



Australian Government

IP Australia

Position Paper

**Overview of responses to the public consultation paper
*Incorporation of Patent and Trade Marks Attorneys***

December 2007

Introduction

This paper provides an overview of the feedback received in response to IP Australia's consultation paper *Incorporation of Patent and Trade Marks Attorneys*¹. The consultation paper was released on 17 October 2007 with comments due by 30 November 2007.

The consultation paper was made available on IP Australia's website inviting comment from the general public.

In addition to broadcast advice circulated to IP Australia's "What's New" subscriber network, the consultation paper was forwarded to the:

- Institute of Patent and Trade Mark Attorneys (IPTA);
- Law Council of Australia;
- International Federation of Intellectual Property Attorneys (FICPI);
- New Zealand Intellectual Property Association (NZIPA); and
- Australian Manufacturers' Patents, Industrial Designs, Copyright and Trade Mark Association (AMPICTA).

Background

IP Australia proposes to remove the current bar on a company carrying on business as a patent attorney, particularly in light of the fact that all Australian States and Territories now allow companies to provide legal services.

The identified preferred model is based on provisions in the model law for the legal profession. The model would require companies to notify the Designated Manager² that the company will be acting as a patent attorney.

The consultation paper also sets out amendments required to put the model in place to allow companies to describe themselves as trade marks attorneys.

Summary

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;

¹ The consultation paper can be found at http://www.ipaustralia.gov.au/resources/news_new.shtml#61.

² The Designated Manager will be defined as the Director General, IP Australia.

- the Code of Conduct³ 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;
- in defined circumstances, the Patents Act will prevail over any inconsistency between that Act and the *Corporations Act 2001* (the Corporations Act); and
- the requirement for compulsory professional indemnity insurance.

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.

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 seven days⁴;
- 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; and
- 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.

³ The current Code of Conduct can be found at <http://www.psb.gov.au/pdfs/code.pdf>. The Code of Conduct will require reworking following the changes contemplated through incorporation and the expected changes to the patent and trade marks regulations which regulate the registration and discipline of patent and trade marks attorneys.

⁴ The number of days suggested is based on the Model Bill which allows incorporated legal practices to not have a legal practitioner director for seven days. A different period could be specified for incorporated patent attorneys.

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).

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.

Submissions received and IP Australia's position

Nine submissions were received during the consultation process with a short extension of time granted to one respondent. Submissions were received from:

- AMPICTA
- Clayton Utz, Lawyers
- Dr Kerry Hubick, Registered Patent and Trade Mark Attorney
- Freehills, Patent & Trade Mark Attorneys
- Griffith Hack, Patent & Trade Mark Attorneys
- Roger Syn & Co, Patent & Trade mark Attorneys
- Sandercock & Cowie, Patent Trade Mark & Design Attorneys
- The Australian Federation of Intellectual Property Attorneys
- The Institute of Patent and Trade Mark Attorneys of Australia

The submissions indicated that there was a uniform level of support to the proposal to legislate to allow for the incorporation of patent and trade marks attorneys.

Most feedback focused on the issue of professional indemnity insurance (PII).

Feedback highlights on this matter are outlined below.

Proposed compulsory PII cover

The consultation paper proposed that registered patent attorneys will be required to have PII. The paper also indicated that although the requirement would be compulsory, it would be provided for through non-onerous provisions and that the required minimum cover of \$500,000 was suggested.

Feedback

Comments received mentioned that the consultation paper gave no details or guidance on whether PII cover would be required to be placed with an Australian authorised insurer. The argument was made that some legal firms have the benefit of a history of PII cover over many years written by insurance companies located in markets that are not subject to Australia Prudential Regulatory Authority control or authorisation⁵.

A number of the more substantive submissions fully supported the proposal that all clients using registered patent attorneys (incorporated or non-incorporated) have assurance that there will be PII at a reasonable minimum level of cover. It was pointed out, however, that it was important to be clear that it is the responsibility of each advising entity that has to meet this requirement and not each registered attorney within the entity. It is the entity that would be sued that needs to have the cover.

Submissions were also made that legal firms would wish to avoid the situation where a lawyer employed by a legal firm and who is also a trade marks attorney would be required to hold dual PII cover.

Submissions received from registered patent and trade marks attorneys who were working as a sole practitioner or working in a small scale office situation acknowledged that it is beneficial for all parties in the provision of and receipt of expert advice to be protected by PII. Concern was expressed, however, that the model adopted should take into account the objective of providing cost-effective patent and trade marks services to the whole community, not just to those organisations that have significant financial resources to allocate to intellectual property matters.

The point was made that patent and trade marks attorneys who are sole operators and who may offer their services on a part-time basis, should not be disadvantaged by any new model. It was suggested that small operators could be driven from the market if the cost of PII is high.

Another line of reasoning proposed that a regulated need for PII carried with it a concomitant requirement of government to provide a blanket insurance scheme for small operators by charging an additional amount incorporated into the annual patent and trade marks attorneys' registration fee.

One respondent outlined that smaller practices attract individual local inventors resulting in patent applications that rarely mature past the provisional application stage. In these cases, it was viewed that the degree of professional risk may be less onerous than the degree of exposure that occurs when handling patent applications for more serious/corporate clients.

⁵ Insurance companies located in other markets are, however, subject to regulation. For example, the Financial Services Authority is an independent body that regulates the financial services industry in the UK.

Under these circumstances the need for PII for the part-time or “retired-practicing” attorney was seen as without foundation.

IP Australia position

Employment fields providing professional advice and services are increasingly required to have in place some form of professional indemnity insurance cover. Such arrangements whether they are mandated through legislative regimes; or through rules of professional conduct; or through good business practices are an essential element in current risk management procedures.

The following outlines some of these already mandated requirements:

- Legal practitioners are compulsorily required to hold PII. The usual requirement is that law society councils under direction from State and Territory legal professional legislation cannot grant or renew a practising certificate unless satisfied that there is or will be in force an approved indemnity insurance policy. There are provisions around the adequacy of a PII policy and how the requirement for PII is enforced. Lawyers can have their practising certificate suspended or cancelled by a licensing authority including on the grounds where a PII policy is no longer current or adequate. In some cases failure to hold a PII policy is linked to professional ethical and practice standards.
- The Corporations Act and Regulations (Cwlth) require Australian Financial Service licensees who provide services to retail clients to have arrangements in place to compensate clients for loss suffered through breaches of relevant obligations by the licensees. These arrangements are subject to a requirement to hold PII cover that is adequate. It is proposed that the Australian Securities and Investments Commission will provide guidance to licensees in meeting the “adequacy” requirement.
- Other Australian schemes regulating professions requiring PII include arrangements covering migration agents (Cwlth) and licensed conveyancers (NSW). The Treasury (Cwlth) has released an exposure draft of a bill which would enable the Tax Practitioners Board to impose a requirement to hold PII on registered tax agents.
- PII for practicing chartered accountants is compulsory under rules of the Institute of Chartered Accountants in Australia.
- New South Wales legislation⁶ provides that the NSW Psychologists Registration Board must not register a person to practice psychology⁷ in NSW unless it is satisfied that the person is covered by PII. Unless an

⁶ *Health Care Liability Act 2001* (NSW)

⁷ A range of other NSW health practitioners are required to have PII cover.

exemption to this requirement is advised⁸, practising as a psychologist without PII cover amounts to unsatisfactory professional conduct⁹.

- There is no legislative requirement on registered patent or trade mark attorneys in the United Kingdom to hold PII. Nevertheless, the rules of professional conduct¹⁰ of the Chartered Institute of Patent Attorneys requires its members offering IP services in private practice to ensure funds are available to compensate a client who suffers loss as a result of a member's negligence. Those funds are to include PII cover of a least £250,000 (AUD\$573,000).

IP Australia recognises that a significant proportion of patent and trade marks attorney work is undertaken within law firms which also offer other services across a wide spectrum of legal advice and advocacy. It is appreciated from comments received that these offices have in place reasonable PII cover. This cover is supplied by a range of providers located in Australia and overseas. It is not intended that any legislative changes would impact on these insurance partnerships, which in some cases have a long history.

Within this context of entity PII cover, it is not proposed that registered practising patent attorneys employed by entities with suitable insurance cover also have individual PII cover. To satisfy any proposed registration requirement, patent attorneys may, however, need to state the name of the insurer, policy number of policy expiry date.

Dual cover was also raised as an issue where a lawyer employed by a legal firm is also a trade marks attorney. This would not be an issue as long as the PII cover already in place provides for work in the trade marks area of the practice. Otherwise, the firm will need to ensure that the PII cover is extended to ensure that it does to be compliant with these proposals.

IP Australia is cognizant of the impact of a mandated PII scheme on a limited number of small scale patent and trade marks practitioners and "retired practicing" attorneys. PII will be additional cost burden in circumstances where professional indemnity insurance is not currently a consideration for reasons given in one or two submissions mentioned above. At the same time, however, professional indemnity insurance should be a relevant business practice consideration when a person is in the business of giving expert advice and people are relying and acting on that advice. This is particularly so in circumstances where that advice is being given for a consideration and may have an adverse impact of the financial affairs of the person seeking the advice.

The Australian community also expects that where government sees a role in regulating working arrangements of relevant professions (see above for some examples), an informed public would also expect that there be in place

⁸ *Health Care Liability Regulation 2007* (NSW)

⁹ *Psychologists Act 2001* (NSW)

¹⁰ See section 8 of the Rules of Professional Conduct at <http://www.cipa.org.uk/download/rules.pdf>

suitable remedies through which action could be taken to seek recourse when circumstances dictate.

Notwithstanding the size of a patent or trade marks attorney's practice, all practicing attorneys providing advice to the public should have in place PII to suit their practicing situation.

For this reason, IP Australia will, in the spirit of seeking to mandate the requirement for practising patent and trade marks attorneys to hold PII cover on non onerous legislative basis, reconsider the need to legislate for a minimum PII cover¹¹. The level of cover may be left to individuals or firms to decide upon in consultation with their selected insurance agent and their business risk assessment profile.

This approach is taken in the NSW Health Care Liability Act which provides that a person is not entitled to practise as a health practitioner unless covered by professional indemnity insurance. Section 25 (4) of the Act prescribes that *Practising as a health practitioner without being covered by professional indemnity insurance is ... unsatisfactory professional conduct*. Section 25(3) of the Act prescribes that the appropriate registration authority:

a) must not register a person as a health practitioner unless the authority is satisfied that the person will, while practising¹² as a health practitioner, be covered by professional indemnity insurance, and

b) may cancel or suspend the registration of a person as a health practitioner if the authority is satisfied that the person is not covered by professional indemnity insurance while the person is practising as a health practitioner.

This approach leaves it up to individual health practitioners to decide on their level of risk and the PII cover needed to guard against that risk. The registration authority only needs to be assured that the applicant holds PII if required and be advised of the name of the insurer, policy number and the policy expiry date.

There will be circumstances where a register patent attorney may not need to make PII arrangements. These circumstances could include patent attorneys working in a public/government situation or in private enterprise employment situation where innovation is a consideration. For example, in corporations where research and development forms part of the enterprise profile.

The point made by one respondent to the consultation paper that mandated PII carried with it a requirement for government to provide a blanket insurance scheme for small operators by charging an additional amount incorporated into the annual patent and trade marks attorneys' registration fee, has a number of policy and operational issues that government would not find

¹¹ The consultation paper suggested a minimum cover of \$500,000.

¹² Our underline.

attractive. For example, governments now avoid wherever possible involvement in commercial enterprises that are provided by a number of suppliers in the private sector. Competition can be a useful way to minimise costs to the consumer. Operationally, such a scheme poses many difficulties including issues of cross subsidization and administration.

Acknowledgement

IP Australia wishes to thank all those people who made input to responses to the consultation paper. These inputs and views will help the Australian Government's consideration of the issues and in the drafting of amendments to Australia's primary intellectual property legislation.