



Korea Quarterly

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Introductory Message

It is with great pleasure that we introduce the inaugural *McDermott Korea Quarterly*.

This publication will include thought pieces written by McDermott lawyers from all over the world, focusing on recent legal and practice developments that we believe are relevant to our clients based in Korea and in which we have particularly deep expertise and experience.

We hope that you enjoy and benefit from the *Quarterly*. Please feel free to contact us if you have inquiries.

Sincerely yours,

Neil I. Chang
Partner
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Controlling Costs in International Arbitration

Jacob Grierson (Paris) and Lazar Raynal (Chicago)

Arbitration is an efficient means for resolving business disputes because it offers more flexibility than court proceedings and enables the parties to choose arbitrators experienced in a domain relevant to the dispute. In principle, arbitral awards are enforceable, with only limited grounds for objection, in more than 150 jurisdictions that have ratified the New York Convention on Recognition and Enforcement of Arbitral Awards of 1958.

Despite these benefits, complaints that arbitration has become too expensive are on the rise. For arbitration to continue to adequately serve its purpose, it must be time

and cost-effective. Cost-efficiency can be obtained through advance planning and better cooperation between parties and their lawyers.

A Clear Arbitration Agreement

More often than not, the arbitration clause is the last and least considered clause in a contract, and therefore commonly referred to as the midnight clause. Yet the importance of a clear, simple arbitration agreement, tailored to the specific feature of a transaction, cannot be overstated. A well-drafted arbitration clause prevents uncertainty and disputes over its meaning, scope and effect, *e.g.*, the jurisdiction of the arbitral tribunal or the process of appointing arbitrators.

Choosing to submit a dispute to institutional arbitration rules—for example, those of the International Chamber of Commerce, the London Court of International Arbitration or the American Arbitration Association—is also an effective way to limit arbitration costs. Institutional rules typically offer arbitration administration services that are based on cost-efficiency. For example, some rules set the administrative and arbitrators' fees on the basis of fixed scales, rather than time spent. The institutions themselves closely monitor the financial aspect of the cases they administer, in order to discourage lengthy procedural timetables.

Careful Selection of Arbitrators

A tribunal with strong case-management skills will be able to manage the arbitration so as to make it as cost- and time-effective as possible. Careful consideration should therefore be given to selecting tribunal members, with particular attention paid to their previous experience as arbitrators.

In addition to considering the arbitrators' case-management skills, it is essential to ensure that the arbitrators selected have sufficient time to devote to the case. Even the best arbitrator is unable to effectively administer an arbitration if he or she does not have the time available to do so. It is also important to nominate arbitrators with no conflict of interest, and whose risk of a conflict arising in the course of the procedure is limited, in order to prevent the delays that can result from objections to an arbitrator's confirmation or appointment.

Efficient Management of Hearings

Because hearings in international arbitration often necessitate travel and a considerable time commitment by the arbitrators, the parties and their lawyers, they can be the most costly elements of an arbitration. According to a 2011 survey by the Chartered Institute of Arbitrators, hearing costs account for 37 per cent of total external legal fees incurred by arbitration parties. It is therefore advisable to consider whether or not it is possible for the arbitral tribunal to decide the dispute on the basis of documents alone, without a hearing.

Where hearings are necessary, minimizing their length and number might considerably reduce arbitration costs. Hearings also do not necessarily have to be held at the place of arbitration. The parties and the arbitral tribunal can instead agree to hold hearings at a place they deem more cost-effective, such as a location that is convenient for the majority of the witnesses due to give evidence.

Costs Orders

Arbitrators are frequently empowered with the discretion to award legal costs based on the reasonableness of those costs, among other factors. The recent, much-publicised Yukos award, for example, noted that some of the fees charged by the claimants' experts were excessive, observing that their evidence was of "limited assistance" to the tribunal in determining damages.

Cooperation Between In-House and Outside Counsel

Cooperation between in-house and outside counsel is another important factor in reducing arbitration costs. In-house counsel can, and should, play an active role in the arbitration process by attending case-management conferences and deciding on the procedure to be adopted. In certain cases, discovery-style document production, or an additional round of briefs, might produce benefits justifying the associated time and costs; but in others they might not. In-house counsels are often in the best position to make this call in collaboration with their external counsel.

USPTO Publishes New PTAB Trial Rules

Bernard J. Knight, Jr. (Washington DC)

The U.S. Patent and Trademark Office (USPTO) has published in the Federal Register a final rule to amend the existing rules of practice for inter partes review, post-grant review, the transitional program for covered business method patents, and derivation proceedings, that implemented provisions of the Leahy-Smith America Invents Act. Last year, on May 19, 2015, the USPTO published a final rule addressing certain ministerial changes, including an allowance for 10 additional pages for a patent owner's motion to amend and providing 10 additional pages for a petitioner's reply brief.

The new rules make only a few changes to the existing rules.

- The patent owner is allowed to submit new testimonial evidence in support of the preliminary response. This change creates some new strategic considerations for the patent owner, as it may not always be advantageous to submit an expert declaration with the preliminary response. It may be more strategic to wait and see the institution decision by the Patent Trial and Appeal Board (PTAB) before the patent owner locks in its witness' testimonies. This allows the patent owner to craft their post-institution case based on the PTAB's concerns and preserves some new evidence for the post-institution trial. If the same three judges are looking at the exact same evidence and arguments pre- and post-institution, it is difficult to see what will change their minds in the trial phase regarding the patentability of the claims.

The strategy to submit new testimonial evidence with a preliminary response is made even more complicated by a new provision that provides that "a genuine issue of material fact created by such testimonial evidence will be viewed in the light most favorable to the petitioner" (37 CFR Section 42.108). Most testimonial evidence submitted by a patent owner would create a material issue of fact. As a result, these factual disputes will be resolved against the patent owner for purposes of the institution decision.

- The USPTO maintains the broadest reasonable interpretation claim construction standard, unless the patent will expire before the final written decision is issued. The final rule provides that a party may request, by motion, a "district court-type claim construction approach" where the patent at issue will expire within 18 months of the entry of the Notice of Filing Date (37 CFR Section 42.300). The motion must be made within 30 days from the filing of the petition. The PTAB apparently will resolve the claim construction standard on a case-by-case basis for patents that will expire during the course of the post-grant proceeding.
- The duty of candor in PTAB proceedings has been reinforced and provides that the signature on any document filed with the office is a representation, among others, that the action is not being conducted "for any improper purpose, such as to harass, cause unnecessary delay, or needlessly increase the cost of the proceeding" (37 CFR Section 42.11, 11.18(b)(2)). It is unclear what an "improper purpose" encompasses. The proposed rule also provides new procedural rules for sanction motions, including a requirement to serve the accused party with a copy of the motion 21 days prior to seeking authorization to file a motion for sanctions. This provision gives the accused party an opportunity to correct the challenged error.

- The page limits have been changed to maximum word counts for the petition, patent owner preliminary response and petitioner's reply brief; the PTAB retains page limits for all other briefings. For example a petition for inter partes review is limited to 14,000 words. This will allow claim charts to now contain attorney argument, since such argument in single-spaced claim charts will no longer be construed as a means to get around the page limits.

The rules became effective on May 2, 2016.

Conducting an Effective Internal Investigation

Angel Wang (Shanghai)

In China, the volume of white collar crime is increasing annually. The financial losses caused by white collar crimes now exceed those caused by blue collar crimes, such as robbery. The number of major prosecutions and the amount of money involved have increased sharply. White collar crime in China has evolved from conduct involving sums of from a few thousand to several million yuan, to now involving hundreds of thousands, millions and even tens of millions yuan. Generally speaking, white collar crime in China has developed its own striking features in recent years. "Power-for-money" deals have become very common and are seriously damaging the economy and perceptions of the state and government.

Regardless of whether or not allegations of white-collar crime are sufficiently serious to prompt a legal authority to pursue an investigation, companies in China should consider undertaking their own internal investigation to determine the veracity of allegations, identify possible perpetrators and learn valuable lessons that can lead to improvements in policies and procedures.

General Procedure

Allegations of corporate misconduct typically arise with a whistleblower's report, often made anonymously. Because the improper handling of information provided by a whistleblower, or the mishandling of information that is uncovered during an internal investigation, may result in potential criminal violations, it is vital that proper steps are taken at the outset and the correct protections put in place.

Internal investigations conducted in other countries tend to reserve until the end of the process the interviews with the employee suspected of wrongdoing, or the manager in charge of the department alleged to have been involved in wrongdoing. Internal investigations in China, however, traditionally start with these interviews. This approach allows investigators to gather upfront important information that could shape the rest of the investigation, but it raises risks that data will be compromised or subjects will try to influence others improperly. If the internal investigation is to be conducted discreetly, the order and scope of interviews must be considered carefully, and adjustments to the traditional approach made appropriately.

After initial interviews, data is typically collected and reviewed. Forensic audits are often advisable as they can identify key information about potential financial violations that could be missed in interviews and other data reviews.

The review of data and the forensic audit will often identify issues that require additional interviews, including follow-up interviews with the initial interviewees. This cycle could repeat, as more interviews are conducted and additional relevant data identified and reviewed.

Along the way, investigators must be particularly sensitive to information that creates risks under China's state secrets law and personal privacy protection laws, or involves protected confidential business information. Reports should avoid such information, and companies and their advisors must be careful not to disseminate any reports in a manner that could violate laws in these areas.

Common Approaches and Risk Exposure

While most large companies have a general idea about how to handle internal investigations, they need to proceed cautiously; an improperly handled internal investigation may not only reduce the value of any evidence collected and the credibility of any conclusions, but could lead to civil claims, criminal charges or administrative penalties. It is also worth bearing in mind that certain elements of internal investigations that would be appropriate in other countries may be beyond an employer's right to pursue in China. For example, some information that may be obtained during an internal investigation might be considered personal and sensitive under Chinese law, and impermissible to access without authorization.

Collecting, Monitoring, and Using Correspondence

When an employer accesses or reviews an employee's correspondence, such as e-mails or phone messages, the employee's right to privacy is implicated. The collection, monitoring and use of employee's correspondence may lead to privacy disputes and may constitute an invasion of the employee's "moral rights" by the company.

Releasing images or text of correspondence, unlawfully opening or reading another person's letters, or accessing personal e-mail or voicemail without permission may result in criminal liability, instead of mere civil tortious liability.

Surveillance and Monitoring

Conducting surveillance and monitoring employees is relatively common in certain investigations in China, but it carries a high level of risk for the companies and individuals involved. Various laws and regulations in China prohibit private surveillance and monitoring activities, such as watching employees without their knowledge, or secretly taking photos or videos and using certain eavesdropping equipment to listen to conversations.

If the consequences of this surveillance are serious, such as unlawful surveillance causing a suicide, mental disorders, assault or significant economic losses, the company and individuals involved may face criminal prosecution.

Using Outside Resources to Obtain Information

Companies often need to contact outside resources and access information to investigate allegations comprehensively. The company must, however, be sure to only use lawful methods and avoid accessing information that is protected by law.

Accessing an employee's personal information, e.g., bank account details or banking records, fingerprints, personal tax records or personal property information, is strictly illegal. If this type of information is gathered, the company and individuals involved may be found guilty of various crimes that lead to fixed-term imprisonment.

Physical Searches

While there are no specific PRC laws or regulations to restrict physical searches of company offices, physical searches of an employee's person or personal items should only be conducted by government authorities authorized to exercise criminal investigation powers under the current PRC legal regime.

Searching an employee's body or personal items, even items that are provided by the employer for use in connection with the employment, may still violate privacy rights or lead to a conviction for committing the crime of unlawful search.

Engagement of Third Parties to Conduct Internal Investigation

Although private detective agencies and similar entities that provide investigations into private information are prohibited in China, many types of third party investigators, such as consulting firms, conduct investigations in China as "business

consultations” or “market research.” There have been several recent crackdowns against these types of businesses and their unrestricted use is typically discouraged by lawyers.

Third party investigators have been known to go beyond the control of the company when they conduct an investigation, such as by expanding the investigation’s approach, scope, or resources. The company and the third party may become joint tortfeasors or be found to have committed joint crimes if the third party conducts an investigation or provides illegal consulting services to the company.

Minimize Risk

A successful and compliant internal investigation can not only identify relevant and useful information, but also help a company mitigate risks or reduce liability for its part in any wrongdoing. Nevertheless, significant attention must be paid to the potential risks inherent in internal investigations in China. Thorough planning and consultation with experienced counsel is necessary to minimize exposure to potential legal liabilities.

Evolving Patent Eligibility Standard for Computer-Implemented Inventions

Paul Devinsky (Washington DC)

While addressing the patent eligibility of computer-implemented inventions, the US Court of Appeals for the Federal Circuit concluded that under step one of the *Alice* eligibility test, claims directed to improvements in computer functionality may not be directed to abstract ideas if the invention is directed to an improvement in the operation of a computer itself. (*Enfish, LLC v. Microsoft Corp.*, Case No. 15-1244 (Fed. Cir., May 12, 2016) (Hughes, J)). Less than one week later, the Federal Circuit found that a computer-implemented invention that requires a computer to facilitate what might otherwise be non-computerized functions was directed to an abstract idea and therefore not patent eligible under *Alice* step 1. (*In re TLI Comm’s LLC Pat. Lit.*, Case Nos. 15-1372; -1376; -1377; -1378; -1379; -1382; -1383; -1384; -1385; -1417; -1419; -1421 (Fed. Cir., May 17, 2016) (Hughes, J)). Shortly thereafter, the Patent Trial and Appeal Board (PTAB) applied *Enfish* to find that claims directed to an improvement to computer functionality were not likely patent ineligible at *Alice* step 1. (*Ahold USA Inc. v. Advanced Marketing Systems, LLC*, Case No. CBM2016-00013, Paper 6 (May 26, 2016) (Giannetti, APJ)).

In *Enfish*, the Federal Circuit reversed the district court judgment of no patent-eligibility, finding claims to a computerized database organized as a “self-referential” logical table that defines its columns by rows in the same table to be directed to patent eligible subject matter. The Federal Circuit explained that a self-referential database allows for faster searching, easier configuration and more effective data storage than prior art databases. It reasoned that the claims were directed to a non-abstract improvement in computer function as opposed to the abstract idea of “storing, organizing, and retrieving memory in a logical table.”

By contrast, in *TLI*, the Federal Circuit (again with Judge Hughes writing) affirmed the unpatentability of claims to a computer-implemented method of organizing and storing digital information, such as photographs, using classification information such as the photograph’s date or location. The court found that, rather than improving the function of a computer, the claimed method merely used the computer to facilitate the performance of an age-old method of indexing documents. The court therefore found the claims to be directed to the abstract idea of organizing information and patent-ineligible because the remaining limitations amounted to no more than a command to “apply it on a [computerized] telephone network.”

Less than two weeks later, the PTAB, applying *Enfish* in the *Ahold* covered business method (CBM) proceeding, declined to institute a CBM review of claims that it held were directed to an improvement in computer functionality (but not based on grounds of patent eligibility). The claims at issue were directed to a computer-implemented coupon system that allows vendors

to imbue one coupon with multiple discounts, then selectively deactivate each discount as a consumer purchases each discounted item.

Analyzing the CBM-eligibility of the claims, the PTAB explained the claims were not directed to a “technological invention” because the focus of the specification was the claimed coupon as opposed to the claimed data processing components, which were “conventional” and “existing.” The PTAB was not convinced that the problem solved by the claimed invention specifically arose in the realm of computer networks, but nonetheless found that the petitioner had insufficiently demonstrated the likelihood that the claims were not patent-eligible. The PTAB faulted the petitioner for analyzing only whether the coupon was abstract rather than the combination of the coupon and data-processing components. Analyzing the claim as a whole, the PTAB reasoned that the claims were directed to improvements in computer function, not the abstract idea of “offering, tracking and processing discounts.” The PTAB did, however, go on to institute CBM review on written description and anticipation grounds.

Practice Note: The US Patent and Trademark Office has already promulgated guidance to examiners applying *Enfish* to narrow the circumstances under which claims to computer-implemented inventions will be rejected for patent ineligibility.

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