



THE SEDONA CONFERENCE JOURNAL®

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A R T I C L E S

The 2015 Civil Rules Package as Transmitted to Congress. Thomas Y. Allman

The “Burdens” of Applying Proportionality. Hon. Craig B. Shaffer

Damages Theories in Data Breach Litigation
..... Eric S. Boos, Chandler Givens, & Nick Larry

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PUBLISHER'S NOTE

Welcome to Volume 16 of The Sedona Conference Journal (ISSN 1530-4981), an annual collection of articles originally presented at our conferences, and commentaries prepared by our Working Groups over the past year. The Sedona Conference was founded in 1997 to provide a forum for advanced dialogue among the nation's leading attorneys, academics, and jurists on cutting-edge issues of law and policy in the areas of antitrust, intellectual property rights, and complex litigation. We host regular season conferences, international programmes, continuing legal education programs under The Sedona Conference Institute (TSCI) banner, and several Working Group meetings each year, providing unique and rewarding opportunities to explore the boundaries of various areas of the law with those who are pushing them. This volume of the *Journal* contains articles selected from our regular season conferences on antitrust law and litigation (Summer 2014), patent litigation best practices (Fall 2014), data security and privacy liability (Fall 2014), and electronic document retention and production (Spring 2015). Additionally, we have included two articles from our annual international programme on cross-border discovery and data protection laws (Summer 2014 & 2015), as well as an article from "Archives in the Electronic Age: Part I," an educational event co-sponsored by The Archivists Round Table of Metropolitan New York, Inc., (A.R.T.), the Cardozo Data Law Initiative, and The Sedona Conference (Summer 2015).

We hope that you will find that the papers in this journal reflect the mix of theory and experience found at our conferences and Working Group meetings, including the creativity and constructive irreverence required to challenge traditional thinking. The views expressed herein are those of the authors, and we encourage the submission of counterpoint pieces. Submissions can be sent to comments@sedonaconference.org. If you are interested in participating in one of our regular season conferences, our TSCI programs, and our international programmes, or in joining our Working Group Series, please visit our website for further information (www.thesedonaconference.org).

Craig W. Weinlein
Executive Director
The Sedona Conference
October 2015

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THE 2015 CIVIL RULES PACKAGE AS TRANSMITTED TO
CONGRESS

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Cincinnati, Ohio

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I. INTRODUCTION

This Memorandum describes the “package” of amendments to the Federal Rules of Civil Procedure which were collectively forwarded to Congress by the Supreme Court on April 29, 2015.¹ A copy of the text of each of the proposals is included in the Appendix to this Paper.² The amendments will become effective on December 1, 2015, if Congress does not adopt legislation to reject, modify, or defer them.³

Background

The amendments transmitted to Congress culminated a four year effort by the Civil Rules Advisory Committee (the “Rules Committee”) operating under the supervision of the Committee on Rules of Practice and Procedure of the Judicial Conference (the “Standing Committee”).

The amendment process began with the 2010 Conference on Civil Litigation held by the Rules Committee at the Duke Law School (“Duke Conference,” “Duke,” or “the Conference”). Key “takeaways” from the Conference were the need for improved case management, application of the long-ignored prin-

1. Chief Justice Roberts, Transmittal Memo and Exhibits (April 29, 2015), *available at* <http://www.uscourts.gov/file/document/congress-materials> (collectively referred to as the “Rules Transmittal”). Citations to the text and Committee notes are to the internally numbered pages of the Exhibit (dated September 26, 2014) which commences at (unnumbered) page 45 (containing the “redline” version of text and notes) [hereinafter Committee Note(s)].

2. A minor unrelated amendment to Rule 55 is also included but is not separately discussed herein.

3. 28 U.S.C. § 2074 (if transmitted to the Congress not later than May 1, they “shall take effect no earlier than December 1 of the year in which . . . transmitted unless otherwise provided by law”).

principle of “proportionality,” and an emphasis on the role of cooperation among parties in discovery.⁴ In addition, an E-Discovery Panel “reached a consensus that a rule addressing preservation (spoliation) would be a valuable addition to the Federal Rules of Civil Procedure.”⁵

The task of developing individual rule proposals was split between the Duke Subcommittee, chaired by the Hon. John Koeltl, who had organized and led the Conference, and the Discovery Subcommittee, chaired by the Hon. Paul Grimm.⁶ Both subcommittees vetted interim draft rule proposals at “mini-conferences” of experts, interested parties, and committee members.

An initial “package” of the proposals from both efforts was released for public comment in August 2013.⁷ After the close of the public comment period, the subcommittees devel-

4. An excellent description of the Conference is contained in the Report to the Chief Justice issued in September, 2010. Memo, Rules Committee to The Chief Justice (September 10, 2010), *available at* <http://www.uscourts.gov/rules-policies/records-and-archives-rules-committees/special-projects-rules-committees/2010-civil> (scroll to Report to Chief Justice).

5. John G. Koeltl, *Progress in the Spirit of Rule 1*, 60 DUKE L.J. 537, 544 (2010).

6. The Discovery Subcommittee was originally chaired by Judge David Campbell prior to his becoming Chair of the Rules Committee.

7. The Preliminary Draft of Proposed Amendments to the Federal Bankruptcy and Civil Rules (“2013 PROPOSAL”) is available at <http://www.ediscoverylaw.com/files/2013/11/Published-Rules-Package-Civil-Rules-Only.pdf>.

oped revisions to some of them. Based on those recommendations, including last minute changes to proposed Rule 37(e),⁸ revised proposals were adopted by the Rules Committee at its April 10-11, 2014, meeting in Portland, Oregon.

The Standing Committee approved the revised proposals (and a new Rule 37(e) Committee Note)⁹ at its May 29, 2014, meeting. The Standing Committee in turn submitted the proposals and a revised Rules Committee Report (the “June 2014 RULES REPORT”)¹⁰ to the Judicial Conference, which approved and forwarded them to the Supreme Court.

The Supreme Court approved the full package, after suggesting certain minor changes discussed below,¹¹ and transmitted it, together with certain exhibits, to Congress on April 29, 2015.

Public Participation

The Rules Committee conducted public hearings on the initial proposals in late 2013 and early 2014 that involved 120

8. *Advisory Committee Makes Unexpected Changes to 37(e)*, BLOOMBERG BNA (April 14, 2014), <http://www.bna.com/advisory-committee-makes-n17179889550/>.

9. The Note was contained in a May 2014 Rules Committee Report. Advisory Committee on Civil Rules Agenda Book at 306 of 1132 (May 29-30, 2014), <http://www.uscourts.gov/rules-policies/archives/agenda-books/committee-rules-practice-and-procedure-may-2014> [hereinafter May 2014 RULES REPORT].

10. June 2014 Advisory Committee Report at Appendix B, attached to the September 2014 Standing Committee Report, <http://www.uscourts.gov/uscourts/RulesAndPolicies/rules/Reports/ST09-2014.pdf> [hereinafter June 2014 Rules Report]. References to its contents appear throughout this Paper as appropriate.

11. See *infra* Section (7). The only changes suggested by the Supreme Court after its review involved recommendations for the Committee Notes for Rules 4 and 84 (and in regard to the Abrogation of the Appendix of Forms).

testifying witnesses.¹² In addition, the Committee received over 2300 written comments.¹³

Expansive comments on the initial proposals were provided by Lawyers for Civil Justice (LCJ)¹⁴ and the American Association for Justice (AAJ, formerly ATLA).¹⁵ The AAJ urged rejection of rules that added proportionality factors to the scope of discovery, imposed reduced presumptive limits and “made sanctions less likely in instances of spoliation,” whereas LCJ supported limiting sanctions, adding proportionality to the scope of discovery, acknowledging cost-allocation, and making reductions in presumptive numerical limits.

In addition, the Federal Magistrate Judges Association (FMJA), the Association of Corporate Counsel (ACC), the Department of Justice (DOJ), the Sedona Conference WG1 Steering Committee (“Sedona”), and a cross-section of state bar associations also dealt comprehensively with the proposals.

Support for the most controversial of Duke amendments (Rules 26(b)(1) and the [subsequently dropped] changes to Rules 33, 31, 33, & 36) came from corporate entities, affiliated advocacy groups, and corporate-oriented law firms. Opposition

12. The first hearing was held by the Rules Committee in Washington, D.C., on November 7, 2013, and was followed by a second hearing on January 9, 2014, in Phoenix, and a third and final hearing on February 7, 2014, at the Dallas (DFW) airport. Transcripts of the three are available at <http://www.uscourts.gov/rules-policies/records-and-archives-rules-committees>.

13. The written comments are archived at <http://www.regulations.gov/#!docketDetail;D=USC-RULES-CV-2013-0002>.

14. LCJ Comment to the Advisory Committee on Civil Rights (August 30, 2013), *available at* <http://www.regulations.gov/#!documentDetail;D=USC-RULES-CV-2013-0002-0267>, as supplemented [hereinafter LCJ Comment].

15. AAJ Comment on Proposed FRCP Changes to the Advisory Committee on Civil Rules (December 19, 2013), *available at* <http://www.regulations.gov/#!documentDetail;D=USC-RULES-CV-2013-0002-0372>.

was expressed by representatives of individual claimants and members of the academic community. The replacement for Rule 37(e) was both supported and opposed by a cross-section of witnesses and comments. These comments are summarized in more detail in Section III, below.

II. THE "DUKE" AMENDMENTS

The Rules Committee viewed the Duke amendments [all proposals except Rule 37(e)] as an integrated package.¹⁶ The replacement for current Rule 37(e) was seen as independent of the Duke proposals, but necessary to deal with failures to preserve electronically stored information (ESI) in a more satisfactory manner.

We treat the Duke amendments first.

(1) *Cooperation (Rule 1)*

Rule 1 speaks of the need to achieve the "just, speedy, and inexpensive determination of every action and proceeding." It is proposed that Rule 1 should be amended so that it will be "construed, ~~and~~ administered and employed by the court and the parties to secure" those goals.

The Committee seriously considered but ultimately refused to recommend that Rule 1 require that parties "should cooperate to achieve these ends."¹⁷ Cooperation was heavily emphasized at the Duke Conference and has assumed prominence

16. June 2014 RULES REPORT, *supra* note 10, at B-14 ("the Committee believes that these changes will promote worthwhile objectives identified at the Duke Conference and improve the federal civil litigation process").

17. See Duke Subcommittee Initial Sketch for Rule 1, at 9 (171 of 732), available at https://law.duke.edu/sites/default/files/images/centers/judicialstudies/Panel_4-Background_Paper_2_1.pdf.

as a result of the *Sedona Conference Cooperation Proclamation*.¹⁸ Many local rules¹⁹ and other e-discovery initiatives²⁰ invoke cooperation as an aspirational standard.

The concern with adding “cooperation” to the text of Rule 1 was that the addition could have “collateral consequences.”²¹ It would have added “one more point on which parties can disagree and blame the other when it is to their advantage.”²² A similar attempt was rejected in 1978.²³

According to the Committee Note, the amendment emphasizes that “the parties share the responsibility to employ the rules” in that matter. The Note further observes that “most lawyers and parties cooperate to achieve those ends” and that it is important to discourage “over-use, misuse, and abuse of procedural tools that increase cost and result in delay.”

18. The Sedona Conference, *The Sedona Conference Cooperation Proclamation*, 10 SEDONA CONF. J. 331 (2009 Supp.).

19. See, e.g., S.D.N.Y. and E.D.N.Y. CIV. R. 26.4 (the expectation of cooperation of counsel must be “consistent with the interests of their clients”).

20. See [MODEL] STIPULATED ORDER (N.D. CAL), ¶ 2, (“[t]he parties are aware of the importance the Court places on cooperation and commit to cooperate in good faith throughout the [litigation]”).

21. November 2012 Advisory Committee on Civil Rules Meeting Minutes, at lines 616-22, <http://www.uscourts.gov/rules-policies/archives/meeting-minutes/advisory-committee-rules-civil-procedure-november-2012>.

22. LCJ Comment to the Advisory Committee on Civil Rules, *The Need for Meaningful Rule Amendments*, 4 (June 5, 2012), available at http://www.lfcj.com/uploads/3/8/0/5/38050985/lcj_comment_duke_proposals_060512.pdf.

23. Steven S. Gensler, *Some Thoughts on the Lawyer’s E-Volving Duties in Discovery*, 36 N. KY. L. REV. 521, 547 (2009) (language was proposed in 1978 authorizing sanctions for failure to have cooperated in framing an appropriate discovery plan).

The Note also states that “[e]ffective advocacy is consistent with—and indeed depends upon—cooperative and proportional use of procedure.”²⁴

Public Comments

Concerns were raised during the public comment period about the references to “cooperation” in the Committee Note. As Lawyers for Civil Justice put it:

[u]ntil the concept of ‘cooperation’ can be defined so as to provide objective ways to evaluate a party’s compliance—including the proper balance between cooperative actions and the ethics rules and professional requirements of effective representation—the Committee Note should not be amended to include an unlimited exhortation to cooperation.²⁵

One problem is the uncertainty as to whether “cooperation” means something more than a willingness to take opportunities to discuss defensible positions in good faith²⁶—in short, whether it mandates compromise.²⁷

Revised Committee Note

Ultimately, at the May 2014 Standing Committee meeting, it was announced that the Committee Note would be fur-

24. Committee Note, *supra* note 1, at 1-2.

25. LCJ Comment, *supra* note 14, at 20.

26. Gensler, *supra* note 23, at 546 (the correctness of the inference “turn[s] on the definition of cooperation”).

27. *Id.* (the view that cooperation means “a willingness to move off of defensible positions—to compromise—in an effort to reach agreement” is not what Rules 26(f), 26(c), or 37(a) actually demand).

ther amended to clarify that the change to the rule was not intended to serve as a basis for sanctions for a failure to cooperate.²⁸

The final version of the Note thus adds that “[t]his amendment does not create a new or independent source of sanctions” and “neither does it abridge the scope of any other of these rules.”²⁹

(2) *Case Management (Rules 4(m), 16, 26, 34, 55)*

A series of amendments are proposed in order to see that cases are “resolved faster, fairer, and with less expense” by ensuring that judges “manage them early and actively.”³⁰

Timing (Service of Process) (Rule 4(m))³¹

The time limits in Rule 4(m) governing the service of process are to be reduced in number from 120 to 90 days. The intent is to “reduce delay at the beginning of litigation.”³² The subdivision does not apply to service in a foreign country “or to service of a notice under Rule 71.1(d)(3)(A).”

In response to a request by the Supreme Court, the final version of the applicable Note included in the Rules Transmittal

28. Minutes, Standing Committee Meeting, 5 (May 29-30, 2014), <http://www.uscourts.gov/rules-policies/archives/meeting-minutes/committee-rules-practice-and-procedure-may-2014> (“[t]he added language would make it clear that the change was not intended to create a new source for sanctions motions”); *see also* June 2014 RULES REPORT, *supra* note 10, at B-13 (“[o]ne concern was this change may invite ill-founded attempts to seek sanctions for violating a duty to cooperate”).

29. Committee Note, *supra* note 1, at 2.

30. June 2014 RULES REPORT, *supra* note 10, at B-12.

31. For changes to Rule 4(d), *see infra* Subsection (7).

32. Committee Note, *supra* note 1, at 4 (acknowledging that shortening the presumptive time will increase the frequency of occasions to extend the time for good cause).

package sent to Congress no longer makes the observation that shortening the presumptive time for service will increase the occasions to extend the time ~~for good cause~~.³³

Default Judgment

The interplay between Rules 54(b), 55(c), and 60(b) is to be clarified by inserting the word “final” in front of the reference to default judgment in Rule 55(c). This change was not discussed at the Public Hearings and has not garnered discussion beyond that of the proposed Committee Note.

Discovery Requests Prior to Meet and Confer

A new provision (Rule 26(d)(2) (“Early Rule 34 Requests”)) will be added to allow delivery of discovery requests prior to the “meet and confer” required by Rule 26(f). The response time will not commence, however, until after the first Rule 26(f) conference. Rule 34(b)(2)(A) will be amended by a parallel provision as to the time to respond “if the request was delivered under 26(d)(2) — within 30 days after the parties’ first Rule 26(f) conference.”

The Committee Note explains that this relaxation of the existing “discovery moratorium” is “designed to facilitate focused discussion during the Rule 26(f) Conference,” since discussion may produce changes in the requests.³⁴

Scheduling Conference

Rule 16(b)(1) will be modified by striking the reference to conducting scheduling conferences by “~~telephone, mail, or~~

33. The April 3, 2015, Memorandum from the Judicial Conference to the Supreme Court acknowledged receipt of the request and approval of the change without explaining the reason for doing so. Rules Transmittal, *supra* note 1, at unnumbered page 129 of 144.

34. Committee Note, *supra* note 1, at 25.

~~other means~~” so as to encourage direct discussions among the parties and the Court. The Rule will merely refer to the duty to issue a scheduling order after consulting “at a scheduling conference.” The Committee Note observes that the conference may be held “in person, by telephone, or by more sophisticated electronic means” and “is more effective if the court and parties engage in direct simultaneous communication.”³⁵

Scheduling Orders: Timing

In the absence of “good cause for delay” a judge will be required by an amendment to Rule 16(b)(2) to issue the scheduling order no later than 90 days after any defendant has been served or 60 days after any appearance of a defendant, down from 120 and 90 days, respectively, in the current rule.

The Committee Note provides that in some cases, parties may need “extra time” to establish “meaningful collaboration” between counsel and the people who may provide the information needed to participate in a useful way.³⁶

Scheduling Orders: Pre-motion Conferences

Rule 16(b)(3)(B) (“Contents of the Order”) will be amended in subsection (v) to permit a court to “direct that before moving for an order relating to discovery the movant must request a conference with the court.” The Committee Note explains that “[m]any judges who hold such conferences find

35. *Id.* at 7 (excluding the use of “mail” as a method of exchanging views).

36. *Id.* at 8.

them an efficient way to resolve most discovery disputes without the delay and burdens attending a formal motion.”³⁷

Scheduling Orders: Preservation

In parallel with changes to Rule 26(f)(3)(C) requiring that parties state their views on “disclosure, ~~or~~ discovery, or preservation” of ESI, Rule 16(b)(3)(B)(iii) will permit an order to provide for “disclosure, ~~or~~ discovery, or preservation” of ESI.

The Committee Note to Rule 16 observes that “[p]arallel amendments of Rule 37(e) [will] recognize that a duty to preserve discoverable information may arise before an action is filed.”³⁸ The Note to Rule 37(e) states that “promptly seeking judicial guidance about the extent of reasonable preservation may be important” if the parties cannot reach agreement about preservation issues.³⁹ The Note also opines that “[p]reservation orders may become more common” as a result of the encouragement to address preservation.⁴⁰

Scheduling Orders: FRE 502 Orders

In parallel to changes in Rule 26(f)(3)(D) requiring parties to discuss whether to seek orders “under Federal Rules of Evidence 502” regarding privilege waiver, Rule 16(b)(3)(B)(iii)(iv)

37. *Id.* at 9. See also Steven S. Gensler and Lee H. Rosenthal, *The Reappearing Judge*, 61 U. KAN. L. REV. 849, 861 (2013) (“Many judges—indeed many districts—have moved to a system of pre-motion conferences to resolve discovery disputes.”).

38. *Id.* at 8.

39. *Id.* at 40. The Note does not explain how pre-litigation guidance may be secured. Cf. May 2014 RULES REPORT, *supra* note 9, at 59 (“[u]ntil litigation commences, reference to the court [for guidance on preservation requirements] may not be possible”). See, e.g., *Texas v. City of Frisco*, 2008 WL 828055 (E.D. Tex. Mar. 27, 2008).

40. Committee Note, *supra* note 1, at 40.

will permit an order to include agreements dealing with asserting claims of privilege or of protection as trial-preparation materials, “including agreements reached under Federal Rule of Evidence 502.”

The unrestricted sequence of discovery specified under Rule 26(d)(3) will apply unless “the parties stipulate or” the court orders otherwise, and the requirement that a party act “on motion” is stricken.

(3) Scope of Discovery/Proportionality (Rule 26(b))

Since 1983, Rule 26(b)(2)(C)(iii) and its predecessors have required federal courts to act to limit discovery where “the burden or expense of the proposed discovery outweighs its likely benefit,” considering “the needs of the case, the amount in controversy, the parties’ resources, the importance of the issues at stake in the action and the importance of the discovery in resolving the issues.” The advent of e-discovery brought new prominence to this “proportionality” requirement and the related certification provisions applicable to counsel in Rule 26(g).

Discussions about the role of proportionality—and the widespread conviction that it had not reached its full potential—played a prominent role at the Duke Conference. There was “near-unanimous agreement” that the disposition of civil

actions could be improved by advancing, *inter alia*, “proportionality in the use of available procedures.”⁴¹

The Initial Proposal

After considering alternatives,⁴² the Duke Subcommittee recommended moving the proportionality factors from their current location into Rule 26(b)(1), thus modifying the stated scope of discovery. Rule 26(b)(2)(C)(iii) would be amended to require courts to limit the frequency or extent of discovery when “the burden or expense of the proposed discovery is outside the scope permitted by Rule 26(b)(1).”

The initial proposal included deletions from the balance of Rule 26(b)(1). Perhaps the most important was the abrogation of the statement that “[r]elevant information need not be admissible at trial if [it] appears reasonably calculated to lead to admissible evidence.” This language was deleted because it had

41. June 2014 RULES REPORT, *supra* note 10, at B-2, B-5 (describing “widespread agreement at the Duke Conference that discovery should be proportional to the needs of the case”); *see also* The Sedona Conference, *The Sedona Principles: Best Practices Recommendations & Principles for Addressing Electronic Document Production* (2d ed., June 2007) <https://thesedonaconference.org/download-pub/81> (Principles 2 and 5); The Sedona Conference, *Commentary on Proportionality in Electronic Discovery*, 11 SEDONA CONF. J. 289 (2010) (Public Comment Version); The Sedona Conference, *Commentary on Proportionality in Electronic Discovery*, 14 SEDONA CONF. J. 155 (2013) (Interim Final).

42. *See* Duke Conference, Amended Initial Sketch (undated), 20, available at https://ralphlosey.files.wordpress.com/2012/12/rules_addendumsketchesafterdallas12.pdf [hereinafter Amended Initial Sketch] (as modified after the October 8, 2012, Mini-Conference).

been incorrectly used, in the eyes of the Committee, as a definition of the scope of the discovery.⁴³

Also deleted was authority to order discovery of any matter “relevant to the subject matter” for good cause since the Committee “has been informed that this language is rarely invoked.”⁴⁴

Similarly, examples of types of discoverable information were deleted as unnecessary, since their discovery is “deeply entrenched in practice.”⁴⁵

Public Comments

The initial proposal kicked off a firestorm of opposition by those who saw it as an unfair attempt to restrict discovery which might be important to constitutional and individual civil rights or employment claims.

The AAJ,⁴⁶ for example, expressed concern that the change would “fundamentally tilt the scales of justice in favor of well-resourced defendants” because a producing party could “simply refuse reasonable discovery requests” and force requesting parties to “*prove* that the requests are not unduly burdensome or expensive.”⁴⁷ (emphasis in original).

43. Committee Note, *supra* note 1, at 24 (“[t]he phrase has been used by some, incorrectly, to define the scope of discovery”). It was replaced by the statement that “[i]nformation within this scope of discovery need not be admissible in evidence to be discoverable.”

44. *Id.* at 23 (“[p]roportional discovery relevant to any party’s claim or defense suffices, given a proper understanding of what is relevant to a claim or defense”).

45. *Id.* at 23 (“[d]iscovery of such matters is so deeply entrenched in practice that it is no longer necessary to clutter the long text of Rule 26 with these examples”).

46. AAJ Comment, *supra* note 15.

47. *Id.* at 11.

Prof. Arthur Miller criticized the proposal as erecting “stop signs” to discovery without having empirical evidence of a need to restrict discovery. He described the inclusion of proportionality in the 1983 rules (“on his watch”) as based on merely “impressionistic” evidence of discovery abuse.⁴⁸ He also argued that the original formulation intentionally treated proportionality as a “safety valve.”

Other comments predicted a massive increase in assertions of disproportionality and in motions to compel, which would unfairly increase costs and likely deter filings in federal courts.⁴⁹

Finally, it was argued that by moving proportionality factors into discovery scope, the rule was “putting the cart before the horse,” since an informed proportionality analysis is best accomplished by a court only after the issues are developed and there is more information available.⁵⁰

The Revised Proposal

After close of the public comment period, the Rules Committee confirmed its determination to relocate the proportionality factors into Rule 26(b)(1), but made a number of modifications relating to them in the text and the Committee Notes.

48. Arthur R. Miller, *Simplified Pleading, Meaningful Days in Court, and Trials on the Merits: Reflections on the Deformation of Federal Procedure*, 88 N.Y.U. L. REV. 286, 354 & n.261 (2013).

49. Hon. Shira A. Scheindlin, Comment on Proposed Rules to Rules Committee, 3 (January 13, 2014), available at http://www.lfcj.com/uploads/3/8/0/5/38050985/frcp_usdc_southern_district_of_new_york_shira_scheindlin_1_13_14.pdf.

50. Testimony of Larry Coben, Civil Rules Public Hearing Transcript, Phoenix, AZ, 169 (January 9, 2014), available at <http://www.uscourts.gov/rules-policies/records-and-archives-rules-committees>.

First, the “amount in controversy” factor was moved to a secondary position behind “the importance of the issues at stake in the action.” A second change was to add a new factor to require consideration of “the parties’ relative access to relevant information” in order to provide “explicit focus” on the need to deal with “information asymmetry.” Witnesses had complained of the unfairness of restricting discovery where asymmetry of information existed.⁵¹ The Committee Note was also amended to explain that “the burden of responding to discovery lies heavier on the party who has more information, and properly so.”⁵²

Thus, as revised, Rule 26(b)(1) will permit a party to:

obtain discovery regarding any nonprivileged matter that is relevant to any party’s claim or defense and proportional to the needs of the case, considering the importance of the issues at stake in the action, the amount in controversy, the parties’ relative access to relevant information, the parties’ resources, the importance of the discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit. Information within this scope of discovery need not be admissible in evidence to be discoverable.

The Committee Note was also revised to explain that the proposed amendment “does not change the existing responsibilities” of the court and parties to consider proportionality nor

51. See Student Comment, “*The Perfect is the Enemy of the Good*”: *The Case for Proportionality Rules*, 43 CAP. U. L. REV. 153, 191 nn.283 & 286 (2015) (quoting from Transcript of November, 2013, Public Hearing).

52. Committee Note, *supra* note 1, at 21.

does it “place on the party seeking discovery the burden of addressing all proportionality concerns.”⁵³ The parties and the court have a “collective responsibility” to consider the proportionality of discovery in resolving discovery disputes.⁵⁴

The Note also states that the amended rule is “not intended to permit the opposing party to refuse discovery simply by making a boilerplate objection that it is not proportional.” Concerns about possible negative inferences from deletion of examples of discoverable information also prompted the addition of a comment in the Committee Note that discovery of that nature should be permitted as required.⁵⁵

Assessment

The impact of the relocation of the “proportionality” factors does not change the existing responsibilities of the court and the parties to consider proportionality nor the burdens of proof involved.⁵⁶

It has been accurately described as a “modest” adjustment which will not make a material change in existing obligations,⁵⁷ but will send “a clear message to the courts and litigants

53. *Id.* at 19.

54. *Id.*

55. *Id.*

56. *See, e.g.,* Folger v. Medicalodges, 2013 WL 6244155, *2 (D. Kan. Dec. 3, 2013) (“once facial relevance is established, the burden shifts to the party resisting discovery”). While party seeking discovery must demonstrate a facially relevant showing of proportionality if challenged, the party asserting disproportionality must demonstrate it by specific proof.

57. Craig B. Shaffer & Ryan T. Shaffer, *Looking Past the Debate: Proposed Revisions to the Federal Rules of Civil Procedure*, 7 FED. CTS. L. REV. 178, 195 (2013) (the proposal will not “materially change obligations already imposed upon litigants, their counsel, and the court”).

that pretrial discovery is subject to inherent limitations.”⁵⁸ The intent is to force parties and the courts to confront questions of discovery cost containment at the outset of litigation and thereby lessen the likelihood that pretrial costs will spin out of control.⁵⁹

A Utah State trial judge, testifying at one of the hearings, described the contemporaneous Utah rule changes integrating proportionality into the scope of discovery⁶⁰ as part of a shift to “proportional discovery.”⁶¹

Minnesota and Pennsylvania have also taken similar steps to emphasize that the scope of discovery limited by proportionality standards, including, in the case of Minnesota, articulating the principle in its equivalent of Rule 1. Minnesota amended its Rule 1 to require “the process and the costs [of civil actions] are proportionate to the amount in controversy and complexity and importance of the issues” involved.⁶²

Pennsylvania has added an explanatory comment to its 2011 revisions emphasizing that discovery is “governed by a

58. Edward D. Cavanagh, *The 2015 Amendments to the [FRCP]: The Path to Meaningful Containment of Discovery Costs in Antitrust Litigation?* 13 ANTITRUST SOURCE 1, 9 (April 2014).

59. *Id.*

60. UTAH R. CIV. P. 26(b)(1) (Discovery Scope in General) (“Parties may discover any matter, not privileged, which is relevant to the claim or defense of any party if the discovery satisfies the standards of proportionality set forth below”).

61. Testimony by Hon. Derek Pullan, Civil Rules Public Hearing Transcript, Phoenix, AZ, at 205 (January 9, 2014) *available at* <http://www.uscourts.gov/rules-policies/records-and-archives-rules-committees>.

62. MINN. R. CIV. P. 1 (2013). The scope of discovery is limited to “matters that would enable a party to prove or disprove a claim or defense or to impeach a witness and must comport with the factors of proportionality, including [as listed].” MINN. R. CIV. P. 26.02(b) (2013).

proportionality standard” in order to achieve the “just, speedy and inexpensive” determination of litigation.

However, some in the academy remain critical of the Committee Note as failing to adequately deal with concerns about unfairly placing the burden of addressing proportionality considerations on requesting parties.⁶³

Computer Assisted Review

A last minute addition to the proposed Committee Note to Rule 26 endorses use of “computer-based methods of searching” information to address proportionality concerns in cases involving large volumes of ESI.

The addition “encourage[s] courts and parties to consider computer-assisted searches” as means of reducing the cost of producing ESI thereby addressing “possible proportionality concerns that might arise in ESI-intensive cases.”⁶⁴

(4) *Presumptive Limits (Rules 30, 31, 33, and 36)*

The initial package of proposed amendments included recommendations to lower the presumptive limits on the use of

63. Patricia Moore, *FRCP Amendments Will Narrow (Once Again) the Scope of Discovery*, CIVIL PROCEDURE & FEDERAL COURTS BLOG (Sep. 5, 2014), <http://lawprofessors.typepad.com/civpro/2014/09/frcp-amendments-will-narrow-once-again-the-scope-of-discovery.html> (questioning efficacy of explanation in the Advisory Committee Note in dealing with burden of proof issue).

64. Committee Note, *supra* note 1, at 22; *see* Minutes, Standing Committee Meeting, 4 (May 29-30, 2014), <http://www.uscourts.gov/rules-policies/archives/meeting-minutes/committee-rules-practice-and-procedure-may-2014> [hereinafter Minutes, May 2014 Standing Committee].

discovery devices in Rules 30, 31, 33, and 36⁶⁵ in order to “decrease the cost of civil litigation, making it more accessible for average citizens.”⁶⁶

An earlier proposal to presumptively limit the number of requests for production in Rule 34 was dropped during the drafting process.⁶⁷

The proposed changes would have included the following:

- Rule 30: From 10 oral depositions to 5, with a deposition limited to one day of 6 hours, down from 7 hours
- Rule 31: From 10 written depositions to 5
- Rule 33: From 25 interrogatories to 15
- Rule 36 (new): No more than 25 requests to admit

However, the proposals encountered “fierce resistance”⁶⁸ on grounds that the present limits worked well and that new ones might have the effect of limiting discovery unnecessarily.⁶⁹ As a result, the Duke Subcommittee recommended⁷⁰ and the

65. 2013 PROPOSAL, *supra* note 7, at 300-04, 305, 310-11 [of 354].

66. *Id.* at 268 of 354.

67. *Id.* at 267 of 354.

68. June 2014 RULES REPORT, *supra* note 10, at B-4 (“[t]he intent of the proposals was never to limit discovery unnecessarily, but many worried that the changes would have that effect”).

69. A detailed Center for Constitutional Litigation (CCL) Report of May 2014 summarizes the objections. See CCL, *Preliminary Report on Comments on Proposed Changes to Federal Rules of Civil Procedure*, 5 (May 12, 2014), available at http://www.cclfirm.com/files/Report_050914.pdf.

70. The Duke Subcommittee Report is in the Advisory Committee on Civil Rules Agenda Book at 79 of 580 (April 10-11, 2014), <http://www.uscourts.gov/uscourts/RulesAndPolicies/rules/Agenda%20Books/Civil/CV2014-04.pdf> [hereinafter April 2014 RULES REPORT].

Rules Committee agreed to withdraw the proposed changes, including the addition of Rule 36 to the list of presumptively limited discovery tools.

Accordingly, the only proposed changes to Rules 30, 31, and 33 are cross-references to the addition of “proportionality” factors to Rule 26(b)(1).⁷¹

At the Rules Committee meeting where the withdrawal of the proposal was announced, the hope was expressed that most parties “will continue to discuss reasonable discovery plans at the Rule 26(f) conference and with the court initially, and if need be, as the case unfolds.”⁷² The Committee expects that it will be possible to “promote the goals of proportionality and effective case management through other proposed rule changes” without raising the concerns spawned by the new presumptive limits.⁷³

(5) *Cost Allocation (Rule 26(c))*

At the Duke Conference, it was suggested by some that Rules 26 and 45 should be amended to make reasonable costs of preserving, collecting, reviewing, and producing electronic and paper documents the responsibility of requesting parties—and that Rule 54(d) should be revised to make them taxable costs as well.⁷⁴

71. See, e.g., Proposed Rule 30(a)(2) (“the court must grant leave [for additional depositions] to the extent consistent with Rule 26(b)(1) and (2)”).

72. Minutes, Rules Committee Meeting, at lines 308-14 (April 10-11, 2014), <http://www.uscourts.gov/rules-policies/archives/meeting-minutes/advisory-committee-rules-civil-procedure-april-2014>.

73. June 2014 RULES REPORT, *supra* note 10, at B-4.

74. LCJ Comment submitted to the 2010 Duke Conference, *Reshaping the Rules of Civil Procedure for the 21st Century*, 55-60 (May 2, 2010).

While a partial draft along those lines⁷⁵ was circulated for discussion, “[t]he subcommittee [was] not enthusiastic about cost-shifting, and [did] not propose adoption of new rules.” It was agreed that a proposal making cost-shifting a more “prominent feature of Rule 26(c) should go forward.”⁷⁶ Accordingly, Rule 26(c)(1)(B) will be amended so that a protective order issued for good cause may specify terms, “including time and place or the allocation of expenses, for the disclosure or discovery.”

The Committee Note explains that the “[a]uthority to enter such orders [shifting costs] is included in the present rule, and courts are coming to exercise this authority. Explicit recognition will forestall the temptation some parties may feel to contest this authority.”⁷⁷ There is well-established Supreme Court support for the statement.⁷⁸

75. Initial Rules Sketches, Addendum to Agenda Materials for Rules Committee Meeting, 392-694 (March 22-23, 2012), <http://www.uscourts.gov/rules-policies/archives/agenda-books/advisory-committee-rules-civil-procedure-march-2012> (requiring a requesting party to “bear part or all of the expenses reasonably incurred in responding [to a discovery request]”).

76. Amended Initial Sketch, *supra* note 42.

77. Committee Note, *supra* note 1, at 25.

78. June 2014 RULES REPORT, *supra* note 10, at B-10 (citing *Oppenheimer Fund v. Sanders*, 437 U.S. 340, 358 (1978) and explaining that a court has authority to “allow discovery only on condition that the requesting party bear part or all of the costs of responding”).

Revised Committee Note

After criticism that the addition to Rule 26(c) should “not be given any undue weight,”⁷⁹ language was added stating that “[r]ecognizing the authority to shift the costs of discovery does not mean that cost-shifting should become a common practice” and that “[c]ourts and parties should continue to assume that a responding party ordinarily bears the costs of responding.”⁸⁰ The Committee has recently stated that it “continues to have the ‘requester pays’ topic on its agenda.”⁸¹

(6) *Production Requests/Objections (Rules 34, 37)*

It is proposed to amend Rules 34 and 37 to facilitate requests for and production of discoverable information and to clarify some aspects of current discovery practices.

The changes include:

First, Rule 34(b)(2)(B) will be modified to confirm that a “responding party may state that it will produce copies of documents or of [ESI] instead of permitting inspection.” Rule 37(a)(3)(B)(iv) will also be changed to authorize motions to com-

79. See AAJ Comments, *supra* note 15, at 17-18 (noting that “AAJ does not object to the Committee’s proposed change to Rule 26(c)(1)(B) per se” but suggesting amended Committee Note); cf. LCJ Comment, *supra* note 14, at 19-20 (endorsing proposal as “a small step towards our larger vision of reform”).

80. Committee Note, *supra* note 1, at 25.

81. Standing Committee on Civil Rules Agenda Book, Report of the Rules Committee, 27 (May 2, 2015), <http://www.uscourts.gov/rules-policies/archives/agenda-books/committee-rules-practice-and-procedure-may-2015> (at 171 of 504) (noting that “[t]he Discovery Subcommittee continues to have the ‘requester pays’ topic on its agenda” and outlining questions which involved further information gathering efforts).

pel for *both* failures to permitting inspection and failures to produce.⁸² As the Committee Note observes, it is a “common practice” to produce copies of documents or ESI “rather than simply permitting inspection.”⁸³

Rule 34(b)(2)(B) will also be amended to require that if production is elected, it must be completed no later than the time specified “in the request or another reasonable time specified in the response.”

Second, Rule 34(b)(2)(B) will require that an objection to a discovery request must state “an objection with specificity the grounds for objecting to the request, including the reasons.” The Committee Note explains that “if the objection [such as overbreadth] recognizes that some part of the request is appropriate, the objection should state the scope that is not [objectionable].”⁸⁴

Third, Rule 34(b)(2)(C) will require that any objection must state “whether any responsive materials are being withheld on the basis of [an] objection.”⁸⁵ This is intended to “end the confusion” when a producing party states several objections and still produces information.⁸⁶ A producing party need not

82. Committee Note, *supra* note 1, at 38 (“[t]his change brings item (iv) into line with paragraph (B), which provides a motion for an order compelling ‘production, or inspection’”).

83. *Id.* at 34 (“the response to the request must state that copies will be produced”). For a useful summary of the evolution of the process, see *Anderson Living Trust v. WPX Energy Production*, 298 F.R.D. 514, 521-27 (D. Mass. Sept. 17, 2014).

84. Committee Note, *supra* note 1, at 33.

85. The new language continues to be followed by the current requirement that “[a]n objection to part of a request must specify the part and permit inspection of the rest.”

86. Committee Note, *supra* note 1, at 34.

provide a detailed description or log but must “alert other parties to the fact that documents have been withheld and thereby facilitate an informed discussion.”⁸⁷

An objection that states the limits that have controlled the search for responsive and relevant materials qualifies as a statement that the materials have been “withheld” on the basis of the objection.⁸⁸

(7) *Forms (Rules 4(d), 84, Appendix of Forms)*

The Rules Committee has recommended and the Supreme Court has agreed to abrogate Rule 84 and the Appendix of Forms appended to the Civil Rules and to integrate certain of the abrogated forms into Rule 4(d) (Waiving Service).

Thus, Rule 4(d) (Waiving Service) will be amended to incorporate former Forms 5 and 6 (as “appended to this Rule 4”). The Committee Note states that “[a]brogation of Rule 84 and the other official forms requires that former Forms 5 and 6 be directly incorporated into Rule 4.”

In addition, the text of Rule 84 will be stricken; i.e., the rule will no longer provide that “[t]he forms in the Appendix suffice under these rules and illustrate the simplicity and brevity that these rules contemplate,” and in its place will appear the phrase “[Abrogated (Apr. __, 2015, eff. Dec. 1, 2015).]” As the Committee Report put it, it is time “to get out of the forms business.”⁸⁹

In addition, the separate page reference to Appendix of Forms in the Civil Rules will be followed by the provision “[Abrogated (Apr. __, 2015, eff. Dec. 1, 2015).]”

87. *Id.*

88. *Id.*

89. June 2014 RULES REPORT, *supra* note 10, at B-19.

Committee Note

The Committee Note to Rule 84 explains that “[t]he purpose of providing illustrations for the rules, although useful when the rules were adopted, has been fulfilled.” Thus, alternative sources of civil procedure forms will be available from a number of sources.⁹⁰ At the Supreme Courts’ suggestion, the reference to the Administrative Office was expanded in the Note to include reference to websites of district courts and local law libraries.⁹¹

Also at the Courts’ suggestion, the expanded Note now states that the “abrogation of Rule 84 does not alter existing pleading standards or otherwise change the requirements of Civil Rule 8.”⁹²

The Rules Committee had rejected concerns that the abrogation of Rule 84 and the forms was inappropriate under the Rules Enabling Act. According to an excerpt in the Rules Transmittal, “[m]embers of the academic community” had reasoned that since the forms became an “integral” part of the rules illustrated, abrogating the form also abrogated the rule. However, the Rules Committee determined that “the publication process and the opportunity to comment” fully satisfied the Rules Enabling Act.⁹³

90. Committee Note, *supra* note 1, at 49.

91. Memorandum, Judicial Conference to Supreme Court, Rules Transmittal, *supra* note 1, at (unnumbered) page 129 of 144 (April 2, 2015).

92. *Id.*

93. Excerpt, Report of the Judicial Conference to the Chief Justice, Rules Transmittal, *supra* note 1, at (unnumbered) page 107 of 144 (Sept. 2014).

III. RULE 37(E)

(8) *Failure to Preserve/Spoliation (Rule 37(e))*

The duty to preserve potential evidence in light of pending or reasonably foreseeable litigation is well established in the common law. A pre-litigation breach—by far the most frequent basis for allegations of “spoliation”—is typically remedied by courts exercising their inherent authority to avoid litigation abuse.⁹⁴

By the time of the 2010 Duke Conference, “significantly different [Federal Circuit] standards for imposing sanctions or curative measures” had caused litigants to expend excessive efforts on preservation to avoid the risk of severe sanctions “if a court finds they did not do enough.”⁹⁵ Accordingly, the E-Discovery Panel at the Duke Litigation Conference recommended adoption of a new rule addressing preservation.⁹⁶ Implicit in that recommendation was an acknowledgment that existing

94. Relief under Rule 37(b) and (d), the most likely applicable rules for spoliation sanctions, is unavailable unless a prior order has been violated. *Cf. Turner v. Hudson Transit Lines*, 142 F.R.D. 68, 72 (S.D.N.Y. 1991) (acts of spoliation prior to issuance of discovery orders violate Rule 37(b) because the inability to comply “was self-inflicted”).

95. Committee Note, *supra* note 1, at 38.

96. See E-Discovery Panel, *Elements of a Preservation Rule*, Duke Conference (May 10-11, 2010), available at <http://www.uscourts.gov/rules-policies/records-and-archives-rules-committees/special-projects-rules-committees/2010-civil>.

Rule 37(e), adopted in 2006,⁹⁷ would have to be supplemented, expanded or replaced.⁹⁸

The Discovery Subcommittee considered alternative proposals, including a proposal which would have explicitly governed preservation obligations.⁹⁹ The primary alternative was a “sanctions-only” approach which evolved from a draft first presented at a February 2011 subcommittee meeting.¹⁰⁰

The Initial Proposal

After vetting the alternatives at a mini-conference on the topic, the Committee decided to adopt the “sanctions-only” approach, which was released for public comment in August 2013. It applied to all forms of discoverable information which “should have been” preserved, invoking the common law standard for breach of duty.

The proposal required that a court not impose any “sanction” listed in rule 37(b)(2)(A) or “give an adverse-inference jury

97. Rule 37(e) (“[a]bsent exceptional circumstances, a court may not impose sanctions under these rules 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”).

98. A pithy summary of the perceived limitations is found in Phillip Favro, *The New ESI Sanctions Framework under the Proposed Rule 37(e) Amendments*, 21 RICH. J. L. & TECH. 8, ¶¶ 4-9 (2015).

99. Proposed Rule 26.1 provided that parties should take “actions that are reasonable” considering proportionality, but “presumptively” excluding certain forms of information [ESI] and limited to a reasonable number of key custodians. Compliance with the requirements would have barred sanctions even if discoverable information was lost.

100. Discovery Subcommittee, February 20, 2011, Meeting Notes & Appendix (Possible Rule 37(g)), April Rules Meeting, at 229 (April 4-5, 2011), available at <http://www.uscourts.gov/rules-policies/archives/agenda-books/advisory-committee-rules-civil-procedure-april-2011> (requiring that sanctions issue only if the failure to preserve was “willful, in bad faith, or caused irreparable prejudice in the litigation”).

instruction” unless it found that a party’s actions caused “substantial prejudice” in the litigation *and* was the result of “willful or bad faith” conduct *or* “irreparably deprived” a party of a “meaningful” ability to present or defend against claims in the litigation.

The proposal also authorized courts to require a party to undertake additional discovery, “curative measures,” or pay attorney fees caused by the failure to preserve. No showing of prejudice or culpability was required.¹⁰¹ The proposal also listed five “factors” for use in assessing conduct.

Public Comments

The need for a uniform national rule on culpability was widely accepted, but opinions differed sharply about the details. Many questioned the broad restrictions on court discretion¹⁰² and urged an alternative focus on “curative measures” in the absence of bad faith.¹⁰³ The use of “willfulness” as a test for heightened culpability came under particularly severe criticism.

Concerns were also expressed about the “murky” distinction between “curative measures” and “sanctions” and the lack of a predicate requirement of prejudice. Some argued that

101. The draft Committee Note described these as “measures that are not sanctions.”

102. A District Judge opined that enactment of the proposal would “encourage[s] sloppy behavior.” *Sekisui American v. Hart*, 945 F.Supp.2d 494, 504 n.51 (S.D.N.Y. Aug. 15, 2013) (the proposed rule “creates perverse incentives”) (Scheidlin, J).

103. Hon. James C. Francis IV, letter to Rules Committee commenting on proposed amendments, 5-6 (January 10, 2014), *available at* http://www.lfcj.com/uploads/3/8/0/5/38050985/frcp_usdc_southern_district_of_new_york_james_francis_1_10_14.pdf (proposing that Rule 37(e) authorize remedies “no more severe than that necessary to cure any prejudice to the innocent party unless the court finds that the party that failed to preserve acted in bad faith”).

the proposal was, in effect, “a strict liability standard [which was not] explicitly required to be proportional to the harm caused.”¹⁰⁴

The exception from the culpability requirements for “irreparable” deprivation¹⁰⁵ also drew criticism, including suggestions that given its limited focus, it should be dropped and the rule limited to ESI.¹⁰⁶

Questions were also raised about the fairness of imposing sanctions without any showing of fault given the potential for exaggeration to fit that criteria.¹⁰⁷

The Revised Proposal

After the public comment period, the proposal was unceremoniously scrapped in favor of a revised version developed by the Discovery Subcommittee. As later explained by the Subcommittee Chair, the initial proposal was “not the best that we can do.”¹⁰⁸ As revised, Rule 37(e) provides:

104. Gibson Dunn, *2014 Mid-Year Electronic Discovery Update* (July 16, 2014), <http://www.gibsondunn.com/publications/pages/2014-Mid-Year-Electronic-Discovery-Update.aspx>.

105. The exception typically applies where the alleged injury-causing instrumentality (tangible property) has been lost. *See, e.g.,* *Silvestri v. General Motors Corp.*, 271 F.3d 583 (4th Cir. 2001) (automobile).

106. 2013 PROPOSAL, *supra* note 7, at 275 of 354 (“Q. 2 Should [the exception] be retained in the rule?”).

107. The Committee considered (but eventually dropped) a required minimal showing of “negligent or grossly negligent” conduct for the exception to apply. Thomas Y. Allman, *Rules Committee Adopts ‘Package’ of Discovery Amendments*, *Digital Discovery & e-Evidence*, 13 DDEE 9 (April 25, 2013), available at <http://www.theeddiscoveryblog.com/wp-content/uploads/2013/06/2013RulePackageBLOOMBERGBAsPublished1.pdf>.

108. Minutes, Rules Committee Meeting, at 507-08 (April 10-11, 2014), available at <http://www.uscourts.gov/> (quoting Grimm, J.).

[Rule 37](e) Failure to ~~Produce~~ Preserve Electronically Stored Information. If electronically stored information that should have been preserved in the anticipation or conduct of litigation is lost because a party failed to take reasonable steps to preserve it, and it cannot be restored or replaced through additional discovery, the court: (1) upon finding prejudice to another party from loss of the information, may order measures no greater than necessary to cure the prejudice; or (2) only upon finding that the party acted with the intent to deprive another party of the information's use in the litigation may: (A) presume that the lost information was unfavorable to the party; (B) instruct the jury that it may or must presume the information was unfavorable to the party; or (C) dismiss the action or enter a default judgment.

The Proposed Rule “forecloses reliance on inherent authority or state law to determine when certain measures should be used.”¹⁰⁹ It applies only to the loss of ESI, not all forms of discoverable information.

Breach of Duty to Preserve

The Proposed Rule applies only when ESI is lost which “should have been preserved.” That determination relies upon existing common law precedent, although aspects of duty are alluded to in the Committee Note, both as to the trigger and the scope of the duty involved.

109. Committee Note, *supra* note 1, at 38. See *Chambers v. NASCO*, 501 U.S. 32, 50-51 (1991) (where the rules are “up to the task” courts should rely on them to the exclusion of inherent authority).

The Committee Note also alludes to the possibility of increased use of preservation orders due to the proposed amendments to Rules 16(b)(3)(B)(iii) and 26(f)(3)(C).¹¹⁰ However, the impact of the amended scope of discovery Rule 26(b)(1) is ignored. This contrasts with the approach taken in the analogous Committee Note prepared for the (then) proposed Rule 37(f) in 2004.¹¹¹

The Note acknowledges that proportionality plays an important role in assessing the reasonableness of a “preservation regime.”¹¹²

Safe Harbor

In a last minute change before adoption,¹¹³ the revised proposal was amended to provide that if a party can show that it took “reasonable steps” to preserve, no sanctions or other remedies are available under the Proposed Rule, even if some ESI has been lost.¹¹⁴ This reflects the fact that it “should not be a

110. *Id.* at 40.

111. Committee Note, Civil Rules Advisory Committee Report, May 17, 2004, Revised, August 3, 2004, at 34, available at <https://www.krollontrack.com/publications/PublicCommentAug04.pdf> (“[t]he outer limit [of the duty to preserve] is set by the Rule 26(b)(1) scope of discovery”).

112. Committee Note, *supra* note 1, at 42 (“[a] party urging that preservation requests are disproportionate may need to provide specifics about these matters in order to enable meaningful discussion of the appropriate preservation regime”).

113. See Tera E. Brostoff, *Advisory Committee Makes Unexpected Changes to 37(e), Approves Duke Package*, BNA eDiscovery Resource Center (April 14, 2014), available at <http://www.bna.com/advisory-committee-makes-n17179889550/>. The revised draft of Proposed Rule 37(e) was distributed to the Committee and attendees immediately prior to the discussion and vote on April 11, 2014 (copy on file with Author).

114. Committee Note, *supra* note 1, at 41 (“[b]ecause the rule calls only for reasonable steps to preserve, it is inapplicable when the loss of information occurs despite the party’s reasonable steps to preserve”).

strict liability rule” that would automatically apply if information is lost.¹¹⁵

This *de facto* safe harbor seeks to incentivize reasonable preservation behavior by providing assurance that a party that acts in accordance with such practices will escape measures under Subdivision (1) or (2). Whether the party acted in “good faith”—determined by the absence of bad faith—is relevant, as is the proportionality of the preservation efforts undertaken.¹¹⁶

The revised proposal does not necessarily require adherence to the “best” or most burdensome practices.¹¹⁷ A “party may act reasonably by choosing a less costly form of information preservation.”¹¹⁸

The proposal was also revised to make it clear that courts should first use their case management authority under Rules 16 and 26 to secure any missing information through “additional discovery,” before imposing the measures available in Subdivisions (1) or (2), or both.¹¹⁹ However, “substantial

115. Minutes, May 2014 Standing Committee, *supra* note 64, at 6 (Campbell, J.).

116. *Rimkus v. Cammarata*, 699 F. Supp.2d 508, 613 (S.D. Tex. Feb. 19, 2010) (“[w]hether preservation or discovery conduct is acceptable in a case depends on what is reasonable, and that in turn depends on whether what was done—or not done—was proportional to that case and consistent with clearly established applicable standards”).

117. Marc Resnick, *What is “Reasonable” Conduct?*, IIE BLOGS (July 11, 2011), <http://iieblogs.org/2011/07/22/what-is-reasonable-conduct/> (reasonable practices are not “best practices,” but ones that are considered to be common, acceptable, decent practices).

118. Committee Note, *supra* note 1, at 42.

119. *Id.* (“Rule 37(e) directs that the initial focus should be on whether the lost information can be restored or replaced through additional discovery”).

measures should not be employed to restore or replace information that is marginally relevant or duplicative.”¹²⁰

Assessment

The “reasonable steps” modification to the revised proposal will achieve its intended effect only if Courts are prepared to accept that the loss of ESI does not, *per se*, signal a breach of the duty to preserve. Relevant analogies based on undertaking “reasonable steps” exist in other compliance contexts.¹²¹ The Sedona Conference *Commentary on Legal Holds: The Trigger and the Process* may provide useful procedural guidance to “navigate to the safe harbor described in the rule.”¹²²

In *Pension Committee*,¹²³ in contrast, the court famously held that anything less than perfection is “likely to result in the destruction of relevant information.”¹²⁴ However, that logic has been rejected not only by the terms of the proposed Rule (as well

120. *Id.*

121. Thomas Y. Allman, ‘Reasonable Steps’: A New Role for a Familiar Concept, Digital Discovery & e-Evidence, 14 DDEE 591 (December 18, 2014) (parties that take “reasonable steps” to make compliance programs effective are entitled to benefits under the U.S. Sentencing Guidelines even when efforts fail to prevent breaches).

122. James S. Kurz et al, *The Long-Awaited Proposed FRCP Rule 37(e), Its Workings and Its Guidance for ESI Preservation*, White Paper Series 2014, 6 (Sedona “distills the requirements to ‘reasonable and good faith’ with recognition of proportionality” to “navigate to the safe harbor described in the rule”), available at http://www.rpb-law.com/images/pdf%20folder/RPB_Rule37%28e%29_WhitePaper.pdf.

123. *Pension Comm. v. Banc. of America Sec.*, 685 F. Supp.2d 456, 478 (S.D.N.Y. May 28, 2010).

124. *Id.* at 465, 480 (“it is fair to presume [that] responsive documents were lost or destroyed”).

as the Second Circuit),¹²⁵ but also by emerging case law. In *Automated Solutions v. Paragon Data Systems*, the Sixth Circuit also noted that “[t]here is reason to doubt *Pension Committee’s* persuasive effect.”¹²⁶

Subdivision (e)(1): Addressing Prejudice

When a breach of the duty to preserve which cannot be addressed by additional discovery causes prejudice in the litigation, Subdivision (e)(1) authorizes courts to “order measures no greater than necessary to cure the prejudice.” No additional showing of culpability is required beyond that implicit in finding that the ESI “should have been preserved.”¹²⁷

However, if prejudice is lacking, the court may not act. In *Vincente v. Prescott*, the court held that the mere “possibility” that relevant email was lost did not constitute sufficient prejudice to justify relief.¹²⁸ When information is available from other sources, no measures may be required.

The Committee Note leaves the issue to court discretion. It cautions that while it may sometimes be “unfair” to put the

125. *Chin v. Port Authority*, 685 F.3d 135, 162 (2nd Cir. July 12, 2012) (“[we] reject the notion that a failure to institute a ‘litigation hold’ constitutes gross negligence *per se*. *Contra Pension Comm. of Univ. of Montreal Pension Plan*”).

126. *Automated Solutions v. Paragon Data*, 756 F.3d 504, 516 (6th Cir. June 25, 2014). In parallel with the treatment of “prejudice” under Subdivision (e)(2), *infra*, a finding of an “intent to deprive” may justify inferring that the missing ESI lost by the party is relevant. *See Committee Note, supra* note 1, at 47.

127. Minutes, Rules Committee Meeting, April 10-11, 2014, at lines 631-33, May 2014 RULES REPORT, *supra* note 9, at 455 of 1132 (the rule “is limited to circumstances in which a party failed to take reasonable steps to preserve, thus embracing a form of ‘culpability’”).

128. *Vicente v. Prescott*, 2014 WL 3939277, at *12 (D. Ariz. Aug. 13, 2014) (Campbell, J).

burden of demonstrating prejudice on the party that did not lose it, “[r]equiring the party seeking curative measures to prove prejudice may be reasonable” on other occasions.¹²⁹

Measures Available

The range of possible measures available to address prejudice is quite broad. Courts may select from the options listed in 37(b)(2)(A),¹³⁰ deploy one of the traditional “evidentiary” remedies or craft a case-specific remedy. However, because of Subdivision (e)(2), some measures are unavailable unless the court *also* makes a finding that the party acted with the requisite intent, including those remedies which may have “the effect” of listed measures.

Thus, courts will be precluded from use of jury instructions such as those used in *Zubulake V*,¹³¹ *Pension Committee*,¹³² and *Sekisui v. Hart*.¹³³ The Committee Note also explains that it would be inappropriate to strike pleadings or preclude evidence “in support of the central or only claim or defense in the case” given their case-terminating potential.¹³⁴

129. Committee Note, *supra* note 1, at 43.

130. Rule 37(b)(2)(A) includes (i) directing designated facts as established; (ii) precluding support of claims or defenses or introduction of evidence; (iii) striking pleadings; (iv) staying proceedings; (v) dismissing the action in whole or in part; (vi) rendering default judgment; or (vii) treating failure to obey an order as contempt of court.

131. *Zubulake v. UBS Warburg* (“*Zubulake V*”), 229 F.R.D. 422, 439-40 (S.D.N.Y. July 20, 2004).

132. *Pension Comm. v. Banc of America Sec.*, 685 F. Supp. 2d 456, 496-47 (S.D.N.Y. May 28, 2010).

133. *Sekisui American v. Hart*, 945 F.Supp.2d 494, 509-50 (S.D.N.Y. Aug. 15, 2013).

134. Committee Note, *supra* note 1, at 44.

It is likely that courts will rely on awards of attorney's fees and reasonable expenses where heightened culpability is lacking. Monetary awards or other remedies related to reducing prejudice may also be viable under the rule or in reliance on other provisions of Rule 37.¹³⁵ Ironically, the virtually automatic award of attorney's fees and reimbursement of expenses in such cases may actually *increase* the incentives for filing spoliation motions for strategic purposes.

Exception

The Committee Note suggests that a court may give "instructions to assist a jury in its evaluation of [previously introduced spoliation] evidence or argument, other than instructions to which subdivision (e)(2) applies." (Subdivision (e)(2) requires that a court not instruct a jury that it "may or must" presume that missing ESI was "unfavorable" without a finding that the party acted with "intent to deprive" the other party of the information's use).

According to the Note, such an instruction merely allows a jury to consider such evidence "along with all the other evidence in the case" and does "not involve instructing a jury it may draw an adverse inference from loss of information."¹³⁶ An

135. Use of inherent power to award attorney's fees would be precluded both by the stated preemptive impact of the Rule and by the independent requirements of the American Rule. *See Chambers v. NASCO*, 501 U.S. 32, 45-46 (1991) (attorney fees available under inherent powers only when "a party has acted in bad faith, vexatiously, wantonly, or for oppressive reasons").

136. Committee Note, *supra* note 1, at 46.

early post-public comment draft of the Committee Note explained that such an instruction was acceptable as long as it was “not drawn from the loss of information alone.”¹³⁷

This appears to embrace current practice whereby courts admit evidence of spoliation and allow arguments by counsel when the level of culpability by the spoliator does not justify an adverse inference instruction.¹³⁸ Great care will be required to ensure that this technique does not have the prohibited impact of Subdivision (e)(2). FRE 403 cautions that exclusion of evidence is necessary where there is a danger of undue prejudice, confusing the issues, and misleading the jury.

Subdivision (e)(2): Cabining Severe Measures

Subdivision (e)(2) definitively resolves the inter-Circuit split on the culpability required to permit inferences or presumptions that lost information was unfavorable to the spoliating party. It provides a “rifle shot” aimed at replacing *Residential Funding*¹³⁹ in order to “take some very severe measures of[f] the table” without a showing of intent equivalent to bad faith.¹⁴⁰

137. Discovery Subcommittee Report on Rule 37(e) (undated) at 22, April 2014 Rules Committee Agenda Book, beginning at 369 of 580, <http://www.uscourts.gov/rules-policies/archives/agenda-books/advisory-committee-rules-civil-procedure-april-2014>.

138. See *Russell v. U. of Texas*, 234 F. Appx. 195, 208 (5th Cir. June 28, 2007) (“the jury heard testimony that the documents were important and that they were destroyed. The jury was free to weigh this information as it saw fit”); accord *Wandner v. American Airline*, __ F.Supp.3d __, 2015 WL 145019, at *2,*18 (S.D. Fla. Jan. 12, 2015) (permitting remedies despite an inability to justify an adverse inference).

139. *Residential Funding Corp v. DeGeorge*, 306 F.3d 99, 108 (2nd Cir. Sept. 26, 2002) (an adverse inference may be drawn when a party “knowingly, even if without intent to [breach a duty to preserve it] or negligently”) (emphasis in original).

140. Discovery Subcommittee Notes, March 4, 2014, 1-2, April 2014 Rules Committee Agenda Book, *supra* note 137, at 437-38 of 580.

Accordingly, the rule rejects the view of the Second Circuit (and other Circuits) that adverse inferences can be based on a showing of merely negligent or grossly negligent conduct.¹⁴¹ It does so by requiring a prior showing that “the party acted with the intent to deprive another party of the information’s use in the litigation” before a court may:

- “presume” that lost ESI was unfavorable,
- instruct a jury that it “may or must presume” that lost ESI was unfavorable, or
- dismiss the action or enter a default judgment.

As discussed in the context of Subdivision (e)(1), above, the Committee Note states that (e)(2) “does not apply to jury instructions that do not involve such an inference [that the missing evidence was unfavorable].”¹⁴² Moreover, the so-called “missing evidence” instruction retains viability despite (e)(2).¹⁴³

Be that as it may, the Committee has not endorsed the routine use of permissive adverse jury instructions, contrary to what may currently be the case in the Second Circuit in *Mali v. Federal Insurance*.¹⁴⁴ Subdivision (e)(2) does not differentiate between the culpability required for permissive and mandatory

141. Committee Note, *supra* note 1, at 45.

142. Committee Note, *supra* note 1, at 46.

143. *Id.* See, e.g., Ill. Pattern Jury Instr.—Civ. 5.01 [IL-IPICIV 5.01] (a jury may infer that evidence not offered which could have been produced would be adverse to the party if it was under its control, is not equally available to an adverse party, a reasonable prudent person should have produced it, and no reasonable excuse has been shown for the failure).

144. 720 F.3d 387, 393 (2nd Cir. 2013) (“[s]uch an instruction is not a punishment. It is simply an explanation to the jury of its fact-finding powers”).

adverse inferences. To the extent that *Mali* holds otherwise, it is inconsistent with the Proposed Rule.¹⁴⁵

It would be counterproductive to admit spoliation evidence and issue permissive instructions without a finding of requisite culpability on the theory that there is no intent to punish, but merely to remediate. Instructions permitting or encouraging jury inferences have consequences.¹⁴⁶ It would not be surprising under those circumstances if otherwise compliant parties were loath to reduce over-preservation and accept the risk of sanctions for imperfection.

Intent to Deprive

While some form of intentionality is required to show “intent to deprive,” it is not alone sufficient. Subdivision (e)(2) clearly requires more.¹⁴⁷ The Committee intended to require conduct “akin to bad faith, but [which is] defined even more precisely.”¹⁴⁸

145. Cf. Hon. Shira A. Scheindlin & Natalie M. Orr, *The Adverse Inference Instruction After Revised Rule 37(e): An Evidence-Based Proposal*, 83 FORDHAM L. REV. 1299, 1315 (2014) (“courts may [despite (e)(2)] issue a *Mali*-type permissive instruction that leaves all factual findings, including whether spoliation occurred, to the jury” but also suggesting enactment of an “evidentiary rule” to guide trial courts).

146. GORELICK ET AL., DESTRUCTION OF EVIDENCE § 2.4 (2014) (“DSTEVID s 2.4”) (Once “a jury is informed that evidence has been destroyed, the jury’s perception of the spoliator may be unalterably changed,” regardless of the intent of the Court).

147. *Schmid v. Milwaukee Elec. Tool Corp*, 13 F.3d 76, 79 (3d Cir. 1994).

148. June 2014 RULES REPORT, *supra* note 10, at B-17. The author suggested, in the immediate aftermath of the Duke Conference, that Rule 37(e) should be amended to permit sanctions for covered ESI losses only if there was a “showing of intentional actions designed to avoid known preservation obligations.” Thomas Y. Allman, *Preservation Rulemaking After the 2010 Litigation Conference*, 11 SEDONA CONF. J. 217, 228 (2010).

It may be tempting for some courts to hold the “intent to deprive” requirement to be satisfied by a showing of “reckless” or “willful” conduct. The limitations on the efficacy of “willfulness” are self-evident.¹⁴⁹ In some contexts, “willfulness” has been established by showing that a party merely acted knowingly—quite apart from the intended purpose of the action.¹⁵⁰

If such an interpretation is applied here, it would “gut” the rule and could render Subdivision (e)(2) meaningless. That would be ironic given the criticism that the requirement of a specific intent to deprive “is the toughest standard to prove that the Advisory Committee could have adopted.”¹⁵¹

Prejudice

Subdivision (e)(2) does not explicitly call for a showing of prejudice as a precondition for harsh measures. Some have asked if an incompetent spoliator who possesses the requisite intent but fails to inflict actual prejudice is subject to those remedies.

According to the Committee Note, the finding of intent to deprive can support “not only an inference that the lost information was unfavorable to the party that intentionally destroyed it, but also an inference that the opposing party was prejudiced by the loss of information that would have favored

149. Steven M. Puiszis, Hinshaw & Culbertson LLP, Letter Comment to the Rules Committee concerning Rule 37(e), 1 (February 12, 2014), *available at* <http://www.regulations.gov/#!documentDetail;D=USC-RULES-CV-2013-0002-1139>.

150. *Safeco Ins. Co. of America v. Burr*, 551 U.S. 47, 57 (2007) (“willful” is a “word of many meanings” depending on context, and “reckless” conduct is sometimes treated as an indication of a “willful” violation).

151. Patricia W. Moore, *Proposed Rule 37(e): Failure to Preserve Electronically Stored Information*, CIVIL PROCEDURE & FEDERAL COURTS BLOG (September 12, 2014), <http://lawprofessors.typepad.com/civpro/2014/09/proposed-rule-37e-failure-to-preserve-electronically-stored-information.html>.

its position.”¹⁵² Presumably a spoliator that can rebut the inference of prejudice would be in a position to avoid consideration of a Subdivision (e)(2) remedies.

The Committee Note cautions that “severe measures” should not be used if lesser measures “would be sufficient to redress the loss.”¹⁵³ This observation is consistent with the longstanding principle that “[t]he choice of sanction should be guided by the ‘concept of proportionality’ between offense and sanction.”¹⁵⁴

Assessment

The adoption of a uniform culpability standard in Subdivision (e)(2) should make it possible to convince compliant parties that they will not be harshly sanctioned if they undertake reasonable steps. This should eventually reduce “over-preservation” and help reduce the incentive to assert “gotcha” motions as litigation tactics.

It has been argued, however, that achieving that goal comes at too high a price. Specifically, it is argued that while the rule will “resolve the circuit split” on the required level of culpability for adverse inferences, it will also “deprive a court of an important tool” needed to address spoliation in many cases.¹⁵⁵ It is the contention of those commentators that the rule does not

152. Committee Note, *supra* note 1, at 47. As noted earlier, in discussing the threshold requirement that the missing evidence be shown to be relevant, it would be logical that a court finding that a party had the requisite ‘intent to deprive’ may also support a finding that the missing information was relevant.

153. *Id.*

154. *Bonds v. District of Columbia*, 93 F.3d 801, 808 (D.C. Cir. 1996) (reversing and remanding dismissal as abuse of discretion).

155. Hon. Shira A. Scheindlin & Natalie M. Orr, *supra* note 145, at 1301 (“[A] high standard of mental culpability deprives judges of an important tool for combating unfairness in many cases involving the loss of evidence”).

otherwise “adequately address the evidentiary purpose” of the adverse inference instruction.¹⁵⁶

That concern is misplaced. Jury instructions which permit or mandate inferences about missing evidence do not restore the evidential balance “except by serendipity.”¹⁵⁷ An adverse inference “may do far more than restore the evidentiary balance; it may tip the balance in ways the lost evidence never would have,” which imposes a “heavy penalty for losses” of ESI and, if based on negligence alone, “creates powerful incentives to over-preserve, often at great cost.”¹⁵⁸

156. *Id.* at 1315 (arguing for a new Rule of Evidence mandating availability of permissive adverse inferences which focus on “restoring the evidentiary balance” but requires no predicate showing of culpability).

157. Dale A. Nance, *Adverse Inference About Adverse Inferences: Restructuring Juridical Roles for Responding to Evidence Tampering By Parties to Litigation*, 90 B.U. L. REV. 1089, 1128 (2010) (courts confuse the deterrent and protective functions of sanctions with the almost invariably ephemeral goal of eliminating the unknowable evidential damage from negligent destruction of evidence).

158. June 2014 RULES REPORT, *supra* note 10, at B-18 (“in a world where ESI is more easily lost than tangible evidence, particularly by unsophisticated parties, the sanction of an adverse inference instruction imposes a heavy penalty for losses that likely become increasingly frequent as ESI multiplies”).

APPENDIX

Approved Rules Text (as transmitted to Congress)

Rule 1. Scope and Purpose

* * * [These rules] should be construed, ~~and~~ administered, *and employed by the court and the parties* to secure the just, speedy, and inexpensive determination of every action and proceeding.

Rule 4. Summons

* * * * *

(d) Waiving Service. [NOTE: TEXT OF AMENDED RULE AND THE APPENDED FORMS ARE NOT REPRODUCED HERE]

* * * * *

(m) Time Limit for Service. If a defendant is not served within ~~120~~ **90** days after the complaint is filed, the court * * * must dismiss the action without prejudice against that defendant or order that service be made within a specified time. But if the plaintiff shows good cause * * * This subdivision (m) does not apply to service in a foreign country under Rule 4(f) or 4(j)(1) *or to service of a notice under Rule 71.1(d)(3)(A).*

Rule 16. Pretrial Conferences; Scheduling; Management

* * * * *

(b) Scheduling.

(1) Scheduling Order. Except in categories of actions exempted by local rule, the district judge—or a

magistrate judge when authorized by local rule—must issue a scheduling order:

(A) after receiving the parties' report under Rule 26(f);
or

(B) after consulting with the parties' attorneys and any unrepresented parties at a scheduling conference ~~or by telephone, mail, or other means.~~

(2) Time to Issue. The judge must issue the scheduling order as soon as practicable, but ~~in any event~~ *unless the judge finds good cause for delay the judge must issue it* within the earlier of ~~120~~ 90 days after any defendant has been served with the complaint or ~~90~~ 60 days after any defendant has appeared.

(3) Contents of the Order.

* * * * *

(B) Permitted Contents. The scheduling order may:

* * * * *

(iii) provide for disclosure, ~~or~~ discovery, *or preservation* of electronically stored information;

(iv) include any agreements the parties reach for asserting claims of privilege or of protection as trial-preparation material after information is

produced, *including agreements reached under Federal Rule of Evidence 502;*

(v) direct that before moving for an order relating to discovery the movant must request a conference with the court;

* * * * *

Rule 26. Duty to Disclose; General Provisions; Governing Discovery

* * * * *

(b) Discovery Scope and Limits.

(1) Scope in General. Unless otherwise limited by court order, the scope of discovery is as follows: Parties may obtain discovery regarding any nonprivileged matter that is relevant to any party's claim or defense *and proportional to the needs of the case*, ~~considering the amount in controversy, the importance of the issues at stake in the action,~~ *considering the importance of the issues at stake in the action, the amount in controversy, the parties relative access to relevant information, the parties' resources, the importance of the discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit. Information within this scope of discovery need not be admissible in evidence to be discoverable.* ~~including the existence, description, nature, custody, condition, and location of any documents or other tangible things and the identity and location of persons who know of any discoverable matter. For good cause, the court may order discovery of any matter relevant to the subject matter involved in the action. Relevant information need not be admissible~~

~~at the trial if the discovery appears reasonably calculated to lead to the discovery of admissible evidence. All discovery is subject to the limitations imposed by Rule 26(b)(2)(C).~~

* * * * *

(C) When Required. On motion or on its own, the court must limit the frequency or extent of discovery otherwise allowed by these rules or by local rule if it determines that:

* * * * *

(iii) ~~the burden or expense of the proposed discovery~~ *is outside the scope permitted by Rule 26(b)(1)* ~~outweighs its likely benefit, considering the needs of the case, the amount in controversy, the parties' resources, the importance of the issues at stake in the action, and the importance of the discovery in resolving the issues.~~

* * * * *

(c) Protective Orders.

(1) In General. * * * The court may, for good cause, issue an order to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense, including one or more of the following:

* * * * *

(B) specifying terms, including time and place or the allocation of expenses, for the disclosure or discovery;

* * * * *

(d) Timing and Sequence of Discovery.

* * * * *

(2) *Early Rule 34 Requests.*

(A) Time to Deliver. More than 21 days after the summons and complaint are served on a party, a request under Rule 34 may be delivered:

(i) to that party by any other party, and

(ii) by that party to any plaintiff or to any other party that has been served.

(B) When Considered Served. The request is considered ~~as~~ to have been served at the first Rule 26(f) conference.

(3) Sequence. Unless, ~~on motion,~~ *the parties stipulate or* the court orders otherwise for the parties' and witnesses' convenience and in the interests of justice:

(A) methods of discovery may be used in any sequence;
and

(B) discovery by one party does not require any other party to delay its discovery.

* * * * *

(f) Conference of the Parties; Planning for Discovery.

* * * * *

(3) Discovery Plan. A discovery plan must state the parties' views and proposals on:

* * * * *

- (C) any issues about disclosure, ~~or~~ discovery, or preservation of electronically stored information, including the form or forms in which it should be produced;
- (D) any issues about claims of privilege or of protection as trial-preparation materials, including—if the parties agree on a procedure to assert these claims after production—whether to ask the court to include their agreement in an order under Federal Rule of Evidence 502;

* * * * *

Rule 30. Depositions by Oral Examination

(a) When a Deposition May Be Taken.

* * * * *

- (2) With Leave. A party must obtain leave of court, and the court must grant leave to the extent consistent with Rule 26(b)(1) *and* (2):

* * * * *

(d) Duration; Sanction; Motion to Terminate or Limit.

- (1) Duration. Unless otherwise stipulated or ordered by the court, a deposition is limited to one day of 7 hours. The court must allow additional time consistent with Rule 26(b)(1) *and* (2) if needed to fairly examine the deponent or if the deponent, another person, or any other circumstance impedes or delays the examination.

Rule 31. Depositions by Written Questions

(a) When a Deposition May Be Taken.

* * * * *

- (2) With Leave. A party must obtain leave of court, and the court must grant leave to the extent consistent with Rule 26(b)(1) *and* (2):

* * * * *

Rule 33. Interrogatories to Parties

(a) In General.

- (1) Number. * * * Leave to serve additional interrogatories may be granted to the extent consistent with Rule 26(b)(1) *and* (2).

* * * * *

Rule 34. Producing Documents, Electronically Stored Information, and Tangible Things, or Entering onto Land, for Inspection and Other Purposes

* * * * *

(b) Procedure.

* * * * *

(2) Responses and Objections.

- (A) Time to Respond. The party to whom the request is directed must respond in writing within 30 days after being served or—if the request was delivered under Rule 26(d)(1)(B)—within 30 days after the parties' first Rule 26(f) conference. A shorter or longer time may be stipulated to under Rule 29 or be ordered by the court.
- (B) Responding to Each Item. For each item or category, the response must either state that inspection and related activities will be permitted as requested or state with specificity the grounds for objecting to

the request, including the reasons. The responding party may state that it will produce copies of documents or of electronically stored information instead of permitting inspection. The production must then be completed no later than the time for inspection specified in the request or another reasonable time specified in the response.

- (C) Objections. An objection must state whether any responsive materials are being withheld on the basis of that objection. An objection to part of a request must specify the part and permit inspection of the rest . . .

* * * * *

Rule 37. Failure to Make Disclosures or to Cooperate in Discovery; Sanctions

- (a) Motion for an Order Compelling Disclosure or Discovery.

* * * * *

- (3) Specific Motions.

* * * * *

- (B) To Compel a Discovery Response. A party seeking discovery may move for an order compelling an answer, designation, production, or inspection. This motion may be made if:

* * * * *

- (iv) a party *fails to produce documents or* fails to respond that inspection will be permitted—or fails to permit inspection—as requested under Rule 34.

* * * * *

(e) Failure to Provide *Preserve* Electronically Stored Information. Absent exceptional circumstances, a court may not impose sanctions under these rules on a party for failing to provide electronically stored information lost as a result of the routine, good faith operation of an electronic system. *If electronically stored information that should have been preserved in the anticipation or conduct of litigation is lost because a party failed to take reasonable steps to preserve it, and it cannot be restored or replaced through additional discovery, the court:*

- (1) upon finding prejudice to another party from loss of the information, may order measures no greater than necessary to cure the prejudice; or*
- (2) only upon finding that the party acted with the intent to deprive another party of the information's use in the litigation may:*
 - (A) presume that the lost information was unfavorable to the party;
 - (B) instruct the jury that it may or must presume the information was unfavorable to the party; or
 - (C) dismiss the action or enter a default judgment.

Rule 55. Default; Default Judgment

* * * * *

(c) Setting Aside a Default or a Default Judgment.

The court may set aside an entry of default for good cause, and it may set aside a *final* default judgment under Rule 60(b).

* * * * *

Rule 84. Forms

[Abrogated (Apr. ___, 2015, eff. Dec. 1, 2015.)]

* * * * *

APPENDIX OF FORMS

[Abrogated (Apr. ___, 2015, eff. Dec. 1, 2015.)]

THE “BURDENS” OF APPLYING PROPORTIONALITY

*Hon. Craig B. Shaffer**

*United States Magistrate Judge for the District of Colorado
Denver, CO*

The songwriters said it best: “everything old is now new again.”¹ It would seem axiomatic that the purpose of discovery is to develop the facts underlying the parties’ claims and defenses and thus promote the just, speedy, and inexpensive disposition of the action by motion, settlement, or trial.² There is a sense, however, both among lawyers and judges that the discovery process is rife with abuse. While discovery abuse takes many forms, the motivation is to gain an unfair advantage or place the opposing party in a disadvantageous position, and thereby achieve an outcome divorced from the ultimate merits of the

* Hon. Craig B. Shaffer is a United States Magistrate Judge for the District of Colorado and a Member of the Advisory Committee on Civil Rules. The opinions expressed by the author do not necessarily reflect the view of the Advisory Committee, the United States District Court for the District of Colorado, or any other judicial officer.

1. Peter W. Allen & Carole Bayer Sager, *Everything Old Is New Again* (A&M Records 1974).

2. *Haeger v. Goodyear Tire and Rubber Co.*, 906 F. Supp. 2d 938, 941 (D. Ariz. 2012) (“Litigation is not a game. It is the time-honored method of seeking the truth, finding the truth, and doing justice.”).

case.³ Not surprisingly, civil discovery is a recurring topic of discussion and, occasionally, vociferous debate, among judges, lawyers, and litigants.⁴ That discussion is shaped by competing perspectives that are remarkably resistant to change. The defense bar paints a dire picture of unrestrained “fishing expeditions” and broad discovery requests that have only a passing connection to the actual claims and defenses of the parties. Plaintiffs’ attorneys are equally strident in accusing their opposite numbers of “hiding the ball” with undifferentiated data dumps and delay caused by boilerplate objections and obfuscation.

Critics decry the gamesmanship that typifies modern civil discovery, but rarely single-out their particular side for

3. Edward D. Cavanagh, *Federal Civil Litigation at the Crossroads: Reshaping the Role of the Federal Courts in Twenty-First Century Dispute Resolution*, 93 OR. L. REV. 631, 641 (2015) (“Discovery abuse takes many forms—overdiscovery, failure to comply with legitimate discovery requests, redundant requests, inundating the discovering party with reams of papers, and frivolous objections, for example—and it inevitably creates costly and unproductive satellite litigation.”).

4. See, e.g., Michael W. Wolfson, *Addressing the Adversarial Dilemma of Civil Discovery*, 36 CLEV. ST. L. REV. 17, 19 (1988) (“In comparing theory and practice, one comes to the inescapable conclusion that discovery has simply become an extended field of play in an on-going game of blind man’s bluff. Far from offering the salutary benefits of allowing the parties to obtain the fullest possible knowledge of the facts and issues before trial, it more often than not gives impetus and opportunity to the baser litigational instincts of delay, deception and unbridled confrontational advocacy.”).

blame.⁵ As one observer has noted, "we seem to have reached an impasse" that both sides of the litigation divide bear responsibility for creating.⁶

While these dueling perspectives have long been a part of the civil discovery landscape, empirical studies conducted over the last several decades present a decidedly different picture. Those studies suggest that in the vast majority of civil cases, the discovery process is working well and achieving its intended goals. For all the dire portrayals of a failed civil litigation process, participants at the 2010 Conference on Civil Litigation at the Duke University School of Law coalesced around the view that while "there is need for improvement, the time has not come to abandon [the existing rules] and start over."⁷ Conference participants advocated for a civil litigation system char-

5. As one court cynically noted, "a recipe for a massive and contentious adventure in [electronically stored information] discovery would read: 'Select a large and complex institution which generates vast amounts of documents; blend as many custodians as come to mind with a full page of search terms; flavor with animosity, resentment, suspicion and ill will; add a sauce of skillful advocacy; stir, cover, set over high heat, and bring to boil. Serves a district court 2-6 motions to compel discovery or for protection from it.'" *Bagley v. Yale University*, 307 F.R.D. 59, 61 (D. Conn. 2015).

6. Richard Marcus, "Looking Backward" to 1938, 162 U. PA. L. REV. 1691, 1713-14 (June 2014). Cf. Elizabeth J. Cabraser & Katherine Lehe, *Uncovering Discovery*, 12 SEDONA CONF. J. 1, 5 (Fall 2011) ("In searching for the culprits behind the failure of our existing discovery procedures to promote informed adjudications and reasonable settlements (in a way that is proportional to the matters at stake, the resources of the parties, and the interest of the public), legal professionals must, with chagrin, accept mutual and reciprocal responsibility. It is not always the 'other guy.'").

7. Judicial Conference Advisory Committee on Civil Rules and the Committee on Rules of Practice and Procedure, Report to the Chief Justice of the United States on the 2010 Conference on Civil Litigation, at 5, available at www.uscourts.gov/file/reporttothechiefjusticepdf [hereinafter Report to the Chief Justice].

acterized by an increased emphasis on cooperation and proportionality, and more “sustained, active, hands-on judicial case management.”⁸ These same objectives are reflected in the proposed amendments to the Federal Rules of Civil Procedure (“Civil Rules” or “Rules”) currently under consideration by the United States Congress.⁹

Proportionality principles have been part of the Civil Rules since 1983. For much of the ensuing 32 years, proportionality did not figure prominently in the reported case law or the public debate. The proposed Rules amendments, and particularly the revisions to Rule 26(b)(1), place increased emphasis on proportionality and active case management, and have reenergized the debate surrounding the civil discovery process. But the tenor of that debate should come as no surprise. In fact, the fight over proportionality may say more about how lawyers and judges currently approach the pretrial process (and their reluctance to critically evaluate current practices), than about the proportionality concept itself.¹⁰

The proportionality factors presently incorporated in Rule 26(b)(2)(C) and Rule 26(g), and proposed for explicit inclusion in an amended Rule 26(b)(1), cannot be applied with absolute certainty or precision. The reported decisions that address proportionality do not establish a bright-line standard or reflect

8. *Id.* at 4.

9. On April 29, 2015, Chief Justice Roberts forwarded to Congress the proposed Amendments and corresponding Committee Notes to the Federal Rules of Civil Procedure (*available at* <http://www.uscourts.gov/file/document/congress-materials>) following their adoption by the United States Supreme Court pursuant to 28 U.S.C. § 2072.

10. *Cf.* Lee H. Rosenthal, *From Rules of Procedure to How Lawyers Litigate: 'Twixt the Cup and the Lip*, 87 DEN. U. L. REV., 227, 228 (2010) (“The adversarial nature of lawyers and litigants and the incentives of the hourly fee are said to combine to encourage attempts to discover ‘any and all’ potential evidence and attempts to resist any discovery.”).

uniformity in the application of proportionality factors. Indeed, proportionality necessarily presumes *ad hoc* analysis by lawyers and judges. Therefore, it should come as no surprise that reaction to the Rule 26(b)(1) amendments devolved into a debate in which the competing camps aligned along a "more for me" or "less for you" fault line.¹¹ Critics of the proposed Rule 26(b)(1) condemn the explicit reference to proportionality as an unwarranted restraint on a requesting party's ability to obtain necessary information, as well as an invitation for continued gamesmanship by responding parties. Other commentators have decried the amendment as subjecting requesting parties to a new and often insurmountable burden of proof.

As long as proportionality is dismissed as simply an abstract concept divorced from case-specific circumstances, or an arbitrary and inflexible limitation on discovery, or a trap for the unwary, or as a proxy for some broader challenge to the current civil litigation process, the debate will continue to no useful end.¹² In truth, proportionality principles impose obligations on

11. Others have suggested that "[d]espite concerns about increasingly burdensome discovery, the proportionality rule has been underused." Milberg LLP & Hausfeld LLP, *E-Discovery Today: The Fault Lies Not in Our Rules*, 4 FED. CTS. L. REV. 131, 135 (2011) (in enumerating "less drastic alternatives to address the purported concerns of those who histrionically claim discovery is going to break the back of our justice system," the authors include "increasing awareness and reliance on the proportionality standard embodied in [Fed. R. Civ. P.] 26(b)(2)(C).").

12. Social science may provide some useful insight into the underpinnings of the "proportionality" debate. "Status quo bias" recognizes that individuals have a strong tendency to hold to the status quo, simply because the disadvantages of change loom larger than the advantages. See Daniel Kahneman, Jack L. Knetsch & Richard H. Thaler, *Anomalies: The Endowment Effect, Loss Aversion and Status Quo Bias*, 5 JOURNAL OF ECONOMIC PERSPECTIVES 193, 197-98 (Winter 1991), available at <http://pubs.aea-web.org/doi/pdfplus/10.1257/jep.5.1.193>.

all parties to the litigation, as well as the court, and neither requesting nor producing parties can divorce their decision-making or actions from the proportionality mandate.

Proportionality is, and will remain after December 1, 2015, a part of the civil discovery landscape. Rather than bemoaning that reality, lawyers and jurists should focus on how proportionality can be applied both strategically and proactively.¹³ Proportionality principles do not automatically preclude discovery; they simply require lawyers and judges to approach the discovery process more thoughtfully.¹⁴ If, as some commentators suggest, “proportionality requires making good judgments about where and how discovery should begin,”¹⁵ the fruits of those “good judgments” will be revealed in subsequent motion practice or, even better, in the absence of those motions. It necessarily follows that the best way to avoid or ultimately defeat a proportionality challenge is to develop a discovery strategy that substantially reduces the potential for successful objections.

Contrary to the arguments advanced by the warring factions, Rule 26(b)(1), both in its current and amended forms, does

13. Participants at the Duke Conference reached a very similar conclusion, noting that many of the perceived problems in the civil litigation process “could be substantially reduced by using the existing rules more often and more effectively.” *Report to the Chief Justice; supra* note 7, at 5.

14. Cf. Craig B. Shaffer & Ryan T. Shaffer, *Looking Past the Debate: Proposed Revisions to the Federal Rules of Civil Procedure*, 7 FED. CTS. L. REV. 178, 195, 209 (2013) (opining that the 2015 Amendments “will not materially change obligations already imposed on litigants, their counsel, and the court” and suggesting that “a lawyer inclined to approach the Federal Rules from a strategic and practical perspective will not find their clients disadvantaged by the Advisory Committee’s proposed revisions”).

15. Steven S. Gensler & Lee H. Rosenthal, *Four Years after Duke: Where Do We Stand On Calibrating The Pretrial Process?*, 18 LEWIS & CLARK L. REV. 643, 662 (2014).

not impose a burden of proof or persuasion on either the requesting or producing party. The Rule merely defines the scope of discovery. Other rules, however, do impose burdens of proof or persuasion that may directly implicate proportionality principles and shape the discovery process. When viewed from the vantage point of burdens of proof and persuasion, proportionality principles become more than "talking points" or meaningless objections, but rather elements of an effective and defensible discovery plan that should advance the goals underlying Rule 1.¹⁶

I. PROPORTIONALITY AND THE 1983 AMENDMENTS

Complaints about the civil discovery process are not new.¹⁷ In response to the dangers of "redundant or disproportionate discovery," the Civil Rules were amended in 1983 to provide trial courts with the "authority to reduce the amount of discovery that may be directed to otherwise proper subjects of

16. FED. R. CIV. P. 1.

17. See, e.g., Edward F. Sherman, *Federal Court Discovery in the 80's—Making the Rules Work*, 95 F.R.D. 245, 246 (1982) (noting that discovery abuse in the federal courts is characterized by "over-discovery" through excessive interrogatories, sweeping demands for document production and overly-lengthy depositions, and "discovery avoidance" in an effort "to elude an opponent's discovery requests"); American College of Trial Lawyers, *Recommendations on Major Issues Affecting Complex Litigation*, 90 F.R.D. 207, 213-15 (1981) (warning that "unchecked discovery" may enable a plaintiff "to force early settlement" but also permits defendants to "'outflank' their often less financially resourceful opponents by overwhelming them with burdensome discovery"); American Bar Association Section on Litigation, *Second Report of the Special Committee for the Study of Discovery Abuse (Preliminary Draft)*, 92 F.R.D. 137, 138 (1980) (suggesting that "new studies confirm our view that there remain serious discovery problems demanding immediate correction," including "unnecessary use of discovery, the improper withholding of discoverable information, and misuse of discovery procedures").

inquiry.”¹⁸ To that end, the Advisory Committee on Civil Rules (the “Advisory Committee”) revised Rule 26(b)(1)¹⁹ to empower the court to limit the frequency or extent of discovery, if it determines that:

(i) the discovery sought is unreasonably cumulative or duplicative, or is obtainable from some other source that is more convenient, less burdensome, or less expensive; (ii) the party seeking discovery has had ample opportunity by discovery in the action to obtain the information sought; or (iii) the discovery is unduly burdensome or expensive, taking into account the needs of the case, the amount in controversy, limitations on the parties’ resources, and the importance of the issues at stake in the litigation. The court may act upon its own initiative after reasonable notice or pursuant to a motion . . .²⁰

In short, the 1983 change to Rule 26(b)(1) sought to instill a more proportionate approach to discovery, while still respecting the parties’ right to “discovery that is reasonably necessary

18. FED. R. CIV. P. 26(b) advisory committee’s note to 1983 amendment. See also A. Miller, *The August 1983 Amendments to the Federal Rules of Civil Procedure: Promoting Effective Case Management and Lawyer Responsibility*, at 30-32 (1984), available at [http://www.fjc.gov/public/pdf.nsf/lookup/1983amnds.pdf/\\$file/1983amnds.pdf](http://www.fjc.gov/public/pdf.nsf/lookup/1983amnds.pdf/$file/1983amnds.pdf). Cf. *Advanced Semiconductor Products, Inc. v. Tau Laboratories, Inc.*, No. 83-20412 RPA, 1986 WL 215149, at *3 (N.D. Cal. Jan. 23, 1986) (observing that drafts of the 1983 amendments to Fed. R. Civ. P. 26 “recognized that significant interests can be damaged by wide open, unrestrained discovery and that it is no longer acceptable to leave notions of common sense out of the calculus about appropriateness of discovery requests”).

19. FED. R. CIV. P. 26(b)(1).

20. Proportionality factors are included in Fed. R. Civ. P. 26(b)(2)(C) which assumed its current form in 2006.

to afford a fair opportunity to develop and prepare the case."²¹ The accompanying Committee Note admonished litigants to be "sensitive to the comparative costs of different methods of securing information" but also signaled that judges should take a more active role in the discovery process, given "the reality that it cannot always operate on a self-regulating basis."²² The Advisory Committee understood that the goal of proportionality could be undermined by a judge "who is not conversant with the case."²³

The 1983 amendments also sought to advance the goal of proportionality with a new Rule 26(g).²⁴ According to the Advisory Committee, this Rule was intended to "curb discovery abuse" by imposing "an affirmative duty to engage in pretrial discovery in a responsible manner consistent with the spirit and purposes of Rules 26 through 37."²⁵ Rule 26(g), then and still today, requires a party or attorney to certify that a discovery request, response, or objection is "not interposed for an improper purpose, such as to harass or to cause unnecessary delay or

21. Cf. *Leksi, Inc. v. Federal Insurance Co.*, 129 F.R.D. 99, 103 (D.N.J. 1989) ("[T]he discovery rules embody competing concerns. An effort to determine a discovery dispute must contain an assessment of the potential for developing relevant evidence in addition to an analysis of the relative burdens the discovery may entail.").

22. See Edward D. Cavanagh, *The August 1, 1983 Amendments to the Federal Rules of Civil Procedure: A Critical Evaluation and a Proposal for More Effective Discovery through Local Rules*, 30 VILL. L. REV. 767, 789 (1985) (suggesting that the proportionality factors added to Rule 26(b)(1) "contemplate[] that the parties will be selective in invoking various discovery devices; parties no longer are free, necessarily, to follow a discovery program that leaves 'no stone unturned'"), available at <http://digitalcommons.law.villanova.edu/vlr/vol30/iss3/3>.

23. See also Miller, *supra* note 18, at 36.

24. FED. R. CIV. P. 26(g).

25. FED. R. CIV. P. 26(g) advisory committee's note to 1983 amendment.

needlessly increase the cost of litigation.” Addressing the need for proportionality, the Rule 26(g) certification requirement mandates discovery requests that are reasonable and not “unduly burdensome or expensive, given the needs of the case, the discovery already had in the case, the amount in controversy, and the importance of the issues at stake in the litigation.”²⁶ Rule 26(g) was not added to the Civil Rules to “discourage legitimate and necessary discovery,” but does obligate counsel to “‘pause and consider’ the reasonableness of a discovery request or response.”²⁷

In combination, the 1983 amendment to Rule 26(b)(1) and the addition of Rule 26(g) sought to improve the self-executing nature of civil discovery. As one magistrate judge explained, after the 1983 amendments, it was no longer sufficient for the requesting party to simply show that the desired materials were relevant.

After satisfying this threshold requirement, counsel *also* must make a common sense determination, taking into account all the circumstances, that the information sought is of sufficient potential significance to justify the burden the discovery probe would impose, that the discovery tool selected is the most efficacious of the means that

26. Professor Miller, who in 1983 was the Reporter to the Advisory Committee on Civil Rules, acknowledged that proportionality could not be reduced to a “pure dollar test” because “[e]verybody understands you can have a case where the values at stake transcend the economics of the case.” See Miller, *supra* note 18, at 33.

27. See Cavanagh, *supra* note 22, at 790. *But see* Hon. Paul W. Grimm & David S. Yellin, *A Pragmatic Approach to Discovery Reform: How Small Changes Can Make a Big Difference in Civil Discovery*, 64 S.C. L. REV. 495, 516 (Spring 2013) (suggesting that “lawyers seem to be comprehensively ignorant of the significant limitations that Rule 26(b)(2)(C) imposes on the scope of discovery”).

might be used to acquire the desired information (taking into account cost effectiveness and the nature of the information being sought), and that the timing of the probe is sensible, i.e., that there is no other juncture in the pretrial period when there would be a clearly happier balance between the benefit derived from and the burdens imposed by the particular discovery effort. . . . What the 1983 amendments require is, at heart, very simple: good faith and common sense. . . .

The problem, one senses, is *not* that the requirements the law imposes are too subtle. Rather, the problem is more likely to be that counsel are less interested in satisfying the law's requirements than in seeking tactical advantages. At least in cases involving big economic stakes, good faith and common sense hardly seem to be the dominant forces. Instead, it appears that the root evil in complex civil litigation continues to be the pervasiveness of gaming.²⁸

For all the concerns expressed by then-Magistrate Judge Wayne Brazil in 1985, the issue of proportionality did not figure prominently in reported decisions in the years immediately after 1983. Between 1983 and 1994, "[t]he [proportionality] amendment itself seems to have created only a ripple in the case law."²⁹ While "proportionality" is now mentioned with greater

28. *In re Convergent Technologies Securities Litigation*, 108 F.R.D. 328, 331-32 (N.D. Cal. 1985) (Brazil, M.J.).

29. Marcus, *supra* note 6, at 1717.

frequency in reported decisions,³⁰ it is this author's experience that the concept is rarely invoked by litigants or their counsel, either at the Rule 16³¹ scheduling conference³² or later in the pre-trial process. Indeed, when this author has invited or encouraged counsel to incorporate proportionality principles in their proposed scheduling order, that suggestion typically has been met with stony silence or intransigence from both sides.

Perhaps that should be expected. The mixed reaction to proportionality, much like the broader debate over the current state of civil litigation, likely reflects anecdotal bias³³ fueled by studies that are praised or condemned depending upon the

30. See Gensler & Rosenthal, *supra* note 15, at 660 (reporting that their Westlaw search for cases mentioning proportionality in the context of discovery revealed at least 148 cases after January 2010 in which judges invoked proportionality).

31. FED. R. CIV. P.16.

32. This omission is particularly striking since one purpose of the scheduling conference is to "discourage wasteful pretrial activities." See FED. R. CIV. P. 16(a)(3).

33. See Traci Freling & Ritesh Saini, *Involved but Inaccurate: When High-Stakes Lead to Anecdotal Bias*, at 1, 3-4, available at <https://cdn1.sph.harvard.edu/wp-content/uploads/sites/1273/2014/02/Risk-Perception-Freling-et-al.1.pdf>. The authors of this paper report that "[i]ndividuals often eschew more accurate statistical information in decision making, relying instead upon anecdotal evidence." The paper suggests that "[o]bjectively, statistical information is more informative in that an isolated anecdote can be used to support any position" and that "[a]necdotal information can—and often does—overwhelm statistical information, leading decision makers to overweight its relevance, even in the presence of more reliable statistical data."

reader's particular point of view.³⁴ The civil discovery process and any consideration of proportionality fall victim to these dueling perspectives.

In one camp, attorneys who have directly experienced excessive or abusive discovery argue that more stringent proportionality measures are needed, and that even a rare occurrence of excess is too much. In the other camp, empiricists maintain that the problem is more or less restricted to a small number of cases and that changes to the Federal Rules are unnecessary. The result has been a stalemate, in which practitioners with a bad discovery experience are told that the problem is not common enough to raise general concerns, and empiricists are told that their aggregate numbers do not adequately reflect the disruptive effect of disproportionate discovery in real cases.³⁵

However, "[e]mpirical research has not provided support for the prevailing view that discovery costs are necessarily the major cost driver in litigation." According to this view, "[t]he [p]ervasive [m]yth of [p]ervasive [d]iscovery [a]buse . . . has

34. See *Report to the Chief Justice*, *supra* note 7, at 2-4 (summarizing the findings of empirical and other studies available to participants to the Duke Conference). This author takes no position on the methodology or statistical validity of any particular study; those studies speak for themselves. *But see* Danya Shocair Reda, *The Cost-and Delay Narrative in Civil Justice Reform: Its Fallacies and Functions*, 90 OR. L. REV. 1085, 1100, 1102 (2012) (observing that "[t]he bulk of what the Duke Conference labeled 'empirical data' consisted of opinion surveys that reflected the concerns and beliefs among legal professionals" and suggesting that the "attorney impressions captured by the opinion surveys are in conflict with the picture that emerges from available empirical data").

35. Jordan M. Singer, *Proportionality's Cultural Foundation*, 52 SANTA CLARA L. REV. 145, 153 (2012).

never been supported by a single empirical study of costs, as opposed to beliefs about costs.”³⁶ This same dichotomy is reflected in the strong reactions to the most recent amendments to the Civil Rules.

II. THE 2015 AMENDMENTS

In August 2013, the Advisory Committee released for public comment proposed amendments to the Civil Rules. Those proposals included changes to Rule 26(b)(1). Although the current version of Rule 26(b)(1) acknowledges that “[a]ll discovery is subject to the limitations imposed by Rule 26(b)(2)(C),”³⁷ the proposed version explicitly states:

[u]nless otherwise limited by court order, the scope of discovery is as follows: Parties may obtain discovery regarding any nonprivileged matter that is *relevant to any party’s claim or defense and proportional to the needs of the case*, considering the importance of the issues at stake in the action, the amount in controversy, the parties’ relative access

36. Emery G. Lee III & Thomas E. Willging, *Defining the Problem of Cost in Federal Civil Litigation*, 60 DUKE L.J. 765, 779, 786-87 (Dec. 2010). See also Stephen N. Subrin & Thomas O. Main, *The Fourth Era of American Civil Discovery*, 172 U. PA. L. REV. 1839, 1850 (June 2014) (“Contrary to the popular narrative, the problem with excessive discovery is—and has always been—more pervasive with respect to a particular slice of ‘mega cases,’ approximately five to fifteen percent of the caseload.”); Hon. John G. Koeltl, *Progress in the Spirit of Rule 1*, 60 DUKE L.J. 537, 540 (Dec. 2010) (“It is plain that, although the cost of discovery in the median case may be reasonable and indeed low, the costs in high-stakes litigation can be enormous.”).

37. FED. R. CIV. P. 26(b)(2)(C) (the court “must limit the frequency or extent of discovery otherwise allowed by these rules” if it determines, *inter alia*, that the “burden or expense of the proposed discovery outweighs its likely benefit, considering the needs of the case, the amount in controversy, the parties’ resources, the importance of the issues at stake in the action, and the importance of the discovery in resolving the issues”).

to relevant information, the parties’ resources, the importance of the discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit.³⁸

As noted, comparable proportionality factors currently are found in Rule 26(g), and Rule 26(b)(2)(C).

The increased prominence accorded the proportionality factors in the 2015 amendments sparked strong reactions during the public comment period, with commentators suggesting that relocation of the proportionality factors was not required or, conversely, that the proportionality standard was not invoked enough.³⁹ Many of the written comments received by the Advisory Committee expressed the view that explicitly incorporating proportionality factors in the standard of “relevance” would adversely affect a plaintiff’s ability to obtain necessary information and simply invite boilerplate objections. For some opponents, “[t]he proportionality standard will enable defendants to hide behind the excuse of burden or cost, particularly in asymmetrical information cases,” encourage defendants to “self-apply the concept of proportionality in responding to discovery requests and . . . monetize the importance of the case,” or serve as a “further invitation for large defendants to continue, or in-

38. See June 2014 Advisory Committee Report, at Appendix B-30 (emphasis added), attached to the September 2014 Standing Committee Report, available at <http://www.uscourts.gov/rules-policies/archives/committee-reports/reports-judicial-conference-september-2014>.

39. See Thomas Y. Allman, *The 2015 Civil Rules Package As Transmitted to Congress*, 16 SEDONA CONF. J. 1 (2015).

crease, their standard objections based on unarticulated burdens.”⁴⁰ Another written submission to the Advisory Committee warned that the “rules changes would prevent discovery that has been available under the present rules, taking procedure back to the days of trial by ambush, and placing plaintiffs at a further disadvantage.”⁴¹ One judge observed that inclusion of the proportionality factors in Rule 26(b)(1) would generate more discovery disputes that “will be less susceptible to principled resolution” because proportionality can only be measured by a subjective standard until discovery is completed or nearly so.⁴²

Other critics expressed concern that measuring relevance based on proportionality factors “will shift the burden to the party seeking information.”⁴³ According to this view:

[t]he proportionality test will shift the burden to the requesting party to show that discovery is justified. Present practice requires the requesting party to show relevance, and then the burden falls

40. See Advisory Committee on Civil Rules Agenda Book, April 10-11, 2014, at 185, 194, 195 of 580, available at <http://www.uscourts.gov/rules-policies/archives/agenda-books/advisory-committee-rules-civil-procedure-april-2014>.

41. *Id.* at 167 of 580. Some representatives of the defense bar were equally quick to express dissatisfaction with the current version of the discovery rules. One writer observed that the current rules of discovery give “the plaintiff a serious advantage, because there is no mechanism in place to ensure the claim has at least some merit, and the plaintiff need only prolong discovery to receive a settlement offer.” *Id.* at 176 of 580. In a similar vein, another letter to the Committee argued that “[t]o further overcome the gross abuse of justice fostered by current discovery standards, proportionality should require that the benefits of the discovery substantially outweighs its burdens or expense.” *Id.* at 217 of 580.

42. *Id.* at 193 of 580.

43. *Id.* at 187 of 580.

on the responding party to show the reasons to deny discovery of relevant information. Changing the definition of what is discoverable will change the analysis from whether discovery should be limited to whether discovery should be permitted.⁴⁴

Another letter asserted that under the current version of the Civil Rules, "[t]he Rule 26(g) certification is made to the best of the party's knowledge, information and belief formed after a reasonable inquiry." For this commentator, the proposed rule "likely will impose" on the party requesting discovery the burden "to prove the requests are not unduly burdensome or expensive."⁴⁵ One letter to the Advisory Committee went so far as to proclaim that "[c]hanging the burden of proof on discovery destroys litigation."⁴⁶

The Advisory Committee responded to these concerns by explaining that the new Rule 26(b)(1) "restores the proportionality factors to their original place in defining the scope of discovery," reinforces the parties' current obligations under Rule 26(g), and "does not change the existing responsibilities of the

44. *Id.* at 204 of 580. Another commentator expressed the same fear that moving the proportionality factors from Rule 26(b)(2)(C) to Rule 26(b)(1) will change "a shield to a sword, 'shifting the burden to the party seeking information, who may be at a considerable disadvantage when it comes to having the information necessary to carry such a burden.'" *Id.* at 200 of 580.

45. *Id.* at 201 of 580.

46. *Id.* at 211 of 580. Of course, that ominous prediction was not universally shared, as evidenced by another commentator who opined that "the burden of proof is a nonissue. Discovery motions do not get decided on a burden of proof." *Id.* at 233 of 580.

court and the parties to consider proportionality.”⁴⁷ Just as importantly, the Committee Note makes clear that the revisions to Rule 26(b)(1) “do[] not place on the party seeking discovery the burden of addressing all proportionality considerations.”

Nor is the change intended to permit the opposing party to refuse discovery simply by making a boilerplate objection that it is not proportional. The parties and the court have a collective responsibility to consider the proportionality of all discovery and consider it in resolving discovery disputes.⁴⁸

The new Rule 26(b)(1), contrary to public perceptions, does not represent a fundamental change in the existing scope of discovery.⁴⁹ The current version of Rule 26(b)(1) limits “lawyer-directed” discovery to the “claims and defenses” actually raised

47. See June 2014 Advisory Committee Report, *supra* note 38, at Appendix B-39. Cf. *Willnerd v. Sybase, Inc.*, No. 1:09-cv-500-BLW, 2010 WL 4736295, at *3 (D. Idaho Nov. 16, 2010) (in employing proportionality factors, “the Court balances [the requesting party’s] interest in the documents requested, against the not-inconsequential burden of searching for and producing documents”).

48. *Id.*

49. The Advisory Committee’s Agenda Book for the meeting in Norman, Oklahoma, on April 11-12, 2013 suggested that “transferring the analysis required by present Rule 26(b)(2)(C)(iii)” to Rule 26(b)(1) would “become a limit on the scope of discovery.” See Advisory Committee on Civil Rules Agenda Book, April 11-12, 2013, at 83 of 322, available at <http://www.uscourts.gov/rules-policies/archives/agenda-books/advisory-committee-rules-civil-procedure-april-2013>. That view is not expressed in the current Committee Note transmitted to Congress.

by the parties and further requires that discovery be proportionate in light of the particular circumstances of the pending case.⁵⁰ A proportional approach to discovery is measured by the information available to counsel “as of the time” requests, responses, or objections are served.⁵¹ That same standard should apply under the proposed amendment to Rule 26(b)(1).

Counsel’s limited access to information, particularly at the outset of the litigation, will inevitably color their approach to discovery. However, claims of ignorance should not absolve an attorney of his or her responsibility to pursue discovery that is proportional to the needs of the case nor excuse discovery requests that bear more resemblance to unguided missiles than thoughtful efforts to obtain truly relevant information. Counsel for the requesting *and* producing parties are subject to the same

50. *Cf.* *High Point Sarl v. Sprint Nextel Corp.*, No. 09-2269-CM-DJW, 2011 WL 4036424, at *19 (D. Kan. Sept. 12 2011) (“Indiscriminate use of blockbuster interrogatories . . . does not comport with the just, speedy, and inexpensive determination of the action.”); *Grynberg v. Total, S.A.*, No. 03-cv-01280-WYD-BNB, 2006 WL 1186836, at *6 (D. Colo. May 3, 2006) (“[W]hatsoever may be said for the virtues of discovery and the liberality of the federal rules, . . . there comes at some point a reasonable limit against indiscriminately hurling interrogatories at every conceivable detail and fact which may relate to a case.”) (quoting *Hilt v. SFC, Inc.*, 170 F.R.D. 182, 186-87 (D. Kan. 1997)).

51. *Heller v. City of Dallas*, 303 F.R.D. 466, 477 (N.D. Tex. 2014) (suggesting that the court “should avoid taking the benefit of hindsight and instead focus on whether, at the time it was signed, the [request, response or objection] was well grounded in fact” and law) (alteration in original).

Rule 26(g) “stop and think” obligation measured by an objective, rather than a subjective, standard.⁵² Both sides risk the imposition of sanctions if their discovery requests, responses, or objections fail to conform to the Civil Rules, run afoul of proportionality principles, or suggest a strategy of gamesmanship.⁵³

The amended Rule 26(b)(1) can have a positive impact on the discovery process, but only if lawyers and judges resist the tendency to employ a “business as usual” mindset. So, for example, an interrogatory that incorporates an expansive definition of “relating to,” or an already broad request for production that becomes unfathomable by inserting the phrase “including but not limited to,” are problematic under existing case law. Those phrases, unless used in very precisely framed requests, will almost certainly invite objections on proportionality

52. See *Mancia v. Mayflower Textile Servs. Co.*, 253 F.R.D. 354, 358 (D. Md. 2008) (Rule 26(g) “aspires to eliminate one of the most prevalent of all discovery abuses: kneejerk discovery requests served without consideration of cost or burden to the responding party” and “the equally abusive practice of objecting to discovery requests reflexively—but not reflectively—and without a factual basis”). Cf. *Little Hocking Water Association, Inc. v. E.I. DuPont de Nemours & Co.*, No. 2:09-cv-1081, 2015 WL 1321870, at *9 (S.D. Ohio Mar. 24, 2015) (“A court applies an objective standard when determining whether or not” a party or attorney has complied with Rule 26(g)).

53. See, e.g., *HM Electronics, Inc. v. R.F. Technologies, Inc.*, No. 12cv2884-BAS-MDD, 2015 WL 4714908 (S.D. Cal. Aug. 7, 2015) (imposing sanctions under Rule 26(g)(3) on defendants and their counsel for respectively submitting false discovery responses and failing to conduct a reasonable inquiry); *Interpreter Services, Inc. v. BTB Technologies, Inc.*, No. CIV. 10-4007, 2011 WL 6935343, at *6 (D.S.D. Dec. 29, 2011) (holding that “[s]anctions are appropriate under Rule 26(g) when the parties’ conduct has ‘clearly added unnecessary delay and expense to the litigation’”).

grounds.⁵⁴ In sum, a “belts and suspenders” approach to discovery may actually leave the requesting party undone. By the same token, a responding attorney who asserts the hackneyed “overbroad” objection and then fails to produce any responsive documents has violated their Rule 26(g) certification obligation and, by implication, proportionality principles.⁵⁵

In short, Rule 26(b)(1), in conjunction with Rule 26(g), recognizes that both sides share a responsibility to engage in a discovery process that is proportionate and focused on the ac-

54. See, e.g., *In re Urethane Antitrust Litigation*, No. 04-MD-1616-JWL-DJW, 2008 WL 110896, at *1 (D. Kan. Jan. 8, 2008) (holding that a discovery request is overly broad and unduly burdensome on its face if it uses an “omnibus term such as ‘relating to,’ ‘pertaining to,’ or ‘concerning’ to modify a general category or broad range of documents or information” because “such broad language ‘make[s] arduous the task of deciding which of numerous documents may conceivably fall within its scope’”); *Roda Drilling Co. v. Siegal*, No. 07-CV-400-GFK-FHM, 2008 WL 2234652, at *2 (N.D. Okla. May 29, 2008) (finding that “many of the parties’ requests for production of documents are overbroad, as they request ‘all documents’ relating to or concerning a subject”). But see *Giegerich v. National Beef Packing Company, LLC*, No. 13-2392-JAR, 2014 WL 1655554, at *2 (D. Kan. Apr. 25, 2014) (“While it may be generally true that phrases such as ‘regarding’ or ‘pertaining to’ may require a responding party to ‘engage in mental gymnastics to determine what information may or may not be remotely responsive,’” a discovery request is not facially overbroad if it seeks “a sufficiently specific type of information, document, or event, rather than large or general categories of information or documents”).

55. Cf. *High Point Sarl*, 2011 WL 4036424, at *10-11 (finding that defendant’s “assertion of numerous, repetitive, boilerplate, incorporation-by-reference general objections” were a violation of Rule 26(g)). See also *Bottoms v. Liberty Life Assur. Co. of Boston*, No. 11-cv-01606-PAB-CBS, 2011 WL 6181423, at *7 (D. Colo. Dec. 13, 2011) (holding that “[o]ne of the purposes of Rule 26(g) was ‘to bring an end to the [] abusive practice of objecting to discovery requests reflexively—but not reflectively—and without a factual basis;’” “boilerplate objections” should not suffice to bar discovery) (second alteration in original).

tual claims and defenses in the action. The proportionality mandate incorporated into these Rules assumes even greater significance in light of the proposed amendment to Rule 1,⁵⁶ which explicitly acknowledges that the parties and their counsel “share responsibility” with the court to employ the rules to achieve the just, speedy, and inexpensive determination of every action. Notably, the accompanying Committee Note acknowledges that the objectives underlying Rule 1 may be frustrated by the “over-use, misuse, and abuse of procedural tools that increase cost and result in delay,” and that effective advocacy is consistent with and depends upon “cooperative and proportional use of procedure.”⁵⁷

Proportionality considerations are raised, albeit in a different context, with the new version of Rule 37(e).⁵⁸ That Rule states:

(e) Failure to Preserve Electronically Stored Information. If electronically stored information that should have been preserved in anticipation or conduct of litigation is lost because a party failed to take reasonable steps to preserve it, and it cannot be restored or replaced through additional discovery, the court:

(1) upon finding prejudice to another party from loss of the information, may order measures no greater than necessary to cure the prejudice; or

56. See June 2014 Advisory Committee Report, *supra* note 38, at Appendix B-21.

57. *Id.* at Appendix B-21-22.

58. *Id.* at Appendix B-56-57.

(2) only upon finding that the party acted with the intent to deprive another party of the information's use in the litigation may:

- (A) presume that the lost information was unfavorable to the party;
- (B) instruct the jury that it may or must presume the information was unfavorable to the party; or
- (C) dismiss the action or enter a default judgment.

The Committee Note accompanying the new Rule 37(e) acknowledges that relief under subsections 1 or 2 is only available if relevant electronically stored information (ESI) was lost after the duty to preserve was triggered and because the party failed to take reasonable steps to preserve the information. "This rule recognizes that 'reasonable steps' to preserve suffice; it does not call for perfection."⁵⁹ In evaluating the reasonableness of the preserving party's efforts, the court should consider proportionality.⁶⁰

59. *Id.* at Appendix B-61. *But compare In re Pfizer Ins. Securities Litigation*, 288 F.R.D. 297, 317 (S.D.N.Y. 2013) (while acknowledging that a party is not required to preserve all exact duplicate copies of documents, the court suggested that perhaps "documents that may be largely duplicative of . . . custodial productions . . . [may] have a value in of themselves [sic] as compilations") and *FTC v. Lights of America, Inc.*, No. SACV 10-1333 JVS (MLGx), 2012 WL 695008, at *5 (C.D. Cal. Jan. 20, 2012) (finding that the FTC's E-Discovery Guidelines that require the preservation of relevant ESI, but also mandate the deletion of duplicates, were consistent with plaintiff's duty to preserve relevant material).

60. *But see Orbit One Communications, Inc. v. Numerex Corp.*, 271 F.R.D. 429, 436 n.10 (S.D.N. 2010) (observing that proportionality is an "amorphous" and "highly elastic" concept that may not "create a safe harbor for a party that is obligated to preserve evidence").

The court should be sensitive to party resources; aggressive preservation efforts can be extremely costly, and parties (including governmental parties) may have limited staff and resources to devote to those efforts. A party may act reasonably by choosing a less costly form of information preservation, if it is substantially as effective as more costly forms. . . . A party urging that preservation efforts are disproportionate may need to provide specifics about those matters in order to enable meaningful discussion of the appropriate preservation regime.⁶¹

Proportionality considerations also come into play in the court's determination of whether lost ESI can be restored or replaced through additional discovery, which would also obviate the need to consider curative measures under subsection (1) or sanctions under subsection (2). The Committee Note explains that "efforts to restore or replace lost information through discovery should be proportional to the apparent importance of the lost information to claims or defenses in the litigation," and suggests, by way of example, that "substantial measures should not be employed to restore or replace information that is marginally relevant or duplicative."⁶²

III. THE IMPACT OF PROPORTIONALITY IN THE CONTEXT OF DISCOVERY MOTIONS

If the 2015 amendments become effective on December 1, 2015, continuing the abstract debate about proportionality serves little purpose. The more pertinent question to ask is whether a renewed emphasis on proportionality under Rule

61. See June 2014 Advisory Committee Report, *supra* note 38, at Appendix B-61-62.

62. *Id.* at Appendix B-62.

26(b)(1) will materially change the discovery process and promote the just, speedy, and inexpensive determination of the pending litigation. Similarly, it is appropriate to consider to what extent proportionality under the new Rule 37(e) will change a party's approach to preservation or prompt reconsideration of the prevailing risk-averse approach of saving everything. These are strategic considerations that will turn on the specific facts and circumstances of a given case.

Requesting parties fear that discovery decisions made with incomplete information at the outset of the pretrial process will have irrevocable consequences. Similarly, there is a belief that judicial officers will bring their own subjective impressions to a discovery process that is necessarily iterative and not susceptible to bright-line standards. These fears, grounded on actual experience or anecdotal bias, are exacerbated by the propensity for recycling discovery practices that are the product of habit, rather than strategic analysis. Although critics incorrectly attack the amended Rule 26(b)(1) for narrowing the scope of discovery or imposing a new "burden of proof" on requesting parties, those criticisms may actually frame a more useful discussion. An attorney intent on formulating a strategic and defensible approach to proportionality should draft discovery requests, or serve responses and objections, that reflect the burdens of proof or persuasion that actually apply to discovery motion practice. In that context, proportionality is no longer an abstract concept, but rather a tool to be evaluated against a specific factual record. An effective lawyer anticipates the burdens of proof and persuasion that will arise in motion practice and then develops a record to sustain his or her burden. In that respect, proportionality becomes an integral part of an overall discovery plan.

The Supreme Court has acknowledged that “[t]he term ‘burden of proof’ is one of the ‘slipperiest member[s] of the family of legal terms.’”⁶³ Although the phrases “burden of proof” and “burden of persuasion” often are used interchangeably, they have decidedly different meanings. “Burden of proof” applies to the party bearing the obligation to come forward with evidence or facts to support a specific position, claim, or defense. This burden may shift between the parties at particular points or with respect to discrete issues. In contrast, the “burden of persuasion” asks which party bears the risk of losing if the evidence is evenly balanced.⁶⁴

As previously noted, Rule 26(b)(1) does not establish burdens of proof or persuasion, but rather “sets the outer boundaries of permissible discovery.”⁶⁵ Rule 26(b)(1), in its present and proposed versions, does not require a party to “prove” anything or impose a “burden of proof” on either the requesting or producing party.⁶⁶ Similarly, proportionality principles are neither a burden nor a responsibility singularly imposed on one side or the other. Rule 26(b)(1), instead, establishes a definition or

63. *Schaffer ex rel. Schaffer v. Weast*, 546 U.S. 49, 56 (2005) (second alteration in original). *See also* *Zhen Rong Lin v. Gonzales*, 230 F. App'x 795, 800 n.5 (10th Cir. 2007) (noting that the term “burden of proof” embodies two “distinct concepts” that “may be referred to as (1) the risk of nonpersuasion, sometimes called the ‘burden of persuasion’ and (2) the duty of producing evidence (or the burden of production), sometimes called the burden of going forward with the evidence”).

64. *See* *Riether v. United States*, 919 F. Supp. 2d 1140, 1148 n.6 (D.N.M. 2012); *Gould, Inc. v. A&M Battery & Tire Service*, 176 F. Supp. 2d 324, 327 (M.D. Pa. 2001).

65. *First Security Savings v. Kansas Bankers Surety Co.*, 115 F.R.D. 181, 183 (D. Neb. 1987).

66. WEBSTER'S NEW WORLD COMPACT SCHOOL AND OFFICE DICTIONARY (1995 ed.) defines “prove” as “to establish as true” and “proof” as “evidence that establishes the truth of something” or “a proving or testing of something.”

framework for assessing relevance in a discovery context. Any “burden” ascribed to the amended Rule 26(b)(1) and its reaffirmation of proportionality principles is more properly attributed to bad discovery practices. As Judge Paul Grimm has noted:

[i]t cannot seriously be disputed that compliance with the “spirit and purposes” of these discovery rules requires cooperation to identify and fulfill legitimate discovery needs, yet avoid seeking discovery the cost and burden of which is disproportionality large to what is at stake in the litigation. Counsel cannot “behave responsively” during discovery unless they do both, which requires cooperation rather than contrariety, communication rather than confrontation.⁶⁷

A. *Rule 37(a)(3)*

Although Rule 26(b)(1) and Rule 26(g) do not impose a “burden of proof” on either the requesting or producing party, the same cannot be said for a motion to compel under Fed. R. Civ. P. 37(a)(3). A party moving to compel discovery responses pursuant to Rule 37(a)(3) bears the initial burden to demonstrate that the requested discovery comports with Rule 26(b)(1).⁶⁸ The

67. *Mancia v. Mayflower Textile Serv. Co.*, 253 F.R.D. 354, 357-58 (D. Md. 2008). *See also* Steven S. Gensler & Lee H. Rosenthal, *supra* note 15, at 662 (“The key to achieving proportionality is not the early ability to find some clear line defining where discovery should end. Rather, proportionality requires making good judgments about where and how discovery should begin.”).

68. *See, e.g.*, *Pfizer Inc. v. Apotex Inc.*, 744 F. Supp. 2d 758, 767 (N.D. Ill. 2010) (suggesting that the party moving to compel discovery responses has the burden of proof to demonstrate relevance); *Bayview Loan Servicing, LLC v. Boland*, 259 F.R.D. 516, 518 (D. Colo. 2009) (holding that the party moving to compel discovery has the burden of proof).

current version of Rule 26(b)(1) acknowledges that “[a]ll discovery is subject to the limitations imposed by [the proportionality factors in] Rule 26(b)(2)(C).” A lawyer serving interrogatories and requests for production, both now and after December 1, 2015, must certify under Rule 26(g) that their discovery requests are consistent with the Federal Rules and “neither unreasonable nor unduly burdensome or expensive” considering those same proportionality factors.

Courts have generally recognized an “ordinary presumption in favor of broad disclosure.”⁶⁹ The Committee Note to the proposed Rule 26(b)(1) does not repudiate that body of case law. However, it is also well-settled under Rule 37(a)(3) that if a party’s “discovery requests appear facially objectionable in that they are overly broad or seek information that does not appear relevant, the burden is on the movant to demonstrate how the requests are not objectionable.”⁷⁰ That same “facially objectionable” standard should extend to discovery requests that are transparently disproportionate in the context of a particular case. While the moving party’s threshold burden of proof under Rule 37(a)(3) is not particularly high, that burden should not be ignored or discounted. Where a discovery request is facially overbroad, the requesting party must make a showing of

69. *See, e.g.,* Arkansas River Power Authority v. Babcock & Wilcox Power Generation Group, Inc., No. 14-cv-00638-CMA-NYW, 2015 WL 2128312, at *2 (D. Colo. May 5, 2015); *Milburn v. City of York*, No. 1:12-CV-0121, 2013 WL 3049108, at *4 (M.D. Pa. June 17, 2013); *Aguilera v. Fluor Enterprises, Inc.*, No. 2:10-CV-95-TLS-PRC, 2011 WL 1085146, at *2 (N.D. Ind. Mar. 21, 2011).

70. *Bettis v. Hall*, No. 10-2457-JAR, 2015 WL 1268014, at *1 (D. Kan. Mar. 19, 2015). *Cf. Presbyterian Manors, Inc. v. Simplex Grinnell, LP*, No. 09-2656-KHV, 2010 WL 3880027, at *7 (D. Kan. Sept. 28, 2010) (“when relevancy is not readily apparent, the proponent has the burden of showing the relevancy of the discovery request”).

relevance and proportionality that is predicated on more than speculation or assumption.⁷¹

The court should not, in deciding a motion to compel under Rule 37(a)(3), evaluate the non-moving party's discovery responses in a vacuum; a motion to compel necessarily requires the court to hold the moving party's discovery requests to the same Rule 26(g) standard.⁷² As the Committee Note to the amended Rule 26(b)(1) acknowledges, "[a] party claiming that a request is important to resolve the issues [in the case] should be able to explain the ways in which the underlying information bears on the issues as that party understands them."⁷³ The same Committee Note cautions that proportional discovery requires a "proper understanding" of what is truly relevant to a claim or defense.⁷⁴ Imposing on a moving party the obligation to frame discovery requests that are facially relevant and proportional, "considering the needs of the case, the amount in controversy, and the importance of the issues at stake in the case," should not

71. Cf. *Hill v. Auto Owners Insurance Co.*, No. 14-CV-05037-KES, 2015 WL 1280016, at *7 (D.S.D. Mar. 20, 2015) (in acknowledging the moving party's obligation to make a threshold showing of relevance, the court noted that "[m]ere speculation that information might be useful will not suffice; litigants seeking to compel discovery must describe with a reasonable degree of specificity, the information they hope to obtain and its importance to their case.").

72. See *Witt v. GC Services Limited Partnership*, __ F.R.D. __, 2014 WL 6910500, at *15 (D. Colo. Dec. 9, 2014).

73. See June 2014 Advisory Committee Report, *supra* note 38, at Appendix B-40. Cf. *Gilmore v. Augustus*, No. 1:12-cv-00925-LJO-GSA-PC, 2014 WL 4354656, at *2-3 (E.D. Cal. Sept. 2, 2014) (under Rule 37(a), the requesting party cannot meet its burden simply by asserting they are dissatisfied with the producing party's responses; the moving party must demonstrate how specific responses are deficient and why they are entitled to further information or materials).

74. See June 2014 Advisory Committee Report, *supra* note 38, at Appendix B-43.

be viewed as onerous or inappropriate. An attorney or party that cannot convincingly explain the relevance of a discovery request under Rule 26(b)(1) would be hard-pressed to show compliance with their self-executing certification obligation under Rule 26(g). As one court has noted in applying the current version of Rule 26(b)(1), “[t]o succeed on a motion to compel, the moving party bears the burden of demonstrating that it is entitled to the requested discovery and has satisfied the proportionality and other requirements of Rule 26.”⁷⁵

Assuming that the discovery requests in question seek facially relevant information under Rule 26(b)(1), the burden of proof under Rule 37(a)(3) then shifts to the non-moving party to support its objections.⁷⁶ “[T]he burden of proof is with the party objecting to the discovery to establish that the challenged production should not be permitted.”⁷⁷ That burden, in turn, incorporates elements of proportionality. Once a party moving for

75. *Rodriguez v. Barrita, Inc.*, No. 09-04057 RS-PSG, 2011 WL 5854397, at *2 (N.D. Cal. Nov. 21, 2011).

76. *See, e.g., Alomari v. Ohio Department of Public Safety*, No. 2:11-cv-00613, 2013 WL 5874762, at *3 (S.D. Ohio Oct. 30, 2013) (“[t]he burden of proof rests with the party objecting to the motion to compel to show in what respects the discovery requests are improper.”).

77. *Washington v. Folin*, No. 4:14-cv-00416-RBH-KDW, 2015 WL 1298509, at *3 (D.S.C. Mar. 23, 2015) (quoting *HDSherer LLC v. Natural Molecular Testing Corp.*, 292 F.R.D. 305, 308 (D.S.C. 2013)). *See also Griffin v. Beard*, No. 06-2719, 2009 WL 678700, at *10 (E.D. Pa. Mar. 16, 2009) (in rejecting defendants’ relevance objections, the court noted that “[i]t is well settled that ‘[t]he defendant[s] may not determine on [their] own what is relevant for discovery purposes’ and ‘[w]here there is doubt over relevance . . . the court should be permissive’ in granting the discovery request”); *Garett v. Albright*, No. 4:06-CV-4137-NKL, 2008 WL 681766, at *3 n.6 (W.D. Mo. Mar. 6, 2008) (noting that “[t]he Federal Rules of Civil Procedure do not entitle Defendants to determine what the Plaintiffs will and will not need in terms of clearly relevant evidence.”).

relief under Rule 37(a) meets their initial "burden of proving the relevance of the requesting information,"

the party resisting the discovery has the burden to establish the lack of relevance by demonstrating that the requested discovery (1) does not come within the broad scope of relevance as defined under Fed. R. Civ. P. 26(b)(1), or (2) is of such marginal relevance that the potential harm occasioned by discovery would outweigh the ordinary presumption in favor of broad disclosure.⁷⁸

Commonly asserted "boilerplate" objections that a request is "overbroad" or "unduly burdensome" have always been disfavored and should not suffice to defeat a motion to compel after December 1, 2015.⁷⁹ More importantly, unsubstantiated boilerplate objections violate the letter and spirit of Rule 26(g), and expose objecting counsel to potential sanctions under Rule 26(g)(3).⁸⁰

The same burden of proof should apply to objections framed in terms of the proportionality factors. "While a discovery request can be denied if the 'burden or expense of the proposed discovery outweighs its likely benefit,' a party objecting to discovery must specifically demonstrate how the request is

78. *Martinez v. Jones*, No. 3:12-CV-1547, 2015 WL 3454505, at *3 (M.D. Pa. May 29, 2015). *Cf. Simpson v. University of Colorado*, 220 F.R.D. 354, 359 (D. Colo. 2004).

79. *Cf. O'Hara v. Capouillez*, No. 5:13-cv-119, 2013 WL 6672795, at *2 (N.D. W. Va. Dec. 18, 2013); *EnvTech, Inc. v. Suchard*, No. 3:11-CV-00523-HDM-WGC, 2013 WL 4899085, at *4 (D. Nev. Sept. 11, 2013); *Travelers Indemnity Co. of Conn. v. Philips Medical Systems*, No. 07-23246-CIV, 2008 WL 4534259, at *1 (S.D. Fla. Oct. 7, 2008).

80. *Cf. Weems v. Hodnett*, No. 10-cv-1452, 2011 WL 3100554, at *2 (W.D. La. July 25, 2011).

burdensome” or disproportionate.⁸¹ An attorney asserting a proportionality objection should be prepared to sustain their burden of proof by coming forward with facts (typically in the form of an affidavit) showing how the requested discovery is inconsistent with Rule 26(b)(1) or violates opposing counsel’s certification obligations under Rule 26(g).⁸²

B. Rule 26(c)

Rule 26(c) provides that the court may, for good cause, “issue an order to protect a party or person from annoyance,

81. *Kleen Products LLC v. Packaging Corporation of America*, No. 10 C 5711, 2012 WL 4498465, at *15 (N.D. Ill. Sept. 28, 2012) (internal citations omitted) (suggesting that an objecting party can demonstrate a disproportionate burden by providing “an estimate of the number of documents that it would be required to provide. . . , the number of hours of work by lawyers and paralegals required, [or] the expense.”). *See also* *Kristensen v. Credit Payment Services, Inc.*, No. 2:12-cv-0528-APG-PAL, 2014 WL 6675748, at *4 (D. Nev. Nov. 25, 2014) (noting that “unsupported allegations of undue burden are improper especially when [the objecting party] has failed to submit any evidentiary declaration supporting these objections”).

82. *Compare* *Sprint Communications Co., L.P. v. Comcast Cable Communications, LLC*, Nos. 11-2684-JWL, 11-2685-JWL, 11-2686-JWL, 2014 WL 1794552, at *4 (D. Kan. May 6, 2014) (rejecting plaintiff’s blanket refusal to produce what it considered to be cumulative or duplicative documents and observing that “Sprint provides no support or foundation for its position that its proposed discovery plan will capture most, if not all of the documents in its possession responsive to defendants’ document requests” and “has not explained the foundation of its belief that the search of additional custodian files would be cumulative, duplicative or *unduly* burdensome”) (emphasis in original) *and* *Eisai, Inc. v. Sanofi-Aventis U.S., LLC*, No. 08-4168 (MLC), 2012 WL 1299379 (D.N.J. Apr. 16, 2012) (holding that plaintiff’s discovery ran afoul of proportionality standards since its requests were unreasonably cumulative of the over 12 million pages of documents defendants already produced at a cost of \$10 million and given the marginal relevance of the requested materials).

embarrassment, oppression, or undue burden or expense."⁸³ The party seeking a protective order has the burden of proof,⁸⁴ and cannot sustain that burden or establish the requisite good cause merely by offering conclusory statements.⁸⁵ To obtain relief under Rule 26(c), the moving party "must make 'a particular and specific demonstration of fact' in support of its request," particularly where the moving party is seeking relief based upon a claim of undue burden or expense.⁸⁶ The claim of good cause should be supported by affidavits or other detailed explanations as to the nature and extent of the burden or expense. Rule 26(c), in that respect, sets "a rather high hurdle" for the moving party.⁸⁷ So for example, a motion for protective order

83. FED. R. CIV. P. 26(c)(1). *But compare* Dongguk University v. Yale University, 270 F.R.D. 70, 73 (D. Conn. 2010) (noting that "[w]ith regard to the 'undue burden and expense' provision, Rule 26(c) operates in tandem with the proportionality limits set forth in Rule 26(b)(2)") and Rubin v. Hirschfeld, No. 3:00CV1657, 2001 WL 34549221, at *1 (D. Conn. Oct. 10, 2001) (acknowledging that Rule 26(c) "is not a blanket authorization for the court to prohibit disclosure of information whenever it deems it advisable to do so, but is rather a grant of power to impose conditions on discovery in order to prevent injury, harassment, or abuse of the court's process.").

84. *See, e.g.,* Worldwide Home Products, Inc. v. Time, Inc., No. 11 Civ. 3633(LTS)(MHD), 2012 WL 1592317, at *1 (S.D.N.Y. May 4, 2012) (noting that "the party seeking Rule 26(c) protection bears the burden of proof and persuasion").

85. *See, e.g.,* Norfolk Southern Railway Co. v. Pittsburgh & West Virginia Railroad, No. 2:11-cv-1588, 2013 WL 6628624, at *1 (W.D. Pa. Dec. 17, 2013); Equal Employment Opportunity Commission v. Winn-Dixie, Inc., No. CA 09-0643-C, 2010 WL 2202520, at *2 (S.D. Ala. May 28, 2010).

86. *Aikens v. Deluxe Financial Services, Inc.*, 217 F.R.D. 533, 536-37 (D. Kan. 2003). *Cf. Trinos v. Quality Staffing Services Corp.*, 250 F.R.D. 696, 698 (S.D. Fla. 2008) ("courts should only limit discovery 'based on *evidence* of the burden involved, not on a mere recitation that the discovery request is unduly burdensome") (emphasis in original).

87. *Wymes v. Lustbader*, No. WDQ-10-1629, 2012 WL 1819836, at *4 (D. Md. May 16, 2012).

should not be granted simply because the moving party asserts that the requested materials are subject to a claim of confidentiality; the moving party must also show that the disclosure of these materials “might be harmful.”⁸⁸ It seems reasonable, however, that a particularized showing should not be required if the requesting party is seeking discovery that is facially irrelevant under Rule 26(b)(1).⁸⁹

The timing of a motion for protective order is significant in the discovery context. Counsel cannot seek relief under Rule 26(c) without first conferring or attempting to confer with opposing counsel in an effort to resolve the dispute without the need for court intervention.⁹⁰ If those discussions are unsuccessful

88. *Cf.* *Flint Hills Scientific, LLC v. Davidchack*, No. 00-2334-KHV, 2001 WL 1718291, at *2 (D. Kan. Dec. 3, 2001) (holding that a party seeking a protective order must support a claim of confidentiality with a “particular and specific demonstration of fact, as distinguished from stereotyped and conclusory statements”).

89. *Cf.* *Trustees of the Springs Transit Company Employee’s Retirement and Disability Plan v. City of Colorado Springs*, No. 09-cv-0284-WYD-CBS, 2010 WL 1904509, at *5 (D. Colo. May 11, 2010) (holding that the defendant might not be required to make a particularized showing under Rule 26(c) if plaintiff’s discovery requests are facially objectionable) (citing *International Society for Krishna Consciousness, Inc. v. Lee*, 1985 WL 315, at *10 (S.D.N.Y. 1985)).

90. *See Williams v. Sprint/United Management Co.*, No. 03-2200-JWL-DJW, 2006 WL 2734465, at *3 (D. Kan. Sept. 25, 2006) (“The parties must make genuine efforts to resolve the dispute by determining precisely what the requesting party is actually seeking; what responsive documents or information the discovering party is reasonably capable of producing; and what specific, genuine objections or other issues, if any, cannot be resolved without judicial intervention.”); *Gouin v. Gouin*, 230 F.R.D. 246, 247 (D. Mass. 2005) (denied the prevailing party’s request for fees where nothing in the record indicated that plaintiff’s counsel had made any effort to resolve discovery disputes before seeking judicial intervention).

ful, the motion for protective order should be filed before discovery responses are due.⁹¹ As the court noted in *Maxey v. General Motors Corp.*,⁹² the party seeking protection under Rule 26(c) "should not be allowed to sit back and force the [the other party] to take the initiative to file a Motion to Compel with this court." "The party seeking the protective order, who has the burden of requesting and supporting it, should also be responsible for initiating the process. Permitting that party to merely note its objections and then sit back and wait for a motion to compel can only serve to prolong and exacerbate discovery disputes."⁹³

In the event the moving party makes the requisite showing of good cause, the burden of proof under Rule 26(c) then shifts to the party seeking discovery or disclosures. With that shifting burden, the non-moving party must show that the requested discovery is relevant to the claims and defenses in the action and is proportionate to the needs of the case.⁹⁴ "If the

91. *Cf. Seminara v. City of Long Beach*, Nos. 93-56395, 93-56512, 1995 WL 598097, at *4 (9th Cir. Oct. 6, 1995) (noting that although Rule 26(c) does not expressly set limits within which a motion for protective order must be made, there is an implicit requirement that the motion be timely or seasonable).

92. No. 3:95CV60-D-A, 1996 WL 692222 (N.D. Miss. Nov. 18, 1996).

93. *Id.* at *2 (quoting *Brittian v. Stroh Brewery Co.*, 136 F.R.D. 408, 413 (M.D.N.C. 1991)). *Cf. Morock v. Chautauqua Airlines, Inc.*, No. 8:07-cv-210-T-17-MAP, 2007 WL 4322764, at *1 (M.D. Fla. 2007) ("[a] motion for protective order is generally untimely if it was made after the date the discovery material was to be produced"); *Ayers v. Continental Casualty Co.*, 240 F.R.D. 216 (N.D. W. Va. 2007) (holding that plaintiffs' motion for protective order was untimely where plaintiffs answered the interrogatories in question but waited almost two months to actually move for a protective order).

94. *Cranmer v. Colorado Casualty Insurance Co.*, No. 2:14-cv-645-MMD-VCF, 2014 WL 6611313, at *2 (D. Nev. Nov. 20, 2014) ("When deciding whether to enter an order protecting a party from producing discovery, the court's inquiry primarily focuses on relevance, proportionality, and harm to the producing party.").

party seeking discovery shows both relevance and need, the court must weigh the injury that disclosure may cause . . . against the moving party's need for the information."⁹⁵ Based on that proportionality analysis, the court can preclude the requested discovery entirely or allow discovery or disclosure to proceed under specific conditions, including "limiting the scope of disclosure or discovery to certain matters" or specifying the manner in which the requested discovery will be conducted or proceed.

The court also has the discretion under Rule 26(c) to shift the costs of discovery to the party seeking discovery where the moving party has presented facts (rather than mere speculation) to support its claim of undue burden.⁹⁶ One court has held that "so long as 'the burden or expense of the proposed discovery outweighs its likely benefit, considering the needs of the case, the amount in controversy, the parties' resources, the importance of the issues at stake in the action, and the importance

95. *Election Systems & Software, LLC v. RBM Consulting, LLC*, No. 8:11CV438, 2015 WL 1321440, at *5 (D. Neb. Mar. 24, 2015). *Cf.* *Bombard v. Volp*, 44 F. Supp. 3d 514, 529 (D. Vt. 2014) (in deciding whether "good cause" exists under Rule 26(c), "'the district court must balance the interests involved: the harm to the party seeking the protective order and the importance of disclosure' to the non-moving party"). *See also* *Coca-Cola Bottling Company of Shreveport, Inc. v. Coca-Cola Co.*, 107 F.R.D. 288, 293 (D. Del. 1985) ("[t]he balance between the need for information and the need for protection . . . is tilted in favor of disclosure once relevance and necessity have been shown.").

96. *See, e.g., Norfolk Southern Railway Co. v. Pittsburgh & West Virginia Railroad*, No. 2:11-cv-1588, 2013 WL 6628624, at *2 (citing CHARLES ALAN WRIGHT, ET AL., *FEDERAL PRACTICE AND PROCEDURE* § 2008.1 n.26 (3d ed. 2010)). The 2015 Amendments reaffirm the court's authority to allocate discovery costs, but the Committee Note cautions that the proposed Rule 26(c)(1)(B) does not imply "that cost-shifting should become a common practice" or undermine the current assumption "that a responding party ordinarily bears the costs of responding" to discovery. *See* June 2014 Advisory Committee Report, *supra* note 38, at Appendix B-44-45.

of the discovery in resolving the issues,' the cost of even accessible ESI's production may be shifted to a party that has not shown its peculiar relevance to the claims and defenses at hand."⁹⁷

C. *Rule 26(b)(2)(B)*

Burden shifting also arises under Rule 26(b)(2)(B),⁹⁸ which provides that a party responding to requests for production "need not provide discovery of electronically stored information from sources that the party identifies as not reasonably accessible because of undue burden or cost."⁹⁹ This Rule distinguishes between ESI that "is relevant, not privileged, and reasonably accessible, subject to the (b)(2)(C) limitations that apply to all discovery," and "information on sources that are accessible only by incurring substantial burdens or costs."¹⁰⁰ If applica-

97. *United States ex rel. Carter v. Bridgepoint Education, Inc.*, 305 F.R.D. 225, 240 (S.D. Cal. 2015). *Cf. Boeynaems v. LA Fitness International, LLC*, 285 F.R.D. 331, 333, 335 (E.D. Pa. 2012) (after noting that "[d]iscovery need not be perfect, but [it] must be fair," the court held that "where the cost of producing documents is very significant, the Court has the power to allocate the cost of discovery, and doing so is fair;" the court observed in passing that "[i]f Plaintiff's counsel has confidence in the merits of its case, they should not object to making an investment in the cost of securing documents from Defendant and sharing costs with Defendant").

98. FED. R. CIV. P. 26(b)(2)(B).

99. *See Victor Stanley, Inc. v. Creative Pipe, Inc.*, 269 F.R.D. 497, 523 (D. Md. 2010) (suggesting that the reference to "undue burden and expense" in Rule 26(b)(2)(B) incorporates "a proportionality component of sorts").

100. FED. R. CIV. P. 26(b)(2)(B) advisory committee's note to 2006 amendment. *See also Tyler v. City of San Diego*, No. 14-cv-01179-GPC-JLB, 2015 WL 1955049, at *2 (S.D. Cal. Apr. 29, 2015) (acknowledging that "Rule 26(b)(2)(B) should not be invoked as a means to forestall the production of materials that are admittedly relevant and readily accessible").

ble, Rule 26(b)(2)(B) permits a party to move for a protective order or raise the issue of accessibility in response to a motion to compel.

A party invoking the protections of Rule 26(b)(2)(B) bears the initial burden of proof.¹⁰¹ As with a motion for protective order under Rule 26(c), this burden cannot be sustained with bald generalizations or a conclusory assertion that production will be time-consuming and/or expensive.¹⁰² Instead, “the responding party should present details sufficient to allow the requesting party to evaluate the costs and benefits of searching and producing the identified sources.”¹⁰³ One court has noted that “while cost and burden are critical elements in determining inaccessibility,” the court’s analysis under Rule 26(b)(2)(B)

101. *Cf. Bagley v. Yale University*, 307 F.R.D. 59, 66 (D. Conn. 2015) (Rule 26(b)(2)(B) initially places the burden of proof on the party resisting discovery).

102. *Cartel Asset Management v. Ocwen Financial Corp.*, No. 01-cv-01644-REB-CBS, 2010 WL 502721, at *15 (D. Colo. Feb. 8, 2010). *Cf. Escamilla v. SMS Holdings Corp.*, No. 09-2120 ADM/JSM, 2011 WL 5025254, at *9 (D. Minn. Oct. 21, 2011) (holding that the defendant’s speculative and conclusory cost estimates were insufficient to meet its burden of demonstrating that the cost to restore and search data from electronic archives would create an undue burden or cost).

103. *Mikron Industries, Inc. v. Hurd Windows & Doors, Inc.*, No. C07-532RSL, 2008 WL 1805727, at *1 (W.D. Wash. Apr. 21, 2008). *See also O’Bar v. Lowe’s Home Centers, Inc.*, No. 5:04-cv-00019-W, 2007 WL 1299180, at *5 n.6 (W.D.N.C. May 2, 2007) (noting that an objection based on Rule 26(b)(2)(B) should be stated with particularity “and not in conclusory or boilerplate language;” “the party asserting that [electronically stored information] is not reasonably accessible should be prepared to specify facts that support its contention”).

should focus on "the interplay between any alleged technological impediment" that inhibits accessing ESI and "the resulting cost and burden."¹⁰⁴

Assuming the producing party can satisfy this threshold showing that responsive information is not reasonably accessible, the burden of proof then shifts to the requesting party to show "good cause" why the court should "nonetheless order discovery from such sources." That finding requires the court to balance the burdens and potential benefits of the requested discovery in light of the proportionality factors set forth in Rule 26(b)(2)(C).

The decision whether to require a responding party to search for and produce information that is not reasonably accessible depends not only on the burdens and costs of doing so, but also on whether those burdens and costs can be justified in the circumstances of the case.¹⁰⁵

104. *Chen-Oster v. Goldman, Sachs & Co.*, 285 F.R.D. 294, 301-02 (S.D.N.Y. 2012). *But compare* *W Holding Co., Inc. v. Chartis Ins. Co. of Puerto Rico*, 293 F.R.D. 68, 73 (D. Puerto Rico 2013) (rejecting the suggestion that Rule 26(b)(2)(B) is applicable, or that cost-shifting is appropriate, "any time that discovery implicates both (1) electronically stored information and (2) large volumes of data, even where the volume renders review costly") *with* *United States ex rel. Carter v. Bridgepoint Educ., Inc.*, 305 F.R.D. 225, 239 (S.D. Cal. 2015) (for purposes of Rule 26(b)(2)(B), "'inaccessible' simply means that expenditure of resources required to access the contents [of relevant ESI] is itself unreasonable").

105. FED. R. CIV. P. 26(b)(2)(B) advisory committee's note to 2006 amendment. The Committee Note acknowledges that to sustain its burden under Rule 26(b)(2)(C), the requesting party "may need some focused discovery, which may include some sampling of the sources, to learn more about what burdens and costs are involved in accessing the information, what the information consists of, and how valuable it is for the litigation in light of information that can be obtained by exhausting other opportunities for discovery."

Among the factors a court may consider in weighing the benefits and burdens of discovery under Rule 26(b)(2)(B) are: (1) the specificity of the discovery request; (2) the quantity of information available from other and more easily accessible sources; (3) the failure to produce relevant information that seems likely to have existed but is no longer available on more easily accessed sources; (4) the likelihood of finding relevant, responsive information that cannot be obtained from other, more easily accessed sources; (5) predictions as to the importance and usefulness of the further information; (6) the importance of the issues at stake in the litigation; and (7) the parties' resources.¹⁰⁶ In sum, as the court noted in *Peskoff v. Faber*,¹⁰⁷ to obtain discovery pursuant to Rule 26(b)(2)(B), the requesting party "still must meet the most traditional and essential standard of discoverability under the Federal Rules of Civil Procedure; that, on balance, the burden of production is truly justified by its potential relevance."¹⁰⁸

If the court orders the producing party to produce materials that are not otherwise reasonably accessible, the costs of that production can be shifted to the requesting party pursuant

106. *Id.*

107. 244 F.R.D. 54 (D.D.C. 2007).

108. *Id.* at 59. *Cf. Chen-Oster*, 285 F.R.D. at 302 n.5 ("Courts that have analyzed good cause under Rule 26(b)(2)(B) have generally considered the same types of factors relevant to a proportionality determination under Rule 26(b)(2)(C)."); *Victor Stanley, Inc. v. Creative Pipe, Inc.*, 269 F.R.D. 497, 523 (D. Md. 2010) (suggesting that Rule 26(b)(2)(B) includes a "proportionality component of sorts").

to the court's authority under Rule 26(b)(2)(C).¹⁰⁹ However, cost-shifting should be part of a broader proportionality analysis and not imposed by the court simply because production will take time and effort.¹¹⁰

D. A Strategic Approach to Discovery Motions

Lawrence Freedman suggests that an effective strategy is based on an ability to see "the future possibilities inherent in the next moves" and furthered by a process in which the combination of ends and means are continually reevaluated.¹¹¹

If strategy is a fixed plan that set[s] out a reliable path to an eventual goal, then it is likely to be not only disappointing but also counterproductive, conceding the advantage to others with greater

109. See FED. R. CIV. P. 26(b)(2)(B) advisory committee's note to 2006 amendment (acknowledging that the court can set conditions on the production of inaccessible electronically stored information, "include[ing] payment by the requesting party of part or all of the reasonable costs of obtaining information from sources that are not reasonably accessible"). See also *Zubulake v. UBS Warburg LLC*, 216 F.R.D. 280, 283 (S.D.N.Y. 2003) (while proportionality considerations may override "the presumption . . . that the responding party must bear the expense of complying with discovery requests," the court will order cost-shifting only upon motion by the party responding to a discovery request and the responding party "has the burden of proof on a motion for cost-shifting").

110. Cf. *Cochran v. Caldera Medical, Inc.*, No. 12-5109, 2014 WL 1608664, at *3 (E.D. Pa. Apr. 22, 2014) (in declining to shift costs under Rule 26(b)(2)(B) in this product liability action, the court concluded that the burden or expense of plaintiffs' discovery requests were outweighed by the importance of the discovery to plaintiffs' ability to prove their claims and the seriousness of their alleged injuries; the court further observed that "defendant inevitably [would] need to gather the information sought by plaintiffs" given "the over 1,700 claims that have been filed by individuals across the country relating to" the same medical product).

111. LAWRENCE FREEDMAN, *STRATEGY: A HISTORY* 611 (2013).

flexibility and imagination. Adding flexibility and imagination, however, offers a better chance of keeping pace with a developing situation, regularly re-evaluating risks and opportunities.¹¹²

Those same strategic components, flexibility and imagination, will be critical if lawyers are to reap the benefits of proportionality and, more importantly, promote their client's interests while simultaneously advancing the goals of Rule 1. For the requesting party, an effective discovery strategy should facilitate the acquisition of relevant and necessary information while simultaneously limiting opposing counsel's ability to wreak havoc by forcing delay or unproductive costs. Conversely, the responding party's strategic goals are to reduce the cost of finding and producing responsive information, while also developing a defensible position in the event motion practice ensues.

A requesting party can substantially reduce, if not eliminate completely, the likelihood of a proportionality challenge simply by drafting interrogatories or requests for production that are not "facially objectionable" under Rule 26(b)(1). That should not be a daunting challenge under current case law and will not be significantly different after December 1, 2015. Counsel should draft discovery requests predicated on the information they *need* in light of the actual claims and defenses. All too frequently (and particularly in asymmetrical litigation), a requesting party resorts to expansive, blockbuster discovery based on uncertainty and a fear that "something" might be inadvertently overlooked. Counsel also justifies broad discovery requests by cynically assuming their opposite number will be evasive and less-than forthcoming in their responses. Yet that prophylactic approach to discovery provides little strategic benefit if those same expansive discovery requests invite objections and mire the requesting party in time-consuming and expensive

112. *Id.* at 610.

motion practice. For the plaintiff intent on reaching an expeditious and favorable outcome to their case, protracted discovery disputes are at the very least an undesirable distraction. Therefore, the requesting party should draft discovery requests that substantially constrain the responding party's ability to derail the pretrial process.

For example, counsel should avoid pattern or stock discovery requests recycled from past lawsuits, even if that approach seems to hold the false promise of cost-savings.¹¹³ Any savings that may be achieved in the drafting process will likely pale in comparison to the subsequent costs of motion practice. Counsel can hardly complain when their formulaic discovery requests are met with boilerplate objections and little else.¹¹⁴ While those boilerplate objections are seldom effective and may themselves justify Rule 26(g)(3) sanctions, the court should not

113. *Cf. Robbins v. Camden City Board of Education*, 105 F.R.D. 49, 56-57 (D.N.J. 1985) (warning that "the use of multiple pattern interrogatories in more complex litigation can lead to . . . confusion and duplication, . . . especially . . . where the propounding counsel has made little effort to tailor the interrogatories to the facts and circumstances of this case"); *Blank v. Ronson Corp.*, 97 F.R.D. 744, 745 (S.D.N.Y. 1983) (in criticizing counsel for both parties, the court noted that "there is, in the vast expanse of paper, no indication that any lawyer (or even moderately competent paralegal) ever looked at the interrogatories or at the answers. It is, on the contrary, obvious that they have all been produced by some word-processing machine's memory of prior litigation.").

114. *Cf. Cummings v. General Motors Corp.*, 365 F.3d 944, 953 (10th Cir. 2004) (in finding no abuse of discretion in the district court's denial of plaintiffs' motion to compel, the appellate panel noted that the litigation had been characterized by "numerous miscommunications and unnecessary disputes caused by Plaintiffs' failure to frame precise discovery requests"); *Crown Center Redevelopment Corp. v. Westinghouse Electric Corp.*, 82 F.R.D. 108, 110 (W.D. Mo. 1979) (suggesting that "lengthy and detailed sets of standard forms of interrogatories" were simply generating "predictably launched counter attacks in the form of objections and motions for protective orders").

evaluate those responses in isolation or overlook obvious deficiencies in the requests that precipitated the discovery dispute.¹¹⁵ Focused and precisely drafted discovery requests may actually preempt challenges framed in terms of proportionality. At the very least, such discovery requests are more likely to withstand challenge in the context of a Rule 37(a)(3) motion to compel or a Rule 26(c) motion for protective order.¹¹⁶

Conversely, a responding party that relies on a cursory or unsubstantiated proportionality objection is not likely to overcome the “ordinary presumption” favoring broad discovery. A judge who was inclined to invoke the “reasonably calculated” mantra¹¹⁷ in granting motions to compel may give short-shrift to a boilerplate assertion that the requested discovery is disproportionate. That objection will be even less effective if it

115. *Cf. Finjan, Inc. v. Blue Coat Systems, Inc.*, No. 5:13-cv-03999-BLF, 2014 WL 5321095, at *2 (N.D. Cal. Oct. 17, 2014) (“one party’s discovery shortcomings are rarely enough to justify another’s”).

116. *See* FED. R. CIV. P. 37(a)(5)(B) (if a motion to compel is denied, the court must order the moving party to pay the reasonable expenses incurred by the non-moving party in opposing the motion, unless the court finds that the motion to compel “was substantially justified or other circumstances make an award of expenses unjust”).

117. In striking the “reasonably calculated” phrase from the proposed Rule 26(b)(1), the Advisory Committee stated that language was never intended to define the scope of discovery. *See* June 2014 Advisory Committee Report, *supra* note 38, at Appendix B-44. This author need look no farther than his own decisions to find a misapplication of the “reasonably calculated” standard. *See, e.g., In re Qwest Communications International, Inc. Securities Litigation*, 283 F.R.D. 623, 625 (D. Colo. 2005).

is coupled with a refusal to provide *any* responsive information.¹¹⁸ As a practical matter, a "disproportionate" discovery request will almost certainly encompass a sub-set of relevant and properly discoverable information.¹¹⁹ While the responding party is entitled to raise factually supportable challenges, they are required to provide responsive information and materials to the extent the request is not objectionable.¹²⁰ A boilerplate objection, even on proportionality grounds, will hardly suffice if the

118. Both Fed. R. Civ. P. 33(b)(3) and 34(b)(2) require an objecting party to provide responses to the extent an interrogatory or request for production is not objectionable. *Cf.* *Freydl v. Meringolo*, No. 09 Civ. 07196(BSJ)(KNF), 2011 WL 2566087, at *3 (S.D.N.Y. June 16, 2011) ("'[B]oilerplate objections that include unsubstantiated claims of undue burden, overbreadth and lack of relevancy' while producing 'no documents and answering no interrogatories are a paradigm of discovery abuse.'" (quoting *Jacoby v. Hartford Life & Accident Ins. Co.*, 254 F.R.D. 477, 478 (S.D.N.Y. 2009)) (alteration in original).

119. *Cf.* *Bottoms v. Liberty Life Assur. Co. of Boston*, No. 11-cv-01606-PAB-CBS, 2011 WL 6181423, at *7 ("[a]n objection challenging a discovery request as 'overbroad' implicitly concedes that the request encompasses some information that is properly discoverable. The responding party is obligated to reasonably construe the discovery request . . . and cannot evade its [discovery] obligations by summarily dismissing an interrogatory or request for production as 'overbroad.'").

120. *Cf.* *Twigg v. Pilgrim's Pride Corp.*, No. 3:05-CV-40, 2007 WL 676208, at *9 (N.D. W. Va. Mar. 1, 2007) (suggesting that even where a party believes a request for production is facially overbroad, that objection does not relieve the responding party of its obligation to produce documents that are responsive to that portion of the request that does seek relevant information or documents); *Watson v. Scully*, No. 87 CIV. 0571 (CSH), 1988 WL 73390, at *2 (S.D.N.Y. July 1, 1988) (although plaintiff's document requests were overbroad and sought irrelevant information, "defendant [was] not absolved of all responsibility to produce documents pursuant to these requests" since "[i]t is reasonable to infer that subsumed in plaintiff's overbroad request is a more specific request" that does encompass relevant documents).

court finds that the discovery response is either evasive or incomplete.¹²¹

If a requesting party serves discovery that is “facially objectionable,” the responding party has several options. Counsel could wait the thirty days (plus time for service) permitted under Rules 33(b)(2)¹²² and 34(b)(2)(A),¹²³ and then object, without more, on the grounds that the requested information is neither relevant nor proportional in light of the particular circumstances of the case. A better approach would be for the responding party to assert appropriate objections, but then provide the information that is properly discoverable under a reasonable construction of the requests. Production of relevant information, even in the face of overbroad discovery requests, is consistent with a proportionality objection, but also provides some protection against an award of fees and costs if those objections are unavailing and the motion to compel is granted.¹²⁴ The best approach, consistent with Rule 1, would be for the responding party to contact the requesting party immediately after being served those “facially objectionable” discovery requests and attempt to negotiate a more proportionate approach to discovery. If those discussions are successful, the responding party has saved his or her client time and money. If not, the responding party is still left with options one or two, but is actually in a stronger position vis-à-vis the court if motion practice ensues.

121. See FED. R. CIV. P. 37(a)(4) (“For purposes of this subdivision (a), an evasive or incomplete disclosure, answer, or response must be treated as a failure to disclose, answer or respond.”).

122. FED. R. CIV. P. 33(b)(2).

123. FED. R. CIV. P. 34(b)(2)(A).

124. See FED. R. CIV. P. 37(a)(5)(A) (if a motion to compel is granted, the court must award the prevailing party reasonable expenses, including attorney’s fees, unless the court finds that “the opposing party’s nondisclosure, response, or objection was substantially justified” or “other circumstances make an award of expenses unjust”).

IV. PROPORTIONALITY IN THE CONTEXT OF PRESERVATION AND SPOILIATION

Unlike other discovery motions, a request for relief under the proposed Rule 37(e) will present new challenges both for moving and non-moving parties. The new Rule 37(e) establishes a uniform framework for addressing the spoliation of ESI while leaving unchanged the existing common law obligation to preserve. The Committee Note accompanying Rule 37(e) acknowledges that litigants are "expend[ing] excessive effort and money on preservation" of ESI, notwithstanding the fact that the loss of ESI from one source "may often be harmless when substitute information can be found elsewhere."¹²⁵ Given that reality, proportionality will figure prominently in the application of Rule 37(e) and the corresponding burdens of proof.

While conceding some variation in the current case law, it is generally understood that a party's duty to preserve is triggered when litigation is pending or reasonably foreseeable, and extends to information or materials that the party "knows or reasonably should know" is relevant to the action.¹²⁶ The party seeking spoliation sanctions presently bears the burden of

125. See June 2014 Advisory Committee Report, *supra* note 38, at Appendix B-58-59.

126. See, e.g., *In re Pradaxa (Dabigatran Etexilate) Products Liability Litigation*, No. 3:12-md-02385-DRH-SCW, 2013 WL 6486921, at *8 (S.D. Ill. Dec. 9, 2013); *Quinby v. WestLB AG*, 245 F.R.D. 94, 104 (S.D.N.Y. 2006). *But compare* *Perez v. Vezer Industrial Professionals, Inc.*, No. CIV S-09-2850 MCE CKD, 2011 WL 5975854, at *6 (E.D. Cal. Nov. 29, 2011) (holding that the obligation to preserve extends to "unique, relevant evidence that might be useful to an adversary") with *In re Pfizer Ins. Securities Litigation*, 288 F.R.D. 297, 313 (S.D.N.Y. 2013) (holding that "[a] litigant has the 'duty to preserve what it knows, or reasonably should know, is relevant to the action, is reasonably calculated to the discovery of admissible evidence, is reasonably likely to be requested during discovery and/or is the subject of a pending discovery request'").

proof¹²⁷ to show that the missing evidence was (1) in the opposing party's control, (2) was relevant to a claim or defense in the case, (3) was subject to a duty to preserve, and (4) was destroyed, suppressed, or otherwise withheld.¹²⁸ The new Rule 37(e) should not materially change that initial burden of proof. After December 1, 2015, a party seeking relief under Rule 37(e) (either in the form of curative measures under subsection (1) or sanctions under subsection (2)) will be required to make a threshold showing that ESI was lost, that the missing ESI was relevant under Rule 26(b)(1), and the missing ESI was subject to a preservation obligation.

Demonstrating the "relevance" of missing ESI will necessarily implicate proportionality factors, but that hurdle should not be any greater than the threshold showing required under Rule 37(a). The proportionality factors in Rule 26(b)(1), however, militate against an all-encompassing or "blockbuster" preservation demand letter. A demand to "save everything," served in advance of litigation, is not consistent with prevailing case law.¹²⁹ More to the point, a boilerplate preservation de-

127. See, e.g., *Wilson v. Saint Gobain Universal Abrasives, Inc.*, No. 213-cv-1326, 2015 WL 1499477, at *10 (W.D. Pa. Apr. 1, 2015); *Brown v. Cain*, No. 11-00103-SDD-SCR, 2015 WL 893020, at *3 (M.D. La. Mar. 2, 2015).

128. See, e.g., *Omogbehin v. Cino*, 485 F. App'x 606, 610 (3rd Cir. 2012) (quoting *Bull v. United Parcel Service, Inc.*, 665 F.3d 68, 73 (3rd Cir. 2012)).

129. See *Cache La Poudre Feeds, LLC v. Land O'Lakes, Inc.*, 244 F.R.D. 614, 623 n.10 (D. Colo. 2007) and cases cited therein. Cf. *Turner v. Resort Condominiums International, LLC*, No.1:03-cv-2025-HFH-WTL, 2006 WL 1990379, at *6 (S.D. Ind. Jul. 13, 2006) (holding that a pre-litigation demand letter that requested preservation of all company electronic data was unreasonably overbroad and did not trigger a duty to preserve all such material; the preservation demand "did not accommodate the routine day-to-day needs of a business with a complex computer network and demanded actions [by the defendant] that went well beyond its legal obligations").

mand should not trump a party's obligation to undertake reasonable preservation efforts and will not guarantee the imposition of curative measures under Rule 37(e)(1) or sanctions under Rule 37(e)(2).

A requesting party would be better served by sending a preservation demand that identifies to the extent possible: (1) potential claims or causes of action; (2) the pertinent period of time, key custodians and actors; and (3) particular types or sources of ESI. The tactical advantage of this approach should be obvious. The reasonableness of a party's preservation efforts is measured, at least in part, by the quality and quantity of information that frames those efforts.¹³⁰ While an untethered preservation demand may seem advantageous given that counsel likely does not know with certainty "who has what or where relevant information may be located," its "gotcha" value may be negligible given that the preserving party is held to a standard of reasonableness, not perfection.¹³¹ A better preservation

130. *Cf. John B. v. Goetz*, 879 F. Supp. 2d 787, 867 (M.D. Tenn. 2010) (suggesting that a party's duty to preserve should not include "evidence that the party 'had no reasonable notice of the need to retain'").

131. *See Oto Software, Inc. v. Highwall Technologies, LLC*, No. 08-cv-01897-PAB-CBS, 2010 WL 3842434, at *8 (D. Colo. Aug. 6, 2010) ("[i]n complying with its duty to preserve relevant evidence, a litigant 'is not expected to be prescient.'" (quoting *Hatfield v. Wal-Mart Stores, Inc.*, 335 F. App'x 796, 804 (10th Cir. 2009))).

demand, from a strategic perspective, is one that includes an invitation for the responding party to engage in a dialogue addressing the parameters of its preservation obligation.¹³²

The party receiving a preservation demand after December 1, 2015, should be equally strategic in formulating its response. An alleged spoliator who spurned a good-faith overture for early discussions regarding preservations may be poorly positioned to successfully challenge the moving party's threshold showing under Rule 37(e).¹³³ The Committee Note to Rule 37(e) makes the same point. While the Advisory Committee recognizes that the reasonableness of a party's preservation efforts should be evaluated, in part, on proportionality considerations, it also warns that "[a] party urging that preservation requests are disproportionate may need to provide specifics about these

132. Cf. *Del Campo v. Kennedy*, No. C-01-21151 JW (PVT), 2006 WL 2586633, at *2 (N.D. Cal. Sept. 8, 2006) (after noting that defendant had refused to provide more than "vague assurances" that it would discuss a preservation order and the disagreements the parties had already had, the court observed that "the need to meet and confer to develop a document preservation plan is obvious"). *But see* *Jardin v. Datallegro, Inc.*, No. 08-CV-1462-TEG-RBB, 2008 WL 4104473, at *2 (S.D. Cal. Sept. 3, 2008) (in denying plaintiff's motion for an injunction to preserve evidence, the court noted that the parties already were under a duty to preserve relevant evidence; the court also rejected plaintiff's assertion that "defendants [had] acted uncooperatively in failing to respond to plaintiff's letters" and that "[d]efendants' failure to immediately respond . . . [was] not suspicious because those letters did not call for any response").

133. Cf. *Pippins v. KPMG LLP*, 279 F.R.D. 245, 254-255 (S.D.N.Y. 2012) (while acknowledging that "proportionality is necessarily a factor in determining a party's preservation obligations," the court also described as "unreasonable" the defendant's "refusal to do what was necessary in order to engage in good faith negotiations over the scope of preservation with Plaintiffs' counsel").

matters in order to enable meaningful discussion of the appropriate preservation regime."¹³⁴

Conversely, a party's good faith attempts to reach agreement on the scope of preservation, even if unsuccessful, may provide the basis for a preservation order once litigation commences. The Committee Note to Rule 37(e) notes that "[p]reservation orders may become more common, in part because Rules 16(b)(3)(B)(iii) and 26(f)(3)(C) are amended to encourage discovery plans and orders that address preservation. Once litigation has commenced, if the parties cannot reach agreement about preservation issues, promptly seeking judicial guidance about the extent of reasonable preservation may be important."¹³⁵ It seems clear that an attorney seeking a preservation order from the court is in a more advantageous position if they can compare their own good faith efforts to the intransigence of opposing counsel.

Assuming the moving party sustains its initial burden of proof, Rule 37(e) then requires the court to determine whether the relevant ESI was lost "because a party failed to take reasonable steps to preserve it" and, if so, whether the lost ESI "cannot

134. See June 2014 Advisory Committee Report, *supra* note 38, at Appendix B-62.

135. *Id.* at Appendix B-60. Cf. *Giltane v. Tennessee Valley Authority*, No. 3:09-CV-14, 2009 WL 230594, at *3 (E.D. Tenn. Jan. 30, 2009) (in adopting plaintiff's proposed Interim Order Regarding Preservation, the court warned the parties "that any attempt to impede this or related litigation through the spoliation of evidence shall be met with the appropriate sanctions and penalties, up to and including holding the offending parties in contempt of court"); *In re Zyprexa Products Liability Litigation*, No. MDL 1596, 2004 WL 3520248, at *5 (E.D.N.Y. Aug. 18, 2004) (the court's case management order acknowledged the parties' obligation to preserve relevant information and documents and stated that the "parties shall meet and confer on the preservation of documents and shall submit to the Court an agreed order for the preservation of records, or a report identifying the issues in dispute").

be restored or replaced through additional discovery.” These elements function as affirmative defenses¹³⁶ for which the burden of proof should be placed on the non-moving party.¹³⁷ The party seeking relief under Rule 37(e) is rarely in a position to know with certainty what steps the non-moving party took to comply with its preservation obligation, whether those actions were reasonable under the circumstances of the particular case, or whether lost information can be restored or replaced.¹³⁸

As noted, a party is not required to “save everything,”¹³⁹ but is expected to undertake preservation efforts that are “both reasonable and proportional to what was at issue in known or

136. Cf. *In re YRC Worldwide Inc. ERISA Litigation*, No. 09-2593-JWL, 2011 WL 1457288, at *4 (D. Kan. Apr. 15, 2011) (defining an affirmative defense as “[a] defendant’s assertion of facts and arguments that, if true, will defeat the plaintiff’s . . . claim, even if all the allegations . . . are true”).

137. See, e.g., *Byrne v. CSX Transportation, Inc.*, 541 Fed. App’x. 672, 674 (6th Cir. 2013) (“the defendant bears the burden of proof as to whether it is entitled to the benefit of an affirmative defense”).

138. Cf. *Schartz v. Rent a Wreck of America, Inc.*, No. 13-2189, 2015 WL 1020647, at *4 (4th Cir. Mar. 10, 2015) (noting that when “determining whether the normal allocation of the burden of proof should be altered,” California courts consider, *inter alia*, “the knowledge of the parties concerning the particular fact” to be proved, “the availability of the evidence to the parties,” and “the most desirable result in terms of the public policy in the absence of proof of the particular fact”).

139. Cf. *Schlumberger Technology Corp. v. Greenwich Metals, Inc.*, No. 07-2252-EFM, 2009 WL 5252644, at *7 (D. Kan. Dec. 31, 2009) (noting that “the scope of the duty to preserve evidence is not boundless”).

reasonably-anticipated litigation."¹⁴⁰ To that end, "[t]he burdens and costs of preserving potentially relevant information should be weighed against the potential value and uniqueness of the information when determining the appropriate scope of preservation."¹⁴¹ The Advisory Committee recognizes that ESI may be lost "despite the party's reasonable efforts to preserve" or "by events outside the party's control."¹⁴² Similarly, a party's litigation experience may color its preservation efforts. As the Committee Note acknowledges, "[c]ourts may . . . need to assess the extent to which a party knew of and protected against" the risk of spoliation.¹⁴³

Proportionality will also come into play in addressing the reasonableness of a party's preservation efforts. The Advisory Committee recognizes that "aggressive preservation efforts can be extremely costly, and parties (including governmental parties) may have limited staff and resources to devote to those efforts."¹⁴⁴ The Committee also acknowledges that a party "may act reasonably by choosing a less costly form of information preservation, if it is substantially as effective as more costly

140. See *Design Basics, LLC v. Carhart Lumber Co.*, No. 8:13CV125, 2014 WL 6669844, at *6 (D. Neb. Nov. 24, 2014). See also *Wilson v. Saint-Gobain Universal Abrasives, Inc.*, No. 213-cv-1326, 2015 WL 1499477, at *11 (W.D. Pa. Apr. 1, 2015) ("[d]etermining whether a party had reason to believe that the evidence in question would be required in litigation is governed by a 'flexible fact-specific standard that allows a district court to exercise the discretion necessary to confront the myriad factual situations inherent in the spoliation inquiry'").

141. The Sedona Conference, *Commentary on Proportionality in Electronic Discovery*, 14 SEDONA CONF. J. 155 (2013).

142. See June 2014 Advisory Committee Report, *supra* note 38, at Appendix B-61.

143. *Id.*

144. *Id.* at Appendix B-61-62.

forms.”¹⁴⁵ In short, a party should undertake preservation efforts that are both reasonable, and defensible; those criteria are not mutually exclusive. More importantly, in view of the burden of proof that may be triggered months, if not years, in the future in the context of a Rule 37(e) motion, a preserving party must approach preservation strategically. Preservation decisions should be documented contemporaneously and then audited regularly for compliance. Similarly, a party’s consistent good-faith adherence to a long-standing document retention/destruction policy should provide a benchmark for evaluating the reasonableness of that party’s preservation efforts in the context of the particular case. A company should not blindly delegate preservation responsibilities to employees who are then left to exercise unfettered discretion.¹⁴⁶ Finally, counsel should seriously consider whether their litigation hold memoranda should be drafted with a view toward producing that document to the opposing party or the court.¹⁴⁷ Transparency and cooperation with opposing counsel may well be the most persuasive indicia of reasonableness and the best “defense” to a possible Rule 37(e) motion.

145. *Id.* at Appendix B-62.

146. *Cf.* *Cache La Poudre Feeds, LLC v. Land O’Lakes, Inc.*, 244 F.R.D. 614, 629 (D. Colo. 2007) (holding that counsel cannot direct employees to preserve all relevant information and then blithely rely upon those same employees to properly exercise their discretion in determining what information to save).

147. *Cf.* *Cohen v. Trump*, No. 13-CV-2519-GPC (WVG), 2015 WL 3617124, at *7 (S.D. Cal. June 9, 2015) (“[a]lthough a litigation hold letter is likely not discoverable, particularly when it is shown that the letter includes material protected by the attorney-client privilege or the work product doctrine, the basic details surrounding the litigation hold are not”). *See also* *Vicente v. City of Prescott*, No. CV-11-08204-PCT-DGC, 2014 WL 3939277, at *15 (D. Ariz. Aug. 13, 2014) (directing defendants to produce unredacted versions of two litigation hold letters, after defendants conceded that the letters were not attorney-client communications).

Assuming that the non-moving party did not take reasonable efforts to preserve, the court must then determine if the missing information can be restored or replaced. If it can, then no further action under Rule 37(e) is required and the court never addresses curative measures or sanctions. But if necessary, the non-moving party should bear the burden of proving that missing ESI can be restored or replaced with additional discovery.¹⁴⁸ To sustain that burden, the non-moving party should be required to make a factual showing as to where or from whom the replacement ESI may be obtained, or how the missing ESI can be restored. The non-moving party also should be required to provide reasonable cost estimates for restoring or replacing missing ESI.¹⁴⁹

148. Cf. *K-Con Building Systems, Inc. v. United States*, 106 Fed. Cl. 652, 660, 665 (Fed. Cl. 2012) (holding that the "offending party" bears the burden of proof establishing substantial justification or harmlessness).

149. Similar information is required where a responding party claims that information is not reasonably accessible under Rule 26(b)(2)(B). In that instance, the responding party must "provide enough detail to enable the requesting party to evaluate the burdens and costs of providing the discovery and the likelihood of finding responsive information on the identified sources." See FED. R. CIV. P. 26 advisory committee's note to 2006 amendment. Cf. *Murray v. Coleman*, No. 08-CV-6383, 2012 WL 4026665, at *2 (W.D.N.Y. Sept. 12, 2012) (requiring defense counsel, in a Rule 26(b)(2)(B) context, to provide an affidavit stating: "(1) the document/email retention policy used by DOCS currently and during the relevant time periods, (2) the dates of emails 'reasonably accessible' for production in this litigation, (3) the back up or legacy system, if any, used by DOCS to preserve or archive emails that are no longer 'reasonably accessible' and whether responsive documents or data may potentially be found on such back up or legacy systems, (4) whether accessing archived or back up emails would be unduly burdensome or costly and why, and (5) the date when a litigation hold or document preservation notice was put in place by DOCS regarding this matter and either a copy of or a description of the preservation or litigation hold utilized by DOCS.").

In the typical case, it is reasonable to assume that the producing party is “best situated to evaluate the procedures, methodologies, and technologies appropriate for preserving and producing their own electronically stored information”¹⁵⁰ and, therefore, best positioned to identify alternative sources of ESI.¹⁵¹ That reality will likely prompt discovery requests directed to this specific issue. The proposed amendment to Rule 26(b)(1) acknowledges that litigants retain the right to seek discovery of information concerning the “existence, description, nature, custody, condition, and location of any documents or other tangible things and the identity and location of persons who know of any discoverable matter,” provided that the requested information is “relevant and proportional to the needs of the case.”¹⁵² Indeed, the Advisory Committee concedes that “[f]raming intelligent requests for electronically stored information . . . may require detailed information about another party’s information systems and other information resources.”¹⁵³ The moving party should be permitted to conduct focused discovery to the extent they wish to challenge the non-

150. See, e.g., *Rio Tinto PLC v. Vale S.A.*, 306 F.R.D. 125, 127 n.2 (S.D.N.Y. 2015) (quoting Sedona Principle 6 of *The Sedona Principles: Second Edition, Best Practices Recommendations & Principles for Addressing Electronic Document Production*, available at <https://thesedonaconference.org/download-pub/81>).

151. Cf. *Zubulake v. UBS Warburg LLC*, 229 F.R.D. 422, 432 (S.D.N.Y. 2004) (“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 the actual (as opposed to theoretical) implementation of the firm’s recycling policy.”).

152. See June 2014 Advisory Committee Report, *supra* note 38, at Appendix B-43.

153. *Id.*

moving party's averments as to the potential for restoring or replacing missing ESI or the costs associated with those efforts. In appropriate circumstances, the court could require the alleged spoliator to bear the expense of that additional discovery.¹⁵⁴ This potential for "discovery about discovery" and the shifting of discovery costs may provide further incentive for transparency and cooperation on the part of the alleged spoliator.

Proportionality considerations will also guide the court's determination whether missing ESI can be replaced or restored. The Advisory Committee cautions that "efforts to restore or replace lost information through discovery should be proportional to the apparent importance of the lost information to claims and defenses in the litigation," and that "substantial measures should not be employed to restore or replace information that is marginally relevant or duplicative."¹⁵⁵ But on this issue, the Advisory Committee's intent is less than clear.

154. See *Mazzei v. The Money Store*, No. 01cv5694 (JGK)(RLE), 2014 WL 3610894, at *8 (S.D.N.Y. July 21, 2014) (suggesting that "[w]hen evidence is destroyed, the party who sought the evidence should be compensated for any 'discovery necessary to identify alternative sources of information'" (citing *Turner v. Hudson Transit Lines, Inc.*, 142 F.R.D. 68, 78 (S.D.N.Y. 1991)). *But compare* *Zimmerman v. Poly Prep County Day School*, No. 09 CV 4586(FB), 2011 WL 1429221, at *35 (E.D.N.Y. Apr. 13, 2011) (while allowing the plaintiffs to take additional discovery in the wake of defendant's negligent failure to maintain relevant records, the court declined to award fees and costs incurred to cover that additional discovery, finding that the "discovery now sought by plaintiffs would, in all likelihood, have been discovery they would have requested even in the absence of the spoliation") with *Goodman v. Praxair Services, Inc.*, 632 F. Supp. 2d 494, 523-24 (D. Md. 2009) (suggesting that when ruling on a spoliation motion, a court could "grant discovery costs to the moving party if additional discovery must be performed after a finding that evidence was spoliated").

155. See June 2014 Advisory Committee Report, *supra* note 38, at Appendix B-62.

The Committee Note suggests that judges may look to “[o]rders under Rule 26(b)(2)(B) regarding discovery from sources that would ordinarily be considered inaccessible or under Rule 26(c)(1)(B) on allocation of expenses” in addressing whether missing ESI can be restored or replaced.¹⁵⁶ As noted above, Rule 26(b)(2)(B) places on the responding party the initial burden of showing that the desired ESI is not reasonably accessible because of undue burden or expense, and then requires the requesting party to show that these burdens and costs are justified under the particular circumstances of the case. Even with that good cause showing, however, the court under Rule 26(b)(2)(B) could shift the costs of that discovery to the requesting party. Similarly, Rule 26(c)(1)(B) permits the court, for good cause, to include in a protective order an allocation of expenses.

This author presumes that Rules 26(b)(2)(B) and 26(c)(1)(B) were cited in the Committee Note as examples of how a court may consider proportionality factors in evaluating the burdens and benefits that flow from the additional discovery directed at restoring or replacing lost ESI. Any decision regarding additional discovery, and who ultimately bears the attendant fees and costs, should take into consideration the importance of the missing evidence relative to the claims and defenses in the case; the degree to which available information is comparable to or a ready substitute for the missing evidence; the costs and burdens associated with replacing or restoring the missing evidence; and the relative financial resources of the parties. Where the non-moving party failed to take reasonable steps to preserve, the court should consider whether the missing evidence has marginal value or if equivalent information is available from sources that are reasonably accessible. In that circumstance, it might be appropriate to impose the cost of that discovery on the moving party, particularly if those costs are

156. *Id.*

minimal. The requesting party could pragmatically decide to forego that additional discovery after weighing the relative burdens and benefits. However, the moving party should not be required to absorb the costs of restoration or replacement where the missing evidence is critical and the expense associated with that effort is substantial. In that instance, shifting costs would unfairly reward the party who failed to take reasonable steps to preserve and was not sufficiently informed about its own ESI and information management systems.

V. A PROACTIVE APPROACH TO PROPORTIONALITY

The application of proportionality factors in a given case is not limited to the discovery process and should not be defined in terms of a "perfect fit" or measured by some inflexible quantitative formula. Proportionality principles can impact all phases of the pretrial process and, indeed with respect to preservation decisions, could have a bearing on events that occur even before the lawsuit commences. Like any case management tool, proportionality principles are most effective when they are employed creatively and iteratively by the parties and the court. The following are examples of techniques used by many district and magistrate judges to advance the goal of proportionality.

A. Proportionality and the Rule 26(f) Conference

Although counsel typically considers proportionality principles from their perspective as an advocate, they have equally important responsibilities as case managers. The latter role is re-affirmed in the amended version of Rule 1, which will require the parties (and their attorneys) to employ the Civil Rules to secure the just, speedy, and inexpensive determination

of every action and proceeding.¹⁵⁷ To that end, the Rules envision that the parties will address proportionality issues at the earliest possible opportunity.¹⁵⁸ Rule 26(f) states that the parties should develop a discovery plan that reflects their views and proposals on, *inter alia*, “the subjects on which discovery may be needed,” “whether discovery should be conducted in phases or be limited to or focused on particular issues,” and “what changes should be made in the limitations on discovery imposed under these rules . . . and what other limitations should be imposed.”¹⁵⁹ Rule 37(f) further authorizes the court to award reasonable fees and costs if “a party or its attorney fails to participate in good faith in developing and submitting a proposed discovery plan as required by Rule 26(f).”¹⁶⁰

Beyond the Rule 26(f) meet-and-confer setting, counsel should be prepared to address proportionality during scheduling conferences with the court. Those discussions should further the goals of “expediting disposition of the action, establishing early and continuing control so that the case will not be protracted because of lack of management, [and] discouraging

157. *Id.* at Appendix B-21-22. *Cf.* Home Design Services, Inc. v. Trumble, No. 09-cv-00964-WYD-CBS, 2010 WL 1435382, at *5 (D. Colo. Apr. 9, 2010) (“[t]he importance of a well-considered case management plan has become even more apparent as the number of cases actually proceeding to trial decreases. Counsel should have an interest in developing a discovery plan and managing the pretrial process with a view toward the most likely litigation outcomes, *i.e.*, settlement or disposition through motion.”); *In re* Complaint of Mobro Marine, Inc., No. 3:02-CV-471-J-20TEM, 2003 WL 22006257, at *1 (M.D. Fla. Mar. 24, 2003) (suggesting that “counsel have a professional obligation to develop a cost-effective plan for discovery” and to promote the public’s interest in minimizing the costs of litigation).

158. Witt v. GC Services Limited Partnership, __ F.R.D. __, 2014 WL 6910500, at *6 (D. Colo. Dec. 9, 2014).

159. FED. R. CIV. P. 26(f)(3)(B) and (E).

160. FED. R. CIV. P. 37(f).

wasteful pretrial activities."¹⁶¹ "The court's responsibility, using all the information provided by the parties, is to consider [the proportionality factors] in reaching a case-specific determination of the appropriate scope of discovery."¹⁶² As one court has explained in addressing proportionality, "there comes a point where the marginal returns on discovery do not outweigh the concomitant burden, expense, and bother. The Court's role is to try and find the right balance."¹⁶³

Application of proportionality principles extends beyond simply serving or responding to discovery requests. For example, in a case involving voluminous ESI, the parties can effectively search, analyze, and review that data, while also saving time and money, by employing technology rather than more traditional techniques such as manual review or key-word searching.¹⁶⁴ Those savings are frequently compounded when the parties can agree on the use and actual implementation of technology, and negotiate appropriate search protocols.¹⁶⁵

161. FED. R. CIV. P. 16(a)(1), (2), and (3).

162. June 2014 Advisory Committee Report, *supra* note 38, at Appendix B-40.

163. *Goodman v. Burlington Coat Factory Warehouse Corp.*, 292 F.R.D. 230, 233 (D.N.J. 2013).

164. *See, e.g., Da Silva Moore v. Publicis Groupe*, 287 F.R.D. 182, 191-92 (S.D.N.Y. 2012) (holding that counsel's selection of an appropriate methodology for reviewing and producing relevant ESI must also take into consideration Rule 1 and the proportionality considerations in Rule 26(b)(2)(C)).

165. *See, e.g., Ruiz-Bueno v. Scott*, No. 2:12-cv-0808, 2013 WL 6055402, at *3 (S.D. Ohio Nov. 15, 2013) (recognizing the potential for disagreements about proper search tools in an ESI-intensive case, the court noted that a proper Rule 26(f) conference should address "cooperative planning, rather than unilateral decision-making about matters such as 'the sources of information to be preserved or searched; number and identities of custodians whose data will be preserved or collected . . . ; topics for discovery; [and] search terms and methodologies to be employed to identify responsive data'").

Rule 26(f) also directs counsel to address “issues about claims of privilege or of protection as trial-preparation materials.”¹⁶⁶ Experienced attorneys understand the time and expense incurred in preparing privilege logs that all-too frequently become the genesis of discovery disputes or are criticized by the court as inadequate under Rule 26(b)(5).¹⁶⁷ Although Rule 502 of the Federal Rules of Evidence gives the parties (and the court) considerable latitude to adopt procedures to minimize the costs and attendant risks associated with privilege review, that safeguard is typically overlooked by even experienced attorneys. In addition, Rule 29¹⁶⁸ permits the parties to stipulate to modifications of the procedures governing discovery, including the preparation of privilege logs. Unfortunately, such stipulations are rarely employed.¹⁶⁹

166. See FED. R. CIV. P. 26(f)(3)(D).

167. See *Victor Stanley, Inc. v. Creative Pipe, Inc.*, 250 F.R.D. 251, 265 (D. Md. 2008) (noting that “[i]n actuality, lawyers infrequently provide all the basic information called for in a privilege log, and if they do, it is usually so cryptic that the log falls far short of its intended goal of providing sufficient information to the reviewing court to enable a determination to be made regarding the appropriateness of the privilege/protection asserted without resorting to extrinsic evidence or *in camera* review of the documents themselves.”).

168. FED. R. CIV. P. 29.

169. See, e.g., Philip J. Favro, *Inviting Scrutiny: How Technologies are Eroding the Attorney-Client Privilege*, 20 RICH. J.L. & TECH. 2, ¶ 151 (2013) (delineating methods for counsel, clients, and courts to reduce privilege log burdens); John M. Facciola & Jonathon M. Redgrave, *Asserting and Challenging Privilege Claims in Modern Litigation: The Facciola-Redgrave Framework*, 4 FED. CTS. L. REV. 19 (2010) (suggesting, for example, that parties can agree that a privilege log that will not include exact duplicates or correspondence between the client and litigation counsel sent after the pending lawsuit commenced).

B. Use Phased Discovery to Focus on the Most Important, Most Accessible Information

Proportionality principles presume that all relevant information is not equally important, yet the usual scheduling order is structured around the dates for completing *all* discovery and filing dispositive motions. Given that only a very small percentage of civil cases actually proceed through trial, parties are preparing scheduling orders that are premised on the least likely method of disposition. More to the point, the information that the parties require to make an informed assessment of the case in advance of a settlement conference or mediation is invariably less than the discovery needed to actually try that case.

Although counsel and the court typically consider proportionality from the standpoint of quantitative limits on the scope of discovery, that discussion overlooks a more effective case-management technique that may actually be less confrontational. The court should encourage the parties to consider a phased approach to discovery that focuses first on the most important witnesses, the most accessible ESI and documents, and

those case-dispositive legal issues that can be decided with minimal factual development.¹⁷⁰

The parties and the court also can promote the goal of proportionality by deferring work and costs that may be unnecessary in the event the case does not proceed to trial. For example, this author frequently defers expert depositions, absent extraordinary circumstances, until after rulings on summary judgment motions when it becomes clear those depositions are actually necessary to prepare for trial. Expert disclosures under Rule 26(a)(2) are designed to accelerate the exchange of basic information, to help focus the discovery process, and to enable the opposing party to identify and retain rebuttal experts.¹⁷¹ All of those goals can be achieved, without the necessity for depositions, if the parties and their experts fully adhere to their disclosure obligations. If those disclosures are inadequate, the proper

170. See, e.g., *United States ex rel. Emanuele v. Medicor Associates, Inc.*, No. 10-245, 2014 WL 3747666, at *2 (W.D. Pa. Jul. 29, 2014) (in rejecting defendants' challenge to the temporal scope of the relator's discovery requests, the court found "that the phased discovery process proposed by the special master adequately address[ed] the burden and proportionality issues raised by the defendants"); *Tamburo v. Dworkin*, No. 04 C 3317, 2010 WL 4867346, at *3 (N.D. Ill. Nov. 17, 2010) (after noting that plaintiffs' claims had been "in constant flux" for over six years, the magistrate judge ordered a phased discovery schedule "to ensure that discovery is proportional to the specific circumstances of [the] case, and to secure the just, speedy, and inexpensive determination of this action"). See also *The Sedona Conference, Commentary on Proportionality in Electronic Discovery*, 11 SEDONA CONF. J. 289, 297 (2010) (suggesting that early in the discovery process, "the court, or the parties on their own initiative, may find it appropriate to conduct discovery in phases, starting with discovery of clearly relevant information located in the most accessible and least expensive sources. Phasing discovery in this manner may allow the parties to develop the facts of the case sufficiently to determine whether, at a later date, further potentially more burdensome and expensive discovery is necessary or warranted.").

171. See *Securities and Exchange Commission v. Nacchio*, No. 05-cv-00480-MSK-CBS, 2008 WL 4587240 (D. Colo. Oct. 15, 2008).

remedy is not to expend the client's money depositing the other side's expert, but rather to compel a comprehensive disclosure under Rule 37(a)(3)(A). Rule 37(a)(4) provides that an evasive or incomplete disclosure "must be treated as a failure to disclose" and Rule 37(c) mandates that a party that fails to comply with Rule 26(a) or (e) may not use that witness or information for any purpose unless the failure was substantially justified or harmless. A premature expert deposition may simply serve to cure a deficient report at the deposing party's expense.¹⁷²

Admittedly, Rule 26(b)(4) states that "a party may depose any person who has been identified as an expert whose opinions may be presented at trial."¹⁷³ However, Rule 26(b)(2)(C) acknowledges the court's authority to alter the limits or manner of conducting discovery. The Committee Note to Rule 26(a)(2) observes that a comprehensive expert report may result in an abbreviated expert deposition or "in many cases . . . may eliminate the need for a deposition."¹⁷⁴ As the court noted in *Salgado v. General Motors Corp.*,¹⁷⁵ "[t]he [expert] report must be complete such that opposing counsel is not forced to depose an expert in order to avoid ambush; and moreover the report must be sufficiently complete so as to shorten or decrease the need for expert depositions and thus to conserve resources."¹⁷⁶

172. See FED. R. CIV. P. 16(b)(4)(E)(i) ("Unless manifest injustice would result, the court must require that the party seeking discovery pay the expert a reasonable fee for time spent in responding to discovery under Rule 26(b)(4)(A) or (D).").

173. FED. R. CIV. P. 26(b)(4).

174. See FED. R. CIV. P. 26(2) advisory committee's note to 1993 amendment.

175. 150 F.3d 735 (7th Cir. 1998).

176. *Id.* at 741 n.6.

C. Avoid Self-Inflicted Discovery Costs

Finally, proportionality principles militate against incurring cumulative or duplicative discovery expenses. In cases involving a corporate party, counsel will often serve contention interrogatories, knowing that the answers to those interrogatories should be admissible as statements offered against that corporate entity under Fed. R. Evid. 801(d)(2). Counsel invariably notices the same corporate party for a Fed. R. Civ. P. 30(b)(6) deposition and then serves a deposition notice that lists topics largely duplicative of subjects addressed in those previously answered interrogatories. That same Rule 30(b)(6) witness may later be disposed in their individual capacity. While the Civil Rules certainly permit a party to use all available methods of discovery in any sequence they choose,¹⁷⁷ that freedom of choice may be constrained by Rule 26(b)(2)(C), which requires the court to limit the frequency or extent of discovery otherwise permitted if “the discovery sought . . . can be obtained from some other source that is more convenient, less burdensome, or less expensive,” or if “the party seeking discovery has had ample opportunity to obtain the information by discovery in this action.” A Rule 30(b)(6) deposition that simply plows over old

177. See FED. R. CIV. P. 26(d)(2).

ground or requires the deponent to laboriously recite information previously disclosed in interrogatory responses may be vulnerable to challenge on proportionality grounds.¹⁷⁸

The defense bar has strongly advocated for an increased emphasis on proportionality, but then frequently employs litigation tactics that undercut that objective. Every plaintiff's attorney (and most judges) are familiar with the standard litany of "affirmative defenses" appended to the end of a defendant's answer to the complaint. It is certainly true that defenses may be waived if they are not raised in a motion or included "in a responsive pleading or in an amendment allowed by Rule 15(a)(1) as a matter of course."¹⁷⁹ But the author regularly sees answers that list twenty or more affirmative defenses, many of which are plainly inapposite to the claims and circumstances of the particular case. Those "cut and paste" defenses may, however, unintentionally expand the scope of discovery, since Rule 26(b)(1) permits a party to "obtain discovery regarding any

178. See, e.g., *United States ex rel. Fago v. M&T Mortgage Corp.*, 235 F.R.D. 11, 25 (D.D.C. 2006) ("[a]lthough Rule 30(b)(6) requires a designated witness to thoroughly educate him or herself on the noticed topic, there must be a limit to the specificity of the information the deponent can reasonably be expected to provide;" concluded there was "no added benefit to compelling the same information through a Rule 30(b)(6) deposition because, like Rule 30(b)(6) deposition testimony, an interrogatory can be served on and answered by a corporation via its officers and agents"); *Tri-State Hospital Supply Corp. v. United States*, 226 F.R.D. 118, 126 (D.D.C. 2005) (noting that under Rule 26(c), the court may prevent a party from wasting its opponent's time and thereby causing undue burden or expense; the court observed that a 30(b)(6) deposition should be productive and "not simply an excuse to obtain information that is already known" and indicated it would "entertain, if necessary, any claim that the power to take [the Rule 30(b)(6) depositions] was abused by the manner in which the depositions were conducted, to include the claim that they were nothing more than duplicative of the discovery already provided").

179. FED. R. CIV. P. 12(h)(1)(B).

nonprivileged matter that is relevant to any party's claim *or defense*." Rule 26(a)(1)(A)(i) and (ii) also require a party to automatically disclose the name of each individual likely to have discoverable information, and to copy or describe by category all documents or ESI that the disclosing party may use to support its defenses. A plaintiff can hardly be criticized for requesting additional interrogatories in order to address the factual underpinnings or legal merits of defendant's laundry list of defenses, particularly because the plaintiff (and the court) are entitled to presume that each of those affirmative defenses have a good faith basis in law and fact.¹⁸⁰

VI. CONCLUSION

Proportionality has been and will remain a part of the civil discovery process. For that reason, lawyers and judges must move beyond the abstract debate over proportionality. While the proportionality requirements in an amended Rule 26(b)(1) will not materially change the discovery obligations that already govern requesting and producing parties, it is disingenuous to suggest that the proportionality factors will be easily applied in every case, particularly at the outset of the litigation. Parties inevitably embark on the discovery process with

180. Under Fed. R. Civ. P. 11(b), by signing an answer, an attorney is certifying to the best of their knowledge, information, and belief, formed after an inquiry reasonable under the circumstances, that the answer "is not being presented for any improper purpose, such as to harass, cause unnecessary delay, or needlessly increase the cost of litigation," that the "defenses and other legal contentions are warranted by existing law or by a nonfrivolous argument for extending, modifying or reversing existing law or for establishing new law," and "the factual contentions have evidentiary support . . . or will likely have evidentiary support after a reasonable opportunity for further investigation or discovery.").

less than complete information.¹⁸¹ But that problem already exists under the current version of the Civil Rules. The solution is not to abandon proportionality as a guiding discovery principle, but rather for lawyers and jurists to find alternative and creative ways to incorporate proportionality factors in an overall discovery plan and in their pre-litigation preservation decisions.¹⁸² The challenge for lawyers is to view proportionality, not as an opportunity for gamesmanship or as a constraint on legitimate discovery, but rather as a means to achieve the objectives underlying Rule 1.

181. Cf. June 2014 Advisory Committee Report, *supra* note 38, at Appendix B-40.

182. See generally Philip J. Favro & Hon. Derek P. Pullan, *New Utah Rule 26: A Blueprint for Proportionality under the Federal Rules of Civil Procedure*, 2012 MICH. ST. L. REV. 933 (2012) (discussing generally the efforts undertaken by circuit, district, and state courts to increasingly promote the salutary impact of proportionality standards in the discovery process).

DAMAGES THEORIES IN DATA BREACH LITIGATION

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I. INTRODUCTION

In 2014 alone, there were at least 783 reported data breaches in the United States, resulting in the exposure of hundreds of millions of personal records.¹ This is a 27.5 percent increase over 2013, which itself was a 30 percent increase over

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1. *Identity Theft Resource Center Breach Report Hits Record High in 2014*, IDENTITY THEFT RESEARCH CENTER (Jan. 12, 2015), <http://www.idtheftcenter.org/ITRC-Surveys-Studies/2014databreaches.html>.

2012.² These figures do not include the potential hundreds or thousands of additional breaches that go unreported every year, whether willfully or on account of ignorance about the incidents.³ This exponential uptick in data breaches, or at least the increased visibility of such events, has prompted a surge of privacy litigation.

These legal efforts have taken a variety of forms. Generally brought as class actions, individuals seeking redress have relied on common law and statutory (federal and state) privacy rights, as well as state consumer protection laws, to establish viable causes of action. For the most part these cases have failed to progress past the motion to dismiss stage, as defendants have successfully challenged the ability of litigants to demonstrate cognizable injuries sufficient to confer Article III standing. In response, plaintiffs have continued to develop alternative damages theories to demonstrate they have suffered harm. While such theories have found some success in advancing cases beyond the pleading stage, by-and-large a consistently effective argument remains elusive.

This paper provides a broad overview of the damages theories advanced by plaintiffs in data breach litigation. After providing a brief overview of standing doctrine as articulated by the federal courts—generally the vanguard of battle at the onset of a data breach case—the judiciary’s treatment to date of

2. *IIRC 2013 Breach List Tops 600 in 2013*, IDENTITY THEFT RESEARCH CENTER, <http://www.idtheftcenter.org/IIRC-Surveys-Studies/2013-data-breaches.html> (last updated Feb. 5, 2015).

3. Thomas Claburn, *Most Security Breaches Go Unreported*, INFORMATIONWEEK (July 31, 2008, 7:27 PM), [http://www.darkreading.com/attacks-and-breaches/most-security-breaches-go-unreported/d/d-id/1070576?.](http://www.darkreading.com/attacks-and-breaches/most-security-breaches-go-unreported/d/d-id/1070576?)

plaintiffs' theories is analyzed in the context of Article III standing. We close with a prediction of the near-future of damages theories in data breach litigation.

II. EVOLVING DAMAGES THEORIES

A. Article III Standing

Consumers affected by data breaches face significant obstacles when bringing claims in federal court related to the exposure of their personally identifiable information (PII). The largest impediment so far has been meeting the standing requirement imposed by Article III of the United States Constitution.⁴ To demonstrate Article III standing, a plaintiff must show that (1) she suffered an "injury in fact," (2) her injuries were "fairly traceable" to defendant's actions, and (3) a favorable judgment will redress her injuries.⁵ The plaintiff's "injury-in-fact" must be both "concrete and particularized" and "actual or imminent, not conjectural or hypothetical."⁶ As discussed in Section B, *infra*, when the actual injury has not yet occurred, Article III requires that a threatened injury must be "certainly impending to constitute [an] injury-in-fact."⁷ Plaintiffs, in the absence of actual identity theft and a resulting loss of money or property, have developed a number of alternative theories to assert standing. The success of these theories has been mixed.

4. U.S. CONST. art. III, § 2, cl. 1 states "The judicial power shall extend to all Cases . . . [and] to Controversies." Article III standing has been interpreted to facilitate both separation of powers and the federal courts' role as courts of limited jurisdiction. *See* *Cnty. Court of Ulster Cnty., N.Y. v. Allen*, 442 U.S. 140, 154 (1979).

5. *Resnick v. AvMed, Inc.*, 693 F.3d 1317, 1323 (11th Cir. 2012) (internal quotation omitted).

6. *Id.* (internal citations omitted).

7. *Clapper v. Amnesty Int'l*, 133 S. Ct. 1138, 1147 (2013).

B. Increased Risk of Future Harm

The most argued alternative theory holds that the plaintiff, having had her PII compromised in a data breach, faces a heightened risk of future harm, i.e., the potential for her data to be exploited by nefarious actors to commit identify theft. In large measure this approach has been rejected. The court in *Galaria v. Nationwide Mut. Ins. Co.* adequately summarized the judiciary's view of the theory as follows: "Even though [plaintiffs] allege a third party or parties have their PII, whether [plaintiffs] will become victims of theft or fraud or phishing is entirely contingent on what, if anything, the third party criminals do with that information. If they do nothing, there will be no injury."⁸ Few courts have reached an opposite conclusion.

Few, however, does not mean none. Several courts have found that an increased future risk of harm may, in certain circumstances, constitute sufficient injury to confer Article III standing. *Krottner v. Starbucks Corp.*⁹ is the seminal case in this regard. There, a putative class of current and former Starbucks employees sued the ubiquitous coffee shop after a company laptop containing their names, addresses, and social security numbers was stolen. The plaintiffs alleged that their employer's failure to reasonably protect their highly sensitive information was both negligent and a breach of implied contract.¹⁰ The defendant (and the lower court) reasoned that absent any evidence of actual identity theft from the breach, plaintiffs failed to show they suffered economic harm.¹¹ The Ninth Circuit disagreed, ruling that because of the highly sensitive nature of the improperly accessed information, the plaintiffs faced a "credible threat of real

8. 998 F. Supp. 2d 646, 655 (S.D. Ohio 2014) (collecting cases).

9. 628 F.3d 1139 (9th Cir. 2010).

10. *Id.* at 1141.

11. *Id.*

and immediate harm” and therefore satisfied the injury-in-fact requirement for Article III standing because their information was exposed in the data breach.¹²

The Seventh Circuit considered a similar argument in *Pisciotta v. Old National Bancorp*.¹³ Consumers in that case sued their bank following a data breach that resulted in the disclosure of their names, social security numbers, drivers’ license numbers, birth dates, mothers’ maiden names, credit card, and other financial account numbers.¹⁴ Assessing its own jurisdiction, the Seventh Circuit held that “the injury-in-fact requirement can be satisfied by a threat of future harm or by an act which harms the plaintiff only by increasing the risk of future harm that the plaintiff would have otherwise faced, absent the defendant’s actions.”¹⁵ Accordingly, plaintiffs had standing to sue by virtue of their allegations that the defendant’s breach created an increased risk of future harm.¹⁶ Ultimately, however, the Seventh Circuit affirmed the district court’s dismissal, finding that while the plaintiffs’ alleged *injury* was in the form of the increased risk of future harm, this increased risk did not constitute the *damages* necessary to maintain their claims.¹⁷

Conversely, the First, Third, and Sixth Circuits have rejected risk-of-future-harm theories outright, finding no standing

12. *Id.* at 1143.

13. 499 F.3d 629 (7th Cir. 2007).

14. *Id.* at 631.

15. *Id.* at 634.

16. *Id.*

17. *Id.* at 640. At least one Illinois federal court has expressed doubt as to whether *Pisciotta* is still good law following the Supreme Court’s decision in *Clapper*. See *Strautins v. Trustwave Holdings, Inc.*, 27 F. Supp. 3d 871, 878–79 (N.D. Ill. 2014).

under similar facts.¹⁸ This lack of consistency has resulted in a body of data breach case law with varying outcomes and no determinative doctrine. Still, at bottom, the majority of courts to examine this question have ruled that the increased risk of future harm is not enough to establish Article III standing.

Many observers reckoned that the Supreme Court would settle the matter for good with a decision from outside the data breach context, *Clapper v. Amnesty International USA*.¹⁹ Respondents in *Clapper* were attorneys and organizations concerned about becoming subject to government surveillance pursuant to Section 702 of the Foreign Intelligence Surveillance Act of 1978 (FISA)²⁰ because there was “an objectively reasonable likelihood that their communications [would] be acquired [under FISA] at some point in the future.”²¹ Despite this allegedly objective likelihood, however, the Court held that the potential harm wasn’t certain enough, instead asserting that the “threatened injury must be certainly impending to constitute injury in fact.”²² In the wake of this decision, data breach defendants have routinely argued that a plaintiff alleging increased risk of future

18. See, e.g., *Katz v. Pershing, LLC*, 672 F.3d 64, 80–81 (1st Cir. 2012); *Reilly v. Ceridian Corp.*, 664 F.3d 38, 46 (3d Cir. 2011), *cert. denied*, 132 S. Ct. 2395 (2012); *Lambert v. Hartman*, 517 F.3d 433, 436 (6th Cir. 2008), *cert. denied*, 555 U.S. 1126 (2009).

19. 133 S. Ct. 1138, 1142 (2013).

20. FISA, first enacted in 1978, has repeatedly been amended since the September 11, 2001, terrorist attacks. Section 702 allows the United States Attorney General and Director of National Intelligence, for a period of up to one year, to engage in “the targeting of persons reasonably believed to be located outside the United States to acquire foreign intelligence information.” The Attorney General and Director of National Intelligence must submit an application for an order from a specially created court to conduct such surveillance. See 50 U.S.C. § 1881a.

21. *Clapper v. Amnesty Int’l*, 133 S. Ct. 1138, 1142–46 (2013).

22. *Id.* at 1147 (internal quotation omitted).

harm must establish the feared harm as “certainly impending” to possess standing.

The strategy has worked, for the most part. Since its publication at least fourteen courts have cited *Clapper* and its “certainly impending” standard when jettisoning data breach lawsuits for lack of standing.²³ Yet uncertainty about the future viability of the increased risk of future harm theory still lingers

23. See *In re Zappos.com, Inc. Customer Data Sec. Breach Litig.*, MDL No. 2357, 2015 WL 3466943, at *9 (D. Nev. June 1, 2015) (website data breach victims alleging increased risk of future identify theft lacked standing); *Green v. eBay Inc.*, No. 14-cv-1688, 2015 WL 2066531, at *5 (E.D. La. May 4, 2015) (same); *In re Horizon Healthcare Servs., Inc. Data Breach Litig.*, No. 13-cv-7418, 2015 WL 1472483, at *6 (D.N.J. Mar. 31, 2015) (victims of health insurance data breach alleging increased risk of future identity theft lacked standing); *Storm v. Paytime, Inc.*, No. 14-cv-1138, 2015 WL 1119724, at *7 (M.D. Pa. Mar. 13, 2015) (victims of payroll service provider’s data breach alleging increased risk of future identity theft lacked standing); *Peters v. St. Joseph Servs. Corp.*, No. 14-cv-2872, 2015 WL 589561, at *7 (S.D. Tex. Feb. 11, 2015) (medical data breach victims alleging increased risk of future identity theft lacked standing); *Lewert v. P.F. Chang’s China Bistro, Inc.*, No 14-cv-4787, 2014 WL 7005097, at *2 (N.D. Ill. Dec. 10, 2014) (victims of credit card data breach lacked standing to sue for increased risk of harm); *In re Science Applications Int’l Corp. Backup Tape Data Theft Litig.*, 45 F. Supp. 3d 14, 28 (D.D.C. 2014) (victims of military data breach lacked standing to sue for increased risk of future harm); *Strautins v. Trustwave Holdings, Inc.*, 27 F. Supp. 3d 871, 876 (N.D. Ill. 2014) (plaintiffs lacked standing to sue data security vendor for increased risk of harm arising from hacking incident); *Galaria v. Nationwide Mut. Ins. Co.*, 998 F. Supp. 2d 646, 655 (S.D. Ohio 2014) (collecting cases); *Polanco v. Omnicell, Inc.*, 988 F. Supp. 2d 451, 470 (D.N.J. Dec. 26, 2013) (health care data breach victims lacked standing to sue for increased risk of future harm); *In re Barnes & Noble Pin Pad Litig.*, No. 12-cv-8617, 2013 WL 4759588, at *1–2 (N.D. Ill. Sept. 3, 2013) (victims of credit card data breach lacked standing to sue for increased risk of harm); *Maglio v. Advocate Health & Hosps. Corp.*, Nos. 2-14-0782, 2-14-0998, 2015 WL 3537823, at *6 (Ill. App. Ct. June 2, 2015) (medical data breach victims alleging increased risk of future identity theft lacked standing).

after other courts have challenged the notion that *Clapper* substantively altered the standing test.

The Northern District of Illinois, for instance, after noting that at least one of the plaintiffs in *Moyer v. Michaels Stores, Inc.* had already incurred fraudulent charges on her credit card, held that “the elevated risk of identity theft stemming from the data breach at Michaels is sufficiently imminent to give Plaintiffs standing.”²⁴ Departing from several other post-*Clapper* data breach cases in the Northern District of Illinois,²⁵ the *Moyer* court reasoned that its conclusion followed from *Pisciotta* and was consistent with prior Supreme Court decisions finding standing based on an imminent risk of future injury. *Moyer* distinguished *Clapper* based on the latter’s “rigorous application of the ‘certainly impending’ standard in a case that involved (1) national security and constitutional issues and (2) no evidence that the relevant risk of harm had ever materialized in similar circumstances.”²⁶

In a recent class action arising from the breach of 38 million of Adobe’s customers’ “names, login IDs, passwords, credit and debit card numbers, expiration dates, and mailing and e-mail addresses,”²⁷ Judge Koh of the Northern District of California—no stranger to data breach litigation—held:

[i]n any event, even if *Krottner* is no longer good law, the threatened harm alleged here is sufficiently concrete and imminent to satisfy *Clapper*. Unlike in *Clapper*, where respondents’ claim that

24. *Moyer v. Michaels Stores, Inc.*, No. 14-C-561, 2014 WL 3511500, at *6 (N.D. Ill. July 14, 2014).

25. See e.g., *Strautins*, 27 F. Supp. 3d at 876; *In re Barnes & Noble*, 2013 WL 4759588, at *3.

26. *Moyer*, 2014 WL 3511500, at *6.

27. *In re Adobe Sys., Inc. Privacy Litig.*, 66 F. Supp. 3d 1197, 1206 (N.D. Cal. 2014).

they would suffer future harm rested on a chain of events that was both “highly attenuated” and “highly speculative,” the risk that Plaintiffs’ personal data will be misused by the hackers who breached Adobe’s network is immediate and very real. Plaintiffs allege that the hackers deliberately targeted Adobe’s servers and spent several weeks collecting names, usernames, passwords, email addresses, phone numbers, mailing addresses, and credit card numbers and expiration dates. Plaintiffs’ personal information was among the information taken during the breach. Thus, in contrast to *Clapper*, where there was no evidence that any of respondents’ communications either had been or would be monitored under Section 702, here there is no need to speculate as to whether Plaintiffs’ information has been stolen and what information was taken.²⁸

Critically, the *Adobe* court found that the very fact that hackers had accessed and misappropriated the PII was, in and of itself, sufficient to infer that the injury to plaintiffs was “certainly impending.”²⁹ From this, the court distinguished the host of other post-*Clapper* data breach cases dismissing claims where no evidence of similar malicious actors was presented.³⁰

The Seventh Circuit has thrown its support behind this theory. A 2013 breach at luxury department store Neiman Marcus resulted in the exposure of the data of approximately

28. *Id.* at 1214–15 (quoting *Clapper v. Amnesty Int’l*, 133 S. Ct. 1138, 1148 (2013)).

29. *Id.* at 1215 (“Neither is there any need to speculate as to whether the hackers intend to misuse the personal information stolen in the 2013 data breach or whether they will be able to do so.”).

30. *Id.* at 1215–16.

350,000 customer payment cards.³¹ Almost 9,200 of those cards were “known” to have been used fraudulently.³² While the district court dismissed the lawsuit based on lack of Article III standing, the Seventh Circuit reversed, finding that Remijas’s allegations were sufficient to plausibly infer a substantial risk of harm from the breach.³³ Borrowing from Judge Koh’s *Adobe* analysis, the Seventh Circuit found that it was “objectively reasonable”³⁴ to assume that victims of a data breach would suffer further repercussions—“Why else would hackers breach into a store’s database and steal consumers’ private information?”³⁵ And even if such were not the case, the court reasoned, the preventative costs breach victims might incur, such as credit monitoring subscriptions and replacement card fees, “easily” qualify as concrete injuries.³⁶ Whether other courts will adopt this reasoning and find that the involvement of hackers and other ne’er-do-wells is *prima facie* evidence that injury is imminent remains

31. *Remijas v. Neiman Marcus Group, LLC*, No. 14-3122, 2015 WL 4394814, at *2 (7th Cir. July 20, 2015).

32. *Id.*

33. *Id.* at *5.

34. This is a deviation from the standard as described in *Clapper*, which requires that plaintiff’s as-yet-manifested injury be “certainly impending.” See *Clapper v. Amnesty Int’l*, 133 S. Ct. 1138, 1147 (2013).

35. *Remijas*, 2015 WL 4394814, at *5.

36. *Id.* (referencing *Anderson v. Hannaford Bros. Co.*, 659 F.3d 151, 162 (1st Cir. 2011)).

to be seen, though the adoption of the *Adobe* reasoning by the Seventh Circuit may signal the prevailing winds.³⁷

More generally, it's difficult to predict from these cases how courts will handle the increased risk of harm theory of damages in the future. Extrapolating from *Adobe*, *Michaels Stores*, and *Remijas*, it seems that the answer will turn on a fact-specific inquiry into the circumstances surrounding the breach and the likelihood of real future harm. Given the Seventh Circuit's recent ruling, however, a renewed focus exists on each individual circuit's application of *Clappers'* Article III standing requirement.

C. *The Dissemination of Personal Information Reduces its Inherent Value*

Plaintiffs have also attempted to plead damages by asserting that a breach or disclosure devalues their otherwise valuable personal information. Although this damages theory has historically found little support from the courts, it's worth briefly mentioning in light of recent developments in the Ninth Circuit. The "reduced value" theory posits that personal information has its own independent value, and that disclosure of and potential widespread dissemination of the data in a breach deprives the plaintiff of that value. Thus far the theory has met with little success.

37. For instance, one California district court, citing *Adobe* for the proposition that *Clapper* had simply reiterated (and not changed) that where victims of a corporate data breach alleged "that [their] PII was stolen and posted on file-sharing websites for identity thieves to download" and "that the information ha[d] been used to send emails threatening physical harm to employees," those "allegations alone [were] sufficient to establish a credible threat of real and immediate harm, or certainly impending injury." See *Corona v. Sony Pictures Entm't, Inc.*, No. 14-cv-9600, 2015 WL 3916744, at *3 (C.D. Cal. June 15, 2015).

The *In re Barnes & Noble Pin Pad Litig.* Court captured the judiciary's cumulative attitude towards this theory succinctly: "The Plaintiffs' claim of injury in the form of deprivation of the value of their PII is insufficient to establish standing. Actual injury . . . is not established [under this theory] unless a plaintiff has the ability to sell his own information and a defendant sold the information."³⁸ There appears to be only one data breach case, *Claridge v. RockYou, Inc.*,³⁹ where this theory has been accepted.

RockYou, a social networking website, suffered a data breach in 2009 that affected approximately 32 million users.⁴⁰ Although users enjoyed RockYou's services free of charge, the plaintiff claimed that he suffered economic loss because he provided RockYou with his "PII, and that the PII constitutes valuable property that is exchanged not only for defendant's products and services, but also in exchange for defendant's promise to employ commercially reasonable methods to safeguard the PII that is exchanged. As a result, defendant's role in allegedly contributing to the breach of plaintiff's PII caused plaintiff to lose the 'value' of their PII, in the form of their breached personal

38. See *In re Barnes & Noble Pin Pad Litig.*, No. 12-cv-8617, 2013 WL 4759588, at *5 (N.D. Ill. Sept. 3, 2013) (citing cases); see also *In re Google Inc. Cookie Placement Consumer Privacy Litig.*, 988 F. Supp. 2d 434, 442 (D. Del. 2013) ("the court concludes that . . . plaintiffs have not sufficiently alleged that the ability to monetize their PII has been diminished or lost by virtue of Google's previous collection of it"); *In re DoubleClick, Inc. Privacy Litig.*, 154 F. Supp. 2d 497, 525 (S.D.N.Y. 2001) ("Demographic information is constantly collected on all consumers by marketers, mail-order catalogues and retailers. However, we are unaware of any court that has held the value of this collected information constitutes damage to consumers or unjust enrichment to collectors.").

39. 785 F. Supp. 2d 855, 865 (N.D. Cal. 2011).

40. *Id.* at 858.

data.”⁴¹ Citing a scarcity of controlling legal authority on the matter, and the relative novelty of data breach cases at that time, the court held that although it had doubts about “plaintiff’s ultimate ability to prove his damages theory . . . [plaintiff’s allegations of harm were sufficient] to allege a generalized injury in fact” at the motion to dismiss stage.⁴²

While no other court appears to have embraced the theory, the recent, unpublished Ninth Circuit decision in *In re Facebook Privacy Litig.*⁴³ may have given new life to the largely discarded theory that the mere loss of control over valuable personal information is sufficient to constitute economic damage. The plaintiff in *In re Facebook Privacy Litig.* had appealed the district court’s dismissal of claims for breach of contract and violation of two California consumer fraud statutes (each of which required the “[loss of] money or property” to state a claim).⁴⁴ In a brief (and unpublished) opinion, the Ninth Circuit held that the plaintiff had sufficiently pled contract damages (but not the “[loss of] money or property” necessary for the consumer fraud claims) by alleging that “the information disclosed by Facebook can be used to obtain personal information about plaintiffs, and that they were harmed both by the dissemination of their personal information and by losing the sales value of that information.”⁴⁵

Thus far, only one Court has relied on the lost-value theory articulated in *In re Facebook Privacy Litig.* in finding economic harm and Article III standing. In *Svenson v. Google, Inc.*,⁴⁶ the

41. *Id.* at 861.

42. *Id.*

43. 572 F. App’x 494, 494 (9th Cir. 2014).

44. *Id.*

45. *Id.*

46. No. 13-cv-4080 (N.D. Cal.).

court initially dismissed plaintiff's claim based on the loss of economic value of her improperly disclosed PII because she could not allege that a market existed for the information in question.⁴⁷ After amendment by the plaintiff, however—adding an allegation that “[t]here is a robust market for the type of information” disclosed—that court held that, “[i]n light of the Ninth Circuit’s ruling . . . [the plaintiff’s] allegations of diminution in value of her personal information are sufficient to show contract damages for pleading purposes.”⁴⁸

Going forward, there is potential for this theory of harm to make a comeback. At a minimum, practitioners within the Ninth Circuit will continue to advance the theory. And given the emergence of marketplaces where consumers directly sell access to their own personal information,⁴⁹ the opposition to this theory propounded by the courts may fall away.

D. Misrepresentation/Overpayment

Finally, a new damages theory that borrows principles from mislabeling and false advertising law has been making gains of late. The misrepresentation (also known as the “benefit of the bargain”) theory argues that consumer-plaintiffs rely on a defendant-corporation’s representation about their data security measures. When a subsequent data breach provides evidence that those measures weren’t implemented, it stands to reason that the plaintiff wouldn’t have paid for the defendant’s product or service as received, or would have paid less for it had they been informed of the lack of security measures. Essentially,

47. See *Svenson*, 65 F. Supp. 3d 717, 724–25 (2014).

48. *Svenson*, No. 13-cv-04080, 2015 WL 1503429, at *5 (N.D. Cal. Apr. 1, 2015).

49. See, e.g., Tim Simonite, *Sell Your Personal Data for \$8 a Month*, MIT TECHNOLOGY REVIEW (February 12, 2014), <http://www.technologyreview.com/news/524621/sell-your-personal-data-for-8-a-month/>.

the consumer did not receive the benefit of the bargain from their transaction and was thus injured.

The theory probably traces its data breach origins to the Eleventh Circuit's decision in *Resnick v. AvMed, Inc.*, where plaintiffs alleged that: (i) they had paid defendant health insurance premiums, (ii) a portion of those premiums was intended to pay for the administrative costs of data security, and (iii) the defendant allegedly did not meet its promise to secure their private information in accordance with the industry standards.⁵⁰ Ultimately the Court found that plaintiff had sufficiently alleged an entitlement to damages,⁵¹ where plaintiffs' allegations included that they "conferred a monetary benefit on AvMed in the form of monthly premiums," that AvMed "appreciates or has knowledge of such benefit," that AvMed used the premiums to "pay for the administrative costs of data management and security," and that AvMed "should not be permitted to retain the money belonging to Plaintiffs . . . because [AvMed] failed to implement the data management and security measures that are

50. *Resnick v. AvMed, Inc.*, 693 F.3d 1317, 1322-24 (11th Cir. 2012). While *Resnick* is often cited for its impact on standing doctrine, a careful reading of the Eleventh Circuit's decision belies this assertion. In its standing analysis, the court found that plaintiffs had sufficiently stated an injury-in-fact where "they have become victims of identity theft and have suffered monetary damages as a result." *Id.* at 1323. In a subsequent decision out of an Eleventh Circuit district court, *Willingham v. Global Payments, Inc.*, No. 12-CV-01157, 2013 WL 440702, at *8 (N.D. Ga. Feb. 5, 2013), the court found no standing where the plaintiff failed to allege that fraudulent charges to her account were not reimbursed.

51. While standing and damages are different inquiries, they do share some overlap. That is, any plaintiff who suffers damages has necessarily suffered the injury-in-fact required for standing. *See* *Natural Res. Def. Council, Inc. v. U.S. Food & Drug Admin.*, 710 F.3d 71, 85 (2d Cir. 2013), *as amended* (Mar. 21, 2013) ("Even a small financial loss is an injury for purposes of Article III standing.") The opposite, of course, is not always true. *See* *Pisciotta v. Old National Bancorp*, 499 F.3d 629, 640 (7th Cir. 2007).

mandated by industry standards . . . as can be seen from the data breach.”⁵²

More recently, the plaintiff in *In re LinkedIn User Privacy Litig.* alleged that she viewed and read LinkedIn’s privacy policy—which promised to use “industry standard” security measures—and that she would not have paid for her premium subscription (even if it contained the same privacy promise as the free version of the service) but for that security promise.⁵³ She further alleged that the promise ended up being false as evidenced by a 2012 data breach—i.e., the defendant had allegedly not in fact been using industry-standard security.⁵⁴ The Court found these allegations sufficient to plead the injury-in-fact required by Article III and the economic harm required under California’s Unfair Competition Law.⁵⁵ Relying on a series of Ninth Circuit cases involving state consumer protection claims for false labeling, the court found that because the plaintiff alleged that (1) she had purchased her premium subscription in reliance on LinkedIn’s security standards statements, (2) these statements were false, and (3) that she wouldn’t have purchased the

52. *Resnick*, 693 F.3d at 1328.

53. No. 5:12-cv-03088, 2014 WL 1323713, at *5 (N.D. Cal. Mar. 28, 2014).

54. *Id.*

55. *Id.* at *6. In a prior round of motion practice spurred by a LinkedIn Motion to Dismiss, the court had found that such a “benefit of the bargain” theory was not appropriate where the plaintiff did not allege that she had read and relied on LinkedIn’s privacy representations in coming to her decision to purchase the LinkedIn premium service. *See In re LinkedIn User Privacy Litig.*, 932 F. Supp. 2d 1089, 1093–94 (N.D. Cal. 2013). Moreover, the court found that “in cases where the alleged wrong stems from allegations about insufficient performance or how a product functions . . . plaintiffs [must] allege ‘something more’ than ‘overpaying for a ‘defective’ product.’” *Id.* at 1094. Notably, in the briefing on the second motion to dismiss, plaintiff conceded, based on evidence provided by LinkedIn, that her claims for breach of contract and the unfair prong of the California Unfair Competition Law could not survive under her theory.

premium service but for the misrepresentation, the plaintiff had sufficiently alleged economic loss under the fraud prong of the California Unfair Competition Law (CUC) and an injury-in-fact sufficient to confer Article III standing.⁵⁶

Likewise, the *In re Adobe Sys., Inc. Privacy Litig.* Court heavily relied on California's numerous consumer protection laws in ruling that plaintiffs had statutory standing to sue under the CUC, as Adobe had a duty to disclose that its security practices were not up to industry standards.⁵⁷ Plaintiffs positively identified a number of specific industry-standard security measures that Adobe allegedly did not implement, and further alleged that Adobe's competitors did invest in these measures. The court found that plaintiffs had therefore plausibly alleged—under the fraud and unfairness prongs of the CUC—that Adobe gained an unfair competitive advantage by not spending money on security the way its competitors did.⁵⁸ Plaintiffs also plausibly alleged that their reliance on Adobe's alleged misrepresentations was sufficient to show injury in that they overpaid for Adobe products as a result.⁵⁹

The plaintiff in another privacy class action arising in the Northern District of California recently found success with a similar theory. In *Svenson v. Google, Inc.*,⁶⁰ the plaintiff alleged that she and the other putative class members contracted with Google and its subsidiary for secure and private processing of purchases made through Google's Play Store, and that Google violated that contract by disclosing their personally identifiable information to the vendors of the software applications being

56. *In re LinkedIn User Privacy Litig.*, 2014 WL 1323713, at *6.

57. *In re Adobe Sys., Inc. Privacy Litig.*, 66 F. Supp. 3d 1197, 1224 (N.D. Cal. 2014) (internal citations omitted).

58. *Id.*

59. *Id.*

60. 2015 WL 1503429, at *1.

purchased.⁶¹ From this, the plaintiff alleged overpayment, asserting that she would not have paid Google for its payment processing services had she known those services would not be private. Accordingly, her overpayment was equal to the premium paid to the defendants for secure payment processing.⁶² Citing a deceptive labeling case, *Chavez v. Blue Sky Natural beverage Co.*,⁶³ the Court held that the plaintiff adequately pleaded damages under a benefit-of-the-bargain theory, and therefore had standing to sue.⁶⁴

Courts have only recently begun to address the misrepresentation/overpayment theory of damages in data breach cases, making it difficult to divine whether this theory will continue to gain support. Indeed, the Seventh Circuit's recent decision in *Ramijas v. Neiman Marcus* characterized the transition of this theory from the products liability to data breaches as "problematic," though the Court ultimately withheld judgment on the theory.⁶⁵ It also warrants mentioning though that defendants in both *Resnick* and *In re LinkedIn User Privacy Litig.* agreed to settle rather than proceed through discovery. These results will likely further encourage plaintiff's lawyers to pursue this line of argument where possible in data breach cases.

61. *Id.*

62. *Id.* at *4.

63. 340 F. App'x 359 (9th Cir. 2009).

64. *Svenson v. Google, Inc.*, No. 13-cv-04080, 2015 WL 1503429, at *4 (N.D. Cal. Apr. 1, 2015). Additionally, as discussed in text accompanying note 48 *supra*, the *Svenson* plaintiff, under *In re Facebook Privacy Litig.*, 572 F. App'x 494, 494 (9th Cir. 2014), also sufficiently alleged damages under a diminution-of-value theory. See *Svenson*, 2015 WL 1503429, at *4.

65. *Remijas v. Neiman Marcus Group, LLC*, No. 14-3122, 2015 WL 4394814, at *6 (7th Cir. July 20, 2015).

E. *Shifting Trends*

The ever-changing landscape of data breach litigation remains one of this rapidly developing field's defining characteristics. It has been a mere twelve years since California enacted the United States' first data security breach notification law, SB 1386.⁶⁶ Even the forward-thinking individuals behind that statute, however, likely did not anticipate the comprehensive shift towards big data and shared computing at the forefront of today's privacy and data security issues. Equally unlikely is that many in 2003 believed that data breaches would emerge as the mid-2010s class action *cause célèbre*.

And although consumer plaintiffs have struggled to find a reliable route past motions to dismiss, creative litigators have experienced some success in satisfying Article III's standards.⁶⁷ At least a portion of this success is attributable to more careful adherence to the required pleading particularities of data breach cases that the courts have slowly outlined through their orders dismissing plaintiffs' cases (often times with leave to amend).⁶⁸

As discussed above, the key to consistently sustaining viable causes of action will be a workable model of damages sufficient to satisfy Article III. While it remains to be seen whether courts are latching on to alternative standing theories in sufficient numbers to constitute a trend, there can be no doubt certain plaintiffs with fact-specific types of claims are surviving motions to dismiss. Until these theories percolate up through

66. CAL. CIV. CODE §§ 1798.29, 1798.90 *et seq.* (2003).

67. *See* Sec. II.E, *supra*.

68. *Compare In re LinkedIn User Privacy Litig.*, 932 F. Supp. 2d 1089 (N.D. Cal. 2013) (dismissing claims where plaintiff failed to allege reliance on LinkedIn's privacy statements), *with In re LinkedIn User Privacy Litig.*, No. 12-CV-03088, 2014 WL 1323713, at *8 (N.D. Cal. Mar. 28, 2014) (denying LinkedIn's motion to dismiss where plaintiff alleged that she read and relied on LinkedIn's privacy representations).

the circuit courts, as with *Resnick v. AvMed* in the Eleventh Circuit and *In re Facebook Privacy Litig.* in the Ninth, the exact boundaries of standing in data breach cases will remain imprecisely defined. Given the expense associated with defending these claims⁶⁹ and the resulting swiftness with which these lawsuits settle when plaintiffs do survive a motion to dismiss,⁷⁰ however, it may be that appellate guidance will take some time.

Nevertheless, there is a class of plaintiffs that avoids the litany of pleading frustrations faced by consumers—the financial institutions and other payment-card intermediaries which have traditionally absorbed the costs of fraudulent activity resulting from stolen PII. Indeed, the very condition that often dooms consumer claims—generally consumers affected by fraud are not liable to their bank or card provider for fraudulent claims on their accounts—provides the requisite injury-in-fact for a financial institution’s claim against a breached entity to

69. A recent study by NetDiligence, a cyber-risk assessment firm, found the *average* cost for legal defense related to a data breach lawsuit was nearly \$575,000. Mark Greisiger, *NetDiligence Cyber Liability & Data Breach Insurance Claims: A Study of Actual Claim Payouts*, NETDILIGENCE (2013), <http://www.netdiligence.com/files/CyberClaimsStudy-2013.pdf>.

70. See, e.g., *In re Sony Gaming Networks & Customer Data Sec. Breach Litig.*, Order Granting Plaintiffs’ Motion for Preliminary Approval of Class Action Settlement, No. 11-MD-2258 (MDD), dkt. 193 (S.D. Cal. July 10, 2014) (granting preliminary approval of \$15 million settlement (not including \$2.75 million for attorneys’ fees) following a January 2014 ruling leaving intact claims brought under consumer protection laws); *Burrows v. Purchasing Power, LLC*, Order Preliminarily Approving Class Action Settlement, No. 12-cv-22800, dkt. 64 (S.D. Fla. April 12, 2013) (granting preliminary approval of a \$430,000 settlement following the partial denial of Purchasing Power’s motion to dismiss in early December 2012).

survive the pleading stage.⁷¹ Because card issuers often use their authority under the Payment Card Industry Data Security Standards (PCI DSS) to fine non-PCI DSS compliant merchants and recover costs associated with a breach, however, lawsuits against breached merchants by the issuing banks have historically been rare.

Yet as breaches escalate in frequency, size, and cost, it is likely that more financial institutions will seek to recover their outlays from offending merchants. The infamous Target data breach, announced in December 2013 and affecting over 40 million card holders,⁷² has spawned a number of class actions, including one comprised of affected financial institutions. A group of banks and credit unions filed suit against the retailer for damages stemming from the record-setting breach.⁷³ Minnesota U.S. District Judge Paul Magnuson denied Target's motion to dismiss the financial institutions' claims, finding that Target had a "special relationship" with financial institutions resulting

71. In 2008, for example, credit card transaction vendor Heartland Payment Systems, Inc., suffered a breach affecting as many as 100 million cards issued by more than 650 financial services companies. Heartland would ultimately settle with Visa for nearly \$60 million, MasterCard for \$41.4 million, and with American Express for \$3.6 million. See Tracy Kitten, *More Litigation Tied to Heartland Breach*, BANKINFOSECURITY.COM (Feb. 21, 2013), <http://www.bankinfosecurity.com/more-litigation-tied-to-heartland-breach-a-5528/op-1>. Heartland continues to litigate claims levied by a number of card issuing banks. See *Lone Star Nat. Bank, N.A. v. Heartland Payment Sys., Inc.*, 729 F.3d 421 (5th Cir. 2013).

72. *The Target Breach, By the Numbers*, KREBSONSECURITY.COM (May 6, 2014), <http://krebsonsecurity.com/2014/05/the-target-breach-by-the-numbers/>.

73. *In re Target Corp. Customer Data Sec. Breach Litig.*, MDL No. 14-2522 (PAM/JJK) (D. Minn.).

from Target's duty to banks and credit unions to ensure payment card data remained secure.⁷⁴ An attempted settlement with MasterCard International soon thereafter would later fall apart.⁷⁵ Because of the relative dearth of case law regarding the duty of care owed by retailers to card issuers, it is possible that Judge Magnuson's Order denying Target's motion will serve as a bellwether for other similar breaches.⁷⁶

One area where consumer plaintiffs have been able to avoid the standing pitfalls is in suing under privacy-related laws that provide for statutory damages without proof of actual monetary harm.⁷⁷ Several courts have held that financial harm

74. *In re Target Corp. Customer Data Sec. Breach Litig.*, 64 F. Supp. 3d 1304, 1309 (D. Minn. 2014).

75. Joseph Ax, *MasterCard, Target Data Breach Settlement Falls Apart*, REUTERS U.S. (May 22, 2015, 1:15 PM), <http://www.reuters.com/article/2015/05/22/us-target-mastercard-settlement-idUSKBN0O71TD20150522>.

76. Of particular note is the recent payment card breach involving Home Depot, which affected nearly 56 million payment cards over a five-month span. On September 16, 2014, Home Depot was sued as part of a proposed class action in the Northern District of Georgia. *See* Complaint, First Choice Federal Credit Union v. The Home Depot, Inc., No. 1:14-md-02583-TWT, dkt. 93 (N.D. Ga. 2014). Plaintiff First Choice Federal Credit Union seeks to represent a class of credit unions, banks, and other financial institutions affected by the payment card system breach. It remains to be seen what impact Target's failed settlement attempt with its financial institutions will have on Home Depot's litigation strategy.

77. While no state data breach notification laws yet provide for statutory damages, there are a number of state and federal consumer privacy laws that do, such as the Electronic Communications Privacy Act, 18 U.S.C. §§ 2510 *et seq.*, the Stored Communications Act, 18 U.S.C. §§ 2701 *et seq.*, and the Fair and Accurate Credit Transactions Act, 15 U.S.C. §§ 1681c(g), 1681n.

is not required under such laws, so long as the plaintiff successfully pleads the impairment of her statutory rights.⁷⁸

The defense bar, however, has made a concerted effort to challenge this vision of the standing doctrine, and the Supreme Court's upcoming decision in *Spokeo, Inc. v. Robins*, a case involving standing and the statutory damages provision of the Fair Credit Reporting Act, may resolve the ideological divide. In *Spokeo*, the Court will determine "[w]hether Congress may confer Article III standing upon a plaintiff who suffers no concrete harm, and who therefore could not otherwise invoke the jurisdiction of a federal court, by authorizing a private right of action based on a bare violation of a federal statute."⁷⁹ While *Robins* maintains that the Court's own precedent holds that "[t]he injury required by Article III can exist solely by virtue of statutes creating legal rights, the invasion of which creates standing,"⁸⁰ *Spokeo* argues that there in fact exists a circuit split as to

78. See, e.g., *Sterk v. Redbox Automated Retail, LLC*, 770 F.3d 618, 623 (7th Cir. 2014) ("As we have said, Congress 'may not lower the threshold for standing below the minimum requirements imposed by the Constitution,' but Congress does have the power to 'enact statutes creating legal rights, the invasion of which creates standing, even though no injury would exist without the statute.'") (quoting *Kyles v. J.K. Guardian Sec. Servs., Inc.*, 222 F.3d 289, 294 (7th Cir. 2000)); *In re iPhone Application Litig.*, 844 F. Supp. 2d 1040, 1055 (N.D. Cal. 2012) (Koh, J.) (finding that allegations that mobile industry defendants violated plaintiffs' statutory rights under the Stored Communications Act sufficiently established an injury-in-fact for purposes of Article III standing).

79. Petition for a Writ of Certiorari at 1, *Spokeo, Inc. v. Robins* (No. 13-1339), 2014 WL 1802228.

80. See *Warth v. Seldin*, 422 U.S. 490, 500 (1975); see also Antonin Scalia, *The Doctrine of Standing as an Essential Element for the Separation of Powers*, 17 SUFFOLK U. L. REV. 881, 885 (1983) ("Standing requires . . . the allegation of some particularized injury to the individual plaintiff. But legal injury is by definition no more than the violation of a legal right; and legal rights can be created by the legislature.").

whether Congress “can create Article III standing by authorizing a remedy for a bare statutory violation.”⁸¹

Spokeo’s resolution will likely impact the next wave of state data breach notification laws by determining whether or not the evolution of consumer privacy laws will include a private right of action—and accordingly opening the doors of federal court to the aggrieved consumer.⁸² A decision is expected sometime during the October 2015 Supreme Court term.

Finally, recent lawsuits reveal that the defense bar’s Article III standing offensive may have unintended consequences, as plaintiffs in several newly filed cases have simply sidestepped Article III standing issues by filing their lawsuits in state courts. State courts are not bound to the Article III standing doctrine fashioned by the federal courts, and are perceived as having less severe—or at least less technical—requirements in order to successfully assert standing.⁸³ And while class-action plaintiffs may have trouble keeping their lawsuits in state courts—the Class Action Fairness Act (CAFA)⁸⁴ sets limits on the amount in controversy and diversity of class membership

81. Petition for a Writ of Certiorari, *supra* note 79, at 2.

82. Several states already maintain a private right of action through their breach notification statutes, including California, Massachusetts, and New Hampshire.

83. William A. Fletcher, *The “Case or Controversy” Requirement in State Court Adjudication of Federal Questions*, 78 CALIF. L. REV. 263, 264–65 (1990); see also James W. Dogget, *“Trickle Down” Constitutional Interpretation: Should Federal Limits on Legislative Conferral of Standing Be Imported Into State Constitutional Law?*, 108 COLUM L. REV. 839, 851 (2008) (“Since state courts are not organized under the Federal Constitution, but rather under state constitutions, states have been free to vary justiciability standards in their courts from federal norms.”).

84. 28 U.S.C. §§ 1332(d), 1453, 1711–15.

that may be heard in federal court, oftentimes a defendant's preferred venue⁸⁵—those cases will only end up remanded to state court if the federal courts lack Article III jurisdiction to hear the claims.⁸⁶ Furthermore, non-CAFA plaintiffs have found recent success in state courts with damages theories that have largely failed in the federal courts.⁸⁷ If additional state courts show a willingness to entertain previously challenged damages theories, it is possible that much of what is now federal litigation may migrate to friendlier state courts.

Finally, the proliferation of arbitration agreements in consumer contracts of adhesion may offer an additional avenue for seeking redress. They argue that, as a creature of contract law, an arbitrator's jurisdiction is not limited by Article III's injury-in-fact requirement.⁸⁸ Thus, plaintiffs argue, they may be

85. Under CAFA, federal courts are granted jurisdiction over certain class actions in which the amount in controversy exceeds \$5 million and any class members are citizens of a state different from any defendant. This diversity limitation may be overcome, however, if at least two-thirds of the class members and the "primary" defendant are citizens of the state in which the action was originally filed. Plaintiffs cannot overcome the amount in controversy requirement merely by stipulating that the damages sought are less than \$5 million. *See Standard Fire Ins. Co. v. Knowles*, 133 S. Ct. 1345, 1349–50 (2013).

86. *See* 28 U.S.C. § 1147 ("[I]f at any point before final judgment it appears that the district court lacks subject matter jurisdiction, the case shall be remanded.").

87. *See Tabata v. Charleston Area Med. Ctr., Inc.*, 759 S.E. 2d 459 (W. Va. 2014). In *Tabata*, the West Virginia Supreme Court found that hospital patients had a "concrete, particularized, and actual" interest "in having their medical information kept confidential." *Id.* at 464. Plaintiffs had not alleged any financial harm or even that their patient data had been improperly accessed. It remains to be seen whether *Tabata* will be applied to cases outside of West Virginia or that do not involve medical information.

88. *See generally* Peter B. Rutledge, *Arbitration and Article III*, 61 VAND. L. REV. 1189, 1219–20 (2008).

permitted to bring class arbitrations or hundreds of individual arbitrations under the appropriate circumstances.

III. CONCLUSION

Data breach plaintiffs have been waging an uphill battle to have their claims heard. While plaintiffs allege that the personal information at the heart of data breaches clearly has some inherent value—why else would companies value it and legislatures protect it, they contend—the federal courts have been generally resistant to lawsuits that fail to allege actual financial injury. Plaintiffs continue to develop new theories, often borrowed from other areas of the law, under which to plead these claims. As recent cases have shown, some federal courts may finally be relaxing the Article III barrier. Regardless, as the incidence of data breaches continues to climb at a near exponential pace, there is no doubt that affected consumers and institutions will attempt to seek redress through the courts, and their characterizations of cognizable injury will continue to evolve.

HIGH OCTANE: THE NEW LANDSCAPE FOR EXCEPTIONAL CASE DETERMINATIONS

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INTRODUCTION

The Supreme Court just upped the stakes of patent litigation. Already known as an area of law with millions of dollars routinely on the line, the Supreme Court recently lowered the standard and burden of proving when attorney fees should be awarded to a prevailing party, and underscored that district courts maintain the discretion to make such a determination. This article will summarize the Federal Circuit precedent before the Supreme Court's decisions, detail the Court's holdings in *Octane Fitness* and *Highmark*, identify trends from the district courts since the Court's rulings, and suggest a few hot topics that district courts and litigants will need to address moving forward.

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The content of this article should not be taken as legal advice or as an expression of the views of the firm, its attorneys, or any of its clients. We hope the article spurs discussion in the legal community with insight into the experience of the authors.

I. THE FEDERAL CIRCUIT'S PRE-OCTANE & HIGHMARK APPROACH
TO ATTORNEY FEES UNDER 35 U.S.C. § 285

As an exception to the American Rule on attorney fees, a prevailing party in patent litigation may receive an award of attorney fees in "exceptional cases." The entirety of 35 U.S.C. § 285 provides: "The court in exceptional cases may award reasonable attorney fees to the prevailing party." The Federal Circuit interpreted § 285 in *Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.*¹ and held that a patent case is exceptional in two circumstances: "when there has been some material inappropriate conduct," or "if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless."² The Federal Circuit required a prevailing party to prove one of these circumstances by clear-and-convincing evidence.³

On appeal, the Federal Circuit developed different standards of review over time. Following *Brooks Furniture*, the Federal Circuit generally reviewed district courts' exceptional case determinations for an abuse of discretion.⁴ Nevertheless, the Federal Circuit made clear that it would give detailed review of a trial court's decision to declare a case exceptional and award attorney fees because of the impact such awards have on litigants and their attorneys:

1. 393 F.3d 1378 (Fed. Cir. 2005).

2. *Id.* at 1381.

3. *See, e.g.,* Wedgetail Ltd. v. Huddleston Deluxe, Inc., 576 F.3d 1302, 1304-06 (Fed. Cir. 2009).

4. *See, e.g.,* iLOR, LLC v. Google, Inc., 631 F.3d 1372, 1376 (Fed. Cir. 2011) ("The objective baselessness standard for enhanced damages and attorneys' fees against a non-prevailing plaintiff under *Brooks Furniture* is identical to the objective recklessness standard for enhanced damages and attorneys' fees against an accused infringer for § 284 willful infringement actions under *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc).").

[W]e have the responsibility, in light of the substantial economic and reputational impact of such sanctions, to examine the record with care to determine whether the trial court has committed clear error in holding the case exceptional or has abused its discretion with respect to the fee award.⁵

The Federal Circuit then recently explained that it would review a district court's determination that a case was "objectively baseless" *de novo*.⁶ "To be objectively baseless, the infringement allegations must be such that no reasonable litigant could reasonably expect success on the merits."⁷ The court reasoned that this determination "is a question of law based on underlying mixed questions of law and fact."⁸ Accordingly, as the court recently held in an analogous standard for objective recklessness in a willfulness determination,⁹ the Federal Circuit explained that the district court's determination "is subject to *de novo* review" and "without deference."¹⁰

5. *Medtronic Navigation, Inc. v. BrainLAB Medizinische Computersysteme GmbH*, 603 F.3d 943, 953 (Fed. Cir. 2010).

6. *Highmark, Inc. v. Allcare Health Mgmt. Sys.*, 687 F.3d 1300, 1309 (Fed. Cir. 2013).

7. *Dominant Semiconductors Sdn. Bhd. v. OSRAM GmbH*, 524 F.3d 1254, 1260 (Fed. Cir. 2008).

8. *Highmark*, 687 F.3d at 1309.

9. *See id.* (citing *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 682 F.3d 1003 (Fed. Cir. 2012)); *Powell v. Home Depot U.S.A., Inc.*, 663 F.3d 1221, 1236 (Fed. Cir. 2011); *see also iLor*, 631 F.3d at 1376.

10. *Highmark*, 687 F.3d at 1309, 1316.

II. THE SUPREME COURT'S *OCTANE FITNESS* AND *HIGHMARK* DECISIONS

The United States Supreme Court issued two key decisions last term addressing the standard and burden of proof for exceptional case determinations under 35 U.S.C. § 285. Those two cases are *Octane Fitness LLC v. Icon Health & Fitness, Inc.*¹¹ and *Highmark Inc. v. Allcare Health Management Systems*.¹² The Court granted certiorari in these two cases to evaluate both the standard and burden of proof governing district courts' determinations under § 285, and the standard of review on appeal of those determinations.

Octane Fitness—A New Standard and Burden of Proof

In *Octane Fitness*, the Court addressed the proper standard and burden of proof district courts should apply when they make an exceptional case determination.¹³ While the Federal Circuit has applied its two-circumstance standard in *Brooks Furniture* since 2005, the Court noted that the Federal Circuit "instructed district courts to consider the totality of circumstances when making fee determinations under § 285."¹⁴ The Court concluded that this equitable approach was proper, and not the Federal Circuit's "rigid and mechanical formulation."¹⁵

11. 134 S. Ct. 1749 (2014).

12. 134 S. Ct. 1744 (2014).

13. *Octane*, 134 S. Ct. 1749.

14. *Id.* at 1754 (citing *Rohm & Haas Co. v. Crystal Chemical Co.*, 736 F.2d 688, 691 (1984) ("Cases decided under § 285 have noted that 'the substitution of the phrase "in exceptional cases" has not done away with the discretionary feature.'") and *Yamanouchi Pharmaceutical Co., Ltd. v. Danbury Pharmacal, Inc.*, 231 F.3d 1339, 1347 (2000) ("In assessing whether a case qualifies as exceptional, the district court must look at the totality of the circumstances.")).

15. *See id.*

In a unanimous opinion authored by Justice Sotomayor, the Court held that “an ‘exceptional’ case is simply one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.”¹⁶ The application of this standard is a “case-by-case exercise of discretion, considering the totality of the circumstances,” instead of the “rigid and mechanical formulation” by the Federal Circuit.¹⁷ The Court reached this conclusion by simply construing “exceptional” “in accordance with [its] ordinary meaning.”¹⁸ For instance, the Court looked at dictionary definitions of “exceptional” when Congress added it to § 285 in 1952.¹⁹ Those dictionaries included definitions for “exceptional,” such as “uncommon,” “rare,” or “not ordinary.”²⁰

The Court went on to explain why the Federal Circuit’s “rigid and mechanical formulation” was improper. With respect to the *Brooks Furniture* first category of cases—those involving litigation misconduct, the Court explained that “sanctionable conduct is not the appropriate benchmark.” Based on the new standard, a district court may find a case exceptional when a party’s conduct is “unreasonable,” even if not “independently

16. *Id.* at 1756.

17. *Id.* at 1754, 1756. The Court explained in a similar provision in the Copyright Act that district courts consider a “‘nonexclusive’ list of ‘factors,’ including ‘frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.’” *Id.* at 1756 (quoting *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 n.19 (1994)).

18. *Id.* at 1756.

19. *Id.* at 1756.

20. *Id.* at 1756.

sanctionable.”²¹ The second category of cases was also too restrictive because it required both a finding that the case “was objectively baseless *and* that the plaintiff brought it in subjective bad faith.” Under the Court’s new standard, “a case presenting either subjective bad faith or exceptionally meritless claims may sufficiently set itself apart from mine-run cases to warrant a fee award.”²² Lastly, the Court concluded that the Federal Circuit’s exacting standard was “so demanding that it would appear to render § 285 largely superfluous.”²³

The Court also reversed the Federal Circuit’s clear-and-convincing evidence burden of proof for exceptional case determinations. The Court explained that it has not interpreted comparable fee-shifting statutes to require such a high evidentiary burden. Nor did anything in the statute justify such a burden. Instead, § 285 “demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less such a high one.” As a result, the preponderance-of-evidence standard is more appropriate because that generally governs patent-infringement and civil litigation, and “allows both parties to ‘share the risk of error in roughly equal fashion.’”²⁴

Highmark—A New Standard of Review on Appeal

In parallel with its *Octane Fitness* decision, the Court issued *Highmark Inc. v. Allcare Health Management System*. The issue in *Highmark* was the Federal Circuit’s “*de novo*” review of objectively baseless determinations. The Court reversed the Federal Circuit again and remanded the case back to the District Court, finding that “[b]ecause § 285 commits the determination whether a case is ‘exceptional’ to the discretion of the district

21. *Id.* at 1756-57.

22. *Id.* at 1757.

23. *Id.* at 1758.

24. *Id.* at 1758 (internal citations omitted).

court, that decision is to be reviewed on appeal for abuse of discretion.”²⁵ The Court rejected the Federal Circuit’s determination that the standard of review should be *de novo* because “objective baseless determinations” were a matter of law.²⁶ “Although questions of law may in some cases be relevant to the § 285 inquiry, that inquiry generally is, at heart, ‘rooted in factual determinations.’”²⁷ On June 23, 2015, the Northern District of Texas issued its order on remand, affirming its original decision that the case was exceptional and awarded attorney’s fees.²⁸ Even under the Supreme Court’s *Octane* standard, where an “exceptional” patent case is one that “stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated),” the district court found that the original factual findings certainly “stood out” to the court.²⁹

Despite the Northern District of Texas’s decision, in light of these two Supreme Court decisions, the Federal Circuit, district courts, and litigants now must deal with the new landscape of exceptional case determinations post-*Octane Fitness* and *Highmark*.

25. *Highmark Inc. v. Allcare Health Management Sys. Inc.*, 134 S. Ct. 1744, 1747 (2014).

26. *Id.* at 1748. “Traditionally, decisions on ‘questions of law’ are ‘reviewable *de novo*,’ decisions on ‘questions of fact’ are ‘reviewable for clear error,’ and decisions on ‘matters of discretion’ are ‘reviewable for ‘abuse of discretion.’” *Id.* (internal citations omitted). And because a determination under § 285 is a matter of discretion, “the exceptional-case determination is to be reviewed only for abuse of discretion.” *Id.*

27. *Id.* at 1749 (citing *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 405 (1990)).

28. *Highmark, Inc. v. Allcare Health Management Sys., Inc.*, 4:03-cv-01384 (N.D. Tex. June 23, 2015) at *3.

29. *Id.*

III. DISTRICT COURT TRENDS SINCE *OCTANE FITNESS* AND *HIGHMARK*

The change of the standard and burden of proof governing § 285 determinations has led to a precipitous increase in district court decisions on whether a case is exceptional. A recent study conducted by the Federal Circuit Bar Association found that after *Octane Fitness* and *Highmark* were decided, motions for attorneys' fees were granted at a rate almost three times as high as in the year preceding these decisions.³⁰ In fact, in between January 1, 2015, and March 31, 2015, 50 percent of motions for fees under § 285 filed by accused infringers were granted.³¹ While it is still early to identify clear delineators of what makes a case "stand out from others," there are some trends among the early decisions on fees. For instance, one commentator concluded that "[t]hese decisions show an award of attorneys' fees is far from automatic, and courts have considerable discretion to grant or deny attorneys' fees based on the particular circumstances of the case."³² Here are a few additional trends that we have identified.

District Courts Will Not Hesitate to Award Fees in Egregious Cases

To begin with the obvious, the following cases applied *Octane Fitness* and *Highmark* to support a grant of attorney fees to defendants accused of patent infringement in egregious factual circumstances. In *Homeland Housewares LLC, et al. v.*

30. Letter from Federal Circuit Bar Association Bench & Bar to Chairman Bob Goodlatte and Ranking Member John Conyers, Jr. (Apr. 13, 2015), available at <http://ipwatchdog.com/materials/Goodlatte-Conyers-Signed.pdf>.

31. *Id.*

32. Russell E. Cass & Kimberly D. Farbota, *The Fee-Shifting Climate After Octane and Highmark*, LAW360 (August 28, 2014), available at <http://www.law360.com/articles/568081/the-fee-shifting-climate-after-octane-and-highmark>.

Sorensen Research and Development, the Federal Circuit, applying the deferential standard of review from *Highmark*, concluded that the district court did not abuse its discretion in finding the patent holder's conduct "exceptional" and awarding attorney fees.³³ In *Homeland*, the district court awarded attorney fees because the patent holder, in a declaratory judgment action, never presented *any* evidence that the accused infringer's product infringed—even after a year of opportunities to take discovery.³⁴ Further, the district court found the case "exceptional" based on the patent holder's overall conduct in litigation which included repetitive and unsolicited filings, as well as filing multiple motions for reconsideration that the court deemed were without merit.³⁵ Although the Federal Circuit expressed doubt that the unsolicited filings, standing alone, could justify an "exceptional case," it saw no abuse of discretion in the court factoring in this conduct as part of a "totality of circumstances."³⁶

Even more egregious, in *Summit Data Systems, LLC v. EMC Corp., et al.*, the district court found the case exceptional based on the totality of circumstances.³⁷ The district court determined that the plaintiff rested its entire theory of infringement on the defendant's use of Microsoft software, despite the fact that two months *before* it initiated suit, the plaintiff entered into a license agreement with Microsoft that would have covered the defendant's alleged infringement.³⁸ Throughout the litigation,

33. *Homeland Housewares, LLC v. Sorensen Research & Dev. Trust*, 2014 U.S. App. LEXIS 17300, at *7 (Fed. Cir. Sept. 8, 2014).

34. *Id.*

35. *Id.* at *4.

36. *Id.* at *7.

37. *Summit Data Sys., LLC v. EMC Corp.*, 2014 U.S. Dist. LEXIS 138248 (D. Del. Sept. 25, 2014).

38. *Id.* at *8-11.

the court found that the plaintiff could never identify an alternative theory of infringement for the defendant.³⁹ It is worth noting that the court found that *these facts alone* would support a finding that the case “stands out from others.”⁴⁰ Despite this finding, the court also found plaintiff’s delay in disclosing the existence of the license agreement, dismissal of its claims against the defendant with prejudice prior to the court issuing a ruling on the merits, and its practice of extracting settlements worth a fraction of what the case would cost to litigate all supported a finding that the case was exceptional.⁴¹

While none of the above cases are necessarily surprising, these cases will help shape the contours of which cases “stand[] out from others.”

Unreasonable Claim Construction Positions Can Lead to an Award of Attorney Fees

Claim construction has always been critical in patent cases. “[T]o decide what the claims mean is nearly always to decide the case.”⁴² That can also be true with respect to § 285 determinations. Recent cases, in fact, underscore that unreasonable claim construction positions can lead to a finding that a case is exceptional because claim construction is so intertwined with liability.

In *Vehicle Operation Techs. LLC v. Am. Honda Motor Co.*, the court found a Rule 11 violation but eventually decided against

39. *Id.* at *9.

40. *Id.* at *10.

41. *Id.* at *13-14.

42. *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 989 (Fed. Cir. 1995).

awarding fees.⁴³ The crux of the Rule 11 motion against the patent holder revolved around the objectively unreasonable construction of the term “display.”⁴⁴ While the patent holder maintained that there was no prosecution disclaimer, the court found that any reasonable pre-suit investigation of the prosecution history would have led an attorney to conclude that there was such a disclaimer and the term “display” would have been limited—barring literal infringement and any argument under the doctrine of equivalence.⁴⁵

Further, in *Linex Techs., Inc. v. Hewlett-Packard Co.*, the court found an exceptional case under *Octane Fitness* and *Highmark* based on the patent holder’s pursuit of claim constructions that had been rejected by two previous fora—the Eastern District of Texas and the United States International Trade Commission (ITC).⁴⁶ While the court acknowledged that neither forum’s previous claim construction were binding as *res judicata*, it found that the patent holder was not free to pursue another case targeting the same technology that it could only cover under the previously rejected claim constructions.⁴⁷ The court concluded that the patent holder knew how frivolous its claims were because, after the unfavorable claim construction in the Eastern District of Texas, it attempted to broaden the scope of its patents in the USPTO by drafting reissue patents.⁴⁸

Additionally, in *Pure Fishing, Inc. v. Normack Corp.*, the court awarded attorney’s fees under the new *Octane Fitness* and

43. *Vehicle Operation Techs. LLC v. Am. Honda Motor Co.*, 2014 U.S. Dist. LEXIS 127855 (D. Del. Sept. 12, 2014).

44. *Id.* at *18-22.

45. *Id.*

46. *Linex Techs., Inc. v. Hewlett-Packard Co.*, 2014 U.S. Dist. LEXIS 129717 (N.D. Cal. Sept. 15, 2014).

47. *Id.* at *13.

48. *Id.* at *15-16.

Highmark standard due to shifting claim construction position and total lack of support for claim construction positions.⁴⁹ In this case, the court noted that Pure Fishing had “failed, at any point in the litigation, to proffer support for its one-molecule theory.”⁵⁰ Once the court rejected Pure Fishing’s “one-molecule” theory, plaintiff conceded it could not succeed on its claim—suggesting not only that the claim construction was objectively baseless but also that the plaintiff should have understood that its claim was dependent on the claim construction.⁵¹ Because the plaintiff could never articulate any reasonable basis for the claim construction on which its claim was dependent, the court found that the plaintiff’s case was exceptionally weak and supported an award under *Octane Fitness*.⁵²

Similarly, in *IPVX Patent Holdings, Inc. v. Voxernet LLC*, although the party prevailed on its claim construction, the court found its position unreasonable because it could not provide any evidence to support its infringement position based on that claim construction.⁵³ And In *TNS Media Research, LLC v. Tivo Research & Analytics, Inc.*, the district court sanctioned the plaintiff because its proposed construction did “violence to the ordinary grammatical understanding of the past tense” and “rendered meaningless the amendments [the plaintiff] added after the [Patent and Trademark Office] rejected the original versions of the

49. *Pure Fishing, Inc. v. Normark Corp.*, 2014 U.S. Dist. LEXIS 153272 (D.S.C. Oct. 28, 2014).

50. *Id.* at *8.

51. *Id.* at *11.

52. *Id.* at *12.

53. *IPVX Patent Holdings, Inc. v. Voxernet LLC*, 2014 U.S. Dist. LEXIS 158037 (N.D. Cal. Nov. 6, 2014).

claim language,” effectively “und[oing] the prosecution history.”⁵⁴

Lack of Pre-filing Investigation or Knowledge that Claim is Meritless May Warrant Attorney Fees

The Federal Circuit has stated that an adequate pre-filing investigation into infringement requires a party to “interpret the asserted patent claims and compare the accused device with those claims before filing a claim alleging infringement.”⁵⁵ District courts have therefore used failure to conduct adequate pre-filing investigations or to exercise due diligence before filing a suit as a basis for finding a case exceptional.

In *Yufa v. TSI, Inc.*, the court found an exceptional case because the plaintiff testified that he filed the patent infringement action without purchasing or testing any of the defendant’s accused products to determine if they infringed the patent-in-suit.⁵⁶ The court also considered facts that the plaintiff continued to pursue its claims despite its lack of merit—after reviewing the defendant’s discovery that clearly set forth noninfringement, the plaintiff continued to pursue its claims with no admissible evidence and relied solely on conclusory allegations of infringement and claims that the defendant was lying.⁵⁷

54. *TNS Media Research, LLC v. Tivo Research & Analytics, Inc.*, 2014 U.S. Dist. LEXIS 155914, at *5, 7 (S.D.N.Y. Nov. 4, 2014).

55. *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1300 (Fed. Cir. 2004).

56. *Yufa v. TSI, Inc.*, 2014 U.S. Dist. LEXIS 113148, at *8 (N.D. Cal. Aug. 14, 2014).

57. *Id.* at *9.

Even further, in *Parallel Iron LLC v. NetApp Inc.*, the plaintiff accused defendant's products by reference to their implementation of the pNFS standard.⁵⁸ Plaintiff produced over 1000 pages of documents and claim charts that it had prepared in its pre-suit investigation, but did not investigate whether the defendant's product implemented the pNFS standard and did so in such a way as to infringe each of the patents-in-suit.⁵⁹ For these reasons, the court found that the plaintiff litigated the case in "bad faith, vexatiously, and wantonly" and granted the defendant's motion for attorney fees, not only to compensate the defendant but to deter the plaintiff from continuing to litigate in such a manner in the future.⁶⁰

Attorney Fee Awards is a Two-way Street for Patent Holders and Alleged Infringers

Based on the rhetoric of patent litigation these days, many alleged infringers welcomed the *Octane Fitness* and *Highmark* decisions as a tool to attack aggressive patent holders. But it is important to note that the Supreme Court's decisions are a tool that kicks as hard as it shoots. The *Octane Fitness* and *Highmark* decisions are agnostic as to whether the prevailing party in a § 285 analysis is a patent holder or accused infringer. And district courts have proven this point since those decisions.

For example, in *Romag Fasteners, Inc. v. Fossil, Inc., et al.*, the district court granted the winning plaintiff patent holder's

58. *Parallel Iron LLC v. NetApp Inc.*, 2014 U.S. Dist. LEXIS 127850 (D. Del. Sept. 12, 2014).

59. *Id.* at *11-21.

60. *Id.* at *23-24.

motion for attorney fees after it found that the infringer aggressively pursued frivolous invalidity counterclaims.⁶¹ In particular, the court found the alleged infringer's indefiniteness claim frivolous because the previous judge who had decided claim construction described the argument as a "woefully inadequate showing" and granted summary judgment *sua sponte* in favor of the plaintiff.⁶² Further, as for the alleged infringer's invalidity claims, the court found it "exceptional" that although it did not present evidence in support of its invalidity defenses, the alleged infringer kept its validity expert on the trial witness list, forcing the patent holder to present its case for validity, and did not formally withdraw the defenses until the patent holder moved for judgment as a matter of law after trial.⁶³

Also important, the court in *Romag* raised special concerns regarding compensation and deterrence of patent infringement. Romag was a small company whose business revolved around the patented technology. And while the award was small and was only a minute portion of the alleged infringer's costs and profits, the court expressed concern that the alleged infringer's actions—aggressively pursuing frivolous invalidity counterclaims in an attempt to prolong litigation and increase the cost of litigation—would discourage other similarly small businesses in bringing patent cases.⁶⁴

The court in *Romag* is not alone in awarding attorney fees against alleged infringers. For instance, in *Integrated Tech. Corp., et al. v. Rudolph Techs., Inc.*, the court found the case exceptional because the defendant "hid its infringement for years, provided false discovery responses, filed summary judgment papers even

61. *Romag Fasteners, Inc. v. Fossil, Inc.*, 2014 U.S. Dist. LEXIS 113061 (D. Conn. Aug. 14, 2014).

62. *Id.* at *10.

63. *Id.* at *11-12.

64. *Id.* at *11-13.

though it knew its product infringed, argued a never fully explained theory that [the plaintiff] did not own the underlying patent, and during and after trial played semantic games regarding what its machines did and what functions were important to it and its customers.”⁶⁵

District Courts Will Exercise Their Discretion to Deny Attorney Fee Requests

Despite the increased frequency in motions for attorney fees following *Octane Fitness* and *Highmark*, district courts have made clear that they will undertake a vigorous review of the record and exercise their discretion to fees. In other words, attorney fee awards are anything but automatic.

For example, in *Stragent, LLC v. Intel Corp.*, Judge Dyk, sitting by designation, denied Intel’s motion for attorney fees.⁶⁶ Judge Dyk explained that attorney fees awards are still reserved for “rare” and “unusual” circumstances.⁶⁷ And the mere fact that the losing party makes a losing argument is not relevant to the consideration under § 285; the focus must be whether the arguments were frivolous or made in bad faith.⁶⁸ As part of his consideration, Judge Dyk also looked at the conduct of counsel while deciding against an award of attorney fees: “counsel for both sides were cooperative in reaching stipulations and minimizing disputes over collateral issues throughout the case. This not only saved the court’s time, but surely lowered the parties’

65. *Integrated Tech. Corp., et al. v. Rudolph Techs., Inc.*, No. 06-cv-2182, D.I. 646 (D. Ariz. Aug. 8, 2014) at 2; *see also Deckers Outdoors Corp. v. Superstar Int’l Inc., et al.*, No. 13-cv-0566, D.I. 48 (C.D. Cal. Aug. 18, 2014) at 3-4.

66. *Stragent, LLC v. Intel Corp.*, No. 6:11-cv-421, D.I. 364 (E.D. Tex. Aug. 6, 2014).

67. *Id.*

68. *Id.*

costs as well. Such professionalism is to be commended, and it weighs against a finding that an award of attorney's fees is warranted."⁶⁹

Additionally, there have been a number of recent cases where the district court undertook a vigorous review of the case and denied attorney fees. For example, in *Ted Wiley v. RockTenn CP, LLC*, the court found that unclear infringement positions, lack of success at summary judgment, and never responding to discovery requests did not rise to the level of "exceptional."⁷⁰ In *Gametek v. Zynga*, the court denied attorney fees despite a plaintiff's aggressive litigation strategy on a patent found invalid due to it being an unpatentable abstract idea.⁷¹ And finally, in *H-W Technology, L.C. v. Overstock.com, Inc.*, the court found that a clerical error rendering the patent invalid and plaintiff's accusation of smartphone applications despite its own admission that the patent claims only applied to IP phone manufacturers did not rise to the level of "exceptional."⁷²

IV. THREE HOT TOPICS SINCE *OCTANE FITNESS* AND *HIGHMARK*

1. *What Discovery Should be Allowed and When?*

A common practice by both patent holders and alleged infringers is to include a request for attorney fees as part of their complaint or answer. This practice will likely only increase fol-

69. *Id.*

70. *Wiley v. RockTenn CP, LLC*, 2014 U.S. Dist. LEXIS 138399 (E.D. Ark. Sept. 30, 2014) (noting that the defendant never filed a motion to compel).

71. *Gametek LLC v. Zynga, Inc.*, 2014 U.S. Dist. LEXIS 122834 (N.D. Cal. Sept. 2, 2014).

72. *H-W Tech., L.C. v. Overstock.com, Inc.*, 2014 U.S. Dist. LEXIS 122667 (N.D. Tex. Aug. 15, 2014).

lowing the Supreme Court's *Octane Fitness* and *Highmark* decisions. Therefore, whether a party receives discovery to support its attorney fees request, and when it receives that discovery, will be a key question for district courts to address.

The Eastern District of Texas addressed this issue in *UltimatePointer LLC v. Nintendo*.⁷³ The alleged infringer moved to compel an answer to an interrogatory requesting the date the patent holder first learned of each accused product. The court determined that the interrogatory was relevant to the accused infringer's claim for attorney fees under § 285, and granted the motion. Thus, one option is for district courts to permit discovery in parallel with discovery over core disputes of the case, like infringement, validity, and damages. The advantage of this approach is it avoids piecemeal discovery, and presents cases for quicker disposition when a decision on the merits occurs.

A second option is to delay any discovery until there has been a determination that leads to a prevailing party. The primary benefits and rationale for this approach include the following two reasons. First, it avoids unnecessary discovery and satellite litigation until the issue is ripe for the court to decide. The reality of patent litigation is that it is both expensive and often resolved before a decision on the merits. Therefore, delaying discovery on a request for relief—not even an actual claim or defense—until the request is even potentially ripe will both reduce costs for the litigants and avoid unnecessary discovery disputes for district courts.

Second, on the issue of discovery disputes, discovery relating to § 285 requests may often implicate a party's work product and attorney-client privilege issues. For instance, a party

73. *UltimatePointer LLC v. Nintendo*, No. 6:11-cv-496, D.I. 350 (E.D. Tex. Dec. 3, 2013).

may seek to prove subjective bad faith or an improper motivation for pursuing a patent infringement claim or defense and therefore focus discovery on a pre-suit investigation, such was the case in *UltimatePointer*.⁷⁴ Alternatively, a party opposing a fee request may wish to waive privilege or work product protection to demonstrate its good faith. Delaying discovery on these issues both serves judicial economy for courts to avoid difficult questions regarding work product and attorney-client privilege, and permits parties additional time to determine whether it will rely on privileged or protected information. In fact, local patent rules across the country include a provision delaying an accused infringer's decision as to whether it will waive privilege over opinions of counsel to attempt to defeat a willful infringement claim until late in the discovery schedule to avoid unnecessary decisions on such an important issue as work product and privilege.

2. *Is a Judgment of Willful Infringement a Per Se Finding that the Case is Exceptional?*

Willful infringement has always been relevant to a determination under § 285.⁷⁵ But the Federal Circuit has heightened the standard of proving such a claim over the last few years,⁷⁶ and the Supreme Court has just now lowered the standard and

74. See, e.g., *UltimatePointer*, No. 6:11-cv-496, D.I. 350, at *6-8.

75. See, e.g., *Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005) (explaining that “material inappropriate conduct related to the matter in litigation” includes willful infringement).

76. See, e.g., *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs.*, 682 F.3d 1003, 1005-06 (Fed. Cir. 2012) (explaining that willful infringement tends not to be found if an alleged infringer had a “reasonable defense” to infringement or validity) (citing *Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1319 (Fed. Cir. 2010)).

burden of proof for exceptional cases. As a result of these contrasting standards, the question will be whether proof of willful infringement will necessarily mean that such a case “stands out from others” for purposes of § 285.

The argument in favor of such a *per se* rule is simple. Before *Octane Fitness* and *Highmark*, the Federal Circuit determined that the standard for objective recklessness for willful infringement was *the same* as objective baselessness for § 285.⁷⁷ And yet, as explained above, the standard and burden of proof for § 285 has now been lowered. Therefore, if a patent holder succeeds in proving the pre-*Octane Fitness* standard for purposes of willful infringement by the clear-and-convincing evidence standard, then it must simultaneously have established that the case “stands out from others” by a “preponderance of evidence.” An accused infringer may have a similar argument with respect to inequitable conduct because the Federal Circuit requires such a high burden to succeed on that defense that one could argue a successful case necessarily meets the Court’s *Octane Fitness* standard.⁷⁸

The argument against such a *per se* rule is grounded in the discretion that the Supreme Court emphasized in *Octane Fitness*. The Supreme Court specifically rejected the Federal Circuit’s previous “rigid and mechanical” test for § 285, and therefore the Court may similarly oppose another such rule that

77. See, e.g., *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1376 (Fed. Cir. 2011) (“The objective baselessness standard for enhanced damages and attorneys’ fees against a non-prevailing plaintiff under *Brooks Furniture* is identical to the objective recklessness standard for enhanced damages and attorneys’ fees against an accused infringer for § 284 willful infringement actions under *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc).”).

78. See, e.g., *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276 (Fed. Cir. 2011) (requiring but-for materiality or “affirmative egregious misconduct” to be proven by clear-and-convincing evidence to establish inequitable conduct).

removes any discretion from the district court. Indeed, both *Octane Fitness* and *Highmark* underscored the discretion afforded the district court “considering the totality of the circumstances.”⁷⁹ It may be some additional time before the issue is properly considered, however. Two judges on the Federal Circuit called for en banc review of the willful infringement standard based on the *Octane Fitness* and *Highmark* decisions,⁸⁰ but recently the Federal Circuit denied en banc review to decide this issue. In its dissent of this en banc denial, Judge O’Malley, joined by Judge Hughes, argued that the court’s “jurisprudence governing the award of enhanced damages under § 284 has closely mirrored our jurisprudence governing the award of attorneys’ fees under § 285.”⁸¹ But “[w]e now know that the artificial and awkward construct we had established for § 285 claims is not appropriate. We should assess whether the same is true with respect to the structure we continue to employ under § 284.”⁸²

3. *What Fees Can be Recovered and When?*

Given the various reasons for deciding to award attorney fees, along with the complexity of patent litigation in general,

79. *Octane Fitness LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014); *Highmark Inc. v. Allcare Health Management Sys. Inc.*, 134 S. Ct. 1744, 1748 (2014) (explaining that “the determination whether a case is ‘exceptional’ under § 285 is a matter of discretion”).

80. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, No. 2013-1472, -1656, at *1-6 (Fed. Cir. Oct. 22, 2014) (O’Malley, C.J. dissenting, joined by Hughes, C.J.) (“[A]lthough we are bound by our precedent at the panel stage, I believe it is time for the full court to reevaluate our standard for the imposition of enhanced damages in light of the Supreme Court’s recent decisions in *Highmark Inc. v. Allcare Health Management Systems, Inc.*, 134 S. Ct. 1744 (2014) and *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014), and the terms of the governing statutory provision, 35 U.S.C. § 284 (2012).”).

81. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, No. 2013-1472, -1656, at *2 (Fed. Cir. March 23, 2015).

82. *Id.* at *4.

district courts will need to determine whether to award fees in full or only those in relation to specific claims or defenses, or at specific moments in time. The Federal Circuit has issued two relevant decisions, although neither provides firm answers on this challenging topic.

The Federal Circuit recently indicated it would give deference to a district court's determination that only fees would be awarded with respect to specific issues. In *Homeland Housewares, LLC v. Sorensen Research & Dev. Trust*, the district court granted the defendant's motion for summary judgment of noninfringement and awarded attorney fees based on the plaintiff's infringement position.⁸³ The Court limited the award of fees up until the defendant's motion for summary judgment of noninfringement hearing date.⁸⁴ The Court declined to award fees for defendant's subsequent pursuit of its invalidity claims or discovery costs.⁸⁵ The Federal Circuit found that the district court did not abuse its discretion in this award. The Federal Circuit also rejected the plaintiff's argument that the district court should have limited the award to the costs that the defendant incurred in responding to specific acts of litigation misconduct, finding that specific level of granularity was not needed especially since exceptionality was based on a "totality of circumstances."⁸⁶

The Federal Circuit also recently explained that a patent holder was a prevailing party in a litigation involving two patents, even though the alleged infringer received a non-infringement finding on one of the two patents. The district court concluded that neither party was a prevailing party because each

83. *Homeland Housewares, LLC v. Sorensen Research & Dev. Trust*, 2014 U.S. App. LEXIS 17300 (Fed. Cir. Sept. 8, 2014).

84. *Id.* at *8-10.

85. *Id.*

86. *Id.*

side prevailed on one patent.⁸⁷ The Federal Circuit reversed that finding in *SSL Services Inc. v. Citrix Systems Inc.*⁸⁸ The Federal Circuit held that “[a] party does not need to prevail on all claims to qualify as the prevailing party.”⁸⁹ While the court did not assess how much or whether any fees should be awarded, it suggested that the amount of attorney fees awarded may be determined based on the amount of success. For instance, citing *Farrar v. Hobby*, “[t]he Court explained that the degree of the overall success impacts only the reasonableness of the fee award. Therefore, a district court may award minimal or no fees after considering the amount of success to the prevailing party.”⁹⁰ The court ultimately remanded the case, so the district court could determine whether any fees should be awarded.

The Northern District of California also recently granted \$5.3 million in attorney fees but not the additional \$2.8 million success fee the defendant owed its lawyers under a contingency fee agreement. In *Kilopass Tech., Inc. v. Sidense Corp.*, the defendant won summary judgment of noninfringement and the Honorable Susan Illston declared the case exceptional.⁹¹ Under the contingency fee agreement, the defendant paid its attorneys 50 percent of fees for hours billed throughout the suit, while the remaining 50 percent became subject to a multiplier (0 to 2.5) based on the outcome.⁹² The traditional standard governing at-

87. *SSL Servs., LLC v. Citrix Sys.*, 2012 U.S. Dist. LEXIS 132364, at *21-23 (E.D. Tex. Sept. 17, 2012).

88. *SSL Servs., LLC v. Citrix Sys.*, 2014 U.S. App. LEXIS 19672 (Fed. Cir. Oct. 14, 2014).

89. *Id.* at 25.

90. *Id.* at 26 (citing *Farrar v. Hobby*, 506 U.S. 103, 111-16 (1992)).

91. *Kilopass Tech., Inc. v. Sidense Corp.*, 2015 U.S. Dist. LEXIS 30650 (N.D. Cal. March 11, 2015).

92. *Id.* at *16.

torney fees allows for fees that reflect “the number of hours reasonably expended on the litigation multiplied by a reasonable hourly rate.”⁹³ Judge Illston found that the rates billed were reasonable but that the plaintiff did not owe any success fee beyond the originally billed amount.⁹⁴

These three decisions suggest that an award of attorney fees, and specifically how much, will be a case-by-case determination and frequently litigated. In other words, it is far from automatic that just because a party prevails in a patent case and receives an award of fees that it will receive *all* of its fees. As a result, district courts can likely expect parties to debate—when there is an exceptional case determination—which fees should be awarded for which claims or defenses.

CONCLUSION

The patent law continues to be as dynamic and fast-changing as the technology underlying the cases. The latest change from the Supreme Court on attorney fee awards will have a significant impact on patent litigation, although its full effect is yet to be known. The metes-and-bounds of which cases “stand[] out from others” will be drawn over time by district courts which may deter litigants in the future from pursuing or defending exceptional patent litigation. At least until these lines are drawn, parties will vigorously litigate requests for attorney fees in almost every case with a prevailing party.

93. *Id.* at *18.

94. *Id.* at *41-42.

ENSURING LONG-TERM AVAILABILITY, USABILITY, AND TRUSTWORTHINESS OF DIGITAL INFORMATION

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FOREWORD

The Danish physicist Niels Bohr is purported to have said that “Prediction is very difficult, especially if it’s about the

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future.”¹ There seems little doubt, however, that we face the almost certain prospect of continued exponential growth, at an increasingly accelerated rate, of electronically stored information (ESI) in every form imaginable for as far into the future as we can currently see. At the same time, the torrents of data being churned out on a daily basis may not be accessible to future generations, given the accelerating obsolescence of many varieties of digital media and software.²

Unlike straightforward long term maintenance of traditional paper records, records in digital formats pose serious challenges both to public and private sector institutions, given an increasing need for continued preservation in long-term digital formats. Even apart from the special case of the need to maintain public records on a permanent basis (e.g., White House e-mail), a growing number of statutes (such as Sarbanes-Oxley) require the private sector to engage in medium- to long-term preservation of ESI content beyond what may be the expected life of underlying technological platforms. Media and format obsolescence, coupled with insufficient attention to standards based digital preservation systems for protecting long-term digital content, therefore loom large as obstacles to overcome.

previously served as Director of Litigation at the National Archives and Records Administration. He is a former Co-chair of the Steering Committee of Working Group 1 on Electronic Document Retention and Production with The Sedona Conference.

1. ARTHUR K. ELLIS, TEACHING AND LEARNING ELEMENTARY SOCIAL STUDIES 431 (1970).

2. Someone who did engage in prediction was Jeff Rothenberg, who made a similar point about media obsolescence in his influential (and controversial) article, *Ensuring the Longevity of Digital Documents*, SCIENTIFIC AMERICAN, vol. 272, no.1, Jan. 1995, at 42-47.

This transformational era of “information inflation,” starting with the advent of desktop computing in the 1970s, and taking off especially with the growth of computer networks and the Internet in the 1990s, poses profound issues for the legal profession as well as society as a whole. Both the need and the desire exist to ensure preservation of and access to trustworthy documentation in digital form. This is the case not only just as a matter of ensuring the continued authenticity of increasingly aging but still relevant ESI in lawsuits, but for the greater purposes of the historical record of our era being maintained. Nothing less than our collective cultural memory is at stake.

In light of the above, Charles Dollar and Lori Ashley’s article could not be more timely and important. As the authors recognize in citing to Principle 9 of *The Sedona Conference’s Commentary on Information Governance*, organizations need to take reasonable steps to ensure the ongoing integrity and availability of long-term digital assets for their useful life. To this end, the authors have made available a Digital Preservation Capability Maturity Model (DPCMM) to assist organizations in conducting gap analyses of their current digital preservation capabilities, in line with prevailing international standards in the space science data and archival communities. They go on to properly urge that active long-term digital preservation strategies be included in the mix, as a necessary component of C-suite conversations involving the legal, regulatory, financial, and operational concerns of a firm or institution. The article constitutes a “call to arms” regarding long-term archival preservation as an important facet of information governance.

I. HISTORICAL PERSPECTIVE ON DIGITAL PRESERVATION ISSUES:
RISKS OF TECHNOLOGY OBSOLESCENCE AND TRUSTWORTHY
DIGITAL INFORMATION

Organizations are required to keep records and information as long as may be necessary for legal, financial, operational, research, and cultural memory purposes, depending on their mission and objectives. Some of these assets, born and living their entire “lives” in the digital world, must be indefinitely or even permanently retrievable, understandable, and trustworthy.

Risks and serious threats associated with the use of computer technologies have risen significantly for most organizations—public and private—over the past four decades. For organizations that must ensure long-term access to trustworthy business records over successive generations of technologies and custodians, the stakes get even higher. The brief historical perspective that follows sets the stage for consideration of current challenges for ensuring valued digital information assets will be accessible and trustworthy for as long into the future as required.

Storage Device/Media Obsolescence

Since the mid-1970s archivists have recognized that the obsolescence of storage devices and media was a major risk to access to electronic records (called “machine readable records”) of permanent value. Magnetic tapes with varying storage densities replaced punch cards. Magnetic hard disks with increasingly higher storage densities accompanied by increasingly smaller form factors such as tape cartridges supplanted open reel magnetic tapes as the primary operational storage devices and media. Optical digital storage media such as CDs, DVDs, and WORM (Write-Once-Read-Many) provided more storage and dissemination options. For the foreseeable

future all digital storage device/media face inevitable technology obsolescence.

File Format Obsolescence

Archivists also recognized that dependency on computer software to interpret the bits on storage devices/media created an equally compelling risk to access to electronic records of permanent value. Many of the most commonly used computer applications rely on proprietary native file formats to create, save, store, manage, and retrieve digital content. Unless the application supports an explicit import/export functionality or the new native format supports backward compatibility, digital content can only be “recognized” and accessed by software used to create and save it. Absent either backward compatibility or an export functionality, proprietary native file formats that vendors no longer support become legacy file formats that cannot be easily rendered into human readable form.³

Trustworthiness

In the early years of electronic records management archivists paid little attention to trustworthiness (reliability and integrity) because it was presumed that once the records were

3. One instance of this involves “Computer Enhancements of Autopsy Photographs and X-rays of President John F. Kennedy,” which were done by the Aerospace Corporation between 1976 and 1979 as part of the work of the U.S. House of Representatives, Select Committee on Assassinations, using a proprietary image enhancement technology. The original photographs and X-rays along with the enhancements were transferred to the National Archives of the United States in 1979. The National Archives has duly maintained the readability of the bit streams that comprise the enhanced photographs and X-rays for almost four decades, but actual rendering of the enhanced photographs and X-rays requires access to the native proprietary format and the operating system in place at Aerospace Corporation at that time.

in the custody of an archives they would be protected from internal and external corruption. Adherence to strict data processing protocols, it was believed, would mitigate this potential loss of trustworthiness. Of course, this impregnable fortress mentality ignored the potential for computer failures and accidental human actions that could introduce errors in the records or perhaps even delete them. Few people at the time recognized the insidious threat of intentional hacking, data corruption, and theft of records by external parties.

One of the earliest efforts to monitor integrity of electronic records was an initiative of the Machine Readable Archives Division of the U.S. National Archives and Records Service⁴ (NARS) in the late 1970s to generate a bit/byte count before and after replicating electronic records. This was a primitive initiative because bit/byte counts are aggregate measurements for a large volume of bit/bytes that can contain undetected errors. Within a decade the newly named National Archives and Records Administration was evaluating the use of cryptographic hash digests to support validation of the integrity of electronic records.

II. EVOLVING DIGITAL PRESERVATION ECOSYSTEMS

So what has changed over the last two to three decades? There are at least four noteworthy changes in business and computing environments that impact how active digital preservation can be accomplished:

- The emergence of technology neutral open standard formats that mitigate file format

4. In 1984, Congress changed the name of the U.S. National Archives and Records Service to the U.S. National Archives and Records Administration as part of the legislation that made it an Independent Federal Agency.

obsolescence for structured and unstructured content while still in the custody of records owners/producers

- International standards for trustworthy digital repositories
- Cryptographic hash digests that validate the integrity of digital content
- The emergence of Information Governance as a coordinating accountability framework for enterprise-wide information life cycle management, including defensible disposition

Technology Neutral Open Standard Formats

Technology neutral open standard formats greatly mitigate file format obsolescence because they are platform agnostic: they are interoperable on any system that implements the specifications. Commonly used technology neutral open standard file formats⁵ include:

- XML, Extensible Markup Language. W3C Internet Engineering Task Force.
- PDF/A, Portable Document Format/Archive. ISO 19005-2:2011.
- HTML, Hyper Text Markup Language. ISO 15445:2000.
- PNG, Portable Network Graphics. ISO 15948:2003.

5. Tagged Interchange File Format (TIFF) is not included, because it is not an approved open standard raster image format; although, based upon usage it is a de facto standard. In addition, a set of geographic/geometric standards for information concerning objects or phenomena that are directly or indirectly associated with a location relative to the Earth is under development by ISO TC 211.

- SVG, Scalable Vector Graphics. W3C Internet Engineering Task Force: 2001.
- JPEG, Joint Photographic Engineering Group 2000. ISO 15444-1:2004.
- Moving JPEG 2000, Joint Photographic Experts Group 2000. ISO 15444-3:2007.
- MPEG-3, Moving Image Experts Group. ISO 11172:1999.
- Web ARChive (WARC). ISO 28500:2009, Information and documentation—WARC file format.

Open standard technology neutral file formats are not a one-time solution, nor are they viable if inconsistently used.⁶ Over time, formats that take advantage of new technologies will supplant existing ones. These new open standard technology neutral formats will support backward compatibility so that transformation of digital objects will be relatively straightforward.

Trustworthy Repository Standard

A major breakthrough occurred in 2003 when the International Organization for Standardization issued ISO 14721 Space data and information transfer systems—Open archival information system—Reference model.⁷ Popularly

6. PREFORMA, PREservation FORMAts for culture information/e-archives, is a procurement project co-sponsored by the European Commission, with a stated goal to assist cultural memory institutions ingest digital content through file format standardization and conformance tools. See generally PREFORMA, <http://www.preforma-project.eu/project.html>.

7. ISO (the International Organization for Standardization) is a worldwide federation of national standards bodies who prepare international standards through the work of technical committees. Copies of international standards may be obtained for a fee at www.iso.org.

known as “OAIS,” it identifies a high level framework for functions and actions an Archive⁸ must undertake to preserve permanent, or manage indefinite long-term retention of, digital information.

In 2005, the Research Library Group and the National Archives and Records Administration (RLG-NARA) issued “Trustworthy Repositories Audit and Certification: Criteria and Checklist” (TRAC) to support certification of a range of repositories and archives. TRAC became the basis for ISO 16363:2012, Space data and information transfer systems—Audit and certification of trustworthy digital repositories, a recommended practice for assessing the trustworthiness of ISO 14721 conforming repositories.

A small number of repositories have successfully been certified to TRAC. A series of test audits using the ISO 16363 standard in Europe and the United States were undertaken in 2011. The establishment of certifying and accrediting institutions to support ISO 16363 is underway in earnest,⁹ and a number of world class institutions (U.S. Government Publishing Office and Library and Archives Canada) have stated their intention to seek ISO 16363 certification.¹⁰ At least one Italian

8. The standard defines OAIS as an Archive which may be part of a larger organization of people and systems that has accepted the responsibility to preserve information and make it available for a designated community. It meets a set of responsibilities described in ISO 14721 that distinguishes it from other uses of the term ‘archive.’ Available free from <http://public.ccsds.org/publications/archive/650x0m2.pdf>.

9. ISO 16919:2014, *Requirements for Bodies Providing Audit and Certification of Candidate Trustworthy Digital Repositories* supplements ISO 16363 by specifying the competencies that auditors must have, and the way an audit must be performed, in line with the ISO international process.

10. Audit and Certification of Trustworthy Digital Repositories, ISO, <http://www.iso16363.org/>.

jurisdiction has passed into law¹¹ a requirement for government digital repositories to become certified. It seems reasonable to expect that additional sectors and industries will follow suit within the next few years.

Cryptographic Hash Digests

Ensuring the integrity of digital content in the age of cyberattacks is proving to be quite challenging and costly for public and private sector organizations alike. Cryptographic hash digests, however, are powerful validators of the integrity of digital content over time. Essentially, they are algorithms that compress digital objects without regard to the number of bytes they contain to hash digests of fixed-length bit streams ranging from 128 bits (MD5) to 512 bits (Secure Hash Algorithm-512). Currently, it is considered computationally infeasible to reproduce the original bits of a document or other digital content from a Secure Hash Algorithm digest of 160 or greater bits.

Cryptographic hash digests can be generated before and after a preservation action such as replication of digital content and the two hash digests will be identical. If there has been a change of only 1 bit, the second hash digest value will be different. Management of pre- and post- hash digests in documentation of preservation actions helps establish a chain of electronic custody that constitutes the “circumstances of preservation” over time.

11. *Accreditamento e conservatori*, AGENZIA PER L'ITALIA DIGITALE (July 2, 2015), <http://www.agid.gov.it/agenda-digitale/pubblica-amministrazione/conservazione/accreditamento-conservatori>.

Emergence of Information Governance

Vulnerabilities and opportunities associated with e-discovery, cloud computing, and “big data” that have emerged over the past decade or so are helping to precipitate a transformation in the way that many organizations view and handle the management of information as an asset. Information Governance (IG) is being advanced¹² as a coordinating decision-making and accountability framework for maximizing the value of information while minimizing its costs and risk. This type of transformation requires a top-down organization-wide commitment as well as coordinated approaches and technologies to systematically manage the life cycle of information, including defensible disposition. Enterprise legal, financial, regulatory, operational use, privacy/security, records management, compliance/risk management, and IT requirements and practices are ideally addressed in a cross-disciplinary and programmatic manner.

In 2013, The Sedona Conference *Commentary on Information Governance* identified 11 principles that organizations should take into account when developing and operating an Information Governance program.¹³ Principle 9 is especially important because it urges organizations to take reasonable action to ensure on-going integrity and availability of long-term digital assets for their useful life.¹⁴ Within this context, integrity means trustworthiness while “availability” means there are no technology barriers (e.g., obsolescent native

12. See generally, INFORMATION GOVERNANCE INITIATIVE, www.iginitiative.com.

13. The Sedona Conference, *Commentary on Information Governance*, 15 SEDONA CONF. J. 125 (2014).

14. *Id.* at 150-51.

proprietary file formats or unreadable storage media) to access.¹⁵

The Commentary does not use digital preservation or technology obsolescence in its discussion of Principle 9, but it is clear that “ensuring the on-going integrity and availability of long-term digital assets” is preservation by another name. There are two important implications of this, the first of which is that ensuring the integrity and availability of long-term and permanent assets is no longer the exclusive domain of archivists and librarians; it is an enterprise domain with many stakeholders and responsible parties.

The second implication is that resolution of technology obsolescence and integrity of long-term digital content must begin proactively in the operational environment. Essentially, this means that content creators and business process owners working in tandem with a broad spectrum of technologists must mitigate the many risks associated with integrity and preservation of long-term digital information while the assets are managed within production environments.

The Digital Preservation Capability Maturity Model (DPCMM), which is discussed below, provides practitioners and digital preservation system operators with a structured framework to explore “processes and operations involved in ensuring the technical and intellectual survival of authentic records through time.”¹⁶ Strategies include creation of “preservation-ready” digital objects at or near the time of capture or receipt wherever practical and providing sufficient metadata as evidence of trustworthiness at the point of transfer to the archival repository. DPCMM is also meant to support

15. *See id.*

16. ISO 15489-1:2001, 3.14 preservation.

planning and coordination between content owners/providers (“Producers” in the OAIS standard) and repositories. Finally, DPCMM provides a way for executive leadership and resource allocators to assess risk and measure the impact of investments in digital preservation capability improvements.

III. DIGITAL PRESERVATION CAPABILITY MATURITY MODEL (DPCMM)

The Open Archival Information System standard (OAIS, ISO 14721:2012) describes preservation functions and associated actions at a very high level as a reference model, not as an implementation model. Accordingly, these functions and associated actions must be deconstructed into terms that are readily understood and can be applied in a variety of operational environments.

For many institutions (e.g., state archives and cultural memory institutions), this understanding will have a significant bearing on their ability to secure sufficient financial and technical resources to establish digital preservation systems and prepare for the deluge of born-digital content which they are increasingly expected to accession, store, and make available to users upon demand. For all organizations, a clear delineation of the roles and responsibilities across the chain of electronic records management for record producers, owners, and custodians has become a critical component of supporting enterprise information governance.

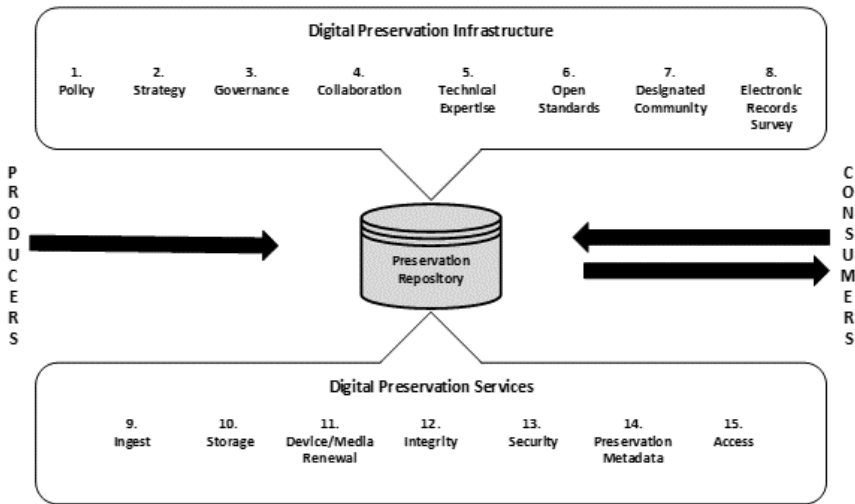


Figure 1. Digital Preservation Capability Maturity Model (DPCMM)

In 2007, the authors developed a Digital Preservation Capability Maturity Model (DPCMM) for use in a project for the Delaware Public Archives. A maturity model is a set of structured levels that describe how well the practices, processes, and behavior of an organization can reliably and sustainably produce desired outcomes. The components of DPCMM (Figure 1), which cover a range of governance, operational, and data management functions, are organized into three domains: Infrastructure, Repository, and Services.

Digital Preservation Infrastructure features eight (8) components which define the mandate, means, and methods used to ensure the long-term preservation of digital information assets:

1. Digital Preservation Policy
2. Digital Preservation Strategy
3. Governance
4. Collaboration
5. Technical Expertise

6. Open Standard Technology Neutral (“OS/TN”) Formats
7. Designated Community
8. Electronic Records Survey

Digital Preservation Services include seven (7) components that are required for planning, continuous monitoring of external and internal environments, and necessary preservation actions that sustain the integrity, security, usability and accessibility of digital information assets stored in repositories:

9. Ingest
10. Archival Storage
11. Media/Device Renewal
12. Integrity
13. Security
14. Preservation Metadata
15. Access

The third component in DPCMM is an ISO 14721 conforming digital repository that embraces the audit and certification criteria of TRAC and ISO 16363. The organization that has responsibility for preserving the records may operate the repository, or an external third party may provide digital preservation system infrastructure and services.

Five Levels of Digital Preservation Capability

The DPCMM identifies five levels of incremental digital preservation capability (*Figure 2*). In addition to providing a useful framework for analysis and planning among archivists and records managers, using a capability maturity model (CMM) to convey the requirements provides a familiar construct for information technology (IT) architects and system administrators.

Each of the 15 DPCMM components has five incremental stages of capability called digital preservation performance metrics. The performance metrics of each component correlate to the five stages of maturity capability shown below.

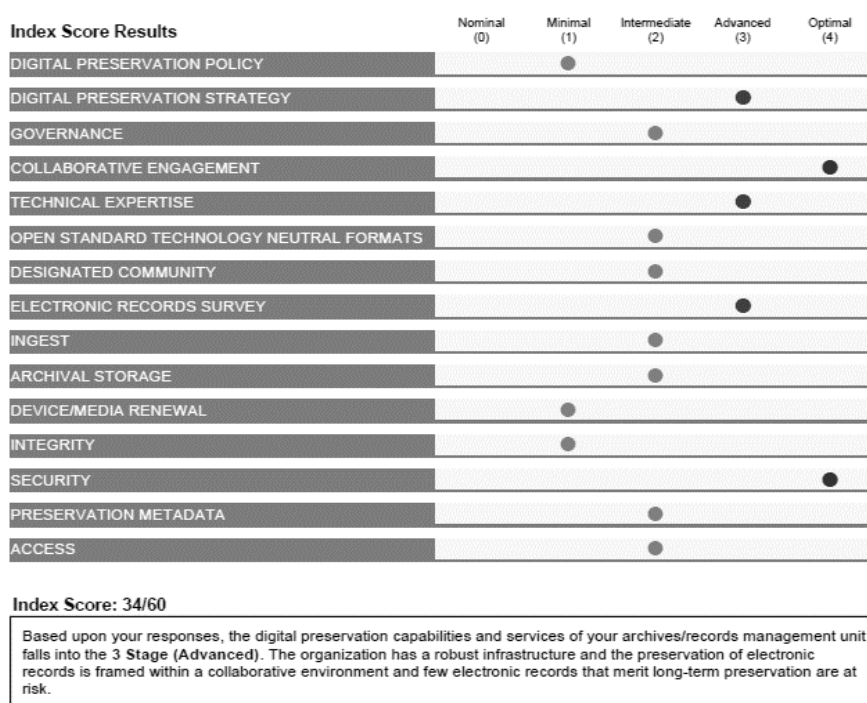
Assignment of a numeric value (0-4) to each of the performance metrics enables computation of an overall digital preservation index score. Ranges of potential digital preservation index scores are:

Capability Level	Index Score Range
Nominal Digital Preservation Capability	0
Minimal Digital Preservation Capability	1 - 15
Intermediate Digital Preservation Capability	16 - 30
Advanced Digital Preservation Capability	31 - 45
Optimal Digital Preservation Capability	46 - 60

Figure 2. Five Stages (Levels) of Digital Preservation Capability

Self-Assessment Scorecard

A Digital Preservation Capability assessment can be produced that provides an aggregate score as well as a numeric score for each of the fifteen components. The individual component scores can be used to develop a prioritized incremental improvement plan that is tailored to the resources available as well as establish what level of digital preservation capability is “good enough” for any given organization or repository.



This scorecard indicates the current capabilities of the Archives/RM unit for each component in the Digital Preservation Capability Maturity Model. The filled in circles (red, orange, yellow, light green, dark green) denote where all of the respective requirements have been met.

Figure 3. Sample Digital Preservation Capability Self-Assessment Scorecard.
Image captured from full-color web-based application.

IV. DPCMM CASE STUDIES

The DPCMM has now been in active use for eight years. Within the past four years, a digital preservation capability self-assessment survey tool based on DPCMM has been successfully applied by two groups, the Council of State Archivists (CoSA) and the Section of International Organisations (SIO) of the International Council on Archives (ICA). Case studies of their experience with the digital preservation capability self-assessment tool are described in this section.

In 2012, archivists of the fifty-six states, territories, and District of Columbia administered the self-assessment. A description of the trajectory of CoSA's use of DPCMM is provided below. The second round of self-assessments by CoSA members closed at the end of May 2015. Longitudinal results from the largest community thus far to use DPCMM are expected to become available in Fall 2015.

A third iteration of the digital preservation self-assessment survey was developed in 2013 to support a mobile application Proof of Concept (POC) for the International Council on Archives (ICA). Details are offered in the second case study in this section.

Members of these groups are practitioners, primarily from archives in the early stages of establishing digital preservation capabilities. Many of the practitioners also have records management duties. Commonalities among practitioners in the two communities include the following:

- Need to raise awareness and educate a broad spectrum of stakeholders on digital system requirements
- Need to attract sufficient expertise in archives and digital preservation systems to address growing digital collections

- Improved governance over transfer and ingest functions, including agreements with donors and owners that meet minimum standards for submissions to the archives/digital preservation system
- Strategies to mitigate risk of technology obsolescence over the lifetime of valued digital information assets

With the endorsement of CoSA's State Electronic Records Initiative (SERI) Steering Committee and permission from the National Historical Publications & Records Commission (NHPRC), the authors of this paper developed a public version of the Digital Preservation Capability self-assessment tool¹⁷ and formally introduced it during the 2014 Society of American Archivists (SAA) conference in Washington, D.C. The objective of this release was to enable a broad range of organizations to use the tool and advance dialogue about digital preservation.

DCPMM Case Study: Council of State Archivists

In July 2011, the Council of State Archivists (CoSA) launched a nationwide initiative focused on improving efforts to manage, preserve, and provide access to U.S. state government electronic records. The goal of SERI Phase 1 of the State Electronic Records Initiative was to create a profile of electronic records programs in order to develop an action plan to address the needs of state archives and records management programs and identify next steps.

CoSA compiled information on electronic records management and digital preservation programs as part of the SERI Phase 1 initiative. Responses to questions and transcripts

17. www.DigitalOK.org is free and open for use to any practitioner interested in assessing digital preservation capabilities and repositories.

from phone interviews with the directors and electronic records staff were collected from 55 state and territorial archives. CoSA invited Dollar and Ashley to analyze the survey results and map the findings to the fifteen (15) components of the model.¹⁸ In addition to providing a composite “score” on the readiness of each state and territory archives to preserve long-term and permanent electronic records, the analysis highlighted current good practices as well as enormous gaps. The consultant report stated that “[a]lmost one-half (21) of the responding states/territories (48) registered an absolute Nominal digital preservation capability index score on each of the fifteen key process areas.”

In November 2011, CoSA President Julia Marks Young included excerpts from this analysis at a meeting of the National Historical Publications and Records Commission. She urged immediate action and declared state archives ready to tackle the challenge of digital records.

Subsequently, in 2012, the Institute of Museums and Library Services (IMLS) awarded CoSA a three-year \$500,000 grant (*Laura Bush 21st Century Librarian Program*) to identify training needs and priorities for state archives, to organize and conduct training programs, and to benchmark the effectiveness of the program. The program called for each state archives to take a self-assessment survey and establish a base-line digital

18. CoSA SERI Phase 1, *Mapping of Survey Results to the Digital Preservation Capability Maturity Model, Findings and Recommendations*, Charles M. Dollar & Lori J. Ashley, September 2011, page 4. Highlights of the Dollar and Ashley deliverable are incorporated into the *Report from the Council of State Archivists' State Electronic Records Initiative (SERI) Committee*, available at <http://www.statearchivists.org/seri/SERI%20Phase%20One%20Report%20-%20final%20review%20draft%20-%202012-06.pdf>.

preservation capability score. At the end of the grant program each state archives will take the self-assessment survey again.

The Council of State Archivists (CoSA) engaged the authors of this paper to develop a self-assessment tool based on their Digital Preservation Capability Maturity Model. Development of the web-based survey tool was funded through an NHPRC grant and used between May and June 2012 by all 56 state and territorial archives to establish a baseline¹⁹ for their digital preservation infrastructure and services capabilities. By August 2013, at *ARCHIVES New Orleans / 2013, the Joint Annual Meeting of CoSA and SAA*, representatives from the Mississippi, Wyoming, and Alabama State Archives were ready to share the stage²⁰ to discuss the self-assessment tool, their respective capability scorecards, and describe on-going improvement plans.

Development of a resource portal (PERTTS) also began in 2013. The portal provides useful materials addressing electronic records management and preservation. A series of webinars have also been delivered and are available in a variety of interactive and self-directed modules. The portal and training initiatives both leverage a State Electronic Records Program (SERP) Framework which was adapted from DPCMM. In addition to a breakdown of the components and metrics, the framework links users to resources and case studies.

19. The SERI Steering Committee assigned its members into quartiles on the basis of an adjusted Digital Preservation Capability self-assessment score. Training scholarships and three week-long institutes were offered in 2013-14.

20. Charles M. Dollar & Lori J. Ashley, *Digital Preservation in State and Territorial Archives: Current State and Prospects for Improvement*, Society of American Archivists: 2013 Joint Annual Meeting Call for Proposals (Aug. 2013) (on file with author).

CoSA's SERI initiative is noteworthy because it is an acknowledgement that the digital capability of state archives as a custodian of permanent public records of the executive branch is critical to government accountability and transparency. Ensuring the availability, usability, and trustworthiness of permanent digital records, however, transcends the traditional boundaries between the executive, the legislative, and judicial branches of state governments. Dialogue and collaboration between and among state archives, state legislatures, and state courts about their mutual interest in this domain should be a high priority for all parties.

DPCMM Case Study: International Council on Archives Mobile Archives Standardization Tool (MAST)

In 2012, the newly elected President of the International Council on Archives (ICA) Section of International Organizations (SIO or "Section") initiated development of a multi-year work plan to advance records and archives management among the section members. The aim of the Section is to "promote the management and use of records and archives of international organisations and their preservation through the sharing of experiences, knowledge, research and best practices on professional archival and records management matters."²¹

The Section had an on-going interest in digital preservation issues so the president invited the authors of this paper to organize a workshop on the Digital Preservation Capability Maturity Model and its potential use at the 39th Annual Meeting of the SIO held in Brussels, Belgium, in June

21. International Council of Archives: Section of International Organisations—ICA/SIO, UNESCO, http://www.unesco.org/webworld/ica_sio/statutes.shtml (last visited June 14, 2015).

2013. In attendance was the Chief Inspector of the Joint Inspection Unit (JIU) who was in the final stages of completing his review and analysis of records and archives management in the United Nations. His report²² identified the growing worldwide concern regarding the continuity of digital information and expressed appreciation for the technical considerations, especially those associated with DPCMM, shared during the workshop. The fourth of the six recommendations contained in the report references the importance of capturing, creating, and managing e-records in ways that meet international standards for recordkeeping and the preservation of digital records and archives.

The SIO work plan included a proposal for the development of mobile technology that could promote and make accessible international standards and training materials to ICA members. In 2013, ICA leadership agreed to fund a proof of concept (POC) for a mobile application tool designed to support practitioners in the lifecycle management of records and archives.

The Mobile Archives Standardization Tool (MAST©) was conceived as a practical tool for records management and archives practitioners who are working in low resource environments, such as Africa, the Caribbean, and South America. Low resource means low availability of electrical service, low connectivity, and limited professional records and archives management expertise. Use of mobile technology, combined with additional functionalities, is intended to directly support implementation of e-government administrative

22. See United Nations, *Records and Archives Management in the United Nations* (JU/REP/2013/2), available at https://www.unjiu.org/en/reports-notes/JIU%20Products/JIU_REP_2013_2_English.pdf.

reforms, access to information, and adequate management and preservation of digital records.

The POC MAST version included a high level self-assessment survey based on DPCMM, links to international standards, and sample training curriculum. The first release of the curriculum included two ICA modules on Digital Preservation and Managing Metadata. MAST is currently available on Android and Apple platforms, making it suitable for most commonly used mobile devices. MAST is being considered for use in a training program for a consortium of United Nations agencies in Africa with the potential to expand its use in other regions.

Providing a digital preservation self-assessment component via a mobile application was intended to help practitioners to baseline their programs and consolidate their improvement efforts. MAST modules and links to ICA and other resources can directly support capacity building for records and archive management programs and move them towards full compliance with internationally recognized standards.

V. SUMMARY

This paper makes the case that virtually no organization remains immune from the need to proactively address the requirements of long-term information assets managed in digitally encoded formats and systems. For the public sector, the capability to protect and preserve long-term records is essential for governmental accountability. Private sector organizations that submit electronic records to regulatory agencies and the courts bear the burden of demonstrating that the “circumstances of creation and preservation” of long-term records support their authenticity.

Standards-based tools and approaches such as the Digital Preservation Capability Maturity Model (DPCMM) enable public and private organizations to conduct a gap analysis of their current capabilities based on international standards. This benchmark can be used to develop an incremental improvement road map that takes into account priorities based on a risk assessment analysis.

Organizations embracing Information Governance (IG) should incorporate digital preservation requirements, standards, and good practices into their program development and operation. Organizations without an explicit commitment to IG can benefit from incorporating digital preservation concerns into their existing risk management, strategic planning, and/or enterprise information architecture models to begin addressing how to ensure accessible, usable, and trustworthy digital information for as far into the future as may be required by their organizational mission, mandates, and needs.

THE IMPACT OF EMERGING ASIA-PACIFIC DATA PROTECTION AND DATA RESIDENCY REQUIREMENTS ON TRANSNATIONAL INFORMATION GOVERNANCE AND CROSS-BORDER DISCOVERY*

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INTRODUCTION

This paper provides a high-level overview of the current Asia-Pacific Data Protection and Information Governance landscape and trends, as reflected by data protection legislation and

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regulation in Australia, South Korea, Hong Kong, and Mainland China. It is intended as a starting point for analysis, given the recent seismic shifts in this landscape due to developments such as the APEC Cross-Border Transfer Guidelines (CBTG)¹ and those arising from the Edward Snowden revelations in recent years regarding NSA surveillance. The latter, in particular, has

Chair of Working Group 6 (Int'l. Electronic Information Management, Discovery & Disclosure), where he served as Co-Chair from 2007 to 2012.

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1. See *APEC Privacy Framework (2005)*, http://www.apec.org/Groups/Committee-on-Trade-and-Investment/~media/Files/Groups/ECSG/05_ecsg_privacyframewk.ashx (last visited June 24, 2015).

spawned an alarming trend toward implementation of data residency (i.e., data localization) requirements² which, if aggressively enforced, may bolster data and Internet “nationalism” at the expense of global economic growth, restrict cloud computing options,³ and stem the free flow of data for legitimate legal, business, and scientific purposes. This is a significant concern because cross-border data flows are an essential element of strong economic growth, and unduly restricting them adversely impacts economic growth.⁴

Together with recent developments in Europe, including the EU “Digital Single Market” initiative⁵ and the imminent EU Regulation on Data Protection,⁶ harmonizing global data protection requirements is an increasingly complex challenge.

This paper begins with a summary of the current APEC Cross-Border Privacy Rules Framework. APEC (Asia-Pacific

2. Kenneth Corbin, *Cross-Border Data Transfer Restrictions Threaten Global Economic Growth*, CIO MAGAZINE (Feb. 26, 2015), <http://www.cio.com/article/2889461/big-data/cross-border-data-restrictions-threatens-global-economic-growth.html>.

3. Steven C. Bennett, M. James Daley & Natascha Gerlach, *Storm Clouds Gathering for Cross-Border Discovery and Data Privacy: Cloud Computing Meets the U.S.A. Patriot Act*, 13 SEDONA CONF. J. 202 (2012). *But see* South Korea’s move toward expansion of cloud computing, *infra* text accompanying notes 108-11.

4. Daniel Castro & Alan McQuinn, *Cross-Border Data Flows Enable Economic Growth in All Industries*, INFORMATION TECHNOLOGY AND INNOVATION FOUNDATION (Feb. 2015), <http://www2.itif.org/2015-cross-border-data-flows.pdf>.

5. Press Release, Eur. Comm’n, *A Digital Single Market for Europe: Commission sets out 16 initiatives to make it happen* (May 6, 2015), http://europa.eu/rapid/press-release_IP-15-4919_en.htm.

6. Ben Rossi, *Countdown to the EU General Data Protection Regulation: 5 Steps to Prepare*, INFORMATION AGE (Mar. 24, 2015), <http://www.information-age.com/it-management/risk-and-compliance/123459219/countdown-eu-general-data-protection-regulation-5-steps-prepare>.

Economic Cooperation) comprises twenty-one countries, fourteen of which are located in the Asia-Pacific Region.⁷ This Framework, according to some commentators, may provide a model for global cross-border data protection.⁸

The selected country-specific sections below provide a general overview of representative legislation and regulation falling under the broader category of “Data Protection.”⁹ For the purpose of this paper, we treat data protection as subsuming the subtopics of data privacy, data security, data residency, state and commercial secrets protection, processing, cross-border transfers of personal data necessary to protect legitimate business and legal interests (e.g., U.S./EU Safe Harbor Framework, EU Model Contract Clauses, and EU Binding Corporate Rules), personal data in the “cloud,” and use of personal data by data brokers and others for behavioral profiling and marketing. We believe all of these concerns relate to the protection of personal data, and believe a case can be made for a common global definition in this regard. For example, there can be no protection of personal data without the proper balance of data privacy and data security policy, process, and technology.

7. These include Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Papua New Guinea, Singapore, Chinese Taipei, Thailand, and Vietnam. Other members include the U.S., Brunei Darussalam, Canada, Chile, Mexico, Peru, and Russia. See www.apec.org.

8. Anick Fortin-Cousens & Marcus Heyden, *APEC Privacy Rules for Cross-Border Data Flows—A Model for Global Privacy Protections*, PRIVACY AND SECURITY LAW REPORT (BNA), 14 PVLR 10 (Mar. 2, 2015).

9. M. James Daley, David Moncure & Jason Priebe, *The Potential Application of the Sedona Conference International Principles and Protocol on Cross-Border Transfers with Brazil, Russia and India*, The 5th Annual Sedona Conference International Programme on Cross-Border Discovery and Data Protection Laws (June 2013); M. James Daley, *Information Age Catch 22: The Challenge of Technology to Cross-Border Disclosure and Data Privacy*, 12 SEDONA CONF. J. 121 (Fall 2011).

EXECUTIVE SUMMARY: KEY ASIA-PACIFIC DATA PROTECTION THEMES

Following are some common and unique observations relating to the impact of emerging Asia-Pacific data protection and data residency requirements on transnational information governance and cross-border discovery.

- Data residency/localization laws, requiring the in-country storage of all information passing within a country's borders, are on the rise, fueled by anti-NSA surveillance sentiment. While Brazil has backed off its early data-protectionist effort to require all Brazil data to be housed in Brazil, these initiatives are being considered or have been adopted in Australia, Russia, Malaysia, and China, among others.
- Many Asia-Pacific countries, including China and South Korea, have sectoral data protection strategies that remain in flux. Those doing business in Asia-Pacific countries need to give vigilant attention to these developments in coming months and years.
- Encryption, both in transit and in the cloud, as well as "tokenization" are being embraced as measures, and perhaps soon as standards, that can help bolster data protection, particularly for sensitive personal data.
- Guiding principles such as proportionality, accountability, data minimization (including anonymization and pseudonymization), the right of erasure, and data protection by design (i.e., default) are common themes among Asia-Pacific data protection laws and regulations.

- Common-law countries tend to follow the lead of other common-law jurisdictions with respect to regulation of processing and transfer of personal data. Australia's approach compares more closely with Canada, the U.S., the UK, and Hong Kong, than with civil law countries like China.
- The APEC Cross-Border Privacy Framework shows promise for harmonization of EU and Asia-Pacific cross-border transfers, as well as a potential global framework for balancing privacy protection with the free flow of information necessary to fuel economic growth.
- Traditional notions of "care, custody, or control," in the context of cross-border discovery and disclosure, continue to be blurred by cloud computing realities.
- U.S. legal practitioners are increasingly advised to provide documentary and testimonial evidence of the strength of foreign interests in data protection, as well as the likelihood of sanctions and penalties, in order to successfully avoid or restrict cross-border discovery.
- Global cloud computing will likely be significantly impacted by country-specific data residency initiatives. Multinationals exploring substantial enterprise investments in cloud computing infrastructure should be alert to the new data protection costs, burdens, and risks.

APEC CROSS-BORDER PRIVACY FRAMEWORK

In recent years, APEC, whose mission is to promote free trade and economic development in the Asia-Pacific region, has been a global leader in developing practical, innovative data

protection strategies for cross-border transfers of personal information. In 2012, APEC developed its Cross-Border Privacy Rules Framework, whereby controllers of personal data/information can be certified by APEC as compliant with fair information privacy and data protection principles.¹⁰ In February 2015, this was followed by adoption of Privacy Recognition for Processors (PRP) as a means of certifying that companies are in compliance with Cross-Border Privacy Rules (CBPR).¹¹ In addition, there is an ongoing effort between APEC and the EU Article 29 Working Party to try to harmonize the APEC CBPRs with the EU Binding Corporate Rules (BCRs), in furtherance of one global framework supporting the free flow of information, with adequate privacy and security transfer safeguards.¹²

So far, the U.S., Mexico, and Japan have been accepted into the CBPR program, and Canada's accession is imminent. South Korea, the Philippines, Thailand, Vietnam, Singapore, Hong Kong, and Australia have affirmed their interest and/or have taken steps toward participation. The difference is in rigid compliance monitoring, oversight, and enforcement, which critics claim has been sorely lacking with the Safe Harbor Framework.

The 2005 APEC Privacy Framework notes in its Foreword that APEC believes a common framework to enable global

10. APEC's Cross-Border Privacy Rules, <http://www.cbprs.org> (last visited June 24, 2015).

11. See APEC Cross Border Privacy Rules System, <http://www.cbprs.org/GeneralPages/APECCBPRSystemDocuments.aspx> (last visited June 24, 2015) [hereinafter APEC Cross Border Privacy Rules System].

12. See Opinion 02/2014 of the Article 29 Working Party on a 'referential for requirements for Binding Corporate Rules submitted to national Data Protection Authorities in the EU and Cross Border Privacy Rules submitted to APEC CBPR Accountability Agents,' WP 212 (Feb. 27, 2014), available at http://www.cnil.fr/fileadmin/documents/Vos_responsabilites/Transferts/wp212_en.pdf.

and regional data transfers will benefit consumers, businesses, and governments. It notes that APEC Ministers have endorsed the APEC Privacy Framework because they recognize that effective privacy protections are needed to promote the free flow of information that is essential to global economic growth.

As of March 2015, ten multinational companies have earned APEC CBPR certification, including Apple, IBM, Hewlett-Packard, Box, JELD-WEN, Merck & Co., and Ziff-Davis, among others. Initial (and ongoing) compliance of these companies with APEC CBPR is assured by an APEC authorized Accountability Agent. Governance of the APEC CBPR system rests with the APEC Joint Oversight Panel, which is responsible for approving economy-level participation and managing accountability agent certification.¹³

ANALYSIS OF DATA PROTECTION FRAMEWORKS IN SELECTED ASIA-PACIFIC JURISDICTIONS

1. *Australia*

Overview

Australian Federal Laws

Data privacy in Australia is subject to federal, state, and territory laws. The Federal Privacy Act 1988 (“Privacy Act”)¹⁴ regulates how organizations collect, use, store, secure, and transfer personal information. The Privacy Act was last amended by the Privacy Amendment (Enhancing Privacy Protection) Act 2012,¹⁵ which came into effect on March 12, 2014.

13. See APEC Cross Border Privacy Rules System, *supra* note 11.

14. *Privacy Act 1988* (Cth).

15. *Privacy Amendment (Enhancing Privacy Protection) Act 2012* (Cth).

The amendments included the thirteen Australian Privacy Principles (APPs),¹⁶ which replaced the Information Privacy Principles (IPPs) that previously applied to Australian and Norfolk Island Government agencies and the National Privacy Principles (NPPs) that previously applied to private sector entities. The APPs govern the collection, use, disclosure, and security of personal information, cross-border transfers, and access to and correction of personal information.

The APPs apply to both the government and private sectors. Specifically, the APPs apply to Australian and Norfolk Island government agencies; all private companies with an annual turnover of at least AUD\$3 million; and certain private companies with a turnover of AUD\$3 million or less, including private sector health service providers, businesses that trade personal information, credit reporting organizations, and businesses related to a business covered by the Privacy Act.¹⁷ Entities covered by the Privacy Act and the APPs are called “APP entities.”

The APPs do not apply to state or territory government agencies, including state and territory public hospitals and health care facilities, public schools, small business operators (with some exceptions), and registered political parties.¹⁸

16. *Privacy Act 1988* (Cth) sch 1.

17. *Who Has Responsibilities Under the Privacy Act?*, OFFICE OF THE AUSTRALIAN INFORMATION COMMISSIONER, <http://www.oaic.gov.au/privacy/who-is-covered-by-privacy> (last visited June 24, 2015).

18. *Who Doesn't Have Responsibilities Under the Privacy Act?*, OFFICE OF THE AUSTRALIAN INFORMATION COMMISSIONER, <http://www.oaic.gov.au/privacy/who-is-covered-by-privacy> (last visited June 24, 2015).

The Privacy Act is administered by the Privacy Commissioner under the Office of the Australian Information Commissioner (OAIC),¹⁹ which is tasked with privacy, freedom of information, and government information functions. As amended in 2014, the Privacy Act now provides for enhanced privacy protection enforcement by giving the Privacy Commissioner the power to conduct *sua sponte* investigations of any breaches of the APPs. The Privacy Commissioner can now also request a court order fining a corporation up to AUD\$1.7 million for serious or repeated interferences with the privacy of individuals.

In addition to the state and territory laws below, several other federal laws and regulations have data-protection provisions, including the Telecommunications Act 1997 and SPAM Act 2003.

Australian State and Territory Laws

Australian states and territories, except for Western Australia and South Australia, each have their own data protection laws applying to state government agencies and private businesses.²⁰ These acts are: (1) Information Privacy Act 2014 (Australian Capital Territory), governing public sector agencies;²¹ (2) Health Records (Privacy and Access) Act 1997 (Australian Capital Territory), governing health care providers;²² (3) Privacy and Personal Information Protection Act 1998 (New South Wales), governing public sector agencies;²³ (4) Health Records

19. OFFICE OF THE AUSTRALIAN INFORMATION COMMISSIONER, <http://www.oaic.gov.au/> (last visited June 24, 2015).

20. *State and Territory Privacy Law*, OFFICE OF THE AUSTRALIAN INFORMATION COMMISSIONER, <http://www.oaic.gov.au/privacy/other-privacy-jurisdictions/state-and-territory-privacy-law> (last visited June 24, 2015).

21. *Information Privacy Act 2014 (ACT)*.

22. *Health Records (Privacy and Access) Act 1997 (ACT)*.

23. *Privacy and Personal Information Protection Act 1998 (NSW)*.

and Information Privacy Act 2002 (New South Wales), governing health care providers;²⁴ (5) Information Act 2002, as amended in 2014 (Northern Territory), governing public sector organizations;²⁵ (6) Information Privacy Act 2009 (Queensland), governing public sector agencies;²⁶ (7) Personal Information Protection Act 2004 (Tasmania), the law of general application, governing both the public and the private sectors;²⁷ (8) Privacy and Data Protection Act 2014 (Victoria), governing the public sector;²⁸ and (9) Health Records Act 2001, as amended in 2014 (Victoria), applying to the public and private sectors.²⁹

The state and territory laws generally adopt privacy principles similar to the federal law. As indicated above, most of the state and territory laws apply to the public, not private, sector.

Data Protection and Privacy in Australia

Under the Privacy Act, “personal information” is defined as “information or an opinion about an identified individual, or an individual who is reasonably identifiable: (a) whether the information or opinion is true or not; and (b) whether the information or opinion is recorded in a material form or not.”

Sensitive personal data, which is referred to as “sensitive information” in Australia, includes an “information or opinion” about an individual’s racial or ethnic origin; political opinions; membership in a political association; religious and philosophical beliefs; sexual orientation or practices; criminal records; and health, genetic, and biometric information.

24. *Health Records and Information Privacy Act 2002* (NSW).

25. *Information Act 2002* (NT).

26. *Information Privacy Act 2009* (Qld).

27. *Personal Information Protection Act 2004* (Tas).

28. *Privacy and Data Protection Act 2014* (Vic).

29. *Health Records Act 2001* (Vic).

Unlike some other countries, Australia does not maintain a register of controllers or of processing activities. As such, there is no requirement for an organization to notify/report to the privacy commissioner its personal information processing activities. There is also no requirement in the Privacy Act that organizations appoint a data protection officer (DPO), although the privacy commissioner has issued guidance strongly recommending it.

APP entities are expected to manage personal information in an “open and transparent way.”³⁰ An APP entity “must” implement practices and procedures to ensure its compliance with the APPs. To that end, an APP entity “must” have an APP privacy policy that contains certain specific information, including the kinds of personal information that the entity collects and holds, how and for what purposes the entity collects and holds personal information, how an individual may access his or her personal information held by the entity and seek correction of such information, and whether the entity is likely to transfer personal information abroad. If the entity expects to disclose personal information to overseas recipients, it should specify the countries in which such recipients are likely to be located if it is practicable to do so.³¹

An APP entity which is a private company must not collect personal information unless the information is “reasonably necessary” for, and directly related to, one or more of its business functions or activities. Furthermore, a private company must not collect “sensitive information” unless the individual consents to the collection of the information and the information

30. *Privacy Act 1988* (Cth) sch 1, APP 1.

31. *Id.*

is “reasonably necessary” for one or more of its business functions or activities, or the collection is otherwise justified by enumerated situations.³²

Once personal information is collected for a particular purpose (the primary purpose), the entity “must not” use or disclose the information for another purpose (the secondary purpose) unless the individual has consented to the use or disclosure of the information, or the individual would reasonably expect such use or disclosure and such use or disclosure relates to the primary purpose, or another specific condition exists.³³

In Tasmania, likewise, a personal information custodian must not collect personal information unless the information is necessary for one or more of its functions or activities.³⁴ If personal information is collected, the custodian must inform the data subject of various matters, including the custodian’s identity and contact information, the individual’s right to access information, the purposes for which the information is collected, and the intended recipients or class of recipients of the information.³⁵ Furthermore, personal information custodians “must” collect personal information about an individual only from that individual, “if it is reasonable and practicable to do so.”³⁶ If, however, personal information is collected from a third party, the personal information custodian “must take reasonable steps” to ensure that the individual is made aware of all the matters described above.³⁷

32. *Id.* APP 3.

33. *Id.* APP 6.

34. *Personal Information Protection Act 2004* (Tas) sch 1, s 1(1).

35. *Id.* s 1(3).

36. *Id.* s 1(4).

37. *Id.* s 1(5).

Tasmania also places restrictions on the use and disclosure of information, generally limiting disclosure to purposes that relate to the primary purpose for which it was collected, unless the individual consents to disclosure.³⁸ Tasmania also grants individuals a right, wherever it is lawful and practicable, to choose not to identify themselves when entering transactions with a personal information custodian.³⁹

Data Security in Australia

The Privacy Act requires APP entities to have appropriate security measures in place to protect the information from misuse, interference, loss, unauthorized access, modification, or disclosure.⁴⁰

Furthermore, once the information has served the purpose for which it was collected and the entity is not legally required to retain that information any further, the entity must take “reasonable steps” to destroy the information or to ensure that the information is de-identified.⁴¹

In April 2013, OAIC issued a thirty-two page Guidance to Information Security on what constitutes “reasonable steps” to protect personal information (“Guidance”).⁴² The Guidance provides for substantially more than what many businesses are doing to protect the information. Under the Guidance, organizations should manage data governance, IT security, data breaches, physical security, personnel security and training,

38. *Id.* s 2.

39. *Id.* s 8.

40. *Privacy Act 1988* (Cth) sch 1, APP 11.

41. *Id.*

42. Office of the Austl. Info. Comm’r, *Guide to Information Security: ‘Reasonable steps’ to protect personal information* (Apr. 2013), http://www.oaic.gov.au/images/documents/privacy/privacy-guides/information-security-guide-2013_WEB.pdf.

workplace policies, the information life cycle, standards, and regular monitoring and review. Entities are also expected to undertake a Privacy Impact Assessment and an information security risk assessment in order to inform the steps and strategies they will take to secure personal information.

Currently, the Privacy Act does not obligate APP entities to report data security breaches to the affected individuals or the OAIC. However, the OAIC issued guidance on data breach notification stating that if there is “a real risk of serious harm” as a result of a data breach, the affected individuals and the OAIC should be notified.⁴³

In Tasmania, in addition to protecting personal information from misuse, loss, unauthorized access, modification, or disclosure, a personal information custodian “must take reasonable steps” to destroy or permanently de-identify personal information if it is no longer needed for any purpose.⁴⁴

On April 13, 2015, the Parliament of Australia passed the Telecommunications (Interception and Access) Amendment (Data Retention) Bill 2015,⁴⁵ which creates new obligations on Information and Communications Service Providers (ICSPs) to retain prescribed information or documents (metadata) for a period of two years to allow access by national security authorities and governmental agencies, including criminal law enforce-

43. Office of the Austl. Info. Comm’r, *Data breach notification guide: A guide to handling personal information security breaches* (Aug. 2014), <http://www.oaic.gov.au/images/documents/privacy/privacy-resources/privacy-guides/data-breach-notification-guide-august-2014.pdf>.

44. *Personal Information Protection Act 2004* (Tas) sch 1, s 4.

45. *Telecommunications (Interception and Access) Amendment (Data Retention) Bill 2015* (“Data Retention Bill”).

ment. The bill requires ICSPs to ensure the confidentiality of information by encrypting the retained data, subject to certain exemptions.⁴⁶

Data Residency / Localization in Australia

The Personally Controlled Electronic Health Records Act 2012 (PCEHR), which went into effect in July 2012, contains a requirement “not to hold or take records outside Australia.”⁴⁷ As such, PCEHR prohibits the overseas storage of any Australian electronic health records. Specifically, with certain exceptions, the act prohibits anyone holding records under the act for the purposes of the PCEHR system or having access to information relating to such records from: (a) holding the records, or taking the records, outside Australia; (b) processing or handling the information relating to the records outside Australia; or (c) causing or permitting another person: (i) to hold the records, or take the records, outside Australia, or (ii) to process or handle the information relating to the records outside Australia.⁴⁸

The act does permit transfer, processing, or handling of data outside of Australia if such records do not include “personal information in relation to a consumer” or “identifying information of an individual or entity.”⁴⁹ In practice, under these provisions, multi-national companies handling health-related information must either invest in their own data centers located in Australia or outsource their data to an Australian cloud services provider.

46. *Id.* s 187BA.

47. *Personally Controlled Electronic Health Records Act 2012* (Cth) s 77.

48. *Id.* s 77(1).

49. *Id.* s 77(2).

Cross-Border Data Transfers in Australia

Regulations in Australia make it difficult for companies to transfer personal information to overseas recipients, including cloud providers that store data outside of Australian borders. Under APP 8, before an APP entity can disclose information about an individual to an overseas recipient, including a cloud provider, the entity must take reasonable steps to ensure that the overseas recipient does not breach the APPs in relation to the information.⁵⁰ This can be accomplished through appropriate contractual provisions. However, the Australian sender of personal information will remain liable for the overseas recipient's acts and practices with respect to the transferred personal information as if the Australian sender had engaged in such breaches of the APPs in Australia.

These limitations on transfer do not apply under certain circumstances, including (1) if the APP entity reasonably believes that the overseas recipient is subject to a law that provides protections "substantially similar" to the APPs and the individual can enforce those protections; or (2) the entity expressly informs the individual that if he or she consents to the disclosure of the information then the APP protections will not apply, and the individual consents to the disclosure nonetheless.

In practice, compliance with APP 8 can be achieved through (1) obtaining the necessary consents from individuals whose personal information will be transferred overseas, including to a non-Australian cloud provider, and (2) placing the necessary APP-specific contractual privacy obligations on the overseas recipient of the personal information.

Similarly, New South Wales legislation forbids trans-border transfer of health information. The exceptions include

50. *Privacy Act 1988* (Cth) sch 1, APP 8.1.

where the individual consents or where the organization reasonably believes that the recipient in an outside jurisdiction is subject to a law that effectively upholds principles for “fair handling of the information” that are “substantially similar” to the Health Privacy Principles of New South Wales.⁵¹

Likewise, in Tasmania, a personal information custodian may disclose personal information to a third party who is outside Tasmania only under a limited set of circumstances, including the following: (1) the custodian reasonably believes that the recipient of the information is subject to a law that provides substantially similar personal information protections, (2) the individual consents to the disclosure, or (3) the disclosure is necessary for the performance of a contract between the individual and the custodian.⁵² The same limitations apply in Victoria on the transfer of personal health information to recipients outside Victoria.⁵³

Data in the Cloud in Australia

The Australian government discourages the use of foreign cloud providers. For instance, in its *Cloud Computing Strategic Direction Paper*,⁵⁴ the Australian Department of Finance and Deregulation cites the U.S. Patriot Act as the example of foreign legislation that presents legal and regulatory risks and potentially exposes consumer data to being scrutinized by foreign governments. Additionally, in the same paper, the Australian

51. *Health Privacy Principles, Principle 14, Health Records and Information Privacy Act 2002* (NSW) sch 1.

52. *Personal Information Protection Act 2004* (Tas) sch 1 s 9.

53. *Health Records Act 2001* (Vic) sch 1, Principle 9.

54. Australian Department of Finance and Deregulation, *Cloud Computing Strategic Direction Paper* (April 2011), http://www.finance.gov.au/files/2012/04/final_cloud_computing_strategy_version_1.pdf.

government generally cautions of the risks of third-party access to personal information residing in the cloud.

Use of Personal Data by Marketers and Data Brokers in Australia

Under APP 7, which governs direct marketing, if an organization holds personal information about an individual, the organization generally must not use or disclose the information for the purpose of direct marketing.⁵⁵ An organization may use or disclose personal information (other than sensitive information) about an individual for the purpose of direct marketing if: (a) the organization collected the information from the individual; (b) the individual would reasonably expect the organization to use or disclose the information for that purpose; (c) the organization provides a simple means by which the individual may easily request not to receive direct marketing communications from the organization; and (d) the individual has not made such a request to the organization.⁵⁶

2. *South Korea*

Overview

Until recently, South Korea did not have a comprehensive legislation scheme governing data privacy. That changed when the South Korean Personal Information Protection Act (PIPA) went into effect on September 30, 2011.⁵⁷ PIPA governs the protection of personal information except as otherwise specifically provided for in any sector-specific legislation.

55. *Privacy Act 1988* (Cth) sch 1, APP 7.1.

56. *Id.* APP 7.2.

57. *South Korean Personal Information Protection Act*, Sept. 30, 2011, as amended [hereinafter *PIPA*].

The sector-specific laws include various statutes, such as the Act on Promotion of Information and Communication Network Utilization and Information Protection 2005 (“IT Network Act”),⁵⁸ the Use and Protection of Credit Information Act,⁵⁹ the Financial Holding Companies Act (FHCA),⁶⁰ and the Real Name Financial Transactions and Secrecy Act.⁶¹

In 2014, after experiencing one of the biggest credit card data breaches that affected 20 million people in this nation of 50 million, South Korea reformed its data protection policy by amending PIPA and FHCA. The PIPA and FHCA amendments created significant challenges for financial and other businesses in South Korea and they have been criticized as overreaching and highly burdensome.

For instance, under the new amendments to PIPA, which became effective on August 7, 2014, the processing of resident registration numbers (RRNs) by private corporations is in principle prohibited. And under the amended FHCA, which became effective on November 29, 2014, to prevent mass data leaks, the transfer of customers’ personal information within financial holding groups is now limited only to situations where data transfer is necessary for specific purposes as defined in the amendment and related regulations. Notably, the scope of those

58. *Act on Promotion of Information and Communication Network Utilization and Information Protection*, Dec. 30, 2004, amended by Act No. 7812, Dec. 30, 2005 [hereinafter *IT Networks Act*].

59. *Use and Protection of Credit Information Act*, Act No. 4866, Jan. 5, 1995, amended by Act No. 8863, Feb. 29, 2008.

60. *Financial Holding Companies Act*, Act No. 6274, Oct. 23, 2000, amended by Act No. 9086, Mar. 28, 2008.

61. *Real Name Financial Transactions and Secrecy Act*, Act No. 5493, Dec. 31, 1997, amended by Act No. 6682, Mar. 30, 2002.

purposes does not include the introduction or solicitation of sale of products or services to customers.⁶²

Data Protection and Privacy in South Korea

The stated purpose of PIPA is to provide for the “processing and protection” of personal information to strengthen the rights and interests of data subjects.⁶³ Under PIPA, “personal information” is information pertaining to a living person that makes it possible to identify a specific person by his or her name, RRN, images, or other similar information, including information that does not by itself make it possible to identify a specific individual, but can make it possible if combined with other information.⁶⁴ The IT Network Act, Article 2, defines “personal information” similarly, but also specifically includes “code, letter, voice, sound, and image” within the definition.⁶⁵

PIPA broadly defines “processing” as “the collection, generation, connecting, interlocking, recording, storage, retention, value-added processing, retrieval, correction, recovery, use, provision, disclosure, and destruction of personal information and other similar activities.”⁶⁶

A personal information processor may collect personal information only under specific circumstances, which include data subject’s consent.⁶⁷ For consent to be valid under PIPA, the data processor seeking consent must notify the data subject of the following: (1) the purpose of collection and use of personal

62. Sky Yang, *Korea Tightens Data Protection Rules*, INT’L FIN. LAW REVIEW (Feb. 23, 2015), <http://www.iflr.com/Article/3429777/Korea-tightens-data-protection-rules.html>.

63. *PIPA*, *supra* note 57, art. 1.

64. *Id.* art. 2(1).

65. *IT Networks Act*, *supra* note 58.

66. *PIPA*, *supra* note 57, art. 2(2).

67. *Id.* art. 15(1).

information, (2) the particulars of personal information to be collected, (3) the period when personal information is retained and used, and (4) the fact that the data subject may deny consent and the consequences resulting from that denial.⁶⁸ Data processors collecting personal information in violation of these requirements may be fined for negligence up to KRW 50 million (approximately \$45,000 U.S. dollars).

PIPA allows data processors to collect only the minimum personal information necessary to fulfill the purpose of collection. Furthermore, data processors are required to inform data subjects that they have a right to deny consent to the collection of any personal information above that necessary minimum.⁶⁹

The amended PIPA allows the processing of “sensitive data,” including ideology, beliefs, membership in trade unions or political parties, health, sexual life, and other personal information which may cause harm to privacy of data subjects, provided that the data subject gives his or her specific informed consent (apart from consent to the processing of other personal information processing) or where the processing of sensitive data is required or permitted by law.⁷⁰

The original PIPA allowed the processing of RRNs with data subject’s consent, which was easy to obtain. As a result, in the past, RRNs have been widely used as the personal identification information in every sector of the economy, including administrative, financial, and medical. The amended PIPA explicitly prohibits the processing of RRNs, regardless of the data subject’s consent. There are three exceptions to this prohibition: (1) where the processing is required by law; (2) where the pro-

68. *Id.* art. 15(2).

69. *Id.* art. 16(1).

70. *Id.* art. 23.

cessing is deemed explicitly necessary for the impending protection of life, body, or interest in property of the data subject or a third person; or (3) where the processing is unavoidably in line with the enforcement regulation promulgated by the Ministry of Public Administration and Security (MOPAS) to facilitate the key administrative services conducted by public authorities.

Effectively, the prohibition on the processing of RRNs would require most companies to conform their systems and databases to store, process, and recall data without relying on RRNs as the primary identifiers of their customers.

PIPA requires every personal data processor to establish the personal information processing policy, the “Privacy Policy,” setting forth such specifics as the purpose of personal information processing, the length of data retention, data transfers to third parties, and the rights and obligations of data subjects.⁷¹ As such, any company processing personal data of Korean residents would need to establish and implement a Privacy Policy that contains the elements specified by PIPA.

Additionally, PIPA grants a variety of data rights to data subjects and places corresponding obligations on data processors. These rights include access to personal information,⁷² correction or deletion of personal information,⁷³ and suspension of processing of personal information.⁷⁴ Companies processing personal data need to have procedures in place that allow data subjects to exercise their rights under PIPA.

71. *Id.* art. 30.

72. *Id.* art. 35.

73. *Id.* art. 36.

74. *Id.* art. 37.

Data Security in South Korea

Personal information processors in South Korea are required to implement technical, managerial, and physical measures that are necessary to ensure the safety of data as specified by the Presidential Decree.⁷⁵ Data processors who fail to implement the required security measures and who suffer data loss may be fined up to 500 million won (or \$462,690 U.S. dollars).⁷⁶

For instance, a personal information processor who collects RRNs must protect that data through “encryption so that it may not be lost, stolen, leaked, altered or damaged.”⁷⁷ PIPA also requires personal information processors to designate a privacy officer, who shall establish and oversee the implementation of the “data protection plan,” establish internal controls to prevent unauthorized disclosure and misuse of personal information, prepare and implement the data protection education program, and protect and manage the personal information.⁷⁸ Upon learning of any data privacy violations, the privacy officer must take immediate corrective measure and, if necessary, report such corrective measures to the head of the organization and relevant organizations.⁷⁹

Under PIPA, a data processor who learns of a data breach must immediately notify the affected individuals and identify the kind of personal information that was breached, when and how it was breached, remedial measures, as well as what the affected individuals can do to minimize damage.⁸⁰ A large-scale

75. *Id.* art. 29.

76. *Id.* art. 34-2(1).

77. *Id.* art. 24-2.

78. *Id.* art. 31(1)-(2).

79. *Id.* art. 31(4).

80. *Id.* art. 34(1).

data breach is also reportable to the minister of security and public administration.⁸¹ Furthermore, in case of a data breach, PIPA places the burden of proof on data processors. Where a data subject suffers damage caused by a data processor's PIPA violations, the data processor will be liable for damages unless it proves "non-existence of its wrongful intent or negligence."⁸² Damages may be reduced for data processors that prove their compliance with PIPA and "non-negligence of due care and supervision."⁸³

The IT Networks Act requires ICSPs to designate a person in charge of data protection and to take such technical and other measures that are necessary to secure the safety of the personal information.⁸⁴ Furthermore, once the ICSP "attained the objective" of collecting the personal information, it must "promptly destroy" that information, unless it must continue preserving under another law.⁸⁵

Similarly to PIPA, under the amendments to the IT Networks Act, upon discovering a data breach, ICSPs must immediately report the breach to the Korea Communications Commission (KCC) or the Korea Internet and Security Agency (KISA), analyze causes of the breach, and prevent damage from being spread.

Under the 2014 FHCA amendment, financial institutions sharing data must notify the data subjects of the data transfer that took place at least once a year. The amended FHCA also limits the period of use of the shared data to a maximum of one

81. *Id.* art. 34(3).

82. *Id.* art. 39(1).

83. *Id.* art. 39(2).

84. *IT Networks Act*, *supra* note 58, arts. 27, 28.

85. *Id.* art. 29.

month, unless otherwise approved by the chief information officer.

Under the Use and Protection of Credit Information Act,⁸⁶ any operator of a credit information business shall implement technological and physical security measures to prevent unlawful access by third parties, modification, damage, destruction, or other dangers to electronic credit information.⁸⁷

Data processors in South Korea must take data security seriously. It is important to determine all applicable general and sector-specific statutes and regulations and carefully comply with all data-security and data-breach related requirements. Every data processor is expected to establish and implement data protection and data breach remediation plans and be prepared to act in the event the physical and technical data security measures fail and personal data is unlawfully accessed or disclosed.

Data Residency / Localization in South Korea

An increasing number of countries, including South Korea, have begun implementing a range of strict policies aimed at localizing economic activity and data that accompanies that activity within their borders. So-called data localization laws set forth requirements to store data locally, i.e., within national borders. Countries that adopt such laws require the storage or processing of data on servers physically located within their borders. Data can be restricted based on type (e.g., financial or health records), based on the nationality of the data subject, or based on the type of the data processor (e.g., ICSP).

86. *Use and Protection of Credit Information Act*, Act No. 4866, Jan. 5, 1995, amended by Act No. 8863, Feb. 29, 2008.

87. *Id.* art. 19.

For instance, under IT Networks Act, the minister of information and communication may require any ICSP or any ICSP user to take measures necessary to prevent “material information regarding the domestic industry, economy, science, and technology” from being exported out of Korea into foreign countries via information and communication networks.⁸⁸

Under the Regulation on Supervision of Credit – Specialized Financial Business, foreign e-commerce firms selling goods in Korea are prohibited from storing Korean credit card numbers and, thus, may not accept Korean branded credit cards.⁸⁹

South Korea’s data privacy rules have been criticized for effectively requiring that financial services providers locate their data servers physically inside Korea, thus hampering foreign providers’ ability to perform data processing in their daily business activity.⁹⁰ However, recently, South Korea undertook commitments under both the United States – Korea Free Trade Agreement (KORUS) and the Korea – European Union Free Trade Agreement to substantially reduce these restrictions and to allow U.S.-based financial institutions in Korea to process data in their regional and global offices.⁹¹

88. *IT Networks Act*, *supra* note 58, art. 51.

89. Office of the United States Trade Representative, *2013 National Trade Estimate Report on Foreign Trade Barriers*, at 239 (March 2013), <https://ustr.gov/sites/default/files/2013%20NTE.pdf>.

90. *Id.*

91. *Fact Sheet: U.S.-Korea Free Trade Agreement*, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, <https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2015/march/fact-sheet-us-korea-free-trade-agreement> (last visited June 24, 2015).

Cross-Border Transfers of Data in South Korea

Commentators often argue that strict rules regulating cross-border transfers of personal data function as data localization laws by creating high regulatory hurdles for companies to comply with before data can be transferred abroad and thereby effectively requiring companies to store and process personal data within the country's borders. Under the amended PIPA, when a personal information processor provides personal information to a third party overseas, it shall notify the data subject and obtain consent.⁹²

Specifically, to make overseas transfer of personal data lawful, the putative data exporter must inform the data subject of the following: (1) identity of the overseas recipient of personal information, (2) purpose for which a recipient of personal information uses such information, (3) items of personal information provided, (4) period for which a recipient of personal information holds and uses such information, and (5) the fact that a subject of information has a right to withhold his or her consent and details of a disadvantage, if any, due to such withholding.⁹³

Given these restrictions, global companies doing business in South Korea need to determine whether it is more economical and efficient to obtain the data subjects' consent to data export or to store and process personal data locally, either through increased technology investments that ensure local data storage or through the use of local cloud providers.

Data Secrecy in South Korea

South Korea has several laws protecting sensitive information, including the Use and Protection of Credit Information

92. *PIPA*, *supra* note 57, art. 17(3).

93. *Id.* art. 17(2).

Act,⁹⁴ the Telecommunications Business Act,⁹⁵ the Medical Service Act,⁹⁶ the Real Name Financial Transactions and Secrecy Act,⁹⁷ and the IT Networks Act.

Under the Use and Protection of Credit Information Act, operators of credit information businesses are prohibited from disclosing or using “personal secrets such as credit information and private information” for non-business purposes.⁹⁸ Violators who cause damages to credit information subjects and who cannot prove that they acted without “malice or negligence” are liable for damages.⁹⁹

The Telecommunications Business Act prohibits telecommunication carriers and their employees from disclosing any “confidential information” acquired as part of performance of telecommunication services. However, a few limited, law-enforcement related, exceptions allow the disclosure of the following information related to a user: (1) name, (2) RRN, (3) address, (4) phone number, (5) identification code to authenticate the legitimate users of a computer system or communications network, or (6) dates of service subscription or termination.¹⁰⁰ Most

94. *Use and Protection of Credit Information Act*, Act No. 4866, Jan. 5, 1995, amended by Act No. 8863, Feb. 29, 2008 [hereinafter *Use and Protection of Credit Information Act*].

95. *Telecommunications Business Act*, amended by Act No. 8867, Feb. 29, 2008 [hereinafter *Telecommunications Business Act*].

96. *Medical Service Act*, Act No. 1035, Mar. 20, 1962, amended by Act No. 10387, Jul. 23, 2010 [hereinafter *Medical Service Act*].

97. *Real Name Financial Transactions and Secrecy Act*, Act No. 5493, Dec. 31, 1997, amended by Act No. 6682, Mar. 30, 2002 [hereinafter *Real Name Financial Transactions and Secrecy Act*].

98. *Use and Protection of Credit Information Act*, *supra* note 94, art. 27.

99. *Id.* art. 28.

100. *Telecommunications Business Act*, *supra* note 95, art. 54.

of these exceptions will not apply to a private company in its regular course of business.

In South Korea, 82.3 percent of people are concerned about the privacy and security of their health information.¹⁰¹ In addition to PIPA, health information in South Korea is also governed by the Medical Service Act, which prohibits, with some exceptions, a medical provider from disclosing a person's confidential information gathered in the course of performing medical treatment.¹⁰² Furthermore, no one may "leak, alter or destroy" any personal information stated in an electronic medical record without "justifiable reason."¹⁰³

The Real Name Financial Transactions and Secrecy Act guarantees the secrecy of financial transactions.¹⁰⁴ Specifically, it prohibits employees of financial institutions from disclosing information regarding the contents of financial transactions to other persons absent consent in writing.¹⁰⁵ Additionally, with limited exceptions, no one may request financial institution employees to provide transaction information.¹⁰⁶

The IT Network Act prohibits any person from damaging the information of other persons or from infringing, stealing, or unlawfully disclosing the "secrets" of other persons, which are processed, stored, or transmitted via information and communications networks.¹⁰⁷

101. Jeongeun Kim, James G. Boram Ki & Sukwha Ki, *Personal Health Records and Related Laws in South Korea*, Presentation (Sept. 25, 2013), <http://www.medicine20congress.com/ocs/index.php/med/med2013/paper/view/1604>.

102. *Medical Service Act*, *supra* note 96, art. 19.

103. *Id.* art. 23.

104. *Real Name Financial Transactions & Secrecy Act*, *supra* note 97, art. 4.

105. *Id.* art. 4(1).

106. *Id.*

107. *IT Networks Act*, *supra* note 58, art. 49.

Data in the Cloud in South Korea

On March 3, 2015, South Korea passed the world's first cloud-specific law aimed at promoting the adoption of cloud computing in Korea.¹⁰⁸ The Act on the Development of Cloud Computing and Protection of Users ("Cloud Act")¹⁰⁹ will take effect on September 28, 2015. The Ministry of Science, ICT and Future Planning ("Ministry"), which first introduced the Cloud Act for consideration in October 2013, is expected to issue regulations for cloud services before the Cloud Act comes into force.

The Cloud Act aims to promote the cloud market in Korea by increasing investment and support of the cloud market, in particular by encouraging the government entities to use private companies' cloud technology.¹¹⁰ Under the Cloud Act, the Ministry will establish plans to enhance the cloud market and will update those plans every three years. These measures will include the development of the cloud computing market, cloud computing related research and expert training, as well as financial and other support for local providers of cloud services, such as tax incentives. The Cloud Act encourages the government entities to use private cloud services providers to benefit from cost efficiency, improve productivity, and increase South Korean industrial competitiveness.¹¹¹

To address security and privacy issues that are perceived as the main obstacles to the use of cloud services, the Cloud Act

108. Daniel Jung, *Korea Leads the World with Cloud Law Encouraging Cloud Use*, ROB BRATBY BLOG (Apr. 9, 2015), <http://robbratby.com/2015/04/09/korea-leads-the-world-with-cloud-law-encouraging-cloud-use/>.

109. *Cloud Computing and Legal Developments Related to User Protection Act*, Act. No. 13234, Mar. 27, 2015 (effective on Sept. 28, 2015).

110. Julia Kenny, *The Uncertain Future for South Korea's Cloud*, BLOUIN NEWS BLOGS (Jan. 5, 2015), <http://blogs.blouinnews.com/blouinbeattechnology/2015/01/05/the-uncertain-future-for-south-koreas-cloud/>.

111. Daniel Jung, *supra* note 108.

obligates cloud services providers to institute appropriate safeguards. For instance, cloud services providers will be required to do the following: (1) report data breaches to their customers and the Ministry, (2) not transfer personal information to third parties without the data subject's consent, (3) return or delete personal information upon termination of the cloud contract, (4) disclose the location of the data, if the data is hosted outside of South Korea and the customer requests that information. Any person who provides personal data to a third party in violation of the Cloud Act shall be punished by imprisonment of up to five years or a fine not to exceed KRW 50 million (approximately \$45,000 U.S. dollars).

Use of Personal Data by Marketers and Data Brokers in South Korea

The KCC recently took steps to restrict the practices of the big data analytics sector. In December 2014, the KCC issued the Big Data Guidelines for Data Protection (“Guidelines”),¹¹² allowing ICSPs to process personal information only if the data is de-identified before it is collected, retained, combined, analyzed or sold. Data de-identification requires that “measures [be] taken . . . so that it cannot be easily combined with other data to identify a specific individual.”¹¹³ Such measures can include “data reduction, pseudonymization, data suppression, and data masking.”¹¹⁴

112. THE KOREA COMM’NS COMM’N, *Big Data Guidelines for Data Protection*, Dec. 23, 2014.

113. Cynthia O’Donaghue & Philip Towns, *South Korean Communications Commission Releases Guidelines on Data Protection for Big Data*, ABOVEHELAW.COM (Mar. 25, 2015), <http://abovethelaw.com/2015/02/south-korean-communications-commission-releases-guidelines-on-data-protection-for-big-data/>.

114. See *Big Data Guidelines for Data Protection in South Korea*, DEVSBUILD.IT (Mar. 11, 2015), <http://devsbuild.it/content/Big-Data-Guidelines-Data-Protection-South-Korea>.

Under the Guidelines, any data processing for the purpose of generating “sensitive information” (e.g., ideology, political views) is strictly prohibited unless specifically allowed by law or with data subject’s prior consent. Additionally, collecting the contents of communications, such as emails and texts, is prohibited unless all parties to the communication provide consent.¹¹⁵

3. *Hong Kong*

Overview

Hong Kong’s original data privacy ordinance, the Personal Data (Privacy) Ordinance (the PDPO or “Ordinance”), was enacted in 1996, shortly after the EU Directive was passed. There has, however, been a constitutionally recognized right to privacy in Hong Kong in articles 28, 29, 30, and 39 of the basic law.¹¹⁶ The Ordinance consists of six thematic Data Privacy Principles (each commonly referenced as DPPs).¹¹⁷ The legislation was significantly re-tooled in 2012, primarily to address unauthorized disclosure of information and direct marketing activity. For instance, a new “disclosure without consent” offense was added. The new offense contemplates improper use or disclosure through voluntary (but unpermitted) means, as well as the involuntary loss of information through an incident such as a data breach. There are civil and criminal penalties, and individual data subjects have a private right to action in some circumstances.

115. *Id.*

116. Hong Kong Personal Data (Privacy) Ordinance, Cap. 486, [http://www.legislation.gov.hk/blis_pdf.nsf/6799165D2FEE3FA94825755E0033E532/B4DF8B4125C4214D482575EF000EC5FF/\\$FILE/CAP_486_e_b5.pdf](http://www.legislation.gov.hk/blis_pdf.nsf/6799165D2FEE3FA94825755E0033E532/B4DF8B4125C4214D482575EF000EC5FF/$FILE/CAP_486_e_b5.pdf).

117. *Id.* § 4.

Data Protection and Privacy in Hong Kong

It is tempting to draw a comparison between the EU and Hong Kong in terms of data classification and the concept of ownership of personal information. There has been historical UK influence in Hong Kong, as a result of its colonial past, and there are many similarities between EU privacy concepts and Hong Kong's Ordinance. For instance, there is an established privacy commissioner and six Data Protection Principles, which are actually based on the OECD Privacy Principles, which themselves had EU influences. However, there is not a direct parity between the EU and Hong Kong privacy regimes. In fact, an argument could be made that the more recent revisions to both Hong Kong's and China's regimes appear to point both systems in a direction that is rather more unique and focused on the wholesale use of data by direct marketing and information clearinghouse operations, accompanied by strong incentives to protect against data breaches.

DPP1 of the Ordinance requires the designation of a corporate data protection officer to whom any inquiries or requests can be presented by the privacy commissioner. A similar requirement is part of the upcoming EU Data Privacy Regulation.

Personal Data and Data User in Hong Kong

Personal Data has the same broad conceptual definition that would be recognized by anyone familiar with the EU Directive. Specifically, Personal Data is any information that relates directly or indirectly to a living data subject whose identity can be directly or indirectly determined. There is not a separate category of sensitive personal data under the Ordinance.

The Hong Kong ordinance does not distinguish between data custodians and data owners. Instead, a collective category of "Data User" describes any entity or person who controls the

collection, holding, use, or processing of personal data. Importantly, a data user is not someone who holds personal data at the instruction of a third party or on behalf of a third party. Finally, the Ordinance does not restrict or govern any actions relating to personal data that are committed outside Hong Kong—only activities which take place from within Hong Kong.

The following activities are regulated by the Hong Kong ordinance in its current form: collection, use, disclosure, retention, access, and correction of personal data by the data subject. Practitioners should be aware, however, that transfer restrictions are forthcoming. These are discussed in further detail below.

Data Processing Restrictions in Hong Kong

There are also some fairly broad exceptions that permit the types of ordinarily restricted processing activity. Exceptions include uses of personal data for governmental, journalistic, and crime prevention purposes. For business purposes, there are exceptions for corporate due diligence investigations, provided that: the information processed or used is not more than is necessary; similar products or services will be provided by a party to the transaction or a new corporate entity formed by the transaction; consent is not practicable; and data is used exclusively for the due diligence investigation. There is a generalized exception for personal data held for “domestic and recreational purposes,” which, while interesting to contemplate in the abstract, would certainly not apply to any typical commercial or corporate entity.

The new amendments included additional requirements for data users to adopt “contractual or other means” to prevent

- personal data transferred to a data processor from being retained longer than necessary for the original processing purpose; and

- unauthorized or accidental access, processing, erasure, loss, or unauthorized use of personal data.

Anticipated Future Hong Kong Data Transfer Restrictions

There are not currently any regulations or restrictions on the transfer of personal data under the Ordinance (except to the extent that disclosure to a third party for direct marketing purposes could be considered a transfer). However, Section 33 of the Ordinance, which is expected to come into effect very soon, does indeed place EU-style restrictions on the transfer of personal data. Today, however, the Ordinance only covers activities relating to personal data that may loosely be understood as “processing” under the EU model. With the understanding that the Section 33 transfer restrictions are imminent, the privacy commissioner for personal data has issued a Guidance Note encouraging corporations and entities to adopt practices to restrict the transfer of personal data, unless several EU-style conditions are met. Examples of the conditions include instances where

- the destination country is recognized as providing the same or similar data productions as the Ordinance;
- the data subject has consented, in writing, to the transfer so there is no need for model contractual clauses or data transfer agreements governing the extraterritorial transfer or onward transfer of personal data; or
- the “data user” has taken all reasonable precautions and exercised all due diligence to verify that the data will not be processed or held in a manner that would violate the Ordinance if the data were still in Hong Kong.

The December 2014 Guidance Note also includes suggested model contractual clauses for inclusion in data transfer agreements, along with a list of suggested good practices and practical tips for compliance. Overall, the Guidance Note is a very useful guide for compliance with the upcoming transfer restrictions.

Because most Hong Kong employers, businesses, and international litigation counsel are not typically involved in any export or disclosure of information to third parties for direct marketing purposes, this article will not address the many new restrictions on that sort of activity in the newly updated Ordinance. Suffice to say, however, that separate disclosure requirements, including a specific notice and consent procedure and terms of service are necessary for those sorts of activity.

Data Security in Hong Kong

DPP4(1) requires data users to take “practical steps” to protect personal data from unauthorized access, loss, or use in violation of the Ordinance. Fundamental information protection methods, such as data encryption and file access controls, are not specifically spelled out in the Ordinance; however, these are certainly examples of “practical steps” that every corporation or organization should implement. In July 2014, the privacy commissioner published a Guidance Note titled “Guidance on the Use of Portable Storage Devices” that contains additional suggested precautions, including the development of a top-down risk assessment, written policies for the secure storage, control and deletion of personal data, encryption, technical controls, and monitoring.¹¹⁸

118. Office of the Privacy Comm’r for Personal Data, Hong Kong, *Guidance on the Use of Portable Storage Devices* (July 2014), https://www.pcpd.org.hk/english/publications/files/portable_storage_e.pdf.

Data Residency and Localization in Hong Kong

There are no current data localization requirements in the Hong Kong data privacy regime. However, given the strong movement in China for greater regulation and access to information, it is difficult to know how long this situation will remain.

Data in the Cloud in Hong Kong

The privacy commissioner tackled the realities and challenges cloud computing poses to personal data privacy in a November 2012 information leaflet on the topic.¹¹⁹

That publication made it clear that compliance with the DPPs under the Ordinance is still mandated for personal data stored in cloud environments. This includes limitations on the prolonged retention of personal data by third parties through the use of contractual provisions (DPP2); the limitation on processing outside the original purpose without notice and voluntary consent (DPP3); the use of reasonable protections to prevent loss, unauthorized processing, or unauthorized access of personal data (DPP4). The publication also includes a helpful discussion of the special risks posed by cloud computing and provides suggestions for handling unique challenges associated with outsourcing data storage responsibilities.

4. Mainland China

Overview

Interestingly, as in the U.S., the approach of the People's Republic of China (PRC) to data protection is quite sectoral in

119. Office of the Privacy Comm'r for Personal Data, Hong Kong, *Cloud Computing* (Nov. 2012), https://www.pcpd.org.hk/english/resources_centre/publications/files/cloud_computing_e.pdf.

nature. Provisions related to personal data protection are peppered in various statutes and regulations, but unlike the EU, there is no broad, baseline data protection framework that clearly defines the scope of all privacy rights, particularly on the individual level. One reason is that China lacks the legal infrastructure to protect individual privacy in a comprehensive manner. And despite a significant increase in litigations and investigations requiring the collection and processing of Chinese electronic information, China lacks a comprehensive framework that governs the collection, use, and transfer of personal information. Currently, PRC laws dealing with data protection are piecemeal and provide little concrete guidance. But there are early signs that this may be changing in ways that may create unexpected challenges and consequences going forward.

Effective March 15, 2015, China's State Administration for Industry and Commerce (SAIC) implemented new "Measures for Penalties for Infringing upon the Rights and Interests of Consumers," outlined below. In addition, China's legislature, the National People's Congress, has completed two of three required readings of a draft anti-terrorism law which would require ICSPs to implement "back doors" to aid Chinese counter-terror investigators, to surrender encryption keys upon request, and to house all domestic information on servers in China, pursuant to comprehensive data residency requirements. This proposed legislation, discussed in detail below, has caused an international stir, prompting U.S. President Barack Obama to state in early March 2015, that "this is something they are going to have to change if they are to do business with the United States."¹²⁰

120. Chen Qin, *China Anti-Terror Law Worries Foreign Tech Firms*, MARKETWATCH.COM (Apr. 2, 2015), <http://www.marketwatch.com/story/china-anti-terror-law-worries-foreign-tech-firms-2015-04-02>.

Data Protection and Privacy in PRC

The PRC's legal foundation for data protection is loosely framed by the Chinese constitution, which refers indirectly to privacy, seeming to guarantee privacy rights in the home and for correspondence.¹²¹ The Criminal Law Code imposes up to a year in prison on those who violate citizens' "rights of" communication freedom and up to three years on those who illegally search a residence.¹²² The General Principles of Civil Law prohibits insults, libel, and damage to reputation, under a general tort liability analysis.¹²³ And the Law on the Protection of Minors prohibits collecting "personal secrets" of minors.¹²⁴

China has no national data protection authority, and although a draft Personal Data Protection Law has been under consideration for several years, its prognosis and timing remain quite uncertain. Currently, the PRC does not administer or maintain any register of data controllers, personal data processing or transfer activities, or location of databases in the PRC that contain general personal information of PRC citizens. Nor is there any requirement for companies to appoint a data protection officer. There is also no mandatory requirement for reporting of data breaches or losses to authorities or to individuals

121. Constitution of the People's Republic of China, XIANFA arts. 37-40 (1982).

122. Criminal Law of the People's Republic of China (adopted by the Fifth Nat'l People's Cong., July 1, 1979, amended by the Eighth Nat'l People's Cong. on Mar. 14, 1997) arts. 252 and 245, respectively [hereinafter Criminal Law of the People's Republic of China].

123. General Principles of the People's Republic of China Civil Law (adopted by the Sixth Nat'l People's Cong., Apr. 12, 1986, promulgated by the President of the People's Republic of China, Apr. 12, 1986) art. 10.

124. Law of the People's Republic of China on Protection of Minors (adopted by the Standing Comm. of the Seventh Nat'l People's Cong., Sept. 4, 1991, promulgated by the President of the People's Republic of China, Sept. 4, 1991).

whose personal information is impacted. Nor are there any specifically articulated enforcement provisions or penalties for non-compliance with PRC law relating to data protection.

Components of Current PRC Data Protection Landscape

The PRC's current data protection landscape relies on the interplay of several components: (1) the Decision of the Standing Committee of the National People's Congress (NPC) on Strengthening Online Information Protection ("Decision"), taken December 28, 2012; (2) draft Guidelines published on November 5, 2012, by the Ministry of Information and Industry in China (MIIT), called "Information Security Technology—Guide for Personal Information Protection" ("Guidelines"); and (3) the new "Measures for Penalties for Infringing upon the Rights and Interests of Consumers" ("Measures") implemented on March 15, 2015, by the State Administration for Industry and Commerce (SAIC).

The Decision has the full force and effect of law. In contrast, the Guidelines are general principles that, while not mandatory, are generally considered to foreshadow the direction of PRC data protection law. The Measures clarify obligations with respect to corporate handling of personal data, define what constitutes personal consumer information, and demonstrate China's increased focus on data protection. The Measures effectively repeal the previous "Measures for Penalties Against Conduct Defrauding Consumers," which were adopted by the SAIC in 1996.

The PRC "Decision"

The Decision refers to "personal information," which is defined as any electronic information which can be used to identify a citizen; it relates generally to data privacy in the sense of

personal reputation. Unlike the EU Data Protection Directive, the Decision has no separate definition or treatment of personal sensitive data.

Under the Decision, in order for network service providers and others to collect and use the personal information of citizens, the following prerequisites apply: (1) it must be lawful, reasonable (i.e., proportional), and necessary; (2) it must specify the purpose, method, and scope regarding the collection and use of the personal information; (3) the personal information subject must consent; (4) it must be collected and used in a manner consistent with other laws, regulations, and mutual agreements; and (5) it must disclose the rules regarding collection and use.

The Decision has no specific requirements relating to the transfer of personal information, but it does require the data controller to ensure that the personal information is kept "safe" in transit, and that the recipient has the capability to properly process and protect the information from a data security perspective.

Failure to comply with the Decision is considered an "offense" under Articles 9 and 11, with considerable discretion left to authorities as to the nature and scope of enforcement. However, unlike in the U.S., experience suggests that the lack of specific advance notice of consequences will not provide any defense against enforcement of the Decision by the PRC.

In terms of electronic behavioral marketing, organizations are also prohibited from acquiring personal information by deceptive or illegal means, and from selling or unlawfully providing such information to third parties. Network service providers (fixed line or mobile telephone, Internet) must require consumers to provide verified information relating to their identity as a condition of service. The Decision also prohibits an-

yone from sending commercial electronic information or solicitations (spam) to a telephone or email address without the prior consent of the recipient.

Lastly, under Article 5 of the Decision, network service providers have an affirmative duty to report any suspected transmission of any false or unlawful information and take necessary measures to remove such information. Individuals have the right to require network service providers to delete such information and to take corrective action to prevent further occurrences.

The PRC “Guidelines”

Under the Guidelines, any data or information that can be used separately, or in conjunction with other data, to identify an individual is “personal data.” Such data can only be collected and processed when: (1) laws and regulations specifically authorize such collection and processing, or if the data subject consents; and (2) the data controller has a specific, clear, and reasonable purpose for doing so.

Before personal data can be collected and processed, the Draft Guidelines state that the data controller “should” notify the data subject of the following: (1) the purpose, scope, use, and collection methods relating to the data; (2) the name, address, and contact information for the data controller; (3) the consequences of not providing the personal data; (4) the rights of the data subject; and (5) procedures and process for submitting complaints.

Under the Guidelines, data controllers are prohibited from collecting personal data that is not related to the stated purpose, particularly if the data relates to race, religion, DNA, fingerprints, physical condition, or sex life. This is very similar to the EU Data Protection Directive’s treatment of “sensitive personal data.”

The data controller may only *process* personal data for the purpose and within the scope of notification to the data subject. Measures must be taken to maintain the confidentiality and privacy of such data during transmission, processing, and storage.

Data controllers may not transfer personal data to third parties unless the data controller: (1) explains to the data subject, the purpose and scope of the data transfer; (2) obtains the explicit consent of the data subject to such transfer; and (3) ensures that the recipient can process, store, and transfer the personal data in a safe and secure manner.

Data controllers are required by the Draft Guidelines to take appropriate technical and organizational measures against unauthorized or unlawful processing and to protect against accidental loss, destruction, or alteration of such data. The standard of care is that the measures taken must ensure a level of security proportional to the nature of the data and to the harm that may result from its unauthorized or unlawful processing, loss, breach, destruction, or alteration.

The PRC “Measures” (including Personal Data Marketers and Data Brokers)

As noted above, the new SAIC Measures for Penalties for Infringing upon the Rights and Interests of Consumers (“Measures”), effective March 15, 2015, sets corporate obligations for handling of personal data and, for the first time, defines “personal consumer information.”

The Measures were promulgated for three stated reasons: (1) “to prevent infringement upon consumer rights and interests in accordance with law,” (2) “to protect the lawful rights and interests of consumers,” and (3) “to maintain the socialist economic order.”

Article 11 of the Measures compels businesses that collect or use personal information of consumers to “follow the principles of legality, appropriateness, and necessity” and to “clearly state the purpose, manner and scope for collecting and using the information.” The Measures prohibit businesses from collecting and using personal consumer information without consent; leaking, selling, or illegally providing it to third parties; and sending commercial information to a consumer without the consent or request of the consumer.

Article 11 defines “personal information of consumers” as:

a consumer’s name, gender, occupation, date of birth, identification document number, residential address, contact information, status of income and assets, health status, consumption habits, and other information collected by businesses during their provision of goods and services that may independently or in combination with other information identify the consumers.

The Measures amplify the previous Law of the People’s Republic of China on the Protection of the Rights and Interests of Consumers issued by SAIC in 2014, which did not define the scope of “personal consumer information.” Businesses that violate Article 11 of the Measures are subject to penalties including civil liabilities, administrative correction or warnings, confiscation of unlawful gains, monetary fines up to ten times the illegal income or up to RMB 500,000 (\$80,000 U.S. dollars) per violation, suspension of business, and revocation of business licenses. In addition, the violations and penalties are memorialized in the credit files of the business and disclosed to the public.

China's Proposed "Anti-Terror" Law

The proposed China "Anti-Terror" law has touched a nerve globally, because it is feared that it will grant the PRC unfettered access to the most competitively sensitive data of companies that wish to do business in China, as well as require construction and staffing of data centers in China, under the proposed law's data residency or localization requirements. Like similar laws in Brazil, Russia, and elsewhere, this is seen, in part, as a response to the 2013 Snowden revelations and the May 2014 indictment of five Chinese military officers by the U.S. Department of Justice on charges of hacking U.S. companies.

Unfettered PRC Access to Information within its Borders

Under the proposed PRC legislation, China could access and examine any private data transmitted through its domestic Internet, without prior notice or court order, so long as a terrorist threat was deemed to exist. In contrast, at least by law, the U.S. and a number of other governments engage in fairly unrestricted surveillance of international data flows, but can only "obtain" private domestic data after a formal subpoena or warrant process. To this end, the proposed PRC law requires ICSPs to install government-accessible back doors and provide encryption keys to public security authorities for any data stored on their servers.

Data Residency Requirement in PRC

The proposed law also requires ICSPs to locate their servers physically in China and store all PRC user data in China, thereby giving the government access to a wealth of private data and competitively sensitive business documents, including those stored on a PRC-based cloud server, as well as access to personal and business email, chat logs, texts, and the like. The

law does not require a showing of any threat to national security, nor notice to companies, and companies would have no avenue of appeal. Chinese officials have defended the draft, stating that the law would only be used following a “strict approval process”; however, the current draft contains no reference to such a process, and other PRC laws and regulations that permit government requests for similar data do not typically set out the internal approval process for such requests. Other governments worldwide recognize a legitimate need to access privately stored communications under certain circumstances, but these laws generally require a specific prior request to the company and judicial oversight process.

Following a forceful reaction by President Obama, U.S. trade officials and trade groups, China has deferred the third and final reading of this draft law for the time being. However, China’s Foreign Ministry has said that “deliberation on this law is ongoing,” raising concern that such legislation in 2015 or 2016 may be imminent.

The proposed law has been roundly criticized as a radical departure from international norms and a heavy blow against individual rights. Another critique is that it could cause irrevocable harm to China’s own information technology industry because of the threat of surreptitious invasion of data.

Proposed Anti-Terror Legislation Technology Requirements in PRC

Articles 15 and 16 of China’s proposed “Anti-Terror” law would require the following specific technical measures, under penalty of law:

- **Adding “Back doors” to telecommunications and Internet data that are available to PRC authorities.** Article 15 requires “network and in-

formation services operators” to install “technical interfaces in the design, construction, and operation of telecommunication and Internet [services],” which would act as “back doors” to purportedly “prevent” or “investigate” terrorist activities. The law does not require any notice when using these “back doors” and does not require the government to demonstrate any connection between the data sought and the suspected terrorism.

- **Making encryption keys available to PRC authorities.** Article 16 requires ICSPs to file their encryption scheme with the government and to provide encryption keys, upon request.
- **Storing all telecommunications and Internet data locally on servers placed in China.** Article 15 requires any business “providing telecommunications or Internet service within the borders of the PRC to locate its related servers and domestic user data within the borders of [China].” This measure tracks a similar one slated to take effect on September 1, 2015, in Russia, and is designed to ensure that the PRC has full access to all information transmitted within its borders and enforce virtual jurisdiction on all companies doing business in China. It effectively hardens the “Great Firewall of China,” and is consistent with the “cyber-sovereignty” principle that nation states have the right to control all information within their boundaries.
- **Affirmatively monitoring and reporting regarding “terrorist” Internet content.** Under the

proposed law, ICSP's would need to add "terrorist content" (to be defined by the PRC on an *ad hoc* basis) to the list of other forms of prohibited content, and to affirmatively report the details of such content to the government.

- **Hardening the "Great Firewall" of China.** Responsible departments are empowered by the draft legislation to "adopt technical measures to stop the dissemination of information with terrorist content available on the international Internet."

Cross-Border Discovery in PRC

The concept of U.S.-style discovery is certainly alien to China. Chinese legal proceedings are much like those of other civil law jurisdictions. With few exceptions, parties are restricted to information within their possession to support their claims and defenses, unaided by the kind of liberal U.S. discovery and disclosure rules aimed at creating a more level "playing field."

China is a signatory to the Hague Convention on Taking of Evidence,¹²⁵ but has made reservation under Article 23 to exclude production of "pre-trial discovery of documents," and instead only allows discovery and production of documents relevant for the purpose of trial.¹²⁶ Typically, a U.S. court must submit a Letter of Request to the PRC Ministry of Justice. The

125. Hague Convention on the Taking of Evidence Abroad in Civil or Commercial Matters, *opened for signature* Mar. 18, 1970, 23 U.S.T. 2555, 847 U.N.T.S. 241.

126. "A Contracting State may at the time of signature, ratification or accession, declare that it will not execute Letters of Request for the purpose of obtaining pre-trial discovery of documents, as known in Common Law countries." *Id.* art. 23.

letter is forwarded to the PRC Supreme Court for review, which may take six to twelve months. The PRC Supreme Court will limit the scope of the request, or reject it altogether, if it violates PRC state sovereignty, would disclose state or commercial trade secrets, or create any risk to national security.

Several U.S. cases highlight the uncertainty faced in trying to conduct discovery involving PRC businesses. In *Tiffany v. Andrew*,¹²⁷ the plaintiffs brought a trademark infringement action against PRC defendants in the Southern District of New York and requested bank records located in China. The PRC-based defendants objected to the discovery requests on the basis that it was prohibited by PRC law, and that the Hague Convention was the primary mechanism for seeking such information. The Court agreed, applying the Restatement (Third) of Foreign Relations test adopted by the U.S. Supreme Court in *Aerospatiale*.¹²⁸ The Court relied upon an offer of evidence that the PRC has recently been shown more willing to execute Letters of Request, and because it ruled the PRC interest in protecting confidential bank records in China, as well as harsh penalties for violation of PRC bank secrecy laws, outweighed the U.S. interest in enforcing intellectual property rights.¹²⁹

State Secrecy in PRC

In China, the Law on Guarding State Secrets prohibits a company or individual from disclosing information considered to be a state secret. PRC authorities take an expansive view of the scope of state secrets, which even includes a company's in-

127. *Tiffany (N.J.) v. Andrew*, 267 F.R.D. 143 (S.D.N.Y. 2011).

128. *Societe Nationale Industrielle Aerospatiale v. U.S. Dist. Court for the S. Dist. of Iowa*, 482 U.S. 522, 544 (1987).

129. See Appendix for citations for selected cases that address the intersection of data protection and cross-border discovery.

ternal policies, procedures, and processes. State Owned Enterprises (SOE) and parties involved in industries such as telecommunications, banking, information technology, energy, national defense, agriculture, infrastructure, transportation, manufacturing, technology, and national resources have all been classified as possessing state secrets. The PRC Constitution requires all Chinese citizens to comply with state secrecy protection laws.¹³⁰ The Law on Guarding State Secrets (“State Secrets Law”) is aimed at protecting matters of important state interest, as noted above, because of the potential damage disclosure could cause to China and, therefore, to its national security. Based upon a judgment regarding the extent of harm that might result from accidental or intentional disclosure, it separates secret information into three classifications: most confidential, classified, and confidential.¹³¹ A violation of the State Secrets Law, whether negligent or intentional, carries a penalty of up to seven years in prison under PRC Criminal Law.¹³² The PRC State Secrets Law provides the following diverse examples:

- Major national policy decisions
- Matters of national defense and armed forces activities
- Diplomatic activities, foreign affairs, and obligations to foreign nations to maintain secrets
- Secrets in economic and social development
- Secrets in science and technology

130. Constitution of the People’s Republic of China, XIANFA art. 53 (1982).

131. Law of the People’s Republic of China on Guarding State Secrets (adopted by the Standing Comm. of the Seventh Nat’l People’s Cong. and promulgated by the President of the People’s Republic of China, Sept. 5, 1988, effective May 1, 1989) art. 9.

132. Criminal Law of the People’s Republic of China, *supra* note 122, art. 398.

- Secrets in activities to safeguard national security and to investigate criminal offenses
- Other matters determined to be state secret by the State Secret Administration, including a political party's secrets that conform to this Article¹³³

In addition to State Secrets, China also regulates the disclosure of "business" or "commercial" secrets under its Anti-Unfair Competition Law, which encompasses any technical or business information, including management and business models, that (1) is unknown to the general public, (2) may create business interests or profit for its owners, and (3) is maintained secret by its legal owners.¹³⁴

The definition of a "business secret" was expanded in 2010, when the State-Owned Assets Supervision and Administration Commission (SASAC), by regulation, expanded its scope to include a substantial number of SOEs.

Penalties include potential civil liability for damages as well as criminal penalties, depending on the seriousness of monetary loss, from three to seven years in prison.¹³⁵

The proposed "Anti-Terror" law would essentially squeeze out all but those cloud providers with infrastructure located in China. Requiring a China-specific private cloud would effectively eliminate many of the usual price-saving opportunities afforded by global cloud providers. Of course, China is a

133. *Id.* art. 8.

134. Anti-Unfair Competition Law of the People's Republic of China (adopted by the Standing Comm. of the Eighth Nat'l People's Cong., Sept. 2, 1993) art. 10.

135. Criminal Law of the People's Republic of China, *supra* note 122, art. 219.

large market, and competition for this service would undoubtedly be keen; however, it would come at a heavy price risk of unfettered governmental surveillance and seizure.

CONCLUSION

The future of data protection in the Asia-Pacific region remains dynamic, with various countries adopting token attempts at solutions, such as enacting data residency laws, which are likely to be counterproductive in the long run. In contrast, others are embracing innovative initiatives such as the APEC Cross Border Privacy Rules Framework, which provides some hope for an ultimate global solution. The cooperation and collaboration between APEC and the EU Article 29 Working Party to harmonize the CBPR and BCR frameworks is encouraging, particularly in the wake of digital-protectionist responses following the Snowden NSA surveillance revelations. Certainly, it will take time to rebuild trust which has been lost. This trust is an absolute prerequisite to constructive dialogue. Without it, the tide of digital protectionism and isolationism is likely to rise. With it, there is hope that together we can find a reasoned way forward to balance data protection interests with the free flow of information and ideas so essential to economic and cultural growth.

APPENDIX

This Appendix provides citations for selected cases that address the intersection of data protection and cross-border discovery. In particular, these cases provide analysis of *Societe Nationale Industrielle Aerospatiale v. U.S. Dist. Ct. for the S.D. of Iowa*, 482 U.S. 522 (1987), and The Hague Convention on the Taking of Evidence Abroad in Civil or Commercial Matters, 23 U.S.T. 2555, reprinted in the notes section following 28 U.S.C. § 1781.

2015

- *St. Jude Med. S.C., Inc. v. Janssen-Counotte*, 2015 U.S. Dist. LEXIS 64355, 2015 WL 2359568 (D. Or. May 18, 2015).
- *Peters v. Peters*, 127 A.D.3d 656 (N.Y. App. Div. 2015).

2014

- *Gilmore v. Palestinian Interim Self-Government Auth.*, 8 F. Supp. 3d 1 (D.D.C. 2014).
- *In re Activision Blizzard, Inc. Stockholder Litig.*, 86 A.3d 531 (Del. Ch. 2014).
- *Republic of Arg. v. NML Capital, Ltd.*, 134 S. Ct. 2250 (2014).
- *BrightEdge Techs., Inc. v. Searchmetrics, GmbH*, 2014 U.S. Dist. LEXIS 112377, 2014 WL 3965062 (N.D. Cal. Aug. 13, 2014).
- *Sebastian Holdings, Inc. v. Deutsche Bank AG*, 123 A.D.3d 437 (N.Y. App. Div. 2014).
- *Tansey v. Cochlear Ltd.*, 2014 U.S. Dist. LEXIS 132021, 2014 WL 4676588 (E.D.N.Y. Sept. 18, 2014).

2013

- *Linde v. Arab Bank, PLC*, 706 F.3d 92 (2d Cir. 2013).
- *Pershing Pac. West, LLC v. MarineMax, Inc.*, 2013 U.S. Dist. LEXIS 33473, 2013 WL 941617 (S.D. Cal. Mar. 11, 2013).

2012

- *Lantheus Med. Imaging, Inc. v. Zurich Am. Ins. Co.*, 841 F. Supp. 2d 769 (S.D.N.Y. 2012).
- *Trueposition, Inc. v. LM Ericsson Tel. Co.* (Telefonaktiebolaget LM Ericsson), 2012 U.S. Dist. LEXIS 29294, 2012 WL 707012 (E.D. Pa. Mar. 6, 2012).
- *Wultz v. Bank of China Ltd.*, 910 F. Supp. 2d 548 (S.D.N.Y. 2012).
- *Ayyash v Koleilat*, 957 N.Y.S.2d 574 (N.Y. Sup. Ct. 2012).

2011

- *SEC v. Stanford Int'l Bank, Ltd.*, 776 F. Supp. 2d 323 (N.D. Tex. 2011).
- *Costa v. Kerzner Int'l Resorts, Inc.*, 277 F.R.D. 468 (S.D. Fla. 2011).
- *Recaro N. Am., Inc. v. Holmbergs Childsafety Co.*, 2011 U.S. Dist. LEXIS 134978, 2011 WL 5864727 (E.D. Mich. Nov. 22 2011).
- *Metso Minerals Indus. v. Johnson Crushers Int'l, Inc.*, 276 F.R.D. 504 (E.D. Wis. 2011).
- *Estate of Esther Klieman v. Palestinian Auth.*, 272 F.R.D. 253 (D.D.C. 2011).

2010

- *Milliken & Co. v. Bank of China*, 758 F. Supp. 2d 238 (S.D.N.Y. 2010).
- *In re Urethane Antitrust Litig.*, 267 F.R.D. 361 (D. Kan. 2010).

2009

- *Affordable HealthCare, LLC v. Protus IP Solutions, Inc.*, 2009 U.S. Dist. LEXIS 30461, 2009 WL 975150 (E.D. Mo. Apr. 9, 2009).
- *Schindler Elevator Corp. v. Otis Elevator Co.*, 657 F. Supp. 2d 525 (D.N.J. 2009).
- *In re Global Power Equip. Group Inc.*, 418 B.R. 833 (Bankr. D. Del. 2009).

2008

- *Strauss v. Credit Lyonnais, S.A.*, 249 F.R.D. 429 (E.D.N.Y. 2008).
- *Emerson Elec. Co. v. Le Carbone Lorraine, S.A.*, 2008 U.S. Dist. LEXIS 72705, 2008 WL 4126602 (D.N.J. Aug. 27, 2008).
- *Seoul Semiconductor Co. v. Nichia Corp.*, 590 F. Supp. 2d 832 (E.D. Tex. 2008).

Pre-2008

- *Hagenbuch v. 3B6 Sistemi Elettronici Industriali S.R.L.*, 2005 U.S. Dist. LEXIS 20049, 2005 WL 6246195 (N.D. Ill. Sept. 12, 2005).
- *Mujica v. Occidental Petroleum Corp.*, 381 F. Supp. 2d 1134 (C.D. Cal. 2005).
- *Societe Nationale Industrielle Aerospatiale v. U.S. Dist. Ct. for the S.D. of Iowa*, 482 U.S. 522 (1987).

DISCOVERY, DISCLOSURE, AND DATA TRANSFER IN ASIA: CHINA AND HONG KONG

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I. CIVIL LITIGATION IN HONG KONG AND CHINA: OVERVIEW

A. *Hong Kong*

Previously under United Kingdom control, Hong Kong has been a Special Administrative Region of the People's Republic of China since 1997. Under the "one country, two systems" principle, today Hong Kong is part of China but maintains significant autonomy in all areas except defense and foreign affairs. Most Chinese laws do not apply in Hong Kong.¹

Hong Kong's legal system is separate and distinct from that of mainland China. For example, the Basic Law (Hong Kong's constitution) provides that the common law applies in Hong Kong,² whereas civil law governs the People's Republic of

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1. *Legal System of Hong Kong*, DEP'T OF JUSTICE, GOVERNMENT OF HONG KONG (Apr. 23, 2014), <http://www.doj.gov.hk/eng/legal/index.html>.

2. XIANGGANG JIBEN FA art. 8 (H.K) [hereinafter BASIC LAW].

China (PRC).³ Hong Kong accordingly has its own civil procedure rules, called the Rules of the High Court and Rules of the District Court, depending on the court involved. These rules cover discovery, codified in Order 24 in each set.⁴ As Hong Kong is a common law jurisdiction, case law also plays a role in developing these discovery rules by creating binding precedent.

B. China

As the PRC transitioned to a market economy in the 1980s and 1990s, its civil litigation system developed from limited origins.⁵ Before that time, Chinese officials felt that legal obligations or rights were not needed as conflicts could be resolved via mediation or administratively.⁶ As China shifted to a market economy, this sentiment became increasingly anachronistic, and many new laws entered into force to meet the growing need for civil litigation.⁷

China today is a civil law jurisdiction, drawing influence from continental Europe, Soviet socialism, and imperial China. Unlike common law countries which rely on precedent, China's laws are codified and passed by the National People's Congress, the Standing Committee of the National People's Congress, and

3. *Introduction to China's Legal System*, LIBRARY OF CONGRESS (Mar. 7, 2014), <http://www.loc.gov/law/help/legal-research-guide/china.php>.

4. See The Rules of the High Court (Gazette Number 25 of 1998 s.2) [hereinafter Rules of the High Court]; The Rules of The District Court (2009) Cap.336H, 67, O. 24 (H.K.) [hereinafter Rules of the District Court]. The two bodies of rules do not differ in substance and their numbering is identical. For clarity's sake, only the Rules of the High Court are cited in this paper.

5. Donald C. Clarke, *The Chinese Legal System*, GEO. WASH. U. L. SCH. (July 4, 2005), <http://docs.law.gwu.edu/facweb/dclarke/public/Chinese-LegalSystem.html>.

6. *Id.*

7. *Id.*

administrative agencies.⁸ The Supreme People's Court, the State Council, the Central Military Commission, the Supreme People's Procuratorate, and the standing committees of people's congresses in subnational regions all have the power to submit bills to the National People's Congress,⁹ to obtain legal interpretations from the Congress,¹⁰ or to request that the Congress review a law's constitutionality.¹¹ However, none of these bodies make law in their own right.

II. GENERAL DISCOVERY OBLIGATIONS

A. *Hong Kong*

1. Party Discovery

Parties to civil litigation in Hong Kong are subject to broad disclosure and document inspection obligations designed to enable courts to address cases justly using all relevant materials. The Rules of the High Court, mainly Order 24, govern discovery in Hong Kong for paper documents and electronically stored information.¹² These rules encourage parties to be realistic about their prospects of success in the litigation and thus facilitate settlement because they require the disclosure of both harmful and helpful documents.

8. Lifa Fa (立法法) [Legislation Law of the People's Republic of China] (promulgated by the National People's Congress, March 15, 2000, effective July 1, 2000) 2000 STANDING COMM. NAT'L PEOPLE'S CONG. GAZ. 112 (China).

9. *Id.* at art. 12.

10. *Id.* at art. 43.

11. *Id.* at art. 90.

12. CSAV Group (Hong Kong) Ltd. v. Jamshed Safdar [2007] 10 H.K.C.F.A.R. 629 (C.F.A.). See also *Derby & Co. Ltd v. Weldon* (No. 9) [1991] 2 All E.R. 901 (Eng.).

Under the Rules of the High Court, parties must exchange lists of relevant documents within 14 days after the close of pleadings.¹³ When serving the list on an opponent, parties are also required to serve a notice to inspect, which states a time and place for the opponent to inspect the disclosed documents. The time of inspection must be within 7 days of the day the list is served.¹⁴ The Rules of the High Court provide, however, that parties to an action may agree to dispense with or limit the discovery of documents which they would otherwise be required to make to each other.¹⁵

The duty to disclose under the Rules of the High Court extends to all relevant documents that are or have been in a party's "possession, custody or power."¹⁶ This includes documents a party has or had the legal right to inspect or copy even if not in the party's possession (e.g., documents held by third-party agents).

2. Pre-Action Discovery

Pursuant to Hong Kong's Civil Justice Reform on April 2, 2009, prospective parties in civil cases may obtain discovery before an action is filed by submitting an application to the court for pre-action discovery from an intended party.¹⁷ The application must be supported by an affidavit satisfying three requirements. First, the affidavit must identify the grounds on which the applicant and intended party will become parties to proceedings.¹⁸ Second, the affidavit must identify documents the

13. Rules of the High Court at O. 24, r. 2(1).

14. *Id.* at r. 9.

15. *Id.* at r. 1(2).

16. *Id.* at r. 2(1).

17. *Id.* at r. 7A(1).

18. *Id.* at r. 7A(3)(a).

applicant seeks to discover.¹⁹ These documents must be “directly relevant” to an issue that arises or is likely to arise in the case, meaning that either a party in the proceedings is likely to rely on them as evidence or the documents support or harm a party’s case.²⁰ Finally, the affidavit must state why the intended party is likely to have the documents in his possession, custody, or power.²¹

3. Discovery from Non-Parties

Parties to civil litigation in Hong Kong may also obtain discovery from a non-party upon the issuance of a formal court order.²² An application for non-party discovery must be supported by an affidavit satisfying two requirements. First, the affidavit must identify the documents the applicant seeks to discover.²³ These documents must be “relevant” to an issue that arises or is likely to arise in the case.²⁴ Note that this is slightly different from the requirement that documents be “directly relevant” in the pre-action discovery context. Second, the affidavit must specify why the non-party is likely to have the documents in his possession, custody, or power.²⁵

4. Penalties for Discovery Violations

When a party fails to comply with a discovery order, the court has discretion to order any remedy it considers just. This

19. *Id.* at r. 7A(3)(b).

20. *Id.* at r. 7A(3A).

21. *Id.* at r. 7A(3).

22. *Id.* at r. 7A.

23. *Id.* at r. 7A(3)(b).

24. *Id.*

25. *Id.*

may include dismissing the action, striking a defense, or committing the liable party for contempt of court.²⁶ To issue an order for dismissal, courts generally must find that the plaintiff sought to avoid giving discovery and thus made a fair trial impossible.²⁷ If a fair trial is still possible, the court must find that the party willfully disobeyed the court by not complying with the discovery order.²⁸ The order for dismissal may be issued with respect to the entire case or only those parts related to the missing discovery.²⁹ Orders to strike out a defense require a showing of willful default or negligence by the defendant.³⁰ A finding that a party has deliberately destroyed documents before or during the proceedings might also justify such an order.³¹ The court may also order the noncompliant party to pay a fine to the court.³² A party who fails to comply with a discovery order will only in very exceptional circumstances be liable to committal (i.e., imprisonment).³³

5. The Duty to Search, Produce, and Disclose Documents

In September 2014, the Hong Kong judiciary introduced a new pilot scheme for discovery of electronically stored documents through the publication of Practice Direction SL 1.2 (“PD SL 1.2” or “the Direction”), which followed a decision by the

26. *Id.* at r. 16.

27. 90 HALSBURY’S LAWS OF HONG KONG § 556 (48th ed. 2009).

28. *See* LDB Sales Co Ltd. v. German Electronic Ltd. [2006] 4 H.K.C. 602 (C.A.).

29. 90 HALSBURY’S LAWS OF HONG KONG § 556 (48th ed. 2009).

30. *See* Ka Wah Bank Ltd v. Low Chung-song [1989] 1 H.K.L.R. 451 (C.A.).

31. *Id.*

32. The Rules of the High Court (2008) Cap. 4A, 7, O. 2, r. 3 (H.K.).

33. 90 HALSBURY’S LAWS OF HONG KONG § 558 (48th ed. 2009).

Hong Kong Court of First Instance on the same topic.³⁴ PD SL 1.2 is based primarily on the equivalent U.K. rules for e-discovery of documents.³⁵ The new rules are mandatory for all cases for which the claim or counterclaim exceeds HK\$8 million and there are at least 10,000 documents subject to discovery, but the rules can also apply on the court's own motion or on application by a party.³⁶

PD SL 1.2 differs from the pre-existing discovery rules in several key respects. First, the scope of discovery extends only to those documents that are directly relevant to the issues in dispute, defined as "Electronic Documents which are likely to be relied on by any party to the proceedings or Electronic Documents which support or adversely affect any party's case."³⁷ Expansion of the scope of discovery is available only when a party can show that the extension is necessary for the resolution of an issue in dispute.³⁸ Second, the Direction requires the parties' legal representatives to cooperate at an earlier stage of the proceedings. By the time of the first Case Management Conference, the parties must have already discussed the extent and scope of discovery and created finalized Electronic Discovery Questionnaires that address the parties' plans to manage electronic discovery.³⁹

PD SL 1.2 also incorporates the pre-existing requirement that parties must conduct a reasonable search, not an exhaustive

34. *Chinacast Education Corp v Chan Tze Ngon* [2014] HKEC 1381, Court of First Instance, 14 August 2014.

35. Practice Direction 31B, Civil Procedure Rules (U.K.).

36. Practice Direction SL 1.2, ¶1 (H.K.) [hereinafter PD SL 1.2].

37. *Id.* at ¶5.1.

38. *Id.* at ¶5.3.

39. *Id.* at ¶¶9, 13-14.

one, to disclose all relevant data.⁴⁰ In the electronic context, a “reasonable search” includes recovering deleted computer files through computer forensics⁴¹ and extracting electronic information in a form that a counterparty may access.⁴² Parties must employ search terms calculated to produce relevant documents; using terms that produce tranches of irrelevant documents, or leave relevant ones undiscovered, is unreasonable.⁴³ Some factors practitioners consider when conducting a reasonable search for electronic documents include the accessibility of electronic documents, the location of relevant documents and systems, electronic devices or media that contain such documents, the likelihood of locating relevant data, and the cost of recovery and disclosure.

Parties are under an ongoing duty to disclose.⁴⁴ If a party, or a party’s attorney, discovers a relevant document that should have been disclosed (or was produced after disclosure was made), they must immediately share it with their counterparty.⁴⁵

40. *Deacons v. Kevin Richard Bowers*, DCCJ 3046/2007 (D.C. Apr. 15, 2008) (Legal Reference System) (H.K.) (“A party is required to take all reasonable steps and best endeavors to discover relevant documents.”). *See also* *Moulin Global Eyecare v. KPMG*, HCA 118/2007 (C.F.I. Feb. 25, 2010) (Legal Reference System) (H.K.).

41. *Deacons* at para. 20.

42. *Liquidators of Moulin Global Eyecare v. Ernst & Young*, HCCW 470/2005 (C.F.I. June 18, 2008) (Legal Reference System) (H.K.) at para.7.

43. *Id.*

44. 90 HALSBURY’S LAWS OF HONG KONG § 569 (48th ed. 2009).

45. *Id.*

6. The Duty to Preserve Documents

It is the solicitor's duty to ensure that her client preserves evidence.⁴⁶ Hong Kong follows the Commonwealth rule: prior to litigation, parties must not deliberately destroy documents, but there is no duty to preserve them.⁴⁷ Parties' deliberate destruction of documents may subject them to sanctions by the court.⁴⁸ Outside the context of electronic discovery, there is no duty to preserve documents prior to litigation, although it is good practice to do so once litigation is contemplated because the court may compel litigants to explain what happened to lost or destroyed documents.⁴⁹ Within the context of electronic discovery, PD SL 1.2 imposes an additional obligation on each parties' legal representatives to notify their clients of the need to preserve electronic documents as soon as litigation is contemplated rather than after litigation has commenced.⁵⁰

46. *Guess? Inc. and Others v. Lee Seck Mon and Others*, HCA 604/1986 (S.C. April 30, 1986) (Legal Reference System); 90 HALSBURY'S LAWS OF HONG KONG § 568 (48th ed. 2009) ("It is [the solicitor's] duty to take positive steps to ensure that the client appreciates the duty of discovery and the importance of not destroying documents which might have to be disclosed" (citing *Myers v. Elman* [1940] A.C. 282); see *Infabrics Ltd v. Jaytex Ltd* [1985] F.S.R. 75 (Eng.) (solicitor's duty goes beyond instructing clients to preserve documents)).

47. 90 HALSBURY'S LAWS OF HONG KONG § 569 (48th ed. 2009) (citing *British American Tobacco Australia Services Limited v. Cowell* [2002] VSCA 197 (Austl.) (courts may only sanction parties for pretrial destruction of documents if the destroying party's intent was to pervert the course of justice); *Douglas v. Hello! Ltd (No 2)* [2003] 1 All E.R. 1087 (Eng.) (drawing a distinction between destruction of documents before and after proceedings begin).

48. *Id.*

49. Rules of the High Court at O. 24, r. 7(1).

50. PD SL 1.2, *supra* note 36, at ¶7.

7. Discovery Costs

Generally speaking, discovery costs are “costs in the cause,” meaning that the party who ultimately loses the case bears them.⁵¹ Hong Kong courts may allocate costs differently for good reason.⁵² For non-party discovery, the party seeking the discovery typically pays the costs unless the disclosing non-party shared in the wrongful act at issue in the case or obstructed justice, in which case the non-party should bear its own costs and pay the costs of the party seeking the discovery as well.⁵³

Courts may, in their discretion, order one party to indemnify another for costs.⁵⁴ The Hong Kong Rules of Civil Procedure do not differentiate between costs for disclosure of electronic documents and traditional discovery.

8. Privilege

Privileged documents are not discoverable. The Hong Kong judiciary recognizes privilege protection as a constitutional right.⁵⁵ Parties must disclose the existence of privileged documents, but adversaries may not view them. In contrast, parties may generally view each other’s confidential documents, although in certain situations a court may issue an order providing that an adversary’s counsel, but not client, may view

51. Rules of the High Court at O. 62, r. 3(2).

52. *Id.*

53. *See* Cinepoly Records Co. Ltd. v. Hong Kong Broadband Network Ltd. [2006] 1 H.K.L.R.D. 255 (C.F.I.) (H.K.); *see also* Totalise plc v. Motley Fool Ltd. [2003] 2 All E.R. 872, CA (Eng.).

54. Rules of the High Court at O. 62, r. 3(2).

55. BASIC LAW, *supra* note 2, at art 35; *see also* Akai Holdings Ltd. (In Compulsory Liquidation) v. Ernst & Young [2009] 12 H.K.C.F.A.R. 649 (C.F.A.) (The right to confidential legal advice “is entrenched for all persons in Hong Kong. It is so entrenched by two constitutional provisions.”).

the documents (e.g., commercially sensitive documents). Hong Kong recognizes two main categories of privilege which preclude disclosure: legal advice privilege and litigation privilege.

Legal advice privilege covers written exchanges between a party and her counsel, when those communications are confidential and intended to provide or solicit legal advice. The legal advice privilege protects all such documents, regardless of whether they relate to the instant litigation.⁵⁶ However, only employees whose jobs require them to seek legal advice on behalf of the organization benefit from the privilege. The privilege does not cover factual accounts sent between attorney and client, but a lawyer's notes and opinions related to those factual accounts are privileged.⁵⁷

Litigation privilege covers communications between a client or her lawyers and a third party when the messages aim to conduct the instant litigation, aid its course, or give and receive advice related to it.⁵⁸

In general, privilege rules in Hong Kong favor function over form. Marking documents "privileged" does not necessarily give them that status. Privilege does not extend to documents because they contain confidential information or were generated for internal use.

56. *Axa China Region Insurance Co. Ltd v. Pacific Century Insurance Co. Ltd* [2005] H.K.E.C. 893 (C.F.I.); *Three Rivers District Council & Others v. Governor and Company of the Bank of England (No. 5)* [2003] E.W.C.A. Civ. 474 (Eng.).

57. *Rockefeller & Co., Inc. v. The Secretary for Justice and Lee Kwok Wing Kevin* [2000] 3 H.K.L.R.D. 351 (C.A.).

58. *Akai Holdings Ltd. (In Compulsory Liquidation) v. Ernst & Young* [2009] 12 H.K.C.F.A.R. 649 (C.F.A.).

B. China

1. Discovery

China has no system of discovery similar to those of Western legal systems. Instead, parties submit evidence on which they intend to rely to the People's Court and in some cases exchange it with their adversary, as provided for in Chapter VI of China's Civil Procedure Law and the Supreme People's Court Civil Evidence Rules ("Civil Evidence Rules").⁵⁹ Under the Civil Procedure Law, parties are responsible for gathering their own evidence,⁶⁰ although they may seek the assistance of the court.⁶¹ Because parties must already be involved in an active matter to obtain the help of the court (or present their own evidence), pre-trial discovery is impossible in China. While parties are prohibited from withholding evidence in relation to the case without justification, there is no clear sanction for doing so.

Under Article 33 of the Civil Evidence Rules, parties may set the time they have to produce evidence by mutual consent, with approval from the People's Court.⁶² Without such an order, the exchange must occur within thirty days of the second day after the party receives the summons.⁶³ Extensions are possible

59. Zuigao Renmin Fayuan Guanyu Minshi Sussng Zhengju De Ruogan Guiding (最高人民法院关于民事诉讼证据的若干规定) [Provisions of the Supreme People's Court on Evidence in Civil Proceedings] (promulgated by the Judicial Comm. of the Supreme People's Court, Dec. 6, 2001, effective Apr. 1, 2002), art. 10 (People's Republic of China), <http://www.china.com.cn/chinese/PI-c/92700.htm>.

60. Minshi Susong Fa (民事诉讼法) [Civil Procedure Law of the People's Republic of China] (promulgated by the Standing Comm. Nat'l People's Cong., Aug. 31, 2012, effective Jan. 1, 2013), art. 65, http://www.gov.cn/flfg/2012-09/01/content_2214662.htm [hereinafter PRC Civil Procedure Law].

61. *Id.* at art. 3.

62. *Id.* at art. 33.

63. *Id.* at art. 35.

if applied for within the time limit and in special circumstances.⁶⁴

Parties must submit original objects or documents, or copies authenticated by the court.⁶⁵ Evidence from outside of the PRC must be notarized and legalized.⁶⁶ Furthermore, Article 12 of the Civil Evidence Rules requires any foreign language evidence to be translated into the Chinese language and the translations, as well as the original documents, must be submitted to the court.⁶⁷

2. Preservation of Documents

There is no general duty to preserve documents in China. Article 74 of the Civil Procedure Law provides that “when there is the likelihood that evidence may be destroyed or lost or difficult to obtain later on, the participants in proceedings may apply to the People’s Court for the evidence to be preserved. The People’s Court may also on its own initiative take measures to preserve such evidence.”⁶⁸ Evidence preservation orders are therefore a valuable method of obtaining evidence controlled by a counterparty. Requests for these orders must be filed within seven days of the court-imposed deadline for evidence production.⁶⁹

Litigation holds may be difficult to implement in China because Chinese employees commonly use personal email or

64. *Id.* at art. 36.

65. *Id.* at art. 10.

66. *Id.* at art. 11.

67. *Id.* at art. 12.

68. *Id.* at art. 74.

69. *Id.*

social media accounts to conduct business and collecting information from such sources requires the employee's consent under Chinese data privacy law.⁷⁰

3. Judicial Investigation

When a party faces difficulties searching for or producing evidence, it may request a court to investigate pursuant to Article 64 of the PRC Civil Procedure Law to facilitate obtaining evidence from other entities. These applications are granted subject to the court's discretion and belief that the evidence is "necessary for adjudicating the case."⁷¹

As a backstop to the writ, Chinese courts retain the authority to investigate *sua sponte*,⁷² but rarely do so in civil cases. Should a court undertake its own inquiry, it would be far more powerful than a writ of investigation, because any serious uncooperative action could violate criminal law.⁷³

4. Privilege

Chinese law does not formally recognize a privilege protecting communications between attorneys and clients. Nevertheless, Article 38 of the Law on Lawyers includes provisions requiring attorneys to preserve the confidentiality of any trade

70. Jiuye fuwu he guanli tiaoli (就业服务和管理条例) [Regulations on Employment Services and Employment Management] (promulgated by the Ministry of Labor and Social Security, Oct. 30, 2007, effective Jan. 1, 2008), art. 13, http://www.gov.cn/gzdt/2007-11/07/content_798826.htm.

71. PRC Civil Procedure Law, *supra* note 60, at art. 64.

72. *Id.*

73. *Id.* at art. 65 ("[Parties of whom a court makes inquiry] may not refuse to provide information and evidence.").

secrets or state secrets they learn.⁷⁴ This provision theoretically obliges lawyers to keep information secret if their clients request them to do so. However, the PRC Civil Procedure Law and the PRC Criminal Procedure Law impose general disclosure duties on “any relevant units or individuals” when a trial is underway.⁷⁵ It remains to be seen how Chinese courts will reconcile these competing regulations.

III. CROSS-BORDER DISCOVERY

A. Hong Kong

1. Obtaining Evidence in a Foreign Proceeding

Requests for evidence are made *ex parte* before the Court of First Instance and must include the Letter of Request from the originating country.⁷⁶ The order must then be served on the witness or owner of the evidence; the Chief Bailiff of Hong Kong performs service pursuant to the Hague Convention on International Service.⁷⁷ This process of obtaining evidence from Hong Kong usually takes about two months.⁷⁸ Service may be obtained pursuant to other methods, however, such as registered

74. Zhonghua Renmin Gongheguo Lushi Fa (中华人民共和国律师法) [Lawyer’s Law of the People’s Republic of China] (promulgated by Standing Comm. Nat’l People’s Cong., May 15, 1996, effective Jan. 1, 1997), art. 38, http://www.gov.cn/flfg/2007-10/28/content_788495.htm.

75. PRC Civil Procedure Law, *supra* note 60, at art. 65; Zhonghua Renmin Gongheguo Xingshi Susong Fa (中华人民共和国刑事诉讼法) [Criminal Procedure Law of the People’s Republic of China] (promulgated by the Nat’l People’s Cong., July 1, 1979, effective as amended Mar. 14, 2012), art. 48, http://www.gov.cn/flfg/2012-03/17/content_2094354.htm.

76. Rules of the High Court at O. 70, r. 2.

77. Rules of the High Court at O. 69, r. 4.

78. HCCH | *Authorities*, HAGUE CONFERENCE ON PRIVATE INTERNATIONAL LAW (Aug. 22, 2011), http://www.hcch.net/index_en.php?act=authorities.details&aid=492.

mail or personal service, as long as the server complies with Hong Kong law.⁷⁹ If the witness is unwilling to cooperate, then foreign litigants may make an application under the Hague Convention on Evidence (the “Hague Convention”). If the request requires a deposition or examination of an individual, the requesting party may nominate a person (such as a Hong Kong solicitor) to conduct the examination.⁸⁰ Letters of request are first sent to the designated Hague Convention Authority in Hong Kong, the Chief Secretary for Administration.⁸¹ The Secretary forwards the request to the Registrar, who may execute the request himself if the Secretary determines that the requesting party does not need to execute it through a local agent.⁸² If the request does require execution through a local agent, and none has been named in the request, the Law Officer of International Law, a Hong Kong official, will make the application before a local court and otherwise effect the request.⁸³

Certain restrictions apply to the ability to gather discovery in Hong Kong for use in a foreign proceeding. First, the U.S. proceedings must be instituted or their institution must be contemplated.⁸⁴ Second, the applicant must seek particular documents; fishing-expedition style discovery is not permitted.⁸⁵ Third, the discovery sought must be likely to be in the witness’s

79. *Tow v. Rafizadeh*, 392 B.R. 248 (Bankr. S.D. Tex. 2008).

80. Rules of the High Court at O. 70, r. 4.

81. HCCH | *Authorities*, HAGUE CONFERENCE ON PRIVATE INTERNATIONAL LAW (Aug. 22, 2011), http://www.hcch.net/index_en.php?act=authorities.details&aid=491.

82. Rules of the High Court at O. 70, r. 1.

83. *Id.* at r. 3(b).

84. Evidence Ordinance (1997) Cap. 8, 32 § 75 (H.K.).

85. *Id.* at § 76(4)(b).

possession, custody, or power.⁸⁶ Fourth, discovery that is privileged under Hong Kong or U.S. law need not be produced.⁸⁷

2. Hong Kong Privacy Laws

Litigants in Hong Kong should be aware of relevant privacy guidelines governing data transfer. Subject to limited exceptions, the Personal Data Protection Ordinance prohibits the transfer of personal data out of Hong Kong, but has not yet been brought into force.⁸⁸ The Ordinance authorizes the Hong Kong Privacy Commissioner for Personal Data to permit data transfers to jurisdictions which have privacy laws similar to Hong Kong.⁸⁹

Hong Kong does not have any blocking statute in force.⁹⁰

3. Hong Kong Bank Secrecy Laws

Parties seeking discovery from Hong Kong may face resistance under the Hong Kong common law of bank secrecy. In Hong Kong, a banker has a common law duty, arising out of the contract between the banker and his customer, to keep the affairs of the customer secret “including the state of the customer’s account and all information obtained by the banker by virtue of the banking relationship.”⁹¹ There are four exceptions to the duty not to disclose including “(i) disclosure under compulsion of law; (ii) disclosure under a duty to the public; (iii) disclosure in furtherance of the interests of the banker; and (iv) consent of

86. *Id.* at § 76(4)(a).

87. Rules of the High Court at O. 70, r. 6.

88. Personal Data (Privacy) Ordinance (2013) Cap. 486, 22, § 33 (H.K.).

89. *Id.* at § 33(3).

90. Rules of the High Court at O. 70, r. 6.

91. *Ssangyong Corp. v. Vida Shoes Int’l, Inc.*, No. 03 Civ. 5014, 2004 WL 1125659, at * 6 (S.D.N.Y. May 20, 2004).

the customer.”⁹² Importantly, there are no independent banking secrecy statutes in Hong Kong.

Deposit-taking entities in Hong Kong are subject to an independent customer confidentiality obligation. The Hong Kong Monetary Authority regulates all banks in the region through its Corporate Governance Code of Conduct (“HKMA Code”). This code requires banks to comply with all statutory, regulatory, and common law duties when handling customer information, even after the bank’s relationship with a customer ends.⁹³ This includes obtaining customer consent before releasing account details to third parties.⁹⁴ However, legal duties to disclose (including court-imposed duties) limit the HKMA Code. Additionally, banks in Hong Kong typically include standard clauses allowing the bank to provide information to regulators and certain third parties in the terms and conditions for opening a new account.

92. *Id.*

93. Hong Kong Monetary Authority, *Code of Conduct (CG-3)* (2002) at 2.9.2, available at <http://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/CG-3.pdf>.

94. *Id.* at 2.9.3.

To date, U.S. courts have rejected arguments that Hong Kong bank secrecy law should bar discovery and have ordered production of documents argued to fall within those laws.⁹⁵

B. China

1. Obtaining Evidence in a Foreign Proceeding

While China is also a signatory to the Hague Convention, it has executed Article 23 which allows signatories to exclude the production of “pre-trial discovery of documents.” Thus, because only documents relevant for the purpose of trial are discoverable, parties seeking discovery pursuant to the Hague Convention should narrowly tailor their requests and specify that the discovery sought is for trial.⁹⁶ Even voluntary depositions may not be taken in China without approval from the Chinese authorities.⁹⁷ In practice, willing Chinese individuals are often flown to a more permissive jurisdiction, such as Hong

95. See *Ssangyong Corp.*, 2004 WL 1125659, at * 6 (ordering production of documents and noting that “Hong Kong has not underscored its interest in bank secrecy by making it the subject of a statute, or of criminal penalties”); *United States v. Chase Manhattan Bank*, 584 F. Supp. 1080, 1084-85 (S.D.N.Y. 1984) (ordering production based on compulsion of law exception and because the allegations of fraud, “if not public danger” required disclosure); *Garpeg, Ltd v. United States*, 583 F. Supp. 789, 796 (S.D.N.Y. 1984) (finding that “interest of the United States in enforcing its tax laws significantly outweighs Hong Kong’s interest in preserving bank secrecy”); *Vanguard Intern. Mfg., Inc. v. United States*, 588 F. Supp. 1229 (S.D.N.Y. 1984) (compelled production of bank records which were subject to a Hong Kong court’s preliminary injunction forbidding disclosure).

96. Hague Convention, *Table Reflecting Applicability of articles 15, 16, 17, 18, and 23 of the Hague Evidence Convention* (May 2014), available at <http://www.hcch.net/upload/appl-table20e.pdf>.

97. *Id.*

Kong, to be deposed, and non-Chinese offices of Chinese companies may be able to provide access to documents that are in China.

Foreign litigants seeking discovery under the Hague Convention must submit a Letter of Request to China's Ministry of Justice, which then forwards it to the Chinese Supreme Court. If an order is ultimately granted, discovery will be limited to documents that are closely related to the subject of the litigation. There will not be broader fishing-expedition style discovery or discovery of any documents the disclosure of which would violate Chinese law.⁹⁸

Many U.S. courts evaluating the efficiency of seeking evidence in China through the Hague Convention have found that it is "not a viable alternative of securing information."⁹⁹ Chinese judicial authorities frequently take more than a year to respond to Hague Convention requests, and the eventual production may be limited by privacy and secrecy laws.¹⁰⁰

98. *Id.*

99. *Wultz v. Bank of China Ltd.*, 910 F. Supp. 2d 548, 557 (S.D.N.Y. 2012); *see also* *Gucci America, Inc. v. Weixing Li*, 2011 WL 6156936, at *9 (S.D.N.Y. Aug. 23, 2011) ("Without concrete evidence suggesting that China's compliance with Hague Convention requests has, in fact, dramatically improved . . . [the Hague Convention is] not a viable alternative method of securing the information Plaintiffs seek"); *Milliken & Co. v. Bank of China*, 758 F. Supp. 2d 238, 250 (S.D.N.Y. 2010) ("Each of the relevant factors, with the exception of the location of the information, favors discovery without resort to the Hague Evidence Convention").

100. *Wultz*, 910 F. Supp. 2d at 555 (court did not require Hague Convention recourse, noting that "[w]ell over a year has passed since the submission of [plaintiff's initial Hague Convention request]"); *Weixing Li*, 2011 WL 6156936, at *7 (court citing materials stating that "China typically processes Hague Convention requests within six-to-twelve months and that approximately 50% of such requests are granted"); *Milliken*, F. Supp. 2d at 248 (court relying on State Department circular stating that Hague Convention requests to mainland China "may take more than a year to execute").

2. Privacy Laws in China

The EU model of personal data does not yet exist in the PRC. China also has not enacted a single piece of legislation that specifically addresses the collection, storage, processing, and transfer of personal information. Effective February 1, 2013, however, the Guidelines for Personal Information Protection Within Public and Commercial Information Systems came into effect in China (the “Guidelines”). The Guidelines categorize personal information and set forth guidance for the collection, processing, transfer, and deletion of data. While non-compulsory, the Guidelines require that the subject consent to the transfer of data outside of China unless the transfer is authorized by law.¹⁰¹

3. State Secrets Doctrine

Under the PRC Constitution, Chinese parties are forbidden from publicly disclosing anything that could be considered a “state secret” which is an extremely broad and unpredictable piece of legislation in China.¹⁰² The Law of the People’s Republic of China on Guarding of State Secrets, Article 2, vaguely defines state secrets as “matters that have a vital bearing on state security and national interests.” Chinese authorities frequently designate information as “secret” in the most dynamic sectors of

101. Xinxian anquan jishu gonggong ji shangyong fuwu xinxixitong geren xinxixitong baohu zhinan (信息安全技术公共及商用服务信息系统个人信息保护指南) [*Information Security Technology Guidelines for Personal Information Protection on Public and Commercial Service Information Systems*] (promulgated by the Ministry of Industry and Information Technology, effective Feb. 1, 2013) (P.R.C.).

102. XIANFA art. 53 (2004) (China).

the Chinese economy including banking, manufacturing, energy, telecommunications, and electronics.¹⁰³

Courts in the U.S. and Hong Kong have for the most part rejected arguments that documents cannot be produced because of China state secret laws. For example, in a recent decision in which a Hong Kong regulator sought audit information from a firm operating in both Hong Kong and China, the Hong Kong court found that the auditor may not invoke the state secrets doctrine as a blanket defense for nonproduction.¹⁰⁴ Instead, the court stated that the auditor must show the requested documents in question actually contain state secrets and it would therefore violate mainland law to transfer the information to Hong Kong and disclose it there.¹⁰⁵

Likewise, U.S. courts are generally not receptive to arguments based on blocking statutes such as the China state secrecy laws. In *Munoz v. China Expert Technology*, the Southern District of New York rejected defendants' argument that the plaintiffs should proceed through the Hague Convention rather than the Federal Rules of Procedure because of China's state secrecy laws. In so ruling, the court stated "[t]hese laws have a broad

103. See, e.g., *S.E.C. v. Deloitte Touche Tohmatsu CPA Ltd.*, Civil Action No. 11-mc-512, 2013 WL 1720512 (D.D.C. Apr. 22, 2013).

104. *The Securities and Futures Commission v. Ernst & Young*, HCMP 1818/2012 (C.F.I. May 23, 2014) (Legal Reference System) (H.K.).

105. *Id.*

sweep and can preclude disclosure of a host of nebulously defined categories of information. . . . thus they are viewed with some skepticism in U.S. courts.”¹⁰⁶

4. Bank Secrecy Laws

When the discovery or evidence sought in China involves banking information, several Chinese laws may preclude the disclosure of such information.¹⁰⁷ In cases involving these bank secrecy laws, the party from whom discovery was sought opposed discovery arguing that it was precluded under China bank secrecy laws and the requesting party must proceed through the Hague Convention. Courts in these circumstances have performed a case-by-case analysis to decide whether to order the parties to use the Hague Convention or allow discovery pursuant to Federal Rules. The following factors were considered:

- 1) The documents’ importance to the litigation
- 2) The degree of specificity of the request
- 3) Whether the information originated in the U.S. or overseas
- 4) The availability of alternative means of securing the information (including Hague Convention mechanisms)

106. *Munoz v. China Expert Tech., Inc.*, 07 CIV. 10531 AKH, 2011 WL 5346323, at *1 (S.D.N.Y. Nov. 7, 2011). *See also* *Richmark Corp. v. Timber Falling Consultants*, 959 F.2d 1468, 1471 (9th Cir. 1992) (“While we acknowledge the importance of the interests the State Secrecy statute is designed to protect, we conclude in the circumstances of this case that PRC’s laws limiting disclosure cannot excuse Beijing’s failure to comply with [the discovery order].”).

107. *See Tiffany (NJ) LLC v. Forbse*, No. 11 Civ. 4976 (NRB), 2012 WL 1918866, at *4 (S.D.N.Y. May 23, 2012) (listing provisions under Chinese law which preclude the disclosure of banking information).

- 5) Whether noncompliance would undermine the interests of the U.S. or of the other country involved¹⁰⁸

Southern District of New York courts consider two additional factors:

- 6) Hardship of compliance on the party responding to the request
- 7) The good faith of the party from whom information is requested¹⁰⁹

In examining the above factors, most U.S. courts have found that the Chinese bank secrecy laws do not require parties to obtain evidence through the Hague Convention.¹¹⁰ In *Weixing Li*, the court stated in this regard that:

[w]hile China undoubtedly has an interest in enforcing its bank secrecy laws, “[i]t is clear that American courts are not required to adhere blindly to the directives of [foreign blocking statutes].” *Aerospatiale*, 482 U.S. at 544 n.29. Indeed, bank secrecy laws are entitled to less deference

108. *Société Nationale Industrielle Aérospatiale v. U.S. Dist. Court for Southern Dist. Of Iowa*, 482 U.S. 522, 544 n.28 (1987).

109. *Weixing Li*, 2011 WL 6156936, at *5.

110. *See, e.g., Wultz v. Bank of China Ltd.*, 910 F. Supp. 2d 548 (S.D.N.Y. 2012) (ordering Bank of China to produce documents it claimed were protected under China’s bank secrecy laws); *Tiffany*, 2012 WL 1918866 (ordering Bank of China to produce documents it claimed were shielded from disclosure under China’s bank secrecy laws but ordering plaintiff to proceed through Hague Convention for other two Chinese banks); *Gucci America, Inc. v. Weixing Li*, 2012 WL 1883352, at *5 (S.D.N.Y. May 18, 2012) (granting plaintiffs’ motion to compel Bank of China to produce documents); *Milliken & Co.*, 758 F. Supp. 2d 238, 250 (S.D.N.Y. 2010) (“Each of the relevant factors, with the exception of the location of the information, favors discovery without resort to the Hague Evidence Convention”). *But see Tiffany (NJ) LLC v. Qi Andrew*, 276 F.R.D. 143 (S.D.N.Y. 2011) (directing plaintiffs to request the information they sought in China through the Hague Convention).

when their protections amount to “simply a privilege that can be waived by the customer.”¹¹¹

The *Weixing Li* Court further found that banks doing business in the United States “cannot hardly hide behind Chinese bank secrecy laws as a shield against the requirements faced by other United States-based financial institutions” and the bank resisting discovery had not shown that compliance with a foreign court order would subject it to civil or criminal penalties.¹¹² This reasoning was subsequently embraced by other courts to order the production of documents notwithstanding the Chinese bank secrecy laws.¹¹³

IV. CONCLUSION

As demonstrated above, the discovery regimes in Hong Kong and the PRC present a stark contrast. Hong Kong affords litigants a robust, common law discovery system while China constricts parties’ options for obtaining discovery. The issues which arise in cross border litigation also differ significantly: the process to obtain documents in China through the Hague Convention is fraught with more restrictions and obstacles than Hong Kong law. Accordingly, when seeking discovery in Hong Kong or China, it is recommended that attorneys consult local counsel to ensure that they are properly complying with local law. The importance of working with local counsel is particularly important given the rapidly evolving privacy laws in both China and Hong Kong.

111. *Weixing Li*, 2011 WL 6156936, at *10.

112. *Id.*

113. *See, e.g., Wultz*, 910 F. Supp. 2d 548; *Forbse*, 2012 WL 1918866.

THE CONFLICT BETWEEN UNITED STATES DISCOVERY RULES AND THE LAWS OF CHINA: THE RISKS HAVE BECOME REALITIES

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INTRODUCTION

The laws and policies of the People's Republic of China (PRC) create both legal and practical impediments to the production of documents located in PRC in response to United States civil discovery or government subpoenas. Documents that fit within the broad definition of "state secrets" under PRC law may not be produced without risk of substantial criminal penalties. On the other hand, the failure to produce documents subject to a valid legal request arising in the U.S. or another foreign country may itself lead to substantial civil penalties and sanctions. A company facing such a conflict in legal obligations and requirements is caught squarely in the middle of conflicting requirements.

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This is not a new issue. A series of opinions in the federal courts of the Southern District of New York over the last five years address the conflict between U.S. discovery requirements and Chinese law in some detail, although with differing and sometimes inconsistent results. However, in the absence of real-life and tangible examples of penalties or sanctions being imposed on a company arising from this conflict in either PRC or the U.S., the risks have remained largely theoretical. This sharply changed on January 22, 2014, when Securities and Exchange Commission (SEC) Administrative Law Judge Cameron Elliot released a heavily-redacted 112 page written order imposing significant sanctions on the Chinese units of five major accounting firms, including a censure and a six-month ban on practicing before the SEC, due to the companies' failure to produce audit work papers located in PRC in response to SEC subpoenas. Judge Elliot reached this conclusion despite evidence that the companies were specifically forbidden from complying with the SEC's requests by explicit order of government regulators in PRC.¹ The accounting firms appealed this initial ruling, and on February 6, 2015, four of the five firms agreed to a settlement with the SEC that involved a \$500,000 fine against each of the settling firms.²

While the opinion itself focuses on the unique problem of audit work papers, and therefore certain of the details will not

1. BDO China Dahua CPA Co. Ltd., Initial Decision Release No. 553, 2014 SEC LEXIS 234 (Public) (January 22, 2014) [hereinafter "Elliot Opinion"].

2. BDO China Dahua CPA Co. Ltd., Corrected Order on the Basis of Offers of Settlement of Certain Respondents Implementing Settlement, Release No. 74217 SEC (February 6, 2015), *available at* <https://www.sec.gov/litigation/admin/2015/34-74217.pdf> (last accessed July 19, 2015) [hereinafter "Settlement"]. Deloitte Touche, Ernst & Young, KPMG, and PricewaterhouseCoopers agreed to the Settlement; however, the original proceeding continues against BDO China.

apply to other types of companies, the order and Settlement should nonetheless serve as a wake-up call to any company with significant PRC-based operations. In particular, the opinion illustrates that despite a company's best efforts to comply with its obligations, when faced with an explicit order by the PRC government not to produce documents on the one hand and a government subpoena or valid discovery request in the U.S. on the other hand, the company will face a significant dilemma. While the Settlement tries to develop a compromise procedure for future document productions made by the settling firms' Chinese subsidiaries to the SEC, companies should still be worried about the risk of non-compliance with some portion of conflicting legal obligations.

This article begins by summarizing the key aspects of the Elliot Opinion, including highlighting the steps the audit companies tried to take to comply with their obligations, as well as a short summary of the Settlement. The article next summarizes certain of the Chinese laws that the audit companies relied on in asserting that they were unable to produce the work papers. Then the article explores the aforementioned line of cases in the Southern District of New York that address conflicts between U.S. discovery obligations and these and other Chinese laws as well as addressing the question of whether a litigant must follow the Hague Convention process for obtaining documents from PRC-based parties. Notably, the courts in these cases reach quite different conclusions. The article concludes by offering observations as to how a party might proceed when faced with this type of conflict, while acknowledging that there are no easy solutions.

ANALYSIS

1. A Review of the Elliot Opinion and the Settlement

The consolidated SEC enforcement action against the audit companies generally began with a request for audit work papers located in PRC related to Chinese companies that were under investigation by the SEC. In other words, the audit companies were not the focus of the investigations; rather, they were third parties in possession of potentially relevant documents related to the SEC's various investigations against the companies' clients or former clients. As a general matter, the SEC began with a voluntary request to the audit companies for the relevant documents, and when they each failed to respond in full, citing Chinese law as an impediment, the SEC followed up with a more formal subpoena issued under Sarbanes-Oxley §106.³

A few key and notable facts are common between all or most of the audit companies:

- In registering with the Public Company Accounting Oversight Board (PCAOB) in the United States, the audit companies noted their potential inability to comply with requests for documents or information due to Chinese law.⁴
- The audit companies replied relatively quickly to the requests and clearly cited concerns over

3. The Elliot Opinion lays out detailed facts with regard to each of the underlying investigations and the responses of each audit company. This article does not attempt to set forth or distinguish the unique facts and details of each company, but rather discusses their actions in a more general manner. Moreover, many paragraphs of the opinion, including certain legal analysis sections, are redacted in the public version and have therefore not been considered.

4. See Elliot Opinion, *supra* note 1, at 10, 31.

Chinese law as a reason they would not be able to comply despite the fact that they otherwise would be willing to comply with the requests.⁵

- The companies had obtained advice of counsel on these issues to provide them with guidance on the restrictions and their obligations.⁶
- The companies quickly consulted with the relevant authorities in PRC, including Chinese securities regulators, to seek permission to produce the documents and understand the restrictions. They spoke with, wrote to, and met with the Chinese regulators. They were repeatedly told, however, that they may not produce the documents to the SEC and that the SEC would need to make requests through the Chinese regulators, something the SEC apparently was unwilling to do initially.⁷
- In some cases the companies worked out a procedure with the Chinese regulators to permit review and redaction of documents for submission to the regulators who would then consider sharing them with their U.S. counterparts. However, this process did not initially appear successful in resolving the dispute.⁸
- The companies provided substantial evidence to the SEC both as to the seriousness of the conflict they faced and the explicit direction of the Chinese regulators, as evidenced throughout the opinion.

5. *See id.* at 7.

6. *See id.* at 13.

7. *See id.* at 7, 15-18, 27, 44.

8. *See id.* at 19, 37-38.

- At the hearing, the companies produced substantial expert testimony as to, among other topics, Chinese legal requirements.⁹

Judge Elliot considered this information and evidence and concluded that, despite these facts, the companies' conduct in failing to produce the work papers constituted a "wilful refusal to comply" in violation of Sarbanes-Oxley §106(e).¹⁰ In reaching this conclusion, Judge Elliot determined that "good faith" was not relevant to the determination and that "choosing not to act after receiving notice that action was requested" was sufficient to constitute a violation.¹¹ In his view, "the motive for the choice is irrelevant, so long as the Respondent knew of the request and made a choice not to comply with it. Thus bad faith need not be demonstrated and good faith is not a defense."¹² Judge Elliot also rejected other arguments and affirmative defenses, including an argument that the fact that Sarbanes-Oxley permitted the SEC to seek the documents through a foreign counterpart or through the PCAOB meant that the SEC was required to do so: "[t]here exist multiple possible avenues for obtaining documents, some of which may be more effective than others. Nothing compels the Commission to use one avenue rather than another, and it should have discretion to seek documents in whatever fashion the law permits."¹³

Judge Elliot concluded that each of the companies had violated the law by failing to produce the documents. He found

9. *See id.* at 58, 64, 68.

10. *See id.* at 88.

11. *See id.*

12. *See id.* at 93.

13. *See id.* at 100.

that the parties' good faith or lack thereof was relevant to evaluating appropriate sanctions.¹⁴ Judge Elliot found that the companies had not acted with scienter: "their state of mind at the time of their respective violations was driven by their concerns over potentially draconian Chinese laws."¹⁵ However, he did not find that they had acted in good faith. He noted that each of the companies was aware of their obligations under U.S. law when they took on audit work for U.S. issuers, and each was aware they may not be able or willing to comply with a request for audit work papers due to Chinese law.¹⁶ Yet, they had the "gall" to take on the work anyway.¹⁷ As he stated, "to the extent the Respondents found themselves between a rock and a hard place, it is because they wanted to be there."¹⁸ A good faith effort to obey the law means a good faith effort to obey all law, not just the law that one wishes to follow."¹⁹ Judge Elliot took all of these factors into account and imposed significant sanctions, including censures and a six-month ban on practicing before the commission.²⁰

The audit companies immediately appealed the decision and continued to work with the SEC to reach an amicable solution. During the eighteen months after the Elliot Opinion, the companies worked with the Chinese regulators for the review and redaction of documents that could then be sent to the SEC. On February 6, 2015, the SEC agreed with four of the five audit companies to the Settlement, which found that the four settling companies wilfully violated Sarbanes-Oxley §106 and required

14. *See id.* at 103.

15. *See id.* at 106.

16. *See id.* at 105.

17. *See id.*

18. *See id.*

19. *See id.*

20. *See id.* at 110-11.

each company to pay a \$500,000 fine.²¹ The Settlement stayed the six-month ban on practicing before the Commission for four years if the companies followed specific procedures related to future document requests under Sarbanes-Oxley §106.²² The SEC agreed to dismiss the investigation if the companies complied with the document production requirements during those four years.²³ However, non-compliance with future SEC document requests could result in various penalties depending on the severity of the non-compliance, including: (i) a partial ban on practicing before the Commission for 6 months; (ii) a complete ban on practicing before the Commission for 6 months, which could be continued in six-month terms for multiple offenses; and (iii) a termination of the stay and restart of the current proceeding.²⁴

The Settlement set forth procedures the settling firms must follow for future SEC document requests under Sarbanes-Oxley §106. The SEC agreed to issue such document requests first to the PRC Securities Regulatory Commission (CSRC) and then simultaneously provide the audit company with notice of the request.²⁵ Within ninety days of the initial request, the responding audit company must provide the SEC with an initial declaration stating that the company produced all responsive documents to the CSRC for eventual production to the SEC.²⁶ The responding company may create a privilege log and withhold documents under a claim of U.S. privilege, and the com-

21. See Settlement, *supra* note 2, at 3, 19.

22. See *id.* at 3, 21-23.

23. See *id.* at 4, 28.

24. See *id.* at 3-4, 24-27.

25. See *id.* at 21.

26. See *id.* at 22.

pany also may create a withholding log and withhold documents under a claim of Chinese state secrets.²⁷ The responding company must provide the SEC with a certification of completeness to signify that all documents responsive to the requests have been produced, aside from information withheld due to U.S. legal privilege or Chinese state secrets.²⁸

After the Settlement was published, the SEC issued a press release that discussed the main aspects of the Settlement and provided commentary from SEC officials about the agreement.²⁹ The Director of the SEC's Enforcement Division, Andrew Ceresney, stated, "This settlement recognizes the SEC's substantial recent progress in obtaining [audit firm's work papers] from registered firms in China."³⁰ The Associate Director of the SEC's Enforcement Division, Antonia Chion, added, "The settlement is an important milestone in the SEC's ability to obtain documents from China. Of course we hope that it is an enduring milestone."³¹

2. PRC State Secrecy Law Overview

When considering the impact and implications of the Elliot opinion, it is important to understand in more detail the potentially relevant PRC laws. This section provides a brief survey of some of the laws cited by the audit companies in defense of their position that they were unable to produce the work papers.

27. *See id.* at 22-23.

28. *See id.* at 23.

29. Press Release, U.S. Securities and Exchange Commission, SEC Imposes Sanctions Against China-Based Members of Big Four Accounting Networks for Refusing to Produce Documents (Feb. 6, 2015), *available at* <http://www.sec.gov/news/pressrelease/2015-25.html> (last accessed July 19, 2015).

30. *See id.*

31. *See id.*

A. Definition of State Secrets Law

PRC law imposes very strict limitations on disclosure of information related to PRC state secrets. Under PRC law, the concept of a state secret is broadly and vaguely defined. Specifically, under the *PRC State Secrets Protection Law*, effective Oct. 1, 2010 (“State Secrets Law”), “state secrets” are matters relating to national security or national interests whose disclosure could harm national security or national interests in the areas of politics, economy, national defense, and diplomacy. Article 9 of the State Secrets Law provides somewhat more specificity by stating that “state secrets” include the following types of information:

- 1) secret matters involved in major policy decisions on state affairs
- 2) secret matters involved in building up national defence and activities of the armed forces
- 3) secret matters involved in diplomatic and foreign affairs activities and matters for which a confidentiality commitment has been made to foreign entities
- 4) secret matters involved in national economic and social development
- 5) secret matters involved in science and technology
- 6) secret matters involved in activities to safeguard national security and in criminal investigations
- 7) other secret matters as determined by the state administration for state secrets protection

Besides the State Council’s *PRC State Secrets Protection Law Implementing Regulations*, there are dozens of other implementing regulations issued by ministries and bureaus under the State Council which more specifically define types of information that would be considered state secrets. They cover areas

such as military secrets, security, national statistics, health, land management, civil affairs, government personnel, education, and even sports.

The laws also define the levels of secrecy, with “top secret” being the highest, followed by “highly secret,” and finally just “secret.” These lists of types of information that could be considered state secrets appear to have been promulgated more for illustrative purposes than to provide a definite, exhaustive guideline on appropriate boundaries. For example, if anyone provides to an overseas organization or individual information whose level of secrecy is not clearly stipulated in any law or regulation, but which the person knew or should have known relates to the security and interests of the state, then it still would likely be considered a crime under Article 111 of the Criminal Law.

Additionally, a determination of whether information is a state secret can be made retroactively. In the course of a criminal case, if a question arises as to whether a piece of information should be considered a state secret or what its level of secrecy is, an appraisal of these issues can be done by a state secrets bureau official at the time of the trial.

It does not matter in what form state secrets are transmitted or whether they are copies. Regulations clearly provide that state secrets may not be transmitted on the Internet and may not even be stored on computers connected to the Internet, and that

they remain state secrets regardless of what medium they are stored on, be it disks, paper, images, or sound.³²

Separately, special caution should be exercised when handling information obtained from Central State-Owned Enterprises (CSOEs). The State Assets Supervision and Administration Commission issued the *Central Enterprises Trade Secrets Protection Interim Provisions* (“Interim Provisions”) on March 25, 2010, to regulate trade secrets protection for CSOEs. The Interim Provisions define the scope of CSOEs’ trade secrets. They also provide that a trade secret may be upgraded to a state secret by following statutory procedures for determining state secrets. Hence, if an internal investigation reveals any trade secrets of CSOEs that could potentially be deemed state secrets, the CSOE needs to impose strict scrutiny before transferring such information overseas.

B. Severe Legal Consequences

Under PRC Criminal Law anyone who “illegally provides” an overseas institution, organization, or individual a state secret may be sentenced to a jail term of between five and ten years. In exceptionally serious cases, the jail term may be from ten years to life imprisonment. In relatively minor cases, the person may be sentenced to a term of less than five years

32. Regulations for the Administration of the Maintenance of Secrets in the International Networking of Computer Information Systems (promulgated by the St. Secrecy Bur., Jan. 25, 2000, effective Jan 1, 2000) Art. 7; Measures for Administration of Protection of the Security of International Networking of Computer Information Networks (计算机信息网络国际联网安全保护管理办法) (promulgated by the Ministry of Public Sec., Dec. 16, 1997, effective Dec. 30, 1997), Art. 5 (9); State Secrets Law, Art. 20.

criminal detention, control, or deprivation of political rights.³³ “Exceptionally serious” is defined as disclosing to an overseas party any “top secret” information, or three pieces of “highly secret” information (one level below “top secret”), or any other state secrets which have an especially severe harmful effect on national security or interests.³⁴

Anyone who provides “highly secret” state secrets to an overseas party, discloses three pieces of “secret” information (the third and lowest level of secrecy) to an overseas party, or discloses state secrets that have a severe harmful effect on national security or interest may receive between five and ten years in prison. Other lesser offenses would be considered “relatively minor.”³⁵ If a violation does not constitute a crime in terms of level of harm to the country, administrative penalty fines may still be imposed.

Under the Criminal Law, the individual that actually transfers the information overseas could be found guilty of a crime. Additionally, if a unit (e.g., a company) is deemed guilty of a crime, then it may be fined, and the Persons in Charge who

33. PRC Criminal Law, Art. 111 (adopted by the Second Session of the Fifth Nat'l People's Cong. on July 1, 1979, and amended by the Fifth Session of the Eighth Nat'l People's Cong. on March 14, 1997) [hereinafter Criminal Law].

34. Interpretation of the Supreme People's Court on Several Issues Concerning Specific Application of the Law to Trial of Cases Involving Theft, Illegal Gathering and Purchase of State Secrets and Intelligence for and Illegally Providing Them to Foreign Organizations or Persons (最高人民法院关于审理为境外窃取、刺探、收买、非法提供国家秘密、情报案件具体应用法律若干问题的解释) (effective Jan. 22, 2001), Doc. 4, Art. 2 *available at* http://www.hrichina.org/sites/default/files/PDFs/State-Secrets-Report/HRIC_StateSecrets-Report.pdf (last accessed July 19, 2015) [hereinafter Criminal Law Interpretation].

35. Criminal Law Interpretation, *supra* note 34, Arts. 3, 4.

are directly responsible for that crime may be sentenced to criminal punishment.³⁶ This does not mean any senior management official in the relevant company would automatically be found guilty of a criminal offense; however, a manager whose actions were directly related to the particular crime or who was so negligent in his or her duties that it led to the crime could be considered a Person in Charge for purposes of criminal liability.

3. *Restrictions on Disclosure of Audit Working Papers*

As detailed in the Elliot Opinion, the various auditing firms cited the following provisions (among others) as obstacles to the direct production of the requested documents to the SEC:

A. State Secrets Law

The provision cited by the accounting firms was Article 21 of the old *PRC State Secrets Protection Law* (effective from May 1, 1989, to October 1, 2010, when the current law came into effect): “When state secrets have to be furnished for the benefit of contacts and cooperation with foreign countries, approval must be obtained beforehand in line with the prescribed procedures.”

Separately, Article 22 of the *PRC State Secrets Protection Law Implementing Measures*, effective from May 25, 1990 (which was replaced by the current *PRC State Secrets Protection Law Implementing Regulations*, effective March 1, 2014) provides: “In foreign contacts and cooperation, when the other party requests state secrets for a justifiable reason and through a justifiable channel, such request shall be submitted to the competent authority for approval as stipulated on an equal and mutual benefit basis, and the other party shall be required to assume a non-disclosure obligation in a certain form.”

36. Criminal Law, *supra* note 33, Art. 31.

The current State Secrets Law further clarifies the procedures for disclosing state secrets information during the course of foreign cooperation. Article 30 provides: “Where an organ or entity needs to provide any state secret in foreign contacts or cooperation or any overseas person appointed or employed by an organ or entity needs to have access to any state secret due to his work, the organ or entity shall report to the competent department of the State Council or the people’s government of the relevant province, autonomous region or municipality directly under the Central Government for approval, and enter into a confidentiality agreement with the other party.”

B. CSRC Notice No. 29 of 2009

On October 20, 2009, the CSRC, State Secrecy Protection Bureau, and State Archive Bureau jointly issued *Regulations on Strengthening Secrecy and Archive Administration Work for Issuing Securities and Listing Overseas* (“Notice No. 29”). Notice No. 29 imposes a general restriction on disclosing information that may be classified as state secrets. Article 3 of Notice No. 29 provides that during the course of issuing securities and listing overseas, any company listed or seeking to list overseas (“listing company”) who provides or discloses to any securities company, securities service agency, or overseas regulatory institution any document, material, or other property involving state secrets must first seek approval from the competent authority and file with the relevant secrecy administration bureau. If there is any dispute on the scope of state secrecy, the dispute must be resolved by the secrecy administration authority.

Notice No. 29 explicitly addresses the audit work papers issue. According to its Article 6, during the course of issuing securities and listing overseas, all work papers produced by the securities companies or securities service agencies during the course of issuing securities and listing overseas must be kept in PRC. Notice No. 29 clarifies that if the working paper involves

state secrets, national security, or essential national interests, it cannot be stored, processed, or transmitted in a computer information system. Without prior approval from the competent authority, such work papers cannot be taken, transmitted abroad, or passed on to any overseas entity or individual through information technology or any other means.

Article 8 of Notice No. 29 further provides that if overseas securities regulatory institutions or other relevant authorities request on-site inspections within PRC, the relevant listing company, securities company, or securities service agencies must report this request to the CSRC and other relevant departments and obtain prior approval from the competent authority for any matters requiring such approval before proceeding with the inspection. The on-site inspection must be led by Chinese regulatory authorities or rely upon inspection results provided by Chinese regulatory authorities.

For an off-site inspection relating to state secrets matters, the relevant listing company, securities company, and securities service agency must seek approval from the competent authority and file with the secrecy administration authority. If the situation involves archive matters, the company must obtain approval from the State Archives Bureau.

C. Memorandum of Understanding on Enforcement Cooperation

On May 10, 2013, the CSRC, the PRC Ministry of Finance ("MOF") and the PCAOB entered into a Memorandum of Understanding on Enforcement Cooperation (MOU). The MOU has no legally binding force and can be terminated with 30 days' notice.

According to the MOU, the three authorities, namely the CSRC, MOF, and PCAOB, seek to improve the accuracy and reliability of audit reports so as to protect investors and to help

promote public trust in the audit process and investor confidence in their respective capital markets, and accordingly agree to cooperate by responding on a timely basis to requests for assistance on exchanging information for the purpose of complying with the applicable laws and regulations in their respective jurisdictions.

This assistance includes: (i) documents sufficient to identify all audit review or other professional services performed by audit firms related to matters set forth in the request for assistance; (ii) audit work papers or other documents held by audit firms, if they relate to audit work subject to the regulatory jurisdictions of the PCAOB and/or CSRC and MOF; and (iii) documents sufficient to identify firms' quality control systems including organizational structures and policies and procedures to provide assurance of compliance with professional standards.

However, requests for assistance are subject to some restrictions. In particular, the requested party cannot be required to act in a manner that would violate domestic law, which seems to imply that the CSRC and MOF cannot be required to provide information in violation of PRC state secrecy laws. In addition, the request for assistance can be denied on grounds of public interest or essential national interest.

4. Recent PRC Cross-border Case Law

As noted earlier, while the Elliot Opinion is perhaps the first case to impose severe sanctions on a party for failure to comply with a production requirement based on Chinese law, the Southern District of New York has issued a series of opinions related to discovery of information from certain Chinese banks, in which they apply the Second Circuit's seven-factor comity test (the five-factor *Aerospatiale* test as well as two addi-

tional factors: (1) any hardship the responding party would suffer if it complied with the discovery demands, and (2) whether the responding party has proceeded in good faith).³⁷

A. *Milliken*—an Overview

In *Milliken & Co. v. Bank of China* (S.D.N.Y. Dec. 6, 2010), the Court ordered Bank of China (BOC) to produce bank records and held that *Aerospatiale* does not provide relief from the initial disclosure requirements of F.R.C.P. 26(a)(1)(A)(ii).³⁸ *Milliken* sued BOC to collect on a \$4 million judgment against certain Chinese manufacturers originally obtained in the District of Nevada.³⁹ BOC asserted as an affirmative defense that all of the debtors' assets held by the bank were subject to the bank's superior security interest.⁴⁰ Rather than disclosing records related

37. *Societe Nationale Industrielle Aerospatiale v. U.S. Dist. Ct. for the Southern Dist. of Iowa*, 482 U.S. 522 (1987), held that the Hague Convention does not provide exclusive or mandatory procedures for obtaining evidence located in a foreign jurisdiction, adopting instead a five-factor balancing test. See RESTATEMENT (THIRD) OF FOREIGN RELATIONS LAW OF THE UNITED STATES § 442(1)(c) ("In deciding whether to issue an order directing production of information located abroad, and in framing such an order, a court or agency in the United States should take into account the importance to the investigation or litigation of the documents or other information requested; the degree of specificity of the request; whether the information originated in the United States; the availability of alternative means of securing the information; and the extent to which noncompliance with the request would undermine important interests of the United States, or compliance with the requests would undermine important interests of the state where the information is located."). The Second Circuit recognizes two additional factors. *Strauss v. Credit Lyonnais, S.A.*, 249 F.R.D. 429 (E.D.N.Y. Mar. 10, 2008) ("Courts in the Second Circuit also consider the hardship of compliance on the party or witness from whom discovery is sought and the good faith of the party resisting discovery") (quotation marks omitted).

38. 758 F. Supp. 2d 238.

39. *Id.* at 240.

40. *Id.* at 240-41.

to the debtors' assets or liens, BOC ignored the initial disclosure requirement of the F.R.C.P. and delayed complying with discovery requests and court orders, ultimately seeking a protective order requiring all discovery proceed pursuant to the Hague Convention.⁴¹ The Court considered whether BOC's lack of diligence resulted in a forfeiture of its Hague Convention rights, but declined to find forfeiture in light of the interest of the foreign state in which discovery would occur.⁴² The Court weighed the seven comity factors, finding that BOC had acted in bad faith.⁴³ In considering the "alternative means" factor, the Court found persuasive a State Department document asserting that discovery via the Hague Convention in PRC has "not been particularly successful in the past" and held that the information requested could not be "easily obtained" via the Hague Convention.⁴⁴ The Court recognized the U.S.'s interest in enforcing judgments was "not as substantial" as some other interests that could entail cross-border discovery, but nonetheless outweighed PRC's interest in enforcing its bank privacy laws.⁴⁵ The Court was not persuaded by BOC's "hardship of compliance" assertion that it would expose itself to penalties, as there was no evidence that PRC would enforce its laws against BOC.⁴⁶ In sum, the Court found that "each of the relevant factors, with the exception of the location of the information, favors discovery without resort to the Hague Convention on Evidence."⁴⁷ The Court also precluded BOC from introducing evidence related to its lien against the debtors' assets, stating that because it could do

41. *Id.* at 241-42.

42. *Id.* at 242-43.

43. *Id.* at 249.

44. *Id.* at 246-47.

45. *Id.* at 247-48.

46. *Id.* at 248-49.

47. *Id.* at 249.

so without compelling production, the comity interests recognized in *Aerospatiale* are “attenuated.”⁴⁸ The Court found no indication that the drafters of the Hague Convention or the *Aerospatiale* Court “intended the Convention to be used by a party to avoid producing information underlying the very claims that it positively asserts.”⁴⁹

B. Counterfeiting Cases

In *Tiffany (NJ) LLC v. Qi Andrew* (S.D.N.Y. July 25, 2011), the Court ordered discovery to proceed through the Hague Convention as a first resort.⁵⁰ Plaintiffs sought bank records related to Defendants’ counterfeiting operation from three Chinese banks—BOC, China Merchants Bank (CMB), and Industrial and Commercial Bank of China (ICBC).⁵¹ The Court recognized that the information sought was “important to plaintiffs’ claims” because the records could help Plaintiffs identify additional members of the counterfeiting organization.⁵² The Court discussed at length the viability of obtaining discovery via the Hague Convention and ultimately decided that this factor weighed in favor of the banks because Plaintiffs could not show an attempt at the Hague Convention discovery would be “futile.”⁵³ Specifically, the Court considered the fact that the State Department had revised its guidance to omit the harsh language the *Milliken* Court found persuasive and relied on outdated evidence.⁵⁴ The Court also criticized Plaintiffs’ expert report and an ABA paper submitted by Plaintiffs for relying on

48. *Id.* at 243-44.

49. *Id.* at 244.

50. 276 F.R.D. 143.

51. *Id.*

52. *Id.* at 151-52.

53. *Id.* at 152-56.

54. *Id.* at 153-54.

the prior version of the State Department circular.⁵⁵ Further, the Court noted that there was no evidence that PRC had ever rejected a request in a similar case (i.e., a request submitted by a “trademark owner in a counterfeiting case”).⁵⁶ In considering the interests of the states, the Court found that PRC’s interest in protecting bank secrecy (as a matter of encouraging adoption of a modern banking system) outweighed the U.S.’ interest in enforcing trademark rights.⁵⁷ When considering the potential hardship to the responding parties, the Court was persuaded by the fact that BOC had previously been sanctioned for violation of the privacy laws in certain domestic matters.⁵⁸ Ultimately, the Court invited the parties to revisit the issue should discovery via the Hague Convention prove “futile.”⁵⁹

In *Gucci Am. Inc. v. Weixing Li* (S.D.N.Y. Aug. 23, 2011), the Court faced a virtually identical scenario as the *Andrew* Court but reached the opposite conclusion.⁶⁰ The *Gucci* Court differed on the alternative means, state interests, and potential hardship factors and ultimately found that a balancing weighed strongly in favor of Plaintiffs.⁶¹ The Court disagreed that discovery via the Hague Convention must be “futile” before ordering direct discovery.⁶² The Court also considered whether the State Department’s backpedalling on the viability of discovery via the Hague Convention was persuasive; however, “without concrete evidence suggesting that PRC’s compliance with Hague Con-

55. *Id.* at 153-55.

56. *Id.* at 156.

57. *Id.* at 158.

58. *Id.* at 158-59.

59. *Id.* at 160-61.

60. 2011 WL 6156936.

61. *Id.* at 13.

62. *Id.* at 9.

vention has, in fact, dramatically improved," it ultimately deferred to the same expert report and an ABA paper that the *Andrew* Court dismissed, recognizing that both authorities relied on an abundance of evidence beyond the State Department.⁶³ Regarding state interest, the Court viewed the privacy law's weak protection against Chinese government action as mitigating.⁶⁴ The Court was further persuaded by PRC's failure to expressly take a position on the matter and by BOC's choosing to do business in New York and to avail itself of the benefits of U.S. banking law.⁶⁵ The Court also considered whether BOC would face any hardship in compliance and determined that it could not reach such a conclusion in light of the fact that no Chinese bank had been sanctioned for complying with a similar court order.⁶⁶ BOC subsequently moved the Court to reconsider in light of new evidence, specifically a letter received by BOC from its regulators stating that BOC might face sanctions were it to comply with the order.⁶⁷ The Court found that the new evidence, were it admissible, would not have changed their prior assessment of the comity factors.⁶⁸ Specifically, since none of the regulators had "actually imposed sanctions or even made an actual determination as to whether BOC will face any sanctions aside from a 'severe warning,' nothing change[d] the Court's conclusion that BOC's 'representation of the liability that it faces . . . [is] unduly speculative'."⁶⁹

63. *Id.* at 9-10.

64. *Id.* at 10-11.

65. *Id.* at 11.

66. *Id.* at 11-12.

67. *Gucci Am. Inc. v. Weixing Li*, 2012 WL 1883352 (S.D.N.Y. May 18, 2012).

68. *Id.* at 4-5.

69. *Id.* at 4.

In another counterfeiting matter, *Tiffany (NJ) LLC v. Forbse* (S.D.N.Y. May 23, 2012), the Court reached a split decision.⁷⁰ The Court, siding mostly with the *Andrew* Court, ordered Plaintiffs to proceed under the Hague Convention as to CMB and ICBC, but ordered F.R.C.P. discovery from BOC due to its relationship as the “acquiring bank” for one of Defendants’ websites.⁷¹ This distinction “strengthens the importance of the information sought” and “suggests potential bad faith on behalf of BOC.”⁷² When examining the viability of discovery via the Hague Convention, the Court was persuaded by recent assurances from Chinese banking regulators that they were “committed to actively coordinating with the PRC Ministry of Justice and judicial organs in the PRC” to ensure timely satisfaction of Hague requests.⁷³

C. *Wultz*—Terrorism

In *Wultz v. Bank of China Ltd.* (S.D.N.Y. Oct. 9, 2012), BOC stood accused of facilitating terrorism in violation of U.S. law by failing to act upon notice that terrorist operatives were funneling money through certain BOC accounts.⁷⁴ Plaintiffs’ pro-pounded discovery requests to BOC not only for records of certain accounts but also for broad categories of information that

70. 2012 WL 1918866.

71. *Id.* at 10-11. An acquiring bank, directly or indirectly, facilitates credit card transactions. *Id.* at 2. BOC declared that Defendants gained access to the credit card network through the unauthorized act of an intermediary. *Id.* at 2. BOC claimed that it “shut down” the intermediary’s access but provided no further information. *Id.* at 2.

72. *Id.* at 11.

73. *Id.* at 6-7.

74. 910 F. Supp. 2d 548.

could be used to support their assertions of BOC's breach of statutory duty, negligence, and vicarious liability.⁷⁵ The parties agreed to proceed under the Hague Convention but received only a limited response after thirteen months.⁷⁶

Plaintiffs moved to compel discovery under the F.R.C.P.⁷⁷ The Court considered whether it would be appropriate to limit the scope of foreign discovery to "information [that is] necessary to the action" rather than that which could lead to admissible evidence, but declined in light of the significant U.S. interest in eliminating sources of funding for terrorism.⁷⁸ Further, the Court found that the Hague Convention was not a viable alternative for receiving the type of broad discovery appropriate to this matter, citing PRC's earlier rejection of a request in this matter and certain public statements indicating PRC would only entertain requests for information "directly and closely related" to a particular case.⁷⁹ When weighing the state interests, the Court found that the U.S. had a "profound and compelling interest in combatting terrorism at every level, including disrupting the financial underpinnings of terrorist networks" which heavily outweighed any Chinese interest in banking privacy as well as "the abstract or general assertion of sovereignty."⁸⁰ Since BOC was not "meaningfully sanctioned" for complying with orders in *Forbse* and *Weixing Li* to produce in contravention of Chinese banking privacy laws, the Court could not find that producing would entail "significant hardship."⁸¹

75. *Id.* at 551.

76. *Id.* at 551.

77. *Id.*

78. *Id.* at 556 (quoting RESTATEMENT (THIRD) OF FOREIGN RELATIONS LAW OF THE UNITED STATES § 442, cmt. a).

79. *Id.* at 558 (quoting Letter from Chinese banking regulators).

80. *Id.* at 558-59 (quoting *Strauss* at 443-44).

81. *Id.* at 559-60.

Ultimately, the Court held that the balance of the factors weighed in favor of Plaintiffs and ordered discovery under the F.R.C.P.

Instead of complying fully with the order, BOC moved the Court to reconsider and weigh the comity factors with due deference to certain Chinese laws and state interests not necessarily related to banking privacy.⁸² Specifically, BOC asserted that: (i) certain communications between BOC and the Chinese government and internal to BOC were protected by Chinese laws related to anti-money laundering and counter-terrorist financing, and (ii) certain communications between BOC and Chinese bank regulators were protected under the State Secrets Law.⁸³ The Court found that production would be contrary to PRC law and thus reconsidered the seven-factor comity test.⁸⁴ It did not explicitly revisit each factor but did analyse Chinese interests and recognized the risk that ordering BOC to produce “could have a chilling effect on future communications by Chinese banks, leaving suspicious transactions to go unreported” and “would risk infringing China’s sovereignty and violating the spirit of international comity.”⁸⁵ Further, the Court found that BOC had shown bad faith in failing to promptly present arguments regarding anti-money laundering and state-secrets.⁸⁶ In weighing all of the comity factors, the Court compelled production in part but ordered *in camera* review of: (i) documents purported to be communications from the Chinese Government containing state secrets, and (ii) documents purported to be cer-

82. *Wultz v. Bank of China Ltd.*, 942 F. Supp. 2d 452 (S.D.N.Y. May 1, 2013).

83. *Id.* at 462-63.

84. *Id.* at 466.

85. *Id.* at 467.

86. *Id.* at 467-70.

tain types of communications (i.e., “Suspicious Transaction Reports” and “Large-value Transaction Reports”) specifically prohibited from production under Chinese and U.S. law.⁸⁷

CONCLUSION

Perhaps the most striking aspect of the Elliot opinion is the fact that a review of the detailed events contained in the opinion suggests that the parties took many of the steps that a cross-border eDiscovery practitioner would likely recommend in these circumstances, including:

- responding quickly and in writing to the requesting party and identifying in detail the conflict and the legal basis for it;
- obtaining early advice from local counsel;
- working with local regulators on a possible compromise or solution;
- developing a detailed factual and documentary record as to the efforts taken to comply;
- suggesting that production be made through the local regulator, including a redaction review; and
- retaining legal experts to explain the foreign legal requirements to the judge.

However, these sensible and practical steps failed to avoid significant penalties in this case. The suggestion of the judge was essentially—if you do not like the rules, stop doing business in the U.S. This conclusion fails to accept, however, the realities faced by multi-national businesses, including audit

87. *Id.* at 473. The Court found that Chinese law prohibiting the production of Suspicious Transaction Reports and Large-value Transaction Reports was analogous to the “SAR Privilege” that prohibits production of Suspicious Activity Reports in U.S. courts. *Id.* at 473.

companies and their clients, who operate in today's global and integrated economy.

Ultimately, this situation may call for a political solution. The MOU between Chinese authorities and the PCAOB discussed herein is perhaps an example of the type of compromise and cooperation that may be feasible. However, such arrangements only serve as real solutions if they are effectively implemented and followed by all parties. For example, while the Settlement appears to provide an effective solution for the production of the audit companies' documents in China to the SEC, the effectiveness of the solution certainly will be challenged if political "gamesmanship" results in either the CSRC or the SEC making assessments about the production of documents merely to spite one another politically.

Until definitive cross-border discovery solutions are agreed upon between the PRC and the U.S. that balance PRC state secrets interests with U.S. discovery interests, companies will continue to find themselves "between a rock and a hard place." Due to serious penalties in PRC, broadly worded state secret language, and little current cooperation between the governments, it is likely many companies will continue to err on the side of resisting production. The line of cases from the Southern District of New York discussed herein shows that a company may have some hope in the context of civil discovery of persuading a court that following the Hague Convention is the proper route; however, those cases also illustrate that success with this argument is far from certain.

If more courts and regulatory agencies follow the path laid forward in the Elliot opinion without any room for compromise that the Settlement may offer in the short term, the consequences of the failure to produce documents from PRC could prove severe in the U.S. Hopefully, it will not take multiple jail

sentences to demonstrate the reality of the possible consequences for a state secrets violation in PRC, and this incident will lead to fruitful discussions between all stakeholders as opposed to a hardening of positions.

THE CITIZEN AND THE LITIGANT — BALANCING INTERESTS IN THE DIGITAL AGE

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INTRODUCTION

Although data protection legislation in some form has been in existence for up to 40 years, and has covered the European Union (EU) for almost 20, EU citizens are now the subject of the most extensive and intrusive data usage techniques ever deployed. Many companies operate on the fringes of the law, rarely courting attention because their activities are not widely known, providing services which enable individuals to be analysed and targeted for a wide variety of products, usually without their knowledge. Governments of many types have engaged extensively in surveillance activities, ostensibly for crime prevention purposes. Journalists have obtained data in dubious circumstances in order to generate stories of questionable public interest.

The position is not markedly better for individuals whose data is caught up in litigation. The fact that almost all documents in litigation nowadays are already in digital form means that they can be reviewed, transferred, and analysed much more

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freely and easily than was possible before. Casual comments and incautious statements are preserved for years to the embarrassment of the author of the email or instant message in which they were contained. Law enforcement authorities can gain access more easily to material which may encourage them to commence proceedings against people who in earlier days may never have come to their notice.

Documents containing personal data which are processed for the purposes of litigation in the EU, or by EU data controllers, will be subject to EU data protection rules. Because of the broad interpretation of the concept of personal data,¹ and the fact that most documents are nowadays processed in electronic form, data protection law will affect all litigation involving EU-based parties.

However, despite the pervasive application of data protection law, there is very little guidance available concerning its practical application in the context of litigation. This article examines certain aspects of the effect of EU data protection rules on documents held for the purposes of litigation and suggests: (a) how existing rules may affect the processing of such documents and (b) what changes might be made to current practices in order to ensure a fair balance between the interests of litigants in achieving a just result and the interests of individuals in maintaining their privacy.

THE NEW EU DATA PROTECTION REGULATION

For well over three years, a draft EU Data Protection Regulation (“Regulation”) has been under discussion. There continues to be considerable debate about its form and content, but it

1. See, e.g., *Opinion 4/2007 of the Article 29 Working Party on the ‘Concept of Personal Data,’* WP 136 (June 20, 2007), available at http://ec.europa.eu/justice/policies/privacy/docs/wpdocs/2007/wp136_en.pdf.

is generally agreed that the fundamental principles of data protection law should not change. Instead, the challenge is how best to achieve full harmonisation throughout the EU and how the principles should be applied in practice to rapidly evolving data usage techniques.

The draft Regulation has been the subject of an enormous amount of proposals for change. The draft approved by the European Parliament in March 2014 (unfortunately not published officially in a consolidated version, although unofficial consolidations exist) differed markedly from the original of January 2012.² There were further, extensive differences in the draft approved by the Council of the European Union on 15 June 2015.³ Like the current EU Data Protection Directive,⁴ however, it does not expressly deal with the processing of personal data in the context of litigation. Instead, the expectation is that all processing of personal data, in whatever context, will be subject to the general principles set out in the Regulation.

2. *Proposal for a Regulation of the European Parliament and of the Council on the Protection of Individuals with Regard to the Processing of Personal Data and on the Free Movement of Such Data (General Data Protection Regulation)*, COM (2012) 11 final (January 25, 2012), available at http://ec.europa.eu/justice/data-protection/document/review2012/com_2012_11_en.pdf.

3. Council of the European Union, Interinstitutional File 2012/0011 (COD), document 9565/15 (June 11, 2015), available at <http://data.consilium.europa.eu/doc/document/ST-9565-2015-INIT/en/pdf> [hereinafter Document 9565/15].

4. Directive 95/46/EC, of the European Parliament and of the Council of 24 October 1995 on the Protection of Individuals with Regard to the Processing of Personal Data and on the Free Movement of Such Data, 1995 O.J. (L 281) 31-50 [hereinafter Data Protection Directive].

When introducing the first published draft of the Regulation in January 2012, the European Commission announced⁵ that:

[t]he proposed changes will give you more control over your personal data, make it easier to access, and improve the quality of information you get about what happens to your data once you decide to share it. These proposals are designed to make sure that your personal information is protected—no matter where it is sent or stored—even outside the EU, as may often be the case on the Internet.

Quite how this could apply to litigation, where the individual typically has no real control over the use of his or her data, is not at all clear.

THE ARTICLE 29 WORKING PARTY'S WORKING DOCUMENT

The Article 29 Working Party established under the EU Data Protection Directive considered the processing of data in the context of litigation in its Working Document 1/2009 on Pre-Trial Discovery for Cross-Border Civil Litigation (“Working Document”).⁶ The Working Document referred several times to the work of the Sedona Conference. The Article 29 Working Party did not issue a full Opinion on the subject, because, in its words, “these matters can only be resolved on a global basis,

5. European Commission Fact Sheet, “*Why do we need an EU data protection reform?*” (January 25, 2012), available at http://ec.europa.eu/justice/data-protection/document/review2012/factsheets/1_en.pdf.

6. *Working Document 1/2009 of the Article 29 Working Party on ‘Pre-trial Discovery for Cross Border Civil Litigation,’* WP 158, adopted by the Working Party on 11 February 2009, available at http://ec.europa.eu/justice/policies/privacy/docs/wpdocs/2009/wp158_en.pdf [hereinafter WP 158].

perhaps with the introduction of further global agreements along the lines of the Hague Convention.”⁷

The Working Document is of particular value because it describes the key factors which should guide litigants when considering the disclosure of documents for the purposes of litigation where EU data protection law may apply to the personal data contained in those documents.

The Working Document recognises that there is a balance of interests between those of the litigant and those of the individuals who are the subject of the personal data which may be disclosed in litigation. However, it does not consider in any detail the practical risks which may affect individuals as a result of the litigation process and how those risks could be mitigated.

RETENTION OF DATA—THE LEGAL HOLD

In common law systems it is the duty of litigants, as soon as litigation is reasonably anticipated, to preserve all documents which may be relevant to that litigation. This is a very old rule which has been elaborated in the light of the prevalence of information in electronic form, but without changing the fundamental duty to retain documents. In the United States, the retention of data in these circumstances is commonly known as a “legal hold.”

EU data protection law requires data controllers to hold personal data no longer than is necessary for the purposes for which the data were collected or for which they are further processed.⁸ The Working Document recognises that a legal hold, even one imposed by a U.S. court, may make the continued storage of relevant data “necessary” for such purposes.⁹

7. *Id.* at 2.

8. Data Protection Directive, *supra* note 4, art. 6(e).

9. WP 158, *supra* note 6, at 8.

However, if a data controller is entitled to retain data for the purpose of a legal hold, can it continue to make use of that data? For example, can a business analyse its old data for marketing/segmenting purposes? Can it sell products or services, such as legal expenses insurance, to persons whose personal data is affected by a legal hold and with the knowledge that they are so affected? Can it use the data for the purposes of assessing someone's credit rating?

It is possible to see in such circumstances that the existence of a legal hold might almost benefit a company, in that it would have an excellent excuse to suspend its document destruction policy and make use of the information contained in the retained documents. Individuals, on the other hand, might be placed at a disadvantage.

It is clear that, under current EU data protection legislation, documents subject to a legal hold cannot be subject to unrestricted use. The other principles of the Data Protection Directive, such as the duty to process data fairly and lawfully and not to process data for purposes which are incompatible with the purposes for which the data was originally obtained,¹⁰ would continue to apply.

In practice the mere retention of data should not adversely affect individuals. What is more important is how that data is used. Unfortunately, neither the Data Protection Directive nor the draft Regulation give guidance on the continued use of data when its retention period has been extended beyond what would otherwise have been expected. For example, is it automatically unfair to continue the processing of data for normal business purposes when, other than for the existence of a legal hold, that data would have been destroyed? If so, that would tend to suggest that the requirement that data be held no

10. Data Protection Directive, *supra* note 4, arts. 6(a)-(b).

longer than necessary is a superfluous one, as it is all part and parcel of the fairness principle. That would be a surprising conclusion.

Perhaps a better solution would be some more explicit guidance on the degree to which retention periods can be relaxed in the case of legal holds. It could be made clear that any additional processing should be limited to that required by the legal hold. In practice this would mean that data which would otherwise have been deleted, but which is retained as a result of a legal hold, should be removed from live access, and used only for the purposes of the litigation to which it relates.

IDENTIFYING RELEVANT DATA

The Working Document recognises that document reviews carried out for the purposes of litigation may satisfy the “legitimate interests” test in Article 7(f) of the Data Protection Directive (considered further below) and are therefore permissible. Where litigation is taking place outside the EU it recommends that, in order to ensure that the interests of the parties are properly balanced, the initial review exercise designed to determine which documents are relevant to the litigation should generally take place within the EU.¹¹ These exercises will typically involve an extensive analysis of the data available to the data controller who is subject to a duty to disclose documents in the litigation. To save time and money, the review may be aimed not just at identifying relevant documents, but also at identifying arguments which could be put forth in the litigation and narrowing key issues between the parties.

In the course of the review exercise, it is frequently the case that unrelated material comes to the attention of the person conducting the review. That person may in some circumstances

11. WP 158, *supra* note 6, at 11.

feel duty-bound to disclose that data to others, even though it has no relevance to the litigation.

For example, an email which appears during the review process may disclose that an employee may have been guilty of a criminal offence or, perhaps, some conduct which is not illegal but may be regarded as immoral or in breach of his or her employment contract. There may be extensive gossip conducted on email which is against company policy.

A strict interpretation of the law would lead to the conclusion that reviewers should process (i.e., filter and review) the data only for the purposes which had been identified as legitimate, namely the identification of relevant documents and the selection of evidence which could be used in support of the contentions of the litigating party. Use for other purposes would not be permissible. However, it is not realistic to expect that reviewers would ignore unrelated material which is potentially damaging to the custodian of the documents.

There is little or no guidance as to how reviewers should act in such a case. Given that the material might (apart from a legal hold) have been deleted, it is arguably appropriate that there should be a general rule that reviewers should consider the material made available to them only for the purposes of the litigation, and should not make any broader use or disclosure of that material save in very exceptional circumstances. Processing for the purposes of the prevention or detection of crime is arguably already included in the current law,¹² and needs no additional protection, but it seems right that reviewers should also be entitled to inform their principal if (say) employees have engaged in bullying, aggressive, or discriminatory conduct which

12. See Data Protection Directive, *supra* note 4, art. 13(1)(d) (which leaves the scope of the exception very much in the hands of Member States).

falls short of the criminal standard but is nevertheless contrary to company policy.

PRIVATE CORRESPONDENCE

The treatment of private correspondence is rather difficult. Many companies try to prohibit their employees from using corporate systems for the purpose of private correspondence, although the legality of such prohibitions is dubious in the light of the generally recognised right (under the European Convention on Human Rights) for individuals to conduct private correspondence.¹³ The right to private correspondence may also be guaranteed in the constitutions of EU Member States.¹⁴ Interceptions of private communications may be unlawful under national statutes.¹⁵ Accordingly, the general guidance which one must give reviewers is that material which is apparently private should not be reviewed. Of course, private communications may be reviewed accidentally, because there may have been no indication that the communications were private and had no relevance to company business.

The trouble is that the special treatment given to private correspondence enables persons who are engaged in potentially illicit activity an avenue for communication which is arguably too easy. "Private" correspondence may not really be private at all. There is, accordingly, an argument that it should be permis-

13. Convention for the Protection of Human Rights and Fundamental Freedoms, art. 8.1, November 4, 1950, 213 U.N.T.S. 221 ("Everyone has the right to respect for his private and family life, his home and his correspondence."); *see also* Halford v. United Kingdom, 24 Eur. Ct. H.R. 523 (1997).

14. *See, e.g.*, CONSTITUTION OF THE KINGDOM OF THE NETHERLANDS, art. 13; CONSTITUTION OF THE PORTUGUESE REPUBLIC, art. 34.

15. *See, e.g.*, Regulation of Investigatory Powers Act, 2000, 2000 c. 23, s. 1 (U.K.).

sible for an independent person to carry out a review of correspondence conducted using company systems, which purports to be private, in order to ensure that the correspondence in question is truly private and does not relate to the litigation. Such a person would need to be, clearly, above reproach and under the strictest obligations of confidentiality.

At present the law does not clearly allow this, but it is possible that the new Regulation may affect the position. The original draft of the Regulation issued in January 2012 stated (in Recital 15) that it did not apply “to processing of personal data by a natural person which are exclusively personal, family-related or domestic, such as correspondence.” This might have continued the difficulty. However, the current draft¹⁶ states (in Recital 15) that it does not apply “to processing of personal data by a natural person in the course of a personal or household activity, and thus without a connection with a professional or commercial activity. Personal and household activities include social networking and online activity undertaken within the context of such personal and household activities.” It may be argued that this narrows the definition of what is truly “private” and may enable an independent person to establish in a particular case whether purportedly private correspondence really is “without a connection with a professional or commercial activity.” However, the draft Regulation makes no clear reference to this. In the absence of a system which allows a data controller to be satisfied that correspondence is genuinely private without breaking the law, the likelihood is that, in practice, the law will be broken.

16. Document 9565/15, *supra* note 3, at 9 (Text approved by the Council of the European Union on 15 June 2015).

DISCLOSURE OF DATA

When data is disclosed from one jurisdiction to another—particularly when data is disclosed from the European Union to a destination in the United States—there is a clear risk that individuals may become subject to investigations or proceedings which they would not otherwise have suffered. For example, sanctions regimes in the U.S. and the European Union are different, and conduct which is entirely lawful within the European Union may be deemed to be unlawful in the United States. Nevertheless, U.S. authorities may seek information regarding EU persons who have engaged in conduct which it considers to be unlawful.

From the point of view of the individual, it may seem unjust that the disclosure of documents in litigation should expose that person to risks which that person would otherwise not have faced. This is a constant concern encountered in practice when considerations of disclosure arise. It requires, in turn, a very careful consideration of the legal basis for the disclosure of data from one entity to another.

The Working Document reviews the various possible legal bases for disclosure, but in practice the one which is most commonly used is where the disclosure is in the legitimate interests of the disclosing party, or the party to whom documents are to be disclosed, and those interests are not outweighed by the privacy interests of the relevant individuals.¹⁷ This legal basis requires a balancing test between the rights of the parties and

17. Data Protection Directive, *supra* note 4, art. 7(f). For more detail on this test, see *Opinion 06/2014 of the Article 29 Working Party on the 'Notion of Legitimate Interests of the Data Controller under Article 7 of Directive 95/46/EC,'* WP 217 (April 9, 2014), available at http://ec.europa.eu/justice/data-protection/article-29/documentation/opinion-recommendation/files/2014/wp217_en.pdf (68 pages of discussion).

the individuals which “should take into account issues of proportionality, the relevance of the personal data to the litigation and the consequences for the data subject.”¹⁸

Unfortunately there is little guidance as to how that test should be applied where disclosure would put the data subject at risk of additional legal proceedings. For example, if such a risk can be identified, is this of such significance that the interests of the parties to the litigation are completely overridden, and disclosure should not be made? A complicating factor is that the parties to the litigation may not have real control over the use of the documents when they leave the EU—a U.S. government agency, for example, may show an interest in documents which have been supplied for civil litigation, and may demand them irrespective of the wishes of the parties.

Another problem is that it is difficult to predict how documents may be used, and what their individual importance may be, unless the circumstances of the individual are well known to the disclosing party. It may be, for example, that a U.S. agency already has several pieces of a jigsaw which it is trying to put together and needs the documents to complete the picture, but the significance of those documents in achieving that result may be obscure to others.

There is no perfect solution to this conundrum. A pragmatic approach may be as follows. If it can be shown that an act of disclosure may put someone at risk of proceedings (whether criminal or civil) which they would not otherwise have faced, the burden should then be on the disclosing party to demonstrate that, despite this, disclosure is nevertheless fair. This will not be an easy burden to discharge. It might be possible to do so if it can be shown that there is no significant increase in the practical risk to the individual’s property or liberty as a result of the

18. WP 158, *supra* note 6, at 10.

disclosure. But if there is such a risk, then in respect of that individual the case for disclosure is not made out. It should be noted that Article 7(f) of the Directive requires an analysis of “the interests for fundamental rights and freedoms of the data subject” —in other words, each data subject must be considered separately and not as members of a class.

RIGHTS OF DATA SUBJECTS

One of the rights of data subjects under the Data Protection Directive is to have access to the data held about them.¹⁹ This right tends to be used more frequently where data controllers process large volumes of customer data (e.g., in the financial services industry) or in the case of employment disputes. It is unusual for it to be exercised where the data subject wishes to know what data concerning him or her is being used in litigation in circumstances where the data subject is not a party to the litigation itself, but data subjects in such circumstances have the same rights of access as others. Of course, in practice, data subjects may not be aware that their data is being used in litigation, even though they should be told—see below.

Data subjects also have the right to rectification, erasure, or blocking of data where it is not being processed in accordance with data protection law,²⁰ but this right is rarely exercised in any formal sense.

Unfortunately for data subjects, while they are entitled to know what data about them is being processed, it is not easy for them to find out what may happen to their data. The Directive states that, in response to an access request, they must be told of “the recipients or categories of recipients to whom the data are disclosed,” but this does not in terms require data controllers to

19. Data Protection Directive, *supra* note 4, art. 12(a).

20. Data Protection Directive, *supra* note 4, art. 12(b).

tell data subjects every time their data are disclosed to someone else. The UK Data Protection Act puts it differently, stating that data subjects must be given “a description of . . . the recipients or classes of recipients to whom [the personal data] are or may be disclosed.”²¹ This is not likely to provide any helpful information to data subjects.

The Working Document reminds us of the transparency rules in Articles 10 and 11 of the Directive, saying that the information requirements in these Articles “would require advance, general notice of the possibility of personal data being processed for litigation. Where the personal data is actually processed for litigation purposes, notice should be given of the identity of any recipients, the purposes of the processing, the categories of data concerned and the existence of their rights.”²²

This is, arguably, a counsel of perfection. In practice, in the United Kingdom, which is the largest common law jurisdiction in the EU, notification procedures such as these are rarely observed in litigation, and their use in this field is not the subject of any detailed guidance from the UK Information Commissioner. They do not form part of the UK Civil Procedure Rules. Such notices would, in any event, have little meaning for data subjects and might well worry them unnecessarily.

In short, the notice provisions in the legislation are rather vague and inadequate. They do not ensure that data subjects will receive any useful information (indeed, in practice one must question whether exercising the right of subject access in any circumstance provides data subjects with information of real use in any but a tiny minority of cases). It would be much

21. Data Protection Act 1998 s. 7(1)(b), *available at* http://www.legislation.gov.uk/ukpga/1998/29/pdfs/ukpga_19980029_en.pdf.

22. WP 158, *supra* note 6, at 11.

better if data controllers were subject to clearer duties which informed them when it is appropriate to bring matters to the attention of data subjects. Thus, for example, it is clearly of interest to data subjects to know that personal data concerning them is of key importance in a case and may result in them being called as a witness. It is of less interest to them to know that their name (along with those of hundreds of others) has been included in a list of employees which has been disclosed in circumstances where their involvement in the case is likely to extend no further.

CONCLUSION

The theme throughout this brief paper is that more detailed, practical guidance is required for litigants in common law proceedings in order to enable them to comply with data protection law and to protect the interests of data subjects. The European Commission's aim that the new Regulation will give data subjects more control over their personal data will not be realised if there is uncertainty over the application of the law because of the lack of guidance. Whatever the final form of the new EU law, it is to be hoped that guidance can be developed, either through Opinions of the Article 29 Working Party or through national regulatory authorities.

HEISENBERG'S UNCERTAINTY PRINCIPLE, EXTRATERRITORIALITY AND COMITY

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I. INTRODUCTION¹

The American legal system is different from any other legal system in the world. One consequence of that reality is that

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1. This is a companion piece to Mr. Briggs' earlier article, *Schrödinger's Cat and Extraterritoriality*, 29 ANTITRUST MAGAZINE 79 (Fall 2014). The German physicist, Werner Heisenberg was a contemporary of Schrödinger. Introduced first in 1927, the principle states that the more precisely the position of some particle is determined, the less precisely its momentum can be known, and vice versa. It is related to a similar effect in physics called the "observer effect," which notes that measurements of certain systems cannot be made without affecting the systems being observed. See *Uncertainty principle*, WIKIPEDIA, https://en.wikipedia.org/wiki/Uncertainty_principle.

In the context of this article, the reference to Heisenberg is mainly intended to take note of the reality that whether, when, and under what circumstances

much of the rest of the world is locked into a love/hate relationship with our legal system. On the “love” side, foreign individuals and enterprises regularly seek access to the American legal system because of the perception, and sometimes the reality, that it provides generous benefits to persistent plaintiffs who can find a wrongdoer defendant over whom a U.S. court can claim jurisdiction. On the “hate” side, foreign businesses, as well as foreign governments, increasingly seem to resent the lack of respect that American courts give to the views and interests of foreign sovereigns, enterprises, and citizens.

Across the legal landscape, American courts assert jurisdiction over foreign enterprises and individuals for conduct occurring outside the United States in both criminal and civil cases. While the issues in criminal cases are significant, and sometimes the cause of quiet foreign sovereign annoyance, it is the civil cases that seem to create the greatest tensions, at least publicly. The civil cases most usually arise in settings where private plaintiffs are making claims that involve multiple damages and attorney’s fees, such as antitrust and Racketeer Influenced Corrupt Organizations (RICO) cases, or other cases where damage claims are large (i.e., securities claims) or where there exist clear opportunities for substantial punitive damages of the sort rarely available in the courts of other countries (i.e., tort claims). Private civil claimants and their counsel in these types of cases have every incentive to persuade American courts to take jurisdiction over foreign defendants and foreign conduct. Indeed, attorneys have an ethical duty to advance their clients’ claims as vigorously as possible, which more or less requires them to

American courts will assert extraterritorial jurisdiction over foreign conduct by foreign actors, and whether, when, and under what circumstances those same courts will consider or apply any principles of comity is regrettably uncertain and has much to do with the presence or absence of such occasional judicial oversight as might from time to time be present.

push domestic courts to the limits of their jurisdiction, if not beyond.

For its part, the government, especially in recent years, has advanced relatively expansive theories of the extraterritorial reach of U.S. laws.² In antitrust cases, the statistics are staggering. The Antitrust Division of the Department of Justice (DOJ) has long been proud of its sentencing of individuals to jail for their antitrust infringements, without really highlighting the reality that many individuals sentenced are foreigners.³ That same Antitrust Division seems to be even prouder of the many billions of dollars in fines that it has collected annually for the last

2. See, e.g., Brief for the United States and the Fed. Trade Comm'n as Amici Curiae in Support of Neither Party on Rehearing En Banc at 8, *Minn-Chem, Inc. v. Agrium Inc.*, 683 F.3d 845, 856-57 (7th Cir. 2012) (No. 10-1712), 2012 WL 6641190 (urging the Seventh Circuit to hold, as it did, that the word "direct" in the Foreign Trade Antitrust Improvements Act (FTAIA) should be interpreted to mean only a "reasonably proximate" causal nexus); but see Brief for the United States as Amicus Curiae Supporting Reversal, *Sachs v. Republic of Austria*, 737 F.3d 584 (9th Cir. 2013), cert. granted sub nom. *OBB Personenverkehr AG v. Sachs*, 135 S. Ct. 1172, 190 L. Ed. 2d 929 (2015) (urging that a foreign state may be held to carry on commercial activity in the United States through the application of common-law agency principles, but criticizing the Ninth Circuit's view that the buying of a ticket for an Austrian train amounted to an element of the plaintiff's strict liability claim. The fact that the Supreme Court has agreed to hear the case suggests that the Court might well be concerned about the inclination of various courts to engage in the extraterritorial application of American legal principles, in this case a tort principle of strict liability).

3. The most recent DOJ Antitrust Division statistics reflect that for the five-year period 2010-14: criminal fines collected amounted to nearly \$4 billion; almost 400 defendants were charged with criminal antitrust offenses and more than 300 actual cases were filed; the average prison sentence was 25 months. See *Sherman Act Violations Yielding a Corporate Fine of \$10 Million or More*, U.S. DEP'T OF JUSTICE (July 7, 2015), <http://www.justice.gov/atr/sherman-act-violations-yielding-corporate-fine-10-million-or-more>; see also *Criminal Enforcement Fine and Jail Charts*, U.S. DEP'T OF JUSTICE (June 25, 2015), <http://www.justice.gov/atr/criminal-enforcement-fine-and-jail-charts>.

several years from antitrust cartellists, although it does not quite so heavily advertise the reality that the overwhelming majority of these fines are collected from foreign companies for conduct that took place in foreign lands.⁴

The Antitrust Division data show that of the 124 companies suffering fines in excess of \$10 million, 110 were foreign. Of those, 67 were Asian, 38 European, and only 14 American.⁵ Nearly without exception, these criminal “prosecutions” are the product of guilty pleas brought about by and large as a result of the American, European, or other leniency programs.⁶ Indeed, in recent years, it is rare that a case goes to trial and results in a sentencing process that involves a district court rendering a decision to which the prosecution and defendant have not already agreed.⁷

Judges, especially federal judges with life tenure, seem to have very little incentive to exercise restraint in the exercise of their own extraterritorial jurisdiction. In antitrust, for example, where foreign non-import conduct generally is only possibly actionable if it produced a “direct, substantial, and reasonably foreseeable effect” in the United States,⁸ many U.S. courts (at the urging of the DOJ and private plaintiffs) increasingly have viewed those words as expansive, and decreasingly have

4. *Criminal Enforcement Fine and Jail Charts*, *supra* note 3.

5. *Sherman Act Violations Yielding a Corporate Fine of \$10 Million or More*, *supra* note 3.

6. See Scott D. Hammond, *The Evolution of Criminal Antitrust Enforcement over the Last Two Decades*, presented at the Nat’l Institute on White Collar Crime, U.S. DEP’T OF JUSTICE at 3, 8 (2010) (discussing the success of leniency programs in the United States and efforts to implement similar programs by foreign countries).

7. *United States v. Hui Hsiung*, 778 F.3d 738 (2014), *cert. denied*, 2015 WL 1206283, is a rare example of this type of case.

8. 15 U.S.C. § 6a (2012).

viewed them as words of restraint.⁹ Even the Supreme Court initially seemed to use these words to eliminate much of a role for comity,¹⁰ but more recently reversed course on that.¹¹

And while the Supreme Court increasingly has urged lower courts to exercise restraint in the extraterritorial application of U.S. law,¹² and has urged lower courts to take into account principles of comity,¹³ those exhortations strangely seem not to have taken much root in the lower courts. In other words, the American courts are operating in the area of extraterritorial

9. See, e.g., *Minn-Chem, Inc. v. Agrium Inc.*, 683 F.3d 845, 857 (7th Cir. 2012) (interpreting the word “direct” as “reasonably proximate” rather than the more limited “immediate”).

10. See *Hartford Fire Ins. Co. v. California*, 509 U.S. 764, 798 (1993) (stating international comity considerations would arise only if there were a “true conflict between domestic and foreign law”). In his dissent, Justice Scalia invoked a canon of statutory construction to the effect that an act of Congress should not be construed as violating international law if any other possible interpretation is available. *Id.* at 814-15.

11. *F. Hoffman-La Roche Ltd. v. Empagran S.A.*, 542 U.S. 155, 164-69 (2004) (following Scalia’s logic in his *Hartford Fire* dissent by invoking international comity considerations in denying extraterritorial application of U.S. antitrust laws, even though the conduct at issue was unlawful under foreign law as well, because “American private treble-damages remedies to anticompetitive conduct taking place abroad had generated considerable controversy.”).

12. See, e.g., *M/S Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1, 9 (1972) (stating “[w]e cannot have trade and commerce in world markets and international waters exclusively on our terms, governed by our laws, and resolved in our courts.”); *Morrison v. National Australia Bank Ltd.*, 561 U.S. 247 (2010) (It is a “longstanding principle of American law that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.”) (internal citations and quotations omitted).

13. See, e.g., *Daimler AG v. Bauman*, 134 S. Ct. 746, 763 (2014) (chastising the lower court for insufficiently considering international comity); *Empagran*, 542 U.S. at 164-65.

jurisdiction without close or regular supervision, and with few objective or clear restraining guidelines that provide limiting principles.

The Supreme Court has held that “where issues arise as to jurisdiction or venue, discovery is available to ascertain the facts bearing on such issues.”¹⁴ So, even when jurisdiction is contested, district court judges exercise considerable discretion to authorize “jurisdictional discovery,” so that the court can determine its jurisdiction. This jurisdictional discovery is regularly conducted under the auspices of Rule 26 of the Federal Rules of Civil Procedure, which normally authorizes the broadest imaginable discovery. And so a rule authorizing nearly unlimited discovery is called into play to authorize plaintiffs to rummage through foreign files of foreign companies and foreign persons to develop evidence that might persuade an American court that it, in fact, has jurisdiction over the foreign enterprise, or over a domestic enterprise, for foreign conduct with some perceptible impact on American commerce. There is, however, no consensus regarding the circumstances in which jurisdictional discovery should or will be granted and the circuits are by no means uniform on this subject.¹⁵

Few if any other legal systems in the world involve circumstances where powerful courts are called upon by private parties to exercise extraterritorial jurisdiction over foreign companies, individuals, and conduct. For many people, including even relatively sophisticated judges, lawyers, and academics, this proposition is seen as unremarkable. The bench and the bar in this country seem to accept the fact of this extraordinary

14. *Oppenheimer Fund, Inc. v. Sanders*, 437 U.S. 340, 351 n.13 (1978) (citing MOORE'S FEDERAL PRACTICE ¶ 26.56[6] (2d ed. 1976)).

15. For an especially trenchant and thorough discussion of this entire issue, see S. I. Strong, *Jurisdictional Discovery in United States Federal Courts*, 67 WASHINGTON & LEE L. REV. 489 (2010).

power as if it were an obvious adjunct to “American Exceptionalism.”¹⁶ But in nearly all other countries, the exercise of extra-territorial jurisdiction is more rare, and nearly always at the behest of a government acting through its executive branch or its legislature. Foreign courts seem to show more restraint in the exercise of their power, which is in any case more limited than that enjoyed by American courts. This might be changing. As the People’s Republic of China (PRC), along with other powerful countries, observe the American legal system, “learn” from it, and mimic it to their advantage, American or other firms whose conduct outside China can be claimed to have some perceptible effect on Chinese commerce will come to be treated in much the same way that our system treats Asian and European companies. Indeed this is already happening.¹⁷

It is the purpose of this article to begin to explore this area and to try to come up with a workable understanding of what comity means or should mean or might mean and, in the end, to

16. There is also the related matter of the extraordinary power of American courts in general and the underlying reasons for that. As Francis Fukuyama observes: “The story of the [American] courts is one of the steadily increasing judicialization of functions that in other developed democracies are handled by administrative bureaucracies, leading to an explosion of costly litigation, slowness of decision-making, and highly inconsistent enforcement of laws. In the United States today, instead of being constraints on government, courts have become alternative instruments for the expansion of government.” Francis Fukuyama, *America in Decay: The Sources of Political Dysfunction*, 93 FOREIGN AFFAIRS, Sept.-Oct. 2014, at 5, 11.

17. See, e.g., Michael Martina & Mathew Miller, *As Qualcomm Decision Looms, U.S. Presses China on Antitrust Policy*, REUTERS (Dec. 16, 2014), <http://www.reuters.com/article/2014/12/16/qualcomm-china-antitrust-idUSL3N0TW2SF20141216> (noting that President Obama admonished “China against applying its anti-monopoly law to benefit Chinese firms using foreign companies’ technology,” and that, moreover, “[a]t least 30 foreign firms . . . have come under the scrutiny of China’s 2008 anti-monopoly law, which some critics say is being used to unfairly target non-Chinese companies.”).

propose some possible courses of action that might bring to this issue the attention we believe it deserves, to rein in somewhat the largely uncabined extraterritorial jurisdiction of American courts, and to bring the exercise of judicial extraterritoriality more into line within international norms.

II. RUFFLED FEATHERS: MANY FOREIGN GOVERNMENTS TAKE ISSUE WITH AMERICAN “LEGAL IMPERIALISM”

In a variety of settings foreign governments have expressed and are expressing concerns about the extraterritorial application of U.S. law. The United States occupies a unique position in global trade and finance. The United States also has enacted far-reaching legislation involving commerce, banking and finance, business conduct, mergers and acquisitions, foreign corrupt practices, and a variety of other matters. The extraterritorial application of laws in these areas challenges the sovereignty of other nations and is often viewed as offensive. In anti-trust, the United States’ influence is the result of its status as the world’s largest importer of goods and services.¹⁸ In finance, this influence is the result of the U.S. dollar’s status as the international unit of account: “Pretty much any dollar transaction—even between two non-US entities—will go through New York

18. *Int’l Trade Statistics*, WORLD TRADE ORG. 26, 28 (2014), https://www.wto.org/english/res_e/statis_e/its2014_e/its2014_e.pdf; cf. Brief for the Government of Canada as Amicus Curiae Supporting Reversal, at 1, *F. Hoffmann-La Roche, Ltd. v. Empagran S.A.*, 542 U.S. 155 (2004) (No. 03-724), 2004 WL 226389 (noting that the effect of U.S. laws on Canadian policy is heightened by the level of “interdependence of the economies of Canada and the United States, which enjoy the largest bilateral trading relationship in the world[.]”) [hereinafter Canada Empagran Amicus].

City at some point, where it comes under the jurisdiction of US authorities.”¹⁹

The rampant extraterritorial application of U.S. laws has ruffled the feathers of foreign governments for a long time, beginning essentially with the cluster of private and government actions in the Uranium cartel cases back in the 1970’s and 1980’s. Close American allies, including Australia, Canada, France, South Africa, the UK, and others, reacted with hostility to the extraterritorial activism of the domestic judiciary by enacting “blocking” and “claw back” legislation.²⁰ Such reactions included the enactment of laws by the United Kingdom and Canada that prohibit enforcement of foreign judgments awarding multiple damages²¹ and laws passed by the United Kingdom, France, Australia, and the Canadian provinces of Quebec and Ontario that limit or prohibit the removal of documents in response to a foreign order.²²

19. Felix Salmon, *America prosecutes its interests and persecutes BNP*, FIN. TIMES (June 5, 2014), <http://www.ft.com/intl/cms/s/0/edbec3b0-eca3-11e3-8963-00144feabdc0.html>.

20. See Briggs, *supra* note 1, at 79.

21. See UK and Netherlands Empagran Amici, *infra* note 23, at 17-18 (“The private actions . . . caused several countries, including the United Kingdom, to enact statutes blocking discovery of documents and other information needed to prosecute foreign defendants[,] . . . restrict[ing] enforcement of treble damage judgments and allow[ing] both firms and persons conducting business in the United Kingdom to sue in the UK to ‘claw back’ the penal portion of the foreign judgment . . .”); Germany and Belgium Empagran Amici, *infra* note 23, at 27 n.11 (citing examples of United Kingdom and Canadian “blocking” and “claw back” laws).

22. See UK and Netherlands Empagran Amici, *infra* note 23, at 17 (citing the United Kingdom as one example of a country that passed a law making document discovery more difficult as a result of private actions in the United States); Germany and Belgium Empagran Amici, *infra* note 23, at 27

More recently, a number of governments have expressed their concerns about the application of U.S. laws abroad through amicus briefs, including Australia, Belgium, Canada, China, France, Germany, Japan, the Netherlands, South Korea, Switzerland, Taiwan, and the United Kingdom:²³ most of the United States' top fifteen trading partners.

(discussing United Kingdom, French, Australian, and Canadian laws prohibiting removal of domestic corporation documents pursuant to a foreign court order).

23. See, e.g., Brief of the Government of the Commonwealth of Australia as Amicus Curiae in Support of the Defendants-Appellees, *Morrison v. Nat'l Australia Bank Ltd.*, 130 S. Ct. 2869 (2010) (No. 08-1191), 2010 WL 723006 [hereinafter Australia Morrison Amicus]; Brief of the Governments of the Federal Republic of Germany and Belgium as Amici Curiae in Support of Petitioners, *F. Hoffmann-La Roche, Ltd. v. Empagran S.A.*, 124 S. Ct. 2359 (2004) (No. 03-724), 2004 WL 226388 [hereinafter Germany and Belgium Empagran Amici]; Canada Empagran Amicus, *supra* note 18; Brief of the Ministry of Commerce of the People's Republic of China as Amicus Curiae in support of the Defendants' Motion to Dismiss, *In re Vitamin C Antitrust Litig.*, 810 F.Supp.2d 522 (E.D.N.Y. 2011) (No. 06-md-01738), 2006 WL 6672257 [hereinafter China Vitamin C amicus]; Brief for the Republic of France as Amicus Curiae in Support of Respondents, *Morrison v. Nat'l Australia Bank Ltd.*, 130 S. Ct. 2869 (2010) (No. 08-1191), 2010 WL 723010 [hereinafter France Morrison Amicus]; Brief of the Government of Japan as Amicus Curiae in Support of Petitioners, *F. Hoffmann-La Roche, Ltd. v. Empagran S.A.*, 124 S. Ct. 2359 (2004) (No. 03-724), 2004 WL 226390 [hereinafter Japan Motorola Amicus]; Brief of the United Kingdom of Great Britain and Northern Ireland, Ireland and the Kingdom of the Netherlands as Amici Curiae in Support of Petitioners, *F. Hoffmann-La Roche, Ltd. v. Empagran S.A.*, 124 S. Ct. 2359 (2004) (No. 03-724), 2004 WL 226597 [hereinafter UK and Netherlands Empagran Amici]; Brief of the Korea Fair Trade Commission as Amicus Curiae in Support of Appellees' Opposition to Rehearing En Banc, *Motorola Mobility LLC v. AU Optronics Corp.*, 775 F.3d 816 (7th Cir. 2015) (No. 14-8003), 2014 WL 2583475 [hereinafter Korea Motorola Amicus]; Letter of Ministry of Economic Affairs, Republic of China, Taiwan as Amicus Curiae to Express Its Views Regarding Application of the Foreign Trade Antitrust Improvement Act, *Motorola Mobility LLC v. AU Optronics Corp.*, 775 F.3d 816 (7th Cir. 2015) (No. 14-8003). The European Commission also filed an amicus brief

These foreign governments have expressed a fairly wide variety of concerns about the potential for extraterritorial application of U.S. laws to interfere with those governments' policy decisions on such matters as liability, procedure, and damages. While most governments have regulatory regimes in place to police, for example, securities fraud and cartel behavior, these differ in many regards both from the American approach and also from each other, reflecting different cultural, social, and economic factors. These differences include the required showing for liability (e.g., definition of materiality in securities fraud cases),²⁴ procedural protections (e.g., class-action formation and

in *Kiobel*. Brief of the European Commission on Behalf of the European Union as Amicus Curiae in Support of Neither Party, *Kiobel v. Royal Dutch Petroleum Co.*, 133 S. Ct. 1659 (2013) (No. 10-1491), 2012 WL 2165345.

24. See Brief of the United Kingdom of Great Britain and Northern Ireland as Amicus Curiae in Support of Respondents at 16-17, *Morrison v. Nat'l Australia Bank Ltd.*, 130 S. Ct. 2869 (2010) (No. 08-1191), 2010 WL 723009 (noting that U.K. securities laws differ from U.S. laws in their respective definitions of "materiality" and in their imposed obligations to disclose, which "are not only matters of language or nuance; they reflect legitimate policy decisions") [hereinafter UK Morrison Amicus]; France Morrison Amicus, *supra* note 23, at *23 (stating countries "often have different schemes of disclosure, different pleading and substantive standards for scienter, different standards of reliance, materiality and causation, different rules governing contribution and indemnity, and different limitations periods.") (footnote omitted).

cost-shifting provisions),²⁵ and the availability of multiple (i.e., punitive) damages.²⁶ Applying U.S. law to actors, conduct, and effects appropriately considered under a set of foreign laws undermines a foreign government's ability to govern its own domain and, in the end, becomes an affront to its sovereignty.

Stepping on the toes of foreign governments' regulatory regimes also risks stymying the international development of policies and regulations beneficial to the United States. Countries without well-developed regulatory apparatuses are less

25. See UK Morrison Amicus, *supra* note 24, at *19 (noting that U.K. law conflicts with U.S. procedural rules for: "(i) The scope of discovery; (ii) The availability of class actions or other forms of multi-party litigation; (iii) The availability of 'opt-out' classes, whether by default or in the court's discretion; (iv) The availability of contingency fee arrangements for plaintiffs' counsel; (v) The availability of attorney's fee awards against an unsuccessful party; (vi) The legality of third-party litigation funding; (vii) The availability of jury trials; and (viii) The expected time to bring a case to trial"); France Morrison Amicus, *supra* note 23, at *24 ("Foreign jurisdictions also generally have different rules governing attorney's fees, contingency fees, jury trials, and pretrial discovery. Although those rules are often characterized as 'procedural,' they have substantial practical effect and application of U.S. rules to foreign securities transactions could upset a foreign nation's carefully thought out balancing of plaintiffs' and defendants' interests.") (footnote omitted).

26. See Japan Motorola Amicus, *supra* note 23, at 5 ("The Japanese law and the laws of many (if not all) countries other than the US do not provide for treble damage awards in antitrust claims. Treble damages would be viewed as punitive damages, mixing civil and criminal liability."); Korea Motorola Amicus, *supra* note 23, at 3-4 (noting that Korea's antitrust laws do not provide multiple nor punitive damages); France Morrison Amicus, *supra* note 23, at *23 (noting that "many foreign nations do not permit the award of punitive damages"); Australia Morrison Amicus, *supra* note 23, at 22 (same).

likely to develop them if the behavior is already policed by private plaintiffs in the United States or if the apparatuses would see their policy choices effectively overruled by U.S. policies.²⁷

Foreign governments have also taken the view that extra-territorial application of treble damages threatens to undermine their own enforcement efforts. For example, they claim availability of private treble damages in the United States against their national companies for local conduct may have a detrimental effect on foreign leniency programs. These programs are a key tool for them in rooting out cartel activity, which has traditionally proven difficult to detect and prosecute.²⁸ “These leniency policies seek to balance the interests of disclosure, deterrence, and punishment,” but “disclosure and reform are greatly hindered when a company risks the imposition of treble damages in a U.S. court for confessing to another nation or authority that

27. See Canada Empagran Amicus, *supra* note 18, at 20-21 (arguing that applying U.S. law too broadly would “remove the incentives of other foreign jurisdictions to implement comprehensive antitrust enforcement regimes and to expand their cooperative efforts . . . Thus, the unilateral assertion of jurisdiction by the United States would, ultimately, impair the interests of the United States in effective mutual cooperation and enforcement.”); *cf.* China Vitamin C Amicus, *supra* note 23, at 6 (arguing that application of U.S. antitrust policies to Chinese “regime instituted to ensure orderly markets” would harm China’s “transition to a market-driven economy”).

28. See Korea Motorola Amicus, *supra* note 23, at 4 (“Like the U.S. Department of Justice and the European Commission, the KFTC has adopted a delicately balanced leniency program that effectively detects and deters cartel activities, which by nature are often undertaken in secret.”); Brief of the Belgian Competition Authority as Amicus Curiae in Support of Appellees’ Position Seeking Affirmation of the District Court’s Order at 8, *Motorola Mobility LLC v. AU Optronics Corp.*, 775 F.3d 816 (7th Cir. 2015) (No. 14-8003), 2014 WL 5422010 (noting that the Belgium competition authority “relies to a significant extent on that leniency program to enforce unlawful restraints of trade.”).

it has participated in an international conspiracy.”²⁹ When that reach is expanded outside of U.S. consumers in a U.S. court, “the prospect of ruinous civil liability in U.S. courts far outweighs the benefits most companies would receive from participating in an amnesty program.”³⁰ And as Germany and Belgium informed the Supreme Court in *Empagran*,³¹ “[h]istorically, other nations have bristled at extraterritorial applications of United States antitrust laws. These concerns have resulted in foreign governments taking a number of measures to counter what they perceive to be an illegitimate encroachment into their sovereignty.”³²

The enforcement of American law against foreign enterprises for their foreign conduct has become increasingly contentious and offensive, especially quite recently. The displeasure of the PRC seems particularly acute. In the *Vitamin C* litigation, a substantial treble damage jury verdict was entered against companies chartered by the PRC for their involvement in an export price-fixing cartel that the PRC itself claimed was conduct directed by a foreign sovereign in order to assure compliance with U.S. antidumping laws. The District Court rejected the interpretation of Chinese law advanced by the PRC and held that, under Rule 44.1 of the Federal Rules of Civil Procedure, the construction of foreign law was a factual matter for the court itself and that only “some degree of deference” was owed to the foreign

29. Germany and Belgium *Empagran Amici*, *supra* note 23, at *29-30.

30. *Id.* at *30; *see also* Korea Motorola *Amicus*, *supra* note 23, at 4 (“[F]iling for leniency with non-U.S. antitrust authorities might actually result in a greater likelihood of facing private antitrust damages actions in the United States.”).

31. *F. Hoffmann-La Roche, Ltd. v. Empagran S.A.*, 542 U.S. 155 (2004).

32. Germany and Belgium *Empagran Amici*, *supra* note 23, at *25.

sovereign's statement as to the meaning of its own law.³³ The case is now on appeal to the Second Circuit, where the PRC, through its Ministry of Foreign Commerce (MOFCOM), has filed a strong amicus brief expressing the view that the district court's dismissive attitude towards the foreign sovereign's explanation of its own law was "profoundly disrespectful and wholly unfounded." The brief further stated that "the district court's approach and result have deeply troubled the Chinese government, which has sent a diplomatic note concerning this case to the U.S. State Department."³⁴

It is not just foreign governments who react angrily to what some call American Judicial Imperialism. Consider the reaction outside of the United States to a statute that took effect on July 1 of last year—the Foreign Account Tax Compliance Act (FATCA). It is not well known that the United States is virtually alone in the world in exercising jurisdiction over its citizens no matter where they might be. FATCA is intended to detect and deter tax evasion by U.S. citizens through the use of accounts held abroad. But the extraterritorial feature is that FATCA places the reporting burden primarily on financial institutions, wealth managers, and national tax authorities, rather than individuals. These are foreign entities. For example in the UK, information on U.S. citizens' accounts holding more than \$50,000 must be reported to HM Revenue & Customs, who will then pass details to the U.S. Internal Revenue Service (this latter step is the subject of a bilateral agreement between the U.S. and the UK).

33. *In re Vitamin C Antitrust Litig.*, 810 F. Supp. 2d 522, 541 (E.D.N.Y. 2011) (quoting *Karaha Bodas Co., L.L.C. v. Perusahaan Pertambangan Minyak Dan Gas Bumi Negara*, 313 F.3d 70, 92 (2d Cir. 2002)).

34. Brief for Amicus Curiae Ministry of Commerce of the People's Republic of China in support of Defendants-Appellants at 13, *In re Vitamin C Antitrust Litig.*, No. 13-4791 (2d Cir. April 14, 2014), ECF No. 105.

Placing responsibility for compliance with the U.S. statute on foreign banks or other such institutions amounts to extraterritoriality writ large. The U.S. was and is able to engage in this kind of regulatory hegemony because it controls the world's finance system, at least for now. Americans, who are mostly unconnected with the international community, probably neither know nor care much about this. But outside the U.S., and in the business and financial community especially, FATCA (and other American regulatory provisos) are controversial. As Felix Salmon put it in the *Financial Times* last year:

America is using its banking laws not to make its financial system safer, nor to protect its own citizens from predatory financial behaviour, but rather to advance foreign policy and national security objectives. Only in America, for instance, would citizens have to apply to the finance ministry in order to get a visa to visit Cuba.

Leadership is important, and most countries would be fine with following America's lead for some things—cross-border rules governing stability, liquidity, and leverage, for instance. But even then the US has a tendency to ignore everybody else once the rules have been written, and decide to implement a set of entirely separate rules instead. The hegemon does whatever it wants, for its own, often inscrutable reasons, and it does not enjoy being questioned about its decisions.

No other country can get away with this: what we are seeing is unapologetic American exceptionalism, manifesting as extraterritorial powermongering. Using financial regulation as a vehicle for international power politics is extremely effective. It

is also very cheap, compared with, say, declaring war.

US officials never apologise for the fact that their own domestic law always trumps everybody else's; rather, they positively revel in it. The consequence is entirely predictable: a very high degree of resentment at the way in which the U.S. throws its weight around.³⁵

The U.S. indictments, plea agreements and extradition requests in the Fédération Internationale de Football Association (FIFA) fraud scandal are triggering similar signs of international skepticism. The first criticism actually came from Russia,³⁶ which does not have much credibility in complaining about extraterritorial assertion of power, much less in complaining about the FIFA investigations (since it allegedly benefitted from the bribes that are being investigated). But that does not necessarily detract from the merits of the Russian criticism. Indeed, *The Economist* noted that Russia was onto something, observing that "American prosecutors . . . do indeed reach much farther than their peers elsewhere—sometimes too far" and that while the crack down on FIFA is welcome "when it comes to bribery, America has sometimes been too audacious."³⁷ DOJ's reliance

35. Salmon, *supra* note 19.

36. *Russia Accuses US of Illegal Overreach with FIFA corruption Indictments*, THE GUARDIAN (May 27, 2015), <http://www.theguardian.com/football/2015/may/27/russia-accuses-us-overreaching-fifa-corruption-indictments>.

37. *The World's Lawyer: Why America, and not another country, is going after FIFA*, THE ECONOMIST (June 6, 2015), <http://www.economist.com/news/international/21653613-why-america-and-not-another-country-going-after-fifa-worlds-lawyer>.

on the RICO Act and Travel Act (rather than anti-bribery statutes) to establish jurisdiction to prosecute what essentially are bribery allegations does not help its cause.³⁸

The extraterritorial adventures of U.S. courts in antitrust proceedings have not yet produced quite this much heat, but they are producing in their own way a great deal of heat, and one senses that the temperature is rising.

III. INTERNATIONAL COMITY: WHAT IT MEANS AND HOW IT EVOLVED

The complaints by foreign allies about the extraterritorial assertion of U.S. laws all amount to pleas for greater adherence to international comity. The concept of international comity has existed for hundreds of years, but its meaning and purposes have evolved over time as geopolitical circumstances have changed. Notably, it has been shaped, in part, by wars and slavery, which is a reminder of how important the concept of comity is.

International comity doctrine originated on the European continent, where it still appears to command more adherence than in other parts of the world and especially than in the United States. It was first coined by seventeenth century Dutch legal scholars. They were looking for a conflicts-of-law principle that emphasized sovereign independence after the Dutch provinces had finally gained their independence from the brutal Spanish rule after decades of war. Northern Dutch legal scholar Ulrich Huber used the term “*comitas gentium*” (civility of nations) to describe the following principle: “Sovereigns will so act by way of comity that rights acquired within the limits of a government

38. *Id.*; see also Noah Feldman, *U.S. Treats FIFA like the Mafia*, BLOOMBERGVIEW (May 27, 2015), <http://www.bloombergvew.com/articles/2015-05-27/u-s-treats-fifa-like-the-mafia>.

retain their force everywhere so far as they do not cause prejudice to the powers or rights of such government or of their subjects."³⁹ The basis for his principle was one of mutual respect among states of each other's sovereignty, which he metaphorically described as the high powers of sovereigns offering each other a helping hand.⁴⁰

Notably, this discretionary concept of comity flowed from the then already well-established starting point that the laws of each state were limited to the territory of that state and had no force outside it.⁴¹

About a century later, it was slavery that brought comity to the forefront in the Anglo-American world. In *The Case of James Sommersett*, a British judge, following Huber's discretionary concept of comity, refused to apply U.S. slavery laws and freed a slave traveling in the United Kingdom with his U.S. slaveholder because slavery conflicted with British policy.⁴² He held that comity did not require recognition of U.S. slavery laws because slavery was "incapable of being introduced on any reasons, moral or political."⁴³ Unfortunately, comity's objective to encourage reciprocal respect and help diplomatic relations led to the opposite outcome in the United States. In its infamous *Dred Scott* opinion, the Supreme Court stated:

[n]ations, from convenience and comity, and from mutual interest, and a sort of moral necessity to do justice, recognize and administer the laws of other

39. Ernest G. Lorenzen, *Huber's De Conflictu Legum*, 13 ILL. L. REV. 375, 376 (1919), available at http://digitalcommons.law.yale.edu/cgi/viewcontent.cgi?article=5566&context=fss_papers.

40. ULRICH HUBER, *HEEDENSDAEGSE RECHTSGELEERTHEYT* 13 (1699).

41. Lorenzen, *supra* note 39, at 376.

42. *The Case of James Sommersett*, 20 How. St. Tr. 1, 3-4 (K.B. 1772).

43. *Id.*

countries. But, of the nature, extent, and utility, of them, respecting property, or the state and condition of persons within her territories, each nation judges for itself; and is never bound, even upon the ground of comity, to recognize them, if prejudicial to her own interests. The recognition is purely from comity, and not from any absolute or paramount obligation.⁴⁴

Similar to *Sommersett*, the Court in *Dred Scott* suggested a discretionary comity test balancing foreign against domestic interests, but the laws of the slave states won out. Ultimately, this application of comity did not foster enough respect to avoid the Civil War.

The still-prevailing Supreme Court definition of comity came later, in 1895, in *Hilton v. Guyot*.⁴⁵ There, Justice Gray explained and defined comity as follows:

No law has any effect, of its own force, beyond the limits of the sovereignty from which its authority is derived. The extent to which the law of one nation, as put in force within its territory . . . shall be allowed to operate within the dominion of another nation, depends upon what our greatest jurists have been content to call 'the comity of nations.' . . .

'Comity,' in the legal sense, is neither a matter of absolute obligation, on the one hand, nor of mere courtesy and good will, upon the other. But it is the recognition which one nation allows within its territory to the legislative, executive or judicial acts of another nation, having due regard both to

44. *Dred Scott v. Sandford*, 60 U.S. 393, 460 (1856).

45. 159 U.S. 113 (1895).

international duty and convenience, and to the rights of its own citizens, or of other persons who are under the protection of its laws.⁴⁶

The *Guyot* Court's international comity analysis was thus still very similar to Huber's original articulation. However, the *Guyot* Court appeared to give less discretion to and impose greater duty on the courts to give due regard to foreign sovereigns' laws than Huber had originally envisioned.

That said, the *Guyot* Court ultimately concluded that, in this case, "the comity of our nation" did not require U.S. courts "to give conclusive effect to the judgments of the courts of France" because there was a "want of reciprocity, on the part of France"; the Court determined that French civil procedure did not require French courts to give conclusive effect to an equivalent U.S. (or other foreign) court judgment.⁴⁷ This reemphasized that reciprocity is a key characteristic of international comity. That is important to keep in mind as the U.S. asserts its laws and jurisdiction extraterritorially, because foreign nations will view reciprocity as a justification to likewise assert their laws and jurisdiction extraterritorially.

As international trade increased dramatically in the twentieth century, the rule that historically had underpinned the discretionary principle of international comity—that a sovereign nation's law cannot *by its own force* have effect beyond that sovereign's borders—started to loosen in the United States.

For example, in 1909, the Supreme Court still held in *American Banana Co. v. United Fruit Co.* that the U.S. antitrust laws did not apply to conduct outside the U.S. (in Latin America), based on "the general and almost universal rule . . . that the character of an act as lawful or unlawful must be determined

46. *Id.* at 163-64.

47. *Id.* at 210.

wholly by the law of the country where the act is done.”⁴⁸ It explained, “[i]n the case of the present statute, the improbability of the United States attempting to make acts done in Panama or Costa Rica criminal is obvious.”⁴⁹ But then, in 1945, the Second Circuit (designated by the Supreme Court as the court of last resort) held in *United States v. Aluminum Co. of Am. (ALCOA)* that even conduct that occurred abroad was subject to U.S. antitrust laws if it had an intended (anticompetitive) effect in the United States.⁵⁰ The extraterritorial nature of the U.S. antitrust laws has since been codified in the Foreign Trade and Antitrust Improvements Act (FTAIA).

As a result, while courts traditionally had applied principles of comity primarily in deciding whether to apply foreign law or recognize foreign judgments in cases involving foreign parties, in the twentieth century courts increasingly started to consider principles of comity in deciding whether to extend domestic law to foreign conduct. The comity principle they applied, however, continued to be essentially the same one as Huber and the *Guyot* Court had originally envisioned.

Over time, U.S. courts collectively have developed the following factors to operationalize international comity in deciding whether to allow extraterritorial application of U.S. law:

- (a) the link of the activity to the territory of the regulating state, i.e., the extent to which the activity takes place within the territory, or has substantial, direct, and foreseeable effect upon or in the territory;
- (b) the connections, such as nationality, residence, or economic activity, between the regulating state and the person principally responsible

48. 213 U.S. 347, 356 (1909).

49. *Id.* at 357.

50. 148 F.2d 416, 444 (2d Cir. 1945).

for the activity to be regulated, or between that state and those whom the regulation is designed to protect; (c) the character of the activity to be regulated, the importance of regulation to the regulating state, the extent to which other states regulate such activities, and the degree to which the desirability of such regulation is generally accepted[;] (d) the existence of justified expectations that might be protected or hurt by the regulation; (e) the importance of the regulation to the international political, legal, or economic system; (f) the extent to which the regulation is consistent with the traditions of the international system; (g) the extent to which another state may have an interest in regulating the activity; and (h) the likelihood of conflict with regulation by another state.⁵¹

As discussed in the next sections, however, courts have applied these factors inconsistently and, thus, have reached widely different conclusions about comity and the extraterritorial reach of U.S. statutes. This has led the U.S. Government and Plaintiffs bar to push the envelope in pursuing extraterritorial cases.

IV. JUDICIAL RESTRAINT AND COMITY: A SOMETIMES THING

U.S. courts have periodically cautioned restraint in extraterritorial application of U.S. laws and sometimes even exercised it. But there do not seem to be many rules that are consistently applied, although this might well be changing.

More than 40 years ago, the Supreme Court stated, “[w]e cannot have trade and commerce in world markets and international waters exclusively on our terms, governed by our laws,

51. RESTATEMENT (THIRD) OF FOREIGN RELATIONS LAW § 403(2) (AM. LAW INST. 1987).

and resolved in our courts.”⁵² The Court thus bound parties to contracts that conflicted with U.S. laws when a foreign country’s interest in the matter outweighed U.S. interests, even if there was some contact in the matter with the United States.⁵³ Thereafter, the court followed this principle in compelling the parties to arbitrate disputes in antitrust and securities cases that previously were almost certainly have been subjected to private litigation in the courts of the United States.⁵⁴ These cases did not explicitly invoke principles of international law or comity, but they reflected a practical and very real view about the limits of the proper reach of American courts.

However, in 1993, the Court went in a somewhat different direction in holding that there must be a true conflict between domestic and foreign law (such that foreign law requires the conduct that is illegal under U.S. law) for a comity issue to exist. In *Hartford Fire Insurance Co. v. California*,⁵⁵ the actions by reinsurers in the United Kingdom that led to the antitrust claim under U.S. law were not illegal but also not required under British law; therefore, the Court held, there was no need for a comity analysis because the company could have legally changed its behavior in Britain to avoid breaking U.S. antitrust laws.⁵⁶ The decision thus allowed for domestic liability to be imposed under U.S. law even where a defendant was acting quite lawfully in its

52. *M/S Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1, 9 (1972).

53. *Id.* (binding parties to a forum selection clause unless the plaintiff can meet a heavy burden of showing the contract to be unreasonable, unfair, or unjust).

54. *See Scherk v. Alberto-Culver Co.*, 417 U.S. 506 (1974) (binding the plaintiff to an arbitration clause in a securities fraud suit when a U.S. purchaser bought securities, but the sale mostly took place overseas); *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614 (1985) (applying an arbitration clause that conflicted with U.S. law).

55. 509 U.S. 764 (1993).

56. *See id.* at 798.

home country under local law. In his partial dissent, applying the comity factors of the Restatement listed above, Justice Scalia concluded that it was “unimaginable that an assertion of legislative jurisdiction by the United States would be considered reasonable” in this case given that Great Britain “clearly ha[d] a heavy interest in regulating the activity” of the British reinsurer defendants. It was therefore not appropriate, according to Scalia, to assume that Congress had intended such assertion of legislative jurisdiction.⁵⁷

Hartford Fire reiterated what the Second Circuit had held in *ALCOA*: “the Sherman Act applies to foreign conduct that was meant to produce and did in fact produce some substantial effect in the United States.”⁵⁸ It held that the London reinsurers’ express purpose to affect the United States commerce and the substantial nature of that effect outweighed the conflict with British law and required the court’s exercise of jurisdiction.⁵⁹ This was the result that the British government argued against in an *amicus* filing. Of course, more than a decade prior to the *Hartford Fire* decision, in 1982, Congress had enacted the FTAIA, which provided that the Sherman Act applied to foreign trade or commerce that has a “direct, substantial, and reasonably foreseeable effect” on domestic commerce.⁶⁰ There was therefore also a statutory basis for the Court’s holding in *Hartford Fire* that permitted it to avoid dealing with comity in any particular depth.

But a decade later, Justice Scalia’s reasoning prevailed in *F. Hoffmann-La Roche Ltd. v. Empagran S.A.*⁶¹ Foreign plaintiffs

57. *Id.* at 817-20 (Scalia, J., dissenting).

58. *Id.* at 796.

59. *Id.* at 797.

60. 15 U.S.C. § 6a(1) (2012).

61. 542 U.S. 155 (2004).

had brought a class action suit under the Sherman Act against foreign defendants who had conspired to fix prices in a world-wide market for vitamins. In those circumstances, the comity principles dictated the Court's holding that no domestic claim was cognizable because foreign conduct independently caused foreign harm that alone gave rise to the plaintiff's claim.⁶² Insofar as comity principles are concerned, the central notion of the case was that the statute had to be read consistently with the principles of comity to avoid offending foreign sovereigns.⁶³ The significance of the case is amplified when one appreciates that the foreign conduct did indeed have a significant effect on U.S. commerce, although one that was independent of the effect on foreign commerce. As Justice Kennedy put it, writing for the majority, the rule of statutory construction that had been advanced by Justice Scalia (to the effect that an act of Congress should never be construed as violating international law if any other possible interpretations are available):

cautions courts to assume that legislators take account of the legitimate sovereign interests of other nations when they write American laws. It thereby helps the potentially conflicting laws of the nation's work together in harmony—a harmony particularly needed in today's highly independent commercial world.⁶⁴

62. *Id.* at 159-60. This "gives rise to" language echoes the language of the FTAIA and at the same time has strong parallels with the body of law involving "antitrust injury." In other words, the foreign conduct that violates U.S. law must "give rise to" an unlawful domestic effect in order to be actionable. This principle became much more explicit quite recently in the Seventh Circuit's decision in *Motorola*, discussed *infra*.

63. *Id.* at 164.

64. *Id.* at 164-65.

This brings us to some circuit courts, which have their own history of elasticity and inconsistency when it comes to extraterritoriality. It is useful to begin with the 2012 en banc decision of the Seventh Circuit in *Minn-Chem, Inc. v. Agrium Inc.*⁶⁵ The case involved a private treble damage price-fixing class action by purchasers of potash against several Canadian, Russian, or Belarusian potash producers. For present purposes, the pertinent part of the decision involves the meaning of the word “direct,” under the FTAIA. In the context of construing the Foreign Sovereign Immunities Act, the Supreme Court had earlier held that an effect is “direct” if it “follows as an immediate consequence of the defendant’s . . . activity.”⁶⁶ A divided panel of the Ninth Circuit embraced this definition as applying to the FTAIA.⁶⁷ The Seventh Circuit disagreed and adopted the interpretation urged by the Antitrust Division of the DOJ and the Federal Trade Commission in an amicus brief,⁶⁸ holding that the term “direct” in the FTAIA means merely a “reasonably proximate” causal nexus.⁶⁹

65. 683 F.3d 845 (7th Cir. 2012).

66. *Id.* at 856 (citations omitted).

67. *United States v. LSL Biotechs.*, 379 F.3d 672 (9th Cir. 2004).

68. Brief for United States and the Fed. Trade Comm’n as Amici Curiae in Support of Neither Party on Rehearing En Banc at 8, *Minn-Chem, Inc. v. Agrium Inc.*, 683 F.3d 845 (7th Cir. 2012) (No. 10-1712), 2012 WL 6641190.

69. *Minn-Chem*, 683 F.3d at 857. Thus construing the words resulted in conduct excluded from the reach of U.S. law being “recaptured” where the U.S. effect could be seen to be “direct [reasonably proximate], substantial, and reasonably foreseeable.” This expansion of the exception (coupled with the fact that the statute is no longer seen as limiting the subject matter jurisdiction of the court) has amplified the uncertainty involved and is in part the source of international friction.

But just this year, the Seventh Circuit, in *Motorola Mobility LLC v. AU Optronics Corp.*,⁷⁰ took something back from what it appeared to have given in *Minn-Chem*, based in part on considerations of “soft” comity. Once again, the issue of extraterritoriality arose in the context of the FTAIA. The *AU Optronics* panel, in an opinion authored by Judge Posner, limited the reach of the Sherman Act for a variety of reasons, among them because extraterritorial application of American antitrust law in that case would create “friction” with many foreign countries and hence be in conflict with the objectives of the FTAIA.⁷¹ There were, to be sure, other dispositive grounds for the panel’s ruling, including that the foreign conduct did not “give rise to” an anticompetitive effect in the United States. Nonetheless, various foreign governments made amicus filings, and the panel was plainly sensitive to the comity issue.

Extraterritoriality and comity have not only featured at the Supreme Court in antitrust cases. The Court has taken up these issues in a number of different contexts, and seems much focused on it as of late. For example, just last year, in *Daimler AG v. Bauman*,⁷² the Court relied upon principles of comity in reversing the Ninth Circuit and finding a lack of general jurisdiction over a German corporation. The Court chastised the lower court for insufficiently taking into account considerations of international comity, stating that: a “foreign governments’ objections to some domestic courts’ expansive views of general jurisdiction have in the past impeded negotiations of international

70. 775 F.3d 816 (7th Cir. 2015), *cert. denied*, No 14-1122, 2015 WL 1206313.

71. *Id.* at 824 (stating “rampant extraterritorial application of US law ‘creates a serious risk of interference with a foreign nation’s ability independently to regulate its own affairs’” (quoting *F. Hoffman-La Roche Ltd. v. Empagran S.A.*, 542 U.S. 155, 165 (2004))).

72. 134 S. Ct. 746 (2014).

agreements on the reciprocal recognition and enforcement of judgments.”⁷³ Nearly three decades earlier, in *Asahi Metal Indus. Co. v. Superior Court of California, Solano Cnty.*, the Supreme Court had similarly warned state courts in California to consider the policy interests of foreign nations (and the unique burdens on an alien defendant of litigating in a foreign legal system) when exercising personal jurisdiction over foreign defendants.⁷⁴

Five years ago, the Supreme Court decided *Morrison v. National Australia Bank Ltd.*,⁷⁵ a case involving foreign private plaintiffs suing foreign and American defendants under the U.S. Securities Exchange Act of 1934 for damages they suffered from alleged misconduct related to securities traded on foreign exchanges. In holding that the plaintiffs failed to state a claim,⁷⁶ the Court reiterated the longstanding but arguably moribund principle of statutory interpretation that American law, unless expressly and clearly stated otherwise, is meant only to apply within the territorial jurisdiction of the U.S.

The Court’s ruling against the plaintiffs gave no particular weight to the fact that some of the illegal conduct took place in the United States. It concluded that the 1934 Act was clearly confined to securities traded on a U.S. exchange, noting the risk of interference that extraterritorial application of the 1934 Act would entail given that “the [securities] regulation of other countries often differs from ours as to what constitutes fraud, what disclosures must be made, what damages are recoverable, what discovery is available in litigation, what individual actions

73. *Id.* at 763.

74. *See Asahi Metal Indus. Co. v. Superior Court of California, Solano Cnty.*, 480 U.S. 102, 115-16 (1987) (reversing the Superior Court of California’s finding of personal jurisdiction over a Japanese manufacturer).

75. 561 U.S. 247, 255 (2010).

76. *Id.* at 253, 273.

may be joined in a single suit, what attorney's fees are recoverable, and many other matters."⁷⁷

In 2013, in *Kiobel v. Royal Dutch Petroleum Co.*, the Court held that this same "presumption against extraterritoriality" also applies to claims under the Alien Tort Statute (ATS), because nothing in that statute's text "evinces a clear indication of extraterritorial reach," even though the ATS was meant to cover offenses against the law of nations, including piracy (which inherently occurs outside U.S. territory).⁷⁸ Defendants' alleged aiding and abetting of a violent suppression of environmental protests in Nigeria, therefore, was not subject to the jurisdiction of a U.S. court under the ATS, according to the Court.⁷⁹

Notably, these signs of increasing exhortations to judicial restraint seem to be most frequent and applicable in cases involving private actions for civil damages. When criminal conduct is involved, and criminal penalties are involved, the federal courts in this country do not seem to have flinched or shrunk from applying U.S. law against foreign companies and foreign individuals, imposing massive criminal fines on the foreign companies, and throwing foreign citizens in jail. Indeed in *Empagran*, the Court recognized and emphasized that there is a difference between a claim by the Government and a private plaintiff because the government seeks relief to protect the public with broad authority.⁸⁰ A somewhat similar distinction is evident in the Seventh Circuit's *Motorola* decision, where the court had little difficulty distinguishing between: (i) the failure of foreign conduct by foreign actors to "give rise to" an anticompetitive domestic effect sufficient to support a private claimant; and

77. *Id.* at 269.

78. 133 S. Ct. 1659, 1666-67, 1669 (2013).

79. *Id.* at 1662-63, 1669.

80. *F. Hoffmann-La Roche, Ltd. v. Empagran S.A.*, 542 U.S. 155, 170-71 (2004).

(ii) the ability of the DOJ to prosecute that same conduct in federal courts.⁸¹ The Ninth Circuit held that the same conduct in the same company (AU Optronics) also imported the government's successful criminal prosecution.⁸² The Supreme Court denied certiorari in both cases.⁸³

The fact that the Court has also addressed comity in the context of discovery is yet another indication that the Court has a noticeable concern about international relations in private damages cases. Nearly twenty years ago, in *Societe Nationale Industrielle Aerospatiale v. U.S. Dist. Court for S. Dist. of Iowa*, the Court urged respect for international considerations grounded in comity in international discovery, indicating that trial courts should draw a line between reasonable and unreasonable discovery based on the interests of the parties and governments involved. It held that international discovery issues require courts to exercise special vigilance to protect foreign litigants.⁸⁴

V. THE DOJ SEEMS INCLINED TO PUSH THE COURTS TOWARDS AN EXPANSIVE VIEW OF ITS OWN AUTHORITY

Notwithstanding complaints from foreign allies, and notwithstanding the periodic urgings from the Supreme Court and some of the circuits for judicial restraint, the built-in and largely inherent incentives of all of a majority of the parties point in the other direction.

81. See *Motorola Mobility LLC v. AU Optronics Corp.*, 775 F.3d 816, 825 (7th Cir. 2015).

82. *United States v. Hui Hsiung*, 778 F.3d 738, 760 (9th Cir. 2015), *cert. denied*, No. 14-1121, 2015 WL 1206283 (U.S. June 15, 2015).

83. *Motorola*, 775 F.3d 816, *cert. denied*, No. 14-1122, 2015 WL 1206313 (U.S. June 15, 2015); *Hui Hsiung*, 778 F.3d 738, *cert. denied*, No. 14-1121, 2015 WL 1206283 (U.S. June 15, 2015).

84. 482 U.S. 522, 544-46 (1987).

As we have mentioned, private plaintiffs (both foreign and domestic) and their counsel have no interest in complex policy matters such as comity or extraterritoriality. They seek to utilize the vast benefits of the American legal system for the pecuniary gain that the system offers to clients and counsel alike. The calculus for them is quite simple. The greater the extraterritorial reach of U.S. law, the greater: (i) the plaintiffs' class; (ii) the magnitude of their damage claims; (iii) the group of defendants (and thus the plaintiffs' recovery potential); and (iv) the costs and burdens on defendants associated with discovery. Even if the extraterritorial claims are weak, the size of the claim, the uncertainty of jury trials, and the costs associated with discovery help force a greater settlement amount, and thus a greater fee for the lawyers.

As Judge Posner put it in *Motorola II*:

[t]he position for which Motorola contends would if adopted enormously increase the global reach of the Sherman Act, creating friction with many foreign countries and resentment at the apparent effort of the United States to act as the world's competition police officer, a primary concern motivating the Foreign Trade Antitrust Improvements Act. It is a concern to which Motorola is—albeit for understandable financial reasons—oblivious.⁸⁵

Much the same might be said of the DOJ in this country. The criminal fines and civil penalties collected by the executive branch of our government are enormous in antitrust, False

85. *Motorola*, 775 F.3d at 824 (7th Cir. 2015) (internal citations and quotations omitted).

Claims Act proceedings, RICO actions, London Interbank Offered Rate (LIBOR) and Foreign exchange market (Forex) machinations, and otherwise.

Institutionally, DOJ is much better placed than private plaintiffs and their counsel to consider international comity in deciding what cases and targets to prosecute and what sentences to seek. As part of the Executive Branch, the impact of its enforcement efforts on international relations should matter in its exercise of prosecutorial discretion. Indeed, DOJ has long had in place Antitrust Enforcement Guidelines for International Operations, in which it explains that it considers international comity when enforcing the U.S. antitrust laws extraterritorially, among others, by determining whether enforcement objectives can be achieved by deferring to foreign governments instead.⁸⁶ And there is, for example, an agreement between the U.S. and European Communities⁸⁷ under which they basically have agreed that the DOJ and European Commission (EC) will normally defer or suspend their own enforcement efforts in favor of the other's where the anticompetitive conduct may have an impact in its own territory but is primarily taking place in and directed at the other's territory.⁸⁸

In actual practice, however, there is little visible evidence that international comity is a significant consideration for DOJ. As the nation's federal prosecutor, the DOJ—and especially its

86. U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT GUIDELINES FOR INT'L OPS. § 3.2 (Apr. 1995).

87. U.S. Dep't of Justice, Agreement Between the Government of the United States of America and the European Communities on the Application of Positive Comity Principles in the Enforcement of Their Competition Law (June 4, 1998), available at <http://www.justice.gov/atr/agreement-between-united-states-and-european-communities-application-positive-comity-principles>.

88. *Id.* Art. IV(2).

prosecuting staff—usually seems singularly focused on securing guilty pleas, convictions, and large fines, including in a great many cases from foreign corporations and citizens. Its aggressive enforcement against overseas conduct and its advocacy efforts before courts in favor of an expansive view of the extraterritorial reach of U.S. laws⁸⁹ suggest that considerations of international comity typically take a backseat to enforcement and deterrence, if those considerations get a seat at all.

For example, in *Morrison v. National Australia Bank Ltd.*, the Solicitor General (part of the DOJ) argued for an interpretation that would have had the 1934 Exchange Act extend to fraud related to securities traded on foreign exchanges if the fraud involved conduct in the United States that was material to the fraud's success.⁹⁰ The Supreme Court rejected this because there was no express and clear indication by Congress that the 1934 Act applied extraterritorially. Despite *Morrison*, DOJ has continued to prosecute cases extraterritorially where statutes did not provide an express and clear basis for it.

A recent example is *United States v. Sidorenko*.⁹¹ There, the DOJ criminally indicted three foreign nationals for wire fraud and bribery involving a federal program, based on alleged foreign bribery conduct involving a foreign governmental agency (the UN's International Civil Aviation Organization (ICAO) agency). The only link to the U.S. was the fact that the U.S. funds part of ICAO, yet there was no allegation that any of those funds were squandered as a result of the bribes. The Northern District of California dismissed the indictments as an "overreach," explaining that under DOJ's theory:

89. See, e.g., Brief for the United States in Opposition, *Hsiung v. United States*, 778 F.3d 738 (2015) (No. 12-10492), 2015 WL 2353087.

90. 561 U.S. 247, 270 (2010).

91. *United States of America v. Sidorenko*, No. 3:14-cr-00341, 2015 WL 1814356 (N.D. Ca. Apr. 21, 2015).

there is no limit to the United States' ability to police foreign individuals, in foreign governments or in foreign organizations, on matters completely unrelated to the United States' investments, so long as the foreign governments or organizations receive at least \$10,000 of federal funding. This is not sound foreign policy, is not a wise use of scarce resources, and it is not . . . the law.⁹²

The DOJ appealed this decision but then recently decided to drop its appeal.

In *United States v. Chao Fan Xu*, the DOJ secured from a federal court RICO Act convictions, 20-plus year jail sentences, and a \$482 million restitution order against four Chinese nationals, based largely on their defrauding of the Bank of China, in China.⁹³ The link to the U.S. was defendants' use of fraudulently obtained visas and passports to enter the United States and their use of the fraudulently obtained funds to gamble in Las Vegas.⁹⁴ The Ninth Circuit held that the RICO Act does not apply extra-territorially given *Morrison*, but nevertheless upheld the convictions because it agreed they were based partly on racketeering activity that occurred in the United States (the immigration fraud).⁹⁵ It vacated the district court's sentences (and \$482 million restitution order), however, because the court had improperly relied on the defendants' foreign conduct to determine the base offense for the sentences.⁹⁶

In the antitrust context, as discussed above, the DOJ continues to prosecute criminal cases based on cartel conduct and

92. *Id.* at *6.

93. *See* 706 F.3d 965 (9th Cir. 2013).

94. *Id.* at 973.

95. *Id.* at 979.

96. *Id.* at 992-93.

transactions by foreign companies that occur exclusively overseas, on the theory that the cartelized components ultimately find their way into finished products that end up in the United States. The DOJ has been successful in persuading several courts to permit such extraterritorial enforcement of foreign component cartels where it can prove that the U.S. effects of the foreign cartel are sufficiently direct, substantial, and reasonably foreseeable.⁹⁷ But in some cases, such as the ongoing auto parts cartel investigations, one may wonder whether such direct, substantial, and reasonably foreseeable effect is present when the price-fixed parts were sold and incorporated in automobiles overseas, and make up but a tiny fraction of the entire value of automobiles that are sold in various countries across the world only one of which is the United States.⁹⁸

In contrast, while the EC recently also reached across borders to penalize overseas cartel sales of components that ended up in finished products sold in the European Economic Area (EEA)—in the same liquid-crystal display (LCD) cartel case as DOJ and Motorola pursued—it did so only to the extent the overseas cartel sales of components were intragroup sales by a company that belonged to the same (vertically-integrated) corporate group that also sold the finished products in the EEA.⁹⁹ The European Court of Justice recently blessed that approach.¹⁰⁰

97. See, e.g., *United States v. Hui Hsiung*, 778 F.3d 738, 758-59 (9th Cir. 2015); *Motorola Mobility LLC v. AU Optronics Corp.*, 775 F.3d 816, 825 (7th Cir. 2015).

98. Cf. *Hui Hsiung*, 778 F.3d at 758 (“the TFT-LCDs are a substantial cost component of the finished products—70-80 percent in the case of monitors and 30-40 percent for notebook computers.”).

99. See Case C-231/14P, *Innolux Corp. v. Commission*, ¶¶ 15-16.

100. *Id.* ¶¶ 66-77, 86.

Unlike DOJ, the EC otherwise disregarded purely overseas component cartel sales in calculating its fines.¹⁰¹

Perhaps the most notable example of DOJ's expansive position on extraterritoriality can be found in a brief that it filed with the Ninth Circuit in which it took the position that:

when the Executive Branch, which manages foreign relations, determines that the interests of United States law enforcement outweigh any possible detriment to our foreign relations, and accordingly decides to file a case, separation of powers principles, as well as the Judiciary's own recognition of its limitations in matters of foreign affairs, point to the conclusion that an American court cannot refuse to enforce a law its political branches have already determined is desirable and necessary.¹⁰²

This DOJ position seems extreme. First, it challenges judicial pronouncements from the Supreme Court that we have mentioned above, and second, few litigants, including the DOJ, have any long-term success telling the Judiciary what it cannot do. Specifically, DOJ's position ignores the fact that the legislative branch also ought to have a significant say in international relations, comity, and the extraterritorial reach of U.S. laws—indeed, probably by far the greatest say—and it is the Court's role

101. *Id.* ¶¶ 15-16.

102. Reply Brief for Appellant the United States at 23, *United States v. LSL Biotechnologies, Inc.*, 379 F.3d 672 (9th Cir. 2002) (No. 02-16472), 2002 WL 32298182, <http://www.justice.gov/file/501546/download> (internal citations and quotations omitted); *see also* U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT GUIDELINES FOR INT'L OPS. § 3.2 (Apr. 1995) ("The Department does not believe that it is the role of the courts to 'second-guess the executive branch's judgment as to the proper role of comity concerns under these circumstances.'").

to interpret Congress's legislative intent as to the extent of extraterritoriality when interpreting the statute at hand.¹⁰³

Of course, the DOJ's aggressive extraterritorial assertion of U.S. law in criminal cases inevitably feeds an increase in private suits that reach across borders, since the laws that the DOJ criminally enforces typically also feature a private right of action and since the plaintiffs' bar usually files suit as soon as the DOJ announces an investigation.

As a practical matter, most of the extraterritorial application of U.S. law goes unreviewed. The criminal cases almost never go to trial—virtually all are resolved with plea agreements—and when they do (as in *AU Optronics*) the issues presented are rarely nuanced or focused upon issues that give rise to much of a judicial incentive for restraint. The same is true of most civil cases, apart from the recent Motorola case against AU Optronics in the Seventh Circuit. And in a way, that case was almost a fluke. Motorola won almost every issue in the case throughout the more than five (5) years that it was part of the multidistrict litigation (MDL) proceeding in the Northern District of California. It was only after the case was remanded to the Northern District of Illinois that core issues of the applicability of the FTAIA were revisited.¹⁰⁴

103. *Hartford Fire Insurance Co. v. California*, 509 U.S. 764, 814-15 (1993) (Scalia, J., dissenting) (quoting *Murray v. Schooner Charming Betsy*, 2 Cranch 64, 118, 2 L.Ed. 208 (1804) (“An act of congress ought never to be construed to violate the law of nations if any other possible construction remains.”)).

104. See Briggs, *supra* note 1, at 80-83, for a discussion of the tortured history of that case.

What's more, given the increasingly paramount position of the Judiciary in our system of government,¹⁰⁵ American courts in general also seem to be institutionally disinclined by and large to put limits on the territorial reach of U.S. law, much less their own jurisdiction. Examples of cases showing courts' disinclination to limit their jurisdiction over foreign conduct in foreign lands include the Second Circuit's decisions in recent RICO cases,¹⁰⁶ the D.C. Circuit's first decision in *F. Hoffman-La Roche Ltd. v. Empagran S.A.*,¹⁰⁷ the Ninth Circuit's decision in *Daimler AG v. Bauman*,¹⁰⁸ and the Northern District of California's decision in *In re: TFT-LCD (Flat Panel) Antitrust Litigation (Motorola Inc. v. AU Optronics)*.¹⁰⁹

In a continuously globalizing economy and a rapidly shrinking commercial world, there is thus a significant and increasing risk that foreign companies and nationals either endure years of costly litigation in the U.S. (with corresponding invasive overseas discovery), or enter costly or painful guilty pleas

105. See Fukuyama, *supra* note 16, at 11 (discussing the role of U.S. courts transforming from a constraints on government to an instrument for the expansion of government).

106. See, e.g., *European Community v. RJR Nabisco, Inc.*, 764 F.3d 129, 139-43 (2d Cir. 2014) (holding that, despite the presumption against extraterritoriality outlined in *Morrison v. National Australia Bank Ltd.*, the RICO Act reaches extraterritorial conduct to the extent the alleged predicate acts are violations of statutes that expressly have extraterritorial reach).

107. *Empagran S.A. v. F. Hoffman-LaRoche, Ltd.*, 315 F.3d 338 (D.C. Cir. 2003) (holding that purchasers stated a price-fixing claim despite their injuries not arising from U.S. effects of defendants' conduct), *vacated sub nom.* *F. Hoffmann-La Roche Ltd. v. Empagran S.A.*, 542 U.S. 155 (2004).

108. *Bauman v. DaimlerChrysler Corp.*, 644 F.3d 909 (9th Cir. 2011) (finding wholly owned U.S. subsidiary was manufacturer's agent for general jurisdictional purposes), *rev'd sub nom.* *Daimler AG v. Bauman*, 134 S. Ct. 746 (2014).

109. *In re TFT-LCD (Flat Panel) Antitrust Litig.*, 586 F. Supp. 2d 1109 (N.D. Cal. 2008) (finding standing for both direct and indirect purchasers).

or settlements—all in cases that perhaps ought not be governed by U.S. laws or courts but rather by foreign laws, governments, and courts. As and when the world turns, and foreign legal systems begin increasingly to mimic the territorial reach of the American system, the day will come when the executive branch and the legislature might regret what has been allowed to develop.

VI. SCREENS THAT MIGHT RESTRAIN LEGAL IMPERIALISM

The aggressive extraterritorial application of American law has consequences and will have more consequences as time goes on. Some four decades ago we saw the adoption by some of our closest allies of “claw back” and “blocking” statutes, designed to avoid U.S. discovery, block enforcement of U.S. punitive damages awards, and allow claims in their home countries to claw back U.S. punitive damages awards. Now, as detailed above, we are seeing a substantial number of amicus filings by foreign governments in U.S. courts complaining about extraterritorial assertion of U.S. law and jurisdiction.

But more worryingly, we are also seeing other countries follow U.S. practice and increasingly assert their own law extraterritorially, regularly against American and European multinational concerns. Most notably, the PRC has been flexing its muscle overseas, especially in the antitrust arena, when it deems that foreign conduct or transactions by foreign companies threaten its domestic, often state-owned industries. For example, in 2014, MOFCOM, responsible for antitrust reviews of mergers, blocked an international joint venture by three foreign shipping companies (Danish, Swiss, and French shipping companies) based on what many have perceived to be protectionism rather

than antitrust merits;¹¹⁰ both the U.S. and European antitrust authorities had cleared the joint venture reportedly due to significant associated procompetitive efficiencies.¹¹¹ Earlier this year, despite pleas from President Obama not to devalue intellectual property of American companies to the benefit of Chinese firms using U.S. technology,¹¹² China's National Development and Reform Commission imposed a fine of nearly \$1 billion and several licensing restrictions, including a royalty base cap, on Qualcomm for alleged abuse of dominance with respect to standard essential patents and baseband chips.¹¹³

110. See, e.g., *China's shipping alliance rejection underscores protectionist worries*, REUTERS (June 18, 2014), <http://uk.reuters.com/article/2014/06/18/china-shipping-competition-idUKL4N0OZ1LK20140618>; Melissa Lipman, *China P3 Ban Short On Details But Shows Protectionist Bent*, LAW360 (June 28, 2014), <http://www.law360.com/articles/552786/china-p3-ban-short-on-details-but-shows-protectionist-bent>; Richard Milne, *China Blocks Proposed Three-way Shipping Alliance*, FIN. TIMES (June 17, 2014), <http://www.ft.com/cms/s/0/a9a188be-f60f-11e3-83d3-00144feabdc0.html#axzz3hZwVkpQq>.

111. Costas Paris, *Shipping Alliance Set to Make Waves*, WALL ST. J. (Mar. 26, 2014), <http://www.wsj.com/articles/SB10001424052702303802104579453252355203622>; Foo Yun Chee, *EU regulators clear Maersk, Nippon Yusen shipping alliances*, REUTERS (June 3, 2014), <http://uk.reuters.com/article/2014/06/03/uk-eu-containershipping-antitrust-idUKKBN0EE19V20140603>; Costas Paris and Clemens Bomsdorf, *Maersk, Partners Surprised by Chinese Regulator*, WALL ST. J. (June 17, 2014), <http://www.wsj.com/articles/shipping-alliance-blocked-by-china-1403001240>; Clement Tan & Christopher Jasper, *China Blocks European Shipping Pact, Sending Maersk Down*, BLOOMBERG (June 17, 2014), <http://www.bloomberg.com/news/articles/2014-06-17/china-rejects-ship-ping-alliance-application-by-maersk-msc-cma>.

112. See Michael Martina & Matthew Miller, *As Qualcomm decision looms, U.S. presses China on antitrust policy*, REUTERS (Dec. 16, 2014), <http://www.reuters.com/article/2014/12/16/qualcomm-china-antitrust-idUSL3N0TW2SF20141216>.

113. Notably, the U.S. Federal Trade Commission and European Commission are also investigating Qualcomm's licensing and business practices, which suggests there could be more international consensus in this case.

But it is not just the PRC. Other countries are also increasingly bold about asserting their laws extraterritorially, sometimes in questionable ways. France, for example, has pushed for European Union privacy laws to create global obligations for U.S. tech companies to remove information from websites, rather than obligations confined to the relevant EU member state territories.¹¹⁴ A Canadian court recently made a similar, dubious reach across the globe with little consideration for comity, but in a trade secrets case rather than privacy case.¹¹⁵ These cases touch upon a fundamental constitutional right—freedom of speech—which is treated very differently in different countries. One can and probably should seriously question whether one country should be able censor what information is available to the citizens of another country.

There is no reason to believe that other countries will not follow suit, and this could devolve into a sort of “race to the bottom,” especially between the new and old economic superpowers.

Right now, the major difference between the U.S. and other countries asserting their laws extraterritorially is still that

114. Mark Scott, *France Wants Google to Apply ‘Right to be Forgotten’ Ruling Worldwide or Face Penalties*, N.Y. TIMES (June 12, 2015), <http://bits.blogs.nytimes.com/2015/06/12/french-regulator-wants-google-to-apply-right-to-be-forgotten-ruling-worldwide/>.

115. See *Equustek Solutions Inc. v. Google, Inc.*, 2015 BCCA 265 (June 11, 2015) (upholding an order requiring Google, a non-party to the underlying trade secrets dispute, to remove from globally used web properties any search results showing the allegedly infringing products); see also Mike Maznik, *Canadian Court: Yes, We Can Order Google To Block Websites Globally*, TECHDIRT (June 12, 2015), <https://www.techdirt.com/articles/20150611/13104231311/canadian-court-yes-we-can-order-google-to-block-websites-globally.shtml>; Vera Ranieri, *Canadian Court Affirms Global Takedown Order to Google*, ELEC. FRONTIER FOUND. (June 12, 2015), <https://www.eff.org/deeplinks/2015/06/canadian-court-affirms-global-takedown-order-google>.

most other countries do so primarily through civil or administrative government actions, while the U.S. also does so in criminal actions as well as at the behest of private parties in civil punitive damages suits. But that, too, could change. For example, certain countries are adopting criminal antitrust enforcement regimes as well as systems facilitating civil antitrust damages claims, similar to the U.S. system. Perhaps, therefore, it is not too farfetched to believe that the extraditions, jail sentences, and punitive damages awards at some point will start running the other way, and the U.S. might not like it. This may become particularly worrisome when U.S. companies and their executives engage in global conduct that is considered lawful (and perhaps even beneficial) in the U.S., yet unlawful and perhaps criminal in other countries.

To be sure, not all extraterritorial application of U.S. law and jurisdiction is inconsistent with international comity. In many cases, it may not be.¹¹⁶ The “effects test” of *ALCOA* and

116. Some argue, for example, that giving too much weight to comity considerations could undermine deterrence and harm U.S. consumers. *See, e.g.,* Joseph E. Harrington, Jr., *The Comity-Deterrence Trade-off and the FTAIA: Motorola Mobility Revisited*, COMPETITION POLICY INT’L (Jan. 2015); Eleanor M. Fox, *Extraterritoriality and Input Cartels: Life in the Global Value Lane—The Collision Course with Empagran and How to Avert It*, COMPETITION POLICY INT’L (Jan. 2015). We agree that deterrence and protection of U.S. consumers is certainly one consideration in the international comity balancing test between domestic interests and foreign interests. But we disagree with the proposition that comity no longer is or should not be a consideration in extraterritorial antitrust cases once a “direct, substantial and reasonably foreseeable effect” on U.S. commerce has been established. In our view, this conclusion misses the point that the DOJ and many U.S. courts find such an effect too easily, without sufficiently considering comity considerations in the first place. What’s more, in thinking about deterrence, one should also consider that less extraterritorial overreaching might give foreign nations greater incentives and ability to put in place and enforce their own laws to deter harmful conduct. Finally, the authors’ observations (understandably) focus solely

Hartford Fire makes much more sense, and probably gives less offense to comity, where the conduct at issue is similarly unlawful under the law of the foreign jurisdiction in ways that are broadly comparable. But even so, in most cases the remedies are still often different. For example, most foreign governments still do not jail their citizens for price fixing in many of the circumstances that give rise to jail time in United States. Similarly, there is no country in the world with: comparable class-action machinery; treble damages; one way attorney's fees awards; the absence of contribution coupled with joint and several liability; or the vast discovery machinery authorized by Rule 26 of the Federal Rules of Civil Procedure. One might suppose that the incompatibility of these American civil and criminal enforcement regimes would give rise to a more thoughtful restraint being placed upon the American judiciary, but that has not happened.

Our purpose here, and it is but a modest beginning, is to mention a few approaches that might, in the fullness of time and the absence of domestic political dysfunction, become viable. Such screens (which could be managed by the executive, legislative, and judicial branches separately or with the branches of government acting in concert) might include institutionalization of the following types of measures:

on antitrust harm and deterrence, while comity is in part about a much bigger picture. In the U.S., we have long considered cartel violations a supreme evil meriting significant jail sentences, fines, and treble damages to root it out as much as possible. Other nations have come somewhat to agree, but have not gone so far as to criminalize cartels, put individuals in jail, award exemplary damages, provide for one way attorney's fees, apply joint and several liability without any right of contribution, or embrace various other features of American antitrust law that make it so controversial outside the borders of the United States. In some ways, comity is about all nations "giving a little" so as to not over-impose their values on one another.

- 1) The adoption of a rule of prescriptive comity, “the respect sovereign nations afford each other by limiting the reach of their law,” along the lines suggested by Justice Scalia in his *Hartford Fire* dissent.¹¹⁷ In the case of *Hartford Fire*, a prescriptive comity approach would have resulted in the court declining to exercise the Sherman Act extraterritorially because the conduct at issue was regulated under a comprehensive foreign regulatory scheme.¹¹⁸ This approach would be different from, but quite analogous to, the more familiar State Action doctrine of long-standing vintage in this country.
- 2) The implementation of rules that guarantee foreign defendants a practicable and meaningful opportunity to raise extraterritoriality and international comity defenses or concerns at the front end of a case, and based on strictly limited discovery. Such an approach might put extraterritoriality concerns much closer to the level of subject matter jurisdiction.
- 3) A change to the rules of civil procedure so as to avoid remitting these issues, as they are now often remitted, to the vagaries of Rule 26. In FTAIA cases, this was the norm since, until recently, the FTAIA was treated as a limitation on the subject matter jurisdiction of the federal courts. Indeed, that might still be the case in various circuits

117. 509 U.S. 764, 817 (1993) (Scalia, J., dissenting).

118. This approach is the subject of a thoughtful law review note, Stephen D. Piraino, *A Prescription for Excess: Using Prescriptive Comity to Limit the Extraterritorial Reach of the Sherman Act*, 40 HOFSTRA L. REV. 1099, 1128-34 (2012).

where the issue has not been decided.¹¹⁹ But now that many appeals courts no longer treat the FTAIA as limiting the subject matter jurisdiction of the trial courts, extraterritoriality and international comity defenses do not necessarily get resolved at the front end of a case before discovery commences. Instead, they can be at the back end of the queue. Indeed, in *Motorola*, the defendant was subjected to many years of full discovery before the issue finally was determined.

- 4) Implement a formal process whereby foreign targets of DOJ investigations are assured of the opportunity to raise extraterritoriality and international comity defenses with an independent, high-ranking DOJ official during the early stages of the investigation, before the pressure to enter a guilty plea becomes unsustainable. That same DOJ official should be obliged to confer also with the appropriate officials of the Department of State.
- 5) Implement a formal, mandatory, and early-stage process whereby the prosecuting staff of the DOJ must clear extraterritorial enforcement efforts with an independent, high-ranking DOJ official, also obliged to confer with the Department of State, so as to ensure that international comity is given appropriate weight in each exercise of prosecutorial discretion.
- 6) Where foreign nationals plead guilty to criminal offenses based on non-U.S. conduct the effects of

119. See, e.g., *Minn-Chem, Inc. v. Agrium Inc.*, 683 F.3d 845 (7th Cir. 2012) (en banc) (overturning *United Phosphorus Ltd. v. Angus Chemical Co.*, 322 F.3d 942 (7th Cir. 2003) (en banc), which previously held that the FTAIA proscribes subject-matter jurisdiction).

which are primarily felt outside the United States, there should be a procedure whereby after sentencing these citizens are returned to their home country, which can choose to implement the sentence, or not.

- 7) Implement a procedural rule whereby the DOJ and courts overseeing private civil punitive or treble damages actions are required to solicit the views of the U.S. government when foreign defendants raise extraterritoriality or international comity defenses or objections.

We are under no illusion that any one of these “screens,” or any combination of them, would “solve” a “problem” that many do not recognize as either existing, or being particularly serious if it does exist. But we do think there is a problem inherent in the American legal system that will lead nearly always and ineluctably to the expansion of judicial extraterritorial jurisdiction. The idea of judicial restraint in this area is as admirable as it is chimerical. Many of our judges, state and federal, are not inclined to put limits on their own powers and have relatively little appreciation for international relations. In the absence of some machinery that can supply restraint, and in the absence of enforcement standards with some objective features, the problem will get bigger before it gets smaller. In practical economic terms, the stakes are potentially very high in an increasingly global economy where the United States is neither the only dominant economic power nor the only country with the will to apply its own law in various places around the world.



**MOVING THE LAW FORWARD
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