2 June 2017

By Email mail.psb@ipaustralia.gov.au

Mr Jeff Carl
Secretary
Trans-Tasman IP Attorneys Board
IP Australia

Dear Mr Carl

Trans-Tasman IP Attorneys Board Review of the Code of Conduct

We refer to the consultation paper issued by the Trans-Tasman IP Attorneys Board in April 2017. Phillips Ormonde Fitzpatrick provided initial comments with respect to the review of the Code of Conduct by way of letter dated 14 October 2016. A copy of this letter is **attached**.

We are concerned that the Consultation Paper does not adequately address one of the principal issues raised in our letter of 14 October 2016. This is the issue of potential for a conflict of interest to arise due to the personal interests of individual attorneys.

In all of the recently listed companies, there are substantial shareholdings held by the previous owners of the businesses that were listed. For example, Business A was first incorporated. This business became a wholly owned subsidiary of a company that was listed and a substantial shareholding in the listed company rested with the original proprietors of Business A. When the listed company then purchased other businesses, this has meant that the original owners of Business A became major shareholders (indirectly) of Business B.

In our view, this compromises individual attorneys acting in a matter for a client where the patent attorney works for Business A in a contentious matter against a client represented by Business B. We submit that in this situation, even if the businesses are operated "independently" a conflict of interest still arises for the patent attorney in Business A. It is a conflict between the patent attorney's personal interest as a shareholder of both Company A and Company B and the respective clients.

For this reason, we do not consider that the proposed amendment to the Code under paragraph 2(9) of the Consultation Paper goes far enough. We consider that the Code needs to be clarified so to indicate that firms are not considered to operate "independently" if one or more employees of one company within the group own a significant shareholding (directly or indirectly) of another company within the group. In this respect, we would consider a substantial holding would be collectively more than 5% of a company's voting rights consistent with ASIC Regulatory Guide No. 5.

With respect to the specific questions raised for consultation, we make the following observations:

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Issue 1 – Amendments consequential upon introduction of the Trans-Tasman Regime

No comment

Issue 2 – Equal application of provisions generally

We agree that the Code provisions identified should apply to all registered attorneys, in particular incorporated attorneys and attorney directors, not just registered attorneys who are individuals.

Issue 3 – Elaboration of the Professional Conduct Standards

We agree the that Professional Conduct Standards should be clarified by the introduction of Guidelines providing guidance in relation to the discharge of standards. However, matters such as those indicated above relating to shareholding should be part of the Code rather than Guidelines.

We consider it most important that the Guidelines indicate what is meant by "firms operating independently". We submit that firms are not operated independently if any of the following apply:

a) if the employees of one operating company within the group individually or collectively hold a substantial shareholding either directly or indirectly of another operating company within the same corporate group;

b) the administrative operations of one company are not maintained entirely independently of other companies in the group. For example, to operate independently a firm would need to itself handle all administrative matters relating to the filing of patent, trade mark or design applications. If these actions were consolidated within one entity within the group, we submit that the firms could not be said to operate "independently". Similarly, if the practice files of one company in the group are held on a database containing the files of another company in the group, or if one operations group is submitting documents to IP Australia for more than one company in the group, there would not be "independence";

c) the Board meetings and regular offices of the Board members of the holding company are located within the offices of any one of the various trading entities operating within the group;

d) That accounting, human resources and other support services are not maintained separately.

This is not intended to be an exhaustive list.

Issue 4 – Groups of firms

We consider that the Code should expressly recognise the possibility of a legal person owning and operating a plurality of incorporated attorney practices but the

Code should impose on commonly owned attorney practices obligations relating to conflict of interest as identified above, ensuring only those practices which are truly independent can operate in contentious matters representing different clients. In addition, we submit that the Code should impose on commonly owned attorney practices an obligation to disclose the practice's ownership status to prospective and existing clients. The minimum information about the practice's ownership status should state first that the company is part of a particular corporate group and secondly identify all other practices which are part of the same corporate group. Such a notification should also indicate whether individually or collectively any employees of one of the companies within the group hold a substantial shareholding directly or indirectly in any other companies within the group.

Issue 5 – Equal application of conflict of interest provisions

We submit that the Code's conflict of interest provisions should apply to all attorneys equally, whether they are individual attorneys, incorporated attorneys and whether publicly listed or privately owned.

Issue 6 – Double employment

We agree that the Code should expressly permit double employment in non-contentious matters so long as clients provide informed consent.

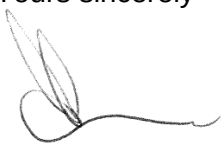
Issue 7 – Resolution of conflicts of interest

We agree that the Code should apply the obligation to take steps to resolve a conflict of interest to all types of conflict.

We trust that these comments assist the Board in its further deliberations. Representatives of Philips Ormonde Fitzpatrick are available to meet with members of the Board to elaborate or clarify any issues raised in this letter.

Thank you for the opportunity to participate in this review.

Yours sincerely



Greg Chambers
Board Chair
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Enc.

14 October 2016

By Email mail.psb@ipaustralia.gov.au

Mr Jeff Carl
Secretary
Professional Standards Board for Patent and Trade Marks Attorneys
IP Australia

Dear Mr Carl

Thank you for your email of 30 September 2016.

Phillips Ormonde Fitzpatrick ("**POF**") welcomes the proactive approach of the Professional Standards Board in reviewing the Code of Conduct having regard to the changes in the profession in Australia over the last two years. We agree that it is important that the Code provide clear guidance with respect to conflicts of interest for patent attorney businesses comprised of multiple separate companies each owned by a holding company. It is the view of POF that related business entities should not act for clients on different sides of a dispute, unless it is with the informed consent of all parties. We consider that this is consistent with well-established obligations at common law.

Generally speaking, patent attorneys acting for clients have a fiduciary obligation of loyalty. Paramount is the patent attorney's duty of providing undivided loyalty to the client. To address this obligation, registered patent attorneys must avoid situations which give rise to a conflict of interest between clients and also between the client and the patent attorney's personal interests – i.e. there is a duty not to put any other person's interest before those of the client. These duties are conveniently summarised in *Law Society of NSW v Harvey* [1976] 2 NSWLR 15.

Special characteristics of a patent attorney practice

Contentious work for patent attorneys often arises in the context of a pre-grant opposition, or in situations where there are allegations of patent infringement. In both scenarios, a patent specification of the applicant or patentee will be subject to scrutiny and challenges – several grounds will be relevant to the quality of the drafted patent specification. For example, it is common for s.40 issues to be raised regarding fair basis, support, clarity and the proper description of the best method.

For a patent attorney acting for a client where the firm is truly at arm's length from the patent attorney acting for the other party, there is no potential conflict in putting the client's interests before the interests of any other party. However, in circumstances where respective patent attorneys are employed by two different companies which are both subsidiaries of the same holding company, there is a manifest conflict of interest. If a patent attorney employed by Company A was to oppose a patent application where Company B had been responsible, either for the drafting or prosecution of that application to acceptance and grant, then there would

Patent and Trade Marks Attorneys

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be a conflict between the interests of Company A's client and the interests of business associates of the patent attorney, namely Company B and the company that owns both Companies A and B. A successful challenge against Company B's client's patent application may adversely affect Company B (e.g. a finding that the patent specification was poorly drafted) and, as a result, the interests of the holding company that also owns Company A. To further complicate matters it is often the case that patent attorneys in publicly owned patent attorney groups hold shares in the holding company such that an individual patent attorney at Company A may have a direct financial interest in not taking vigorous steps which would adversely affect Company B and hence the value of that attorney's share in the holding company. Could the client of Company A be confident that its patent attorney would vigorously challenge the patent or patent application of the client of Company B where Company B's client was a major client of the entire patent attorney group?

In this respect, it is valuable to consider the decision of *Village Roadshow Limited v Blake Dawson Waldron* [2003] VSC 505. In that case, the Court found that a law firm cannot act for a client arguing that a document originally produced by that firm was invalid. We consider that this decision is apposite also in the case of two firms which are both within the same corporate group.

In *Break Fast Investments v Rigby Cooke Lawyers* [2015] VSC 305, Bell J. noted that it is also necessary for justice to appear to be done and it is relevant to consider the likely impressions of a properly informed and reasonable observer. It is the view of POF that a reasonable observer would consider there to be a conflict of interest for two firms within the same corporate group to act for respective clients who oppose each other in a contentious matter. Whilst this additional obligation is imposed on solicitors due to their duties to the Court, we see no reason why the same standards should not apply to patent attorneys.

Confidential information

The special nature of patent attorney businesses means that the information communicated to a patent attorney is often highly confidential. Whilst Chinese walls can be established in cases where there is a conflict between clients separately represented by two different companies within a group, there is a perceived power of access to the files of both companies by representatives of the holding company. This could lead to a perception by clients that this confidential information may be available to the representative of one or both of the adverse parties. In some cases, the prospect of inappropriate disclosure will be exacerbated by companies within the group each having representatives of the Board of the holding company.

Responses to specific questions asked

1. **Should there be a requirement to inform the parties that the attorneys who represent them are employed by related entities, i.e. different businesses within a common holding company?**

   POF considers that there should be a positive obligation on patent attorney firms that are part of the same corporate group to indicate as such on their letterhead, email footer and related promotional material, e.g. Jones & Smithers is a member of the ABC Group. In this way, persons seeking representation can quickly identify that various different firms are associated and form part of the same group.

Further, we consider that in contentious matters there should be a positive obligation to avoid conflicts of interests between parties represented by different companies within the same group and that patent attorneys should be precluded from acting for a client in a contentious matter where the other party is represented by another firm within the same group, unless it is with the informed consent of all of the parties.

2. **Should the Code be amended in any other specific ways to address this issue?**

As noted in Ms O'Neill's letter of 30 September 2016, there is some uncertainty whether clause 15(5)(e) of the Code of Conduct adequately addresses the question of whether attorneys are business associates by virtue of being employed by a common holding company. POF considers that the code should be amended to make it clear that such persons are business associates. In this respect, a new clause 15(5A) of the Code of Conduct could be introduced in terms such as:

> *"15(5A). For paragraph 5(e), in the case of a registered attorney employed by a corporation, a business associate includes a related body corporate (as defined by s.50 of the Corporations Act 2001) of the corporation which employs the registered attorney or any registered attorney employed by such related body corporate".*

3. **Do you have any other comments on this issue?**

POF considers that it is important that this issue be addressed promptly. There is confusion in the profession at the present time as to whether there is a conflict of interest for different firms within the same corporate group to act in matters for clients adverse to each other. We consider that it does the profession harm if it is not made clear that acting in this way is inconsistent with a registered attorney's fiduciary duties, so to maintain the current high levels of professional responsibilities prescribed by the Code.

The Law Society of NSW has produced a useful guide on conflict of interest, a copy of which is **attached**. Whilst this guide does not address the specific issue raised in your letter, it does emphasise the obligation on a practitioner that he or she must not, in any dealings with a client, allow the interest of the practitioner or an associate of the practitioner to conflict with those of the client. Moreover, it emphasises the importance of appearances and that any appearance of undue influence, let alone its existence, must be avoided at all costs.

Another reason why it is important for the PSB to act promptly in connection with this matter is that if the current arrangements within corporate groups are not recognised as giving rise to a conflict of interest, there would be no impediment for privately owned corporations to organise the affairs whereby a holding company could be established and various parts of the business could be separated into subsidiary companies, e.g. Jones & Smithers Holdings Pty Ltd, Jones & Smithers Chemistry Pty Ltd, Jones & Smithers Trade Marks Pty Ltd, Jones & Smithers Engineering Pty Ltd, etc. in order to artificially avoid conflict of interest responsibilities.

Conclusion

POF appreciates the opportunity to provide input on this important issue. Should you require clarification with respect to any of the matters we have raised, we would be happy to provide further information and/or if appropriate, meet with members of the Board ahead of the scheduled meeting in November 2016.

Yours sincerely

Greg Chambers
Board Chair
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