

Quarter in law

Welcome to the summer edition of our newsletter. Please click on the links to read about the latest legal issues affecting business.

Green machine – energy performance certificates to be phased in for commercial premises

The 2002 EC directive obliging member states to set minimum requirements for the energy performance of buildings has finally been implemented in the UK... [click here](#)

Staying on top of the program – the UK update on the patentability of software

Obtaining patent protection for software should become easier following a recent court ruling... [click here](#)

The Monaco commuter

The Chancellor of the Exchequer recently said he will crack down on people who claim to be “out of the country when they are here” – the so called ‘Monaco commuters’... [click here](#)

Trade mark examination systems

In April 2008 a new trade mark examination system was introduced to operate in parallel with the current system... [click here](#)

Undertakings for Collective Investment in Transferable Securities Directive – proposal for change

The European funds industry is currently awaiting the outcome of the latest attempts by the EC to improve the operation of the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive... [click here](#)

Parallel importers and implied consent

A recent High Court case has confirmed that a parallel importer may rely on implied consent... [click here](#)

Update on recent developments...click here

Readers' feedback

Please help us improve Quarter in Law by clicking on the link and completing a short survey... [click here](#)

Green machine – energy performance certificates to be phased in for commercial premises

The 2002 EC directive obliging member states to set minimum requirements for the energy performance of buildings has finally been implemented in the UK. Energy performance certificates (EPCs) will become mandatory for all commercial properties from October 2008, although some premises have been subject to them since April 2008.

The purpose of EPCs is to provide prospective buyers and tenants with information about a building's energy efficiency, as well as recommendations on how to improve the energy performance. A building is given a rating from A to G based upon the assets of the building, i.e. meaning its fabric and services.

EPCs will not be required for industrial sites, workshops, buildings less than 50 sq ft, buildings which are to be demolished, temporary buildings or places of worship. EPCs are also not required for lease renewals or surrenders.

It is the responsibility of a seller or landlord to provide an EPC to prospective buyers or tenants. A contractor of any new building must also provide an EPC to the owner. The legislation states that where an EPC is to be provided it must be free of charge, although there is Government guidance allowing the costs to be passed on.

Landlords and tenants will need to be aware of the possibility of passing on the costs of an EPC through the service charge provisions of a lease. Landlords will

need to ensure that clear wording is used to incorporate this cost into the service charge given the courts current view of construing sweeper clauses very narrowly. Issues may also arise where landlords obtain an EPC before they are required to do so by the legislation as this cost may not fall within the service charge provisions of a lease.

An EPC certificate will be valid for 10 years from the date of issue, although a valid EPC will be revoked if a new one is issued. It is important to bear this in mind when a landlord has commissioned an EPC and then a tenant, wishing to sub-let, commissions a further EPC.

Enforcement of the EPC requirements will be carried out by Trading Standards officers. The maximum penalty which may be imposed for non-compliance is £5,000.

EPCs are coming into force for the sale or rental of commercial buildings in the following stages:

- 6 April 2008 – buildings over 10,000 sq m (approx. 100,000 sq ft) which are put on the market for sale/rent on or after 6 April 2008.
- 1 July 2008 – buildings over 2,500 sq m (approx. 25,000 sq ft).
- 1 October 2008 – all commercial premises (including those buildings over 10,000 sq ft marketed for sale/rent prior to 6 April 2008).

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Staying on top of the program – the UK update on the patentability of software



Obtaining patent protection for software should become easier following a recent court ruling. The High Court has rejected the UK patent registry's restrictive approach to patentability of so-called software patents or computer-implemented inventions and brought the UK in-line with the more open European approach. This decision rejects the recent UK approach of disallowing inventions where the claims are for processes performed by running a programmed computer.

The issue of software patent protection has been controversial for a number of years, not least in view of the ease of patenting software in the US and Japan and the economic importance of the technology. The UK and European approaches have clearly diverged since 2006 when the Court of Appeal (*Aerotel Ltd v Telco Holdings and Re Macrossan's Application [2006] WECA Civ 1371*) and the UK Intellectual Property Office (IPO) adopted a four-step test that differed to the European approach and appeared to exclude all software patents. This meant that technology that could be protected via the European Patent Office (EPO) in Munich would be rejected by the UK IPO, putting UK businesses – especially small technology businesses – at a disadvantage.

The source of the problem is that methods of doing business and computer programs are excluded from patentability under UK and European law. This means that a software program or a business method (e.g. abstract auction rules) would not be patentable. However, it is generally accepted that an invention is

patentable if there is a substantive technical contribution or technical effect beyond the operation of the software or the business method itself. But this point has been interpreted differently by the EPO and the UK IPO.

Under the existing UK IPO guidelines, the four-step test required an analysis of the patent's claims to see what the particular contribution in the claim was (in other words, what the invention has added that is innovative and not obvious). It would then be decided whether that contribution should be excluded because it was just programming – i.e. a piece of software on a disk or programmed into a device – or just a business method. No consideration would be given to other technical features of the invention. This meant, for example, that a computerised method of placing on-line bets or an event ticket auctioning system would not be patentable, unless there was an innovative physical combination of hardware involved.

This was contrary to the broad approach taken by the EPO, which assessed the invention as a whole. If an invention was software based, but the invention as a whole and the problem it was designed to solve was of a technical character, then the invention would not be rejected on the ground that it was a process run by a computer program. As a result, an invention could be patentable if the software implemented a process which produced a substantive technical advance beyond the normal interactions between a software program and a computer.

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Staying on top of the program – the UK update on the patentability of software - cont'd

So, for example, protection could be given to a program which obtained a substantial increase in the processing speed of a computer chip, or to a method of simulating a microchip circuit, or even to a program that facilitated data exchange across different formats and thereby enhanced the internal operation of a computer. This can be contrasted to the approach adopted by the UK IPO in rejecting a patent relating to oil production involving algorithms to produce a computer simulation to analyse oil flow.

The EPO approach has now been reaffirmed by the High Court in the *Astron* case. The judge held that if an applicant can show that their invention makes a substantive technical contribution, it is eligible for patent protection – whether the technology was software on a disk, embedded in a device or downloaded over the internet.

This decision is of some practical importance. It confirms that eligible software cannot be precluded simply on the basis that it is a computer program and suggests that the UK IPO has been wrongly rejecting applications in recent years. It also confirms that technical effect (the ability to achieve a previously unachievable process or introduce a significant improvement to a process – even if that process is run by a computer program) – should be considered in light of the invention as a whole and can be derived from excluded subject matter like software and business methods. This should enable patent protection for technology that would otherwise have been rejected

under the UK IPO guidelines. This does not make software or business methods necessarily patentable, and nor is software patentable simply because it is on a carrier such as a disk or a computer. Case law also suggests that software inventions of a highly technical nature are more likely to get the nod than processes in the internet and e-commerce sphere.

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The Monaco commuter

The Chancellor of the Exchequer, Alistair Darling, has made good his promise to crack down on people who claim to be “out of the country when they are here” – the so called Monaco commuters. This has been highlighted by recent significant changes to the test of UK residency for tax purposes. Individuals need to be careful to that ensure they do not become UK resident by virtue of the new rules as a change in status could have serious financial implications.

The changes were announced in Budget 2008 and came into effect on 6 April 2008. Going forward any day where an individual is present in the UK at midnight will be counted as a day of presence, although there will be an exemption for passengers who are in transit between two places outside the UK.

Previously, days of arrival and days of departure were not included in the count, meaning if a person came in to the UK on a Monday morning and left on a Thursday evening, they would have been in the UK for two days (Wednesday and Thursday).

IR20, which was first published in 1973, has for many years been the definitive guidance note on the rules governing whether individuals are resident or ordinarily resident in the UK for tax purposes. It states that if a UK resident leaves the UK in certain specified circumstances they will be treated as a non UK resident for tax purposes from the next day. They are still entitled to come to the UK for visits, provided that those visits do not exceed 90 days on average in every tax year (the average is taken over a four year period).

HMRC now claim that IR20 is not binding, creating confusion around the test of when individuals become or cease to be UK resident and around the number of days non residents are permitted to be in the UK.

Many clients have followed the guidance set out in IR20 when planning their affairs. HMRC’s change of position could easily unravel careful plans going back several years and cause major disruption and inconvenience.

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Trade mark examination systems



In April 2008 a new trade mark examination system was introduced to operate in parallel with the current system. The new system offers applicants for trade marks the possibility to fast track online applications through the examination process.

Under the existing system the UK Intellectual Property Office (IPO) currently takes around four to six weeks to examine a trade mark application from the time of filing. There is a fee of £200 for one class, plus £50 for each additional class. Whilst this standard system is fast compared to registries in many other countries, the IPO has recognised that there are circumstances where an applicant may wish to secure an even faster time through the examination process, for example to launch a product within a short timeframe.

The new system examines and, if appropriate, accepts trade mark applications within 10 days for a fee of £500 (a £300 premium in comparison to the current system), with the cost for each additional class remaining at £50. The application must be made electronically by completing an online form and paid for at the same time.

Where the application is subject to an objection by the examiner, there will inevitably still be a delay in the examination process. In such circumstances, the applicant will have the option of converting the application to a standard application.

The IPO envisages that the fast track system will be beneficial to applicants where time is of the essence and the application itself is straightforward. However, the new system is not intended to become the norm and the IPO envisages that, for the majority of cases, the standard service will remain sufficient. It is important to remember that in all cases the applications must go through the required three month opposition period and that the fast track examination procedure is only part of the overall time it will take to secure a registration.

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Undertaking for Collective Investment in Transferable Securities – proposals for change

The European funds industry is currently awaiting the outcome of the European Commission's attempt to improve the operation of the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive (85/611/EEC). Following publication of a consultative white paper, the Commission published possible amendments to the UCITS Directive in March 2007. A summary of some of the Commission's proposals arising from the white paper and initial orientations are discussed below. The Commission is expected to publish draft legislation imminently.

The UCITS Directive was originally adopted in 1985 with the aim of coordinating the laws of Member States relating to collective investment undertakings and facilitating cross-border marketing of retail funds across Europe. Perceived failings in the operation of the original directive, led to the adoption of the Management and Product Directives in 2002. These amended the UCITS Directive by broadening the range of permitted investments and introducing the simplified prospectus and management passport. However, shortcomings in the amendments, together with a rapidly evolving funds market, have meant that calls have continued to be made for further changes to the UCITS regime. The latest proposals are the result of a review process dating back to the publication in 2005 of the green paper on the future of the EU funds regime.

The Commission estimated that at the end of 2005 there were more than 29,000 UCITS funds, representing approximately 75% of all investment funds in the EU. However, despite the success of the UCITS model, the Commission felt the UCITS regime was coming under strain and the UCITS Directive was no longer sufficient to support the changing European fund industry, with core elements failing to function effectively. To address this, the Commission proposed targeted and specific reforms to the existing framework rather than a fundamental revision of the regime. These reforms included:

- removal of administrative obstacles and delays to cross-border marketing via an overhaul of the UCITS notification procedure (the fund passport);
- changes to the management passport to allow fund managers to manage funds domiciled in another Member State;
- facilitating fund consolidation through fund mergers;
- permitting master-feeder structures to provide for centralised management of assets gathered through local funds;
- improving the information provided to retail investors; and
- changes to improve cooperation between supervisory authorities, thereby improving effective oversight of the fund market.

The fund passport

In the initial orientations, the Commission noted that current procedures for cross-border marketing of funds are cumbersome, costly and subject to undue supervisory interference. Failings highlighted include intrusive checks of funds during the notification procedure, requirements for additional information and requests for modifications of fund documentation or fund features reviews, each of which are creating opportunities for delay and undermining the effectiveness and credibility of the funds passport. To counter these difficulties, the Commission proposed a complete overhaul of the notification procedure, introducing a regulator-to-regulator filing similar to the approach adopted by the Prospectus Directive.

Under the proposed new procedure, a UCITS fund would submit a defined set of documents to its home supervisory authority which would be responsible for verifying completeness of the information and forwarding the information to relevant host state authorities. The home state authority would also certify that the UCITS fund was duly authorised. The proposals provide for a notification letter to be submitted by the fund manager containing a description of the marketing arrangements. A fund would be permitted to begin marketing the UCITS fund in a host Member State three days after transmission of the notification by the home authority.

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Undertaking for Collective Investment in Transferable Securities – proposals for change - cont'd

The management passport

The creation of an effective management passport is viewed by many in the funds industry as a key driver for further amendments of the UCITS Directive. Despite the 2001 amendments, fund managers are currently required to establish a fully functional management company in each country where their funds are located, generating estimated costs of between €500,000 to €1million per management company, per year.

The Commission identified several options to amend the current regime and broaden the scope of the management passport. These include permitting management companies to provide the full range of collective portfolio management services to funds domiciled in another Member State or permitting a partial passport that would require certain key functions to be carried out in the Member State of the fund. In the initial orientations, the Commission favoured the partial passport with activities related to administrative functions required to be physically undertaken in the Member State in which a fund is domiciled. To counter potential concerns which might be raised in relation to establishing the identity of the fund or fund manager's domicile, in particular from tax or supervisory authorities claiming jurisdiction, the initial orientations envisaged the establishment of clear tests to identify domicile.

The simplified prospectus

The simplified prospectus was a key innovation of the 2001 amendments to the UCITS Directive (although it was not fully implemented in all Member States until 2005). However, in its white paper, the Commission declared the simplified prospectus had failed to achieve its intended purpose of providing investors with basic information about the risks, charges and expected outcomes of a particular investment in a concise and understandable manner. Due to varying implementation in Member States, in practice investors often receive lengthy and unhelpful information which is provided at considerable cost to the fund industry.

To address these failings, the Commission initially proposed replacing the simplified prospectus with the concept of key investor information disclosures which would be provided to potential retail investors prior to purchasing units in a fund. Key investor information should clearly define the product information, not mislead, and be consistent with the relevant parts of the full prospectus (which would continue to be produced and made available on request).

Such is the urgency to address the problems with the simplified prospectus, the Commission announced that, rather than wait for formal amendment of the Directive, practical steps should be initiated as soon as possible, aiming to introduce non-legislative improvements by mid-2008. As part of this process, the Commission

asked the Committee of European Securities Regulators (CESR) to provide the potential content and key investor information disclosures. CESR published its advice to the Commission in February 2008, stating in particular that, to be useful to retail investors, disclosures should be short, focused, expressed in plain language, and presented in a way that enables comparisons to be made easily between different offerings. CESR recommends a short single document avoiding technical financial terms and legal jargon.

Fund mergers

In the white paper, the Commission highlighted inefficiencies in the European fund industry, in particular the proliferation of funds of sub-optimal size which fail to benefit from economies of scale and have disproportionate costs which are borne by investors. To facilitate rationalisation of the fund industry and cross-border fund mergers, a new regime requiring Member States to provide for the possibility of two UCITS funds merging or amalgamating has been proposed. Fund mergers could be effected via the creation of a new fund. Mergers could occur through a scheme of amalgamation or merger by way of absorption. The regime would also be available for mergers between funds domiciled in the same Member State.

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Undertaking for Collective Investment in Transferable Securities – proposals for change - cont'd

Asset pooling

The availability of asset pooling would provide funds with another means of realising economies of scale. However, the Commission rejected the possibility of having a feeder invest into several masters. It raised issues such as a lack of practical experience and demand for such an approach, supervisory concerns and difficulties in preventing operational risks or possible investment policy breaches. The Commission instead has proposed the creation of a special regime providing for a master-feeder structure in which the feeder fund should invest at least 85% of its assets into a single master fund. A feeder would not, however, be permitted to invest in more than one master fund. Both the master and feeder funds would have to be UCITS funds and could employ the same management company.

Industry reaction

In general, reaction to the Commission's approach and proposed changes has been favourable. However, the shape of the new management passport has divided regulators and the funds industry. Whilst the Commission, alongside Ireland and Luxembourg (countries in which significant numbers of UCITS funds are based) are believed to favour the partial passport, other Member States such as the UK, France and Germany, would like to see the introduction of a full management passport. Critics of the latter have raised concerns regarding supervision of virtual funds and of fund managers performing all functions on a

remote basis. In contrast, the reaction of the UK's Investment Management Association (IMA) was one of extreme disappointment at the proposal for a partial passport. The IMA has argued that this would represent a step backwards, and potentially have unintended consequences for the industry. Recent press coverage has suggested the Commission may be considering dropping the management passport proposals altogether from the soon-to-be published draft legislation. For many in the funds industry this would represent a lost opportunity.

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Parallel importers and implied consent

A recent High Court case has confirmed that a parallel importer may rely on implied consent from a manufacturer, to resell the manufacturer's goods in a territory where such goods are not already for sale, via an authorised distributor.

What are parallel imports?

A parallel importer purchases legitimate products from a manufacturer or its authorised distributor in one country and resells those products at a higher price in another country, usually undercutting the price at which the products are sold by authorised distributors in the other country. Parallel imports are sometimes referred to as grey goods.

Where the products bear a manufacturer's trade mark, manufacturers often try to prevent parallel importing into EU territories by bringing an action for trade mark infringement against the parallel importer. However, the parallel importer will not be liable for infringement if it can show either that it has the consent of the manufacturer to sell the products in the territory, or that the products have been placed on the market elsewhere in the European Economic Area (EEA) by the manufacturer, or another party, with the consent of the manufacturer (in this case the manufacturer is said to have exhausted its rights).

New developments

In *Honda Motor Co Ltd v Neesam*, Honda Motor Europe Limited and its Japanese parent company brought a claim for trade mark infringement against four defendants involved in the parallel importation of Honda motorcycles into the UK and their resale in the UK domestic market. Honda obtained summary judgment against the first three defendants and its claim against the fourth defendant (an English company) went to trial.

Between 1999 and 2004, the fourth defendant purchased Honda motorcycles from an Australian company and resold them in the UK. The Australian company had, in turn, purchased the bikes from Honda Australia. The main issue in dispute was whether the fourth defendant had consent from Honda Australia to sell the bikes in the UK. The case centred on whether, and if so, to what extent, Honda Australia imposed any restrictions on the markets to which the Australian company could resell the motorcycles.

The court found that, over several years, Honda Australia sold a substantial number of motorcycles to the Australian company, which the latter exported outside Australia. Honda Australia knew that the Australian company was a dealer within the trade and that it would be reselling the bikes to non-Australian customers, who would subsequently resell the bikes in the course of their business.

The court held that:

- Honda Australia gave implied consent to the Australian company to sell motorcycles to non-Australian customers and to customers reselling the bikes in their own domestic markets.
- Consent was a general consent, which would not have applied if, and to the extent that, Honda Australia expressly excluded any specific purchasers of the bikes from the Australian company.
- It was for Honda Australia to establish that it had excluded resales to the UK or the EEA from the general consent. Honda Australia was unable to discharge the burden, other than in respect of the two final consignments of bikes purchased by the fourth defendant from the Australian company in 2003 and 2004.
- The fourth defendant was not liable for trade mark infringement, save in respect of the last two consignments of bikes.

In order to avoid parallel importers relying on implied consent to sell a product in a particular territory, manufacturers should ensure that in any agreement with a distributor or reseller, they expressly set out the territories in which products may be sold. Excluded territories, where the manufacturer is reserving exclusivity for itself or other distributors, should be specifically identified.

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Update on recent developments

New consumer protection laws prohibit misleading and aggressive commercial practices

The *Consumer Protection from Unfair Trading Regulations 2008* came into force on 26 May 2008, implementing an EU Directive. The regulations aim to clamp down on unfair sales and unfair market practices, such as aggressive sales tactics and false claims, in order to protect consumers and honest businesses. The regulations apply to businesses in all sectors that promote or sell to consumers, or whose practices may otherwise affect consumers. Trading standards officers will be policing the new regulations. Failure to comply is a criminal offence which could result in financial penalties and/or two years in prison.

Giving bite to the bark: New powers to fine businesses who breach data protection legislation

The UK Information Commissioner has been given new powers to impose financial penalties for serious breaches of the Data Protection Act 1998 (the DPA). Anyone who deliberately or recklessly disregards the principles of the DPA may be fined. This is a big step forward in giving teeth to the enforcement of data protection laws in the UK. These powers have been created under the Criminal Justice and Immigration Act 2008, although (at the date of writing), the commencement date and maximum amount for the fines are still to be determined (under separate regulations). This Act also leads the way for regulations to be made permitting prison sentences as a penalty for offences under the DPA.



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