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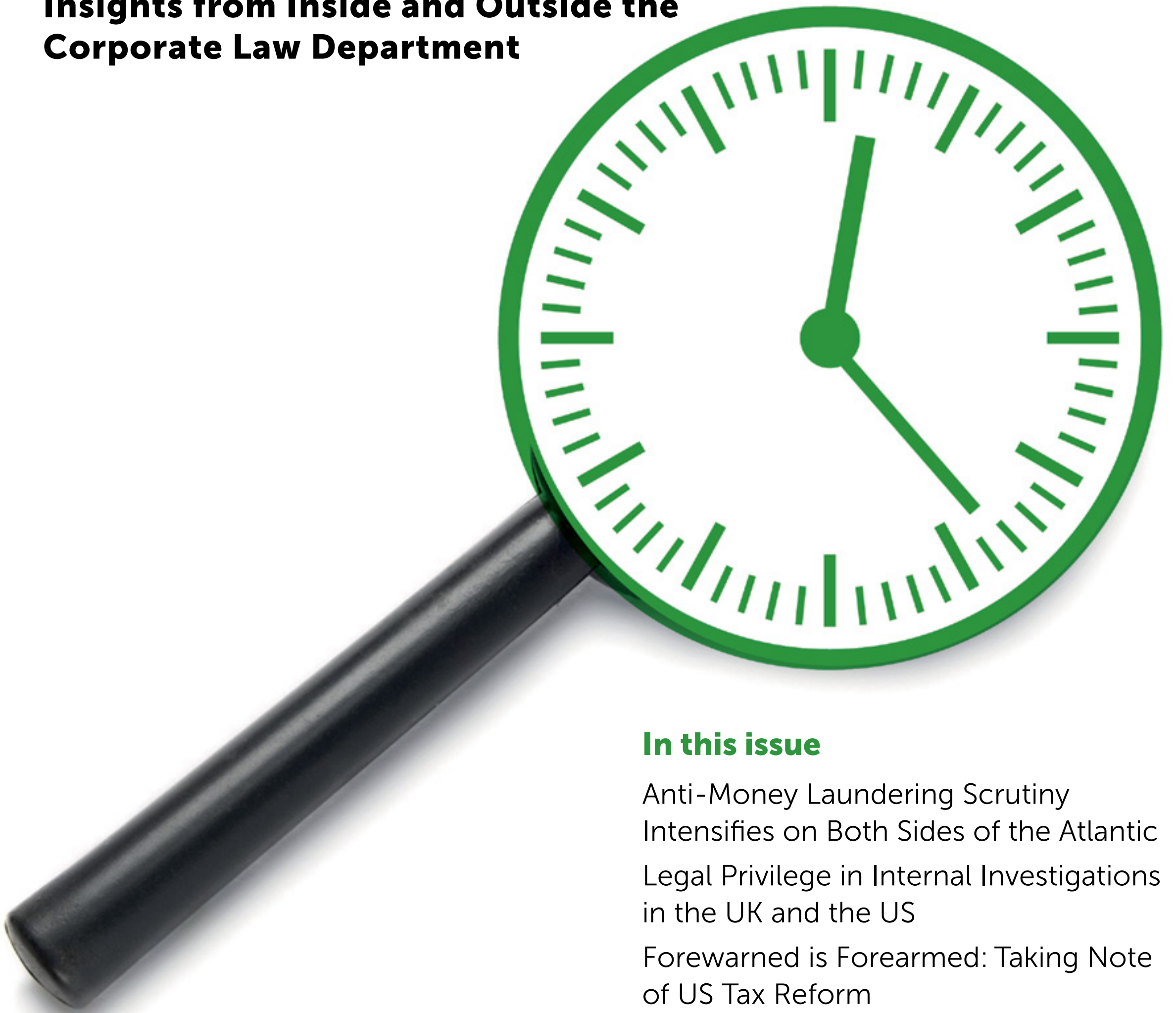
PARTNERING PERSPECTIVES

Summer **2017**

Insights from Inside and Outside the Corporate Law Department



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Supplement to ACC Docket

From the Editor Patricia A. Gorham

Cross-Border Perspectives

As we implement the Eversheds Sutherland combination and expand our ability to serve clients around the globe, our US and international teams are working together to analyze issues impacting clients doing business in multiple jurisdictions. This edition of *Partnering Perspectives* addresses some of those issues.

Increased regulatory scrutiny of anti-money laundering rules in both the US and the UK is the focus of a piece by **Olga Greenberg**, **Emma Gordon**, **Greg Amoroso,** and **Phil Taylor**. The authors discuss the continued focus on enforcement actions against institutions and individuals.

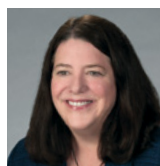
Emma Gordon, **Meghana Shah**, **Phil Taylor,** and **Veronica Wayner** address variations in the scope of the attorney-client privilege around the globe and discuss the need to examine those jurisdictional differences when conducting cross-border investigations.

Current proposals for tax reform would move the US away from a worldwide approach to international taxation and towards a destination-based system. **Graham Green** outlines the proposed changes and what both US and international companies might anticipate.

Lewis Wiener and **Alex Fuchs** discuss the growing number of class action lawsuits alleging failure to make websites that offer goods and services to US consumers accessible to the blind and visually impaired.

The Leahy-Smith America Invents Act of 2011 created post-grant proceedings to challenge the validity of US patents without resorting to litigation in federal district courts. **Ann Fort**, **Pete Pappas**, **Karissa Blyth**, **Robert Kohse,** and **Steffan Finnegan** report on how domestic and foreign companies can take advantage of those proceedings to cost-effectively challenge issued US patents.

As always, please let me know if we can be of service in any way and if you have suggestions for future issues of *Partnering Perspectives*.



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Inside This Issue

Anti-Money Laundering Scrutiny Intensifies on Both Sides of the Atlantic

By Olga Greenberg, Emma Gordon, Greg Amoroso, and Phil Taylor

Increased regulatory scrutiny of anti-money laundering rules in both the US and the UK is the focus of this piece. The authors discuss the continued focus on enforcement actions against institutions and individuals for violations of anti-money laundering (AML) laws and regulations, a trend that is expected to continue.

I Have the Privilege: Legal Privilege in Internal Investigations in the UK and the US

By Emma Gordon, Meghana Shah, Phil Taylor, and Veronica Wayner

Cross-border investigations should be structured in a manner that considers the applicability of relevant legal privileges. This article analyzes the applicability and breadth of the attorney-client privilege around the globe and the care that is needed to examine jurisdictional risks and limit the dissemination of privileged communications.

Forewarned is Forearmed: Taking Note of US Tax Reform

By Graham Green

A growing consensus for tax reform is gaining steam this year, and current proposals would move the US away from a worldwide approach to international taxation and towards a destination-based system. This article outlines the proposed changes and what both US and international companies might anticipate.

Blocked Access: Website Accessibility Lawsuits on the Rise

By Lewis Wiener and Alex Fuchs

A growing number of class action lawsuits have been filed against private companies under the Americans with Disabilities Act (ADA) alleging failure to maintain websites offering goods and services to US consumers that are accessible to the blind and visually impaired. This article discusses the ADA's requirements for website accessibility and practice tips.

Intellectual Property: Efficiencies in Patent Post-Grant Proceedings

By Ann Fort, Pete Pappas, Karissa Blyth, Robert Kohse, and Steffan Finnegan

The Leahy-Smith America Invents Act of 2011 (AIA) created post-grant proceedings to challenge the validity of US patents without resorting to litigation in federal district courts. Our authors report that domestic and foreign companies can take advantage of post-grant proceedings to cost-effectively challenge issued US patents.

Anti-Money Laundering Scrutiny Intensifies on Both Sides of the Atlantic

By Olga Greenberg, Emma Gordon, Greg Amoroso and Phil Taylor

US and UK regulators continue to focus on enforcement actions against institutions and individuals for violations of anti-money laundering (AML) laws and regulations, and the trend is intensifying. A review of recent US and UK enforcement cases reveals common themes financial institutions might consider when establishing or assessing the effectiveness of AML programs. Specifically, regulators continue to direct their attention to internal controls, the identification and timely reporting of potential suspicious activity, and conduct that may give rise to the individual liability of employees.

Over the past 15 months, US regulators[1] have brought more than 40 enforcement cases and imposed penalties totaling more than $1 billion,[2] primarily against financial institutions such as banks, credit unions, broker-dealers, and money services businesses. Many cases involved missing or ineffective AML programs, which led to other deficiencies, such as failure to file Suspicious Activity Reports (SARs) and Currency Transaction Reports. Likewise, in recent years, UK regulators[3] have fined nine banks for AML breaches. The majority of the cases involve a bank breaching Principle 3 of the Financial Conduct Authority's Principles for Businesses, i.e., failing to "take reasonable care to organize and control its affairs responsibly and effectively, with adequate risk management systems."[4] The most recent penalty, issued on January 31, 2017, amounted to more than £160 million ($195 million) and was the largest fine ever imposed by that UK authority for AML breaches.

1 The United States Department of Treasury's Financial Crimes Enforcement Network has primary responsibility for the enforcement of and compliance with the Bank Secrecy Act and anti-money laundering rules and regulations. Other federal agencies, including the Securities and Exchange Commission and the Financial Industry Regulatory Authority, as well as state regulators also investigate potential anti-money laundering violations pursuant to express or delegated authority and may bring enforcement actions against financial institutions and individuals subject to their jurisdiction.

2 This amount includes the forfeiture of funds in excess of $500 million.

3 The UK's Financial Conduct Authority monitors compliance with the Financial Services and Markets Act 2000 (FSMA) and Money Laundering Regulations 2007 by institutions which carry on regulated activities as defined in FSMA Order 2001. The Financial Conduct Authority's annual business plans, for several years, have highlighted financial crime as a priority, and the 2016-2017 plan is no exception. Her Majesty's Revenue and Customs also has powers to monitor money laundering compliance by so-called money services businesses and to prosecute where necessary.

4 Financial Conduct Authority, Handbook at PRIN 2.1.1 (2014), http://www.handbook.fca.org.uk/handbook [hereinafter FCA Handbook].

Internal Controls: The Key to Successful AML Programs

In the US, the rules of the Department of Treasury's Financial Crimes Enforcement Network (FinCEN)[5] require financial institutions to establish systems, policies, and procedures to comply with the Bank Secrecy Act, including: (1) a system of internal controls to assure ongoing compliance; (2) independent testing of the program; (3) the designation of a qualified individual for coordinating and monitoring day-to-day compliance; (4) training of appropriate personnel; and (5) appropriate risk-based procedures for conducting ongoing customer due diligence.[6]

In the UK, financial institutions must look to the Money Laundering Regulations 2007 (MLR), which set minimum standards using a proportionate and risk-based approach to combatting money laundering risks. The Financial Conduct Authority also expects financial institutions to maintain effective systems and controls to counter the risk of systems being used to further financial crime[7] and to enable those systems to "identify, assess, monitor and manage money laundering risk." The systems should be "comprehensive and proportionate to the nature, scale and complexity of its activities."[8] The Financial Conduct Authority has published extensive guidance on this topic: its Financial Crime Guide contains examples of poor AML controls[9] and consolidated examples of good and poor practices under themes which include private banking, high-risk situations, and automatic monitoring.[10]

> *"Over the past 15 months, US regulators have brought more than 40 enforcement cases and imposed penalties totaling more than $1 billion, primarily against financial institutions such as banks, credit unions, broker-dealers, and money services businesses."*

In recent years, US and UK regulators have charged financial institutions with failure to establish sufficient internal controls in the following areas:

- **Policies and Procedures.** Regulators charged financial institutions with failing to establish and implement adequate procedures and with failing to follow established procedures. Examples in the US include: a US financial institution failed to provide meaningful guidance for monitoring, detecting, and investigating potential suspicious activity in its procedures; another institution's procedures, which called for a manual review of activity, were deemed unreasonable given the volume of relevant transactions; and another failed to conduct a documented risk assessment and review of its customers despite a requirement to do so in its written supervisory procedures. In one UK case, the Financial Conduct Authority emphasized a board of directors' failure to act cohesively and effectively due to lack of experience and expertise in relation to regulatory and compliance matters that led to manifest differences in opinion about how to approach and comply with regulatory requirements.
- **Failure to Tailor the AML Program.** In multiple instances, US regulators found that financial institutions failed to tailor their AML supervisory systems to their business models. In December 2015, two financial institutions were cited for failing to establish an AML program tailored to cover their high volume of low-priced securities. In another instance, a financial institution failed to adequately tailor the parameters and thresholds of the alerts generated by the system to review transactions executed by its high net worth private banking clients. In a 2015 case, the UK's Financial Conduct Authority highlighted a similar failure to tailor thresholds in an automatic transaction monitoring system to the type of activity expected on the accounts; there was no alternate manual monitoring, which meant a number of large transactions passed through the system unnoticed.
- **Due Diligence Requirements.** Financial institutions were also cited for failing to conduct adequate due diligence at account opening and on an ongoing basis. Examples include failing to conduct appropriate due diligence of a correspondent account established for a foreign financial institution and failing to take adequate steps to learn whether certain customers had "criminal histories and/or negative regulatory backgrounds." In a recent US case, a money services business consented to a finding that it failed to conduct adequate due diligence on its agents, which resulted in a failure to identify the agents' fraudulent transactions. Similarly, in a UK case decided in October 2016, remittance thresholds for obtaining source of funds information were set at inappropriate levels, and there was inadequate screening of customers to identify politically exposed persons.
- **Adequate Risk Assessment of New Accounts.** An important part of an AML program is assessing the risks of opening a new account. To illustrate, in February 2016, FinCEN cited a financial institution for failing to prepare adequate risk profiles on clients, finding that the risk profiles were incomplete, out of date, and lacked sufficient analysis and validation. FinCEN also found a violation where a financial institution failed to revise the customer's risk

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5 31 C.F.R. §§ 1020.210, 1021.210, 1022.210, 1023.210.

6 Specifically with respect to broker-dealers registered with the Securities and Exchange Commission, FINRA Rule 3310 requires that firms develop and implement a written AML program reasonably designed to achieve and monitor compliance with the requirements of the Bank Secrecy Act (31 U.S. C. § 5311, et seq.) and the regulations promulgated thereunder by the Department of the Treasury. Rule 17a-8 of the Securities Exchange Act of 1934 requires broker-dealers to comply with the reporting and record reporting requirements of the Bank Secrecy Act. 17 C.F.R. § 240.17a-8.

7 FCA Handbook, SYSC 3.

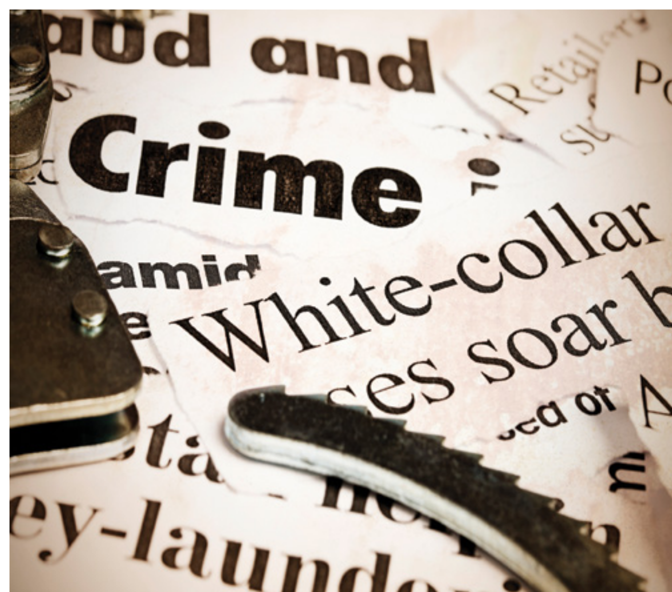
8 FCA Handbook, SYSC 6.3.1.

9 Financial Conduct Authority, Financial crime: a guide for firms, Part 1: firm's guide to preventing financial crime (July 2016), http://www.handbook.fca.org.uk/handbook/document/fc/FC1_FCA_20160703.pdf.

10 Financial Conduct Authority, Financial crime: a guide for firms, Part 2: Financial crime thematic reviews (April 2015), http://www.handbook.fca.org.uk/handbook/document/FC2_FCA_20160307.pdf.

profile after it detected a deviation from the customer's anticipated activity as reflected on new account documentation. Similarly, in an October 2016 UK case, a financial institution failed to perform adequate due diligence by neglecting to provide its staff with guidance on what constitutes "sufficient" due diligence before opening a new account and by improperly documenting the purpose and intended nature of new business relationships or anticipated activity.

- **Inadequate Resources for AML Program.** In a number of cases, financial institutions failed to allocate adequate resources or tools for AML surveillance. This inevitably impacted the regulatory staff's ability to review and investigate alerts as well as to conduct risk assessments and sufficient due diligence. Regulators also found violations where a financial institution collected data for business development purposes but failed to use the same data to monitor AML compliance.



"US- and UK-regulated financial institutions, as well as their senior management and AML officers, can expect to come under increased scrutiny."

Identification and Timely Reporting of Potential Violations

In both the US and the UK, financial institutions are subject to reporting obligations and must report any transaction they know, suspect, or have reason to suspect involves funds derived from illegal activities or is being conducted to disguise funds from illegal activities. In addition, a reporting requirement may be triggered if the suspected activity is designed to evade reporting or recordkeeping requirements; has no apparent business or lawful purpose; is outside of the activity expected from the account and the institution; or involves use of the financial institution to facilitate criminal activity.[11] Failure to file a Suspicious Activity Report (SAR) can lead to criminal liability in the UK for individuals. Financial institutions in the UK also must be cognizant of regulatory obligations under the Financial Conduct Authority's Principle 11 (which requires open cooperation with regulators)[12] and Supervision Manual (SUP) 15 (which sets out procedures for notifications to the Authority).[13]

In many recent cases, financial institutions identified the suspicious activity but failed to timely file a SAR. One US financial institution investigated a Ponzi scheme for two years without filing a SAR and only did so after the scheme was reported in the media; another had a SAR committee that never met to review and discuss possible filings. In a recent UK case, a Money Laundering Reporting Officer (MLRO) noticed low levels of SAR reporting by staff, but the bank did not carry out a proper investigation of why this might be. Following regulatory intervention, more than 200 additional SARs had to be filed.

There also were cases in which financial institutions failed to detect and investigate red flags, meaning the reporting stage was never reached. A number of US cases involved transactions of microcap securities, which the regulators posited were red flags warranting further review. In one instance, a financial institution failed to detect and investigate the sale of more than 73 billion shares of microcap securities over an 18-month period to determine if the sale constituted an illegal unregistered distribution. In another instance, a financial institution failed to collect any identification information from a client who had been the subject of 15 prior SARs and five Currency Transaction Reports.

Individual Liability: A Growing Trend

The US and the UK regulators have brought recent actions against officers charged with AML compliance (for example, Anti-Money Laundering Compliance Officers, Money Laundering Reporting Officers, and Chief Compliance Officers), charging them with failure to establish and implement AML systems reasonably designed to achieve and monitor compliance with regulatory and legal requirements and with failure to establish and implement reasonable procedures to identify and investigate "red flags" indicating suspicious activity.

The Financial Industry Regulatory Authority (FINRA) took the lead in the US against individuals by initiating nine actions, with penalties ranging from $5,000 to $30,000, and suspensions

11 U.S. 31 CFR §§ 1020.320, 1021.320, 1022.320, 1023.320.

12 FCA Handbook, PRIN 2.1.

13 FCA Handbook, SUP 15.

from the industry of up to three months.[14] In all instances, FINRA charged the AML officer for, among other things, failing to implement an adequate AML program or to follow written supervisory procedures requiring the individual to conduct due diligence on clients.

Likewise, the US Securities and Exchange Commission (SEC) brought an action against a president of a broker-dealer that allowed 23 non-US citizens to conduct more than $23 million in securities transactions through the account of one of its affiliates without ever collecting, verifying, or maintaining any identification documents for those individuals. The SEC charged that the president knew of the existence of the affiliate account and the trading in the account but failed to take any action.

In October 2016, the UK's Financial Conduct Authority imposed a penalty of almost £18,000 ($21,900) on a bank's AML officer, stating that many of the failings in the bank's AML function fell within that officer's area of responsibility. In 2015 and 2016, the Financial Conduct Authority also used its powers to seek restraint orders and investigate potential confiscation of the proceeds of crime against 62 individuals.

14 This only includes actions where AML violations were the sole or primary violation.

Looking Forward

US- and UK-regulated financial institutions, as well as their senior management and AML officers, can expect to come under increased scrutiny. FinCEN continues its aggressive enforcement, already bringing two actions for AML violations in 2017, with one of them resulting in a penalty of $184 million. Likewise, FINRA and the Financial Conduct Authority both announced that anti-money laundering is one of their current regulatory priorities, highlighting once again that enforcement in this area will be a regulatory focus in the upcoming year.

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I Have the Privilege

Legal privilege in internal investigations in the UK and the US

By Emma Gordon, Meghana Shah, Phil Taylor, and Veronica Wayner

When carrying out an internal investigation, a company will naturally be cautious about revealing potentially sensitive communications with its lawyers. They may assume that legal professional privilege is available to protect attorney-client communications in this context. Indeed, when properly asserted by a company, legal privilege is a strong shield; it gives absolute protection against disclosure of a document to a third party, and a court cannot draw an adverse inference just because privilege has been claimed. But, how easy is it to claim such privilege, and are companies right to put their faith in it? The answer is not straightforward and will vary depending on where the question is being decided.

English Protections

In common law jurisdictions, legal privilege is a well-developed doctrine. Under English law, it falls into two categories: litigation privilege and legal advice privilege (LAP). Although the scope of litigation privilege is much wider, LAP is most relevant to an internal investigation. This is because litigation privilege requires litigation either to be taking place or to be in reasonable contemplation, and the document in question must have been created for the dominant purpose of such litigation. It has been held in the English courts that proceedings must be adversarial rather than inquisitorial in order for litigation privilege to apply, and there is considerable doubt as to what extent internal investigations may meet this test, with little case law to assist.

LAP requires there to be: (1) a confidential communication, (2) between the client and legal adviser, (3) made for the purposes of giving or receiving legal advice. It is therefore important for companies to consider carefully how they structure their investigations in order to ensure the full protection of LAP wherever possible.

There are two options.

The first is the use of a third-party investigations agent (such as a forensic accountant or auditor) to carry out tasks such as collating documents or processing data. These agents may possess expertise not always found in law firms, and costs could, in some cases, be lower. However, their work would not fall within the scope of LAP, as they do not meet the definition of legal advisers. The same is true when the agent is carrying out its investigative work in another country. It has been clearly established in the English courts that, no matter the location of the work, if proceedings are conducted in England then English law will apply for the purposes of determining LAP.

The second option is using an internal or external legal team. Using an in-house team may seem like the obvious choice, particularly for a large company or institution. In-house lawyers can, and often do, fall within the definition of a legal adviser. But care must be taken. In-house counsel can often perform various roles with a company and, in order to claim LAP, they must be providing legal rather than commercial advice to their internal client. Privilege cannot be claimed simply because a lawyer does the work. Unfortunately, engaging an external lawyer is not a silver bullet—the same considerations would apply.

Where an internal or external lawyer's role extends to producing a report advising the company on potential legal liabilities, risks and obligations, LAP could apply to the report, as well as the lawyer's working notes and the underlying documents themselves. However, it is important that any review and analysis of the underlying documents is carried out with the purpose of enabling the lawyers to be in a position to provide legal advice. In other words, the documents and working notes must be capable of being regarded as a continuum of information that the lawyers need in order to properly advise their client.

Who exactly is the client in this context? Where in-house counsel is used, the boundary between lawyer and client becomes blurred, and this question becomes more vexed. Under English law, the definition of a client for the purposes of LAP is very narrow; it does not mean the entire company or all its employees, no matter how senior they are. In a recent case, the definition of a client was said to extend only to "those employees authorised to seek and receive legal advice from the lawyer." In the same case, it was made clear that LAP will not cover information provided by employees for the purpose of being placed before a lawyer. This narrow idea of the client means that, for example, records of interviews between lawyers and company personnel made in the course of an investigation would only be protected by LAP if the interviewees were strictly part of the "client."

On a practical note, during the course of an internal investigation, companies in England must avoid creating unnecessary records regarding legal advice and issues. For example, if legal advice is given to a client team in the business, members of that team should not create and circulate summaries of that advice as there is a risk of LAP being lost. Business managers should be warned against producing documents commenting on what went wrong and what the company could have done better (so-called "lessons learned" reports), as these documents may be disclosable to a court, regulator or law enforcement agency in the future. Discussing matters verbally with relevant team members may be a better option. Lawyers may consider providing their advice verbally, although not having written records of advice given could lead to other issues in the future, and so this option must be approached with extreme caution.

LAP is not automatically permanent. It can be lost if, for example, a communication is no longer confidential. LAP can be explicitly waived by the company which claims it. It may also be lost implicitly, for example, by quoting legal advice in non-privileged, open correspondence or by an employee carelessly forwarding a previously privileged email to an interested colleague. Proper training is therefore vital.

Particular care needs to be taken in the context of group companies. Sharing of privileged material with members of the group who are not considered part of the "client" could amount to waiver of LAP, making such communications disclosable. This situation could arise where legal advice was given directly to a subsidiary and then disclosed to the parent company. Companies will need to make sure that there is always a "lawyer-client" professional relationship in order to maintain LAP or else attempt to rely on the doctrines of limited waiver, common interest privilege or joint instruction. The details of these doctrines are beyond the scope of this article, but it is worth noting that where the interests of group entities are not aligned, common interest cannot then be asserted.

"Sharing of privileged material with members of the group who are not considered part of the 'client' could amount to waiver of LAP, making such communications disclosable."

There may also be times when companies feel they need to waive privilege; for instance, the Serious Fraud Office (the UK agency that investigates and prosecutes complex fraud cases) has made it clear that behaving cooperatively can increase the chances of a company being able to negotiate a Deferred Prosecution Agreement. One key element of cooperation is providing the SFO with access to the factual elements of the company's own investigation, and that information will often be found in otherwise privileged documents.

In summary, the position reached in English law can cause headaches for companies seeking to take investigatory steps in preparation for obtaining legal advice. Although the protections afforded by LAP are strong, great care must be taken when determining whether LAP actually applies.

US Parallels

While the American and English approaches to privilege share many commonalities, the US affords parties more protection in designating attorney-client communications as confidential.

Similar to LAP under English law, US courts recognize a doctrine that protects confidential communications between an attorney and client for the purpose of providing legal advice. Although facts that are revealed during an investigation are not privileged, communications with counsel about those facts may be privileged. Also like the

English system, communications between in-house counsel and company employees are generally privileged, assuming the advice given is legal and not business advice.

US courts take a more expansive view than their English counterparts in recognizing privilege between counsel and corporate employees in the context of investigations. Where counsel has been retained by a corporation, the "client" is the corporation, not the employees of the corporation. However, because the corporation is a mere entity, it must speak through its employees or representatives. In evaluating whether privilege exists, all federal courts and most state courts follow the test set out in the US Supreme Court case of *Upjohn Co. v. United States*, 449 U.S. 353 (1981). Under *Upjohn*, a corporation may assert privilege over communications between its counsel and corporate employees where: (1) the employee is speaking with counsel at the direction of their corporate superiors; (2) the communications are made to obtain facts to assist counsel in providing legal advice to the corporation; (3) the employee is aware he or she is being questioned for the purpose of providing legal advice; and (4) the communications concern matters within the scope of the employee's corporate duties.

> *"When conducting cross-border investigations, counsel should take care to structure the investigation in a manner that will maximize the applicability of all relevant legal privileges."*

When interviewing their client's employees in connection with an internal investigation, counsel should provide an oral *Upjohn* warning. During the warning, counsel advises the employee that he or she represents the company, not the employee personally. He or she advises the employee that although their communications are protected by attorney-client privilege, the privilege belongs to the company, not to the employee personally. As such, the company can elect at any time to waive the privilege by, for example, disclosing the content of communications to a third party, including a government agency. Significantly, and in contrast to English law, attorney-client privilege largely extends to communications between counsel and corporate employees about the substance of the employees' anticipated testimony at a deposition or trial.

The American counterpart to English litigation privilege is the work product doctrine. This protects documents relating to an investigation if the company created the document in anticipation of or for the purposes of litigation. Therefore, documents prepared in the ordinary course of business are generally not protected by the work product doctrine. Like the attorney-client privilege, the work product privilege can be waived. For example, most courts hold that voluntary disclosure of an internal investigation report to a government entity waives privilege.

Finally, the US, England, and Wales recognize a limited common interest privilege, which maintains the confidentiality of attorney-client communications forwarded to or made in the presence of third parties that share a common interest. In the US, the extent and circumstances to which courts recognize this privilege varies by jurisdiction.

European Contrast

There is a significant contrast between the common law position on LAP and the doctrines applicable in Continental Europe under civil codes. There is no equivalent doctrine of privilege under civil law because there is no equivalent doctrine of disclosure.

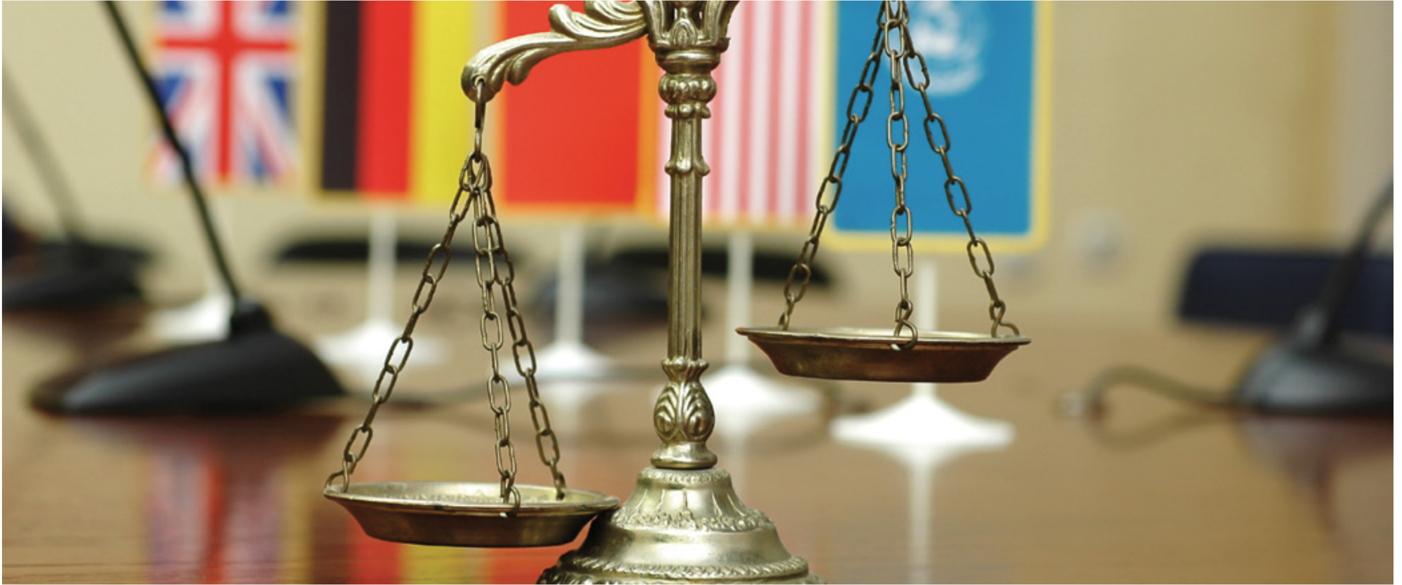
Taking Germany as an example, because legal privilege does not apply to internal investigations at all, there is no advantage from a privilege perspective of lawyers conducting investigations or producing investigative reports in that country.

In France, there is some protection of lawyer-client communications via confidentiality obligations imposed on lawyers, although this only applies to members of the French Bar. When a lawyer becomes employed by a company, that lawyer loses his or her Bar registration, and so the use of external lawyers in investigations is vital. The Italian position is similar. Lawyers who are members of the Italian Bar can refuse to disclose certain documents to the authorities by asserting professional secrecy. However, unlike LAP in England, this is a right that belongs to the lawyer rather than the client. This means that documents held at a client company's premises may be seized by a regulator or law enforcement agency in the course of an investigation. In addition, the assertion of professional secrecy can be overturned by a judge or even a prosecutor in some cases. Employed in-house lawyers cannot be members of the Bar, and in general are not subject to—or protected by—professional secrecy obligations.

It is also worth noting that there are certain activities in the UK that (at least until Brexit is concluded) fall under European Union law, where the rules can be very different. A classic example is a European Commission antitrust investigation. The European Court of Justice has ruled that although correspondence in relation to the defense of a Commission investigation should be protected from disclosure, this only applies in the case of an independent, external lawyer. Communications with in-house lawyers do not attract such protection.

Care Needed

In summary, when conducting cross-border investigations, counsel should take care to structure the investigation in a manner that will maximize the applicability of all relevant legal privileges. This requires taking a methodical approach in analyzing the applicability and breadth of any attorney-client privilege by examining the risks of mandatory disclosure/waiver in each jurisdiction involved, and limiting, wherever possible, the dissemination of privileged communications to a need-to-know basis.



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Forewarned is Forearmed: Taking Note of US Tax Reform

By Graham Green

Both US and non-US companies should take note of the growing consensus for tax reform, which is gaining steam this year. Current tax reform proposals would move the United States away from a worldwide approach to international taxation and towards a destination-based system. Under a destination-based system, the taxing jurisdiction for business income would be based on the place of consumption (i.e., where goods, services, or intangibles are consumed), rather than the place of production.

These proposed changes include border adjustments that would eliminate deductions with respect to imported goods, services, and intangibles and create a tax exemption for the export of goods, services, and intangibles. In effect, US corporations would exclude their non-US sales from taxable income while deducting wages and costs incurred in the United States. However, imports would be subject to tax on a gross basis with no corresponding deduction for wages or costs incurred outside the United States. This article highlights the potential adoption of a destination-based system of taxation so that both US and non-US companies can better understand, and thereby anticipate, the consequences of US enactment of border adjustments.

> *"Although the current environment in Washington is focused on partisan divides, it is important to note that when it comes to tax reform, there is much on which both parties agree."*

What Goes Around Comes Around

The emerging proposal for US border adjustments should be understood in the broader context of tax reform proposals that have been considered in recent years. Most notably, in 2014, the international tax proposal circulated by then Ways & Means Committee Chairman Dave Camp sought to encourage the repatriation of previously untaxed foreign earnings and profits and to move the United States closer to a territorial system of international taxation. As far back as 2005, the President's Advisory Panel on Federal Tax Reform recommended a proposal similar to the destination-based system that included border adjustments.

The June 2016 Republican Blueprint similarly advocated for moving to a more territorial system, in part, through a destination-based system of taxation. As part of the move to a destination-based system, the Blueprint proposed border adjustments. The significance of the border adjustments to the Blueprint should not be underestimated. Even though enactment of border adjustments may seem far-fetched, the border adjustments represent a significant portion of the revenue generated by the Blueprint to offset decreases in corporate tax rates, which is a central aspect of the Blueprint. Meanwhile, inversions have developed as a primary concern for lawmakers as reflected in both the Camp proposal and the Blueprint. Lawmakers see reducing corporate rates as a means of reducing incentives for US companies to move offshore.

Timing Is Everything

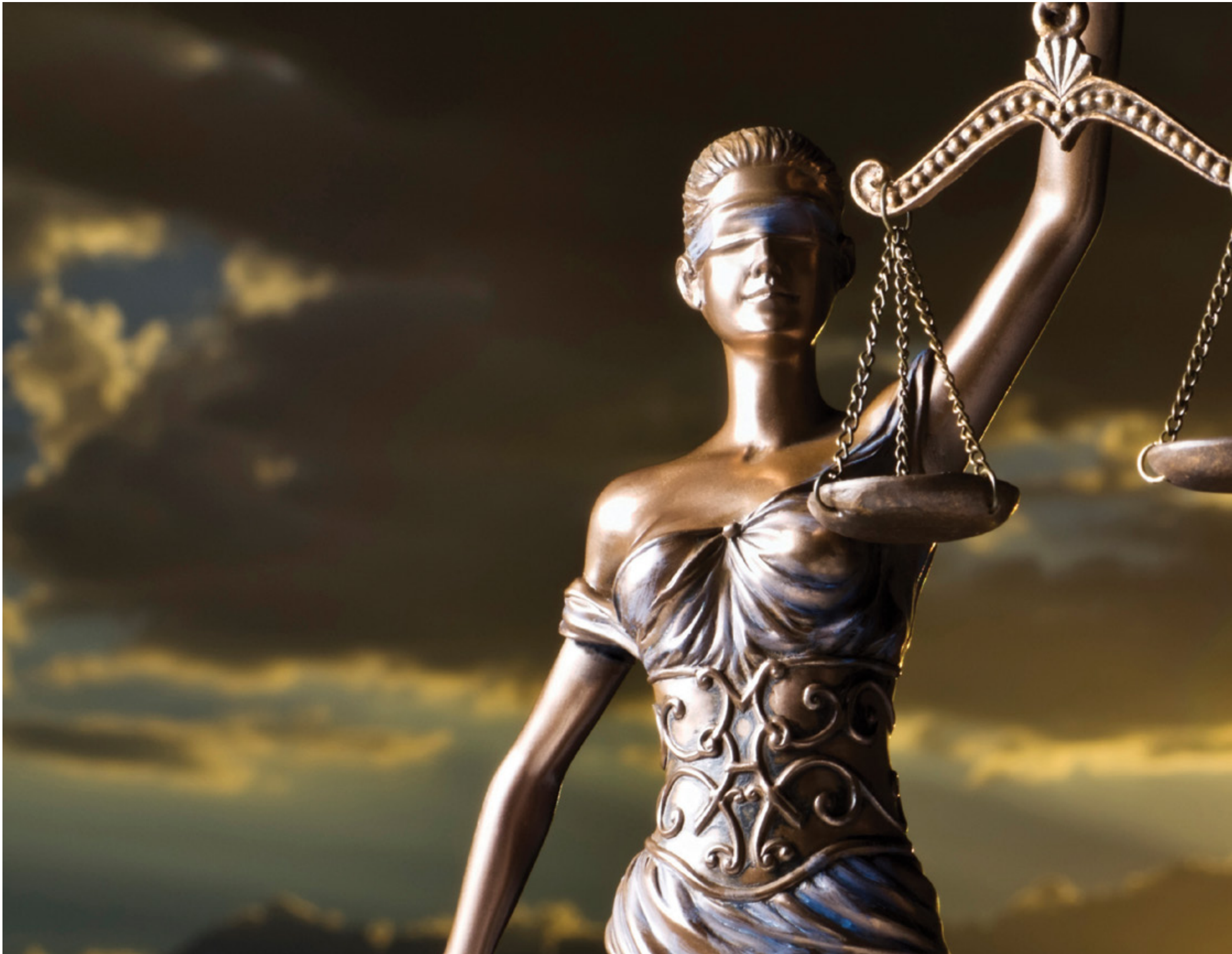
Although the Trump Administration has stated a goal of enacting tax reform by August, there are hurdles that make that ambitious timeframe unlikely. Even in light of Republican control of both houses of Congress and the White House, tax reform will inevitably take time given the enormity of the undertaking. Creating a destination-based system that will include border adjustments would only increase the amount of time needed for Congress to pass tax reform. The Republican leadership also has committed to repealing and replacing the Affordable Care Act before enacting tax reform. This dynamic gives US and non-US companies more time to consider the implications of US tax reform and, in particular, how a destination-based system featuring border adjustments would impact their operations.

The Blueprint does not indicate the timeframe for implementing border adjustments, but transition rules would be needed to phase in such a significant series of changes. The 2005 Advisory Panel recommended a four-year transition period under which importers would be able to deduct 90%, 60% and 30% of their import-related expenses for the first three years, respectively. Meanwhile, exporters would pay tax on 90%, 60% and 30% of export sales, respectively. In the fourth year, the border adjustments would be fully phased in. The 2005 Advisory Panel's proposal provides the best indication available of how Congress would implement border adjustments.

Parting Perspectives

Although the current environment in Washington is focused on partisan divides, it is important to note that when it comes to tax reform, there is much on which both parties agree. Both parties would favor simplifying the Internal Revenue Code (Code), increasing the efficiency of the Code so that rational decision-making—and not tax incentives—drives economic activity, and ensuring that the Code preserves horizontal equity, that is, treating similarly situated taxpayers similarly. Although the parties will disagree on other tax policy matters, these widely shared perspectives on tax policy increase the likelihood of the enactment of tax reform in the near term and the likelihood that many elements of tax reform will receive bipartisan support. Meanwhile, the pressure to generate revenue to offset the desired reduction of corporate rates adds to the likelihood that border adjustments will be featured in the final product of tax reform.

About the Author: Graham Green advises multinational clients, primarily insurance companies, banks and regulated investment companies, on the taxation of financial institutions and financial products. Graham also counsels on tax planning, compliance and transactional matters including mergers, acquisitions, reorganizations and demutualizations. Prior to joining Eversheds Sutherland (US), Graham was a tax attorney with the IRS Office of Chief Counsel in Washington DC. There, he was the principal author of the proposed and final regulations under IRC section 833(c)(5) applying a medical loss ratio qualification test to Blue Cross and Blue Shield companies. He can be reached at grahamgreen@eversheds-sutherland.com.



Blocked Access: Website Accessibility Lawsuits on the Rise

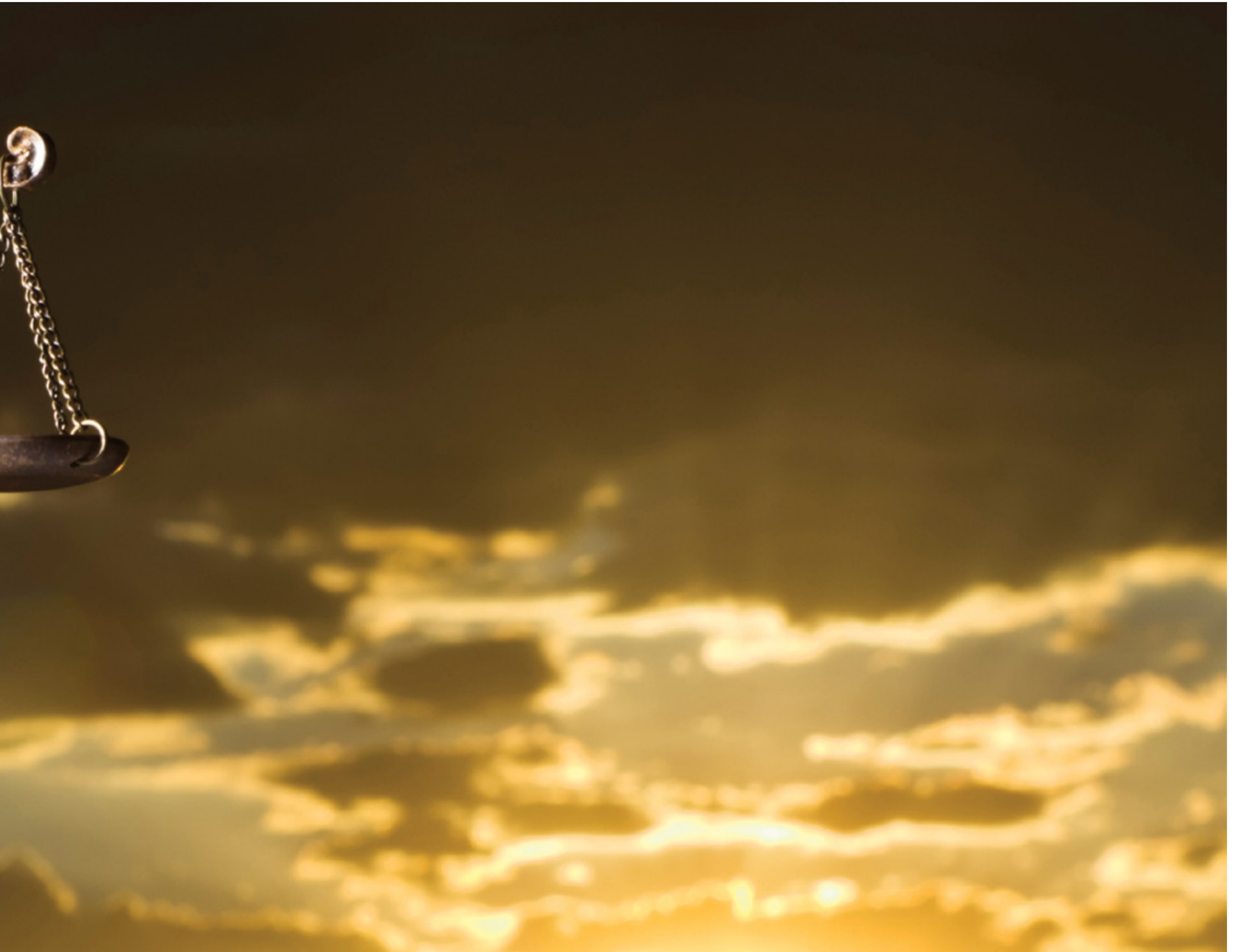
By Lewis Wiener and Alex Fuchs

Key Points:

Lawsuits alleging violations of the ADA for websites inaccessible to the blind are on the rise—with approximately 250 filed in the last year.

The ADA prohibits discrimination against the disabled in "places of public accommodation" including some websites.

ADA lawsuits can be costly to businesses and guidance on ADA compliance is still years away.



An increasing number of class action lawsuits have been filed over the past year against private companies by individuals alleging violations of the Americans with Disabilities Act (ADA) for failure to maintain websites that are accessible to the blind and visually impaired. In 2016 alone, approximately 250 lawsuits were filed by a handful of plaintiffs' firms against companies in the retail, hospitality, and financial services industries alleging ADA violations related to website accessibility. Most of these suits have resulted in settlements that, in addition to the payment of some amount of financial remuneration to the plaintiffs, require companies to make their websites ADA compliant. The steady shift in our economy from traditional brick-and-mortar stores to online commerce has brought increased attention to website accessibility. Given the increasing number of website accessibility suits, it is important for any company that maintains a web presence that constitutes a "place of public accommodation" to understand the requirements of the ADA.

ADA PRACTICE TIPS

- The ADA prohibits discrimination against disabled individuals in "places of public accommodation."
- Websites have been interpreted to be "places of public accommodation" for purposes of the ADA.
- A circuit court split has developed as to whether a connection must exist between the website and a physical storefront for a website to be a "place of public accommodation."
- Websites inaccessible to the blind or visually impaired may violate the ADA.

ADA

Title III of the ADA, which was enacted in 1990, prohibits discrimination against the disabled, which includes the blind and visually impaired, in places of public accommodation:

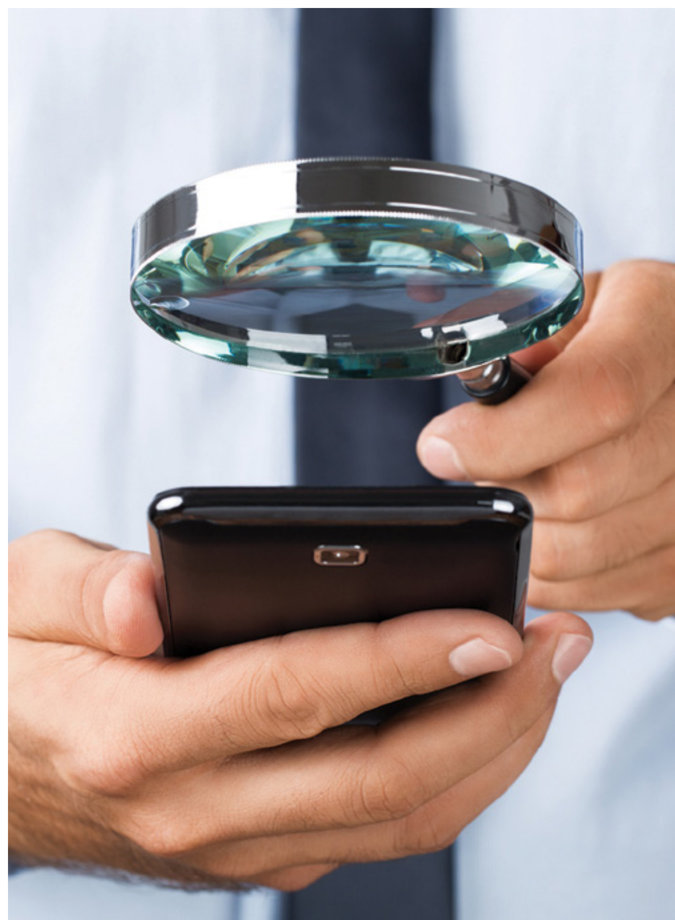
> *No individual shall be discriminated against on the basis of disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages, or accommodations of any place of public accommodation by any person who owns, leases (or leases to) or operates a place of public accommodation.*

42 U.S.C. § 12182(a). Although Title III of the ADA does not provide civil penalties for violations of the act, it does permit private rights of action and allows individuals to bring enforcement actions, seek injunctive relief, and recover costs and attorney's fees. 42 U.S.C. § 12188.

As originally enacted, the ADA did not expressly include websites as places of "public accommodation," principally because the internet was in its infancy at the time. Over the past several decades, however, as the internet has become ubiquitous and a seemingly unlimited number of goods and services have been made available online, courts have interpreted places of "public accommodation" to include websites. The interpretations have varied among courts resulting in a circuit split regarding whether a website must have a nexus with a "physical place of public accommodation" to fall within the scope of the ADA.

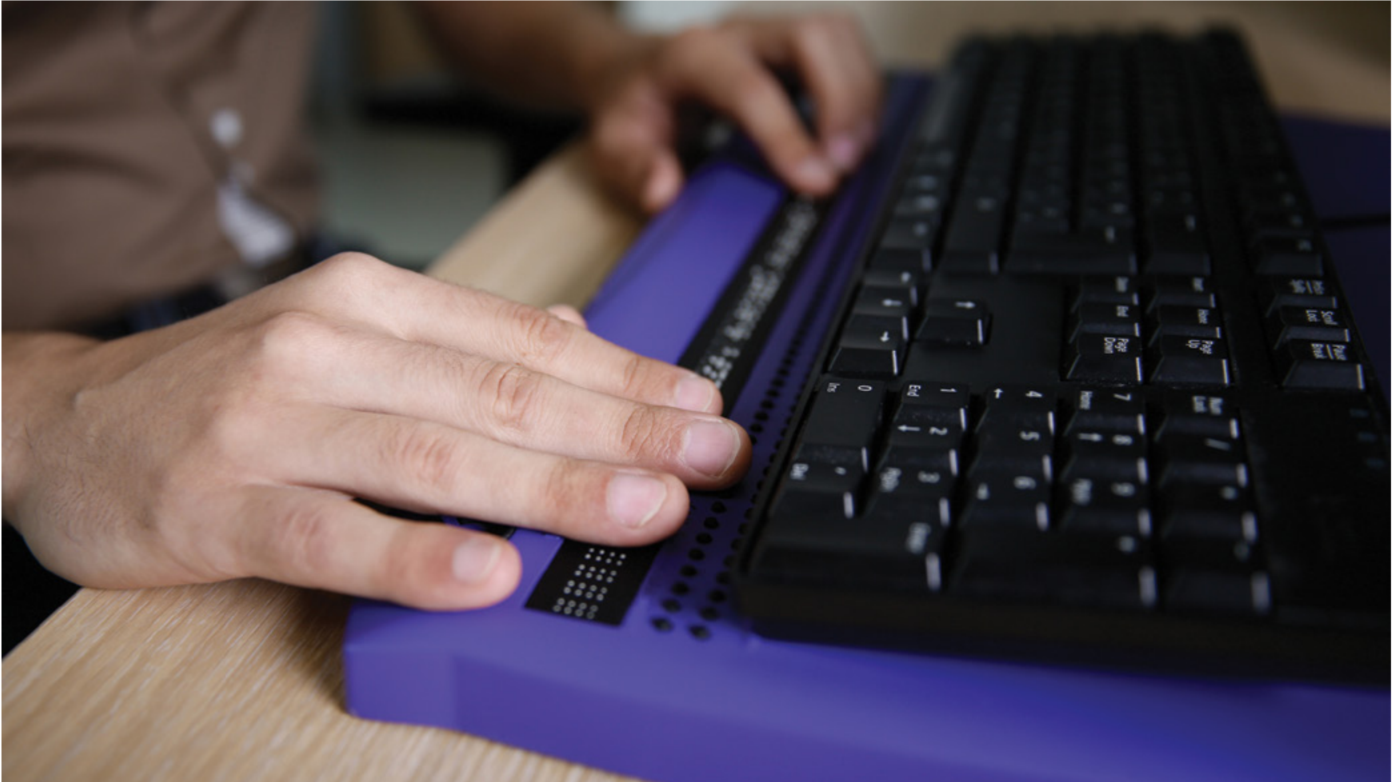
According to the Seventh Circuit, a nexus is not required, and websites without connections to physical commercial entities are nevertheless "places of public accommodation" for purposes of the ADA. As Chief Judge Richard Posner has reasoned. "An insurance company can no more refuse to sell a policy to a disabled person over the Internet than a furniture store can refuse to sell furniture to a disabled person who enters the store." *Morgan v. Joint Administration Board*, 268 F.3d 456, 459 (7th Cir. 2001).

"Given the increasing number of website accessibility suits, it is important for any company that maintains a web presence that constitutes a 'place of public accommodation' to understand the requirements of the ADA."



By contrast, the usually liberal Ninth Circuit has adopted a more restrictive definition of "place of public accommodation" requiring a nexus between the website and the service of a physical "place of public accommodation" like a brick-and-mortar store. *See, e.g., National Federation of the Blind v. Target Corp.*, 452 F. Supp. 2d 946 (N.D. Cal. 2006) (citing *Weyer v. Twentieth Century Fox Film Corp.*, 198 F.3d 1104, 1114 (9th Cir.2000)). Even employing the more restrictive definition, however, a website inaccessible to visually impaired individuals may still violate the ADA if the website provides unequal access to the "services" that may be available at a physical location. For example, a website allowing a customer to order delivery from a local restaurant could be in violation of the ADA if the site is inaccessible to the blind or visually impaired. In that situation the "nexus" between the challenged service and the physical place of public accommodation would make the website subject to the ADA.

This circuit split also has created an ambiguity concerning the scope of the ADA and its application to businesses based outside the United States. Under the Ninth Circuit's interpretation, a nexus with a brick-and-mortar location is required, limiting applicability to businesses with a physical presence in the United States. The Seventh Circuit's interpretation, however, does not require a nexus with a physical location allowing for application of the ADA to businesses with a web presence only. Businesses based outside the United States that offer goods and services to US consumers via a website could, therefore, be subject to the ADA.



Website Accessibility

Blind and visually impaired individuals use specialized software, including screen reader technology that reads website content aloud to users allowing them to access and navigate websites. Private lawsuits and enforcement actions undertaken by the Department of Justice have highlighted that not all publicly available websites are ADA compliant because they, among other things, fail to incorporate screen reader technology. Even websites that may have been designed initially to be compatible with screen reader software may become inaccessible when new features are added or the website is updated.

Additionally, many sites that are otherwise technically accessible to disabled individuals may not meet generally recognized accessibility standards. For example, compliance with the World Wide Web Consortium's Web Content Accessibility Guidelines 2.0 (WCAG 2.0) are considered by many groups to be the true means of ensuring website accessibility. The US Department of Justice has indicated an intention to adopt WCAG 2.0 as part of future rulemaking, and includes upgrades to WCAG 2.0 compliance as a standard term in enforcement action settlements. Department of Justice technical guidelines concerning how websites should comply with the ADA, expected to require WCAG 2.0 compliance, have been delayed until 2018. Despite the lack of formal guidance, plaintiffs have attempted to use non-compliance with WCAG 2.0, regardless of actual inaccessibility, as a basis for private ADA actions.

The lack of guidance on website compliance and the relative ease in identifying inaccessible sites has led to the proliferation of class action enforcement suits on the part of private individuals. In 2016 alone, multiple lawsuits have been filed including, but not limited to, suits against Domino's Pizza, Potbelly Sandwich Works, Reebok, Panera Bread, and AMC Theatres, alleging that some or all of the companies' websites are inaccessible to the blind. These companies represent a small fraction of the approximately 250 companies that have faced website accessibility lawsuits over the past year. These suits, driven in large part by the relatively quick and easy settlements that plaintiffs' counsel have been able to obtain, expose companies to damages, potentially costly litigation, and injunctive actions and are red flags to Department of Justice officials tasked with enforcing the ADA. While these suits have largely focused on companies offering consumer goods and as these websites are brought into compliance, plaintiffs have expanded their scope to target telecommunication providers and financial service companies.

> *"As large companies bring their sites into compliance, either voluntarily or following legal action, plaintiffs may begin to focus on smaller online retailers or mobile applications."*

Eversheds Sutherland has significant experience in litigating ADA website compliance cases and advising companies concerning ADA compliance. Sutherland attorneys Lewis Wiener and Amy Xu provided pro bono representation to the American Council of the Blind and three blind federal government contractors in a class action lawsuit against the federal government's General Services Administration (GSA), an independent federal agency tasked with managing the basic functioning of other agencies, arising out of the GSA's website being inaccessible to visually impaired government contractors. The case resulted in a landmark settlement with the GSA in October 2015 that ensures that the federal government website SAM.gov is accessible to blind and visually impaired federal contractors. This agreement emphasizes that no organizations, including government agencies, are exempt from accessibility requirements under the ADA.

Conclusion

The large number of ADA website accessibility lawsuits recently filed illustrates the potential risks that any company offering "a place of public accommodation" online faces. The steady source of attorneys' fees these suits provide to plaintiffs' counsel and the relative ease with which allegedly offending sites can be identified makes it likely that these actions will continue to be filed. As large companies bring their sites into compliance, either voluntarily or following legal action, plaintiffs may begin to focus on smaller online retailers or mobile applications. Accordingly, it is important to understand the need for ADA compliance and the pitfalls posed by non-compliance in an effort to limit the risk of potential litigation.

About the Authors: Lewis Wiener, an experienced trial and appellate attorney with three decades of trial and counseling experience, represents a broad array of clients in state, federal and appellate court litigation throughout the United States. Lew leads the Eversheds Sutherland (US) TCPA Practice and currently serves as a member of the Executive Committee. His extensive litigation and trial experience includes serving as class action defense counsel, conducting large internal investigations, handling complex litigation matters and representing entities in litigation brought by and against the federal government. Lew also represents clients in eminent domain/inverse condemnation environmental and land-use litigation before state and federal trial and appellate courts. He can be reached at lewiswiener@eversheds-sutherland.com.

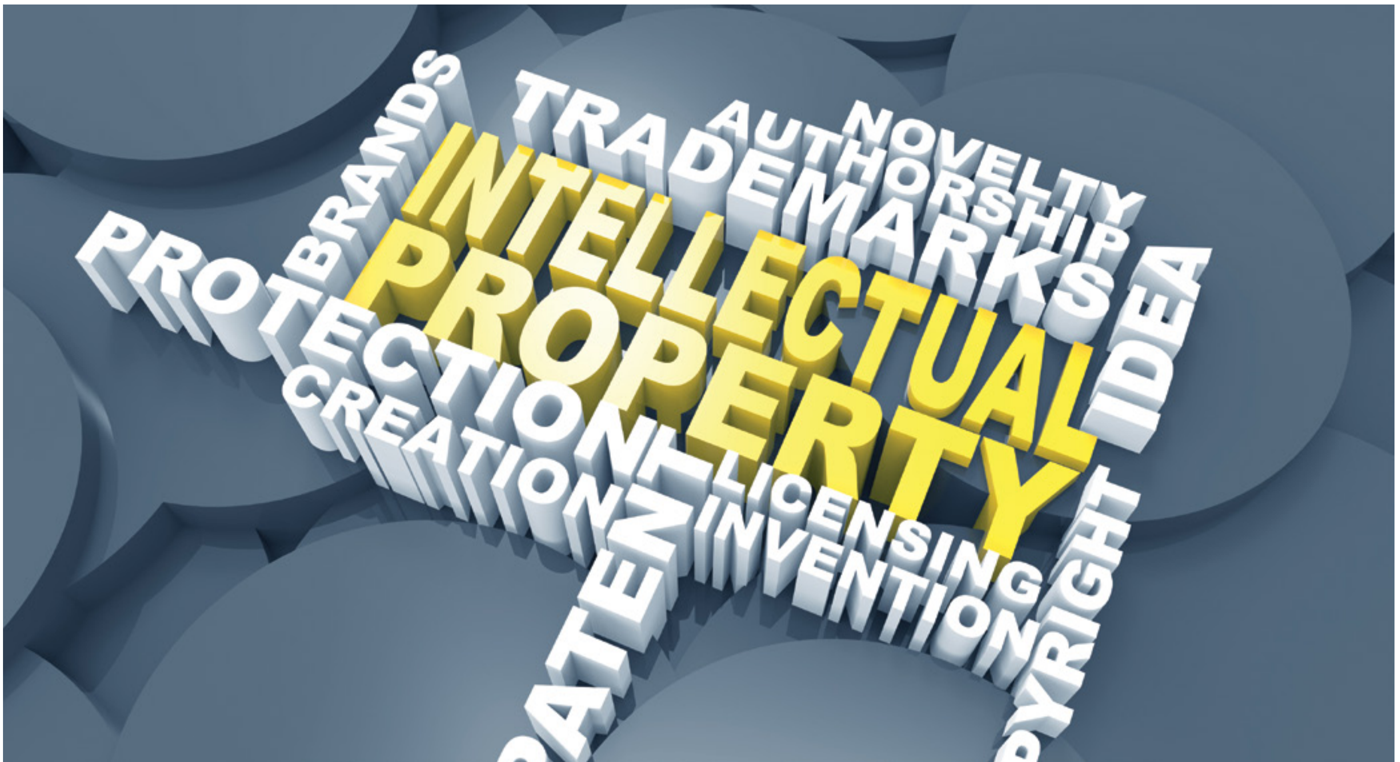
Alex Fuchs advises insurance companies on complex, large-scale litigation matters. He focuses his practice on defending challenges to insurers' business practices in class action cases and coverage disputes. He also assists clients with defense of tort, contract and subrogation matters in New York state and federal court. Alex can be reached at alexfuchs@eversheds-sutherland.com.

Intellectual Property: Efficiencies in Patent Post-Grant Proceedings

By Ann Fort, Pete Pappas, Karissa Blyth, Robert Kohse and Steffan Finnegan

The Leahy-Smith America Invents Act of 2011 (AIA) created several new post-grant proceedings to facilitate challenges to the validity of US patents outside of litigation in district courts. Those new proceedings are increasingly becoming viable alternatives to litigation in US federal court, because they are more efficient than district court declaratory judgment litigation. For example, as of January 31, 2017, a total of 6,380 AIA post-grant petitions have been filed, and statistics released by the US Patent and Trademark Office (USPTO) indicate that, if current trends continue, more than 2,000 petitions could be filed in 2017 alone. In comparison, more than 6,000 patent suits were filed in federal courts in 2016. In some cases, post-grant proceedings also may be preferable to litigation because they do not raise constitutional personal jurisdiction concerns posed by court litigation.

However, these new proceedings are still in flux. For example, recent US federal circuit and district court decisions have redefined the scope of statutory estoppel under 35 U.S.C. § 315(e), and narrowed the scope of patents that qualify for Covered Business Method Review under the AIA.



"In some cases, post-grant proceedings also may be preferable to litigation because they do not raise constitutional personal jurisdiction concerns posed by court litigation."

Background

The AIA, which went into effect on September 16, 2012, created new post-grant proceedings that take place at the USPTO before the Patent Trial and Appeals Board (PTAB), an administrative body created by the AIA.

As prescribed by the AIA, the PTAB oversees three new administrative proceedings: Inter Partes Review (IPR), Post-Grant Review (PGR), and the transitional program for Covered Business Method Review (CBMR). Each of these proceedings is subject to different rules and requirements, including limitations on when a petition may be filed, who may file a petition, and the grounds on which a petition may be filed.

Notably, unlike in district courts, there is no personal jurisdiction requirement for filing a petition for a post-grant proceeding. Accordingly, foreign owners of US patents are subject to post-grant proceedings even if they would not be subject to personal jurisdiction (and thus could not be sued) in district court. Similarly, foreign parties can petition for these post-grant proceedings without necessarily submitting to personal jurisdiction in the US. Post-grant proceedings before the PTAB can therefore present a particularly attractive option for foreign parties that do not wish to litigate in district court, or to attack patents owned by non-US entities that may be subject to personal jurisdiction for a US declaratory judgment suit.

To take full advantage of these post-grant proceedings it is important to have a general understanding of the specifics of each type of review.

Inter Partes Review (IPR)

Inter partes reviews are by far the most popular of the new post-grant proceedings, with more than 90% of the total number of petitions filed with the PTAB to date requesting inter partes review. Petitioners may seek inter partes review of any granted United States patent based on alleged invalidity under 35 U.S.C. § 102 (lack of novelty) and § 103 (obviousness) based on prior art patents and/or printed publications. However, for patents filed after March 15, 2016, a petitioner cannot request an IPR until nine months after issuance, or until after any instituted PGR proceeding against the patent has been terminated.

The IPR begins with a petition laying out the grounds of unpatentability and seeking the institution of review on these grounds. The PTAB generally must issue a decision on that petition within six months of filing. The AIA then requires that the PTAB issue a final written decision on the patentability of

any challenged claim within one year. For good cause, the PTAB may extend this one-year period by up to six months. A final written decision will issue within 12 to 18 months of the petition date, which is typically much shorter than district court litigation, which averages about two and a half years, or longer.

Notably, there is no requirement that a petitioner have standing to petition the PTAB for inter partes review. Rather, the only limits are that the petitioner cannot be the owner of the patent, and cannot have been sued for infringement of the patent more than one year before filing a petition. As a result, IPR proceedings present an attractive option to parties that cannot obtain personal jurisdiction over a patent holder in district court or lack standing to challenge validity in district courts. For example, foreign parties contemplating entering US markets to compete with patented products can petition the PTAB for inter partes review of a competitor's patent in advance of entering the US market.

There is a downside to IPR—the potentially broad scope of statutory estoppel under 35 U.S.C. § 315(e). Section 315(e) prevents a petitioner in an inter partes review from asserting in a civil action or before the USPTO any ground of invalidity which the petitioner "raised or reasonably could have raised" during the inter partes review. However, recent court cases interpreting 35 U.S.C. § 315(e) have shown a trend towards a narrow interpretation. For example, the Federal Circuit has held that Section § 315(e) does not estop IPR petitioners from raising grounds of invalidity in district court or at the USPTO which were raised in the IPR petition but not instituted by the PTAB. (*See Shaw Indus. Grp., Inc. v. Automated Creel Sys., Inc.*, 817 F.3d 1293, 1300 (Fed. Cir. 2016)). District courts are starting to follow. (*See Intellectual Ventures I, LLC et al. v. Toshiba Corp. et al. ("IV")*, Civ. No. 13-453-SLR (D. Del. Jan. 11, 2017)).

For the foreseeable future, IPRs will continue to be an expeditious and powerful tool for challenging the validity of US patents.

Post-Grant Review (PGR)

Post-grant reviews allow broad invalidity arguments, but for a brief window of time. Thus far, PGRs have been the least popular post-grant proceeding, with only about 1% of the petitions filed seeking post-grant review. Petitioners may seek post-grant review of any US patent which has at least one claim having an effective filing date on or after March 16, 2013, and has been granted or reissued within the last nine months. Consequently, relatively few patents are eligible for PGR at any given time. Petitions for post-grant review may be based on any statutory provision for invalidity: 35 U.S.C. § 101 (ineligible subject matter), § 102 (lack of novelty), § 103 (obviousness), and § 112 (lack of enablement or written description).

The timeline for a PGR proceeding is similar to that of IPRs. Once the PTAB has issued a final written decision granting a petition to institute a PGR, the AIA requires that the PTAB issue a final written decision on the patentability of any challenged claim within one year.

Similar to IPRs, there is no requirement for standing by the petitioner, or personal jurisdiction over the patent to petition the PTAB for post-grant review. Rather, the only limits are that the petitioner cannot be the owner of the patent, and cannot have already sued in district court to invalidate the patent.

As with IPRs, prospective petitioners should consider the potentially broad scope of statutory estoppel, which parallels the IPR estoppel provision.

Covered Business Method Review (CBMR)

To date, about 8% of the petitions filed with the PTAB have been petitions seeking CBMR. CBMR is a temporary procedure created by the AIA which, unless it is extended, will expire on September 16, 2020. Until it expires, petitioners can seek CBMR of any "Covered Business Method" patent, which the AIA defines as patents claiming a method or apparatus for "performing data processing or other operations used in the practice, administration, or management of a financial product or service." (AIA § 18(d)(1)). Similar to PGR proceedings, CBMR petitioners can argue invalidity under 35 U.S.C. § 101 (ineligible subject matter), § 102 (lack of novelty) § 103 (obviousness), and § 112 (lack of enablement or written description). For patents with a filing date after March 15, 2016, a petitioner cannot request CBMR until nine months after issuance, or until after any instituted PGR proceeding against the patent has been terminated.

"Both domestic and foreign companies can take advantage of post-grant proceedings to cost effectively challenge issued US patents."

Similar to IPRs and PGRs, the AIA requires that the PTAB issue a final written decision on the patentability of any challenged claim within one year of issuing a final written decision granting a petition to institute a CBMR.

Unlike the other post-grant proceedings, to petition for CBMR, a petitioner must have been sued for infringement of the patent or have been charged with infringement of the patent, such that the petitioner would have standing to bring a declaratory judgment action in district court. Moreover, a petitioner cannot petition for CBMR if the petitioner has filed a civil action challenging patent validity.

Petitioners find CBMR particularly attractive because it offers the opportunity to argue invalidity on any ground, while only being estopped from asserting in a civil action or before the USPTO grounds of invalidity which the petitioner "actually raised" during the CBM review. However, recent Federal Circuit decisions have drastically narrowed which patents qualify as covered business method patents, rejecting the PTAB's initial broad application. Specifically, in order to be a covered business method patent, at least one claim of the patent must claim a "financial activity element." (*Secure Axcess, LLC v. PNC Bank Nat'l Ass'n et al.*, No. 2016-1353, 2017 WL 676601 (Fed. Cir. Feb. 21, 2017). Prior to the recent ruling, the PTAB had been more flexible, allowing CBM review of patents if the specification identified financial uses, for example.

Looking Forward

Both domestic and foreign companies can take advantage of post-grant proceedings to cost-effectively challenge issued US patents. We expect that IPRs will continue to be the dominant post-grant proceeding before the PTAB, for both domestic and international patent challengers. Whether the PTAB or the courts impose additional restrictions or relax recent restrictions on procedural aspects will further impact the utility of post-grant proceedings.

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Rob Kohse oversees and protects the intellectual property rights of clients in the United States and abroad. His practice encompasses patent infringement, licensing disputes, trade secret protection and unfair competition. Rob has been involved in numerous aspects of the patent litigation. He conducts pre-filing investigation activity and fact and expert discovery; prepares claim construction, summary judgment, and judgment as a matter of law (JMOL) briefs; takes and defends depositions of experts and non-experts; and presents oral argument in court. Rob assists with cases in both federal and state courts and represents clients in alternative dispute resolution, such as arbitration and mediation. He can be reached at robkohse@eversheds-sutherland.com.

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