



Australian Government

IP Australia

Consultation Paper

**Incorporation of
Patent and Trade Marks Attorneys**

October 2007

This consultation paper outlines the preferred incorporation model for patent and trade marks attorneys following discussions with peak representative organisations.

The proposed model provides for individual patent attorneys to retain personal responsibility for discipline and complaints; a Code of Conduct to apply to all individual attorneys within a company; and an incorporated patent attorney company must have at least one director who is a registered patent attorney. There will also be a compulsory requirement for all patent attorneys whether they are incorporated or not to have professional indemnity insurance.

Written comments are sought on this paper by 30 November 2007.

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Confidentiality

All submissions will be treated as public unless requested otherwise.

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1. Summary

- 1.1.1. IP Australia is considering a scheme that removes the current bar on a company carrying on business as a patent attorney, particularly in light of the fact that all States and Territories in Australia now allow companies to provide legal services. We have also considered a number of legislative options which would best allow companies to act as patent attorneys.
- 1.1.2. After considering the regimes that apply to a number of professions, we have identified a preferred model based on provisions in the model law for the legal profession.
- 1.1.3. The model would require companies to notify the Designated Manager that the company will be acting as a patent attorney.
- 1.1.4. This paper also sets out the amendments required to put the model in place to allow companies to describe themselves as trade marks attorneys.
- 1.1.5. The model provides that:
 - individual patent attorneys should be required to retain personal responsibility for discipline and complaints and this would be the case whether they are directors, employees or have another role in the company;
 - the Code of Conduct should apply to all individual attorneys regardless of the legal entity within which they practice (currently there is no legislative requirement to comply with the Code of Conduct and that it may need to be updated to reflect any proposed amendments to allow incorporated patent attorneys);
 - incorporated patent attorneys must have at least one director who is a registered patent attorney (a patent attorney director);
 - it may be necessary to have one patent attorney director responsible for management of the company and in particular the discipline and professional obligation aspects; and
 - in defined circumstances, the Patents Act will prevail over any inconsistency between that Act and the *Corporations Act 2001* (the Corporations Act);
 - the requirement for compulsory professional indemnity insurance.
- 1.1.6. Under this model, a company that proposes to act as a patent attorney must have at least one patent attorney director and must notify the Designated Manager before starting to act as a patent attorney. Such companies would be known as incorporated patent attorneys.
- 1.1.7. As well as the patent attorney director and initial notification requirements, this model:
 - requires an incorporated patent attorney to notify the Designated Manager if it ceases to act as a patent attorney;

- specifies the consequences of not having a patent attorney director for more than 7 days¹;
- only allows the officers and employees of the company to prepare a specification, or a document relating to an amendment of a specification, if the officer or employee is acting under the instructions or supervision of a registered patent attorney or the amendment is directed by a court order;
- makes it clear that officers and employees of a company that act as a patent attorney who are themselves registered patent attorneys must comply with their statutory obligations and that they retain their privileges.

1.1.8. The proposed model is adapted from certain provisions in the Model Bill (http://www.ag.gov.au/www/agd/agd.nsf/Page/Publications_Legalprofessionmodellawsproject-ModelProvisionsAugust2006). In the details below we have identified the equivalent provision of the Model Bill in brackets.

1.1.9. The Code of Conduct should apply to all individual patent attorneys regardless of the legal entity within which they practice. Currently there is no express legislative requirement to comply with the Code of Conduct. However, the Administrative Appeals Tribunal has considered the content of the Code of Conduct when considering whether a registered patent attorney has committed unprofessional² conduct or unsatisfactory conduct².

1.1.10. The Patents Act would be amended to make it clear that registered patent attorneys are subject to the Code of Conduct. This then allows the legislation to also make it clear that an individual registered patent attorney, who is an employee or officer of a company that acts as a patent attorney, is still subject to the Code of Conduct.

2. Background

2.1. General

2.1.1. Section 201(5) of the Patents Act 1990 restricts the structure of a patent attorney practice to a partnership in the following terms:

- (5) A company must not carry on business, practise, act, describe itself or hold itself out, or permit itself to be described or held out, as a patent attorney or agent for obtaining patents.

Penalty: \$15,000.

2.1.2. The appropriateness of that structure has been raised a number of times including at the time of the 1996 review into the regulatory regime for patent attorneys (the “Johns Committee” review). During the Johns Committee review it was proposed in submissions that the restriction should be removed and attorneys should be able to practise through a corporate structure. The Johns Committee recommended to Government that section 201 (5) of the Patents Act be repealed to permit incorporation of patent attorney firms, but action be

¹ The number of days suggested in based on the Model Bill which allows incorporated legal practices to not have a legal practitioner director for 7 days. A different period could be specified for incorporated patent attorneys.

² *John Peter Gahan and Professional Standards Board for Patent and Trade Marks Attorneys* [1998] AATA 474

deferred until a Code of Conduct for patent attorneys was established and the Board provided a further report on detailed arrangements for incorporation having regard to the need to provide flexibility, improved competition and to protect the interests of clients. The Government accepted the recommendation.

- 2.1.3. The Professional Standards Board for Patent and Trade Marks Attorneys (the Board) concluded a further review in April 2004 - *Review of the Regulatory Regime for Patent and Trade Marks Attorneys*, 12 May 2004. The Board in its April 2004 review went on to recommend that, while incorporation was the most likely outcome, any decision on the incorporation regime applying to patent or trade marks attorneys should be delayed until the decision of the Standing Committee of Attorneys General on incorporation in the legal profession is known. The Government accepted this recommendation.
- 2.1.4. The Standing Committee of Attorneys-General have since endorsed the National Legal Profession Model Bill (the Model Bill) and Model Regulations. Most States and Territories have adopted the provisions of the Model Bill and Model Regulations. Part 2.7 of the Model Bill deals with the incorporation of legal practices.

2.2. *Inconsistency between the Patents Act and the Corporations Act*

- 2.2.1. Annexure 1 sets out an analysis of potential inconsistency between the Patents Act and the Corporations Act.

2.3. *Trade Marks Act 1995*

- 2.3.1. The Designated Manager is also responsible for the registration of trade marks attorneys and a person may meet the requirements to be registered as both a trade marks attorney and a patent attorney.
- 2.3.2. Unlike the Patents Act, the *Trade Marks Act 1995* (the Trade Marks Act) does not prevent a person from undertaking actions on behalf of a person who is entitled to make them under the Trade Marks Act (e.g. applying for the registration of a trade mark). Further it does not prevent a person from acting as a trade marks attorney. Rather it prevents a person (including a company) from describing himself or herself as a trade marks attorney or trade marks agent unless certain conditions are satisfied (s 156 of the Trade Marks Act).
- 2.3.3. The Trade Marks Act will also need to be amended to implement the model.

2.4. *Incorporated legal practices*

- 2.4.1. As indicated above, all States and Territories have made amendments to their legislation to allow incorporated legal practices. It may be necessary to amend the Patents Act and the Trade Marks Act to accommodate these practices, e.g., to exempt an incorporated legal practice from the existing prohibitions on acting as a patent attorney if an officer or employee who is a legal practitioner who is acting in accordance with s 202 of the Patents Act (which prohibits a legal practitioner from preparing a specification, or a document relating to an amendment of a specification, unless the practitioner is acting under the instructions of a registered patent attorney or the amendment has been ordered by a court).

3. Notification regime incorporating certain provisions of the Model Bill

3.1. Details

3.1.1. The Patents Act would be amended to:

Definitions

- What definitions are needed will depend on the form of the amendments, but is likely to include the following definitions:

company has the same meaning as in the Corporations Act;

director has the same meaning as in section 9 of the Corporations Act;

patent attorney director means a director of a company that is a registered patent attorney;

incorporated legal practice means a company that is providing legal services in accordance with a relevant state or territory law.

- define any other terms as required;

Becoming an incorporated patent attorney

- require an incorporated patent attorney to have at least one patent attorney director (unless the director or directors are not validly appointed) (ss 2.7.9(1) and 2.7.9(6));
- define an incorporated patent attorney to mean a company that has a patent attorney director and acts as a patent attorney (s 2.7.3(1));
- exclude from the definition of incorporated patent attorney companies who act as a patent attorney for free and in-house patent attorneys (s 2.7.3(2))³. This would reflect sub-sections 201(7) and 201(8) of the Patents Act which currently exclude free and in-house advisors from the offence provisions;
- require a company to notify the Designated Manager, in writing, before it can act as a patent attorney (s 2.7.6(1)). This may include notifying who the patent attorney director is;
- provide that a company commits an offence if the company acts or describes itself as a patent attorney and it is not an incorporated patent attorney that has notified the Designated Manager (s 2.7.6(2));
- if a company has been acting as a patent attorney without notifying the Designated Manager, require the company to notify the Designated Manager of its failure to notify and the fact that it has started to act as a patent attorney (s 2.7.6(3));
- make it clear that complying with the requirement to notify the Designated Manager that the company failed to provide the necessary initial notice and that it has started to act as a patent attorney does not affect a company's liability for failing to provide the initial notice (s 2.7.6(4));

³ It may be necessary to also exclude incorporated legal practices - see above.

Ceasing to act as a patent attorney

- require an incorporated patent attorney to notify the Designated Manager, within a prescribed period, that it has ceased to act as a patent attorney (s 2.7.8(1));
- allow the regulations to make provision for or with respect to determining whether and when a corporation ceases to act as a patent attorney (s 2.7.8(2)); For example, the regulations may provide for cases where the company no longer exists.

Ceasing to have a patent attorney director

- make it an offence for an incorporated patent attorney to not have a director who is a registered patent attorney for a period exceeding 7 days⁴ (directors do not include those who have not been validly appointed) (ss 2.7.11(1) and 2.7.11(9));
- provide that an incorporated patent attorney cannot provide the services of a patent attorney during a period where it is in breach of these provisions (s 2.7.11(3));
- make it an offence for an incorporated patent attorney to not inform, as soon as possible, the Designated Manager that the company ceased to have any patent attorney directors (s 2.7.11(2));
- make it clear that an incorporated patent attorney is in contravention of these provisions from the end of the 7 days unless it has at least one director who is a registered patent attorney (or a person has been appointed in accordance with the optional provisions) (s 2.7.11(4));

Obligations of a patent attorney director

- provide that each patent attorney director, for the purposes of the Patents Act only, is responsible for the management of the services the company provides as a patent attorney (s 2.7.9(2));

Obligations on registered patent attorneys

- make it clear that a registered patent attorney who is an employee or officer of an incorporated patent attorney is not excused from compliance with the Patents Act, the Patents Regulations and the Code of Conduct (ss 2.7.12(1), 2.7.17 and 3.2.6);

Restrictions on the work of officers and employees who are not registered patent attorneys

- prohibit an employee or officer of a company who is not a registered patent attorney from preparing a specification, or document relating to an amendment of a specification, unless the person is acting under the instructions or supervision of a registered patent attorney or the amendment has been directed by an order under s 105 of the Patents Act (this would be similar to s 202A);

Privileges

- provide that the privileges in section 200 and those prescribed are not excluded or otherwise affected because the registered patent attorney is acting in the capacity of an officer or employee of an incorporated patent attorney (s 2.7.12(3)); **Note that this provision merely ensures that privileges apply appropriately to incorporated**

⁴ The number of days suggested in based on the Model Bill which allows incorporated legal practices to not have a legal practitioner director for 7 days. A different period could be specified for incorporated patent attorneys, for example 7 days or as extended by the Designated Manager.

patent attorneys. IP Australia is currently considering privileges more generally in light of recent Federal Court decisions on patent attorney privilege and may consult separately on those issues.

Implications of the Corporations Act

- except in clearly defined circumstances provide that the obligations on a patent attorney director under the Patents Act, the Patents Regulations and the Code of Conduct do not override obligations under other legislation including the Corporations Act (s 2.7.34 and cf s 2.7.9(5));
- make it clear, to the extent of clearly identified instances, that the Patents Act, the Patents Regulations and the Code of Conduct will prevail over the constitution or replaceable rules or a combination of both of an incorporated patent attorney (s 2.7.32).

Insurance

- require registered patent attorneys including those in an incorporated law practice and incorporated patent attorneys to have professional indemnity insurance (s 2.7.13)⁵;

At this stage, it would seem preferable that such compulsory arrangements be provided for through non-onerous provisions. Patent Regulations, for example, would require registered patent attorneys to hold PII cover of at least \$500,000. To ensure that this requirement is met, the Designated Manager would need to be assured that prior to registering or renewing the registration of a patent attorney, the patent attorney holds or intends to hold PII. In addition, the disciplinary regulations would provide that a patent attorney without PII is sufficient grounds not to grant registration or to take action against a patent attorney. It would be proposed that the Code of Conduct for Patent and Trade Mark Attorneys provide some guidance on PII issues around policy coverage.

- 3.1.2. The definition of patent attorney in the Trade Marks Act will also need to be amended to include incorporated patent attorneys who have provided the relevant notice to the Designated Manager.

3.2. *Optional provisions*

- 3.2.1. The following provisions, in our view, are optional. IP Australia believes (except where indicated to the contrary) that these optional provisions are not necessary or are already adequately covered by existing Corporations law, the Criminal Code, or the Patent & Trade Marks Attorneys Code of Conduct. However, we would welcome any views on these provisions.

Purpose provision

- incorporate a purpose provision (s 2.7.1);

Becoming an incorporated patent attorney

- include an ability to impose conditions on in-house patent attorneys and companies that act as patent attorneys for free (s 2.7.3(3));
- prohibit an incorporated patent attorney from providing other specified services (s 2.7.4);

⁵ This requirement could also be imposed on sole practitioners and partners and employees of a partnership who are registered patent attorneys.

In our view, these provisions are not necessary.

Ceasing to have a patent attorney director

- allow an employee who is a registered patent attorney or another person to be appointed by the Designated Manager to exercise or perform the functions or duties conferred on a director who is a registered patent attorney under these provisions for a period when the company does not have a patent attorney director (s 2.7.11(5));
- make it clear that the appointment of a person under these provision does not, for any other purpose, confer or impose on the person any of the other functions or duties of a director of the incorporated patent attorney (s 2.7.11(7));
- provide that an incorporated patent attorney does not breach these provisions when a person has been appointed as described above (s 2.7.11(8));

IP Australia considers that these provisions may provide additional flexibility in the scheme, for example in the case of a deceased estate or other circumstances where a director cannot be appointed within 7 days. However, this needs to be balanced with keeping administration of the scheme simple and efficient for both the Government and for patent attorneys.

Obligations of a patent attorney director

- provide that each patent attorney director must ensure the appropriate management systems are implemented and maintained to enable patent services to be provided in accordance with the Patents Act, the Patents Regulations and the Code of Conduct (s 2.7.9(3));
- require a patent attorney director to take all reasonable action to ensure that breaches do not occur and appropriate remedial action is taken in respect of breaches that do occur (s 2.7.9(4));
- require a patent attorney director to ensure that all reasonable action available to him or her is taken to deal with any unsatisfactory professional conduct or professional misconduct of an employee who is a patent attorney (s 2.7.10(3))⁶;
- prescribe what will be unsatisfactory or unprofessional conduct by a patent attorney director including unsatisfactory or unprofessional conduct of a registered patent attorney who is employed by the incorporated patent attorney or a director of an incorporated patent attorney (except where the patent attorney takes reasonable steps) (ss 2.7.10(1) and (2));

IP Australia considers that these provisions may provide additional consumer protection, although the last point could possibly be included in the Code of Conduct.

Conduct of employees or officers who are not patent attorneys

- require an incorporated patent attorney that provides other services to notify clients whether the services they have requested will not be provided by a registered patent attorney (s 2.7.15);

⁶ Alternatively these requirements could be imposed by prescribing them as matters that may be considered in disciplinary action in relation to the director.

- specify the duty of care that applies if the notification requirements specified immediately above are not satisfied (s 2.7.16);

There are currently no equivalent provisions in relation to partnerships. We believe this requirement could be better met by inserting a provision similar to section 202A (which relates to members of partnerships who are not registered patent attorneys preparing specifications etc).

Disqualification of company or manager

- allow a company to be disqualified from acting as a patent attorney (s 2.7.24);
- allow a person to be disqualified from managing an incorporated patent attorney (s 2.7.25);

Currently, there is no equivalent provision in relation to partnerships or in relation to partners in a partnership that acts as a patent attorney. In our view, these provisions are not necessary in the Patents Act.

Powers of the Designated Manager

- allow incorporated patent attorneys to be audited (ss 2.7.22 and 2.7.23)⁷;
- allow the Designated Manager to intervene in proceedings under Chapter 5 of the Corporations Act (s 2.7.27);

There are currently no auditing powers in relation to partnerships or sole practitioners. At present, we see no need for the audit powers or for the Designated Manager to intervene in proceedings under the Corporations Act.

Conflicts

- provide that in relation to conflicts of interest the interests of the company or a related company are also taken to be those of a director, officer or employee of the company who is a registered patent attorney (in addition to any interests that the attorney has apart from this provision) (s 2.7.14(1));
- allow regulations to prescribe any additional duties or obligations in connection with conflicts of interest (s 2.7.14(2));

This could possibly be dealt with in the Code of Conduct. In relation to the second dot point, no provisions have been included in the Model Regulations.

Vicarious liability

- extend the vicarious liability of the company so that it is the same as for a partnership in certain circumstances (s 2.7.19);

In our view this provision is not necessary.

Other offences

- provide that it is an offence to cause, induce or attempt to cause or induce a patent attorney director or other patent attorneys who provide legal services on behalf of an

⁷ The same power could be inserted in relation to sole practitioners and partnerships.

incorporated patent attorney to contravene the Code of Conduct or any other professional obligations as a patent attorney (s 2.7.35);

In our view this is adequately covered by the Criminal Code. The Criminal Code will cover attempt, incitement, aiding, abetting, counselling or procuring an offence.

- prohibit a director, officer, employee or agent of a company from advertising etc that the company is an incorporated patent attorney unless notice has been given to the Designated Manager (s 2.7.7);

Section 201(5), as amended to fit in with incorporated attorneys, would cover companies engaging in this type of activity. We do not think a separate provision is necessary.

- restrict the relationship between incorporated patent attorneys and deregistered patent attorneys (s 2.7.21);

We believe that this provision is not necessary. There are currently no equivalent provisions for partnerships. Where a person is deregistered, he or she would not be able to act as a patent attorney nor instruct or supervise a non-patent attorney.

External intervention

- allow external intervention (appointment of a manager or receiver) to occur where an incorporated patent attorney ceases to be an incorporated patent attorney, is being or has been wound up, has been deregistered or dissolved (s 5.2.1);
- specify what happens if a receiver is appointed under these provisions and an (external) administrator has been appointed under the Corporations Act (s 2.7.29);
- expressly allow for court co-operation and communication in relation to these matters (s 2.7.31).

In our view this provision is not necessary.

3.3. Trade Marks Act

3.3.1. Under this model, the Trade Marks Act will need to be amended to:

- allow a company describe itself as a trade marks attorney if, and only if, it has a trade marks director and has notified the Designated Manager (s 156 of the Trade Marks Act will need to be amended);
- require an incorporated trade marks attorney to notify the Designated Manager if it ceases to describe itself as a trade marks attorney;
- specify the consequences of not having a trade marks attorney director for more than 7 days⁸;
- make it clear that officers and employees of a company that describes itself as a trade marks attorney who are themselves registered trade marks attorneys must comply with their statutory obligations and that they retain their privileges;

⁸ The number of days suggested in based on the Model Bill which allows incorporated legal practices to not have a legal practitioner director for 7 days. A different period could be specified for incorporated patent attorneys.

- make it clear that s 129 of the Trade Marks Act does not make a company acting as a trade marks attorney liable to an action for an act done in a professional capacity on behalf of a client.

Annexure 1 Potential inconsistencies between the Corporations Act and Patents Act

We propose that the Patents Act, the Patents Regulations and the Code of Conduct will only prevail in defined circumstances over any inconsistency between them and the Corporations Act. This is particularly relevant in relation to the area of a director's responsibilities provided for under the Corporations Act.

We also propose a provision making it clear that the Patents Act and subsidiary legislation should only prevail over any inconsistency between patents legislation and the constitution, replaceable rules or both of a company in defined instances.

Replaceable rules and constitution

The internal administration and management of a company is governed by its constitution, or otherwise by the 'replaceable rules'. Companies formed after 1 July 1998 have the choice of whether to include particular provisions as their constitutions or be governed by replaceable rules contained in the Corporations Act or a combination of both (s 135 of the Corporations Act).

Section 140 of the Corporations Act provides that a company's constitution (if any) and any replaceable rules that apply to the company as a contract:

- a) between the company and each member; and
- b) between the company and each director and company secretary; and
- c) between a member and each other member;

under which each person agrees to observe and perform the constitution and rules so far as they apply to that person.

Section 141 of the Corporations Act sets out the provisions of the Corporations Act that apply as replaceable rules⁹.

It is possible that some of the replaceable rules may conflict with the Patents Act. For example, s 201K(1) of the Corporations Act provides that '[w]ith the other directors' approval, a director may appoint an alternate to exercise some or all of the director's powers for a specified period.'

Hence, the Patents Act may need to be amended to make it clear that the Patents Act, the Patents Regulations and the Code of Conduct override inconsistencies between them and a company's replaceable rules, constitution or both.

⁹ Sections 194, 198A, 198B, 198C, 201G, 201H, 201J, 201K, 202A, 203A, 203C, 203F, 204F, 247D, 248A, 248C, 248E, 248F, 248G, 249C, 249J(2), 249J(4), 249J(5), 249M, 249T, 249U, 249W(2), 249X, 250C(2), 250E, 250F, 250G, 250J, 250M, 254D, 254U, 254W(2), 1072A, 1072B, 1072D, 1072F and 1072G of the Corporations Act.