DECEMBER 2010

Blaney McMurtry
BARRISTERS & SOLICITORS LLP

Blaneys on Business

This newsletter is designed to bring news of changes to the law, new law, interesting deals and other matters of interest to our commercial clients and friends. We hope you will find it interesting, and welcome your comments.

Feel free to contact any of the lawyers who wrote or are quoted in these articles for more information, or call the head of our Corporate/Commercial Group, Stanley Kugelmass at 416.593.3943 or skugelmass@blaney.com.

"A settlement between the Canadian Competition Bureau and the Canadian Real Estate Association... [will allow] real estate agents to offer clients a wider range of service options and models when using the Multiple Listing Service."

AGREEMENT BETWEEN COMPETITION BUREAU AND CANADIAN REAL ESTATE ASSOCIATION PROMISES TO RESHAPE RESIDENTIAL REAL ESTATE BUSINESS

H. Todd Greenbloom, Sébastien Kamayah, and Alex Mesbur

A settlement between the Canadian Competition Bureau and the Canadian Real Estate Association (CREA) will have a major impact on the way business is done in Canada's residential real estate market by allowing real estate agents to offer clients a wider range of service options and models when using the Multiple Listing Service (MLS) controlled by CREA.

In recent years agents wanting to list properties on the MLS were obliged to provide a minimum bundle of services regardless of whether clients wanted or used every item in the bundle. The new agreement allows agents to pull specific items out of the bundle and charge for them alone.

This obviously means greater flexibility and economic efficiencies for sellers and agents alike.

In addition to what it portends for the residential real estate market, the Competition Bureau-CREA settlement could have implications for the way that trade associations like CREA, whose members are also competitors, write and apply their rules.

Here is the background to the Competition Bureau – CREA story.

In February, 2010, the Commissioner of Competition, Melanie Aitken, brought an application before the Competition Tribunal claiming that CREA and its members had used their control of the MLS and related trademarks to impose restrictions on the use of the MLS system and that this constituted an abuse of the dominant position of CREA and its members in the Canadian residential real estate market. (The MLS system accounts for about 90 per cent of all Canadian residential resales).

The Commissioner alleged that the rules that CREA imposed regarding the use of the MLS system effectively prohibited CREA members from providing alternatives to the traditional full-service brokerage model, such as offering consumers individually-priced services, including a basic listing of a seller's property on the MLS for a flat fee, a so-called "mere posting," (for those who wanted to sell their property themselves).

"The impact of the settlement agreement on the residential real estate industry could be felt widely."

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As a result, in order to sell their homes using the MLS system, consumers had to hire a full service real estate broker who, because of CREA's restrictions regarding the use of the MLS system, was required to provide a bundle of services the consumer might not want to receive or pay for.

After months of negotiation, CREA and the Competition Bureau reached an agreement to settle the key concerns raised by the Commissioner in her application to the Competition Tribunal. CREA has in effect agreed that it will neither create nor enforce any rules that would penalize or discriminate against brokers who want to offer non-traditional services to consumers while using the MLS system. CREA must also monitor member behaviour to ensure compliance with the agreement, which was ratified by CREA members on October 24, 2010 and registered with the Competition Tribunal. It remains in effect for 10 years.

Implications of the New Agreement

As we indicated earlier, the settlement agreement allows home owners to choose from a variety of services that brokers may offer at different prices. While sellers are still not permitted to list on the MLS by themselves, they will now be able to pay a licensed broker a fee to have their property listed on the MLS system and then sell the property themselves.

On the other hand, while brokers are not obliged to accept mere postings, they are now permitted to do so, and may also offer a range of unbundled services and fee-for-service arrangements, all while using the MLS system. For example, they can hire themselves out as consultants to sellers and provide advice for a flat fee on such matters as what price to list the house, what to do to conduct an effective "showing," and so on.

It is also possible, as happened in the United States after an anti-trust lawsuit against the American equivalent of CREA, that the settlement agreement may accelerate the creation of discount or internet based realtors, or other alternatives to the full service brokerages we are familiar with, since the MLS system will be accessible to CREA members who want to operate under those new models. The impact of the settlement agreement on the residential real estate industry could be felt widely.

Finally, one may ask what the CREA settlement agreement might mean for other trade associations. All of those organizations impose rules on their members, even though those members are competitors.

There is a clear line that trade associations must draw between rules for the benefit of the association itself (such as rules that insist on ethical business behaviour from members, or which create educational or other qualification standards that members must meet in order to belong) and rules that affect or limit competition among members.

The CREA case illustrates the consequences of crossing that line. ■

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"Greater certainty for business lenders... flow[s] from recent amendments to Ontario's Personal Property Security Act (PPSA) *that have been just implemented to fix an inadvertent error in 2007 changes to the statute."*

CHANGES IN LAW FIX UNINTENDED PROBLEM: GIVE LENDERS MORE CERTAINTY, BORROWERS MORE CREDIT OPPORTUNITIES

Diane P.L. Brooks

Greater certainty for business lenders and, as a result, a greater number of financing opportunities for business borrowers, flow from recent amendments to Ontario's *Personal Property Security Act* (PPSA) that have been just implemented to fix an inadvertent error in 2007 changes to the statute.

The new amendments to the PPSA, the Ontario legislation governing secured lenders' rights to collateral pledged to them by borrowers, are contained in the Ontario Legislature's Bill 68, which took effect October 25, 2010.

Ontario's PPSA, the oldest of the personal property security statutes in Canada, establishes what is now a unique "check-the-box" system that allows a lender to register with the Ontario government his claim to an asset or assets that have been pledged as security for a loan. This claim is registered when the lender files a "Financing statement/claim of lien" with the province.

The financing statement requires that the lender chose a collateral "category". Each category embraces a wide range of assets. Equipment, for example, can encompass everything from a laptop computer to a 12-wheel tractor trailer. If the lender simply checked the equipment box, only he would know which specific piece or pieces of equipment in the borrower's business had been pledged as collateral for that particular loan. If the lender took security over all of the borrower's assets, he would choose all the categories.

Prior to August 1, 2007, subsection 46(3) of the PPSA provided that if a lender inserted a description of the collateral over which it was taking a security interest, the financing statement was then limited to that collateral and could not be used by the lender in a subsequent loan for another security interest in any of the borrower's other collateral.

If the lender did not specify in the financing statement which particular asset he was taking as collateral, however, subsection 45(4) of the Act allowed that single financing statement to cover one or more security agreements between the lender and the borrower. So, one agreement might cover a laptop; a second — still captured by the checked-off equipment box in the first financing statement — might cover a big rig, and so on.

If the business asked for a third loan — from somebody else — there was no way that the prospective new lender could tell, simply by reviewing the financing statement, how many security agreements might be behind the check mark and whether he had a clear claim to whatever he was being asked to finance.

If the new lender wanted to ensure that he had a clear claim to the asset that was being pledged to him, he had to contact the first lender, as indentified on the financing statement, and ask that lender to waive any priority he might have on the new item in question.

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"The PPSA amendments... were part of a process that is intended, ultimately, to streamline, simplify and clarify the administration of the PPSA and harmonize it with regimes in the other provinces and territories."

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This, obviously, could be time-consuming for the new lender. In addition, a savvy borrower might object to a broad filing that didn't limit the registration to the specific collateral in question.

Accordingly, those secured parties who did not take all of the borrower's assets as pledged collateral, chose to describe the specific collateral covered by their existing security agreement.

The PPSA amendments, which were instituted in August, 2007 were part of a process that is intended, ultimately, to streamline, simplify and clarify the administration of the PPSA and harmonize it with regimes in the other provinces and territories. (Previously, the legislative authorities had acknowledged that the time had come to do away with the check-the-box system. It had been created when computers had much less memory and had been designed to accommodate registrations without taxing that limited memory. In the subsequent years, all other jurisdictions had taken advantage of advancing technology and had enacted PPSAs that did not need nor have 'check-the-box.')

As part of eliminating 'check-the-box' and moving toward a more transparent Ontario system, the repeal of subsection 46(3) was made part of the amendments. Unfortunately, there were to be many delays in the development of software updates to the registration system. Subsection 46(3) was repealed nonetheless, but the repeal turned out to be premature.

The result was that, even where a secured party inserted a description of the collateral over which it was claiming a security interest, subsequent secured parties could not rely on that description because the legislative authority allowing for it no longer existed.

Therefore, even those creditors who sought to limit their financing statements were still bombarded with waiver and subordination requests.

At long last, however, with the passing of Bill 68, subsection 46(3) of the PPSA has now been reinstated and "new" lenders can now rely on the collateral descriptions provided by those secured parties ahead of them.

However, the Bill went even further than the prior subsection 46(3). A new subsection, 46(2.3), was instituted to provide that if a secured party did not insert a collateral description then it was open to the debtor to deliver a notice to the secured party demanding such a description, and the lender was obliged to file an amendment to his financing statement to provide such a description.

This obviously makes sense in the context of the eventual elimination of the check-the-box system because secured parties soon will not be permitted to simply check a box. A full collateral description will be required

This means that the public record will now state clearly, in every instance, which lender has priority over which specific asset, or will indicate which lenders have security over all of the borrower's assets. Prospective new lenders will know what is safe to them to lend against, and what is not and where it will be necessary to seek a waiver from an existing lender. Therefore, there will be reduced uncertainty regarding the priority over a

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"As we approach the end of the year, it is time to think about some tax planning strategies that can reduce your tax bill for 2010."

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piece of collateral and fewer delays or rejected credits because an earlier lender refuses to give a waiver.

In addition to this significant change, Bill 68 also extended the time frame in which a lender can register a purchase money security interest for goods other than inventory and intangibles. Previously, the PPSA provided only 10 days from the debtor's possession of the collateral in which to register a financing statement. As all the other PPSA provinces have nonetheless, adopted a 15 day period, the Ontario Act has now followed suit, giving national lenders a bit more certainty and continuity from one province to another. ■

YEAR-END PLANNING FOR CAPITAL GAINS

Paul L. Schnier

As we approach the end of the year, it is time to think about some tax planning strategies that can reduce your tax bill for 2010. This planning goes hand-in-hand with stock market investment strategies, such as when to realize a gain and when to take a loss. Since 2010 was a good year for the markets compared to 2009 and the disaster that was 2008, people may be in the mood to take some profits and/or trigger some losses in order to offset these gains. Tax planning strategies should be kept in mind in either event.

First, with respect to capital gains, one needs to consider when to recognize these gains. Personal tax rates will not differ materially between 2010 and 2011, so the rate of tax one will pay on a capital gain is not affected. However, by deferring the sale from the latter part of December until the early part of January (a matter of a few trading days) the tax is deferred for a full year. In the current low-interest rate environment, that may not be very exciting. The opportunity to do something more meaningful with the deferred taxes, however, can be enticing.

Those who unfortunately have accumulated capital losses from previous years need not concern themselves with the deferral since these capital losses can be carried forward to the current year and beyond so as to offset any capital gains. The ability to carry forward capital losses is indefinite but, when considering when to trigger gains, if triggering the gain will not have a tax effect, why not do it now and make better use of the money?

A very interesting way of tax planning for capital gains involves charitable donations. Typically, people look at the end of the year as a time to fulfill pledges made to various charities during the year. Selling off stocks is a common way of funding these pledges. A more creative way of paying these pledges is donating the stocks themselves to the charities.

As an example, let's assume someone wants to fund a pledge of $1,000 and holds a stock that will yield a capital gain of $1,000. If that person sells the stock, he will have a tax cost of $230 (at the top marginal rate) and when he donates the $1,000 to the charity he will have a charitable donation tax credit of roughly $400. The net tax recovery from this transaction is $170.

"Another way of managing the tax on capital gains is by triggering losses at the same time to offset these gains."

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On the other hand, the person could choose to donate the stock to the charity directly. Assuming the stock is listed on an exchange, the charity will issue a donation receipt for the trading price of the stock on the date of donation. However, the benefit is that no capital gain is triggered when a stock is donated to a charity. The net tax benefit of the donation is therefore $400 (as opposed to $170), a considerable improvement. (Many charities have rules as to what sorts of donations they will accept but most will accept donations of publicly-traded securities.)

Another way of managing the tax on capital gains is by triggering losses at the same time to offset these gains. We are not suggesting that losses be triggered solely to offset gains; however, in cases where investors would be selling the stock in any event, selling the losers at the same time as selling the winners will offset the gains.

So-called "loss trading" is often undertaken when a stock has gone down and the investor wants to trigger the loss but still believes in the stock and wants to hold onto it for future appreciation, so he might sell the stock and then immediately buy it back at the lower price. The superficial loss rules will deny this loss where, at any time in the period that begins 30 days before the sale and ends 30 days after the sale, the same or identical stock is held by the individual or a party affiliated with the individual. Affiliated parties include spouses and corporations controlled by them, so selling the losing stock to your spouse or selling the losing stock in the market and having your spouse immediately reacquire the same stock will not work. However, children are not affiliated parties, so this strategy will work with adult children. The easiest solution, of course, is to wait out the 30-day period before re-acquiring the stock. As we well know, however, market forces can intervene.

So, the end of the year is always a good time for investors to consolidate their gains and take their losses. Tax planning should form an integral part of this process but, as always, careful planning is required to seize upon the opportunities and avoid the traps. ■

PATENT APPLICATIONS RELATING TO HEALTH CARE FACE HURDLES IN CANADA: EVEN SO, THEY MAY BE AVAILABLE TO INVENTORS IN THE RIGHT CIRCUMSTANCES

Jacqueline Chernys

Canadian patents on a wide variety of new products and processes are awarded every year. Nevertheless, a number of exceptions to patentability exist in this country, carved out over time by statute or by the courts.

Although innovations in medicine, pharmaceuticals and diagnostics have been unusually prone to such exceptions, researchers in these fields are being encouraged to take heart because, in practice, exceptions are not always clear and there may be open roads to meaningful patent protection.

A patentable invention is defined in Canada as any new and useful art, process, machine, manufacture or composition of matter, or any improvement in any of these. In order to receive patent protection, any claimed invention

"On the face of it, most inventions would appear coverable. Yet exceptions can, and do, show up readily when it comes to innovations in health care."

must meet the criteria of novelty and non-obviousness and must be described fully and particularly.

On the face of it, most inventions would appear coverable. Yet exceptions can, and do, show up readily when it comes to innovations in health care.

Consider methods of medical treatment, for example. While there is no explicit prohibition in the Canadian Patent Act or Rules against patents in this area, methods of medical treatment are not patentable.

This arises largely from a 1972 Supreme Court decision, *Tennessee Eastman Co. et al.* v. *Commissioner of Patents*. In that decision, the Court rejected a claim relating to a surgical procedure, holding that the methods of medical treatment do not produce a result in relation to trade, commerce or industry nor a result that is essentially economic.

At the time of the *Tennessee Eastman* decision, the *Patent Act* expressly excluded *substances* intended for medicine from the definition of invention. That provision has now been repealed. The prohibition against the patentability of *methods* of medical treatment in Canada still holds, however. The general reasoning is that a method of medical treatment involves professional skill and as such, does not produce an essentially economic result in relation to trade, industry or commerce.

Despite the continuing prohibition on patents related to methods of medical treatment, there is at least some room to argue whether a proposed method falls within the definition of a method of medical treatment. For example, the Patent Appeal Board has found that claims relating to a method of preventing pregnancy are patentable. Claims to a method of ameliorating the adverse effects of aging also have been found to be patentable. Since neither method involved treatment of disease, neither was considered a method of medical treatment.

Cosmetic methods would appear not to fall within the definition of a method of medical treatment since, arguably, these methods do not involve disease and therefore do not produce a therapeutic benefit. Accordingly, the Manual of Patent Office Practice, a guidebook for Canadian patent examiners has indicated that cosmetic methods are patentable.

As with claims regarding methods of medical treatment, whether a proposed method is cosmetic or not is not always clear. For example, in *Re Imperial Chemical Industries Ltd.,* the Patent Appeal Board rejected claims to a "method of cleaning plaque or stains, from human teeth by applying thereto an aqueous composition…" on the grounds that the method does not produce a result that is essentially economic. (The test for patentability related to economic benefit shows up in case law.) The Patent Appeal Board stated "what individuals do to their teeth as they stand before mirror in their bathrooms is not a process in the economic sense which the patent was created to protect".

While methods of medical treatment are excluded from patentability, in certain cases it may be possible to re-draft claims regarding methods into claims regarding use. While this may seem a

"While methods of medical treatment *generally are not patentable in Canada,* diagnostic *methods generally are patentable here."*

matter of semantics, the effect is sometimes to acquire patent protection where none would otherwise be available. This can be particularly important to inventors who have already received patent protection in the United States, where methods of medical treatment generally are patentable.

The patentability of claims regarding use (so-called "use claims") is also important in the pharmaceutical industry where the protection of "second medical" indications is important. The patentability of use claims in Canada generally is a result of a decision of the Supreme Court in *Shell Oil Co.* v. *Commissioner of Patents.* In this case, the Supreme Court held that a new use of a known compound was an "invention" because, it "involved the application of new knowledge to effect a desired result which had undisputed commercial value". (The new use was as an agricultural chemical to promote plant growth.) The outcome of this decision is that while a claim that reads "A method of treating cancer by administering drug X" is not patentable (because it is simply a method of delivering a drug that has been patented already), a claim that reads "Use of drug X in the treatment of cancer" may be patentable because the drug is being used in circumstances and ways that were unknown and not contemplated in its patent, such as the use of Aspirin, developed and patented as a pain medication, in the prevention of heart disease.

Of course, not all method claims can be re-drafted into use claims. A Canadian patent examiner will typically scrutinize claims of this sort to determine whether method steps are still present and will assess patentability based on this determination.

While methods of medical *treatment* generally are not patentable in Canada, *diagnostic* methods generally are patentable here. For example, in *Re Application of Kevin McIntyre*, the Patent Appeal Board held that claims to a method of evaluating the mechanical condition of a heart were patentable. In the method, a pulse signal, representative of arterial pulsation was provided non-invasively to the patient. The patient was then subjected to a heart straining manoeuvre. Similarly, in *Re Application of Goldenberg*, the Patent Appeal Board held that claims that involved methods of detection and localization of a tumour without medically treating the tumour are patentable. The method involved the injection of radio-labelled antibody substances into the patient's body.

In both cases discussed above, the diagnostic methods at issue involve methods being carried out on a human body. The distinction between a surgical or medical method and a diagnostic method appears to be that the outcome of a diagnostic method must not be a therapeutic benefit to the body. That said, Canadian patent examiners will closely scrutinize claims to methods of diagnosis to assess whether a surgical step is present and may reject such claims regardless of the ultimate purpose of the method. It appears that certain procedures, such as injections or the removal of body fluid, are not considered surgical steps *per se*. (It is also important to keep in mind prohibitions against patenting of abstract theorems, scientific principles or natural phenomena, some of which may be relevant to certain diagnostic methods.)

Medical devices fall within the category of "machine" and should constitute patentable

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subject matter. For example, Canadian patents have been granted for a wide range of medical devices including tongue depressors, medical thermometers, blood sugar meters, artificial hearts, fibrin scaffolds, stents and X-ray machines.

Drug delivery devices, such as transdermal patches, are a sub-category of medical devices that are specialized for the delivery of a drug or therapeutic agent via a specific route. Thus, while there may be no means of obtaining patent protection to a known compound, it may be possible to patent a medical device that *delivers* the compound.

Also, such devices are often used as part of a medical treatment: while the method of medical treatment itself may not be patentable, the device for *implementing* the method may be. There may be some restrictions on the patentability of medical devices if, for example, the device includes a surgical step. A claim to such a device may fall into the prohibition against the patenting of professional skills. Similarly, a medical device that was primarily a computer-related device would be subject to patentability restrictions that apply to computer-related inventions.

To sum up, then, while there are prohibitions against the patenting of certain health care-related subject matter in Canada, the boundaries of these prohibitions are not always clear. It may be possible to seek patent protection for new uses, new methods of diagnosis and new cosmetic methods. In order to receive patent protection, however, any claimed invention will have to meet the criteria of novelty and non-obviousness, and will have to be fully and particularly described. ■

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We welcome your comments. Address changes, mailing instructions or requests for additional copies should be directed to Chris Jones at 416 593.7221 ext. 3030 or by email to cjones@blaney.com. Legal questions should be addressed to the specified author.

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