

**THE CASE**

– *Liffe Administration & Investment Management v I. Pavel Pinkava and 2. De Novo Markets Ltd*

– England & Wales Court of Appeal

– 15 March 2007

# Pulling rank



## Jonathan Radcliffe and Camilla Waite of Nabarro record another success for employers over the right to employees' inventions

**A** former employee of Euronext-Liffe, the derivatives exchange, recently lost his appeal against a High Court decision that patent rights to the electronic trading system he had invented belonged to his former employers. As it is rare for such a case to reach the Court of Appeal, this is one of the first to test the legal issues surrounding the ownership of inventions of staff undertaken in the course of their employment but not related to their formal duties.

The case, which will comfort employers, also clearly demonstrates the growing importance of intellectual property in the financial services industry. It warns that financial institutions really do need to be aware of the patent right to ensure that their investments in products are adequately protected.

### Factual background

In July 2004 Dr Pavel Pinkava, an employee of Euronext-Liffe, developed a system and related inventions permitting the electronic trading of various financial instruments, which it had until then not been possible to trade in this way. In April 2005 he filed four applications for US patents. Both parties then issued proceedings. Liffe claimed to be entitled to the confidential information relating to the systems and the patent applications based on it as his employer, and Dr Pinkava issued an application in the Patents Office claiming to be the owner of the inventions and seeking a declaration that he was entitled to apply for the US patents in his own name.

The case centres around the three-limbed test derived from section 39(1)(a) of the Patents Act 1977 (the "Act") which states that an invention made by an employee shall be taken to belong to his employer if:

**AUTHORS**

**Jonathan Radcliffe** (left) is a partner in the IP group at Nabarro, based at its London office. With over 21 years IP experience he has been involved in many leading cases, particularly high-tech and patent-related.

**Camilla Waite** (right) is a lawyer in the IP group at Nabarro, where her practice covers dispute resolution and commercial transactions relating to most aspects of IP.



- It was made in the course of the normal duties of the employee; or
- In the course of duties falling outside his normal duties, but specifically assigned to him; and
- The circumstances in either case were such that an invention might reasonably be expected to result from the carrying out of his duties.

Interestingly, although the inventions clearly fall within the exclusion to patentability in the UK and Europe, but are protectable in the United States, they were treated as inventions for the purposes of the Act and these proceedings. The proceedings were heard in the High Court, which ruled that the inventions Dr Pinkava devised while working for Liffe were *not* made in the course of his “normal duties”, but were instead made during the course of “specifically assigned duties” after he was asked to develop an exchange-tradable credit derivative. Whilst the invention had a wider application to the original task set to Dr Pinkava, it was related and flowed from it.

### The appeal

Dr Pinkava agreed with the Patents Court ruling that the inventions were not made in the course of his normal duties, but he appealed against the decision that they were made in the course of duties specifically assigned to him and that an invention might reasonably be expected to result from the carrying out of these duties (and hence belonged to Liffe).

The Court of Appeal upheld the trial judgment – but for different reasons – and held that Liffe was entitled to the ownership of the patents. The Court of Appeal held that the Patents Court had not paid sufficient regard to the fact that a contract evolves over the course of time, nor to the fact that it is unsafe to have regard only to the terms contained in an initial written contract of employment. Some duties not set out in Dr Pinkava’s employment contract had evolved over time to become “normal”, and the Court of Appeal therefore concluded that the normal duties of Dr Pinkava *did* indeed extend to the design of such a system. Finally, the Court of Appeal agreed with the Patents Court’s finding that it was reasonable to expect that an invention might result from the carrying out of those duties by Dr Pinkava.

### Comments

This is the first time the Court of Appeal has examined section 30(1)(a) of the Act in

the 30 years since the Act came into force, and the case provides some useful guidance by focusing on this area of employees inventions.

When considering whether an invention might reasonably be expected to result from carrying out an employee’s duties, neither the size of the invention nor the fact that the employee had not been asked to do what the employee achieved is relevant to the interpretation of the Act. If any invention was reasonably to be expected to result from the carrying out of an employees’ duties (whether normal or specifically assigned), then it belongs to the employer even if the particular invention in question had not been expected.

When considering the issue of an expectation of an invention, one cannot always “expect” an invention necessarily to result from research, given that in order for it to be patentable it has to be novel and non-obvious. The Court of Appeal drew attention to the wording in the Act, highlighting that it emphasised “an invention” rather than “the invention”. That notwithstanding, the Court of Appeal upheld the statutory position that the employer will own any invention that results from the carrying out of an employee’s duties.

If an employee is employed to innovate, it would normally follow that the Act would be satisfied regardless of the employee’s individual qualities. The Court of Appeal rejected Dr Pinkava’s submissions that his particular qualities were not relevant, and explained that expectation of an invention had to arise from the carrying out of a person’s duties by that person himself, not by some notional employee of reasonable or average ability, and therefore, the qualities of the particular employee were relevant. It is worth noting however, that the dissenting judge argued “*why should an unimaginative employee get the invention because no-one expected him to come up with anything whereas an Edison in exactly the same situation has to hand it to his employer?*”

### Practical implications

Employers can breathe a sigh of relief at the Court of Appeal outcome. This acknowledges that in determining whether an invention is born out of an employee’s *normal* or *additional duties*, it is not sufficient to only consider the terms contained in employment contract. The Patents Act is the ultimate arbiter of the

position. The case shows that the Court will look beyond an employment contract and find that additional duties may well have become *normal* over time. This is a concept that should provide some comfort to employers whose staff undertake creative work that is unrelated to their formal duties.

In a patent entitlement dispute the Courts will also look outside the employment contract to determine from the general nature of the employee’s job whether (as Jacob LJ put it) “*in the end one is asking whether the employee is employed to try to innovate and, if [the employee] is, what general sort of areas [the employee’s] innovation duties cover*”.

However, companies must be aware of the employee’s right to compensation for contributions to patented inventions, as provided for in the Act. Where the patent or invention is of “outstanding benefit” to an employer, the employee becomes entitled to a fair share of the benefit. For this reason employers should ensure they have in place effective employee-inventor compensation/incentive schemes. It is worth noting however that the initial burden of proof still lies with the employee to show that the invention and/or the patent has been of outstanding benefit to the employer. Indeed, claims for compensation have tended to fail, although the law has turned increasingly in the employee’s favour in recent years.

Liffe benefited from having recorded Dr Pinkava’s performance appraisal and objectives. The case highlights the importance of reviewing an employee’s role at regular intervals and making records of any restated duties.

Employers may find it beneficial to carry out an audit of their current practices, to ascertain that employees’ duties are periodically reviewed and that the necessary detail is recorded.

Despite the fact that pure “business methods” has been denied patentability in Europe, US filings are certainly worth considering. For major UK corporates in the software industry, and as the case clearly demonstrates, in the financial arena, a US filing should always be considered, if only to deter the competition.

Importantly, contracts of employment should require employees to keep details of inventions confidential, maintaining the ability for an employer to seek patent protection in due course. 