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What Corporations Need to Know About the DOJ's Changing Criminal Enforcement Policies

The U.S. Department of Justice ("DOJ") has recently issued an unusually large number of policy revisions regarding corporate prosecutions, impacting the DOJ's approach to voluntary self-disclosure, corporate cooperation and compliance, and the prosecution of individual corporate employees. These revisions arise from and elaborate on Deputy Attorney General Lisa Monaco's September 2022 memorandum (the "Monaco Memo"), which directed DOJ divisions to implement policies encouraging corporations voluntarily to self-disclose misconduct, cooperate fully with investigations, adopt compensation systems that deter wrongdoing, and enact policies that regulate the use of personal devices and third-party messaging applications to conduct business.

In January 2023, Assistant Attorney General Kenneth A. Polite, Jr. ("AAG Polite") announced that the DOJ Criminal Division would revise its Corporate Enforcement Policy ("CEP") for the first time since 2017. Subsequently, in March 2023, AAG Polite announced that the Criminal Division would revise its Evaluation of Corporate Compliance Programs policy ("ECCP Policy") to encourage corporations to adopt compensation systems that deter misconduct and regulate the use of certain electronic communications and devices. The Deputy Attorney General also approved the U.S. Attorney's Offices ("USAO") Voluntary Self-Disclosure Policy ("VSD Policy") for corporate misconduct. Additionally, the DOJ Civil Division's Consumer Protection Branch ("CPB"), which also has criminal jurisdiction, announced its new Voluntary Self-Disclosure Policy ("CPB VSD Policy") for corporate criminal misconduct related to various consumer protection statutes that the CPB enforces. This article summarizes these policy changes and assesses what they mean for corporations.

Corporate Enforcement Policy ("CEP") Revisions

The Criminal Division's January 2023 revisions

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INSIDE

Prominent Commercial Litigator R. Allan Pixton Joins Quinn Emanuel in Chicago

Strengthening the firm's capabilities in complex multidistrict litigation and class-action defense, R. Allan Pixton has joined us as a partner, resident in Chicago. Pixton joins from Kirkland & Ellis, where he was a partner. He will be a member of the Complex Multidistrict Litigation (MDL) and the Class Action practice groups.

Samuel P. Nitze Joins Quinn Emanuel, Expanding Firm's Capabilities in White-Collar Work

Adding to its unmatched capabilities in white collar criminal defense, the firm has added Samuel P. Nitze as a partner. Nitze will be based in New York City, where until recently he served as a high-ranking prosecutor in the U.S. Attorney's Office for the Eastern District of New York.

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to the CEP attempt to create more uniformity in how the Division oversees corporate criminal matters and provide incentives for corporations to self-disclose corporate misconduct. Although the Division previously maintained policies for enforcement in matters involving corporate misconduct, those policies applied only to Foreign Corrupt Practices Act matters ("FCPA Policy"). The FCPA Policy established criteria for a corporation to receive credit for voluntarily self-disclosing misconduct, but the Division strictly applied the Policy and did not formally provide corporations with opportunities to receive credit if they only satisfied some of the criteria. The revised CEP—which applies to *all* corporate criminal matters—builds upon the Criminal Division's narrower policy for FCPA matters and establishes more pathways for a corporation to avoid prosecution or obtain a reduction in criminal penalties.

Much like the FCPA Policy, the CEP creates a presumption that the DOJ will decline to prosecute corporate criminal misconduct, if: (1) the corporation voluntarily self-discloses misconduct to the Division; (2) the corporation fully cooperates with the Division's investigation of the matter; (3) the corporation timely and appropriately remediates all relevant misconduct; *and* (4) there are no aggravating circumstances related to the misconduct at issue. Further, the corporation must agree to pay all disgorgement, forfeiture, and/or restitution obligations resulting from the misconduct.

The CEP has not materially altered how a corporation satisfies each of these prongs:

- **Voluntary self-disclosure:** The corporation must disclose misconduct to the Criminal Division within a reasonably prompt time after becoming aware of it and, in accordance with U.S. Sentencing Guidelines ("USSG"), prior to an imminent threat of disclosure or a government investigation. The corporation must disclose all relevant, non-privileged facts and evidence about the misconduct, including, but not limited to, information about any individuals known to be involved in or responsible for the misconduct. A corporation has not voluntarily self-disclosed if an agreement (*e.g.*, non-prosecution agreement) imposed a preexisting obligation on the corporation to disclose the misconduct at issue.
- **Full cooperation:** The corporation must timely disclose all non-privileged facts relevant to the misconduct at issue, proactively cooperate with any investigation (such as by disclosing all relevant facts, even if not required), and timely and voluntarily collect, preserve, and disclose all relevant documents and information related to the misconduct. The corporation must also take measures to prevent a corporation's internal investigation of misconduct from conflicting or interfering with a corresponding DOJ investigation and make employees and officers who possess relevant information available for interviews with the Criminal Division, to the extent permitted under the Fifth Amendment. These requirements mirror that of the FCPA Policy.
- **Timely and appropriate remediation:** The corporation must identify and remediate the root causes of the misconduct, implement an effective compliance and ethics program, appropriately discipline employees responsible for the misconduct, and retain business records and prohibit their improper deletion or destruction (including by implementing controls regulating the use of personal communications and third-party messaging applications to conduct business). The nature, resources, and size of the corporation govern what criteria it must follow to implement an effective compliance and ethics program. The corporation must also show that it took other measures demonstrating that it understands the seriousness of the misconduct, accepts responsibility, and has implemented safeguards to avoid repeating the misconduct.
- **Aggravating circumstances:** The presence of an aggravated circumstance generally precludes the presumption of a declination of prosecution. Aggravated circumstances include, but are not limited to: (1) the involvement of corporate executive management in the misconduct; (2) misconduct causing the corporation to make a significant profit relative to its overall profits; (3) egregious or pervasive misconduct; *and* (4) criminal recidivism. The FCPA Policy prescribed the same aggravated circumstances.

Unlike its predecessor, the CEP creates multiple pathways for a corporation engaged in misconduct to obtain a reduction in criminal penalties. Under the FCPA Policy, a corporation's voluntary self-disclosure, full cooperation, and timely and appropriate remediation would lead to a reduction in criminal penalties, even when the DOJ determined that aggravating circumstances were present and a criminal resolution was warranted. In such instances, the FCPA Policy directed prosecutors to agree to or recommend to a sentencing court a 50% reduction off of the low end of the USSG's fine range. Additionally, the FCPA Policy directed prosecutors to absolve cooperating corporations of any duty to appoint an independent monitor. Outside of this scenario, the FCPA Policy broadly afforded prosecutors' discretion to "assess the scope, quantity, quality, and timing of [a corporation's] cooperation based on the circumstances of each case," but did not prescribe specific criteria for

alternative remedies.

The CEP has made four significant changes to this enforcement paradigm to encourage more corporations to voluntarily self-disclose misconduct and cooperate with DOJ investigations. *First*, the CEP has increased the recommended reduction in criminal penalties from 50% to between 50 and 75%. *Second*, the CEP has directed prosecutors not to require cooperating corporations to enter guilty pleas, unless aggravating circumstances are particularly numerous or egregious. *Third*, even when the presence of an aggravated circumstance precludes the presumption of a declination, a prosecutor may nonetheless decline to prosecute if the corporation:

- Immediately and voluntarily self-disclosed misconduct after becoming aware of it;
- Maintained an effective compliance program and system of internal accounting controls at the time when the misconduct and the disclosure occurred; *and*
- Undertook extraordinary measures to cooperate with the DOJ's investigation and remediate misconduct.

According to AAG Polite, prosecutors consider "immediacy, consistency, degree, and impact" to determine whether measures to cooperate and remediate are extraordinary. AAG Polite said that the Criminal Division values when an individual or corporation: (1) "begins to cooperate immediately, and consistently tells the truth"; (2) "allow[s] [the Division] to obtain evidence [it] otherwise couldn't get, like quickly obtaining and imaging their electronic devices, or having recorded conversations"; *and* (3) cooperates in a manner that "produces results, like testifying at a trial or providing information that leads to additional convictions."

Fourth, under the CEP, the absence of a voluntary self-disclosure is no longer necessarily a bar to a reduction in criminal penalties. A corporation that initially failed to self-disclose misconduct voluntarily, but later fully cooperated and timely and appropriately remediated, is now entitled to a reduction of up to 50% off of the low end of the USSG's fine range.

Evaluation of Corporate Compliance Programs ("ECCP") Policy Revisions

For years, the Criminal Division's ECCP Policy has operated to help prosecutors assess the adequacy of a corporation's compliance program when deciding whether and how to prosecute misconduct. Under the ECCP Policy, prosecutors must ascertain: (1) whether the corporation's compliance program is "well designed"; (2) whether the program has been implemented "earnestly and in good faith"; *and* (3) whether the program "work[s] in practice."

In March 2023, AAG Polite announced changes to the ECCP Policy to implement the Monaco Memo's directives. These changes seek to incentivize corporations to: (1) enact and enforce policies that regulate how their employees may use personal devices and/or third-party messaging applications to conduct business; *and* (2) adopt compensation systems that deter wrongdoing. The ECCP Policy encourages prosecutors to reduce criminal penalties when a corporation—*prior* to engaging in the misconduct at issue—adopted internal protocols and systems that deter wrongdoing and promote compliance.

Policies governing the use of personal devices. Under the revised ECCP Policy, a prosecutor evaluating the efficacy of a corporate compliance program must now consider:

- The methods of electronic communication that the corporation permits its employees to use to conduct business, including any third-party messaging applications with automatically-disappearing or self-destructing messages;
- Whether and how the corporation permits employees to use their own personal electronic devices to conduct business, such as through a 'bring-your-own-device' program;
- Whether and how the corporation enforces preservation and deletion protocols; *and*
- How the corporation has communicated these policies and procedures to their employees.

Importantly, if a corporation fails to produce communications from a third-party messaging application as part of a DOJ investigation, the revised ECCP Policy directs prosecutors to consider whether a corporation has access to such communications.

Compensation systems. The revised ECCP Policy also directs prosecutors to consider a corporation's compensation system in deciding whether and how to prosecute misconduct. Specifically, prosecutors must evaluate whether a corporation's compensation system has been designed to defer, escrow, or recoup compensation if an employee engages in misconduct.

After announcing changes to the ECCP Policy, AAG Polite also revealed that the Criminal Division has launched the three-year Pilot Program Regarding Compensation Incentives and Clawbacks ("Pilot Program"). According to AAG Polite, the Pilot Program intends to "reward corporations that develop solutions to incentivize better compliance through their compensation systems, including [through] the use of clawback policies." Under the Pilot Program, any corporation that enters into a criminal resolution with the Division must implement compliance-related criteria in their compensation and

bonus systems and report periodically to the Division about their progress.

Compliance-related criteria include, but are not limited to: (1) a prohibition on bonuses for employees who fail to satisfy compliance performance requirements; (2) disciplinary measures for employees who violate applicable laws and policies; *and* (3) incentives for employees who are fully committed to compliance processes.

The Pilot Program also directs prosecutors to consider reducing criminal penalties for corporations with "clawback" policies that recoup compensation from a culpable employee who: (1) maintained supervisory authority over an employee or business area engaged in the misconduct; *and* (2) who knew of, or who was willfully blind to, the misconduct.

If a corporation fully cooperates with an investigation, timely and appropriately remediates misconduct, and establishes that it has implemented compliance-related criteria in accordance with the ECCP Policy, the Pilot Program allows the Criminal Division to reduce applicable fines by 100% of any compensation that has been recouped during the criminal resolution period. Ultimately, if a company's good-faith efforts to recoup any such compensation are unsuccessful, prosecutors have the discretion to reduce the fine by up to 25% of the amount of compensation that the company attempted to recoup.

The USAO's Voluntary Self-Disclosure Policy ("USAO VSD Policy")

In late February 2023, the Office of the Deputy Attorney General approved the USAO VSD Policy, which applies to all U.S. Attorney's Offices. Breon Peace, the U.S. Attorney for the Eastern District of New York, and Damian Williams, the U.S. Attorney for the Southern District of New York, jointly announced the USAO VSD Policy after developing it in conjunction with the White Collar Fraud Subcommittee of the Attorney General's Advisory Committee. U.S. Attorney Peace stated that the USAO VSD Policy offers a "standard for how U.S. Attorney's Offices will determine whether a company has made a voluntary self-disclosure, and makes transparent the specific, tangible benefits to a company for [doing so] . . . . [and] [a]s a result, no matter where in the country a company operates, it can rely on receiving the same treatment and benefits for voluntarily self-disclosing criminal conduct to a U.S. Attorney's Office."

The USAO VSD Policy definitively states that, unless aggravating factors are present, the USAO will not seek a guilty plea against any corporation that voluntarily self-discloses misconduct, fully cooperates, timely and appropriately remediates, and agrees to pay all disgorgement, forfeiture, and restitution resulting from the misconduct at issue. Additionally, the USAO will not require the appointment of an independent monitor, so long as the corporation has implemented and tested an "effective" compliance program at the time of the criminal resolution. Finally, the USAO will decide on a case-by-case basis whether to reduce any applicable criminal penalties by up to 50% off of the low end of the USSG's fine range.

The USAO VSD Policy largely adopts definitions set forth in the CEP. However, under the USAO VSD Policy, aggravating factors that may warrant a guilty plea include: (1) misconduct posing a grave threat to national security, public health, or the environment; (2) deeply pervasive misconduct; *or* (3) misconduct involving a corporation's current executive management. Additionally, the USAO VSD Policy states that when a prosecutor decides whether to require the appointment of an independent monitor, they should rely on the Monaco Memo, the ECCP Policy, and other guidance promulgated by DOJ divisions. "Decisions about the need for a monitor will be made on a case-by-case basis and at the sole discretion of the USAO."

Ultimately, if an aggravating factor is present and the USAO requires a guilty plea, but the corporation otherwise voluntarily self-disclosed, fully cooperated, and timely and appropriately remediated, the USAO will: (1) agree to or recommend to a sentencing court a 50 to 75% reduction off of the low end of the USSG's fine range; *and* (2) absolve the corporation of any duty to appoint a monitor, so long as the corporation has implemented and tested an effective compliance program.

The CPB's Voluntary Self-Disclosure Policy ("CPB VSD Policy")

In early-March 2023, the DOJ Civil Division's Consumer Protection Branch announced its new CPB VSD Policy, governing how corporations may voluntarily self-disclose misconduct related to the criminal provisions of the consumer health, safety, economic security, data privacy, and fraud statutes that the CPB enforces. Much like the USAO VSD Policy, the CPB has adopted definitions set forth by the Criminal Division in devising the CEP.

The CPB VSD Policy provides that, unless aggravating factors are present, the CPB will not seek a guilty plea against a corporation that voluntarily self-discloses misconduct, fully cooperates, and timely and appropriately remediates. Beyond measures contemplated by the CEP, remediation also includes "providing restitution to identifiable victims and improving [corporate] compliance program[s] to mitigate the risk of engaging in future illegal activity." Additionally, the CPB will not require the appointment of an independent monitor, so long as the corporation has implemented and tested an "effective" compliance program at the time of the criminal resolution.

Aggravating factors that may lead CPB prosecutors to pursue a "more stringent" criminal resolution against a corporation include, but are not limited to: (1) misconduct that intentionally or willfully places consumers at significant risk of death or serious bodily injury; (2) misconduct that intentionally or willfully targets vulnerable victims, such as older adults, immigrants, veterans, and servicemembers; (3) deeply pervasive misconduct; *or* (4) upper management's knowing involvement in the misconduct. Although the USAO has detailed specific reductions in criminal penalties to which cooperating corporations are entitled, the CPB VSD Policy mentions only that corporations are entitled to "receive credit" for voluntarily self-disclosing misconduct.

Takeaways

Through their articulation of these new policies and incentive structures, the DOJ and its divisions have attempted to establish more uniformity as to how prosecutors should investigate and prosecute corporate criminal misconduct, while affording corporations more flexibility in self-disclosing and remediating misconduct. Corporations should take proactive steps to implement new policies and audit existing policies to account for these revisions.

But unsurprisingly, neither the Monaco Memo nor any subsequent policy revision establishes bright-line rules for voluntary self-disclosure. Given that few instances of corporate misconduct are so similar that they produce identical outcomes, prosecutorial discretion will still be a driving force in the DOJ's decision-making processes regarding how to handle allegations that a corporation engaged in misconduct, and whether that corporation has satisfied the requirements necessary to avoid prosecution or obtain a reduction in criminal penalties. However, to the extent that corporations can articulate the manner in which they have complied with recent DOJ policy pronouncements, they will maximize their chances of benefitting from the incentive structures that the DOJ and its divisions have announced.

NOTED WITH INTEREST

Can Class Defendants Forfeit Their Right to Arbitration? The Intent to Arbitrate Post-Morgan

The Supreme Court recently held in *Morgan v. Sundance Inc.* that federal courts are not empowered to create "special, arbitration-preferring procedural rules" based on the Federal Arbitration Act's "policy favoring arbitration." 142 S. Ct. 1708, 1713 (2022). Prior to this decision, nine federal appellate courts had created a unique addition to the waiver doctrine for use when resolving motions to compel arbitration. These courts required the party opposing arbitration to show that it suffered prejudice from the moving party's delay in compelling it. *Morgan* specifically rejected this rule, and called for courts to instead apply waiver and other contract doctrines just as they do in contract disputes. The Ninth Circuit's first opinion following *Morgan* demonstrates the difficulty in applying this holding. There, a majority held that a class-action defendant's failure to indicate its intent to arbitrate at earlier stages of the litigation waived its right to arbitrate, even though the named plaintiff was not subject to the arbitration provision. The dissent considered the majority's holding to be a novel "forfeiture" rule and warned that class action litigants must now take care to invoke their right to arbitration as quickly as possible, even where the plaintiff is not subject to an arbitration clause and the scope of the class may be unknown.

I. *Tiffany Hill v. Xerox Business Services, LLC*, 59 F.4th 457 (9th Cir. 2023)

A. Background

This litigation stemmed from Tiffany Hill's class-wide allegations that Xerox Business Services, LLC (XBS) violated the Fair Labor Standards Act and various Washington state compensation laws. Beginning in 2002, XBS issued a Dispute Resolution Plan (DRP), in which one section bound signatories to arbitration. In September 2012, XBS issued an updated DRP that required arbitration on an individual basis and barred initiation of or participation in a class action. Not all signatories to the 2002 DRP signed the 2012 DRP. Hill herself did not sign either DRP, but other members of the putative class did.

Throughout the lawsuit, which was filed in April 2012, XBS repeatedly asserted that signatories to the 2012 DRP had failed to exhaust their administrative and contractual remedies by failing to submit the dispute to arbitration and that these signatories were expressly prohibited from participating in the class action for that reason. XBS also opposed class certification on predominance grounds based primarily on Hill's status as a non-signatory to the 2012 DRP. XBS argued that, as a non-signatory to the DRP, Hill faced different defenses than other members of the class and thus could not adequately represent them. XBS pressed these arguments relating to the 2012 DRP over nine years' worth of pleadings, merits briefing, and an interlocutory appeal certified to the Washington Supreme

Court. XBS never raised arguments or issues regarding individual arbitration for the signatories to the 2002 DRP throughout these legal proceedings.

It was not until Hill moved to define the scope of the proposed class, on July 18, 2019, that XBS asserted for the first time that the signatories to the 2002 DRP were bound to individual arbitration, just like the 2012 DRP signatories that had been the subject of their litigation all along. XBS did not move to compel arbitration against the 2002 signatories, however; XBS instead continued to litigate merits issues against Hill. On March 5, 2020, after the notice administrator gave his report on the initial class size, XBS finally moved to compel arbitration by the class members who had signed the 2002 DRP. The district court denied the motion and found that XBS had waived its right to arbitration by not seeking it sooner while simultaneously litigating the merits of the case. XBS appealed.

The U.S. Supreme Court then issued its opinion in *Morgan v. Sundance*, which addressed whether the "prejudicial delay" extension to the waiver doctrine was correct. The Supreme Court determined that it was not, because this extension improperly made arbitration agreements more enforceable than normal contracts. Instead, courts should apply the standard waiver principles that apply to general contract disputes to arbitration clauses. Correctly stated, the waiver test considers only (1) knowledge of an existing right to compel arbitration and (2) intentional acts inconsistent with that existing right. The Supreme Court's unanimous opinion, however, was limited to barring court-created "novel rules [that] favor arbitration over litigation." The Court explicitly left open whether federal law, or even the "rules of waiver, forfeiture, estoppel, laches, or procedural timeliness" were an appropriate framework to resolve motions to compel arbitration.

B. Opinion

In *Hill*, the Ninth Circuit applied the two-part waiver test to evaluate XBS's request to arbitrate. Under the first prong, the majority determined that XBS knew of its existing right to compel arbitration because XBS had raised the 2012 DRP throughout the decade of litigation and had sought discovery on the 2002 DRP (albeit without ever asserting its intent to compel individual arbitration for those signatories) well in advance of class certification. Under the second prong, the majority determined that the totality of XBS's actions indicated that XBS had intentionally refrained from moving to compel arbitration while litigating the merits of the case for nine years. This showed "a conscious decision to continue to seek" a merits judgment.

Finally, the panel rejected XBS's contention that it would have been futile to seek to compel arbitration any sooner because the district court lacked jurisdiction over those individuals prior to class certification. The panel contended that waiver does not require a court to have jurisdiction or "even a lawsuit to have been filed."[1] The majority indicated that its holding was limited: under these facts, "it was permissible to find that XBS" had waived the right to compel arbitration under the 2002 DRP.

C. Dissent

In dissent, Judge Lawrence VanDyke contended that the majority's decision transformed the Ninth Circuit's "clear waiver rule" into "an opaque forfeiture rule" under which "a defendant loses its right to arbitrate against absent class members unless it affirmatively asserts the right long before it even knows who might be in the class, and even though it has no right to arbitrate with the named plaintiff with whom it is actually litigating." In his view, XBS "never took a single act inconsistent with its intent to arbitrate the claims" of the signatories to the 2002 DRP. Judge VanDyke stressed the undisputed fact that XBS moved to compel arbitration "on literally the first day after it could do so." Judge VanDyke would have held "that parties should be allowed to engage in normal precertification class discovery without fear of waiving any right to compel arbitration." The majority's holding had, in his view, created "both a new rule and unnecessary uncertainty" for litigants—an "unwinnable Catch-22."

II. Conclusion

Hill teaches that class defendants should identify applicable arbitration clauses and assert the intent to arbitrate as early as possible—even if not by formal motion, and even if a lead class member is not subject to arbitration. Although *Morgan* left open how, or whether, to apply waiver or other contract principles when determining whether to grant a motion to compel arbitration, *Hill* demonstrates that the length of litigation is an important factor in determining whether arbitration has been waived, even without the prejudice analysis. Whether the majority's holding create a novel "forfeiture" rule of the right to arbitrate for class defendants or merely restates the waiver analysis is something future cases will decide. In the meantime, class defendants must take care to assert their intent to arbitrate early to avoid the outcome in *Hill*.

1 The panel also assessed and rejected XPS's second futility argument, which related to a 2019 Supreme Court decision, in short order.

Tax Litigation Update

The Tax Context: Recent Developments Regarding Legal Privilege

Recent United Kingdom/ English law developments:

Under English law, the UK tax authority (His Majesty's Revenue and Customs, HMRC) has the power to serve a notice on a third party, requesting them to provide it with information or to provide a document if that information or document is reasonably required for the purpose of checking the tax position of another person whose identity is known by the tax authority or for the purpose of collecting a tax debt of the taxpayer. More recently, the spotlight has landed on such third party notices served by HMRC on solicitors. As expected, the issue of privilege over documents held by the solicitor, became the main focus of attention. Under English law, legal professional privilege will attach to documents that are made for the purposes of seeking legal advice from the solicitor or for the purpose of giving legal advice to the client and that are confidential as between solicitor and client.

The procedure under which HMRC can issue a closure notice is codified: it can do so in circumstances where it first obtains the consent of the taxpayer, or absent such consent, with the approval the relevant tax court (usually the First-tier Tax Tribunal). The main safeguard to protect the interests of taxpayers and third party recipients of such a notice, is that HMRC must demonstrate that the information is reasonably required for the purposes of checking the tax position or collecting a tax debt. Once the notice is issued, the scope of the disclosure can further be limited by virtue of Regulations that provide a mechanism to contest whether specific categories of information are privileged or not.

In a recent case ***Third Party & Taxpayer v HMRC [2023] UKFTT 71 (TC)***, HMRC sought information relevant to two properties acquired by the relevant tax payer – the information included client account and client ledger information, correspondence between the firm of solicitors and the tax payer; all evidence provided by the taxpayer as proof of the source of funds used for the property purchases; completion notices; as well as details of debt relevant to fund the purchases and any other payments towards the costs. The latter included bank information from which the money was paid and the account number.

Although the third party notices were approved by the Tribunal, the restrictions upheld by the Tribunal are insightful. First, information not in possession of the third party cannot be included and should not form part of such request. Second and more importantly information protected by legal professional privilege is also protected from such disclosure. However, some of the information held by the solicitors related to the conveyancing process, and these were held not to be protected. Examples include communications between the solicitor and persons other than the clients including the counterparty; the fruits of the advice, such as documents giving effect to the transaction will not be privileged as they are not communications; and the client ledger entries will not be protected as they do not include legal advice. A similar approach was followed in ***R v Inner London Crown Court exp Bains and Bains [1988] QB 579,*** in which it was held *inter alia* that documents showing how the conveyance was financed were not protected.

In board terms, the Tribunal recognized that correspondence between the client and the solicitor that seeks or gives legal advice regarding the terms of the contract would be protected as being subject to privilege. It also accepted that proportionality is key but expected solicitors to keep distinct and separate files of each matter as a result of which any disclosure process of unprotected documents would noy be overly burdensome. The tribunal rejected a suggestion that a general duty of confidentiality owed by solicitors to a client can override the requirements of the third party notice legislation. It also rejected the argument that such a notice would conflict with the taxpayer's human rights under art 8 of the European Convention and the Hunan Rights Act 1998: it held that while there is a public interest in ensuring effective tax inspections, any interference must be subject to effective and adequate safeguards against abuse by tax authorities. In this instance where HMRC exercised their powers under the information notice provisions and were required to apply to a tribunal for such approval, there are effective and adequate safeguards in place to guard against any such abuse.

Therefore, although privilege can be a shield that protects against disclosure, a focused approach by a tax authority directed at a solicitor seeking disclosure of documents that fall outside privilege would likely succeed.

Recent Developments in the United States:

The U.S. Supreme Court recently dismissed its review of *In Re Grand Jury*, 23 F.4th 1088 (9th Cir. 2021), a Ninth Circuit appeal regarding the scope of the attorney-client privilege in cases where the communications involve both legal advice as well as non-legal tax return preparation discussions—i.e., "dual purpose communications." Although the attorney-client privilege generally protects from disclosure the content of confidential communications between an attorney and a client made for the purpose of obtaining or providing legal advice, in the tax context, courts typically have found that legal communications regarding tax disputes or tax planning issues are privileged, whereas communications regarding

tax return preparation are more akin to non-legal business communications that generally do not enjoy attorney-client privilege protections on their own.

Whether and to what extent the attorney-client privilege applies in cases that involve dual-purpose communications is currently, and now remains, subject to a circuit split. For example, the D.C. Circuit held in *In re Kellogg Brown & Root, Inc.*, 756 F.3d 754 (D.C. Cir. 2014), that the attorney-client privilege applies to communications involving both legal and non-legal advice if *one* of the "significant purposes" of the communications is to obtain legal advice, that is, if *a* primary purpose of the dual-purpose communication was to obtain legal advice, then the attorney-client privilege is available. In *In Re Grand Jury*, on the other hand, the Ninth Circuit held that dual-purpose communications would be protected from disclosure by the attorney-client privilege only if *the* "primary purpose" of the communications was to obtain legal advice. 23 F.4th at 1092. As the Ninth Circuit explained, the "natural implication of [the primary purpose test] is that a dual-purpose communication can only have a single 'primary' purpose," and unless that purpose is to obtain legal advice, the dual-purpose communication will not be protected from disclosure by the attorney-client privilege. *Id.* at 1091. The Seventh Circuit has taken an even stricter approach, holding in *United States v. Frederick*, 182 F.3d 496 (7th Cir. 1999), that dual-purpose documents—such as documents that are prepared for use in preparing a tax return *and* for use in litigation—are not privileged.

It is unclear why the U.S. Supreme Court refrained from taking the opportunity to articulate a uniform standard for determining whether and when the attorney-client privilege applies to dual-purpose communications. Until there is clarity on this issue, tax dispute practitioners and taxpayers alike would benefit from being mindful of the types of dual-purpose communications that might not enjoy attorney-client privilege protections despite being prepared (at least in part) to provide legal advice, particularly given the controlling law in the venue(s) that a privilege dispute might arise.

Construction Litigation Update

Material Price Increases in the Global Construction Industry

Inflation and increasing costs may present the biggest challenge for the construction industry in the year ahead. Already, in the United Kingdom, major infrastructure projects are experiencing headwinds: the Department for Business, Energy and Industrial Strategy reported in September 2022 that construction materials across the UK bore inflation of 18% between August 2021 and August 2022. This has led to suggestions that a number of infrastructure projects there could be revised or abandoned.

The global picture is variable, but only in degree, not in kind. Overall inflation in the Eurozone and United States was 9.2% and 6.5% respectively in calendar 2022. Such pressures will continue to place strain on global construction projects as the impact of Russia's war in Ukraine and post-Covid-19 pandemic supply chain issues continue.

In this context, parties will almost certainly seek to minimise the extent to which they will be required to incur additional costs in order to finalise construction projects. This issue is complicated by the fact that many parties will have entered into contracts a number of years ago, with prices agreed on the basis of comparatively stable inflation. This update therefore looks at common construction contract positions and the ways both owners and contractors may seek to mitigate these risks.

The terms of the parties' contract

Unsurprisingly, contractual terms will be key in determining the extent to which either an owner or a contractor can minimise exposure to additional expenses that may arise on a construction project. Subject to any legal restrictions that may exist in the relevant jurisdiction, parties are often free to negotiate and enter into contracts on their desired terms.

Parties to large scale construction projects have traditionally entered into Engineering, Procurement and Construction ("EPC") contracts, under which the contractor typically is paid a lump sum price to complete all aspects of the works required to hand-over the project to the owner, including subcontractor costs. Under an EPC contract, the contractor typically assumes all or most of the risks for completing the project to specification and on time, and, in doing so, warrants that it has taken into account all matters and risks when calculating its price for completion. Perhaps unsurprisingly, this contract model is under pressure in today's environment of rising prices, however many such contracts remain in place.

The 2017 International Federation of Consulting Engineers ("FIDIC") Silver Book is a common example of an EPC contract, where the Contract Price and the Time for Completion will be pre-agreed. Where delays are claimed to have arisen or costs are said to have increased, the owner ("employer" or its representative) under the default FIDIC Silver Book terms, determines claims for additional time or costs submitted by the contractor. The contractor will, however, often have provided an express warranty that it has taken into account all risks when entering into the contract, thereby limiting the scope for claims considerably.

A claim is also barred under the FDIC Silver Book

unless the contractor serves notice of the event within 14 days of the date it became aware or should have become aware of the event it considers is the cause of the delay and/or additional costs. Finally, if the contractor disagrees with the employer's decision, there is only limited recourse to challenge the employer's decision, thereby leading to engagement of the dispute resolution provisions of the contract.

The position is similar under American Institute of Architects ("AIA") form contracts, which are often used for complex and/or large scale construction projects in the U.S. Under AIA 133-2009 – where the basis of payment is the cost of work plus a fee with a Guaranteed Maximum Price – the contractor has limited ability to dispute the owner's decision regarding any variation. Furthermore, in contrast to FIDIC, the contractor is not entitled to any extension of time for delay of the Project that is caused, whether in whole or in part, by the contractor, or a party to whom they have subcontracted. This provision applies irrespective of whether the act or omission causing or contributing to such delay is foreseeable or unforeseeable.

Notwithstanding the above, there are some limited protections that may be available to a contractor where delays or additional costs are caused by exceptional events. For example, under clause 18 of the FIDIC Silver Book, the contractor is entitled to claim costs for an 'exceptional event' or otherwise terminate the contract if that event is prolonged. Such events may also be referred to as force majeure.

The definition of an exceptional event is nonetheless stringent and may be expressly limited to certain events under the contract, meaning reliance on this provision will be limited in practice. Under the 2017 Silver Book, an Exceptional Event is construed as one that:

1. is not substantially attributable to a party to the contract;
2. is beyond a party's control;
3. could not reasonably have been provided against before entering into the contract; and
4. could not reasonably have been avoided or overcome.

How this clause is interpreted will depend on the final wording of the contract and the governing law. Under English law, recent caselaw suggests the event will need to be the sole cause of the failure to perform the contractual obligation (see, for example, *Seadrill Ghana Operations Ltd v Tullow Ghana Ltd* [2018] EWHC 1640). The clause in the contract must also be capable of encompassing the specific circumstances that give rise to the claim, meaning the burden to establish an event is high.

Further English appellate authority has emphasised, in *Mur Shipping BV v. RTI Ltd* , 2022 `(EWCA Civ, 1406), that the courts construe each clause on its own terms, "*albeit that we do so against the background of the general law* […] *we are not concerned with reasonable endeavours clauses in general, or even with force majeure clauses in general*." The general law is therefore kept in the background where the issues are addressed in the parties' agreement.

In the U.S., most AIA contracts will not include an exceptional event clause but may provide protections for the contractor in enumerated circumstances, such as where there is a change in work ordered by the owner, an adverse weather event or an act of neglect by the owner or their architect, or a similar event beyond the contractor's control. In such circumstances, the contractor is entitled to a reasonable equitable adjustment of the contract price and/or extension of time. Nonetheless, the standard list of events entitling the contractor to claim for adjustment is typically smaller than those provided in standard FIDIC form contracts.

Alternatively, contractors may be able to rely on change in law provisions. Under the FIDIC Silver Book, this provision enables the contractor to claim additional costs where these have been caused by a change in law in the country where the project is being carried out. This can be difficult in practice. Firstly, there must indeed be a change in law, which must be proven to have directly increased costs. Secondly, in an international project, the contractor is just as likely to be affected by laws in another country as in the country where the project is taking place; materials and labour may be procured offshore, yet changes in laws in foreign jurisdictions may not be caught by a change of law provision in an EPC contract. Most AIA contracts do not contain express change in law provisions.

Although EPC contracts are common, they are not the only form of contract that parties may use to deliver construction projects. For example, in some industries, Engineer, Procure, Construct and Manage ("EPCM") contracts are becoming more common. Under EPCM contracts, contractors do not typically assume the same level of risks as they would in an EPC contract; contractors more commonly adopt the role of a project manager responsible for managing various subsidiary contractors. Other different and hybrid contracts are increasingly being adopted, as discussed at the conclusion of this note.

Can certain domestic legal principles offer relief?

Economic hardship, and other circumstances caused by significant unforeseen changes in market conditions, can sometimes provide grounds for adjustments to the contract terms, where those circumstances were unforeseen and beyond the control of both parties. While

this may offer relief to contractors in civil law systems, contracts providing for English law – as well as the law of many common law systems – are unlikely to attract such relief.

A contractor experiencing economic hardship may otherwise consider asserting that their contract has been frustrated within the context of the legal doctrine of 'frustration'. Claims based on the doctrine of 'frustration' will normally require the occurrence of an unforeseen event that makes the contract impossible to perform, not merely uneconomic.

Ordinarily, an increase in the commercial difficulty of the contract will not constitute frustration. Frustration also cannot be invoked where the contract already includes provisions for a problematic event. Hence, it is unlikely to be applicable to contracts containing exceptional event clauses or provisions similar to those discussed above, particularly, at least in England, in light of the referenced decision in *Mur Shipping BV v. RTI Ltd.*

Risks of repudiating a contract

Contractors facing serious labour, supply, and inflationary pressures may look to find grounds for termination, rather than continue to fund a project at a loss. However, where the risk of cost increases has been assumed by the contractor under the terms of its contract, this approach presents numerous risks.

Many EPC contracts, for example, contain provisions that allow the owner to retain an alternative contractor to complete the works at the expense of the original contractor, should the owner lawfully terminate the contract (or should the contractor unlawfully terminate the contract). Additional costs under such replacement contracts will almost certainly exceed the cost the contractor was grappling with, as the replacement contractor will take time to assume its role and complete the works without many of the advantages of the original contractor.

Furthermore, owners would likely be able to call on security bonds and parent guarantees in such circumstances. Often such security will represent a significant portion of the price of the works and the calling of security can affect the contractor (and its parent) under the terms of other contracts or lending arrangements, as well as its reputation in the relevant market.

Negotiating construction contracts in the current climate

Given recent developments, owners should anticipate an increase in demand from contractors for contracts containing more owner side risks. Such hybrid contracts that deviate from EPC and EPCM models are increasingly being adopted, whether insisted upon by powerful contractors or the result of owners meeting the market in an environment of rising prices.

This can be advantageous where owners, keen to pursue a project of economic value or ensure timely completion, are able to exert greater industry pressure on subcontractors and suppliers than their contractors. Parties may also wish to consider a joint approach to subcontracting; it could also be advantageous to both the owner and contractor in this environment to obtain more money up front from subcontractors. Either the owner or contractor may also wish to offer incentives to subcontractors to ensure they deliver on time or seek price commitment letters from key subcontractors.

Overall, however, owners should be wary of accepting responsibility for procurement and subcontracting in cases where they have limited connection to either the industry, construction method or location of the project. Such agreements may also make it more difficult to raise project finance, due to higher owner side risks. Owners should also consider the adequacy of security and insurance arrangements in those contractual scenarios where they are taking on more risk than was otherwise the case in more stable price environments.

Trade Secret Litigation Update

In January 2023, the Federal Trade Commission proposed a new rule that would ban non-compete provisions. The FTC's proposal would invalidate any non-compete clause, which is defined as "a contractual term between an employer and a worker that prevents the worker from seeking or accepting employment with a person, or operating a business, after the conclusion of the worker's employment with the employer." The proposed rule also contains a "functional test" for any contractual term that acts as a "de facto" non-compete clause—*i.e.*, one that has the effect of prohibiting a worker from seeking or accepting employment with another employer.

After receiving over 17,000 comments on its proposed rule, the FTC unanimously voted to extend the public comment period until April 19, 2023, after which it will review comments and potentially make changes to a final rule. If implemented, the FTC's proposed rule may impact how employers rely on trade secret statutes to protect their confidential information upon the departure of their employees. Indeed, the FTC acknowledges that its proposed non-compete ban will jeopardize protection for employers seeking to protect their confidential information, but emphasizes that "trade secret law provides employers with an alternative means of protecting their investments in trade secrets" and "confidential business information."

In its proposal, the FTC points to the Defend Trade Secrets Act ("DTSA") as one method of "redressing trade

secret theft" and protecting confidential information. The DTSA, which was enacted in 2016, allows an owner of a trade secret to sue in federal court when its trade secrets have been misappropriated. Nearly all states have adopted similar statutes designed to protect trade secrets. As the FTC mentions in its proposal, the number of trade secret cases filed has steadily increased since enactment of the DTSA, which "suggests employers view trade secret law as a viable means of obtaining redress for trade secret theft."

Although the FTC emphasizes that "[t]here is virtually no category of information that cannot, as long as the information is protected from disclosure to the public, constitute a trade secret," employers will still need to consider the factors that are applied to determine what specific information can qualify as a trade secret. In general, to constitute a trade secret under DTSA, information must (1) have economic value; (2) not be generally known; and (3) the owner must have taken reasonable measures to keep the information a secret.

Notably, the potential ban on non-compete provisions may render a principle known as the "inevitable disclosure" doctrine more relevant in future cases. Certain jurisdictions have approved of the application of this doctrine under their respective state laws, which permits a plaintiff to allege misappropriation by demonstrating that a defendant's new employment may inevitably lead him or her to rely on the plaintiff company's trade secrets. *Phoseon Tech., Inc. v. Heathcote*, 2019 WL 72497, at *11 (D. Or. Dec. 27, 2019) ("Seventeen states appear to have adopted the inevitable disclosure doctrine in one form or another."). Other jurisdictions have rejected the doctrine's application under DTSA or generally. *Id.* ("Five states appear to have rejected the doctrine."); *see also, e.g.*, *Whyte v Schlage Lock Co.*, 125 Cal. Rptr. 2d 277, 293 (Ct. App. 2002) ("[O]ur rejection of the inevitable disclosure doctrine is complete."); *Kinship Partners, Inc. v. Embark Veterinary, Inc.*, 2022 WL 72123 (D. Or. Jan. 3, 2022) ("[T]he DTSA specifically forecloses courts from granting relief based on the inevitable disclosure doctrine *because* such relief restrains employment."); *Human Longevity, Inc. v. J. Craig Venter Inst., Inc.*, No. 18CV1656-WQH-LL, 2018 WL 6617633 (S.D. Cal. Dec. 18, 2018). Although the DTSA is silent on the issue, it provides that a court may enter an injunction to prevent either the actual ***or*** "threatened" misappropriation of a trade secret. 18 U.S.C. § 1836(b)(3)(A)(i). Because the DTSA protects against "threatened" misappropriation, some employers have attempted to bring claims under the DTSA relying on the inevitable disclosure doctrine. Yet whereas the DTSA has been in place since 2016, case law interpreting this doctrine under the DTSA is still relatively undeveloped, and there is no judicial consensus on whether the DTSA permits application of the inevitable disclosure doctrine.

In jurisdictions that have adopted the inevitable disclosure doctrine, courts generally consider three factors in determining whether to grant injunctive relief based on threatened misappropriation: 1) whether the employers in question are direct competitors providing the same or very similar services; 2) whether the employee's new position is nearly identical to his old one, such that he or she could not reasonably be expected to fulfill his or her new job responsibilities without utilizing the trade secrets of his or her former employer; and 3) whether the trade secrets at issue are highly valuable to both employers. *See Sunbelt Rentals, Inc. v. McAndrews*, 552 F. Supp. 3d 319, 331 (D. Conn. 2021). Some courts have recently held that it is not enough to show merely that a former employee acquired confidential information during his or her employment and later assumed a similar position at a competitor. For example, a court in the Northern District of Illinois recently found as much, dismissing a DTSA claim filed by PetroChoice against a former employee because PetroChoice alleged only that the former employee acquired its information while employed by PetroChoice, and that the employee would "inevitably disclose" the information. *Petrochoice LLC v. Amherdt,* No. 22-CV-02347, 2023 WL 2139207, at *5 (N.D. Ill. Feb. 21, 2023). The court held that "[t]he mere fact that a person assumed a similar position at a competitor does not, without more, make it inevitable that he will use or disclose trade secret information[.]" *Id.* Similarly, a federal court in Georgia dismissed a trade secret lawsuit that relied on the inevitable disclosure doctrine because the employer failed to allege that the former employees ever threatened to use or disclose the trade secrets, noting that "[i]t is not enough for to simply allege that [defendant] hired two individuals who happen to possess knowledge of [plaintiff's] trade secrets." *AWP, Inc. v. Henry*, 1:20-cv-01625-SDG, 2020 WL 6876299, at *1 (N.D. Ga. Oct. 28, 2020). Although instructive in determining potential limitations of the doctrine, the case law is not clear as to when the inevitable disclosure doctrine ***may*** be invoked under the DTSA, even though some courts have allowed its application in certain circumstances. *Phoseon*, 2019 WL 72497, at *11.

Overall, the statutory language of DTSA provides that it protects against "threatened misappropriation," which may provide a way to protect confidential and trade secret information in lieu of non-compete agreements. However, the scope and extent to which both employers and employees alike may interpret the statute (including the "inevitable disclosure" doctrine) remains to be seen, and may become a topic of increased interest should the FTC's proposed rule go into effect.

Complete Defense Victory in ITC Surveillance Camera Dispute

Quinn Emanuel recently achieved a complete defense victory for client Verkada Inc. before the U.S. International Trade Commission in a case that threatened to exclude the entirety of Verkada's core product offerings from importation into the United States.

Verkada is a unicorn startup founded in Silicon Valley in 2016 to develop comprehensive AI-enabled and computer vision-powered video surveillance and security solutions. By 2019, Verkada had grown to a $3.2 billion valuation. Its rapid growth caught the attention of major, well-established players in the industry – specifically, complainants Motorola Solutions, Inc. (MSI) and Avigilon Corporation (a subsidiary of MSI). Seeking to knock an up-and-coming competitor out of the market, MSI and Avigilon filed a complaint at the ITC asserting three broad patents purportedly directed to fundamental features of video surveillance cameras, including basic aspects of event detection and facial recognition and standard techniques for securely upgrading the software and firmware on the cameras. The complaint accused virtually all Verkada video surveillance products of infringement and sought a broad exclusion order that would have barred their importation into the United States, substantially eliminating Verkada's U.S. business operations.

Quinn Emanuel hit the ground running to build a multi-faceted defense strategy, working with both in-house technical experts at Verkada and some of the leading experts in the field to develop several alternative non-infringing designs for each patent, identify critical gaps in the complainants' infringement theories, and locate key prior art that bolstered Verkada's defense. The firm's defense strategy forced the complainants to walk a tightrope to even attempt to maintain consistency between their infringement and validity positions across the myriad non-infringing design alternatives and prior art references presented in Verkada's defense – but ultimately their efforts were in vain. Following a five-day evidentiary hearing before then-newly appointed Administrative Law Judge, Bryan F. Moore, Quinn Emanuel achieved the first step on the path to a complete victory: the ALJ issued an initial determination finding two of the three asserted patents were not infringed by any Verkada product, and that only a single feature in a deprecated Verkada product design had infringed a handful of the asserted claims of the third patent. Critically, all of Verkada's operative designs being imported into the United States and shipped to customers were cleared of MSI and Avigilon's infringement allegations.

The ALJ's initial determination then went up to the full Commission for review. MSI and Avigilon challenged all of the ALJ's unfavorable findings—including all of his non-infringement findings, as well as his decision to consider and clear Verkada's alternative non-infringing designs. In response, Quinn Emanuel marshalled factual and legal support for the ALJ's non-infringement determinations and asked the Commission to re-evaluate only the ALJ's narrow finding of infringement directed to Verkada's old product design as well as the ALJ's validity finding with respect to the handful of claims found to have been infringed by that old design. The Commission adopted the firm's recommendations nearly in their entirety: the Commission declined to review ***any*** of the ALJ's non-infringement determinations—in essence, affirming those findings and definitively clearing all of Verkada's operative designs—but determined to review and reconsider the infringement and validity findings relating to the limited violation based on Verkada's old design.

Several months later, the Commission issued a final determination invalidating the patents claims that had been found infringed, handing the firm's client Verkada a complete defense victory—a rare outcome for a respondent at the ITC. Verkada's complete defense victory was further cemented by MSI and Avigilon's decision not to appeal any aspect of the Commission's findings and final determination—another rare outcome in an ITC investigation. The threat to Verkada's core business was therefore stopped in its tracks, and Verkada is now free to continue to grow and develop without the looming threat of exclusion of its products from the United States.

Another Victory for Netflix in a patent litigation matter

The firm has once again emerged victorious for its client Netflix in a high-stakes patent case brought by DivX in Germany involving complex video streaming technology. In its first-instance decision, which issued in June 2023, the Federal Patent Court invalidated in its entirety the European Patent EP 2 661 696 owned by DivX . This victory comes as part of a series of crucial wins for Netflix. The firm's exceptional legal and technical expertise enabled them to thereby counter a prior unfavorable infringement ruling based on this patent, which, among other things, enjoined Netflix to use the claimed technology.

DivX filed numerous lawsuits against Netflix in multiple jurisdictions around the world (United States, Germany, Brazil, Netherlands) for alleged patent infringement. In Germany, DivX asserts in total two patents relating to video streaming technology, the heart of Netflix's business, seeking injunctive relief as well as financial compensation for damages. DivX was initially granted two injunctions in first instance (appeal

pending) by the infringement court, the District Court Mannheim – due to the German bifurcation system, validity and infringement are decided in different venues. DivX has already begun to preliminary enforce these two judgments to put maximum pressure on Netflix. However, DivX's triumph was short-lived as the two patents were subsequently invalidated in the first instance by the Federal Patent Court and the European Office.

Already in March 2023 the European Office revoked the EP 3 467 666, the other patent, which DivX asserted in Germany and the Netherlands. Now with the ruling of the Federal Patent Court also the validity of the second asserted patent has been successfully challenged by the firm and thereby we completely turned the tide in favor of Netflix on the German battleground. The Federal Patent Court ruled that the subject-matter of the EP 696 is not novel over the cited prior art as well inadmissibly extended. DivX attempted to save the patent in part by filing eight auxiliary requests, but the firm was able to convince the court, that even these were not able to overcome the lack of patentability and therefore fought off every single auxiliary request, resulting in a complete nullification of the EP 696 patent. It is expected, that DivX will lodge an appeal, however the firm is looking forward to having this appeal dismissed by the Federal Supreme Court and securing the final victory for its client. Q

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