

Discussion Paper of the Legal Services Board – “Are Regulatory Restrictions in Practising Rules for In-house Lawyers Justified?”

The IP Federation

1. The IP Federation represents the views of about 40 major innovative companies in matters concerning intellectual property (IP) policy. Several members are in the FTSE 100. A list of members is attached. Members are extensively involved with IP in Europe and internationally. Not only do they own considerable numbers of IP rights, but they are affected by the activities and IP rights of competitors. They may be either claimants or defendants in IP-related court actions.

2. In the context of the present consultation, it is to be noted that most if not all of our members employ “in-house” intellectual property lawyers in England and Wales (usually with an in-house head of IP in charge of a department). The majority of these lawyers are regulated by IPReg, being registered patent attorneys or registered trade mark attorneys, with a preponderance of the former. The remainder are regulated by the SRA (Solicitors Regulation Authority) or the BSB (Bar Standards Board).

The consultation

3. The Legal Services Board (LSB) published a [discussion paper](#) on 26 February 2015, “Are regulatory restrictions in practising rules for in-house lawyers justified?” With this paper the LSB shows how regulatory arrangements for in-house practice vary across the regulators and with the minimum required by legislation. It presents an initial analysis of the current situation with a view to establishing how practising rules for in-house lawyers align with restrictions on employees of non-authorized employers provided in [section 15](#) of the Legal Services Act 2007 (the Act). The closing date for receipt of views is **24 April 2015**.

4. Five specific questions are asked in this paper. Three of these questions are specifically aimed at the legal services regulators. The final two, addressed here, are for any other interested party who has a view on this matter.

Consultation question 4 addressed to all interested parties: “What is your experience of current arrangements for in-house lawyers?”

5. In relation to the IPReg Rules of Conduct, we first have to say that the Federation made a submission to IPReg in 2009 which IPReg in very large part accepted, and that this resulted in the present definition of “corporate work” at page 1 and the paragraph at the top of page 3 beginning “Attorneys undertaking ...”. These are quoted in paragraphs 27 and 28 of the discussion paper.

6. While (as the LSB indicates in its discussion paper), the IPReg Rules go beyond what is required by Section 15(4) of the Legal Services Act 2007, it is important for the Federation to state that these passages have been of great value in reassuring IPReg-regulated lawyers employed by our members that they are not in breach of the Rules of Conduct insofar as they have continued to do work, traditional in in-house departments, for -

- (a) companies that have a company ownership connection with their employer, and
- (b) parties that have a common interest in or against IP rights which they are working on.¹

Not only have such lawyers been assured that there is no absolute bar to performing the work (save where Section 15(4) is overriding in relation to reserved activities), but also that they are *not* obliged to have -

- (i) complaints-handling procedures under Rule 12, or
- (ii) professional indemnity insurance under Rule 17.

7. It is therefore of great importance to Federation members that the existing exemption in relation to complaints-handling and professional indemnity insurance should be maintained in the IPReg Rules of Conduct (and if anything extended).

8. We now return to the absolute bar on providing non-reserved services outside the scope provided by the IPReg, SRA, and BSB rules (which, as stated in paragraph 46 of the consultation paper, is the primary focus of the review).

9. Individuals have been deterred from doing *pro bono* work even when (as is usual) it is non-reserved. This is a great shame, for in-house practitioners often have more direct experience of business matters than private practitioners, experience which would be of especial value to the sorts of people who come to free "surgeries".

10. More speculative than the issue of *pro bono* work is the question of what the effect has been of the ban on in-house practitioners' providing non-reserved services to the general public on a paid-for basis. Because the existing rules have closed off options, it is only with the present, much appreciated consultation, that the Federation has begun to evaluate the cost of not having those options (in 2009, it had mission-critical issues to address for its members, as already noted). Nevertheless, the Federation hopes that the following examples will help the LSB, each example being a simplified composite example based on experience:-

- (i) A department services two quite dissimilar businesses in a conglomerate. The conglomerate then splits into the two businesses under different ownership. Suppose the department contains 20 patent

¹ (b) in particular is something which occurs on a scale in in-house IP work for which there is no counterpart in most legal work. The Federation is very appreciative of the willingness of IPReg to create rules to address the special problems of in-house patent and trade mark attorneys.

attorneys, with 10 full-time equivalents devoted to each business. Under the present IPReg rules (even if negligible reserved activity is being undertaken), the department will almost certainly be split into two equal halves, one for each business. With 10 attorneys in each half, there will be a decreased efficiency (especially in paralegal support - very significant in patent, design, and trade mark filing and prosecution). While the cost of this inefficiency can probably be absorbed while preserving the overall cost advantage over using private practice (for which advantage the in-house department was in substantial part established in the first place), the present IPReg Rules bar the option of keeping the department together serving both businesses, an option which would not create conflict because of the dissimilarity of the businesses but which might prove acceptable and efficient for both businesses for many years.

- (ii) Take a case identical with the previous one but where the department contains 11 attorneys, 10 full-time equivalents serving the first business and 1 serving the latter. In this case, the entire department will almost certainly stay with the first business, serving the second only in the time-limited way envisaged by the first paragraph on page 3 of the IPReg rules while it transfers the work to a private practitioner appointed by the second. The second will generally find it more economic to use a private practice than to provide a single attorney with paralegal support and backup for holidays, etc., but will suffer a considerable increase in costs compared with previously. Once the department has transferred the work, it may have to make one attorney redundant.
- (iii) A department has two or three IP-specialist solicitors who between them handle the IP agreement work. The conglomerate it serves splits into two dissimilar businesses. It may not be economic or practical for the two split businesses to employ any of them because the individuals will no longer be able freely to move work among them (under the SRA rules despite the lack of conflict). (With such a small group of specialists, such movement is usually necessary to avoid temporary over- or under-loading.) Instead the solicitors may be made redundant and the businesses may go to private practice at a cost higher than previously.
- (iv) A department has 10 patent attorneys of whom 3 are specialised in and occupied by chemical work. The chemical business of the company is closed down completely. Under the present IPReg Rules of Conduct, the department would probably make the 3 attorneys redundant even if there were chemical work they could do for the general public without conflict.

Consultation question 5 for all interested parties: "Can current approaches be improved?"

Absolute bars on providing non-reserved services to the general public

11. The Federation believes that Section 15(4) of the Legal Services Act should be the *only* basis on which an in-house lawyer should be absolutely barred from offering services to the general public: there should be no absolute bar in relation to non-reserved activities from any of IPReg, the SRA, or the BSB. This would deal with the issue of *pro bono* work (7 above), allow flexible responses to situations such as those described in paragraph 10

above, and generally facilitate new business models. This would advance the regulatory objectives (c) to (e) set out in Section 1 of the Legal Services Act.

12. An alternative *in principle* would be to keep an absolute bar on non-reserved services, but to try to list comprehensively exceptions such as *pro bono* work and work by employees of trade associations, justices clerks, foreign lawyers, public authorities, and charities (as in the BSB and SRA rules seek to do at present), together with IP-specific exceptions as in the IPReg rules. However, *the Federation sees no reason of public interest for having any absolute bar*. The public interest is adequately protected by the other key ethical requirements on the practitioner (such as integrity, independence, avoiding conflict, preserving confidentiality, and competence), plus - **where appropriate only, see 6-7 above and 13-14 below** - complaints-handling and insurance.

Exemptions for complaints-handling and insurance

13. The Federation's strongly urges that the exemption from requirements to have complaints-handling and insurance currently provided by IPReg (4-5 above) should be maintained. In addition, the exemption should be extended to employees of trade associations working for its members and to the performance of *pro bono* work. (In this respect, the Federation - itself a trade association - has no plan to offer such services to its members; but this may be relevant to trade associations of a different type.)

14. Also, even though this is not a direct concern to members of the IP Federation (none of which are public authorities or agencies or charities), it would make sense to create an exemption relating to IPReg-regulated persons in these sectors when they are serving relevant people (e.g. other public authorities in the case of public authorities, members in the case of charities).

Further information and explanation

15. The Federation will be happy to provide further information and explanation of the above - for instance, of the economics of in-house IP departments - as the LSB requests, either in writing or at a meeting.

IP Federation
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IP Federation members 2015

The IP Federation represents the views of UK industry in both IPR policy and practice matters within the EU, the UK and internationally. Its membership comprises the innovative and influential companies listed below. The CBI, although not a member, is represented on the Federation Council, and the Council is supported by a number of leading law firms which attend its meetings as observers. It is listed on the joint Transparency Register of the European Parliament and the Commission with identity No. 83549331760-12.

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Airbus
ARM Ltd
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Babcock International Ltd
BAE Systems plc
BP p.l.c.
British Telecommunications plc
British-American Tobacco Co Ltd
BTG plc
Caterpillar U.K. Ltd
Dyson Technology Ltd
Element Six Ltd
Eli Lilly & Co Ltd
Ericsson Limited
ExxonMobil Chemical Europe Inc.
Ford of Europe
Fujitsu Services Ltd
GE Healthcare
GKN plc
GlaxoSmithKline plc
Glory Global Solutions Ltd
Hewlett-Packard Ltd
IBM UK Ltd
Infineum UK Ltd
Johnson Matthey PLC
Merck Sharp & Dohme Ltd
Nokia UK Ltd
Pfizer Ltd
Philips Electronics UK Ltd
Pilkington Group Ltd
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