JUNE 2001

Blaney McMurtry
BARRISTERS & SOLICITORS LLP

Blaneys on Business

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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 Business Law Department, Steven Jeffery at 416.593.3939 or sjeffery@blaney.com.

BEAR MARKET EXPOSES FINANCIAL ADVISERS TO GREATER LITIGATION THREAT

The great bear market of 2001 may well produce more than its share of lawsuits against stockbrokers and other financial advisers as clients who have lost money seek to assign blame for strategy and tactics gone sour. Andrew J. Heal, a Blaney's litigation partner, discusses the risk here:

The volatility of the stock markets may lead to increased litigation by investors against their financial advisers. I use the term "financial advisor" here to refer to a person who gives advice on financial matters. This includes advice to the public in relation to investment or trading in stocks, bonds, mutual funds, investment trusts, or personal pension arrangements. Such advice may be given in conjunction with such investment services as buying and selling.

The law recognizes a number of ways that a professional financial advisor may become liable to the client. These include breach of fiduciary duty, negligence, breach of contract, and conversion. Some financial advisers may act as simple order takers. If they also provide financial advice relied upon by a client, however, they may assume a much larger role. A fiduciary relationship with its elevated duties may come into existence.

The term "fiduciary duty" basically means that, in addition to your own training and expertise, you are required to bring a level of care to the other person's affairs that you would bring to your own. A fiduciary relationship is one of the utmost trust and good faith. The question of whether a financial advisor is a fiduciary will depend on the residual discretion of the client to control his/her own investment portfolio and the level of trust placed on the advisor. Also important, is the vulnerability of the client. Questions of fiduciary duties always involve questions of fact.

The key rule for financial advisers, however, is the "know your client" rule. The Investment Dealers Association ("IDA") rules that govern financial advisers oblige the advisers to be aware of all pertinent client details including income and capital worth. (The forms that the client fills out at the time an investment account is opened usually provide this information, and the information should be updated regularly.)

There are several specific practices that are prohibited by the security industry regulators. Manipulative trading practices are restricted. Examples of manipulative trading practices include trading on confidential insider information, which may bring civil and criminal sanctions under the *Ontario Securities Act* and

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"Not every error in judgement will result in compensable damages. In each case, negligence or other breach of duty must be proved by expert evidence."

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the Criminal Code. Other examples where an investment dealer/broker may be found liable to a client include where:

• A broker charged with supervision of the client's account mismanages the funds in direct contradiction of the stated investment objectives;

• The broker's firm failed to take adequate steps to supervise the trading and activities of the broker to avoid such activities as churning (excessive trading in order to earn commissions) or trading in instruments not authorized by the client.

• Where the financial advisor does not "know the client," invites the client to borrow to create an ever larger portfolio, and the net worth of the client does not support an investment strategy to finance the larger portfolio.

Not every error in judgment will result in compensable damages. In each case, negligence or other breach of duty must be proved by expert evidence. Financial advisers, like any professionals, do not guarantee the results of their advice. Insofar as the law is concerned, however they do guarantee that they will take reasonable care in providing such advice. It is when the client argues that such reasonable care has not been taken that the trouble can start.

Andrew J. Heal

PROTECTING YOUR INVALUABLE, INTANGIBLE BUSINESS ASSETS,

part three

The first two parts of this three part article discussed the importance of a business's intellectual property - its intangible assets - and how to take stock of them.

While there is no substitute for competent legal advice when you are seeking to protect your IP, there are some things that you can, and should, do on your own. This is especially true if you consider the ideas involved in your business (or its future plans) and your trade secrets to be important components of your IP inventory.

In fact, probably the most important thought that you should take away from this article is that ideas, in and of themselves, are orphans of intellectual property. They are simply not protectable.

What the law will protect is the way you express those ideas, the distinctive names that you associate with those ideas, and the new and inventive processes and products through which you manifest them.

So until you are ready for the world to avail itself of your ideas in the way that you express them, the best thing to do is keep them confidential as trade secrets. Don't brag about your plans. Lock them up, make sure they are secure (keep them documented in a safe or safety deposit box) and limit access to them.

This sounds good in theory. But this is often difficult advice to follow as you simply must discuss your ideas and trade secrets with

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"As with all contracts, being right and being able to collect (or even demonstrate the value of your lost idea), are two completely different issues."

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others in order to evaluate their marketability, obtain financing or even manufacture end-line products.

In these circumstances, even though intellectual property law may not offer much help, you might be able to avail yourself of protection afforded by other areas of the law (principally contract and trust law).

Therefore, in order to give yourself greater protection, consider the following suggestions:

CONFIDENTIALITY OR NON-DISCLOSURE AGREEMENT

Before you hand over your idea or discuss it, have the recipient of the disclosure of any ideas or trade secrets first sign a **confidentially** or **non-disclosure agreement** with you. This agreement should state that the recipient contractually agrees that if they copy or use the information in breach of the agreement, you have the right to sue them for your damages (i.e. the loss in value of the idea or trade secret to you now that it is generally known).

As with all contracts, being right and being able to collect (or even demonstrate the value of your lost idea), are two completely different issues. You would be wise therefore to evaluate the financial ability of the party signing any confidentiality agreement as they might not be in a position to fund your damage claim if they do leak your IP.

TRUST ARRANGEMENT

In addition to the **contractual** protection that a confidentiality or non-disclosure agreement might afford, you can also try to establish a fiduciary (or **trust**) relationship between yourself and the recipient of the ideas or trade secrets that you are disclosing. This is the type of relationship that exists between the executors and the beneficiaries under a will, or between a guardian and a minor. Under the law, a person who accepts the role of a trustee is held to a higher standard than a normal person. One of these standards is that a trustee is not entitled to personally benefit from the property that he or she holds in trust for another.

Thus, any person who accepts the role of a trustee in relation to IP (whether expressly or by implication) cannot use that IP for his or her own benefit. If he or she does, any income received from the exploitation of that IP belongs to the beneficiaries of the trust (in our case the person, like yourself, who makes the disclosure in the first place).

If you are unable to obtain an **explicit trust declaration** from the person to whom you are disclosing your IP (which most likely will be the case as we all avoid taking on extra responsibility), the Courts will nevertheless **imply a trust arrangement** in some circumstances where it is clear that the indicators of a trust exist between the person you are claiming to be the trustee and yourself.

PRACTICAL SUGGESTIONS TO PROTECT YOUR IDEAS

Other suggestions that are important in protecting your ideas and which may help the Court in inferring that a trust relationship exists between the person to whom you disclosed your IP and yourself, include the following:

- Ensure that you prepare only a limited

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"...you should resist sending your ideas and trade secrets in electronic format. Use "treeware" (i.e. paper) instead. Your ideas and secrets are just too easily disseminated or copied when they exist in an electronic format."

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number of copies of the expression of your idea or trade secret (written, electronic or otherwise) and that as few people as possible know about these copies.

• Number the copies and keep a log of their whereabouts.

• Make sure you do not ever send out copies on an unsolicited basis, even if you have to cold call the recipient first and ask him or her if you may submit your idea. Make sure that when you do submit your idea you send it to a named individual at the recipient's address.

• Send your submission together with a covering letter thanking the recipient for asking to see your material, advising that it is a condition of disclosure that they maintain the confidence of your enclosure, asking them not to make copies or otherwise disseminate your material, and requesting that they return the material to you when they are finished with it or when you ask.

• It is also prudent to make sure that your disclosure material is bound in a manner that makes it difficult to take apart to photocopy, and that it have a cover page with your name and address on it and words to the effect that the material is confidential.

• An important point: To the extent that you can, you should resist sending your ideas and trade secrets in electronic format. Use "treeware" (i.e. paper) instead. Your ideas and secrets are just too easily disseminated or copied when they exist in an electronic format. With one keystroke you may find that what you thought was confidential was just whisked by e-mail around the world or copied onto a floppy disk and stuffed into someone's pocket.

Finally, the way you think about intellectual property and how it is treated within your company may require a shift in thinking and subsequently, new business practices.

But it is worth it. As the world becomes more global and competitive, new and innovative ideas are becoming ever more essential to a company's further growth.

You guard your physical inventory and perhaps it is time to take similar precautions with your intellectual property inventory. Remember, necessity should be the mother of invention for your competitors - not your intellectual property assets!

Stephen I. Selznick

BLANEYS NEWS

We are pleased to announce that Steve Popoff (see sidebar) has become a partner of the firm, in the corporate/commercial department. Steve was called to the Bar of Ontario in 1988 and joined us three years ago from another downtown law firm.

Blaneys on Business is a publication of the Business Law Department of Blaney McMurtry LLP. The information contained in this newsletter is intended to provide information and comment, in a general fashion, about recent cases and related practice points of interest. The information and views expressed are not intended to provide legal advice. For specific legal advice, please contact us.

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.

EXPECT THE BEST

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