

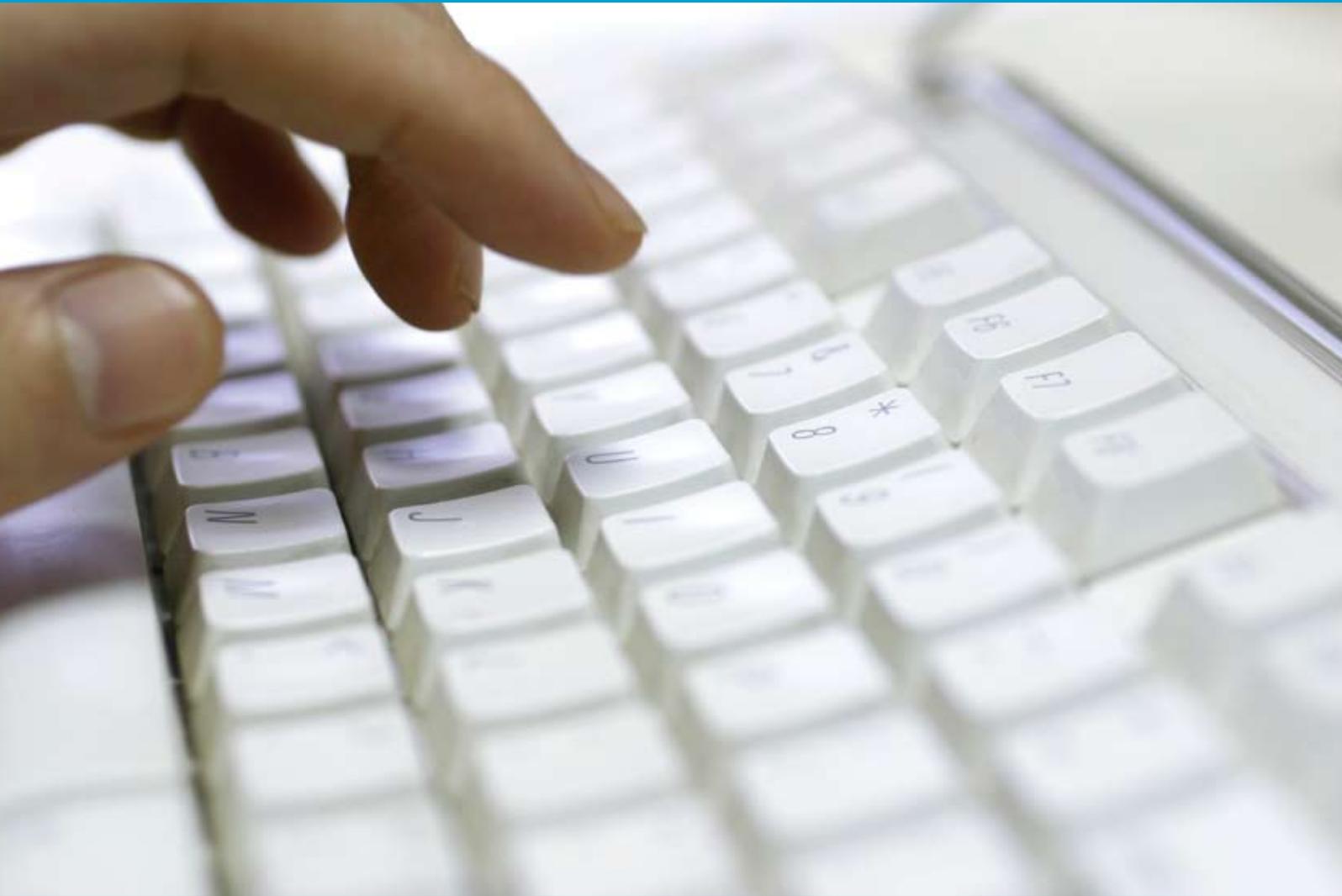
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# IPBA JOURNAL

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IPBA NEWS AND LEGAL UPDATE

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Publishing Manager  
**Paul Davis**

Editor  
**V Chendrawnee**

Editorial  
**Wong Yuk Yin**

Design  
**Zoe Yau**

Advertising Sales  
**Tamara Dudziak**

Tel: 852-2965-1408

Fax: 852-2976-0840

Email: tamara.dudziak@lexisnexis.com



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39/F, Hopewell Centre,  
183 Queen's Road East,  
Hong Kong

Tel: 852-2965-1400

Fax: 852-2976-0840

Internet:  
www.lexisnexis.com.hk

Email address:  
paul.davis@lexisnexis.com

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# IPBA JOURNAL

The Official Publication of the Inter-Pacific Bar Association

No 54

June 2009

## IPBA News

- 4 **The President's Message**
- 5 **The Secretary-General's Message**
- 6 **The IPBA 19th Annual Meeting and Conference in Manila**
- 8 **Announcement by the Publications Committee**

## Legal Update

- 9 **Virtual Items in a Legal Vacuum: Perspectives on Virtual Property from China**  
*Virtual worlds are a multi-billion dollar industry and the fastest growing sector of the entertainment industry. However, a 'legal vacuum' exists in respect of virtual items which are not recognized as property. Although the Chinese courts have shown a willingness to protect users' rights in virtual property, the legal basis for doing so is unclear and it is also uncertain whether this trend will translate to substantive recognition of virtual property under Chinese law*
- 17 **The Indian Information Technology (Amendment) Act, 2008: A Step in the Right Direction**  
*This article describes some important recent developments in the Indian Information Technology laws with profound implications for the data processing and network service provider industries. A brief comparison with the prevailing legal regimes in the United States and European Union is also provided*
- 23 **Electronic Discovery in Singapore**  
*This article considers the current status of e-discovery in Singapore. Following a brief overview of the discovery process under Order 24 of the Rules of Court, the Singapore High Court's application of the existing discovery rules in cases involving computer databases and electronically-stored documents is considered. The article also discusses an important recent proposal for legislative changes relating to e-discovery*
- 29 **Backup Tapes in Civil Litigation: Preservation, Disclosure and Production**  
*In the U.S., backup tapes represent an especially problematic aspect of e-discovery as companies struggle to comply with evolving case law and procedural rules. This article describes expanding requirements for the preservation and production of electronically-stored information, including backup tapes, under the U.S. Federal Rules of Civil Procedure, and discusses the mitigation and allocation of costs of retrieving information from backup tapes*



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# The President's Message



Dear Colleagues,

The 19th Annual Conference of the IPBA was held in Manila from April 29 to May 2, 2009, at Sofitel Philippine Plaza. Despite the global economic downturn, the

Conference attracted a large number of attendees, both locally and internationally, and proved to be one of the most successful annual conferences of the IPBA.

The Opening Ceremony at the Philippine International Convention Center featured the keynote speech of the President of the Philippines, Gloria Macapagal Arroyo, who later, also graciously joined the Officers and Past Presidents of the IPBA for snacks and a group photo.

The Plenary Session highlighted recent developments in commercial law reform in the Pacific region. This was presented by Paul Holden of the Enterprise Research Institute, Gordon R. Walker of La Trobe University Law School, and Terry Reid of the Pacific Liaison and Coordination Office in Sydney of the Asian Development Bank.

Around the theme *Legal Practice: Coping with Diversity and Change*, the Manila Conference offered 35 concurrent educational programs organized by IPBA Committees. These included a program on the latest developments in anti-corruption laws in Asia, which was presented by the IPBA Legal Practice Committee in association with LAWASIA, as well as a session on antitrust law enforcement in the Asia-Pacific by the IPBA Competition Law Committee and the ABA Section of Antitrust Law.

The Dispute Resolution and Arbitration Committee had a joint program with INTA on the recent innovations in resolving intellectual property and information technology disputes. These and the other educational programs were well attended.

The attendees found the social events particularly enjoyable and memorable. *Spirit of '67*, the band for the evening, performed at the welcome reception at the Sofitel Plaza Ballroom,

and the many attendees danced the night away. There was more dancing at the gala the following night at SMX Convention Center, with *Rockin Revival* who played after a sensational song performance by the glamorous, Verni Varga. The farewell reception on the third night was held at One Esplanade. This time, it was the turn of the *Bayanihan Dance Troupe* to entertain and they did so, remarkably with local folk dances that have won them awards internationally.

For the successful conference, thanks go to the Manila Host Committee and the law firms concerned (namely, SyCip Salazar Hernandez & Gatmaitan, Angara Abello Concepcion Regala & Cruz, Castillo Laman Tan Pantaleon & San Jose, Cochingyan & Peralta Law Offices, Del Rosario Bagamasbad & Raboca, Del Rosario & Del Rosario, Jimenez Gonzales Bello Valdez Caluya & Fernandez, Romulo Mabanta Buenaventura Sayoc & de los Angeles, and Villaraza Marcelo Cruz & Angangco). The webmaster, Valeriano R. del Rosario, should be commended for the conference website. The Event Organizer (Baron Travel Corporation) and the Event Consultant (Nadja A Trinchera) deserve a lot of credit for the organization and conduct of the conference.

This year, there were five IPBA scholars (one each from Sri Lanka, Cambodia and Myanmar, and two from the Philippines).

With the Manila Conference over, we must now focus our attention on the Singapore Conference from May 2nd to 5th next year. Preparations are already underway for this conference under the able leadership of Suet-Fern Lee, the IPBA President-Elect. The theme of the Singapore Conference is *Climate Change* and the organizers have invited former US Vice President Al Gore to be a keynote speaker.

The IPBA has been pursuing its goal of strengthening the Asia-Pacific legal community by contributing to the development of the law through, among others, its annual conferences. I encourage and invite everyone to support the Singapore Conference next year. Let us mark May 2-5, 2010 in our calendar and make sure to attend the Singapore Conference.

*Rafael A Morales*  
President

# The Secretary-General's Message



Dear IPBA Members,

We have just completed a successful IPBA Annual Conference and Meeting in Manila (April 29-May 2, 2009), which builds on significant and well-attended previous annual meetings in Los Angeles (2008) and Beijing (2007). Much

of the success of these meetings and the concurrent strengthening of the IPBA organization is the result of the intensive strategic planning initiative that the IPBA started at its Bali meeting (2005) and culminated in its Sydney meeting (2006) with the adoption of the IPBA's Strategic Plan.

The Strategic Plan refocused our attention on the IPBA's unique mission; identified key areas that the IPBA should strengthen in order to enhance its capabilities to fulfil its mission, invigorate its membership, and nurture the special collegiality that has been an inherent core value of the IPBA; formulated specific actions to ensure the IPBA's continuing stature as the pre-eminent international association of business lawyers in and for the Asia-Pacific region; and reaffirmed the IPBA's commitment to promote the rule of law in this region.

The IPBA's continuing efforts to implement the Strategic Plan's recommendations have already shown tangible and visible accomplishments. These encompass: a strengthened IPBA committee structure, including the process of leadership succession and the greater integration of programming development; a more systematic approach to program planning for IPBA Annual Conferences, with closer coordination of the IPBA's practice area committees; a review of membership recruitment and retention initiatives; the publication of a comprehensive IPBA Manual as a ready resource for IPBA's leadership to strengthen the IPBA's organizational framework and operational processes; the development of new leadership support groups within both national jurisdictions and broader regions; the expansion of the IPBA's outreach efforts through what will be an enhanced set of website and publications initiatives; the integration of the IPBA scholarship program and the IPBA legal training and development program into the IPBA's formal committee structure to strengthen two important elements of IPBA's mission; and a host of other innovative and important developments. All of these offer expanding and exciting opportunities for IPBA members to contribute not only to specific IPBA programs and committees and groups but also to the larger legal profession within this Region.

These efforts provide substantial support to the IPBA's 2010 Annual Conference and Meeting to be held in Singapore on May 2-5, 2010. This event very likely will be the first large-scale meeting of lawyers in the Asia-Pacific region to address the critically important issues of climate change, and for us, in the context of 'Climate Change and Legal Practice'. The global discussions on climate change have generally centered on scientific findings and implications and the appropriate political and public policy responses. Yet, we know that climate change implications have now pervaded virtually all areas of business, land use, financing, commercial, energy, transportation, capital markets, insurance, construction and other areas of law and legal practice. The IPBA's 2010 meeting will focus, in a comprehensive and integrated way, on many of these issues within this Asia-Pacific Region. In this way, the IPBA will be making a very significant contribution to the public discussion of these issues in one of the world's most important regions, and with implications of global proportions.

The IPBA's founders in 1991 affirmed that the IPBA is an organization originating from within this Asia-Pacific region and as such, is committed to the continuing development of the legal profession, legal practice and the rule of law in this Region, with specific emphasis on business and commercial law and lawyers. Several years ago, the IPBA recognized that changing conditions worldwide had created the survival challenges facing all organizations – whether public, private or not-for-profit from competition, scarce resources and irrelevance. The IPBA acted, looked into what could be its future, reaffirmed its original purposes, and responded with its Strategic Plan.

We are very pleased to report that not only is the IPBA affirmatively moving to meet these and future challenges, but, equally important, we are identifying new opportunities and new approaches that will enhance the value of the IPBA to our members and to our broader constituencies and communities within this Region. We are very confident that with the full support of all of our members, colleagues and friends, the IPBA will continue its important role as the pre-eminent international association of business lawyers in the Asia-Pacific Region. We look forward to the future, and welcome your continuing and expanded involvement with the IPBA and your suggestions and ideas for how the IPBA can be even more effective.

With all best wishes,

*Gerald A Sumida*  
Secretary-General

# The IPBA 19th Annual Meeting and Conference in Manila



IPBA President-Elect Rafael A Morales escorting the President of the Philippines, Gloria Macapagal Arroyo, to the Plenary Hall of the Philippine International Convention Center



Panelists in one of the sessions



President Arroyo delivering her Keynote Address



Another panel of speakers



President Arroyo with the Officers and Past Presidents of the IPBA



At the lobby of Sofitel Philippine Plaza



Scene from one of the concurrent sessions



Dancing at the Welcome Reception



Taken at the Conference Gala at SMX Convention Center



Learning the Tinikling, the Bamboo Dance



Still at the Conference Gala



At the Annual General Meeting



Awarding of certificates to the IPBA Scholars at the Farewell Gala at One Esplanade



New Officers Meeting



The Bayanihan Dance Troupe performing at the Farewell Gala



Taken at Tagaytay Highlands, the site of the Post-Conference Golf Tournament

## Publications Committee Guidelines for Publication of Articles in the IPBA Journal

The IPBA Publications Committee is soliciting quality articles for the Legal Update section of the September and December 2009 issues of the IPBA Journal. If you are interested in contributing an article, please contact **Mr Kap-You (Kevin) Kim**, Publications Committee Chair, at [kyk@bkl.co.kr](mailto:kyk@bkl.co.kr) or **Mr Hideki Kojima**, Publications Committee Vice-Chair, at [kojima@kojimalaw.jp](mailto:kojima@kojimalaw.jp) and/or submit articles by email to Mr Kim or Mr Kojima at the foregoing addresses.

### Proposed themes for upcoming editions:

- Project Finance  
(September 2009)  
*Deadline for submissions: August 27, 2009*
- Shipping and Insurance  
(December 2009)  
*Deadline for submissions: November 26, 2009*

The requirements for publication of an article in the IPBA Journal are as follows:

1. The article has not been previously published in any journal or publication;
2. The article is of good quality both in terms of technical input and topical interest for IPBA members;
3. The article is not written to publicize the expertise, specialization, or network offices of the writer or the firm at which the writer is based;
4. The article is concise (2,500 to 3,000 words) and, in any event, does not exceed 3,000 words; and
5. The article is written by an IPBA member.

# Virtual Items in a Legal Vacuum: Perspectives on Virtual Property from China



Stefania Lucchetti



Sherman Lo

Virtual worlds are a multi-billion dollar industry and the fastest growing sector of the entertainment industry. However, a ‘legal vacuum’ exists in respect of virtual items which are not recognized as property. Although the Chinese courts have shown

a willingness to protect users’ rights in virtual property, the legal basis for doing so is unclear and it is also uncertain whether this trend will translate to substantive recognition of virtual property under Chinese law.

**Stefania Lucchetti**

Senior Associate  
Mallesons Stephen Jaques, Hong Kong

**Sherman Lo**

Registered Foreign Lawyer  
Mallesons Stephen Jaques, Hong Kong

## Introduction

The development and growth of virtual worlds has been a global phenomenon. More than ever, virtual world users are prepared to pay real money in exchange for virtual items and some suggest that the secondary market for virtual item trading may eventually (if not already) eclipse the revenue of the primary market enjoyed by virtual world providers.

At the heart of this phenomenon are virtual world users in China, where the rapid growth in internet usage and online gaming has contributed to the rise in virtual item trading. The mounting trend towards item-based revenue models over

time-based revenue models is likely to encourage further virtual item trading both in China and globally.

Users around the world are pouring billions of dollars into trading virtual items, but *what* exactly are they trading? There is no settled view as to whether property exists in virtual items. After all, they are merely representations of data in the underlying source code of a computer program.<sup>1</sup> They do not fit neatly into any existing categories of property.

The burning question is: should a new category of ‘virtual property’ be recognized, and if so, when and how this should be done. In this respect, China is facing the same complexities and perplexities as Western countries.

In recent years, Chinese courts have shown willingness to protect users’ rights in virtual items, but the legal basis for doing so is not clear. As in common law countries, there are currently no laws in China that specifically recognize users’ rights in virtual property. Hence the term ‘legal vacuum’

has been used to describe the legal status of virtual property.<sup>2</sup>

Imagine being told that you cannot assert ownership over shares and bonds that you recently invested in because securities are not recognized as a type of property. Virtual world users face this exact problem in respect of virtual property that they ‘own,’ because no such thing exists. Given the mounting scale and momentum of virtual item trading, it is likely that users’ demands for virtual asset protection will be heeded eventually. Whether this comes in the form of private self-regulation between users and providers or public intervention, remains to be seen.

In this article, we will use the term ‘**user**’ to describe all participants in virtual worlds and ‘**provider**’ to describe developers and providers of virtual worlds.

### Virtual Worlds, Real Money

#### *What are Virtual Worlds?*

A virtual world is a software platform that provides a persistent, simulated environment (usually 3D) where users, represented by ‘avatars’, interact in real-time with objects and other users in the virtual world.<sup>3</sup> Virtual worlds differ in essentially two ways. They either have a defined objective (‘game worlds’), or they do not, in which case their only objectives are social interaction and economic development (‘social worlds’).

#### *Growth of Virtual Worlds in China and Internationally*

Virtual worlds are a global multi-billion dollar industry and the fastest growing sector of the entertainment economy.<sup>4</sup> China is at the heart of this growth, both in terms of general internet usage and for virtual worlds. At the end of 2008, China had 298 million internet users (an increase of 88 million internet users from 2007), surpassing the United States as the largest internet market in the world. Amazingly, overall internet penetration is still only 22.6 per cent, which suggests that China’s rapid growth in internet usage is sustainable and won’t be slowing down any time soon.<sup>5</sup>

The number of virtual world users in China spurred on by general internet growth, is estimated to be 57.3 million in 2009 and projected to reach 84.6 million by 2012.<sup>6</sup> The virtual world market in China is set to generate US\$1.3 billion in 2009 for online game developers, according to market researcher IDC.<sup>7</sup> Globally, it was estimated that 217 million virtual world users worldwide generated US\$2 billion of real world trade in 2007.<sup>8</sup> It is suggested that up to 80 per cent of people who use the internet (about 1.6 billion globally) may work or play in virtual worlds by the year 2011.<sup>9</sup> Besides China, the United States

and South Korea also have a particularly strong representation in virtual worlds.

Despite the popularity of virtual worlds, their growth has happened relatively quietly. However, some experts have compared their current level of mainstream familiarity to that of websites in the late nineties. Many global companies have already set up a presence in virtual worlds, most notably in Second Life.<sup>10</sup> If the numbers above indicate that virtual worlds matter now, they will matter even more in the future.

#### *Real Money Trade*

Virtual world inhabitants are prepared to pay real money, and in some cases, substantial sums of money, for virtual world items. In 2005, an auction for an in-world island sold for US\$26,500, followed by the sale later that year of an in-world space for US\$100,000.<sup>11</sup> It is difficult to gauge how much money changes hands between virtual world users, but sources suggest the number is well into the billions.<sup>12</sup>

Tax authorities around the world have indicated that users may be subject to taxation where they derive real world income from virtual world transactions, or in other words, where they cash out in real world currency.<sup>13</sup> However, what is unclear, and currently the subject of a study by the Joint Economic Committee of the US Congress<sup>14</sup> and academics,<sup>15</sup> is whether pure in-world transactions that are not monetised should be subject to taxation.

The scale of real money trade is expected to increase not only with the number of virtual world users but also with the trend towards item-based revenue models.



### The Revenue Model – China’s Trend towards Item-based Revenue Models

Save for a few exceptions, most virtual worlds in the West adopt a time-based revenue model. Users typically pay a flat-rate periodic subscription fee to access the virtual world. Asian countries have moved away from this model towards item-based revenue models. Users can access the virtual world for free, but are required to pay for items which enhance their experience in the virtual world. Not surprisingly, in a ‘free’ world, only a small percentage of users actually choose to pay for items. But the success of virtual worlds such as *Tian Long Ba Bu* shows that this small percentage of users can be very valuable indeed.

In 2008, *Tian Long Ba Bu* generated US\$202 million revenue and US\$108 million profit<sup>16</sup> for Changyou.com, a three-year-old online-gaming business spun out of China’s second-largest internet portal (Sohu.com). Changyou listed on New York’s NASDAQ exchange on 2 April 2009 and was praised as the first successful listing for the year in an otherwise frozen market.<sup>17</sup> The success of Changyou highlights a growing trend towards item-based revenue models. In Changyou’s own words:

The time-based revenue model has been the traditional revenue model for online games. In recent years due to their more flexible payment option and scalable nature from the **potentially unlimited number of virtual items** that can be sold in each game, item-based games have become increasingly popular among game players

and game operators in China compared to time-based games.<sup>18</sup> [emphasis added]

The scalable nature of item-based revenue models make them attractive to virtual world providers in Asia, and increasingly so in the West.<sup>19</sup> The two revenue models are not mutually exclusive as time-based virtual worlds can supplement their subscription income by selling items. More worlds geared towards commodification means more items.

### Rights in Virtual Property – What does it Mean to ‘Own’ Virtual Items?

#### *Are Virtual Items Property?*

There is no settled view as to whether property exists in virtual items. As virtual items are intangible, they are not recognized as real or personal property. However, it is just as difficult to recognize them as intangible property – whether as choses in action (contractual rights) or intellectual property.

Users often assume, when dealing with virtual items that they must be some form of intellectual property.

#### *Is Intellectual Property the Answer?*

A virtual world is like a patchwork quilt of intellectual property. The underlying source code of a virtual world (which in itself is copyrightable), produces further literary, musical and artistic works which may be subject to copyright. Interestingly, virtual worlds have two layers of copyright – the first layer is owned by providers and includes the ‘building blocks’ of a virtual world (e.g. the underlying source code, visual environments, background music etc.) and the second layer consists of works created by players using in-world tools.<sup>20</sup>

If virtual items fall in the second layer, users can protect their items by asserting intellectual property ownership. However, in practice it is difficult for users to do this because:

1. Restrictive provisions in the agreements between providers and users prevent users from doing so; and
2. Highly constrained tool-sets often limit a user’s ability to create works that are subject to copyright protection.

Providers control virtual worlds, practically through source code and legally through contract. The contractual relationship between users and providers is usually governed by one or more agreements which set forth the terms of use of the game (for ease of reference, we will call these ‘End User License Agreements’ or ‘EULAs’). EULAs are typically non-negotiable ‘click-wrap’ contracts



Photo: Jason Allen

to which users agree to be bound to by clicking on a button. Nearly all EULAs have restrictive provisions which prevent a user from asserting intellectual property.

This is typically achieved by the provider retaining ownership over all in-world works, *regardless of who created the relevant works*.

The emphasis on creation is significant as it is a fundamental requirement for asserting copyright.<sup>21</sup> Even in the absence of restrictive EULA provisions, users can only assert copyright over works which they have created. This is the second major hurdle for users wishing to assert copyright.

A significant portion of virtual items (including currency and equipment) are not created by users at all, but are either purchased from in-world vendors or acquired as rewards for completing game objectives. Users make no creative contribution to these items and accordingly cannot assert copyright over them. Even if considerable time and effort is spent in acquiring these items, it is irrelevant as the law requires labor in creation rather than mere acquisition.

The position is less clear for items to which users can make a creative contribution. However, the fundamental question is still the same: *has the user created the relevant work?*

The answer ultimately, depends on the in-world tools given to users, which in turn determines whether users are able to create works.<sup>22</sup> Most virtual worlds, being game worlds, have highly constrained in-world tool-sets that limit a user's ability to create works. Many game worlds allow users to 'create' items by combining a number of provider-created objects. There is no creative process involved where users simply execute a pre-determined function coded by the provider. The item is merely a result of the user selecting options provided by the developer, rather than the user's own creativity.<sup>23</sup>

On the other hand, some social worlds, such as Second Life and HiPiHi, give users complex tool-sets to create virtual items. Incidentally, these worlds also allow players to retain ownership of their intellectual property. The scope for intellectual property protection in these worlds is much broader, but they are the exception rather than the norm.

Assuming that users are able to assert intellectual property over virtual items, is this sufficient? The right of users to assert copyrights should not be confused with virtual property. There is a difference between holding intellectual property rights in a work (which is nonrivalrous) and owning the chattel that is the manifestation of that work (which is rivalrous).<sup>24</sup> A record label owns copyright to the music on your newly

purchased CD, but you own the CD itself. If the CD were a virtual item however, you would own nothing. Although intellectual property can offer a degree of protection for certain aspects of user created content, it does not go far enough to fill the legal vacuum that exists in respect of virtual property.

### *Virtual Property*

Since virtual items do not fit neatly into any existing category of property, the question is whether a new type of property – 'virtual property', should be recognized.

Proponents of virtual property generally outweigh those against it.<sup>25</sup> Those in favor argue that recognition of virtual property is critical to ensure the efficient use of internet resources and to maintain the equilibrium of the law as it adapts to new contexts.<sup>26</sup> Those against it contend that virtual worlds should be left to develop their own efficient property systems and that recognizing users' property rights would impose an unreasonable burden on providers.<sup>27</sup>

In the common law world, the United States has experienced the most litigation relating to virtual worlds,<sup>28</sup> but like the United Kingdom and Australia, it has not yet enacted any specific legislation for virtual worlds or virtual property. By contrast, many Asian countries, notably China, South Korea and Taiwan, have already taken steps towards recognizing virtual property rights. In recent years, Chinese courts have demonstrated a willingness towards protecting users' rights in virtual items, although it is still unclear if this trend will translate to substantive recognition of virtual property rights under Chinese law.

### **Step towards Virtual Property in China**

There are currently no laws in China that specifically recognize users' rights in virtual property.<sup>29</sup> Curiously, this has not prevented Chinese courts from protecting users' interests in respect of virtual property.

In a spate of cases beginning with *Li Hongchen v Beijing Artic Ice Technology Development Co*<sup>30</sup> in 2003, users have successfully sued providers and other users in respect of lost virtual items and have been awarded compensation and/or reinstatement of their lost items.<sup>31</sup> Criminal convictions have also resulted from theft of virtual items.<sup>32</sup>

These decisions come in spite of restrictive provisions in Chinese EULAs which are very similar to those found in Western EULAs. Many EULAs (including those published by first tier providers – Shanda, NetEase and The9 – for some of the most popular Chinese virtual worlds)<sup>33</sup> have restrictive provisions that prevent users from asserting intellectual property rights. Some even

go further to retain ownership of all virtual items and data stored on the provider's server and expressly forbid all real-money trading of virtual items.<sup>34</sup> Unlike courts in the United States which tend to consider EULA provisions in detail,<sup>35</sup> Chinese courts apparently take a more pragmatic approach in protecting virtual property rights.

Despite this apparent trend, the legal status of virtual items in China is far from clear. As is the case in civil law jurisdictions, decisions in one court are not binding on another. Further, the legal basis and reasoning for decisions is not always apparent. Full texts of judgments are often not available or the judgments are very brief.<sup>36</sup> Civil cases which have attempted to give a legal basis for protection of virtual property have relied on contract and consumer protection laws.<sup>37</sup> Criminal cases have relied on the theft provisions of the Criminal Law of the People's Republic of China (《中華人民共和國刑法》).<sup>38</sup> Although not specifically mentioned, it is also possible that more general laws relating to property rights may have been taken into consideration by courts in arriving at their decisions.<sup>39</sup>

The position of government agencies is also unclear. In December 2006, one of the regulating bodies of the online gaming industry (the Ministry of Culture), expressed the opinion that laws should be established to ban the trading of virtual assets.<sup>40</sup> In February 2007, 14 government agencies reportedly issued a joint statement banning the use of virtual currency to purchase real world products and the trading of virtual currency,<sup>41</sup> but the ban has been ineffective.<sup>42</sup> In September 2008, the State Administration of Taxation ('SAT') issued a statement<sup>43</sup> to the effect that any real world profits realised from the purchase or sale of virtual currency falls within the scope of individual taxable income.<sup>44</sup>

The motivation for these developments may not be a reluctance to recognize virtual property rights, but rather concerns relating to social problems such as online gambling and gaming addiction. In any event, these developments hardly clarify the position in relation to virtual property in China. The apparent willingness of courts to

recognize virtual property may be a precursor to substantive recognition of virtual property rights under Chinese law. However, this trend can always change in the absence of specific laws or guidance relating to virtual property, especially where there is conflicting political sentiment.

## Conclusion

Legal vacuums are not unique to virtual items. They exist because the law is always playing catch-up with human innovation. They emerge when existing legal principles fail to cater for new circumstances. Virtual items have been around for decades in the realm of video games but the need to recognize property interests in them has only arisen with the advent of virtual worlds. Existing principles of property law simply do not cater for intangible objects that behave like tangible personal property. What will fill the legal vacuum (if anything) remains to be seen.

It may be preferable to simply leave things as they are for now and observe how virtual worlds develop rather than recognize virtual property rights in a way which may have adverse consequences in the future.<sup>45</sup> Virtual worlds are still in their infancy and new trends are only beginning to emerge. The shift towards item-based revenue models is only one such trend likely to have an effect on the scale of real money trade in virtual items. Other trends on the horizon include the rising prominence of social worlds and the possible export of virtual items between worlds. These issues lie beyond the scope of this article, but they may be relevant to any pervasive system of virtual property.

Consideration should also be given to alternative property systems. For instance, it has been suggested that an appropriate system of virtual property might resemble feudal society rather than modern society whereby users' interests are described as *seisin* rather than ownership.<sup>46</sup>

How long will it take before virtual property rights are recognized? It is still too early to say. In the meantime, the legal vacuum should only bother lawyers and academics. Users will likely go on treating virtual items like personal property, regardless of what the law says.

## Notes:

<sup>1</sup> Ung-gi Yoon, 'South Korea and Indirect Reliance on IP Law: Real Money Trading in MMORPG Items' [2008] 3(3) *Journal of Intellectual Property Law & Practice* 174.

<sup>2</sup> See 'Economic Bill Forum: Virtual Property Faces a Legal Vacuum' (經濟法案平臺：虛

擬財產面對法律真空) *Labor Daily* (26 June 2004) <<http://news.sina.com.cn/c/2004-06-26/10352913731s.shtml>> accessed 7 May 2009.

<sup>3</sup> Greg Lastowka, 'User-Generated Content & Virtual Worlds' (Rough Draft of 2/15/2008) *The Vanderbilt Journal of Entertainment and*

*Technology Law* 10.

- <sup>4</sup> Nick Abrahams, 'Media Laws for Virtual Worlds' [2007] *UNSW Law Journal* 295, citing Erez Reuveni, 'On Virtual Worlds: Copyright and Contract Law at the Dawn of the Virtual Age' (2007) 82 *Indiana Law Journal* 261.
- <sup>5</sup> China Internet Network Information Center, 'Statistical Survey Report on the Internet Development in China' (January 2009) at 3 <<http://www.cnnic.net.cn/uploadfiles/pdf/2009/3/23/153540.pdf>> accessed 7 May 2009.
- <sup>6</sup> Changyou.com Limited, *Registration Statement* (Form F-1) filed with the Securities and Exchange Commission on 17 March 2009 at 90 <<http://idea.sec.gov/Archives/edgar/data/1458696/000119312509056688/df1.htm>> accessed 6 April 2009, citing IDC, 'China Gaming End-User Survey 2008 and China Gaming 2008-2012 Forecast and Analysis.'
- <sup>7</sup> Li Chen, 'China's Service Outsourcing Emerging Amidst Economic Recession' <<http://www.businesswire.com/news/google/20090414005551/en>> accessed 16 April 2009, citing research conducted by IDC.
- <sup>8</sup> Melissa de Zwart, 'The Dark Side of Online Games: Fraud, Theft and Invasion of Privacy' 11(9) [2009] *Internet Law Bulletin* 147.
- <sup>9</sup> Joshua Fairfield, 'Anti-Social Contracts: The Contractual Governance of Virtual Worlds' (2008) 2007(20) *McGill Law Journal* 435.
- <sup>10</sup> These include Telstra, Adidas, BMW, Cisco, Dell, Mercedes, Nissan, Reebok, Sony BMG, Toyota, Vodafone, ABC, SBS and more.
- <sup>11</sup> Daniel Terdiman, 'Newsmaker: Banking on a Virtual Economy' (29 November 2005) <[http://news.cnet.com/Banking-on-a-virtual-economy/2008-1043\\_3-5974118.html](http://news.cnet.com/Banking-on-a-virtual-economy/2008-1043_3-5974118.html)> accessed 7 May 2009.
- <sup>12</sup> Ian Gillies, 'Real World Toys and Currency Turn: The Legal World Upside Down: A Cross-Sectional Update on Virtual World Legalities' 12 (2008) *International Journal of Communications Law & Policy* 120, referring to IGE website <http://www.ige.com/about.html>.
- <sup>13</sup> China's State Administration of Taxation issued a tax rule on 28 September 2008 that income derived from the sale of virtual currency shall be subject to income tax, see note 43; see Ping Chu, 'China: Virtual Currency: Regulation and Taxation Issues' 10(11) *E-Commerce Law & Policy* <[http://www.e-comlaw.com/Ip/details\\_contents.asp?ID=1432](http://www.e-comlaw.com/Ip/details_contents.asp?ID=1432)> accessed 24 March 2009; in South Korea, Value Added Tax (VAT) is applicable to real-money transactions as of 1 July 2007 <[http://www.kotaku.com/gaming/one-of-the-only-certainties-in-life/south-korea-to-tax-virtual-assets-273957.php](http://kotaku.com/gaming/one-of-the-only-certainties-in-life/south-korea-to-tax-virtual-assets-273957.php)> accessed 7 May 2009; the Australian Taxation Office has stated that real world value of virtual world transactions may form part of a person's taxable income and may be subject to GST, see Nick Miller, 'Virtual World: Tax Man Cometh' *Sydney Morning Herald* (31 October 2006) <<http://www.smh.com.au/news/biztech/virtual-world-tax-man-cometh/2006/10/30/1162056925483.html>> accessed 7 May 2009.
- <sup>14</sup> Joint Economic Committee of the Congress of the United States Press Release, 'Virtual Economies Need Clarification, not More Taxes' (17 October 2006) <<http://www.house.gov/jec/news/news2006/pr109-98.pdf>> accessed 7 May 2009.
- <sup>15</sup> For example, see generally Theodore Seto, 'When is a Game Only a Game?: The Taxation of Virtual Worlds' [2008] 24 *Legal Studies Paper* 1; Leandra Lederman, "'Stranger than Fiction": Taxing Virtual Worlds' [2007] 82(1620) *New York University Law Review* 1620; Bryan Camp, 'The Play's the Thing: A Theory of Taxing Virtual Worlds' [2007] 59(1) *Hastings Law Journal* 1.
- <sup>16</sup> 'Online Gaming in China: Intangible Value' *Economist* (Hong Kong 2 April 2009) <[http://www.economist.com/displayStory.cfm?story\\_id=13415293](http://www.economist.com/displayStory.cfm?story_id=13415293)> accessed 21 April 2009.
- <sup>17</sup> Eric Krangel, 'Changyou IPO Soars On Virtual Goods (CYOU)' *The Business Insider* (3 April 2009) <http://www.businessinsider.com/changyou-ipo-soars-on-virtual-goods-2009-4> accessed 7 May 2009.
- <sup>18</sup> Changyou.com Limited, *Registration Statement* (Form F-1) filed with the Securities and Exchange Commission on 17 March 2009 at 91 <<http://idea.sec.gov/Archives/edgar/data/1458696/000119312509056688/df1.htm>>.
- <sup>19</sup> Brandon Sheffield, 'Paris GDC: Acclaim Bringing For-Pay Item Trade to Facebook' *Gamasutra* (23 June 2008) <[http://www.gamasutra.com/php-bin/news\\_index.php?story=19136](http://www.gamasutra.com/php-bin/news_index.php?story=19136)> accessed 19 March 2009.
- <sup>20</sup> The existence of the second layer is testament to the evolution of virtual worlds from their ancestor, the console video game. Historically, the role of players in video games has always been functional rather than creative. More than 20 years ago, Chief Judge Cummings in *Midway Manufacturing v Artic International* 704 F2d 1009 (7th Cir 1983) at 1011-1012 described playing a video game to be 'more like changing channels on a television than it is like writing a novel or painting a picture.' Contrast to virtual worlds, users can write novels and paint pictures and more, depending on the tool-

- set given to users in the relevant virtual world.
- <sup>21</sup> Authorship is a cornerstone requirement of copyright law in most common and civil law jurisdictions. For Hong Kong and China, see Section 11 of the Copyright Ordinance (Chapter 528 of the Laws of Hong Kong) and Article 11 of the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》).
- <sup>22</sup> Take for example, two different virtual worlds that both allow you to create a painting. The first world lets you paint a picture using a Microsoft® Paint-style palette. The second lets you combine various items, say a bucket of paint, a brush and a canvas, to create a number of pre-defined paintings. Paintings created in the second world are not user copyrightable works. Users merely execute a pre-determined function coded by the provider, this is not a creative act. Contrast to users in the first world who can use the in-world tool-set to create original artistic works. Paintings created in the first world should be protected by copyright in the same way that literary works produced with a word processor should be protected.
- <sup>23</sup> Candidus Dougherty and Greg Lastowka, 'Virtual Trademarks' (Rough Draft of 2/16/2008) *The Santa Clara Computer and High Technology Law Journal* 1.
- <sup>24</sup> See Allen Chin, 'A Particular Look at Virtual Property' [2006] 80 *St. John's Law Review* 1062; Steven Horowitz, 'Competing Lockean Claims to Virtual Property' [2007] *Lockean Virtual Property* 2 and Joshua Fairfield, 'Virtual Property' [2005] 85 *Boston University Law Review* 1052-64.
- <sup>25</sup> See Allen Chin, 'A Particular Look at Virtual Property' [2006] 80 *St. John's Law Review* 1062, Joshua Fairfield, 'Virtual Property' [2005] 85 *Boston University Law Review* 1047 and Greg Lastowka & Dan Hunter, 'The Laws of Virtual Worlds' (2004) 92(1) *California Law Review* 24.
- <sup>26</sup> Joshua Fairfield, 'Virtual Property' [2005] 85 *Boston University Law Review* 1051.
- <sup>27</sup> Kevin Deeniham, 'Leave Those Orcs Alone: Property Rights in Virtual Worlds' <[http://virtuallyblind.com/files/Deenihan\\_LeavetheOrcsAloneFinal.pdf](http://virtuallyblind.com/files/Deenihan_LeavetheOrcsAloneFinal.pdf)> accessed 7 May 2009.
- <sup>28</sup> See *Marc Bragg v Linden Research, Inc.* 487 F. Supp. 2d 593 (E.D. Pa. 2007); *Blizzard v In Game Dollar CD Cal.*, SACV 07-0589; *Hernandez v IGE* No. 07-21403-Civ-COHN/SNOW (S.D. Fl., filed Aug. 17, 2007), available at <<http://docs.justia.com/cases/federal/district-courts/florida/flsdce/1:2007cv21403/296927/5/>>; *Eros LLC v Leatherwood* No. 8:07-CV-01158 (M.D. Fla. filed Oct. 24, 2007) and *Eros LLC v Simon et al* Civ. No. 07-04447-SLT-JMA (E.D.N.Y. Oct 24, 2007).
- <sup>29</sup> Tangible property in China is protected by the Property Law of the People's Republic of China (《中華人民共和國物權法》) whereas intangible property is protected by more specific laws (for example, intellectual property is protected by the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》), Patent Law of the People's Republic of China (《中華人民共和國專利法》) and Trademark Law of the People's Republic of China (《中華人民共和國商標法》)).
- <sup>30</sup> See full final judgment of the Second Medium Level People's Court on the case *Li Hongchen v Beijing Artic Ice Technology Development Co* (Case No. (2004) er-zhong-min-zong-zi No. 02877) <<http://www.4oa.com/office/750/964/1734/1737/200511/79842.html>> accessed 7 May 2009 (the 'Li Hongchen decision')
- <sup>31</sup> See *Zhao v Shanda Networking*, cited in Sarah Xuan, 'Virtual Property in Greater China' MMLC Group – MMLC Murphy Wang <<http://www.hg.org/article.asp?id=5538>> accessed 23 April 2009 (the 'Zhao decision'); *Xue v Shanda Networking*, cited in 'The First Online Infringement Case in Xi'an: The Player Won in the Court of First Instance' (西安首例網路侵權案昨宣判 玩家一審勝訴) *Huashang Bao* (《華商報》) (12 May 2007) <[http://www.ce.cn/cysc/tech/07ityj/guonei/200705/12/t20070512\\_11328538.shtml](http://www.ce.cn/cysc/tech/07ityj/guonei/200705/12/t20070512_11328538.shtml)> accessed 7 May 2009; *Zhang v Song*, cited in 'Seller Wins in Virtual Property Dispute' (虛擬財產糾紛案賣家勝訴) (26 May 2007) <[http://www.mmogg.com/Info/738\\_1.html](http://www.mmogg.com/Info/738_1.html)> accessed 7 May 2009, referring to a civil case where an online game player sued another player for non-payment of agreed price of virtual weapons, and the regional court of Hejian Municipality of Hebei Province ruled that virtual weapons deserved legal protection because they had certain property value; *Zhang v Shanda Networking*, cited in 'Player Wins in Suing Shangda Networking for Online Infringement and was Awarded Psychological Compensation' (玩家告盛大網路侵權取勝 獲賠精神損失5000元) *Changsha Wanbao* (《長沙晚報》) (23 April 2008) <<http://tech.163.com/08/0423/22/4A8FNI7M000915BF.html>> accessed 7 May 2009; *Zhou v The9*, cited in 'The9 Stopped a Player's Account and was Suspected of Virtual Property Infringement' (《九城封停玩家帳號被疑侵犯虛擬財產》 追蹤法院判恢復帳號) *Computer Business News Online* (電腦商情線上) (14 August 2008) <<http://www.cbinews.com/region/75250.html>> accessed 27 April 2009.

- <sup>32</sup> The first criminal conviction for theft of virtual property dated back to 2004, see 'Accused was Sentenced for Stealing Online Game "Fortunes" for Onsale' (偷網路遊戲「寶物」賣錢被判刑) *Guangzhou Daily* (《廣州日報》) (20 December 2005) <[http://gzdaily.dayoo.com/gb/content/2005-12/20/content\\_2346223.htm](http://gzdaily.dayoo.com/gb/content/2005-12/20/content_2346223.htm)> accessed 24 April 2009; for other criminal convictions, see "'Thieves of Q Currencies" Sentenced Heavily Convicted of Theft' (「Q幣大盜」盜虛擬財產案在浙江以盜竊罪重判) *Court Daily* (《法制日報》) (23 April 2007) <[http://news.ccidnet.com/art/948/20070423/1067129\\_2.html](http://news.ccidnet.com/art/948/20070423/1067129_2.html)> accessed 24 April 2009; 'Dali's First Criminal Conviction for Theft of Q currencies' (盜竊Q幣大理首作有罪判決) *Chuncheng Wanbao* (《春城晚報》) (13 June 2008) <[http://www.yunnan.com.cn/2008page/finance/html/2008-06/13/content\\_96893.htm](http://www.yunnan.com.cn/2008page/finance/html/2008-06/13/content_96893.htm)> accessed 7 May 2009; and 'Chongqing's First Case for Theft of Virtual Property by Hacker' (重慶首例駭客盜虛擬財產案:偷14萬被判10年半) *Chongqing Morning Daily* (《重慶晨報》) (3 April 2009) <<http://www.chinanews.com.cn/it/xw/news/2009/04-03/1631291.shtml>> accessed 24 April 2009.
- <sup>33</sup> We reviewed EULAs of six of the most popular virtual worlds in China, namely: 'Dream of Red Chamber Online' (紅樓夢online), 真水滸, 'Fantasy Westward Journey' (夢幻西游), 征途, 快樂西遊 and 神跡.
- <sup>34</sup> See 真水滸 EULA clauses 1 and 8 and Rules of Users clause 4 at <http://www.hopecool.com/info/service.htm>; 征途 EULA clauses 1 and 8 and Rules of Users clause 4 at <https://vip.ztgame.com:8081/registe/agreement.html>.
- <sup>35</sup> See generally, *MDY Industries v. Blizzard Entertainment* 89 USPQ 2d 1015 (D.Ariz. 2008) and *Marc Bragg v Linden Research, Inc.* 487 F. Supp. 2d 593 (E.D. Pa. 2007).
- <sup>36</sup> In many cases, only second-hand sources of court decisions are available. See for example the civil cases referred in note 31.
- <sup>37</sup> The *Li Hongchen decision* relied on the Contract Law of the People's Republic of China (《中華人民共和國合同法》) and both the *Li Hongchen decision* and the *Zhao decision* relied on the Protection of Consumer Rights and Interests Law of the People's Republic of China (《中華人民共和國消費者權益保護法》). See notes 30 and 31.
- <sup>38</sup> *Ibid* note 32.
- <sup>39</sup> Such as Article 13 of the Constitution of the People's Republic of China (《中華人民共和國憲法》), Article 75 of the General Principles of the Civil Code of the People's Republic of China (《中華人民共和國民法通則》) or Articles 64 and 65 of the Property Law of the People's Republic of China (《中華人民共和國物權法》).
- <sup>40</sup> 'Chinese Official Appeal to Restricting Virtual Trading' *Chinese Online Game Net* (8 December 2006) <<http://www.cognet.cn/Article.aspx?A=a570cc2f-dea9-4c49-a12c-18fac51a196b>> accessed 7 May 2009.
- <sup>41</sup> 'PBC Strengthens Virtual Money Supervision' *Chinese Online Game Net* (7 March 2007) <<http://www.cognet.cn/Article.aspx?A=92957250-ce73-4efb-a425-8c38fa6b45c0>> accessed 7 May 2009; Ping Chu, 'China: Virtual Currency: Regulation and Taxation Issues' 10(11) *E-Commerce Law & Policy* <[http://www.e-comlaw.com/lp/details\\_contents.asp?ID=1432](http://www.e-comlaw.com/lp/details_contents.asp?ID=1432)> accessed 24 March 2009; Bill Zhang and others, 'China Taxes Real Profits from Virtual World Transactions' *Pillsbury* (2008) at 4.
- <sup>42</sup> Ping Chu, 'China: Virtual Currency: Regulation and Taxation Issues' 10(11) *E-Commerce Law & Policy* <[http://www.e-comlaw.com/lp/details\\_contents.asp?ID=1432](http://www.e-comlaw.com/lp/details_contents.asp?ID=1432)> accessed 24 March 2009.
- <sup>43</sup> Reply to Beijing Local Tax Bureau's question whether individuals' income earned through sale of virtual currencies is chargeable to individual income tax (國家稅務總局關於個人通過網路買賣虛擬貨幣取得收入徵收個人所得稅問題的批復) *Guoshuihan* (2008) No. 818 <[http://www.ycwb.com/misc/2008-10/30/content\\_1999773.htm](http://www.ycwb.com/misc/2008-10/30/content_1999773.htm)>.
- <sup>44</sup> This prompted some commentators to suggest that the SAT's reply conflicts with the 2007 ban on currency trading as it implicitly sanctions the legality of virtual currency trades in China – See note 42.
- <sup>45</sup> For example, recognizing full-blown property rights in virtual items may undermine providers' ability to run their worlds effectively and restrict the development of virtual worlds in the future.
- <sup>46</sup> James Grimmelmann, 'Virtual World Feudalism' [2009] 118 *The Yale Law Journal Pocket Part* 12: Users would have possessory interests, secure against dispossession by other users, and enforced in the first instance by the [provider]. In return, users would have obligations of payment and loyalty to the [provider]'s rules of conduct. The developer could not dispossess users without reason, but offline inquests to test the [provider]'s reasons would be reserved for clear-cut abuse.

# The Indian Information Technology (Amendment) Act, 2008: A Step in the Right Direction



Shweta Hingorani



Moushami Joshi



Himanshu Bagai

This article describes some important recent developments in the Indian Information Technology laws with profound implications for the data processing and network service provider industries. A brief comparison with the prevailing legal regimes in the United States and European Union is also provided.

**Shweta Hingorani**

Partner  
Luthra & Luthra Law Offices, New Delhi

**Moushami Joshi**

Group Head  
Luthra & Luthra Law Offices, New Delhi

**Himanshu Bagai**

Senior Associate  
Luthra & Luthra Law Offices, New Delhi

The information technology revolution has not only catapulted India into the favored destination for business process outsourcing ('BPO'), but has also made the internet and online content accessible to large sections of the Indian population. The Information Technology Act 2000 was promulgated to promote and increase online commerce and to address liability issues arising therefrom. While at the time of its implementation, the Information Technology Act, 2000 (the

'Act') was heralded as a revolutionary piece of legislation; over time it became apparent that the Act was deficient in several aspects, particularly in protecting the integrity of personal information and in dealing with the question of liability of internet service providers ('ISPs'). The deficiencies of the Act were brought into focus in several instances, such as when the online sale of a pornographic CD led to the arrest of the CEO of the company that hosted the auction website, and with reports that credit card data could quite easily be procured from employees in Indian BPOs.

Widespread criticism of the Act led to the formation of a committee to review the Act and to suggest appropriate amendments. The review by the committee led to the introduction of the Information Technology Amendment Bill, 2006 in Parliament with a view:

... to incorporate the recent developments nationally and internationally particularly with reference to provisions related to data

protection and privacy in the context of Business Process Outsourcing ('BPO') operations, liabilities of network service providers, computer related offences, regulation of cyber cafes, issues relating to child pornography, *etc.* and to make the act technology neutral and to streamline the operational issues of Controller of Certifying Authority ('CCA'), Certifying Authorities ('CAs') and subscribers.

The said Bill, after having been passed by both Houses of Parliament, has recently, in February 2009, been enacted as the Information Technology (Amendment) Act, 2008 (the 'Amendment Act'). The rules and regulations under the Amendment Act are, however, still at the drafting stage.

### Proposed Amendments Concerning Privacy and Data Protection under the Information Technology (Amendment) Act, 2008

The right to privacy is a recognized principle of tort law and has also been recognized by the Supreme Court of India as a fundamental right of every citizen. However, neither tort law nor the constitutional recognition of the right to privacy lays down minimum binding standards of protection that are required to be maintained by persons or entities handling personal information, thereby potentially exposing sensitive personal information to misuse.

Presently, regulatory compliances that are required to be fulfilled with respect to data protection in client countries vary from country to country and from sector to sector. These regulatory requirements are usually complied with by Indian BPOs through binding contractual obligations.

Providing an adequate level of data protection is necessary to ensure the continued flow of commerce to India. For instance, under Article 25 of the European Union ('EU') Directive 95/46/EC, Member States are prohibited from transferring personal data, which will undergo processing, to a third country unless that country provides 'an adequate level of protection.'

The EU Directive, which has extra-territorial effect, is a comprehensive data protection law that requires Member States to establish a legal framework to protect the fundamental right to privacy with respect to processing personal data. Ensuring the credibility of Indian firms that receive personal data for processing is imperative, in order to bolster commerce with EU Member States and for this reason, India's compliance with the EU Directive and providing an 'adequate level of protection' is important.

Both the Standing Committee on Information

Technology Act (2007-2008) and the Expert Committee (2005) have noted that vis-à-vis the EU Directive and Indian law is specifically lacking with respect to:

1. The definition of 'personal data'; and
2. The drawing of distinction between personal data and other special personal data (such as race, ethnicity).

In the absence of such provisions relating to the protection of data, Indian service providers typically enter into agreements with their counterparts in the EU or the United States of America (US), incorporating prevalent data protection standards in such agreements.

In its effort to provide a framework for protection of personal data, the Amendment Act has now introduced Section 43A, which provides for compensation for failure to protect data. Notably, the Amendment Act still does not provide for binding minimum standards for protection of personal data.

Section 43A reads as follows:

#### **43A. Compensation for Failure to Protect Data**

Where a body corporate, possessing, dealing or handling any sensitive personal data or information in a computer resource which it owns, controls or operates, is negligent in implementing and maintaining reasonable security practices and procedures and thereby causes wrongful loss or wrongful gain to any person, such body corporate shall be liable to pay damages by way of compensation, to the person so affected.

Explanation: For the purposes of this Section

- (i) Body corporate means any company and includes a firm, sole proprietorship or other association of individuals engaged in commercial or professional activities.
- (ii) Reasonable security practices and procedures means security practices and procedures designed to protect such information from unauthorised access, damage, use, modification, disclosure or impairment, as may be specified in an agreement between the parties or as may be specified in any law for the time being in force and in the absence of such agreement or any law, such reasonable security practices and procedures, as may be prescribed by the Central Government in

consultation with such professional bodies or associations as it may deem fit.

(iii) Sensitive personal data or information means such personal information as may be prescribed by the Central Government in consultation with such professional bodies or associations as it may deem fit.

As is evident from the above, in the absence of any rules under Section 43A defining 'reasonable security practices' and 'sensitive personal data', service providers and their clients will continue to enter into agreements laying down minimum standards for protection of the data. Section 43A not only explicitly recognises the same but also penalises any breach of such contractual obligations. It must be highlighted that the Amendment Act prescribes no upper limit for compensation that can be claimed by the affected party in cases of breach of contract for the provision of 'reasonable security practices.'

Therefore, depending upon the industry, compliance with industry specific standards such as ISO 27001, DPA, Basel II, and HIPAA may continue to be enforced by means of agreements between the parties. It is also likely that such developments may lead to the sectoral approach to data protection as is adopted by the US, where separate laws and guidelines govern different industries such as health care, financial services and social security information.

### Disclosure of Personal Information

Coupled with the right to seek compensation for negligent implementation of security standards under Section 43A, an aggrieved person may also resort to the recently added Section 72A, which provides penalties for data vandalism. Section 72A reads as follows:

#### **72A. Punishment for Disclosure of Information in Breach of Lawful Contract**

Save as otherwise provided in this Act or any other law for the time being in force, any person including an intermediary who, while providing services under the terms of lawful contract, has secured access to any material containing personal information about another person, with the intent to cause or knowing that he is likely to cause wrongful loss or wrongful gain discloses, without the consent of the person concerned, or in breach of a lawful contract, such material to any other person, shall be punished with imprisonment for a term which may extend to three years, or with a fine which may extend to five lakh rupees, or with both.



Photo: Andrey Prokhorov

Thus, phishing activities and misuse of personal data by any person is now actionable under the Amendment Act.

### Liability of Intermediaries under the Information Technology (Amendment) Act, 2008

As stated before, the arrest of the CEO of an online auction portal brought into sharp focus the inadequate standards for determining circumstances that can legitimately lead to ISPs being liable for acts of third parties. The Amendment Act has, therefore, sought to address this contentious issue by amending Section 79 and providing for Safe Harbour provisions that ISPs may rely on in cases of unlawful activities by third parties.

The amended Section 79 provides as follows:

#### **79. Intermediaries not to be Liable in Certain cases**

79. (1) Notwithstanding anything contained in any law for the time being in force but subject to the provisions of sub-Sections (2) and (3), an intermediary shall not be liable for any third party information, data, or communication link made available or hosted by him.

(2) The provisions of sub-Section (1) shall apply if—

(a) the function of the intermediary is limited to providing access to a communication system over which information made available by third parties is transmitted or temporarily stored or hosted; or

(b) the intermediary does not—

(i) initiate the transmission,

(ii) select the receiver of the transmission,

and

- (iii) select or modify the information contained in the transmission;
- (c) the intermediary observes due diligence while discharging his duties under this Act and also observes such other guidelines as the Central Government may prescribe in this behalf.
- (3) The provisions of sub-Section (1) shall not apply if—
- (a) the intermediary has conspired or abetted or aided or induced, whether by threats or promise or authorise in the commission of the unlawful act; and
- (b) upon receiving actual knowledge, or on being notified by the appropriate Government or its agency that any information, data or communication link residing in or connected to a computer resource controlled by the intermediary is being used to commit the unlawful act, the intermediary fails to expeditiously remove or disable access to that material on that resource without vitiating the evidence in any manner.

Explanation.—for the purposes of this Section, the expression ‘third party information’ means any information dealt with by an intermediary in his capacity as an intermediary.”

Intermediary is Defined under Section 2(w) as Follows:

‘intermediary’, with respect to any particular electronic records, means any person who on behalf of another person receives, stores or transmits that record or provides any service with respect to that record and includes telecom service providers, network service providers, internet service providers, search engines, online payment sites, online-auction sites, online market places and cyber cafes.

Video sharing and social networking sites are covered under the definition of an intermediary, and electronic record includes image or sound stored, received or sent in an electronic form.

The various preconditions to qualify for Safe Harbour provide a graduated scale, whereby pure ISPs will qualify for Safe Harbour; however, interactive video sharing and social networking websites may not qualify for such an exemption.

#### Brief Comparison with US Position

The amended Section 79, although not as extensive as Section 512 of the Digital Millennium

Copyright Act, 1998 in the United States is similar in the extent that it also limits the liability of service providers in circumstances where the provider merely acts as a data conduit, transmitting digital information from one point on a network to another at someone else’s request. This limitation covers acts of transmission, routing, or providing connections for the information, as well as the intermediate and transient copies that are made automatically in the operation of a network.

Section 512 of the Digital Millennium Copyright Act, 1998 also covers certain other aspects, such as limitation of liability of service providers in relation to system caching and information residing on systems or networks at the direction of users. The limitations under the aforesaid Act are based on the following four categories of conduct by a service provider:

1. **Transitory Communications:** acts of transmission, routing, or providing connections for the information, as well as the intermediate and transient copies that are made automatically in the operation of a network;
2. **System Caching:** retaining of copies, for a limited time, of material that has been made available online by a person other than the service provider, and then transmitted to a subscriber at his or her direction. The service provider retains the material so that subsequent requests for the same material can be fulfilled by transmitting the retained copy, rather than retrieving the material from the original source on the network;
3. **Storage of Information on Systems or Networks at Direction of Users:** infringing of material on websites (or other information repositories) hosted on their systems. It applies to storage at the direction of a user; and
4. **Information Location Tools:** acts of referring or linking users to a site that contains infringing material by using information location tools, such as hyperlinks, online directories, and search engines.

#### Brief Comparison with EU Position

EU’s approach to the issue of ISP liability is set forth in the EU Directive 2000/31/EC commonly known as the ‘E-Commerce Directive.’ The E-Commerce Directive adopts the definition of ‘information society service’ under Articles 12, 13, 14<sup>1</sup> of Directive 98/34/EC, and addresses the civil and criminal liabilities of ISPs acting as intermediaries. The Directive provides that ISPs will not be held liable under any field of law, where an application of strict liability would impair the expansion of electronic commerce within the EU. This approach is termed ‘horizontal’ because

it addresses liability regardless of the grounds of claim by a rights holder or injured party. Accordingly, the Directive addresses not only copyright, but also liability under other areas of law, such as defamation and obscenity. Under the E-Commerce Directive, an ISP is exempt from liability when it serves as a 'mere conduit' (Article 12) or provides 'temporary caching' (Article 13) for the sole purpose of making the transmission of content more efficient, is of a mere technical, automatic and passive nature, and where the ISP has neither knowledge nor control over the content being transmitted or stored. ISPs providing content storage, that is, hosting services (Article 14), in order to benefit from a limitation on liability, must act 'expeditiously' to remove or disable access to content upon receipt of 'actual knowledge or awareness' of 'illegal activities.'

### Principle of Safe Harbour – Limited Exemption

Prior to the amendment of the Act, Super Cassettes India Limited ('SCIL') had filed a suit seeking permanent injunction and damages against YouTube for authorizing/making available infringing copies of SCIL's content through its services. SCIL is one of the largest owners of popular content, such as music, films and music videos. Some of SCIL's copyrighted content was being hosted on YouTube, even to the extent of complete feature films being available in 15–25 and 10 minute clips. The content was being hosted on YouTube without any authorization from SCIL.

As a result, the Delhi High Court passed an interim order restraining YouTube and Google from 'reproducing, adapting, distributing, communicating, transmitting, disseminating or displaying on their websites or otherwise infringing ... any audio-visual works in which the plaintiff [SCIL] owns exclusive, valid and subsisting copyright.'

In response, YouTube had raised the 'Safe Harbour' defences under the Digital Millennium Copyright Act, 1998 and claimed that it generally removes any infringing content available on its site once the content owner brings to its notice the specific links where such content is available. The said stand had been vehemently opposed by SCIL as no 'Safe Harbour' defences were available under Indian laws at the time. The final decision in the matter is still awaited.

Under Section 79 of the Information Technology (Amendment) Act, 2008 the level of 'Safe Harbour' would in fact be governed by the act of the intermediary in respect of the data/

information being hosted/transmitted by it. Section 79 of the Amendment Act, provides a graduated scale, whereby the liability of the intermediary is directly linked to the manner of its processing, making available the impugned content through its services and it clearly absolves the intermediary from liability for any third party content as long as the intermediary complies with Section 79(2) and (3). The Safe Harbour provision under the Digital Millennium Copyright Act, 1998 works in a like manner as the service provider is not liable if it complies with a 'take down notice.' However, one will have to await the formulation of regulations by the Central Government to ascertain a definitive position vis-à-vis ISP liability.

### Conclusion

The Amendment Act is without doubt a welcome step in the right direction with regard to both the question of data protection and liability of intermediaries. That said, the implementation of the legislative intent to provide a framework for the recognition and protection of personal data under Section 43A would largely depend upon the formulation of appropriate rules and regulations. Accordingly, in the absence of minimum binding standards for protection of personal data, contractual enforcement of data protection standards will continue to be of utmost importance for the foreseeable future.

In the interim, initiatives have been taken by NASSCOM, the trade body and the chamber of commerce of the IT-BPO industries in India, such as the setting up of the Data Security Council of India ('DSCI'). DSCI is an independent organization focussed on promoting India as a secure destination for outsourcing, where privacy and protection of customer data are enshrined in the global best practices. It is contemplated that DSCI, being an interface between the industry and the Government, will play a significant role in the formulation of rules under the Amendment Act and enforcement of the same.

As regards Section 79 of the Amendment Act, this broadly incorporates the 'Safe Harbor' principles under the EU and US laws. The said Section enables social networking sites and user generated content hosting sites, such as YouTube, to claim similar Safe Harbour defences in India. Having said that, with the Central Government yet to lay down guidelines under the Amendment Act, it will be interesting to observe the interplay between the Copyright Act, 1957 and Section 79 of the Amendment Act.

Notes:

<sup>1</sup> **Article 12:**

**'Mere Conduit'**

1. Where an information society service is provided that consists of the transmission in a communication network of information provided by a recipient of the service, or the provision of access to a communication network, Member States shall ensure that the service provider is not liable for the information transmitted, on condition that the provider:
  - (a) does not initiate the transmission;
  - (b) does not select the receiver of the transmission; and
  - (c) does not select or modify the information contained in the transmission.
2. The acts of transmission and of provision of access referred to in paragraph 1 include the automatic, intermediate and transient storage of the information transmitted in so far as this takes place for the sole purpose of carrying out the transmission in the communication network, and provided that the information is not stored for any period longer than is reasonably necessary for the transmission.
3. This Article shall not affect the possibility for a court or administrative authority, in accordance with Member States' legal systems, of requiring the service provider to terminate or prevent an infringement.

**Article 13:**

**"Caching"**

1. Where an information society service is provided that consists of the transmission in a communication network of information provided by a recipient of the service, Member States shall ensure that the service provider is not liable for the automatic, intermediate and temporary storage of that information, performed for the sole purpose of making more efficient the information's onward transmission to other recipients of the service upon their request, on condition that:

- (a) the provider does not modify the information;
  - (b) the provider complies with conditions on access to the information;
  - (c) the provider complies with rules regarding the updating of the information, specified in a manner widely recognised and used by industry;
  - (d) the provider does not interfere with the lawful use of technology, widely recognised and used by industry, to obtain data on the use of the information; and
  - (e) the provider acts expeditiously to remove or to disable access to the information it has stored upon obtaining actual knowledge of the fact that the information at the initial source of the transmission has been removed from the network, or access to it has been disabled, or that a court or an administrative authority has ordered such removal or disablement.
2. This Article shall not affect the possibility for a court or administrative authority, in accordance with Member States' legal systems, of requiring the service provider to terminate or prevent an infringement.

**Article 14:**

**'Hosting'**

1. Where an information society service is provided that consists of the storage of information provided by a recipient of the service, Member States shall ensure that the service provider is not liable for the information stored at the request of a recipient of the service, on condition that:
  - (a) the provider does not have actual knowledge of illegal activity or information and, as regards claims for damages, is not aware of facts or circumstances from which the illegal activity or information is apparent; or
  - (b) the provider, upon obtaining such knowledge or awareness, acts expeditiously to remove or to disable access to the information.

# Electronic Discovery in Singapore



This article considers the current status of e-discovery in Singapore. Following a brief overview of the discovery process under Order 24 of the Rules of Court, the Singapore High Court's application of the existing discovery rules in cases involving computer databases and electronically-stored documents is considered. The article also discusses an important recent proposal for legislative changes relating to e-discovery.

**Jimmy Yim, Senior Counsel**  
**Managing Director, Dispute Resolution**  
**Drew & Napier LLC, Singapore**

## Laws Applicable to Electronic Discovery in Singapore

As virtually all businesses today are carried on with the help of computers, notebooks, laptops and other electronic means, the issue of electronic discovery has become one of great significance in civil litigation, arbitration and criminal prosecutions.

Moreover, digital data is almost impossible to completely destroy, particularly if it gets absorbed into a network. Such an inclusion into a network means the multiplication of the same information in various places. Finally, for digital data, what is deleted can be undeleted.

In Singapore, the rules pertaining to discovery are provided for under Order 24 of the Rules of Court (Cap. 322, 2007 Rev Ed) ('ROC'). The meaning of a 'document' discoverable under Order 24 of the ROC is not restricted to paper writings, but extends to anything upon which evidence or information is recorded in a manner intelligible to the senses or capable of being made intelligible by the use of equipment.<sup>1</sup>

Further, Section 3(1) of the Evidence Act (Cap 97, 1997 Rev Ed) ('EA') defines 'document' as *'any matter expressed or described upon any substance by means of letters, figures or marks or by more than one of those means intended to be used or*

*which may be used for the purpose of recording that matter.'*

## The Discovery Process

A discovery process under the ROC falls under firstly, general discovery (Order 24 rule 1 of the ROC) and secondly, specific discovery (Order 24 rule 5 of the ROC).

For general discovery, the documents which a party to a cause or matter may be ordered to disclose are as follows:

1. Documents on which the party relies or will rely (O 24 r 1(2)(a)); and
2. Documents which could –
  - a. Adversely affect his own case;
  - b. Adversely affect another party's case; or
  - c. Support another party's case (Order 24 rule 1(2)(b)(i)-(iii)).

Usually as part of the general discovery process, the Court directs parties to file a list of all the documents which are relevant to the facts of the case (O 24 r 3). At present, a party will not be obliged to disclose a hard disk and/or a network of computer files as part of its discovery obligation.<sup>2</sup> As such, electronic discovery would probably come under a specific discovery application.

Specific discovery would normally be sought when the applicant is not satisfied with the discovery provided by the other party. For example, in cases where allegations or suspicion of data deletion are in contest, the party would be likely

to seek specific discovery of the hard disk in question.

In addition to the requirements of a general discovery application, the applicant has to further prove that the document sought may lead the party seeking discovery of it to a *train of inquiry* resulting in his obtaining information which may—

1. Adversely affect his own case;
2. Adversely affect another party's case; or
3. Support another party's case.

This test is broadly worded to ensure that all relevant evidence will be made available so that a dispute can be adjudicated fairly.

### A Computer Database is a 'Document' for the Purpose of a Discovery Application

The Singapore High Court decision of *Megastar Entertainment Pte Ltd & Anor v Odex Pte Ltd* [2005] 3 SLR 91, was a case involving copyright infringement that involved the execution of search warrants on, *inter alia*, computer systems which included hard disk drives and two computer servers. The Court cited with approval the English decision of *Derby & Co Ltd v Weldon (No 9)* [1991] 1 WLR 652, in which the search and imaging of the information found on the hard disk drives of the petitioners' desktops and servers were held to be '*documents*' subject to the search warrant in question.

The Singapore High Court agreed with *Vinelott J*'s holding in *Weldon*<sup>3</sup> that the definition of a '*document*' included computer files because 'no clear dividing line can be drawn between digital tape recording messages and the database of a computer, on which information which has been fed into the computer is analyzed and recorded in a variety of media in binary language.'

A computer database which forms part of the business records of a company is thus, in so far as it contains information capable of being retrieved and converted into readable form, a '*document*' for the purposes of Order 24 of the ROC and susceptible to discovery.

### Extent of Electronic Discovery Pertaining to Computer Databases, Data Compilations and Summaries

The Singapore High Court decision of *Soh Lup Chee & Ors v Seow Boon Cheng & Anor* [2002] 2 SLR 267, was a case involving specific discovery of the information on the database of the defendant's computers. The plaintiffs made various interlocutory applications for discovery but were thwarted by the first defendant's refusal to comply. The plaintiffs then applied to the assistant registrar to strike out the defence on the ground that the

defendants had contumaciously and continuously failed to comply with the discovery orders. The assistant registrar declined to strike out the defence and the plaintiffs appealed.

At the heart of the dispute over discovery were documents described as Balance Budget Summaries ('BBS'), containing information about the nature, costs, and profitability of the second defendant's projects.

The first defendant asserted in his affidavits that he had provided all the documents required of him. The plaintiffs, however, demonstrated to the court that there was material non-disclosure of source documents by the defendants. The defendants then argued that at the interlocutory stage, the court ought to accept a party's affidavit as final and conclusive; they further argued that the deponent's word must not be contravened – at least not until trial.

The Singapore High Court held, *inter alia*, that it was inconceivable, taking into account the type and size of the second defendant (a company), and the nature of its work and projects that no record was kept of the supporting or source documents. There was thus more than a reasonable suspicion that such documents must have existed and continued to exist. Lastly, the Court held that as the data summaries could not exist without the source documents,<sup>4</sup> the defendants were ordered by way of an 'unless order' to give discovery of all the information in the data pool, including the source documents.

### The Scope of the Definition of 'Electronic Documents'; the Admission of their Authenticity; and the Appropriate Safeguards for Access to, and Inspection of, Electronic Documents

*Alliance Management SA v Pendleton Lane P* [2007] 4 SLR 343 involved a case where the hard disk of a laptop was ordered to be produced in discovery because evidence was before the court that the hard disk had been switched by the defendants. The Singapore High Court dealt with the principles relating to electronic discovery—an area of law which previously had not had the benefit of detailed consideration by the local courts. Justice Belinda Ang made observations on the scope of the definition of '*electronic documents*', the admission of their authenticity and the appropriate safeguards for access to, and inspection of, such documents.

Briefly, the plaintiff was a shareholder of Orient Networks Holdings Ltd ('ONH'), a company with a wholly-owned subsidiary, Orient Telecommunications Networks Pte Ltd ('OTN'). ONH was in liquidation while OTN was under judicial management. The first defendant ('LPP') was the chairman and executive director of ONH and a key member of OTN's management team.

The second defendant ('Newfirst') was the investment vehicle used by LPP to hold shares in ONH.

The plaintiff sought to claim damages from the defendants for being induced into investing substantial sums of money in ONH and providing guarantees for ONH and OTN, having been falsely misled on their performance, current state and future prospects. Not satisfied with the discovery provided by the defendants, the plaintiff sought specific discovery pursuant to Order 24 rule 5 of the ROC.

The assistant registrar made an order ('the Order') for:

1. LPP to produce and return to the judicial manager of OTN a hard drive previously assigned to him for his use ('the Hard Disk'); and
2. LPP and Newfirst to:
  - a. Furnish a list and produce for inspection the documents described in Annex A of the Order; and
  - b. Produce for inspection the documents described in Annex B of the same.

The defendants brought this appeal against the Order which, *inter alia*, entailed the inspection of material stored on the Hard Disk.

Justice Ang dismissed the appeal and held, *inter alia*, that:

1. Material stored on a computer database was within the definition of a 'document' and this concept embraced the Hard Disk for the purposes of Order 24 of the ROC. There was cogent evidence that the Hard Disk, with the documents stored therein, was and remained in the possession, custody or power of LPP.<sup>6</sup> Also, so long as the application for *specific* discovery and inspection was for documents which might be on the hard drive of a computer, it was not necessary to mention the hard drive itself in the application (applying *Playboy Enterprises, Inc v Terri Welles* 60 F Supp 2d 1050 (1999)).<sup>6</sup>
2. There was a distinction between the court's power to order discovery of information stored on a computer database and its discretion to order production for the purposes of inspection. For the latter, the burden was on the requesting party to establish that the inspection was necessary for disposing fairly the cause or matter, or for saving costs; it was also a far more intricate inquiry involving judicial balancing of the competing interests of the parties. As such, a protocol had to be put in place to ensure that the requesting party only had access to inspect documents that were necessary for the conduct of his case.<sup>7</sup>
3. The court was empowered by Order 24 rule 12

of the ROC to order the production and return of the Hard Disk to the judicial manager. The burden is on the requesting party to establish that inspection of the documents is necessary for disposing fairly of the cause or matter, or for saving costs. It follows that the inquiry in respect of the production of the documents for inspection is a far more intricate one involving judicial balancing of the competing interests of the parties, *i.e.* the requesting party's right to reasonable access to documents that are necessary to conduct his case without unduly burdening the other party in terms of time and expense and to prevent unauthorised 'trawling' through the database. The words 'produce to the Court' in Order 24 rule 12(1) had the purpose of carrying into effect the provisions of rr 1 and 5, such as enabling the court to redirect production or to incorporate safeguards for the documents stored on the Hard Disk. Also, Order 24 rule 12(2) gave the court the unfettered power to deal with the Hard Disk 'in such manner as it thinks fit.'<sup>8</sup>

4. As the return of the Hard Disk to the judicial manager was premised on it belonging to OTN, it was fair to order its return by Defendant LPP.<sup>9</sup>
5. The Order was varied to include safeguards<sup>10</sup> (distilled from principles of recent cases, particularly *Sony Music Entertainment (Australia) Ltd v University of Tasmania (No. 1)* [2003] FCA 532 such as:
  - (a) The appointment of a computer expert by the plaintiff to make an exact copy of the hard drive under the supervision of parties;



Photo: Emrah Turudu

- (b) Liberty to the defendants to object to the computer expert nominated by the plaintiff;
- (c) An undertaking of confidentiality by the computer expert to the court;
- (d) The creation of an electronic copy from the cloned copy of the hard drive by the computer expert which was to be first made available to the defendants for review for the purpose of claiming privilege, if any, before release to the plaintiff for inspection. The defendants were to list the documents over which they claimed privilege; and
- (e) Liberty to apply.

The Court also observed that the words ‘*in respect of which discovery has been given under any Rule in this Order or in pursuance of any order made thereunder*’ in Order 24 rule 11(2) of the ROC were not restrictive and could include an order of discovery made against a non-party under Order 24 rule 6(2). The court had the discretion to make or refuse the order sought or to modify or limit its terms.<sup>11</sup>

Given that the Rules of Court and the Practice Directions are silent on the appropriate safeguards for electronic discovery, the safeguards imposed by Justice Ang would serve as a useful model for future cases. The decision was affirmed by the Court of Appeal.

### Obligations to Preserve Electronic Documents and Inadvertent Disclosure

A litigant’s obligation to discover documents is one of the common features of civil procedural rules in common law jurisdictions. The translations of these rules, however, have seen some divergence on both sides of the Atlantic. In the US, the duty to discover extends to the obligation to preserve documents when litigation is anticipated (*Laura Zubulake v UBS Warburg* (‘*Zubulake IV*’) 220 FRD 212 (SDNY 2003)). The duty to preserve attached at the time that litigation was reasonably anticipated and required the potential litigant to put in place a ‘litigation hold’.<sup>12</sup>

Where after the litigation hold is in place and there is spoliation or destruction of potentially discoverable documents, the consequences follow the nature of the spoliation. Where there was negligent destruction of documents and the party seeking discovery is able to demonstrate that the missing document supports its case, an adverse inference may be drawn. However, where there was wilful destruction of documents, the missing documents are *presumed* to be relevant (*Zubulake V*, 2004 WL 1620866 (SDNY July 20, 2004)). Apart from evidentiary presumptions, spoliation is also a tort for which damages may be awarded against the culpable party.<sup>13</sup>

In Singapore, while there may not be an overt litigation hold standard, the consequences following non-compliance are articulated with as much clarity and precision as in the US. With regard to solicitors’ obligations in relation to the preservation and discovery of electronic documents, the Singapore High Court recently reiterated in *Hong Leong Singapore Finance Ltd v United Overseas Bank Ltd* [2007] 1 SLR 292 at [33] and [34] that:

solicitors [are to take] positive steps to ensure that their clients appreciate at an early stage of the litigation, promptly after the writ is issued if not sooner, not only the duty of discovery and its width **but also the importance of not destroying documents which might possibly have to be disclosed** [emphasis added].

The question arises as to what is the potential litigant’s duty with regard to potentially discoverable electronically stored documents. The issues that arise are twofold: ensuring continued access to, and preserving such potentially discoverable electronically stored documents. While there is *dicta* to suggest that where litigation is reasonably anticipated, document retention or destruction policies may have to be suspended,<sup>14</sup> what remains uncertain is the treatment of metadata<sup>15</sup> and deleted or erased data residing on employees’ computers.

### Overseas Developments and Proposals for Local Legislative Changes

In an article *Recent Developments in Electronic Discovery: Discovering Electronic Documents and Discovering Documents Electronically* (2007) 19 SAclJ 101, Senior Assistant Registrar Yeong Zee Kin discusses the developments in electronic discovery in various jurisdictions, *inter alia*, the United States, United Kingdom, Australia and New Zealand. The author, who is currently involved in the proposed Practice Direction on the discovery and inspection of electronically stored documents, makes the following findings and proposals:

1. While the scope and definition of discoverable documents should not be fixed in legislation, the courts in Singapore should adopt a robust and incisive approach in ensuring that a line of distinction is maintained to separate discoverable documents from the media in which they are stored;
2. Such a distinction would preserve the balance between a litigant’s obligation to discover relevant documents and the undesirable abuse of the discovery process to empty out filing

- cabinets, both physical and electronic. In this light, care would have to be taken in cases where electronic databases are the subject of a discovery application in order to ensure that only relevant records, and not the entire database, are disclosed. This issue may be resolved by having parties address electronic discovery issues at the Summons for Directions stage;
3. The principle of proportionality works to ensure that the scope of requests is not too broad and a focused request would prevent the cost of compliance from escalating. Although Singapore's Rules of Court, unlike the UK Civil Procedure Rules, do not overtly endorse the principle of proportionality for discovery applications, it is arguable that concerns relating to proportionality may be addressed through the twin tools of necessity 'either for disposing fairly of the cause or matter or for saving costs in Order 24 rule 13;
  4. Arguably, the courts' inherent power in Order 92 rule 5 to 'make or give such further orders or directions incidental or consequential to any judgement or order as may be necessary in any case' may be sufficient to allow cost-shifting orders in an appropriate case (*i.e.* ordering the requesting party to bear part or all of the costs of compliance);
  5. However, the certainty of legislative intervention would of course be preferred, at least that the Rules Committee may have an opportunity to enumerate the relevant factors for consideration, as has been done in both the US Federal Rules of Civil Procedure and the UK Civil Procedural Rules and Practice Directions thereto;
  6. Closely related to the issue of proportionality is the issue of accessibility of electronically stored documents. Two facets are important: sources and location, as well as the means of access. The author opines that the obligation to maintain and grant reasonable access should be legislatively grafted into Order 24 to ensure that the requesting party's right to electronic discovery is not rendered illusory. As for the actual technical approach, this may be best left to the parties to agree upon—whether to provide disclosure in open technical format or to provide the means of accessing it;
  7. Getting parties to address such issues will also provide an opportunity for an agreement to be reached on how inadvertent disclosures of privileged documents, the risk of which increases with the electronic discovery of voluminous documents, are to be dealt with, and the option of applying to the court under Order 24 rule 19 as a last resort;
  8. However, the language currently setting out the solicitors' obligation to take steps to ensure that discoverable documents are properly preserved promptly after the writ is issued may be more suitable for hard copy documents, although they may set the bar too high where electronically stored documents are concerned. Some guidance is needed to ensure that solicitors do not take an overly-inclusive approach in document preservation, which may unnecessarily impede ordinary business operations of organizations involved in litigation (*e.g.* requiring all employee computers and network storage to be mirrored and preserved or sequestered);
  9. A balance needs to be struck between the desirability of imposing on the solicitor the duty to ensure that his client preserves potentially discoverable documents, and the reality of the breadth of available storage options and the volatility of electronic document. It is often a difficult exercise to ensure that any litigation hold is put in place properly. However, such a review may also recommend legislative safe harbours like the US Federal Rules of Civil Procedure's exemption of electronically stored information lost as a result of routine, good faith operation, to ensure that a proper balance is struck;
  10. It is also desirable that the consequences of failure to ensure proper preservation be articulated. The review recommended should no doubt be undertaken with input from the Bar, especially since the effectiveness of any recommendations coming forth from such a review would depend on the level of awareness and preparedness of the profession. Similarly, codes of conduct or practice may also be required to ensure uniformity during implementation;
  11. Finally, the author considers the approach of promulgating a set of minimum technical standards such as those adopted by the Supreme Court of Victoria in its Practice Note No. 1 of 2007 on *Guidelines for the Use of Technology in any Civil Litigation*.<sup>16</sup> With the maturity of Singapore courts' Electronic Filing System, it is the ideal platform for providing the discovery of documents electronically; alternatively, its upcoming replacement, the Electronic Litigation System, can be the preferred platform to facilitate such discovery; and
  12. The promulgation of a set of minimum technical standards would ensure that documents are disclosed in such open technical standards that will allow parties to access the content of disclosed documents meaningfully. This will enable solicitors to benefit from the use

of litigation support systems, desktop search systems and other software tools in searching, organising, managing and manipulating discovered electronic documents during trial preparation. This will also facilitate the use of evidence presentation tools, which will allow electronic documents to be presented at trial. This would dovetail neatly with the courts' goals in encouraging increased use of technology in the litigation process and for evidence presentation during trial.

### Conclusion

As of the date of this paper, the Law Society of

Singapore and the Supreme Court of Singapore have formed a Civil Practice Committee tasked with working on a proposed practice direction on the discovery and inspection of electronically stored documents. The practice direction would, *inter alia*, involve an agreed electronic discovery protocol for the general discovery of certain classes of electronically stored documents as well as another protocol for inspection of computer databases and electronic media or recording devices.

This proposed practice direction is a welcomed move that would certainly be a big step towards clarifying and setting out the procedures related to electronic discovery.

### Notes:

<sup>1</sup> *Singapore Civil Procedure 2007* (G P Selvam ed) at p 450, [24/1/2].

<sup>2</sup> Parties usually file lists of documents that disclose emails, letters, minutes of meetings and other hard copy documents. At present, the Singapore courts and the Law Society of Singapore are in the process of working on a common electronic discovery protocol which would set out, *inter alia*, the scope of the electronic discovery, format of the list of documents, arrangements for inspection and supply of copies of the documents and computer databases, *etc*.

<sup>3</sup> At p 678.

<sup>4</sup> The source documents are likely to have been customized proprietary software which could not have been read by any other software on the market.

<sup>5</sup> At [10], [21] to [24].

<sup>6</sup> At [17].

<sup>7</sup> At [18] and [19].

<sup>8</sup> At [26].

<sup>9</sup> At [26].

<sup>10</sup> At [36].

<sup>11</sup> At [30].

<sup>12</sup> Yeong Zee Kin, *Recent Developments in Electronic Discovery: Discovering Electronic Documents and Discovering Documents Electronically* (2007) 19 SAclJ 101 at [37].

<sup>13</sup> *Ibid.* at [39].

<sup>14</sup> New Zealand Court of Appeal decision in *Commerce Commission v Telecom Corporation of New Zealand Limited* [2006] NZCA 252 and the Supreme Court of Victoria's Court of Appeal decision in *British American Tobacco Australia Services Limited v Cowell (as representing the estate of Rolah Ann McCabe, deceased)* [2002] VSCA 197.

<sup>15</sup> Electronic information potentially contains a wealth of hidden information that may be embedded in the electronic document by the software programs used to create it and is often referred to as 'embedded data' or 'meta data' – See Hon Shira A Scheindlin & Jeffrey Rabkin, *Electronic Discovery in Federal Civil Litigation: Is Rule 34 Up To The Task?*, 41 BCL Rev 327, 338 (2000).

<sup>16</sup> [www.supremecourt.vic.gov.au/wps/wcm/connect/Supreme+Court/resources/file/eb83624f2e7c2b1/PracticeNote-No1-2007\\_GuidelinesForUseTechnology.pdf](http://www.supremecourt.vic.gov.au/wps/wcm/connect/Supreme+Court/resources/file/eb83624f2e7c2b1/PracticeNote-No1-2007_GuidelinesForUseTechnology.pdf).

# Backup Tapes in Civil Litigation: Preservation, Disclosure and Production



In the U.S., backup tapes represent an especially problematic aspect of e-discovery as companies struggle to comply with evolving case law and procedural rules. This article describes expanding requirements for the preservation and production of electronically-stored information, including backup tapes, under the U.S. Federal Rules of Civil

Procedure, and discusses the mitigation and allocation of costs of retrieving information from backup tapes.

**Grant J. Esposito**

Partner

Morrison & Foerster LLP, New York

In the rapidly evolving and highly complex field of electronic discovery, backup tapes have become an 800-pound gorilla: the problem that everyone has but no one wants to talk about. In the wake of decisions like those in *Morgan Stanley* and *Zubulake*, and with the increasing tendency of courts to invoke the most severe sanctions for even unintentional electronic discovery violations, many businesses are now paralyzed by the fear that opposing counsel will raise the looming specter of backup data in the course of discovery. For those in regulated industries, mandatory protocols are increasingly dictating what to keep, the retention period and the manner of preservation. For everyone else, the following analysis of the evolving case law is designed to help address the challenges presented by discovery requests aimed at the perceived mother lode of information: backup tapes.

## The Nature of Backup Tapes and Their Limitations in Discovery

The most vexing subset of backup tapes are those commonly used in systems designed for disaster-recovery purposes. While such tapes provide a valuable tool to organizations in guarding against data loss from sudden, catastrophic systems failure, several features make them a relatively

poor medium for the preservation of potentially relevant information. The federal courts have recognized some of these limitations. Backup tapes, for example,:

... are not archives from which documents may easily be retrieved. The data on a backup tape are not organized for retrieval of individual documents or files, but for wholesale, emergency uploading onto a computer system. Therefore, the organization of the data mirrors the computer's structure, not the human records management structure, if there is one.<sup>2</sup>

This means that retrieval of 'a specific file or data set [from a backup tape is] a time-consuming and inefficient process.'<sup>3</sup>

Moreover, there are few uniform methods by which backup software programs compress files to save storage space and reduce bandwidth. Tackling those various approaches to storing information further complicates the efforts to restore data from backup tapes.<sup>4</sup> In addition, because backup tapes contain vast amounts of duplicative data (every full-backup cycle creates another copy of the same documents), they tend to be an over-inclusive source of information. At the same time, considering that backup tapes only capture information in existence at the precise moment the backup program is running, such tapes often miss potentially relevant material. Such limitations on

the utility of backup tapes, however, do not deter litigants from seeking them. The question that follows is whether parties have a duty to preserve their backup tapes.

### The Duty to Preserve Backup Tapes

Numerous courts have made clear that a party has an ‘obligation to preserve evidence [that] arises when the party has notice that the evidence is relevant to litigation or when a party should have known that the evidence may be relevant to future litigation.’<sup>5</sup> While the common law preservation obligation applies to electronic information as well as to paper documents, the parameters of its application to backup tapes have not yet been fully defined.

The now famous decision in *Zubulake v. UBS Warburg LLC*, 220 F.R.D. 215, 218 (S.D.N.Y. 2003) (*‘Zubulake IV’*) contains the most comprehensive analysis of the duty to preserve backup tapes. The *Zubulake IV* court addressed a situation where a litigant produced some, but not all, backup tapes containing data for certain key employees. The plaintiff sought sanctions for the defendant’s failure to preserve the missing backup tapes.<sup>6</sup> Specifically addressing the scope of the general duty to preserve information contained on backup tapes, the court explained:

Must a corporation, upon recognizing the threat of litigation, preserve every shred of paper, every email or electronic document, and every backup tape? The answer is clearly, ‘no’. Such a rule would cripple large corporations ... that are almost always involved in litigation. As a general rule, then, *a party need not preserve all backup tapes even when it reasonably anticipates litigation.*<sup>7</sup>

*Zubulake IV* does not, however, establish a bright-line rule that exempts all backup tapes from the duty to preserve. Instead, the inquiry focuses on how the backup systems operate in order to determine whether a specific tape must be preserved in certain circumstances:

As a general rule, (a) litigation hold does not apply to inaccessible backup tapes (*e.g.*, those typically maintained solely for the purpose of disaster recovery), which may continue to be recycled on the schedule set forth in the company’s policy. On the other hand, if backup tapes are accessible (*i.e.*, actively used for information retrieval), then such tapes *would* likely be subject to the litigation hold. However, it does make sense to create one exception to this general rule. If a company can identify where particular employee documents are stored

on backup tapes, then the tapes storing the documents of ‘key players’ to the existing or threatened litigation should be preserved if the information contained on those tapes is not otherwise available. This exception applies to *all* backup tapes.<sup>8</sup>

Significantly, the onus is on counsel (both in-house and outside) to develop a working knowledge of a company’s backup systems sufficient to:

1. Recognize the types of backup systems operating at the company;
2. Identify how to retrieve and secure data from each backup program; and
3. Implement reasonable procedures to preserve relevant material.

To do this, counsel must become **fully familiar** with her client’s document retention policies, as well as the client’s data retention architecture. This will invariably involve speaking with information technology personnel, who can explain system-wide backup procedures and actual (as opposed to theoretical) implementation of the firm’s recycling policy. It will also involve communicating with the key players in the litigation, in order to understand how they store information.<sup>9</sup>

One can no longer avoid discovery sanctions by pleading ignorance or by relying on a company’s general assurances that all electronic data sources have been identified and preserved.<sup>10</sup>

Therefore, the *Zubulake* opinions carry several important lessons for dealing with backup tapes. First, to the extent that a company actively uses its backup tapes to retrieve information – it may have an obligation to retain those tapes in connection with litigation, along with all other readily accessible sources of information.<sup>11</sup> The *Zubulake* court did not indicate—and it appears to remain an open question—whether the occasional use of backup tapes to recover information accidentally deleted by employees renders them ‘accessible,’ and therefore subject to a litigation hold.

Second, where backup tapes serve the traditional purpose of disaster recovery, they should be deemed ‘inaccessible.’ But the obligation to retain such tapes may arise if a company can identify data pertaining to key players that is only available on disaster-recovery tapes. It is important to note, however, that the producing party in *Zubulake IV*, UBS Warburg LLC, was subject to the detailed recordkeeping obligations governing broker-dealers.<sup>12</sup> Consequently, the backup system in that case was designed to isolate quickly the field of potentially relevant tapes. It remains to be seen whether courts will apply the preservation

obligations articulated in *Zubulake IV* differently when the backup systems are not designed to readily retrieve information for regulators.

### Disclosure and the Recent Amendments to the Federal Rules of Civil Procedure

In response to mounting confusion surrounding the preservation and production of electronically-stored information, significant changes were made to the Federal Rules of Civil Procedure.<sup>13</sup> The amendments were designed to clarify and to standardize e-discovery practices.<sup>14</sup> In particular, the amendments promote early disclosure of electronically-stored information, including ‘inaccessible’ sources of data such as backup tapes. Even before the amendments became law, some federal district courts looked to the reasoning underlying the changes for guidance in resolving electronic-discovery disputes.<sup>15</sup>

Highlighting some of the major changes, Rule 26(b)(2) now provides that a party need not produce electronically-stored information that is not reasonably accessible because of undue burden or cost, but requires a responding party to identify those sources of potentially-responsive information that it will not search.<sup>16</sup> This amendment is intended to improve upon the present practice, under which, according to the Judicial Conference, ‘responding parties simply do not produce electronically stored information that is difficult to access.’<sup>17</sup>

Merely because a litigant is obligated to *disclose* existing sources of inaccessible data, however, does not mean that a litigant will be required to endure the expensive and time-consuming process of restoring and producing data from backup tapes. As one court noted (relying on *Zubulake* and the rationale of the amendments), although a litigant is obligated to identify all potential sources of electronic data—including inaccessible sources—a litigant’s affirmative duty is ‘not to retrieve information from a difficult to access source’ but rather to ‘ascertain whether any information is stored there.’<sup>18</sup>

Providing additional protection against the onerous prospect of routinely suspending disaster-recovery backup systems (which can lead to the intolerable situation of being unable to dispose of any documents), the Federal Rule of Civil Procedure 37(e) now provides that, ‘[a]bsent exceptional circumstances, a court may not impose sanctions under [the Federal Rules of Civil Procedure], on a party for failing to provide electronically-stored information lost as a result of the routine, good-faith operation of an electronic information system.’

Therefore, litigants should find that unless and until a Court orders preservation of information stored on disaster-recovery backup tapes, those bothersome data sources fall outside the scope of discovery.

### The Obligation and Costs of Producing Data Contained on Backup Tapes: Sampling and Cost-Shifting

Should the need arise to extract information from backup tapes, there are steps that can help minimize the accompanying costs. While the federal courts follow the general rule that the responding party bears the expense of complying with discovery requests, they also acknowledge the need for meaningful exceptions when it concerns the restoration and searching of data randomly scattered across innumerable backup tapes. A recent trend gaining wide acceptance favors sampling techniques to assess the relevance of the data contained on the backup tapes and the total costs of restoration.<sup>19</sup>

This sampling approach is a qualitative process; it does not aspire to reach confidence intervals associated with quantitative concepts, such as statistical significance. Instead, sampling involves an analysis of a small subset of tapes using a limited number of search terms and extrapolates the results to determine the value of processing additional tapes.<sup>20</sup> Judges can then compare the results with the costs of restoration to determine whether it is reasonable and cost effective to require further exploration of the backup tape trove.

Next, often in combination with sampling, federal courts are increasingly employing a cost-shifting analysis to allocate the expenses associated with retrieving information from backup tapes.



Photo: Yong Hian Lim

Again, the most widely followed approach in this area comes from the *Zubulake* family of decisions. Returning to the distinction between ‘accessible’ and ‘inaccessible’ electronic media, the court found that relevant electronic information stored in an ‘accessible’ format must be produced at the producing party’s expense.<sup>21</sup> But where a party seeks the production of material from ‘inaccessible’ media, like backup tapes, the court determined that a cost-shifting analysis would be appropriate.<sup>22</sup> Judge Shira Scheindlin then set forth a seven-factor test, derived from Rule 26 of the Federal Rules of Civil Procedure, to guide the decision of whether to require the requesting party to incur the costs of obtaining electronically-stored information:

1. The extent to which the request is specifically tailored to discover relevant information;
2. The availability of such information from other sources;
3. The total cost of production, compared to the amount in controversy;
4. The total cost of production, compared to the resources available to each party;
5. The relative ability of each party to control costs and its incentive to do so;
6. The importance of the issues at stake in the litigation; and
7. The relative benefits to the parties of obtaining this information.<sup>23</sup>

In advocating its analysis, the court noted that the test should not be applied ‘mechanically,’ but should be evaluated on a case-by-case basis taking into consideration all of the pertinent facts. Further, the court suggested that weighing the seven factors in descending order of importance should avoid any mechanistic application of

the test.<sup>24</sup> Subsequent rulings are cementing the *Zubulake* court’s cost-shifting analysis as the standard approach.<sup>25</sup>

In short, though the case law is developing, sampling is an accepted method for evaluating the quality of information contained on backup tapes and the costs associated with retrieving it. The ultimate determination as to which party should bear the costs of producing material contained on backup tapes depends upon the court’s analysis of all of the cost-shifting factors. But the less likely a search of backup tapes will yield large amounts of responsive data not available from other sources, the more likely the requesting party will have to share in the costs of attempting to extract information from backup tapes.

### Conclusion

Generally speaking, documents and email on backup tapes used for disaster-recovery purposes need not be preserved, unless those tapes provide the only source of information for persons critical to the underlying dispute, and the producing party can identify where those key-personnel documents are stored on the backup tapes. In-house and outside counsel, however, need to be sufficiently knowledgeable about a company’s information systems, including backup tapes, to meet the expanded disclosure obligations that have developed with the recent amendments to the Federal Rules of Civil Procedure. Lastly, where backup tapes become part of discovery, producing parties should:

1. Encourage further use of sampling techniques to establish reasonable, cost-effective parameters for addressing that source of information, and
2. Urge consideration of the cost-shifting factors to allocate fairly the resulting expense.

### Notes:

<sup>1</sup> Grant J. Esposito is a litigation partner in the New York office of Morrison & Foerster LLP, and Co-Chair of the firm’s Electronic Discovery Task Force. An earlier version of this article was prepared for a June 2006 Continuing Legal Education program at the New York City Bar Association.

<sup>2</sup> *Rowe Entm’t, Inc. v. William Morris Agency, Inc.*, 205 F.R.D. 421, 429 (S.D.N.Y. 2002); see also *Wiginton v. Ellis*, No. 02 C 6832, 2003 WL 22439865, at \*3 (N.D. Ill. Oct. 27, 2003) (‘A backup system is not an archiving system that would preserve all information going into [a company’s] computers. Rather, it is a disaster recovery system that takes only snapshots of computer files so that if a catastrophic event

occurs, the information from the immediately preceding period can be reloaded.’).

<sup>3</sup> The Sedona Conference Glossary for E-Discovery And Digital Information Management (May 2005) (‘Sedona Glossary’) at 4. The Sedona Glossary is available at <http://www.thesedonaconference.org/content/miscFiles/tsglossarymay05>.

<sup>4</sup> *Ibid.*

<sup>5</sup> *Fujitsu Ltd. v. Federal Express Corp.*, 247 F.3d 423, 436 (2d Cir. 2001).

<sup>6</sup> See *Zubulake IV*, 220 F.R.D. at 218.

<sup>7</sup> *Ibid.* at 217 (footnotes omitted) (emphasis added).

<sup>8</sup> *Ibid.* at 218 (emphasis in original).

<sup>9</sup> *Zubulake v. UBS Warburg LLC*, No. 02 Civ.

- 1243 (SAS), 2004 WL 1620866, at \*8 (S.D.N.Y. July 20, 2004) (emphasis in original).
- <sup>10</sup> See, e.g., *Phoenix Four, Inc. v. Strategic Resources Corp.*, No. 05 Civ. 4837 (HB), 2006 WL 1409413, at \*6 (S.D.N.Y. May 23, 2006) (finding that counsel's reliance on a company's general assurances that all electronic data sources had been identified without a more methodical survey constituted 'gross negligence'); *Housing Rights Ctr. v. Sterling*, No. CV 03-859 DSF, 2005 WL 3320739, at \*3, \*6-\*7 (C.D. Cal. Mar. 2, 2005) (holding that 'alleged miscommunication or misimpression' between counsel and client regarding whether e-mail backup system existed, which led to responsive e-mail being produced at the last date for discovery, was 'patently insufficient' and 'at least grossly negligent.').
- <sup>11</sup> The *Zubulake* court identified five categories of data:
1. Active or online data;
  2. Near-line data;
  3. Archival data kept on removable media;
  4. Data stored on backup tapes; and
  5. Fragmented, erased or damaged data.
- See *Zubulake v. UBS Warburg LLC*, 217 F.R.D. 309, 318-20 (S.D.N.Y. 2003) ('*Zubulake I*'). Under the *Zubulake I* taxonomy, documents in the first three categories are considered 'accessible' data, while materials contained in the last two categories are considered 'inaccessible.' *Ibid.*
- <sup>12</sup> *Ibid.* at 313-14. The Securities and Exchange Commission promulgated Rule 17a-3, which describes the records that must be created and maintained by broker-dealers, and Rule 17a-4, which addresses the record retention periods and the accessibility requirements. In particular, Rule 17a-4 provides, in pertinent part, '[e]very [] broker and dealer shall preserve for a period of not less than three years, the first two years in an accessible place . . . [o]riginals of all communications received and copies of all communications sent by such member, broker or dealer (including inter-office memoranda and communications) relating to his business as such.' *Ibid.* at 314 n.21 (quoting 17 C.F.R. § 240.17a-4(b) and (4)).
- <sup>13</sup> On September 20, 2005, the Judicial Conference of the United States approved and forwarded to the United States Supreme Court amendments to the Federal Rules of Civil Procedure specifically addressing electronic discovery. On April 12, 2006, the United States Supreme Court approved those amendments and transmitted them to Congress. Since Congress did not enact legislation to reject, modify or defer the amended rules, the amendments took effect as a matter of law on December 1, 2006.
- <sup>14</sup> See Excerpt from the Report of the Judicial Conference Committee on Rules of Practice and Procedure to the Chief Justice of the United States and Members of the Judicial Conference of the United States (September 2005) at 3-6 hereinafter, 'Report of the Judicial Conference', available at, [http://www.uscourts.gov/rules/supct1105/Excerpt\\_STReport\\_CV.pdf](http://www.uscourts.gov/rules/supct1105/Excerpt_STReport_CV.pdf).
- <sup>15</sup> See, e.g., *In re Priceline.Com Inc. Sec. Litig.*, No. 3:00CV01884 (DJS), 2005 WL 3465942, at \*5 (D. Conn. Dec. 8, 2005); *Hobson v. The Mayor and City Council of Baltimore*, 216 F.R.D. 280, 233-35 (D. Md. November 22, 2005); *Williams v. Sprint/United Management Co.*, 230 F.R.D. 640, 649 (D. Kan. 2005); *Phoenix Four, Inc.*, 2006 WL 1409413, at \*6. See Report of the Judicial Conference at 11-12.
- <sup>16</sup> *Ibid.* at 12.
- <sup>17</sup> *Phoenix Four, Inc.*, 2006 WL 1409413, at \*6.
- <sup>18</sup> See *Zubulake I*, 217 F.R.D. at 324 ('Requiring the responding party to restore and produce responsive documents from a small sample of the requested backup tapes is a sensible approach in most cases.'). *Wiginton*, 229 F.R.D. at 570.
- <sup>19</sup> See e.g., *Zubulake I*, 217 F.R.D. at 311-12 (ordering defendant UBS to restore and produce, at its own expense, responsive email from any five backup tapes selected by the plaintiff); *Hagemeyer N. Am., Inc. v. Gateway Data Sci. Corp.*, 222 F.R.D. 594, 601-03 (E.D. Wis. 2004) (fashioning a protocol based on the *Zubulake I* and *McPeck* sampling methods that required the defendant to search any five backup tapes that the plaintiff selected); *Quinby v. WestLB AG*, No. 04 Civ. 7406 (WHP) (HBP), 2005 WL 3453908, at \*3 (S.D.N.Y. December 15, 2005) (discussing the court's requirement that defendant restore, 'as a sample', backup tape(s) from the relevant period).
- <sup>20</sup> *Zubulake I*, at 324.
- <sup>21</sup> *Ibid.* at 318.
- <sup>22</sup> *Ibid.* at 322.
- <sup>23</sup> *Ibid.* at 323.
- <sup>24</sup> See, e.g., *Wiginton v. C.B. Richard Ellis, Inc.*, 229 F.R.D. 568, 572-77 (N.D. Ill. 2004) (adopting *Zubulake I*'s seven factor test, plus adding a factor for consideration of the importance of the requested discovery in resolving the issues in the litigation, and ultimately deciding to shift 75 per cent of the costs to the requesting party); *Hagemeyer N. Am., Inc.*, 222 F.R.D. at 599-603 (canvassing all of the different tests developed by the courts for evaluating the production of backup tapes and determining that the *Zubulake I* seven-factor test best integrated the principles of Rule 26(b) (2)).



# IPBA SCHOLARSHIPS

The Inter-Pacific Bar Association ('IPBA') is pleased to announce that it is accepting applications for the IPBA Scholarship Programme, to enable practicing lawyers to attend the IPBA's Twentieth Annual Meeting and Conference, which will be held in Singapore from May 2 to May 5, 2010 ([www.ipba2010.org](http://www.ipba2010.org)).

## What is the Inter-Pacific Bar Association?

The Inter-Pacific Bar Association is an international association of business and commercial lawyers with a focus on the Asia-Pacific region. Members are either Asia-Pacific residents or have a strong interest in this part of the world.

The IPBA was founded in April 1991 at an organizing conference held in Tokyo and was attended by more than 500 lawyers from Asia and the Pacific. Since then, it has grown to become the pre-eminent organization in respect of law and business within Asia with a membership of over 1,400 lawyers from 65 jurisdictions around the world. IPBA members include the majority of lawyers practicing in the Asia-Pacific region, as well as lawyers practicing throughout the world that have a cross-border practice involving the Asia-Pacific region.

## What is the Inter-Pacific Bar Association Annual Meeting and Conference?

The highlight of the year for the IPBA is its annual multi-topic four-day conference. The conference has become the 'must attend event' for international lawyers practicing in the Asia-Pacific region. In addition to plenary sessions of interest to all lawyers, programs are also presented by the IPBA's twenty-one specialist committees. The IPBA Annual Meeting and Conference provides an opportunity for lawyers to meet their colleagues in the Asia-Pacific region, and to share the latest developments in cross-border practice and professional development in the Asia-Pacific region. Previous annual conferences have been held in Tokyo (twice), Sydney (twice), Taipei, Singapore, San Francisco, Manila, Kuala Lumpur, Auckland, Bangkok, Vancouver, Hong Kong, New Delhi, Seoul, Bali, Beijing, and Los Angeles. Next year, the conference will be held in Singapore from May 2 to May 5, 2010.

## What is the IPBA Scholarship Programme?

The IPBA Scholarship Programme was originally established in honour of the memory of M.S. Lin of Taipei, who was one of the founders and a past President of the IPBA. Today, it operates to bring to the IPBA Annual Meeting and Conference lawyers who would not otherwise be able to attend and who would both contribute to, and benefit from, attending the IPBA Annual Conference. The programme is also intended to endorse the IPBA's mission to develop the law and its practice in the Asia-Pacific region.

## Who is eligible to be an IPBA Scholar?

Listed below are two categories for eligibility:

### [1] Lawyers from Developing Countries

*To be eligible, the applicants must:*

- (a) be a citizen of and be admitted to practice in Vietnam, Laos, Cambodia, Myanmar, Mongolia or the Pacific Islands;
- (b) be fluent in both written and spoken English (given this is the conference language); and
- (c) currently maintain a cross-border practice or desire to become engaged in cross-border practice.

### [2] Young Lawyers

*To be eligible, the applicants must:*

- (a) be under 35 years of age **and** have less than five years of post-qualification experience;
- (b) be fluent in both written and spoken English (given this is the conference language);
- (c) have taken an active role in the legal profession in their respective countries;
- (d) currently maintain a cross-border practice or desire to become engaged in cross-border practice; and
- (e) have published an article in a reputable journal on a topic related to the work of one of our committees or have provided some other objective evidence of committed involvement in the profession.

Preference will be given to applicants who would be otherwise unable to attend the conference because of personal or family financial circumstances and/or because they are working for a small firm without a budget to allow them to attend.

Applicants from multi-national firms will normally be considered only if they have a substantial part of their attendance expenses paid by their firm.

## How does one apply to be an IPBA Scholar?

To apply for an IPBA Scholarship, please obtain an application form and return it to the IPBA Secretariat in Tokyo no later than **October 31, 2009**. Application forms are available either through the IPBA website ([www.ipba.org](http://www.ipba.org)) or at the IPBA Secretariat.

Please forward applications to the IPBA Secretariat at:

Roppongi Hills North Tower 7F  
6-2-31 Roppongi, Minato-ku  
Tokyo 106-0032, Japan

Telephone: +81-3-5786-6796  
Facsimile: +81-3-5786-6778  
E-mail: [ipba@tga.co.jp](mailto:ipba@tga.co.jp)

## What happens once a candidate is selected?

The following procedures will apply after selection:

1. The Secretary-General will notify each successful applicant that he or she has been awarded an IPBA Scholarship. The notification will be provided at least two months prior to the opening of the IPBA Annual Conference. Unsuccessful candidates will also be notified.
2. Airfare and accommodation will be arranged and paid for by the Singapore Conference Host Committee and/or the IPBA Secretariat after consultation with the successful applicants.
3. A liaison appointed by the IPBA will introduce each Scholar to the IPBA and help the Scholar obtain the utmost benefit from the IPBA Annual Conference.

## Acknowledgment

The IPBA wishes to acknowledge with thanks the Singapore Ministry of Law for its sponsorship of the Scholarship Programme for the IPBA 20th Annual Meeting and Conference to be held in Singapore ([www.ipba2010.org](http://www.ipba2010.org)).



# An Invitation to Join the Inter-Pacific Bar Association

The Inter-Pacific Bar Association (IPBA) is an international association of business and commercial lawyers who reside or have an interest in the Asian and Pacific region. The IPBA has its roots in the region, having been established in April 1991 at an organizing conference in Tokyo attended by more than 500 lawyers from throughout Asia and the Pacific. Since then, it has grown to over 1,400 members from 65 jurisdictions, and it is now the pre-eminent organization in the region for business and commercial lawyers.

The growth of the IPBA has been spurred by the tremendous growth of the Asian economies. As companies throughout the region become part of the global economy, they require additional assistance from lawyers in their home country and from lawyers throughout the region. One goal of the IPBA is to help lawyers stay abreast of developments that affect their clients. Another, is to provide an opportunity for business and commercial lawyers throughout the region to network with other lawyers of similar interests and fields of practice.

Supported by major bar associations, law societies and other organizations throughout Asia and the Pacific, the IPBA is playing a significant role in fostering ties among members of the legal profession with an interest in the region.

## IPBA Activities

The breadth of the IPBA's activities is demonstrated by the number of specialist committees. All of these committees are active and have not only the chairs named, but a significant number of vice-chairs to assist in the planning and implementation of the various committee activities. The highlight of the year for the IPBA is its annual multi-topic 4-day conference, usually held in the first week of May each year. Previous annual conferences have been held in Tokyo (twice), Sydney (twice), Taipei, Singapore, San Francisco, Manila, Kuala Lumpur, Auckland, Bangkok, Vancouver, Hong Kong, New Delhi, Seoul, Bali and Beijing, attracting as many as 700 lawyers plus accompanying guests.

The IPBA has organized regional conferences and seminars on subjects such as Practical Aspects of Intellectual Property Protection in Asia (in five cities in Europe and North America respectively) and Asian Infrastructure Development and Finance (in Singapore). The IPBA has also cooperated with other legal organizations in presenting conferences—for example on Trading in Securities on the Internet, held jointly with the Capital Market Forum.

The IPBA also publishes a membership directory and a quarterly *IPBA Journal*.

## Membership

Membership in the Association is open to all qualified lawyers who are in good standing and who live in, or who are interested in, the Asia-Pacific region.

- |  |                   |
|--|-------------------|
| • Standard Membership                                    | US\$195 / ¥23,000 |
| • Three-Year Term Membership                             | US\$535 / ¥63,000 |
| • Lawyers in developing countries with low income levels | US\$100 / ¥11,800 |
| • Young Lawyers (under 30 years old)                     | US\$50 / ¥6,000   |

Annual dues cover the period of one calendar year starting from January 1 and ending on December 31. Those who join the Association before August 31 will be registered as a member for the current year. Those who join the Association after September 1 will be registered as a member for the rest of the current year and for the following year.

Qualified lawyers who attend the IPBA Annual Meeting and Conference and pay the non-member conference fee will be automatically registered as a member for the current year ending on December 31.

Membership renewals will be accepted until July 31.

Selection of membership category is entirely up to each individual. If the membership category is not specified in the registration form, standard annual dues will be charged by the Secretariat.

Further, in order to encourage young lawyers to join the IPBA, a Young Lawyers Membership category (age under 30 years old) with special membership dues has been established.

There will be no refund of dues for cancellation of all membership categories during the effective term, nor will other persons be allowed to take over the membership for the remaining period.

## Corporate Associate

Any corporation may become a Corporate Associate of the IPBA by submitting an application form accompanied by payment of the annual subscription of (¥50,000/US\$500) for the current year.

The name of the Corporate Associate shall be listed in the membership directory.

A Corporate Associate may designate one employee ("Associate Member"), who may take part in any Annual Conference, committee or other programmes with the same rights and privileges as a Member, except that the Associate Member has no voting rights at Annual or Special Meetings, and may not assume the position of Council Member or Chairperson of a Committee.

A Corporate Associate may have any number of its employees attend any activities of the Association at the member rates.

- |  |                   |
|--|-------------------|
| • Annual Dues for Corporate Associates | US\$500 / ¥50,000 |
|--|-------------------|

## Payment of Dues

Payment of dues can be made either in US dollars or Japanese yen. However, the following restrictions shall apply to payments in each currency. Your cooperation is appreciated in meeting the following conditions.

1. A US dollar check should be payable at a US bank located in the US. US dollar checks payable in Japan may be returned to sender depending on charges.
2. A Japanese yen check should be payable at a Japanese bank located in Japan.
3. Japanese yen dues shall apply to all credit card payment. Please note that the amount charged will not be an equivalent amount to the US dollar dues.
4. Please do not instruct your bank to deduct telegraphic transfer handling charges from the amount of dues. Please pay related bank charges in addition to the dues.

## IPBA Secretariat

Roppongi Hills North Tower 7F, 6-2-31 Roppongi, Minato-ku, Tokyo 106-0032, Japan  
Tel: 81-3-5786-6796 Fax: 81-3-5786-6778 Email: ipba@tga.co.jp Website: www.ipba.org

See overleaf for membership  
registration form



# IPBA SECRETARIAT

Roppongi Hills North Tower 7F, 6-2-31 Roppongi, Minato-ku, Tokyo 106-0032, Japan  
Tel: 81-3-5786-6796 Fax: 81-3-5786-6778 Email: ipba@tga.co.jp Website: www.ipba.org

## IPBA MEMBERSHIP REGISTRATION FORM

### MEMBERSHIP CATEGORY AND ANNUAL DUES:

- Standard Membership.....US\$195 or ¥23,000
- Three-Year Term Membership.....US\$535 or ¥63,000
- Lawyers with low income levels in developing countries.....US\$100 or ¥11,800
- Young Lawyers (under 30 years old).....US\$ 50 or ¥6,000

Name: Last Name \_\_\_\_\_ First Name / Middle Name \_\_\_\_\_

Date of Birth: year \_\_\_\_\_ month \_\_\_\_\_ date \_\_\_\_\_ Sex: M / F

Firm Name: \_\_\_\_\_

Jurisdiction: \_\_\_\_\_

Correspondence Address: \_\_\_\_\_

Telephone: \_\_\_\_\_ Facsimile: \_\_\_\_\_

Email: \_\_\_\_\_

### CHOICE OF COMMITTEES:

- |   |  |
|---|--|
| <input type="checkbox"/> Aviation Law                       | <input type="checkbox"/> Intellectual Property               |
| <input type="checkbox"/> Banking, Finance and Securities    | <input type="checkbox"/> International Construction Projects |
| <input type="checkbox"/> Competition Law                    | <input type="checkbox"/> International Trade                 |
| <input type="checkbox"/> Corporate Counsel                  | <input type="checkbox"/> Legal Development and Training      |
| <input type="checkbox"/> Cross-Border Investment            | <input type="checkbox"/> Legal Practice                      |
| <input type="checkbox"/> Dispute Resolution and Arbitration | <input type="checkbox"/> Maritime Law                        |
| <input type="checkbox"/> Employment and Immigration Law     | <input type="checkbox"/> Scholarship                         |
| <input type="checkbox"/> Energy and Natural Resources       | <input type="checkbox"/> Tax Law                             |
| <input type="checkbox"/> Environmental Law                  | <input type="checkbox"/> Technology and Communications       |
| <input type="checkbox"/> Insolvency                         | <input type="checkbox"/> Women Business Lawyers              |
| <input type="checkbox"/> Insurance                          |  |

### METHOD OF PAYMENT (please read each note carefully and choose one of the following methods):

- US\$ Check/Bank Draft/Money Order  
– limited to checks payable at US banks in the US only (others will be returned to sender)
- Japanese yen ¥ Check/Bank Draft  
– limited to checks payable at Japanese banks in Japan only (others will be returned to sender)
- Credit Card – **Please note that Japanese yen dues shall apply to payment by credit card.**  
 VISA       MASTER CARD       AMEX (Verification Code): \_\_\_\_\_  
 Card Number: \_\_\_\_\_ Expiration Date: \_\_\_\_\_
- Bank Wire Transfer – Bank charges of any kind should be paid by the sender.  
 to      The Bank of Yokohama, Shinbashi Branch (SWIFT Code: HAMAJPJT)  
          A/C No. 1018885 (ordinary account) Account Name: Inter-Pacific Bar Association (IPBA)  
          Bank Address: Nihon Seimei Shinbashi Bldg 6F, 1-18-16 Shinbashi, Minato-ku, Tokyo 105-0004, Japan

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

### PLEASE RETURN THIS FORM WITH MEMBERSHIP FEE OR PROOF OF PAYMENT TO:

IPBA Secretariat, Inter-Pacific Bar Association  
Roppongi Hills North Tower 7F, 6-2-31 Roppongi, Minato-ku, Tokyo 106-0032, Japan  
Tel: 81-3-5786-6796 Fax: 81-3-5786-6778 Email: ipba@tga.co.jp