. The fee rules that already applied to the provision of investment services now also apply to the provision of services with respect to financial products other than financial instruments. Moreover, financial service providers are required to furnish additional information to their clients regarding the fees they receive or pay.

The Decree also introduces a number of new rules on the content of credit advertisements, requiring that they contain extra warning statements. In addition, the advertisement may not claim that credit will be granted irrespective of the information obtained from the Credit Registration Office on the client's credit rating or where the granting of credit would otherwise be contrary to the provisions of the applicable code of conduct.

This newsletter contains an overview of the most important changes regarding fees and credit advertising. It also summarises the fee rules that were in effect before 1 January 2009 and will continue to apply alongside the new rules.

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Scope of application of new fees and credit advertising rules

The rules for financial service providers, including the new rules on fees and credit advertising, contained in the Financial Services Act (*Wet op het financieel toezicht*, the "**Wft**") and the Financial Institutions Business Conduct Supervision Decree (*Besluit gedragstoezicht financiële ondernemingen Wft*, the "**Bgfo**") in principle apply only where financial services are provided to consumers. An exception is made for insurance products: where the financial services relate to insurance products, the rules for financial service providers also apply where the services are provided to legal entities and individuals acting in the course of a business or profession.

Pre-existing fee rules

Below is a short overview of the fee rules that applied before 1 January 2009 and will continue to do so alongside the new rules:

- General obligation to furnish information

Advisors on and intermediaries in financial products, such as consumer credit and insurance products, must inform their clients of the manner in which they are remunerated.

- Prohibited fees for the granting of credit

An intermediary in consumer credit may only receive fees from or pay fees to the offeror of the credit and not from or to any other party, such as the client. This rule does not apply for certain forms of mortgage loans and loans collateralised by securities. There are also rules on the conditions under which an intermediary is entitled to receive fees from the offeror.

- Balance and repayment rules

- *Balance rule*

Under what is known as the balance rule, no more than 50% of the total fees paid by the offeror to the intermediary for a complex product, such as a mortgage combined with an investment-linked insurance, may be paid upfront upon the conclusion of the agreement. The rest of the fees must be spread out proportionally over the remaining term of the agreement or, if the total term of the agreement is longer than ten years, over at least ten years.

The balance rule came into effect on 1 January 2007. From that date until 1 January 2011, a transitional rule applies, pursuant to which:

- For agreements concluded before 1 January 2010 a maximum of 70% of the total fees may be paid upfront;
- For agreements concluded from 1 January 2010 up to and including 31 December 2010, a maximum of 60% of the total fees may be paid upfront.

For more information about the transitional rule, see the section below entitled "Staggered effective dates and AFM enforcement policy".

- *Repayment rule*

The upfront fees for a complex product must be repaid pro rata if the relevant agreement is terminated prematurely within the first five years after the conclusion of the agreement, unless the termination results from the sale of the real estate to which the complex product relates or from the death of an insurance client.

Inducement norm

Since the implementation on 1 November 2007 of the Markets in Financial Instruments Directive ("**MiFID**"), investment services (such as asset management and investment advice) have been subject to the inducement norm.

The basic premise of the inducement norm is that fees are not permitted. There are three exceptions to this prohibition, namely:

- Where the fee enables or is necessary for the provision of the relevant service;
- Where the fee is paid by or to the client; or
- Where the fee is paid by or to a third party, and the following three conditions are met:
 - The existence, nature and amount of the fee or, where the amount cannot be ascertained, the method of calculating that amount, is disclosed to the client in a manner that is comprehensive and understandable, prior to the provision of the relevant service;
 - The payment of the fee enhances the quality of the relevant service to the client; and
 - The payment of the fee does not impair compliance with the investment firm's duty to act in the client's best interests.

Changes to fee rules

As indicated above, the Decree imposes new, stricter rules regarding the fees for the provision of financial services. The changes that are most important in practice will be discussed below.

Inducement norm

Pursuant to the Decree, the above-described inducement norm for the provision of investment services also applies, as from 1 January 2009, for the provision of financial services with respect to complex products and mortgage loans.

This means that it is prohibited for an offeror, intermediary or advisor to pay or receive a fee for acting as an intermediary or advisor in relation to a complex product or mortgage loan, unless:

- The fee enables or is necessary for the provision of the relevant service;
- The fee is paid by or to the client; or
- The fee is paid by or to a third party, and the following three conditions are met:
 - The existence, nature and amount of the fee or, where the amount cannot be ascertained, the method of calculating that amount, is disclosed by the intermediary or advisor to the client in a manner that is comprehensive and understandable, prior to the provision of the relevant service;
 - The payment of the fee enhances the quality of the relevant service to the client; and
 - The payment of the fee does not impair compliance with the duty of the intermediary or advisor to act in the client's best interests.

According to the ministerial memorandum explaining the Decree, bonus schemes and turnover-based fees do not comply with the inducement norm and are no longer permitted.

Nominal fee transparency

An intermediary in complex products or mortgage loans must, prior to the conclusion of an agreement, inform the client of the fees to be paid by the offeror of the product or loan. The intermediary may not in this respect refer to a percentage, but must state the actual amount to be paid by the offeror (nominal transparency). The amount must include all fees to be paid by the offeror, directly or via an intermediary, even if part of them will not be paid to the intermediary in question, but for instance to a buyers' cooperative.

Services document

An advisor on or intermediary in complex products or mortgage loans must, prior to providing its financial services and at the earliest possible stage, furnish the client with a document containing information about the nature and scope of the financial services and the fees it will receive in that regard. This obligation does not apply to an advisor that is also the offeror of the complex product or mortgage loan.

Cost statement

An offeror of complex products or mortgage loans that does not use the services of an intermediary but offers such products or loans directly (direct writers) must, prior to the conclusion of an agreement, furnish the client with a cost statement. This document must explicitly state that the offeror incurs costs for distributing (including advising on) the complex product or mortgage loan and that these costs are included in the price or may be reflected in the applicable interest rate.

Balance rule

The balance rule now also applies with respect to mortgage loans combined with an investment account.

Repayment rule

The repayment rule now applies to all mortgage loans (and thus no longer only to complex products).

Savings products offered by banks

As from 1 January 2009, savings products offered by banks are classified as complex products. This means that, with respect to those products, a financial information leaflet must be prepared and all the fee rules must be complied with.

Fee rules in chart form

The following is a chart outlining the rules regarding fees (note that different effective dates sometimes apply):

For whom?	Which product?	Main rule	Source
Advisors Intermediaries	Financial products other than financial instruments	General obligation to furnish information	4:72(1)(b) Wft 4:73(1)(b) Wft
Intermediaries	Consumer credits	Charging of fees by parties other than offeror prohibited	4:74 Wft with 152-158 Bgfo
Advisors Intermediaries Offerors	Complex products Mortgage loans	Inducement norm	4:72 (3)(c) Wft 4:73(3)(c) Wft with 149a Bgfo
Intermediaries	Complex products Mortgage loans	Nominal fee transparency	4:20(1)Wft with 58(1) Bgfo
Advisors Intermediaries	Complex products Mortgage loans	Services document	4:72(3)(a) Wft 4:73(3)(a) Wft with 149b Bgfo
Offerors (direct writers)	Complex products Mortgage loans	Cost statement	4:20(1) Wft with 58(3) Bgfo
Offerors	Complex products Mortgage loans	Balance rule	4:73 Wft with 150 Bgfo
Offerors	Complex products Mortgage loans	Repayment rule	4:73(3) Wft with 151 Bgfo

For whom?	Which product?	Main rule	Source
Investment firms	Financial instruments	Inducement norm	4:90 Wft with 168 Bgfo

Changes to credit advertising rules

Mandatory warning statements

Advertisements for the granting of credit, with the exception of advertisements for mortgage loans for the purchase of a home by the borrower, must warn about the consequences of the credit. The AFM is now developing standard texts and symbols, which it will make available in early 2009 via its website.

Prohibited advertising claims

Advertisements may not claim that credit will be granted:

- Irrespective of the information obtained from the Credit Registration Office on the client's credit rating; or
- Where the granting of credit would otherwise be contrary to the provisions of the applicable code of conduct.

Staggered effective dates and AFM enforcement policy

Staggered effective dates

The point of departure is that the new rules regarding fees and credit advertisements apply as from 1 January 2009. The new rules regarding nominal fee transparency, the obligation to furnish a services document and the obligation to furnish a cost statement apply only with respect to agreements concluded after 1 January 2009.

There are a number of exceptions to the above point of departure:

- The obligation to include the extra warning statements in credit advertisements will take effect on 1 April 2009;
- The obligation to furnish a services document will take effect on 1 July 2009.

Transitional rule for balance rule

The following transitional periods apply with respect to the balance rule:

- As stated above, the balance rule entails that for agreements concluded as from 1 January 2011, no more than 50% of the total fees may be paid by the offeror to the intermediary upfront. The rest of the fees must be spread out proportionally over the remaining term of the agreement. Pursuant to a transitional rule, for agreements concluded from 1 January 2009 up to and including 31 December 2009, a maximum of 70% of the total fees may be paid upfront, and for agreements concluded from 1 January 2010 up to and including 31 December 2010 a maximum of 60%.
- Another element of the balance rule is that the part of the total fees that is not paid upfront must be spread out proportionally over the remaining term of the agreement. This rule applies only for agreements concluded before 1 January 2010.

Enforcement by AFM

- Until 1 April 2009 the AFM will be lenient in enforcing the rules regarding (i) nominal fee transparency and (ii) the obligation under the inducement norm to disclose the fees received or paid. A condition for this leniency is that the relevant market parties can show that they have done their utmost to comply with the relevant fee rules as soon as possible after 1 January 2009 but in any event no later than 1 April 2009;
- With respect to the enforcement of the other new fee rules (i.e. most of the inducement norm provisions, the obligation to provide a cost statement or the services document and the amendments to the balance and repayment rules), the AFM will not show leniency in supervising compliance;
- The AFM will strictly enforce the prohibition (pursuant to the inducement norm) against turnover-based fees as from 1 January 2009 but will in principle refrain enforcing the other elements of the inducement norm until after it has provided further guidance in this regard (see "Future developments" below).

Future Developments

Additional amendments to rules

The Ministry of Finance has announced that in early 2009 it will commence consultation procedures on additional amendments to the fee rules. More specifically, the amendments will relate to (i) the nominal transparency of offerors' costs and (ii) a total ban on bonuses.

Further guidance by AFM

The AFM has announced that it will, in close consultation with the relevant trade associations, provide further guidance on the inducement norm. However, it has not yet indicated when it will do so.

Practical application

In light of the new fee and credit advertising rules, we would advise you to take the following action:

- Verify whether and, if so, when you must comply with the new fee rules;
- Verify whether the fees that you pay or receive comply with the new fee rules;
- Verify whether the information you provide regarding fees complies with the nominal fee transparency rules;
- If you advise on or are an intermediary in complex products or mortgage loans, prepare and furnish a services document;
- If you are a offeror and sell your complex products or mortgage loans directly to clients, prepare and furnish a cost statement; and
- Review your credit advertisements and, where necessary, adapt them to the new advertising rules.

NautaDutilh's specialists would be happy to advise you on the implementation of the new rules in your organisation.

Contact

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Philippines

Protection of Trade Secrets and Proprietary Information

Llewellyn L. Llanillo
November 10, 2008

I. INTRODUCTION

What is a trade secret?

- Variety of statutes and regulations mention but do not define it
- Relevant laws and regulations: no single comprehensive definition
- Yet, Section 4(g) of IP Code explicitly recognizes “protection of undisclosed information” as a specie of “intellectual property right”
- TRIPS requires protection of undisclosed information

Why protect trade secrets?

Underlying Public Policies

- Encourage research and innovation
- Foster and preserve a wholesome and fair-minded commercial ethics (morality in commerce)
- Promote free competition and prevent non-productive hoarding of secrets ideas

Balancing of Competing Interests

- Protection of research against breaches of trust - employer
- Employees’ freedom to change jobs and use newly-learned skills – employee
- Public’s desire for innovative products and vigorous competition in marketplace - consumers / public

II. TRADE SECRET CASE LAW DEFINITION

- Supreme Court: Any secret formula, pattern, device or compilation of information that is used in one’s business and gives the employer advantage over competitors (*Air Philippines v. Pennswell*)
- The Court combined concepts from the 1939 US Restatement (First) of Torts and the 1979 Uniform Trade Secrets Act (UTSA)
- US Restatement (First) of Torts: Any information which is continuously used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it (element of secrecy)
- UTSA: Broader definition. Information need not be in continuous use. May be actual or potential value. Advantage from “negative” viewpoint
- Undisclosed Information Protection Bill – pending in Congress defines “Undisclosed Information” to be synonymous with “trade secret” and to mean “any information, including...

III. TRIPS AGREEMENT (Art. 39, Sec. 7, para. 2)

- Requires protection of undisclosed information against disclosure
- Prohibits acquisition, disclosure or use by others — Without the owner's consent (unauthorized) In a manner "contrary to honest commercial practices" where information is:
 - (i) secret
 - (ii) has commercial value because of secrecy
 - (iii) subject to reasonable measures to keep secrecy

Under TRIPS, Sec. 7, "contrary to honest practices" includes acts of misappropriation such as:

- breach of contract
- breach of confidence
- inducement to breach
- 3rd party acquisition from one committing the above, if 3rd party acted with scienter

IV. LEGAL REGIME UNDER THE CIVIL CODE

Civil Code (RA 386 effective 1930), Art. 721, ownership of intellectual creation belongs to —

- Author with respect to literary, dramatic, legal philosophical, scientific or other works
- Composer, as to his musical composition
- Painter, sculptor or other artist, with respect to the product of his work
- Scientist / technologist has ownership of his discovery or invention even before it is patented
- Ownership of patents / copyrights under IP Code (Sec. 30, and Sec. 178.3)

Interface between —

- Patents
- Copyright
- Trade Secrets

These IPRs are governed by treaties and special laws, e.g. IP Code

Relevant Civil Code Provisions

Civil Code provisions providing possible trade secrets protection may be conveniently classified into:

- those relating to contracts
- those establishing an obligation of trust and confidence
- those that create liability for tortious acts.

Protection by Contract

- Article 1306: Contracting parties may establish any stipulations, provided they are not contrary to law, morals, good customs, public order or public policy
- Employment contracts may incorporate confidentiality obligation and non-compete covenant (see *Gsell vs. Koch*, 16 Phil. 1 [1910]). See also, *Ollendory vs. Abrahansom*, 38 Phil. 585[1918])

Confidentiality Clauses

- Trade secret owner may lawfully requires its employees to sign confidentiality covenants, which may include keeping the process and formulae for the manufacture of its products confidential
- When negotiating to license one's trade secrets, one should impose an obligation of confidentiality and non-disclosure on the other party
- Confidentiality clauses are lawful if reasonable for the protection of the trade secrets
 - In license agreements, the obligation to keep the trade secret confidential should be imposed not only during but even after the termination of the license agreements
 - Particularly important because under Sec. 87.9 of the IP Code, the licensor may not restrict use of this technology after termination from the agreement

Non-Compete Clauses

- Restriction on employment in another firm engaged in competing business may be valid and enforceable
- Non-compete clause must be reasonable as to scope, duration and area. Must have a legitimate purpose

Protection under Equitable Doctrines Creating Implied Obligations of Confidentiality

- Contract of partnership
- Contract of agency
- Directors of corporations have a fiduciary duty to corporation and the stockholders as a body (see *Gokongwei vs. SEC*, 89 SCRA 336 [1979])
- Art. 2142, Civil Code (*solutio indebiti*)

Protection under Tort Law

- Art. 19, Civil Code, in the exercise of rights, observe honesty and good faith
- Art. 20, Civil Code, indemnification for willful or negligent damage to another
- Art. 21, Civil Code, compensation for damage in case of willful loss or injury to another
- Art. 22, Civil Code, obligation to return possession of property to another
- Art. 28, Civil Code, establishes cause of action for unfair competition through intimidation, deceit, machination, or oppressive or high handed method

V. OTHER STATUTES PROTECTING TRADE SECRETS

- Tax Reform Act of 1997, Sec. 278. Procuring Unlawful Divulgence of Trade Secrets.
- Trade secret protected: (i) confidential information regarding the business, income or inheritance of any taxpayer, (ii) knowledge of which was acquired by him in the discharge of his official duties, and which it is unlawful for him to reveal.
- Sanction for Violation: Fine of not more than two thousand pesos (2,000), or suffer imprisonment of not less than six (6) months nor more than five (5) years, or both.
- Securities Regulation Code of 2000, Sec. 66.2

Trade secret protected: the revealing of trade secrets or processes in any application, report or document filed with the SEC

Sanctions for violation: None specified

- Interim Rules Governing Corporate Rehabilitation, Rule 3, Sec. 4. Trade Secrets and Other Confidential Information

Trade secret protected: trade secrets or other confidential research, development, or commercial information belonging to the debtor (i.e., the corporation under rehabilitation)

Sanction for violation: None specified.

- Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990 (R.A. 6969), Sec. 12. Public Access to Records, Reports or Notification. —

Trade secret protected: confidential record, report or information or particular portions thereof, which may not be made public when such would divulge trade secrets, production or sales figures or methods, production or processes unique to such manufacturer, processor or distributor, or would otherwise tend to affect adversely the competitive position of such manufacturer, processor or distributor

- Revised Penal Code, Art. 292 – Revelation of Industrial Secrets

Trade secret protected: “Industrial secrets,” referring to the “secrets of the industry” of “any manufacturing or industrial establishment”

Sanction for violation: Imprisonment and Fine

- The Foods, Drugs and Devices, and Cosmetics Act (RA 3720, as amended by EO 175)

Trade secret protected: “any information acquired under authority of Section Nine, or concerning any method of process which as a trade secret is entitled to protection

Sanction for violation: None specified

- Code of Conduct and Ethical Standards for Public Officers, RA 6713, Sec. 7 (c) prohibits using or divulging confidential or classified information acquired by reason of their office and made available to the public.
- Anti-Graft and Corrupt Practices Act, RA 3019, declares unlawful act of public official or employee in divulging valuation information of a confidential character acquired by his office to unauthorized persons.
- Revised Rules of Court, Rule 24, Sec. 16. Court may order matters not to be inquired into, “or that secret processes, development or research need not be disclosed.”

VI. ELEMENTS OF PROOF IN TRADE SECRET CASES

- Element of Secrecy: Relative, not absolute, secrecy is sufficient
- Element of Novelty: Some novelty is required if only because that which does not possess novelty is usually known to the public
- Element of Concreteness: No protection is accorded to mere ideas and abstractions
- Element of Value: Trade secret must provide competitive economic advantage for the owner in the operation of its business. (Spiritual advantage not recognized, e.g. Church of Scientology case.)

Trade Secret Case: Air Philippines v. Pennswell, GR No. 172835, December 13, 2007

- Pennswell sold industrial chemicals, solvents and lubricants to Air Philippines
- Air Philippines owed Pennswell P449,864.98
- Pennswell filed complaint for sum of money
- Air Philippines claimed Pennswell misrepresented the composition of the products
- Air Philippines moved to compel Pennswell to disclose the ingredients and chemical components of its solvents and lubricants
- Issues: Did Pennswell possess a protectible trade secret? May Pennswell be compelled to disclose it?
- Held: The following factors should be considered to determine if the information is a trade secret:
 - (1) the extent to which the information is known outside of the employer's business;
 - (2) the extent to which the information is known by employees and others involved in the business;
 - (3) the extent of measures taken by the employer to guard the secrecy of the information;
 - (4) the value of the information to the employer and to competitors; the amount of effort or money expended by the company in developing the information; and
 - (5) the extent to which the information could be easily or readily obtained through an independent source.
- The Supreme Court pointed out that the existence of a trade secret cannot be left to the claimant's exclusive determination.
 - The determination whether trade secrets exist is a factual issue that must have "substantial factual basis that can withstand judicial scrutiny."
 - Based on the facts, the Supreme Court upheld Pennswell's position that it should not be compelled to disclose the detailed list of ingredients and chemical components of its products.
 - Pennswell had a proprietary or economic right over the ingredients or components of its lubricant products. The formulation was not known to the general public and was unique to Pennswell.
 - Pennswell had the right to safeguard its trade secrets, manufacturing formulas, marketing strategies and other confidential programs and information.
 - The claimed trade secrets had factual basis, i.e., They "comprise(d) the ingredients and formulation of Pennswell's lubricant products which are unknown to the public and peculiar only to Pennswell."
 - The Supreme Court footnoted Restatement (First) of Torts (1939)

Section 757(b) – Elements constituting Tort of Misappropriation of Trade Secret

- (1) Defendant used or disclosed information
 - (2) Information received in confidence
 - (3) Information is plaintiff's trade secret
 - (4) Scier: Defendant knew or should have known that the information is a trade secret
- The Supreme Court also cited the UTSA.

VII. SOME PRINCIPLES TO REMEMBER

- Employees and Other Personnel
 - Before hiring technical employee with specialized knowledge, employer must ensure that employee has no subsisting confidentiality covenant with his current employer to avoid charge of inducement of contract breach.
 - Employer may be held liable for restraint of trade if employee prevented is from pursuing gainful employment using skills normally acquired in the course of employment.
 - Employee cannot be prevented by former employer from using basic skills acquired in previous employment.
 - Former employer can prevent both former employee and current employer from using proprietary information protected as trade secret because it meets the elements of secrecy, novelty, concreteness and value.
 - If new employee brings to his employment confidential information or trade secret belonging to his former employer, new employer must consider returning it to the former employer.

- Licensees and Other Third Parties
 - In joint ventures and licensing transactions, a carefully crafted nondisclosure agreement should be executed. Most trade secret owners will insist on concluding nondisclosure agreements before demonstrating their technology to outsiders.
 - Under the IP Code, a licensee may continue using technology obtained from licensor even after termination of the license. To prevent disclosure of proprietary information, licensor must impose non-disclosure covenants upon licensee with sanctions for damages in case of breach. A reasonable non-compete clause should also be included.
 - A corporation can lawfully limit its stockholders' right of inspection where, for instance, it desires to safeguard the secrecy of its manufacturing formulas and processes.
 - A corporation may lawfully protect "corporate plans and policies," "confidential information regarding marketing strategies and pricing policies" and "strategies for the development of existing or new markets or of existing or new products."
 - Courts will not order a company to disclose the ingredients or components of its products where the formulation is a trade secret and proprietary to the company.
 - Courts will subject claims of trade secret protection to judicial scrutiny and use their judicial discretion to determine whether substantial factual basis exists to prove the elements of secrecy, novelty, concreteness and value.

VIII. PRACTICAL SUGGESTIONS FOR PROTECTING TRADE SECRETS (See McLaren, Worldwide Trade Secrets Law)

- Choose Markets Carefully.
- Choose licensees / joint venture partners carefully
- Institute corporate information security program and monitor compliance
- Information security program should include –
 - (1) Choosing employees carefully. Background checks. Close supervision.
 - (2) Have employees execute confidentiality agreement. Breach of agreement provides clearer basis to sue than implied legal obligation
 - (3) Require licensees and business partners to execute confidentiality agreements. Monitor.
 - (4) Provide only necessary information (type and amount). Sensitize key / responsible people to need for secrecy. Track use. Monitor.
 - (5) Specify by contract the number and names of people entitled to information.
 - (6) Specify by contract the security measures to protect information relative to plant, office space, computer and telecommunication systems.
 - (7) Mark all sensitive documents with prominent warnings. Number the copies. Use special paper, if necessary.
 - (8) Avoid discussing sensitive information over unsecured telephone lines. Encrypt electronic communications.

- (9) Sweep offices for listening devices. Do not discuss confidential information in public places, e.g. hotel lobbies, lawyers, airports. Avoid cellphone use in public places, airplanes, public transports, etc.
- (10) Consider separating sensitive information into modules. Split or segmentize manufacturing operations. No single person should have access to all important data.
- (11) Include hefty penalty clauses for breach of confidence.
- (12) Retain good local counsel.

AIR PHILIPPINES v PENNSWELL

“A trade secret is defined as a plan or process, tool, mechanism or compound known only to its owner and those of his employees to whom it is necessary to confide it. The definition also extends to a secret formula or process not patented, but known only to certain individuals using it in compounding some article of trade having a commercial value. A trade secret may consist of any formula, pattern, device, or compilation of information that: (1) is used in one’s business; and (2) gives the employer an opportunity to obtain an advantage over competitors who do not possess the information. Generally, a trade secret is a process or device intended for continuous use in the operation of the business, for example, a machine or formula, but can be a price list or catalogue or specialized customer list. It is indubitable that trade secrets constitute proprietary rights. The inventor, discoverer, or possessor of a trade secret or similar innovation has rights therein which may be treated as property, and ordinarily an injunction will be granted to prevent the disclosure of the trade secret by one who obtained the information ‘in confidence’ or through a ‘confidential relationship.’”

UNDISCLOSED INFORMATION PROTECTION ACT (pending in Congress)

“Undisclosed information means information, including formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to others, (ii) is not being readily ascertainable through proper means, by other persons who can obtain economic value from its disclosure or use, and (iii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. ‘Undisclosed information’ is synonymous with ‘trade secrets.’”

LAWFUL ACQUISITION OF UNDISCLOSED INFORMATION

- “ (1) Discovery by independent invention;
(2) Discovery by ‘reverse engineering’;
(3) Discovery under a license from the owner of the trade secret;
(4) Observation of the item in public use or on public display,
(5) Obtaining the trade secret from published literature.”

For additional information visit www.syciplaw.com

LEE AND LI - Taiwan

DEPARTMENT STORE SHARES LIABILITY FOR COUNTERFEIT GOODS SOLD BY CONCESSION OPERATOR

©Ruey-sen Tsai

A highly controversial issue in practice has been that of whether a department store bears joint and several liability for civil damages when the operator of an in-store concession infringes a trademark by selling goods bearing a counterfeit mark. In a 2008 judgment, the Taipei District Court held that the department store does bear such liability.

In its judgment, the court stated that if a department store rents out a concession to an operator that has not obtained lawful licensing, and the concession operator sells counterfeit goods, the department store's action in renting out the concession is a causative factor contributing to the harm suffered by the trademark rights owner. A department store has the power to decide whether or not to rent out a concession to an operator that may sell counterfeit goods, and has a duty of care to verify whether such an operator is licensed to sell the goods that it offers for sale. If a store fails to exercise its duty of care by making such verification, it should be held liable for gross negligence.



THAILAND

Amendments to the Securities and Exchange Act B.E. 2535 (A.D. 1992)

by

Yingyong Karnchanapayap
December 2008

The Securities and Exchange Act B.E. 2535 (A.D. 1992) (the "SEC Act") has recently been amended by the Securities and Exchange Act (No. 4), which among others, sets forth major amendments in three important areas: reorganization of the structure of the Securities Exchange Commission ("SEC"), enhancement of mechanisms related to investor protection, and supportive mechanism for effective enforcement of securities laws.

Reorganization of the SEC Structure

To enhance the SEC's operational flexibility, a new capital markets supervision board, the Capital Markets Supervisory Board ("CMS Board"), will be added to the SEC office. The CMS Board shall assume, from the SEC, the authority to promulgate regulations and notifications under the SEC Act which governs day-to-day operational matters such as securities business, securities offering, tender offer, etc., with the aim to enable the SEC to focus on the role of policymaking and the supervision and development of the overall securities markets. In addition, to enhance transparency and internal control, new criteria for selecting the members of the SEC and the CMS Board including its composition, qualifications, and term of office, were adopted along with other measures such as empowering the SEC Office's Audit Committee to verify the financial report and financial information of the Office of the SEC as well as coordinate with the Office of the Auditor General, and ensure the SEC's compliance with the relevant laws and regulations.

Enhancement of Mechanisms Related to Investor Protection

The amendments grant increased protection for investors and set up mechanisms to reduce associated risks, enhance operational efficiency and encourage transactions for services related to securities markets. Major amendments are as set out below:

1. More stringent fiduciary duties for directors and management of listed companies

Company directors and management shall be protected by the law if they perform their duties in good faith and with care to preserve the company's interests based on information which they honestly believe to be sufficient for decision-making and without conflict of interest. Company directors or management who commit dishonest acts or perform duties with gross negligence shall be prohibited from obliterating their wrongful deeds by seeking resolutions/ratification at the shareholders' or board of directors' meeting.

The board of directors must appoint a Company Secretary to perform the following duties on behalf of the Company/Board of Directors:

- Preparing and maintaining register of directors, notices calling for shareholders' and directors' meetings, minutes of shareholders' and board of directors' meetings, and Company's annual report.
- Maintaining a report on directors or executives who have a vested interest in relation to a resolution.
- Performing any other matters as specified in the notification of the CMS Board.

As with Company directors and management, Company Secretary must also adhere to the principles of business judgment, duty of loyalty, and conflict of interest rules, the breach of which could expose the directors, management and/or Company Secretary to criminal sanctions.

2. Affirmative action for investors

Shareholders, jointly or individually, holding shares in aggregate of 5% of voting shares or more, may:

- File the claim on behalf of the company to disgorge ill-gotten benefits obtained by the company directors or management and claim for reasonable litigation expenses from the company.
- Submit a proposal to include an agenda to be considered in the shareholders' meeting.

In addition, shareholders may bring a civil action on their own behalf to claim for compensation/damages from directors or management who disclose false information or fail to disclose material facts that should be disclosed.

3. Revised rules for takeovers

Provisions regarding the acquisition of securities for business takeovers are revised to make it clear that the voting percentage of shares held in a company (instead of the shareholding percentage) shall be used as the basis of calculating the 5% reporting requirements of acquisitions and disposals of shares and the thresholds to trigger a tender offer, i.e. 25%, 50%, and 75%. The revised rules also expand the coverage of "securities" to include such securities or instruments entitling the holders to receive securities of the acquired company such as derivatives warrants.

Holdings of securities by both "controlling person" and "controlled person" shall be counted to ensure that the securities held by related persons with a 30% shareholding relationship both downwards and upwards throughout the chain are counted for the purpose of calculating the reporting requirements of acquisitions and disposals of shares and the thresholds to trigger a tender offer. In addition, persons who act together/collaborate to acquire and exercise power over the acquired company shall be regarded as "acting in concert" and their voting rights shall be counted together for the purpose of calculating the reporting requirements of acquisitions and disposals of shares and the thresholds to trigger a tender offer.

Attempts of directors or management to employ "anti-takeover" measures shall obtain prior approval at the shareholders' meeting in accordance with pre-specified rules, otherwise such anti-takeover measures shall not have binding effect on the company and the directors or management shall be personally liable to a third party acting in good faith and for value.

4. Transactions with related parties

Transactions between directors and management and the company or subsidiary company as well as material transactions such as the acquisition or disposal of assets of the company or subsidiary company shall obtain prior approval at the shareholders' meeting in accordance with pre-specified rules, otherwise such transactions shall be regarded as a material breach of the conflict of interest rules.

5. Issuance of securities

To support fund raising of new types of entities established under both Thai and foreign laws, any securities issuance, established in whatever form, shall receive approval from the SEC and disclose pre-offering and post-offering information, except when the issued securities are deemed to be risk-free such as treasury bills, government bonds, Bank of Thailand bonds, etc.

6. Enforcement of pledged securities

Pledged securities may be enforced through public auction or through a sale in the Securities Exchange of Thailand ("SET").

Supportive Mechanism for Effective Enforcement of Securities Laws

Major amendments with regard to supportive mechanism for effective enforcement of the securities law and suppressing of economic crimes are as set out below:

1. Securities companies are prohibited from prosecuting or engaging in unfair practices against whistleblowers who are company officers, employees or persons hired to work for the companies including consultants and auditors who, in good faith, provide the authorities with clues relating to unlawful acts under the securities law. Violations could be punishable by criminal sanctions.
2. Persons who provide information on insider trading or market manipulation shall, subject to certain conditions and exceptions, be entitled to a reward funded by the settlement fine in an amount not exceeding 30% of such fine.
3. The auditor of a securities company is required to report to the company's Audit Committee activities suspected of violating securities laws, and the company's Audit Committee shall report such activities to the SEC within a specified period of time.
4. The director, manager or any person responsible for the operation of the company could also be liable to criminal sanction for offenses committed by the company, unless it can be proven that such person has no involvement with the commission of offense by the company.
5. The SEC shall have the power to cooperate with foreign regulators in the areas of investigation and information exchange for the suppression of international economic crimes.

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INTELLECTUAL PROPERTY REPORT

Articles

Addressing And Minimizing Risks Of Personal Liability For Directors And Officers Based On Allegations Of Actively Inducing Corporate Patent Infringement

[Anthony Iannetelli](#)

INTRODUCTION

In general, corporate officers and directors are not subject to personal liability for patent infringement or other tortious acts committed by a corporation. On the other hand, there is longstanding precedent for such liability to attach in special circumstances. For instance, in *Orthokinetics v. Safety Travel Chairs*, the United States Court of Appeals for the Federal Circuit noted, "it is well settled that corporate officers who actively aid and abet their corporation's infringement may be personally liable for inducing infringement."¹

Claims of actively inducing patent infringement under 35 U.S.C. § 271(b) thus hypothetically open the door to add individuals as defendants in almost any patent infringement case, although in practice, this rarely occurs. A plaintiff who can show specific evidence of deliberate acts by a director or officer leading to the alleged infringement, such as specifically authorizing infringing activity, may be able to convince a court to entertain liability for induced infringement as to such individual(s).²

In several recent cases, district courts have applied the *Orthokinetics* opinion when discussing inducement claims against officers and/or directors.³ The test for whether individual officers or directors can face such potential liability appears to turn on whether they can be shown to have had knowledge of a patent found to be infringed, intent to induce the infringement, and whether they have performed an overt act to further such infringement. These elements will be discussed in further detail below.

This article will also touch on suggestions for how potential officer and director liability exposure for inducement allegations can be ameliorated. Specifically, while recent case law (*e.g.*, *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007)) has established that patent noninfringement and invalidity opinions are no longer *de rigeur* in order to defeat a charge of willful infringement, such opinions may continue to serve a highly useful function as a defense to personal liability for alleged induced infringement by corporate officers and directors. Discussions of whether to obtain opinions, then, should arguably include discussion of the personal exposure of the officers and directors instead of just the potential increased exposure of the company.

I. BACKGROUND ON INDUCED INFRINGEMENT

A valid patent gives the patentee the exclusive right to "make, use, sell, offer for sale, or import" the invention described in the claims of the patent.⁴ The patent holder may sue alleged infringers to enjoin them from infringing the claims of the patent and to receive compensation for past infringements as authorized by applicable laws. A proceeding in a U.S. District Court offers a full range of remedies, including monetary damages sufficient to compensate the patent holder and/or permanent injunctions against making, using, selling, offering for sale and importing. Further, the International Trade Commission ("ITC") has jurisdiction to block the importation of products into the United States if those products are found to infringe U.S. patents. In addition, a plaintiff may seek increased damages based on willful infringement—showing that the defendant knew of its infringement and continued to do so.

Additionally, financial liability may be imposed against someone who "actively induces infringement of a patent."⁵ Claims of active inducement to

infringe largely relate to overt acts explicitly outside the scope of making, selling, or using as in a direct infringement claim. "[A] defendant who actively and knowingly aids and abets another's direct infringement is liable for infringement."⁶ To support a claim of inducement to infringe, a plaintiff must first show, either by direct or circumstantial evidence, that another has directly infringed the patent in suit.⁷ The knowledge, intent, and overt action elements of inducement are discussed more fully below.

II. CURRENT LEGAL STANDARDS FOR ACTIVE INDUCEMENT OF PATENT INFRINGEMENT

There are four elements that must be established in order to sustain a claim for active inducement to infringe: (1) an act of direct infringement by some party; (2) knowledge; (3) intent to induce; and (4) overt action in furtherance of such intent. The state of mind of the alleged inducing infringer is a key element necessary to proving a claim of active inducement to infringe. The Court of Appeals for the Federal Circuit has stated, "the plaintiff has the burden of showing that the alleged infringer's actions induced infringing acts and that he knew or should have known his actions would induce actual infringements."⁸

A. SOME ACT OF DIRECT INFRINGEMENT

Although it seems an obvious point, there can be no liability for inducing infringement unless a third party does, in fact, infringe the patent in question. Thus, a showing of infringement by some party must be made before a court will even consider whether that party was drawn or driven to such infringement by an alleged inducer.

B. KNOWLEDGE OF THE PATENT

Active inducement to infringe "necessarily includes the requirement that [the alleged inducer] knew of the patent."⁹ There are a variety of ways by which a potential defendant may obtain knowledge of a patent. To determine whether a defendant knew of a patent, fact finders are to look at the "totality of the circumstances;" accordingly, this determination involves a very fact dependent inquiry.¹⁰

Knowledge of the patent is typically found in cases in which the defendant received actual notice of the patent.¹¹ Certainly, being served with an infringement suit provides notice to the officers and directors who ultimately participate in the defense of that suit.¹² In addition, a letter to a potential infringer disclosing a patent would likely also provide sufficient notice to those who received and/or reviewed it.¹³

Knowledge may also be imputed to a company or its leadership when one or more technical or business staff becomes aware of a patent in the ordinary course of their business, as for instance by searching patent databases. As has long been commented on in the context of willfulness, this imputation of knowledge arguably provides a perverse incentive for companies and their officers to remain willfully ignorant of relevant patents by imposing policies discouraging patent searches or technical literature review.

C. INTENT TO INDUCE DIRECT INFRINGEMENT

The plaintiff must, in addition, establish that the allegedly-inducing defendant intended to cause the acts that constituted the infringement, and further that he knew these acts to constitute infringement.¹⁴ "[T]he plaintiff has the burden of showing that . . . [the defendant] *knew or should have known his actions would induce actual infringements.*"¹⁵ It is not sufficient that the defendant merely had knowledge of the acts alleged to constitute infringement.¹⁶ There must additionally be a culpable intent to induce infringement.¹⁷ This requirement imposes a fairly heavy burden on the patentee alleging inducement, for the courts will require a fairly high degree of specificity and proof as to the alleged infringer's culpable state of mind. While a showing of gross negligence or recklessness can, in other areas of the law, sometimes serve as a proxy for intent, it is not clear from *DSU Medical* and its progeny whether such a showing would suffice in the case of inducing infringement.

While intent to cause infringement is a required element of a

claim of active inducement to infringe, courts are willing to consider both direct and circumstantial evidence of intent, arguably somewhat lessening the burden on the plaintiff.¹⁸ The best evidence of inducement is often the defendant's authority to direct or control the infringing acts.¹⁹ Some courts have found that while "control over a third party infringer's actions is relevant evidence as to whether a defendant has induced that third party to directly infringe, control is not a necessary condition for a finding of inducement liability."²⁰ The key question remains whether the defendant encouraged actions that it knew or should have known would infringe, and had a specific intent to bring about such infringement.²¹ This question is answered by analysis of "all of the circumstances."²²

D. THE REQUIREMENT OF OVERT ACTION

Courts typically require a showing that the alleged inducer committed an overt act in furtherance of the infringement, as opposed to merely failing to have prevented infringement by others.²³ In one interesting Federal Circuit decision, a defendant was accused of "facilitating" infringement by a corporate affiliate by virtue of an alleged failure to take action to prevent the direct infringement.²⁴

The Federal Circuit noted that the plaintiff failed to identify an affirmative action on the part of the alleged inducer and determined that "[i]n the absence of a showing of control over another party, such as evidence that the defendant 'formulates, directs or controls . . . operations or that it is in control of the management, policies, and operation' of the direct infringer, merely permitting that party to commit infringing acts does not constitute infringement, and it likewise cannot constitute 'facilitating infringing acts.'"²⁵ Notably, though, the applicability of this holding could be limited by the practical reality that in most corporate settings, management does indeed "control" subordinate staff and subsidiaries.

III. DEFENSES TO ACTIVE INDUCEMENT TO INFRINGE: OPINIONS OF COUNSEL

Just as corporate defendants may escape liability for alleged willful infringement by demonstrating that their conduct was not objectively reckless, an individual, such as a director or officer, accused of actively inducing infringement who can demonstrate that he possessed a good faith belief that the patent in question was not infringed or that it was invalid, may hope to succeed in pointing to this belief as a defense to active inducement to infringe. In fact, a good faith belief that one's actions will not cause a third party to infringe on another's rights tends to show lack of culpable intent. In *DSU Medical*, for example, the intent requirement was defeated because the alleged inducer had obtained an opinion of counsel concluding that the accused product did not infringe; in addition, the alleged inducer convinced the court that it did not subjectively believe that the accused product infringed the patent.²⁶

The courts are unlikely, however, to give much weight to a defendant's self-serving testimony as to his subjective belief of noninfringement without evidence that the defendant was relying on something other than his own evaluation, such as an opinion of qualified counsel that there is no infringement or that the patent is invalid.²⁷

Given this landscape, directors or officers of corporations may have a personal interest in considering the procurement of opinions of patent counsel beyond the interests of the company or corporation. While some commentators rely on the rationale of *In re Seagate* to opine that opinions of counsel are no longer strictly necessary, enhanced damages due to willfulness are not the only reason for procuring such an opinion. At the least, the potential personal liability of officers and directors should be one of the factors considered when discussing whether to seek an opinion of counsel.

¹ *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565, 1578-79 (Fed. Cir. 1986).

² *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544 (Fed. Cir. 1990); *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*, 806 F.2d 1565 (Fed. Cir. 1986).

³ *Bennett Marine, Inc. v. Lanco Marine, Inc.*, 2008 WL 906766 (S.D. Fla. 2008); *Titan Tire Corp. v. Care New Holland, Inc.*, No. 4:07-cv-00063-JEG, 2007 WL 2914513 (S.D. Iowa Oct. 3, 2007); *U.S. Phillips Corp. v. Int'l Norcent Tech.*, No. 2:06-cv-01366-ER-PLAx, 2007 WL 4984156 (C.D. Cal. Oct. 17, 2007).

⁴ 35 U.S.C. § 271(a).

⁵ 35 U.S.C. § 271(b).

⁶ *Mickowski v. Visi-Trak Corp.*, 36 F. Supp.2d 171, 180 (S.D.N.Y. 1999) (citing *Water Technologies Corp. v. Calco Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988)).

⁷ *Mickowski v. Visi-Trak Corp.*, 36 F. Supp.2d 171, 180 (S.D.N.Y. 1999).

⁸ *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006).

⁹ *Id.*

¹⁰ Cases cited herein discussing the knowledge element may do so in the context of willful patent infringement. However, because the knowledge elements for both active inducement and willful infringement are similar, the willful infringement cases are also helpful in determining the standard for active inducement.

¹¹ *Stickle v. Heublein*, 716 F.2d 1550, 1565 (Fed. Cir. 1983).

¹² See, e.g., *State Industries v. A.O. Smith Corp.*, 751 F.2d 1226 (Fed. Cir. 1985).

¹³ See, e.g., *Avia Group Int'l v. L.A. Gear California, Inc.*, 853 F.2d 1557 (Fed. Cir. 1988).

¹⁴ *Hughes Aircraft Co. v. National Semiconductor Corp.*, 857 F. Supp. 691, 699 (N.D. Cal. 1994) (citing *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990)); *Water Technologies Corp. v. Calco Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988).

¹⁵ *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006) (emphasis supplied).

¹⁶ *Id.* at 1305.

¹⁷ *Id.* at 1307.

¹⁸ *MEMC Electronic Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1380 (Fed. Cir. 2005). See, e.g., *Water Technologies*, 850 F.2d at 668; *Hughes Aircraft*, 857 F. Supp. at 699; *Moleculon Research Corp. v. CBS, Inc.*, 793 F.2d 1261, 1272 (Fed. Cir. 1986).

¹⁹ See, e.g., *Water Technologies*, 850 F.2d at 668; 4 D. Chisum, PATENTS (2004) §17.04[4][d], at 17-52.

²⁰ *VLT Corp. v. Unitrode Corp.*, 130 F. Supp.2d 178, 200-201 (D. Mass. 2001) and *Hewlett-Packard*, 909 F.2d at 1464-69.

²¹ *Id.* at 107.

²² *Water Technologies*, 850 F.2d at 669.

²³ See, e.g., *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1569 (Fed. Cir. 1994) (noting that a showing of omission is insufficient because "active inducement of infringement requires the *commission* of an affirmative act.").

²⁴ *Tegal Corp. v. Tokyo Electron Co., Ltd.*, 248 F.3d 1376, 1378 (Fed. Cir. 2001).

²⁵ *Id.* at 1379. The court reached similar results based on the same reasoning in *A. Stucki Co. v. Worthington Indus., Inc.*, 849 F.2d 593 (Fed. Cir. 1998).

²⁶ *DSU Medical*, 471 F.3d at 1307. See, e.g., *Water Technologies*, 850 F.2d at 668-69.

²⁷ *Id.*

Under the rules of certain jurisdictions, this communication may constitute 'Attorney Advertising'.

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PHARMACEUTICAL AND BIOTECHNOLOGY UPDATE

State Consumer Protection/Unfair Trade Practices Cases: The Expanded Assault on Off-Label Promotion

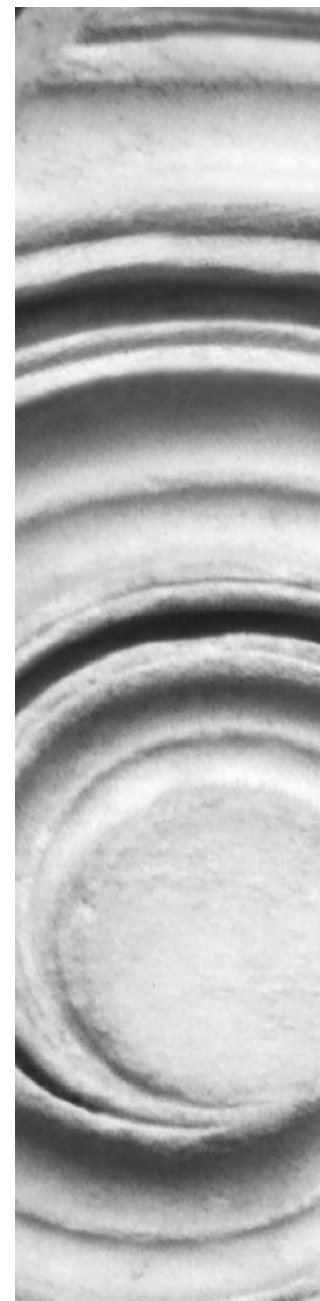
As we noted in our recent Pharmaceutical and Biotechnology Update,¹ State Attorneys General have begun an aggressive campaign against off-label promotion utilizing their state consumer protection and/or unfair trade practices laws. Importantly, the settlements in three recent actions (now three in six months) spell out in substantial detail standards of conduct historically considered to be within the sole purview of the U.S. Food and Drug Administration (FDA). While these standards legally apply only to the parties in the settlements, they increasingly define conduct in an array of promotional areas that companies must be aware of to evaluate the adequacy of their current policies going forward.

At an audio Webinar on December 17, 2008, two key Assistant Attorneys General from Oregon and Illinois (two of the most active states) made some important points that the pharmaceutical industry must bear in mind. First, they predicted that these state actions would continue. Second, the cooperation between the states and the FDA is growing significantly and will continue to do so in the new Administration. Finally, they view the state off-label enforcement cases as complementary to the Federal False Claims Act cases of the last five years. The State Attorneys General believe that the act of marketing prescription drugs for unapproved indications violates their state consumer protection/unfair trade practices laws.² Their clear bottom line — the role of the State Attorneys General will grow in importance for the enforcement of off-label promotion.

Pfizer settles claims related to promotion of Bextra and Celebrex

Following on the heels of the state settlements announced by Merck (May 20, 2008) and Eli Lilly (October 7, 2008), Pfizer announced on October 22, 2008, that it had entered into

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— TAKE A CLOSER LOOK —

January 23, 2009

Hogan & Hartson to host a seminar on “The New Political Environment: What it Means for Drug and Device Companies” ([details](#))

¹ See our [October 27, 2008, Pharmaceutical and Biotechnology Update](#), “Recent Settlements: Cephalon Raises the Bar, the States Fill in the Details.”

² They claim to be focused on the conduct which is why the state settlements set out in detail the parameters of future conduct. This is distinct from the federal False Claims Act cases that focus on recovery of federal dollars spent on unapproved uses of drugs. Conduct that violates the state consumer protection laws is defined broadly. For example, under the Oregon Unfair Trade Practices Act (ORS § 646.605 et seq.), one way a company could violate the Act if it “causes the likelihood of confusion or of misunderstanding” as to the “approval” of a good, or if it represents that a good has “uses, benefits, ... or qualities” that it does not.

a \$60 million settlement with 33 states and the District of Columbia to resolve claims related to the promotion of its Cox-2 inhibitors, Bextra and Celebrex.

The complaints in the Pfizer matter allege that Pfizer promoted Bextra for acute and surgical pain after the FDA rejected applications seeking approval for these indications. The complaints focus on Pfizer's distribution of reprints and medical information that allegedly minimized or omitted discussion of the safety concerns associated with these uses. They also detail other conduct, including alleged misuse of continuing medical education, improper sales force incentives, abusive consultant practices, sampling violations, and misleading promotional campaigns.

In addition to fines, the judgment against Pfizer includes injunctive relief that applies to all of the company's products. The judgment in large part echoes standards applied to Merck and Lilly, but also includes additional provisions driven by the particular facts of the case. These standards are instructive and provide guidance for companies in addressing key compliance issues. Nevertheless, given the constant state of flux of the industry and the anticipated announcement of new settlements in the upcoming months, companies' response to any one settlement must be measured against the potential confusion generated by frequent policy changes.

As we discussed in our Update on October 27, 2008, the states are continuing to fill in the details about what they consider to be appropriate promotional and non-promotional conduct.

The Developing Baseline

The Pfizer state judgment repeats certain key standards from the preceding Lilly and Merck cases, suggesting the development of a baseline set of obligations that companies might expect when entering into state settlements related to off-label promotion.

Specifically, Pfizer has agreed to the following policies:

- ***Continuing Medical Education (CME)***

- Pfizer must require promotional speakers to disclose their relationship with the company to any CME provider or CME audience to whom that person may present if the product the speaker promoted for Pfizer is in the same therapeutic category as the subject of the CME program.
- The Grants Office must manage the approval of all CME funding requests without the involvement of sales and marketing.
- Pfizer shall comply with the ACCME Standards for Commercial Support.

- Pfizer is prohibited from funding CME if the company knows that a speaker at the CME has been a promotional speaker in the past twelve (12) months at a Pfizer-sponsored event related to the class of drugs to be discussed in the CME.
- **Clinical Trial Disclosure** – Studies must be registered and results submitted consistent with the FDA Amendments Act; however, Pfizer must register trials starting with those initiated after July 1, 2005.
- **Advertising and Promotion Practices**
 - Pfizer's promotional materials must comply with selected standards from FDA's regulations on advertising.³
 - Patient profiles used in promotional materials must be based on the FDA-approved indication.
 - For Pfizer products indicated for pain relief, direct-to-consumer (DTC) television advertising must be delayed following initial approval, if requested by the FDA, up to a maximum of 18 months. For all Pfizer products, the company must submit DTC advertisements to the FDA for pre-review and modify ads consistent with FDA's comments. Note, however, that Pfizer is only obligated to wait a reasonable time (not less than 45 days) for a response from the FDA. There is no such time limit in the preceding Merck judgment.
- **Drug Samples**
 - Pfizer shall not disseminate samples with the intent of increasing off-label prescriptions. This is similar to a provision in the Lilly judgment requiring Lilly to distribute Zyprexa samples only to practitioners treating patients for approved product indications. The Pfizer settlement applies to all products, however.
- **Authorship** – All authors must satisfy the criteria outlined in the current International Committee of Medical Journal Editors (ICMJE) standards.

New Obligations

The Pfizer judgment also obligates the company to take (or refrain from taking) the following actions:

- **Informed Consent** – Pfizer must include in its model informed consent document:
 - a statement that the study involves research, an explanation of the purposes of the research and the expected duration of the subject's participation, a

³ See 21 CFR 202.1(e).

description of the procedures to be followed, and identification of any procedures that are experimental.⁴

— a description of any reasonably foreseeable risks or discomforts to the subject.⁵

— for research involving more than minimal risk, an explanation as to whether any compensation and an explanation as to whether any medical treatments are available if injury occurs and, if so, what they consist of, or where further information may be obtained.⁶

- **Hospital Protocols/Standing Orders** – Pfizer may not affirmatively seek inclusion of a product in hospital protocols or standing orders where the use would be off-label.
- **Medical Information/Reprints** – Pfizer may not distribute a reprint or medical information letter unless the information discussed is:
 - about a scientifically sound clinical investigation or in the form of a unabridged reprint or copy of an article from a peer reviewed journal or reference publication.
 - accompanied by a comprehensive bibliography of publications discussing adequate and well-controlled studies about the use.
 - balanced with publications reaching a different conclusion, when applicable.⁷
- **Preceptorships** – Pfizer may not compensate physicians for preceptorships with sales representatives.
- **Incentive Compensation** – Sales representatives may not receive incentives or prizes as awards for increasing off-label product use.
- **Submissions to Journals** – Submissions of publications describing off-label uses must disclose that the studied use is not approved by the FDA.

For additional information about this Update, please contact that Hogan & Hartson attorney with whom you work or the author listed below.

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A special thanks to **Stephanie Solomon** for her substantial contribution to this update and to the pharmaceutical and biotechnology practice generally during her time at Hogan & Hartson, LLP.

Also, thanks to **Michael F. Smith** for his contributions to this update.

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⁴ See 21 CFR 50.25(a)(1).

⁵ See 21 CFR 50.25(a)(2).

⁶ See 21 CFR 50.25(a)(6).

⁷ Different limitations with regard to medical information and reprints were applied in Lilly.

Federal Contractor E-Verify Regulation Implementation Delayed; Outlook Uncertain

January 9, 2009

The Bush administration is expected to announce early next week that implementation of the Federal Acquisition Regulatory Council's federal contractor E-Verify regulation will be deferred until February 20, 2009. An announcement is expected shortly in the *Federal Register*. Solicitations for federal contracts and federal contract awards prior to February 20, 2009 will not contain the new E-Verify clause.

What Is the Federal Contractor E-Verify Rule?

In November 2008, the Bush administration published a final rule requiring that most federal government contractors and subcontractors use E-Verify for all new hires and all employees (existing and new) directly performing work under federal contracts. (Our November 13 Immigration Alert regarding the final rule is available at http://www.morganlewis.com/pubs/ImmigrationAlert_FederalContractorsE-Verify_13nov08.pdf.)

Under the rule, contracts issued or solicitation published after the effective date of the final rule are required to include the E-Verify clause. Once they become a party to a contract containing the E-Verify clause, contractors and subcontractors are required to comply with the provisions of the E-Verify clause.

Why Is This Happening?

On December 23, 2008, a group of plaintiffs led by the U.S. Chamber of Commerce filed a lawsuit challenging the validity of the final rule. (See *Chamber of Commerce of the United States of America v. Michael Chertoff*, Civil Action No. AW-08-3444 (D. Md.)). Yesterday the parties reached an agreement by which the government agreed to suspend implementation of the final rule until February 20, 2009. In the interim, it is expected that the government will answer the complaint, and the parties will file expedited briefs with the court arguing for and against the rule's implementation. It is possible that there may be a ruling from the court prior to February 20, 2009.

What Does This Mean for Federal Contractors?

The combination of the legal challenge and delayed implementation of the final rule until February 20, 2009 creates uncertainty regarding the prospects of the final rule in general. Additional legal and policy decisions will now be managed by the incoming Obama administration, and it is not clear what position the new administration will take toward the final rule.

In the meantime, federal contractors should remember that they become obligated to fulfill the E-Verify requirements only at such time that they become parties to a federal contract that includes the E-Verify clause. Federal contractors should continue to consider how they might ultimately implement E-Verify, including through electronic I-9/E-Verify management tools such as Morgan Lewis I-9 eSource™, but the final rule does not create an immediate obligation to implement an E-Verify program.

We will continue to monitor this issue closely and provide updates as events warrant. If you have any questions about any of the issues raised in this Morgan Lewis Immigration Alert, please contact:

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Email Alerts

NAI RELEASES BEHAVIORAL ADVERTISING SELF-REGULATORY PRINCIPLES

January 5, 2009

By [Samir Jain](#), [Meredith B. Halama](#)

Behavioral advertising—the use of information concerning a user's online behavior to deliver ads targeted at the user's interests—has been the focus of increased regulatory and Congressional scrutiny. Up to this point, however, policymakers have not imposed mandatory regulations on this practice. Instead, in December 2007, the Federal Trade Commission (FTC) staff released a set of proposed principles to guide self-regulation in this area. Acting at least partly in response to the FTC's action, and after wide consultation with industry and regulators, on December 16, 2008, the Network Advertising Initiative (NAI)—a prominent self-regulatory organization composed of businesses in the online advertising marketplace—released a set of binding principles governing the collection, use and sharing of information by companies engaged in behavioral advertising.

The principles govern Online Behavioral Advertising (OBA), which is defined to include any process whereby data are collected across multiple web domains owned or operated by multiple entities to categorize likely consumer interest segments for use in advertising online. They also apply to "ad delivery and reporting," defined as "the logging of page views or the collection of other information about a browser for the purpose of delivering ads or providing advertising-related services," including the provision of specific advertisements based on the type of browser or time of day, statistical reporting, and tracking the number of ads served to a particular website.

At their core, the principles are based on requirements to provide notice and choice. All NAI members engaged in OBA or ad delivery and reporting are required to clearly and conspicuously post a notice on their websites that describes their data collection, transfer, and use practices. Such notice is to include a description of the member's OBA and ad delivery and reporting practices, the types of data collected, the use and transfer of data, the types of non-personally-identifiable information that may be merged with personally-identifiable information, an easy mechanism for exercising choice with regard to such data, and the approximate length of time data is retained. Further, each member must ensure that websites with which they contract for OBA or multi-site ad delivery and reporting services also clearly and conspicuously post notice of their OBA practices and make reasonable efforts to ensure that all companies participating in their OBA or ad delivery and reporting services furnish the required notice.

Members also are required to provide consumers with choices concerning the use of information for OBA. The level of choice members must provide depends on the type of data at issue and the manner in which it is intended to be used. Use of "sensitive" information for OBA, such as social security and account numbers, real-time geographic location and medical information, requires opt-in consent. Use of personally-identifiable information to be merged with previously-collected, non-personally identifiable information also requires opt-in consent. Merging personally-identifiable information with non-personally-identifiable information on a going-forward basis requires a method by which customers may opt out. And the use of non-personally-identifiable information also requires an opt-out mechanism.

In addition to these notice and consent requirements, the NAI principles impose a number of other duties on members in connection with OBA. Members are to collectively maintain an NAI website to provide centralized explanations of OBA and their compliance with the NAI principles and to use reasonable efforts to educate consumers about behavioral advertising and the choices available to consumers with respect to such advertising. Further, the information collected may be

used for marketing purposes only, and no use of information about children under 13 is permitted without verifiable parental consent. Members also must provide consumers with reasonable access to their personally-identifiable information and other information that is associated with it, make reasonable efforts to ensure that they obtain data from reliable sources, and provide reasonable security for the data.

The NAI principles will not only govern the members (which include prominent companies such as Google and Yahoo! and other leading advertising networks), but are likely to be a model for others who are involved in OBA. Whether Congress and regulators will be content to rely on industry self-regulation of behavioral advertising, especially in the wake of the election, remains to be seen. Congressional hearings during 2008, for example, suggested significant concern about the privacy implications of particular Internet Service Provider-based behavioral advertising on the part of privacy advocates, consumer organizations and others. It seems highly likely that Congress, the FTC, and other policymakers will continue to monitor industry practices and developments closely to determine whether they should impose mandatory regulations.