

6 June 2017

Ms Janine Brown  
Trans-Tasman IP Attorneys Board  
PO Box 200  
WODEN ACT 2606  
[secretary.ttipab@ipaustralia.gov.au](mailto:secretary.ttipab@ipaustralia.gov.au)

Dear Ms Brown

Xenith IP Group Limited (“XIP” or “Xenith”) responds to the Consultation Paper issued by the Trans-Tasman IP Attorneys Board (“the Board” or “TTIPAB”) dated April 2017 by making the submissions set out in this letter.

### **Background to this Response**

1. As noted on p.11 of the Consultation Paper, XIP, a company listed on the Australian Securities Exchange, is the holding company for several IP services practices – Shelston IP, Watermark and Griffith Hack – and is also the owner of a related advisory services practice - Glasshouse Advisory.
2. Shelston IP comprises both Shelston IP Pty Ltd (which operates as Shelston IP Patent and Trade Mark Attorneys) and Shelston IP Lawyers Pty Ltd (an incorporated legal practice which operates as Shelston IP Lawyers). Both Shelston IP Pty Ltd and Shelston IP Lawyers Pty Ltd are wholly-owned subsidiaries of XIP.
3. Similarly, Griffith Hack comprises both GH PTM Pty Ltd (which operates as Griffith Hack Patent and Trade Mark Attorneys) and GH Law Pty Ltd (an incorporated legal practice which operates as Griffith Hack Lawyers). Both GH PTM Pty Ltd and GH Law Pty Ltd are wholly-owned subsidiaries of XIP.
4. The Watermark brand operates through Watermark Intellectual Property Pty Ltd (patent and trade mark attorneys), Watermark Intellectual Property Lawyers Pty Ltd (an incorporated legal practice) and Watermark Advisory Services Pty Ltd (which provides a range of non-legal professional advisory services). Each of Watermark Intellectual Property Pty Ltd, Watermark Intellectual Property Lawyers Pty Ltd and Watermark Advisory Services Pty Ltd is a wholly-owned subsidiary of XIP.
5. Glasshouse Advisory Pty Ltd acts as an advisory firm, providing complementary services in areas such as IP strategy, IT analytics, innovation incentives and IP valuation to clients of Shelston IP, Griffith Hack and Watermark, as well as to other clients outside the group. Glasshouse Advisory Pty Ltd is also a wholly-owned subsidiary of XIP.
6. XIP responded on 26 October 2016 to the letter dated 30 September 2016 from the former Professional Standards Board for Patent and Trade Marks Attorneys (“PSB”). In that response, XIP noted that at that time, XIP owned Shelston IP Pty Ltd and Shelston IP Lawyers Pty Ltd, but also expected to complete the acquisition of Watermark. XIP’s subsequent acquisition of Griffith Hack post-dated that response.

7. In its response on 26 October, XIP noted that “if the Code of Conduct were to be amended [to take account of the reality of the model of a listed public company holding a number of IP firms as subsidiaries]... it might be helpful for there to be explicit acknowledgement of the fact that common ownership may exist between wholly owned subsidiaries in a corporate group. In such cases, it may be helpful to provide best practice guidelines in terms of requirements for adequate information and knowledge separation protocols and appropriate disclosures as to the common ownership relationships, subject to which a conflict of interest (whether direct or indirect) should not be deemed or presumed to exist. Further, it may be helpful to clarify in the code that a rigorous framework for operational separation in conjunction with transparency of ownership relationships, along the lines proposed, gives rise to a positive rebuttable presumption that no conflict arises solely on the basis of the ownership or capital structure of the business.”

### **Submissions on the Consultation Paper**

#### *Recognition of the changed status quo in the Code: Holding companies of several incorporated attorney practices*

8. XIP notes with approval that, as XIP had suggested in its letter to the PSB, the Consultation Paper proposes that the *Code of Conduct for Patent and Trade Marks Attorneys 2013* (Cth) (the “Code” – including any change of its title consequent upon the introduction of the Trans-Tasman Regime) should be amended to provide explicit recognition that a holding entity, “whether a publicly listed or privately owned company, an individual or some other legal person... might [own] and [operate] a plurality of incorporated attorney practices (‘commonly owned practices’).”
9. Further, XIP is pleased to note that the Consultation Paper proposes that (to some extent in line with the suggestion in XIP’s letter to the PSB that there be a rebuttable presumption that no conflict arises solely on the basis of the ownership or capital structure of the business) the Code be amended to provide that incorporated attorney practices that are commonly owned practices are not to be treated (a) as other than separate practices, and (b) as business associates of each other for the purposes of the conflict of interest provisions - in other words, there is to be the presumption suggested in the XIP letter of 26 October - but the important qualification which the Consultation Paper places on that presumption is that it is effectively to be rebuttable if the relevant incorporated attorney practices are not *operated independently*.
10. XIP presumes that the Code will be amended to make it clear that, provided the presumption applies, what the Consultation Paper describes on p. 20 as “group double employment”<sup>1</sup> of 2<sup>2</sup> commonly owned practices will not be regarded as giving rise to what the Paper describes as a “double employment” conflict of interest for either of the commonly owned practices, whether in non-contentious or contentious matters. That would of course mean that there would be no “reasonably informed consent” requirement, although we note that the Consultation Paper proposes that the Code be amended to impose on commonly owned firms minimum obligations concerning disclosure of their ownership status to prospective and existing clients (as to which, please see our comments at paras. 28-32 below).
11. The Consultation Paper proposes that there will be Guidelines, to accompany the provisions of the Code, “on what governance and management structures and procedures are required within or by the holding entity and within the commonly owned practices to mean that the

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<sup>1</sup> A phrase which, as will be seen below, XIP regards as potentially confusing in the context of employment law and which XIP would prefer to be described as “group double engagement”.

<sup>2</sup> Presumably, the same principles ought to apply to what XIP would call “group triple engagement” (if 3 commonly-owned firms were involved) or, more generically, “group multiple engagement”.

practices are being operated independently”, i.e. on what will be required in order for the presumption to operate that no conflict arises on the basis of the common ownership of the operating firms.

*Guidelines: Content and force*

12. No doubt much will turn on what is in the Guidelines, and on what degree of mandatory compliance with them is required. Presumably, the Guidelines will not carry the same legal force as the Code itself, for breach of which sanctions may be imposed. Otherwise, the question may arise as to whether what is in the Guidelines ought to be in the Code proper.
13. Generally, the purpose of guidelines should be to make rights and obligations in a statute (or in this case, a Code) sufficiently certain and clear. Guidelines can be binding or non-binding – for example, guidelines which the Privacy Commissioner may issue under the *Privacy Act*. In XIP’s submission, if Guidelines are to be issued, they should be accompanied by appropriate notes as to the consequences of behaviour otherwise than in conformity with the Guidelines.

*Separate practices which are subsidiaries of a holding company*

14. XIP respectfully submits that “operational independence” for this purpose should be carefully defined so as to be limited to separation and independence in the area of confidentiality of client information, which is the paramount area affecting the professional relationship between clients (or potential clients) and their attorneys.

15. At p. 20 of the Consultation Paper, there is the following statement:

*“The Board considers that there are a number of factors relevant to the independent operation of commonly owned firms. These factors include the governance structure, and the responsibilities of the governance officers, of the group’s holding company; the management structure, responsibilities and practices of the firms in the group; and the sharing of information between the holding company and firms in the group, and among firms in the group. The Board believes that guidance should be provided on these matters. Accordingly, the Board proposes to introduce Guidelines on the governance and management structures and procedures required to ensure that commonly owned practices are operated independently for the purposes of the Code”.*

16. In XIP’s submission, it is only in the areas of the professional duties which an attorney owes to a client to act in its best interests, and the possible transmission of the confidential information of clients between commonly-owned firms in a group, where there is a risk that a real or perceived conflict of interest might arise. To the extent that the governance and management structures of a holding company (publicly listed or otherwise) of separate attorney firms, and of the firms themselves, do not impinge on those areas, neither the Code nor any such Guidelines should restrict or purport to restrict the commercial freedom of the holding company, through its shareholdings in the operating subsidiaries, to direct, co-ordinate or manage the activities of its subsidiaries as it sees fit.

17. This is consistent with the approach of Beach J. in *Dealer Support Services Pty Ltd v Motor Trades Association of Australia Ltd* [2014] FCA 1065, who noted that although the supposed duty of loyalty owed by lawyer to a former client falls away, the lawyer’s duty of confidentiality to the former client is paramount and remains. Beach J noted that the law should be wary of imposing artificial barriers to the free flow of commerce, particularly so “in the world of the corporatised firm that has floated at a premium”.

18. There is nothing in the model of a listed public company owning a multiplicity of attorney firms which is inimical to the continued primacy of the professional duties of each of the public company's operating subsidiaries (or their employed attorneys) to their clients – just as there is nothing in the model of a listed public company airline such as Qantas treating passenger safety as its highest responsibility, a responsibility which transcends its obligations to its shareholders (and which Qantas presumably also considers to be in the best interests of shareholders). The same could be said of the requirement for a publicly listed construction company to maintain as its highest responsibility adherence to relevant safety standards, notwithstanding the interests of the internal or external shareholders.
19. It has been suggested<sup>3</sup> that a so-called “duty-interest” conflict must always arise where an attorney in firm A which is owned by H owns shares in H, because the attorney’s interest is to maximise the profits of H for the benefit of H’s shareholders. Of course, the same could be said where an attorney in firm B is herself an owner of B in a traditional partnership. In both cases the attorney is under a professional duty to the client to act in the client’s best interests and to prefer the client’s interest to the attorney’s own interests in maximising the profits of A or B. XIP considers that there is nothing inherent in public company H owning firms A and B which compromises those professional duties owed by attorneys in firms A and B to their respective clients. In fact, because of the much wider distribution of shareholdings in a public company, the ‘financial interest of an attorney’ principle is likely to apply to a significantly greater degree in traditional partnerships and sole practices, due to the much higher concentrations of the ownership interests of the attorneys in those partnerships and practices, than in the public company model.
20. Analogous comments apply, in terms of both the primacy of professional duties to clients and the diminished financial interests of attorneys in publicly-owned groups, in the context of cross-referrals.
21. The primacy of the professional duties of each XIP operating subsidiary to its clients was explicitly acknowledged in the Prospectus dated 28 October 2015, under which XIP’s initial public offering of shares was made:
- “The Group provides IP legal services and its employed solicitors have duties to the court and to their clients. In some circumstances these duties may prevail over the Group’s duties and obligations to Shareholders. Similarly, the Group’s patent and trade mark attorneys are bound by a professional code of conduct with duties and obligations to act in accordance with the law, the best interests of their clients, in the public interest and in the interests of the profession as a whole. In certain circumstances, these duties and obligations may also compete with and prevail over the Group’s duties and obligations to Shareholders”.*
22. XIP understands that the Board accepts the principle that where there is a holding company (such as XIP) of incorporated attorney practices (such as Shelston IP, Griffith Hack and Watermark), it will not compromise the operating independence of the subsidiaries (so that they are to be treated as business associates for the purposes of the conflict of interest provisions) if the “back-office” systems (telecommunications, information technology and the like) of all the companies in the Group are consolidated in the hands of the operating company or another of its subsidiaries – provided, of course, that appropriate systems architecture and document security protocols are put in place and rigorously enforced to ensure that each attorney firm’s confidential client information is strictly quarantined from the other firms in the group. XIP strongly supports this principle, noting that in IP firms structured

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<sup>3</sup> Question posed at IPTA Webinar *Conflicts of Interest, Professional Conduct Standards, and the Review of the Code of Conduct*, 23 May 2017

as traditional partnerships, a number of back-office functions including payroll, HR support, IT system hosting, maintenance or support, and various financial services including accounts payable, accounts receivable and credit control are also often outsourced to specialist agencies providing similar services to a multitude of other businesses, some of which may well be competing businesses. XIP submits that the Code should explicitly recognise and confirm that consolidation of the back-office systems and the sharing of resources of commonly owned firms are permitted and do not compromise the operational independence requirement provided that client information held by one firm is quarantined from the other commonly owned firms.

23. In a similar vein, the Board would presumably also accept that if the holding company of multiple IP firms could achieve economies of scale in the procurement of a myriad of other goods and services for all companies in the group – whether in the areas of stationery, photocopying equipment, IT hardware, software licences, insurances, travel arrangements or even office accommodation – that would not be regarded, in and of itself, as compromising the operational independence of the subsidiary firms in the relevant professional sense of client confidentiality and professional duties. In XIP's submission, it most certainly should not, and this should be made clear in the Code or the Guidelines. In this context, it may be illustrative to postulate the scenario of a small patent attorney practice (say, a sole practitioner) wishing to operate out of a serviced office. In this environment, economies are sought to be achieved through the sharing of various facilities and resources with other businesses including telephony, office equipment, kitchen facilities, meeting rooms and potentially pooled word processing support. Further, it is quite conceivable that another small IP firm could operate independently in the same serviced office environment. It is doubtful whether the legitimacy of either of these arrangements would be questioned, provided of course that appropriate arrangements were in place to ensure the maintenance of client confidentiality, including in relation to secure physical and digital file storage facilities. In many ways, the concept of shared back-office services in a corporate group structure is directly analogous.
24. It has been suggested<sup>4</sup> that if the holding company of a group of attorney firms were to direct those firms on an overall marketing strategy for the group – so that (say) firm A would target X as a potential client, while firm B would target X's competitor Y – that would compromise the operational independence of A and B, such that the presumption that A and B could not to be treated as business associates of each other for the purposes of the conflict of interest provisions would be rebutted.
25. In XIP's submission, it is inappropriate for the Code or the Board to regulate (whether directly or indirectly) the marketing or business development activities of either the attorney firms or their holding company unless there is a demonstrable detriment to any existing client. In the hypothetical example above, provided both potential clients X and Y receive appropriate levels of professional service, provided confidentiality of client information and communications is rigorously maintained, and provided the professional duties (both non-fiduciary and fiduciary) owed to the clients by their respective attorneys are not impinged, it is difficult to see that client X or Y would suffer any practical or theoretical detriment – noting that there are many dozens of IP firms in Australia from which those potential clients may seek professional advice.
26. In XIP's submission, while the IP firms in the XIP group do in fact vigorously compete in the market, as an important point of principle, the question of which potential clients that any firm (whether part of a group structure or otherwise) may choose to pursue for business

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<sup>4</sup> Prof. A. Christie, answer to question, IPTA Webinar *Conflicts of Interest, Professional Conduct Standards, and the Review of the Code of Conduct*, 23 May 2017

development purposes, selecting with limited resources from an almost unlimited spectrum of possibilities globally, should be of no concern to the regulator. That would in XIP's view be akin to regulating what cities a firm may operate in, what services it may provide, what market segments it may target - or any other perfectly legitimate elements of marketing strategy, none of which should be presumed on any reasonable basis to compromise the professional obligations and duties owed to existing clients.

27. XIP respectfully submits that the key role and purpose of the Code is to protect both client interests and the integrity of the profession in its provision of services to clients. To the extent that the Code (or the Board) goes beyond that role and purpose, XIP considers that this would represent an unwarranted and needless intrusion into the legitimate commercial activities of members of the profession.
28. In the result, XIP submits that, in accordance with what is proposed in the Consultation Paper, the Code should provide that incorporated attorney practices which are commonly owned are not to be treated as other than separate practices, or as business associates of each other, for the purposes of the conflict of interest provisions, so long as they are operated independently, meaning for this purpose in a manner which ensures firstly that the professional duties of each firm and its attorneys to their respective clients are exercised independently (i.e. not compromised by virtue of any common ownership relationships) and there can be no reasonable possibility of the passing of confidential information of clients between firms in the Group. In other words, XIP submits that the concepts of independence and separation should only extend to the exercise of ethical and professional responsibilities and duties to clients, including the protection of client confidentiality.
29. To this end, in XIP's submission, while XIP acknowledges that some guidance in the Code may be helpful, the guidelines should not be overly prescriptive and should focus primarily on the intended outcomes, being in essence the preservation of client confidentiality within the respective operating entities and the absence of any impediment to the discharge of the professional duties and obligations owed by attorneys to their clients. In XIP's view, for the guidelines to mandate the specific means by which these outcomes must be achieved is both unnecessary and likely to result in unintended consequences, as both technologies and business structures continue to evolve.

*Minimum disclosure by commonly owned firms*

30. XIP notes that at p. 6 of the Consultation Paper, the Board indicates that it proposes to amend the Code to "*provide that commonly owned attorney practices must disclose to prospective and existing clients specified information about their ownership status*", and on p. 19 that it "*believes that there should be a very high degree of transparency of the ownership status of attorney firms in the group scenarios. Accordingly, the Board proposes to amend the Code to impose on commonly owned firms minimum obligations concerning disclosure of their ownership status to prospective and existing clients*".
31. XIP notes that this proposal singles out firms which are under common ownership for an obligation which is not imposed on more traditionally structured firms.
32. Nevertheless, provided the amendments to the Code were to impose a requirement which is not unduly prescriptive, XIP would not object to such a requirement.
33. XIP considers that it should be sufficient for this purpose for a commonly owned practice to disclose on the practice's website, letterhead, and email signature blocks (and, at the time of engagement, in its terms of engagement) that it is owned by the holding company and for the holding company to disclose on its website its ownership of all its subsidiary practices.

34. Further, as noted below, XIP would not object to an additional requirement: Where practices A and B are commonly owned, and practice A is instructed to do work for client X in a matter where X is *in dispute with* client Y (e.g. in patent opposition or litigation proceedings), once practice A is aware that practice B is instructed to do work for Y, A should be required to disclose to X in the context of those proceedings the fact that A and B are under common ownership. However, XIP would strongly suggest that neither the Code nor any Guidelines should attempt to prescribe the form of such a disclosure. It is XIP's view that as a practical business matter, A would be most unwise to allow the fact of the common ownership of A and B to come as a surprise to client X at some further stage in the development of the dispute. However, in XIP's view the precise form of disclosure to satisfy the substantive requirement for the disclosure of common ownership should be left to the discretion of A. If after that disclosure client X continues to instruct A, X's consent on a reasonably informed basis is clearly implicit.

*Double employment/engagement of an attorney firm*

35. XIP also notes that at p. 25 of the Consultation Paper, the Board indicates that it proposes to amend the Code to impose a "blanket prohibition on double employment in contentious matters". This would mean amending section 15(1) of the Code by prohibiting what XIP prefers to call "double engagement", thereby imposing a restriction on the freedom of a client to choose its attorneys.
36. XIP notes that the Consultation Paper does not give any details of double-engagement situations which have arisen in the administration of section 15(1) of the Code and which have given rise to concern that this section is not working properly or has allowed an attorney to act in a manner contrary to the best interests of a client in a "contentious matter". XIP queries whether the proposed restriction on a client's freedom of choice of attorney which the blanket restriction on double engagement would impose is a reaction to a non-existent problem, or is being proposed simply for the academic purpose of bringing Australia into line with the regulated position in other jurisdictions such as the USA or the UK.
37. It is also perhaps worth endeavouring to clarify at this point the intended meaning of the term "contentious matter". In a relatively narrow sense, it could be limited to mean a directly adversarial dispute, such as in the context of current or prospective opposition or litigation proceedings. In its widest sense, it could refer to any circumstance involving an actual or potential conflict of interest.
38. In this regard it will be well understood that a conflict of interest can manifest itself without any overt evidence of a dispute. For example, a conflict could simply arise from an attorney drafting a patent specification for client A with client B's invention in the same technical field in mind - noting that neither client may ever be aware that this has even occurred. In the absence of a dispute, this would not typically be considered to constitute a contentious matter, but may well give rise to a conflict of interest. Between these extremes, there would be numerous scenarios involving competing or divergent interests, such as may arise in the context of patent infringement or validity advice, or between the parties to a negotiation or contractual arrangement such as a license agreement.
39. XIP notes that Rule 11(3) of the Australian Solicitors Conduct Rules (**ASCR**) provides an exception to the prohibition on a solicitor or law practice from acting for two or more clients in the same or related matters *where the clients' interests are adverse*: The solicitor or law practice may, "subject always to each solicitor discharging their duty to act in the best interests of their client", act for both clients – but only if each client a) is aware that the solicitor or law practice is also acting for another client and b) has given informed consent to the solicitor or law practice acting for another client. This is subject to r. 11(4), which provides

that if the solicitor or law practice has information which is confidential to client C and which might reasonably be concluded to be material to client D's current matter (whether or not the same as client C's matter or a related matter) and detrimental to the interests of C if disclosed, there is a conflict of duties, and neither the solicitor nor the law practice may act for D, except that (a) the solicitor may act where each client has given informed consent (r. 11.4.1); and (b) the law practice (and the solicitors concerned) may act, but only if an effective information barrier has been established. So it is clear that, even where the clients' interests are adverse, there is no barrier to double engagement of a law practice, provided each client has given informed consent and an effective information barrier has been established.

40. XIP observes that it is now well understood by both lawyers in the Australian legal profession and their more sophisticated clients that, with the relatively small number of top-tier firms in Australia, if there were a blanket prohibition on double engagement the freedom of large clients to choose the lawyers they consider best suited for the job would be unduly restricted in large transactions in areas like banking and finance, infrastructure development and competitive tendering for infrastructure privatisations. The twin qualifier (of informed consent and effective information barriers) to the operation of the exception continues to allow clients appropriate freedom to choose the lawyers they consider are best qualified to advise on these transactions.
41. XIP considers that the market for the talent pool of attorneys in Australia is at least as concentrated as that for lawyers (if not considerably more so), and that similar considerations for the undesirability of restricting a client's freedom to choose its attorneys ought to apply.
42. It is also a common experience that when choosing whom to instruct on a matter, the client often places considerable value on the knowledge of the client's industry which the lawyer or attorney possesses. For that reason, a client is likely to wish to be able to instruct a firm which may well act (or have acted) for one or more of the client's competitors.
43. XIP considers that, rather than introducing a blanket ban on double engagement in contentious matters as proposed, if indeed there is good reason to consider that Section 15(1) requires tightening (as to which, XIP has considerable doubts), it would be preferable for the Board to follow the example of Rule 11 of the ASCR, and impose the twin qualifier of *reasonably informed consent* and effective information barriers to the operation of the exception in the Section. The desirability of consistency with the professional rules for Australian law firms is reinforced by the fact that all of the listed companies which own attorney practices also own associated law firms.
44. The Consultation Paper does not provide further detail in relation to the concept of "reasonably informed consent" other than to note that the Board "proposes to provide guidance on what information is required to be provided to the client so as to enable it to provide such consent".
45. XIP believes that "reasonably informed consent" is an appropriate standard, but believes it is important to ensure that any guidelines are not overly prescriptive or unduly onerous in practice. In that context, XIP respectfully submits that it should be left to the discretion of the firm concerned to determine the specific forms of disclosure and consent to satisfy the substantive requirement for reasonably informed consent on a case-by-case basis. Any guidelines should thus emphasise substance over form, with the desired outcomes simply being that the clients on each side are made aware of the relevant facts and circumstances, and that the clients are content to proceed with the engagement of the firm in light of that information.

46. As a general observation, XIP believes that any unnecessarily prescriptive regulation – or regulation designed to address imagined or theoretical rather than real problems - in this area is undesirable as a matter of principle. As Beach J noted in *Dealer Support Services Pty Ltd v Motor Trades Association of Australia Ltd*<sup>5</sup>:

*“In this dynamic and complex environment, including the world of the corporatised firm that has floated at a premium, a basis for disqualification [of an attorney on the grounds of a conflict of interest] should have its foundation in a real vice or it should not be propounded.”*

47. Various parts of the XIP Group and their employee attorneys are already subject to the Corporations Act, the Australian Consumer Law, the Australian Solicitors Conduct Rules, the Attorneys Code of Conduct and the IPTA Code. From that perspective, the Board should be wary of further regulation in this already heavily-regulated area - where professional duties of patent attorneys and lawyers are well defined, principles for avoidance and resolution of conflicts of interest are well established, and there is healthy competition between IP attorney firms - unless such regulation is demonstrably necessary.
48. Set out below are XIP’s views on the questions posed in the Consultation Paper under the heading “Matters for Consultation”.
49. By way of concluding comments, XIP is fully supportive of the maintenance of high professional standards and welcomes clarity in these important areas. However, XIP would encourage the Board to focus on key points of principle in terms of intended outcomes, as distinct from the specific means by which those outcomes might be achieved. In XIP’s view, it is important for the Board to avoid being overly prescriptive, given the risk of unintended consequences as technologies and business structures continue to evolve, as well as the risk of unnecessarily restricting both a client’s freedom to choose its attorney and the legitimate commercial activities of firms, whether operating in a corporate group or in more traditional ownership structures.

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<sup>5</sup> [2014] FCA 1065, at para. 88

## MATTERS FOR CONSULTATION – XIP RESPONSES

### Issue 1: Amendments consequential upon introduction of the trans-Tasman regime

- Are there any amendments, other than those already identified by the Board, that need to be made to the Code as a result of the introduction of the trans-Tasman regime?

**XIP Response:** No.

### Issue 2: Equal application of provisions generally

- Should the Code apply the provisions of sections 11(4), 12, 13(1), 13(2), 14(2), 14(3), 14(4) and 24(3) to all registered attorneys – including, in particular, incorporated attorneys and attorney directors – not just registered attorneys who are individuals?

**XIP Response:** Yes in principle, although it should be noted that the distinction between individual and incorporated patent attorneys flows from the Patents Act 1990, and to some extent the proposed objective is reconciled by means of the additional obligations of directors, and additional obligations of incorporated attorneys, pursuant to sections 22 and 23 of the Code.

- If not, which (if any) of these sections should be applied to incorporated attorneys and/or to attorney directors?

**XIP Response:** See above.

- Should the provisions of sections 22 and 23 be consolidated with the provisions of section 21?

**XIP Response:** This depends on whether sections 11(4), 12, 13(1), 13(2), 14(2), 14(3), 14(4) and 24(3) are to be amended to apply to all registered attorneys. See above.

### Issue 3: Elaboration of the Professional Conduct Standards

- Should the professional conduct standards of the Code be elaborated by the introduction of Guidelines providing guidance in relation to the discharge of the standards, in a manner similar to which the UK Rules provide such guidance?

**XIP Response:** See paras. 11-13 above. If Guidelines are to be issued, they should not be overly prescriptive and should be accompanied by appropriate notes as to the consequences of behaviour otherwise than in conformity with the Guidelines.

- If so, which standards should be so elaborated, and what is the guidance that should be provided in relation to them?

**XIP Response:** See paras. 11-13, 32 and 45-46 above.

### Issue 4: Groups of firms

- Should the Code expressly recognise the possibility of a legal person (whether a publicly listed or privately owned company, an individual or some other legal person), owning and operating a plurality of incorporated attorney practices?

**XIP Response:** Yes.

- Should the Code provide that incorporated attorney practices that are commonly owned are not to be treated (a) as other than separate practices, and (b) as business associates of each other for the purposes of the conflict of interest provisions, so long as they are operated independently?

**XIP Response:** Yes. In XIP's view, the Code should provide that incorporated attorney practices that are commonly owned are not to be treated as other than separate practices, or as business associates of each other, for the purposes of the conflict of interest provisions, so long as they are operated independently, meaning for this purpose in a manner which ensures that the professional duties of each firm and its attorneys to their respective clients are exercised independently and that there can be no possible passing of the confidential information of clients between firms in the Group. In XIP's submission, it is both unnecessary and undesirable for the Code or any Guidelines to intrude further into the commercial operation or operation of the commonly owned group beyond these requirements.

*XIP submits that there should be an explicit recognition that consolidation of back-office systems of the firms or the sharing of support services does not mean the firms are not operated independently provided client confidential information is appropriately quarantined.*

- Should the Code provide guidance on what governance and management structures and procedures are required within group scenarios for group practices to be considered as operating independently for the purposes of the Code?

**XIP Response:** *Yes. It would be appropriate for the Code to provide general guidance on what management structures and procedures are required within group scenarios for group practices to be considered as operating independently, but limited to the considerations suggested above. XIP submits that from a client's perspective, what the client seeks is the independent observance of the attorney's professional duties, security of its information and first-rate service, and there is no need or utility in going further.*

- If so, what are the governance and management structures and procedures that should be specified in the guidance? How prescriptive should be the guidance?

**XIP Response:** *In XIP's view, any such guidance should be general and not overly-prescriptive. XIP suggests that the following areas should be covered:*

- *Client file security – this is the paramount area warranting regulation. As is the case with any firm's or attorney's client files, physical files must be stored securely so as to eliminate any leakage or transmission of client confidential information. Usually<sup>6</sup>, this will mean that separate secure premises will be required for each group firm, though (as with firms structured as traditional partnerships) there is no reason why those separate secure premises could not be adjacent to each other, or on separate floors of the same office building. Electronic files for client matters must be kept on system architecture designed (and maintained) with appropriate firewalls so as to ensure that firm A's client files are not capable of being accessed by attorneys in firm B.*
- *No double employment of attorneys – any employee attorney providing client services in firm A should not provide client services in firm B.*

*XIP submits that the following areas should NOT warrant regulation:*

- *Overall marketing strategy for the group – In XIP's submission, it is inappropriate for the Code or the Board to regulate (whether directly or indirectly) the marketing or business development activities of either the attorney firms or their holding company unless there is a demonstrable detriment to any existing client.*
- *Separate precedent banks (which XIP understands has been suggested in some quarters) - it is difficult to see how having common precedent banks could compromise a client's confidential information, or (in a world where precedents are freely on sale online at reasonable cost) what utility to a client there can be in regulating this area.*
- *Separate switchboards or telephone systems – again, it is difficult to see what utility to a client there can be in regulating this area – after all, practices structured as traditional partnerships are free to outsource telephone reception services (whether in Australia or offshore) to specialist providers of these services who have many clients. Moreover, as noted in footnote 6 below, some small practices operate out of serviced offices and are likely to share services such as switchboards and telephony.*
- *Payroll, HR support, IT system hosting maintenance or support, and various financial services including accounts payable, accounts receivable and credit control – again, it is difficult to see what utility to a client there can be in regulating of these areas to mandate separate functions for firms A and B, and many traditionally structured firms currently outsource these functions.*

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<sup>6</sup> Of course, some small practices operate out of serviced offices, which are shared with a number of parties, although this is unlikely to occur in the case of a group owned by a holding company. In such a serviced office environment, it is quite common for several businesses to share not only premises but also the services of office staff for data entry and the like.

- *Group governance – any regulation in this area should be strictly limited to what is necessary to preserve the obligations of attorneys working in commonly-owned forms to observe their professional duties to their clients, and the integrity of a client’s confidential information.*
- Should the Code impose on a commonly owned attorney practice an obligation to disclose the practice’s ownership status to prospective and existing clients?  
**XIP Response:** *XIP would not object to this.*
- If so, what is the minimum information about the practice’s ownership status that should be disclosed?  
**XIP Response:** *The practice should disclose on its website, its letterhead, terms of engagement, and its email signature blocks that it is owned by the holding company, and the holding company should disclose on its website its ownership of all its subsidiary firms.*

*In addition, XIP would not object to the further requirement that where practices A and B are commonly owned, and practice A is instructed to do work for client X **in a matter where X is in dispute with Y** (e.g. in patent opposition proceedings), once A is aware that practice B is instructed to do work for Y, A should be required to disclose to X the fact that A and B are under common ownership. However, XIP would strongly suggest that neither the Code nor any Guidelines should attempt to prescribe the form of such a disclosure.*

#### **Issue 5: Equal application of conflict of interest provisions**

- Should the Code’s conflict of interest provisions apply to all attorneys equally, whether they are individual attorneys, incorporated attorneys that are not part of a group, or incorporated attorneys that are part of a group (either a publicly listed group or a privately owned group)?  
**XIP Response:** *XIP would not object to this.*
- If not, which conflict of interest provisions should be limited in their application, to which types of attorney should they be limited, and why?  
**XIP Response:** *N/A*

#### **Issue 6: Double employment**

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- Should the Code expressly permit double employment in non-contentious matters so long as the clients provide sufficient consent?  
**XIP Response:** *Yes. A sufficiently informed client should be able to choose the IP firm it wishes. XIP also suggests that the term “double employment” is inaccurate and apt to mislead – XIP suggests that “double engagement” is a more appropriate term.*
- If so, what type of consent should the Code specify as being sufficient for this purpose?  
**XIP Response:** *The “reasonably informed consent” test, as suggested by the Consultation Paper, is appropriate.*
- Should the Code provide guidance on what information must be provided to a client for its consent to be sufficient to permit an attorney to act in a double employment situation?  
**XIP Response:** *Yes, but the Code should not be overly prescriptive.*
- If so, what is the information that should be specified in the guidance?  
**XIP Response:** *Sufficient material facts should be disclosed so that the client’s consent is “reasonably informed”.*
- Should the Code expressly prohibit double employment in contentious matters?  
**XIP Response:** *No. A sufficiently informed client should be able to choose the IP firm it wishes, and provided appropriate information barriers are erected and maintained to ensure that can be no possible passing of the confidential client information between attorneys representing the two clients, and both clients consent, the clients should be free to use the attorneys they*

choose. No evidence has been given in the Consultation Paper that clause 15(1) of the current Code is not working satisfactorily.

- If so, should the Code provide guidance on what are to be regarded as contentious matters for this purpose? What matters are to be considered contentious matters for this purpose?  
**XIP Response:** *Those where there is a dispute or which are directly adversarial, such as IP litigation and opposition proceedings.*
- If not, what other safeguards might be implemented to protect clients in contentious matters giving rise to, or likely to give rise to, double employment?  
**XIP Response:** *See above.*

#### **Issue 7: Resolution of conflicts of interest**

- Should the Code apply the obligation to take steps to resolve a conflict of interest to all types of such conflict?  
**XIP Response:** *It is difficult to predict all possible conflict scenarios.*
- Should the Code provide guidance on what steps an attorney must take to resolve a conflict of interest?  
**XIP Response:** *Yes. In XIP's view, the rather confusing provisions of sections 15(6), (8) and (9) of the Code should be clarified and expanded to identify what the attorney must do to resolve the conflict.*
- If so, what are the steps that should be specified in the guidance?  
**XIP Response:** *XIP understands that sections 15(6),(8) and (9) are included primarily to cover the situation where an attorney receives instructions to do something on the last possible day to do that thing (e.g. at the 11<sup>th</sup> hour where a deadline is unextendable, such as filing a national phase patent application or a notice of opposition). As drawn, these sections are confusing and in apparent conflict with each other, and the position should be clarified.*

Yours sincerely



Stuart Smith  
Managing Director

Email: [stuartsmith@xenithip.com](mailto:stuartsmith@xenithip.com)