

**IN THE MATTER OF THE INTELLECTUAL PROPERTY REGULATION BOARD JOINT
DISCIPLINARY PANEL**

**AND IN THE MATTER OF THE PATENT REGULATION BOARD AND THE TRADE MARK
REGULATION BOARD**

**AND IN THE MATTER OF THE RULES OF CONDUCT FOR PATENT ATTORNEYS, TRADE MARK
ATTORNEYS AND OTHER REGULATED PERSONS**

PRACTICE NOTE & GUIDANCE

Introduction

1. This Practice Note & Guidance is issued jointly by IPReg and the IPReg Joint Disciplinary Panel consistent with and in order to further the Regulatory Objectives defined in S.1 of the Legal Services Act 2007.
2. This Practice Note & Guidance is issued under the powers conferred on IPReg in Rules 3.2(c) & (d) of the Disciplinary Procedure Rules and therefore constitutes “Guidance” as defined in Rule 2 of the Rules of Conduct.
3. In this Practice Note & Guidance “Regulated Persons” refers both to Patent Attorneys and Registered Trade Mark Attorneys and therefore carries the same meaning as in the Rules of Conduct.

Context

4. A recent decision of the Joint Disciplinary Panel (IPReg v Rickard) has identified uncertainty amongst Regulated Persons, especially those who have a multi-jurisdictional practice and client-base, in relation to the circumstances in and extent to which they may contract with their clients on terms that operate to secure payment of

their fees and disbursements; in particular, the circumstances in which they might seek to claim something more than a lien permissible in law.

5. Rule 13 of the Rules of Conduct permit Regulated Persons to:

“..exercise a lien over client papers and other materials belonging to a client only when and to the extent that the lien is available in law or the lien is an express term of business to which the client has agreed.”

6. Any claim by a Regulated Person to rights over the papers and other materials belonging to a client will in most cases engage Rule 7 – Conflicts and Rule 5 – Integrity, in particular Rule 5.2.
7. Particular care is therefore needed when exercising any such right.
8. It has come to the attention of IPReg and the Joint Disciplinary Panel as a consequence of the proceedings resulting in the decision of IPReg v Rickard that some Regulated Persons seek to contract with their clients on terms that:

- (1) The Regulated Person purports to have an enduring power of attorney on behalf of their client permitting the Regulated Person to assign to the Regulated Person all title and rights in IP belonging to their client whether or not for the purpose of recovery of fees owed to the Regulated Person;
- (2) The Regulated Person benefits by contract from a purported “deemed assignment” of all title in IP belonging to their client which is reversed on payment of fees owed to the Regulated Person;
- (3) The Regulated Person may otherwise unilaterally acquire under contract title in IP belonging to their client in the case of any fees dispute or where fees remain unpaid in breach of the retainer agreed by the Regulated Person.

9. IPReg and the Joint Disciplinary Panel recognise that prompt and full payment of fees and disbursements is a serious and continuing problem for many Regulated Persons. It is especially recognised that liability to disbursements on behalf of clients can represent a considerable financial burden to many practices. It is also acknowledged that Regulated Persons frequently act for start-up businesses or SMEs who often need to acquire and exploit the benefit of the IP rights upon which the Regulated Person is retained to work before they can generate the revenue needed to pay the fees incurred in that retainer. It is recognised that as a consequence the relationship between Regulated Persons in the IP sector can be different from many other professional and lay client relations.
10. IPReg and the Joint Disciplinary Panel must however give primacy to the Regulatory Objectives defined in S.1 of the Legal Services Act 2007 and therefore provide the following guidance.

Guidance on rights asserted over client's property

11. All Regulated Persons must satisfy themselves that any lien claimed under Rule 13 of the Rules of Conduct is permissible in law.
12. Regulated Persons should always ask whether, even if permitted in law, the exercise of a lien nevertheless puts them in breach of Rule 5 – Integrity and Rule 7 – Conflicts. For example, if the Regulated Person has reasonable grounds to believe that their fees or disbursements might be open to reasonable challenge by the client, a claim to a lien in order to secure full payment of those fees could place the Regulated Person in breach of Rules 5 and/or 7.
13. Regulated Persons do not benefit from a statutory lien. The circumstances entitling a Regulated Person to claim a lien at common law are far from clear. Whilst stopping

short of requiring all Regulated Persons to claim only contractual liens, IPReg and the Joint Disciplinary Panel believe that in cases where there is no contractual right to claim a lien in the relevant terms of business a Regulated Person places themselves at a significantly increased risk of breaching Rules 5 and/or 7 in the event that they seek to retain their client's property to secure payment of fees and disbursements.

14. IPReg and the Joint Disciplinary Panel therefore urge all Regulated Persons who wish to benefit from the right to claim a lien to include in their terms of business clear contractual terms to that effect.
15. If terms of business include the right to claim a contractual lien Regulated Persons are also strongly urged to ensure that the terms of business are both read and understood by their client and signed in acknowledgement of that fact. In circumstances where terms of business are simply referred to on fee invoices or offered for inspection at the premises of the Regulated Person, there is a significantly increased scope for a dispute as to whether they apply at all and a consequently increased risk to the Regulated Person that they breach Rules 5 and/or 7 by claiming any lien in reliance on such terms of business.
16. IPReg and the Joint Disciplinary Panel recognise that in some instances, which they regard as likely to be rare, a Regulated Person may wish to go further in contracting with their client by acquiring rights over their client's property to secure payment of fees and disbursements. Because a contractual lien will in almost all cases be sufficient to secure that entitlement, any further claims to rights over the property of a client will be scrutinised very closely if a complaint of misconduct is raised against a Regulated Person.
17. A client might for example agree that the Regulated Person can benefit from a legal charge over the property of their client to secure payment of fees and disbursements.

Regulated Persons are reminded that any such right must involve independent legal advice to the client and any other person likely to be affected such as a spouse, the consent of any other charge holder and all agreements to be in writing.

18. Whilst every complaint will be considered on its facts and according to any special circumstances that apply to it, IPReg and the Joint Disciplinary Panel consider that the following contractual arrangements (regardless of their enforceability in law) would in most cases give rise to a prima facie breach of Rules 5 and/or 7 of the Rules of Conduct and would be treated as such:

- (1) Terms of business that purport to grant to the Regulated Person an enduring power of attorney to execute in the name of and on behalf of clients, the transfer of title in the client's property to the Regulated Person or to any other person or entity at the direction of the Regulated Person;
- (2) Terms of business that purport to create a "deemed assignment" to the Regulated Person of title in a client's property pending payment in full of fees and disbursements;
- (3) Terms of business that contain any purported contractual right or entitlement which permits the Regulated Person:
 - (i) To act unilaterally and without reasonable prior notice to their client to transfer title in their client's property; or
 - (ii) To act unilaterally and without reasonable prior notice to their client to irreversibly deal in their client's property or deal in a manner inconsistent with their client's rights and entitlements in that property;

in order to secure payment of fees and disbursements claimed by the Regulated Person.

19. Regulated Persons are reminded that in all cases where there is a dispute over fees and disbursements careful regard must be had to the Rules of Conduct, especially Rules 2, 5 & 9 when making a claim to a lien or any other right over a client's property. In this context Regulated Persons are reminded in particular of Rule 5.2(c) of the Rules of Conduct – the freedom of clients to instruct any person or firm to carry out their work or to change their representation.
20. This guidance having been given, IPReg and the Joint Disciplinary Panel will approach any complaint consistent with the use of such guidance described in Rule 2 of the Rules of Conduct. Failure to follow this guidance, without good cause, would therefore weigh in the balance against a Regulated Person in consideration of whether there is a prima facie case to answer under Rule 7 of the Disciplinary Procedure Rules and if so, in any subsequent consideration of breach by the Joint Disciplinary Panel.

January 22nd 2013.