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SOLICITOR-CLIENT PRIVILEGE IN THE CORPORATE SETTING:

An Ounce Of Prevention, A Pound Of Cure

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April 21 – 23, 2002
Toronto, Ontario

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1. Introduction

Several years ago, in the course of considering the relationship between government lawyers and the R.C.M.P., the Supreme Court of Canada paused to observe that solicitor-client communications, in the corporate context, create "special problems." [1] This paper takes as its focus a few of those "special problems." Its purpose is not to canvass exhaustively the many legal privilege issues counsel can expect to confront throughout the course of an "in-house" career. Rather, our more modest purpose is to present, and then discuss, a few typical scenarios through a risk-management lens. Drawing upon case law to illustrate the pitfalls that await the unwary, our purpose is to plant some guideposts to assist the in-house practitioner in her day-to-day practice.

For whether privilege assertions will pass legal muster is increasingly a function of the small preventive measures taken by in-house counsel to preserve the confidentiality of their communications. As this paper's title suggests, corporations (and general counsel) ignore the basic lessons sitting in the case law at their peril. As in-house counsel assume ever greater geographical and business responsibilities,[2] there is a commensurate sensitivity on the part of courts to the potential for the abuse of privilege. Moreover, the ranks of in-house counsel continue to swell, a trend fuelled by rising legal costs and an increasingly complex business

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[1] *R. v. Shirose*, 171 D.L.R. (4th) 193 at 225.

[2] On the changing role of in-house counsel, see Catherine Kentridge, "The Compleat Counsel: The Expanding Role of In-House Lawyers" (Sept. 1994) 18 Can. Lawyer No. 7, 18-23.

environment.[3] To predict that the role of general counsel will increasingly come under a judicial microscope, in light of these trends, requires no special perspicacity.

The paper proceeds in five parts. After opening with (1) a brief overview of the black-letter law, the essay considers whether the law of solicitor-client privilege embraces (2) communications prepared by a foreign legal advisor. In a corporate global community dominated by the large multinational, inter-office communications frequently span national borders. As a result, courts have been called upon to consider whether the existence of solicitor-client privilege must always depend upon a solicitor's place of call or residence. From mobility issues, the paper turns to a discussion of (3) the basic tension between corporate counsel's role as a provider of both business and legal advice. The focus here is on the ability of in-house counsel to maximise the protection accorded their communications by the law of solicitor-client privilege. The paper then considers (4) this business/legal dichotomy in the context of an internal corporate investigation. As an investigative tool that frequently uncovers "smoking gun" evidence, it is essential that in-house counsel acquaint themselves with the "do's and don'ts" of the internal investigation. Finally, the paper closes with (5) some observations about the approach courts in Europe and Australia have taken to the availability of privilege claims for the work of in-house counsel, and the implications of those decisions for corporate counsel practising in Canada as part of the operations of a corporate legal office that spans numerous jurisdictions.

2. Solicitor-Client Privilege Generally

[3] As of December 31, 2000, for example, approximately 7.7 percent of the Alberta Law Society's membership consisted of in-house counsel. In the U.S. as of 1990, 10% of attorneys, over 55,000 attorneys, were employed in private industry.

More than a mere rule of evidence, solicitor-client privilege occupies the status of a "fundamental civil and legal right" in the common law world.[4] As the Supreme Court of Canada observed, the rule's distinctive status stems from its fundamental importance to the workings of the legal system itself. Stated simply, without solicitor-client privilege, clients and lawyers could not engage in the frank and full disclosure that is essential to giving and receiving effective legal advice.[5] As the Ontario Court of Appeal recently observed,

> "Even with the privilege in place, there is a natural reluctance to share the 'bad parts' of one's story with another person. Without the privilege, that reluctance would become a compulsion in many cases."[6]

The rationale underlying the rule shapes the contours of the privilege. According to Dean Wigmore's classic formulation, the privilege only applies: "(1) [w]here legal advice of any kind is sought (2) from a professional legal adviser in his capacity as such, (3) the communications relating to that purpose, (4) are made in confidence (5) by the client, (6) are at his instance permanently protected (7) from disclosure by himself or by the legal adviser, (8) except the protection be waived." In *Descoteaux v. Mierzwinski*, the Supreme Court of Canada adopted Dean Wigmore's formulation of the substantive conditions precedent to the existence of the privilege.[7] In practice, however, courts condense the test into four factors: (1) a communication; (2) made between privileged persons; (3) in confidence; and (4) for the purpose of seeking, obtaining, or providing legal assistance to the client. The privilege extends to communications in whatever form, but does not extend to facts that may be referred to in those communications if they are otherwise discoverable and relevant.

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[4] *Geffen v. Goodman Estate*, [1991] 2 S.C.R. 353, per Wilson J. at 383. The same principle was recognised in by the European Court of Justice in *AM&S Europe v European Commission,* discussed below.

[5] See, for example, *R. v. Gruenke*, [1991] 3 S.C.R. 263, per Lamer C.J. at 289.

The applicability of solicitor-client privilege to in-house communications is a well-settled point of law in both North America and England. In the United States, the entitlement of in-house counsel to assert solicitor-client privilege has been settled since at least 1915.[8] In a passage since adopted by Canada's highest court, Lord Denning articulated the definitive rationale for the privilege's extension to in-house counsel:

> Many barristers and solicitors are employed as legal advisors, whole time, by a single employer. Sometimes the employer is a great commercial concern. At other times it is a government department or a local authority. It may even be the government itself, like the Treasury solicitor and his staff. In every case these legal advisors do legal work for their employer and for no one else. They are paid, not by fees for each piece of work, but by a fixed annual salary. They are, no doubt, servants or agents of the employer. For that reason, the judge thought that they were in a different position from other legal advisors who are in private practice. I do not think this is correct. They are regarded by the law as, in every respect, in the same position as those who practise on their own account. The only difference is that they act for one client only, and not for several clients. They must uphold the same standards of honour and etiquette. They are subject to the same duties to their clients and to the court. They must respect the same confidences. They and their clients have the same privileges.[9]

But as this note aims to demonstrate, the observation that solicitor-client privilege applies to in-house counsel is a starting as opposed to an ending point. In the corporate context, a whole host of factors combine to problematize the privilege's application to corporate counsel – and it is to a discussion of these factors that the paper now turns.

3. Mobility as it affects Solicitor-Client Privilege

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[6] *General Accident Assurance Co. v. Chrusz*, [1999] O.J. No. 3291, per Doherty J.A. (dissenting in part).

[7] [1982] 1 S.C.R. 860 at 872.

[8] See *United States v. Louisville & N. R.R.*, 236 U.S. 318, 336 (1915).

[9] *Alfred Crompton Amusement Machines Ltd. v. Commissioners of Customs & Excise (No. 2)*, [1972] 2 All E.R. 353 (C..A.), per Lord Denning, M.R., at 376. Alfred Crompton has been adopted by Canadian courts on numerous occasions, most recently by the Supreme Court of Canada in *R. v. Shirose*, 171 D.L.R. (4th) 193.

Consider the following hypothetical. A multinational corporation based in Delaware seconds a lawyer who is an expert in sexual harassment to its Canadian subsidiary in Mississauga. The lawyer is licensed to practice law in the state of Delaware but is not a member of the Ontario bar. An Ontario-based employee alleges sexual harassment on the part of her immediate supervisor, and the corporation launches an internal investigation. The Delaware lawyer is asked to participate in the investigation in a legal advisory capacity, and to produce an opinion containing legal analysis and recommendations. Based on the Delaware lawyer's analysis and recommendations, the supervisor is terminated, and commences a wrongful dismissal suit against the corporation. In a motion to compel discovery of the expert's report, plaintiff's counsel argues that the document is not privileged, because its author is not qualified to practice in Ontario. Is the report privileged?

Until relatively recently, the weight of authority in Canada rejected privilege claims and favoured disclosure in such an instance. In the first authoritative Canadian case to consider the subject, *Re United States of America v. Mammoth Oil Co.*,[10] a Canadian lawyer gave advice in the United States to an American on a point of American law. The Court held that the lawyer could not invoke solicitor-client privilege. For many years, the *Mammoth Oil* view held sway in Canadian jurisprudence, including a decision as recently as 1980 that for privilege to attach, "the legal advisor with whom the plaintiff communicated must have been professionally qualified to advise it in respect of Canadian law."[11]

But the past several decades has seen the restrictive *Mammoth* approach give way to a more modern, functional and flexible test that considers the nature of the relationship

[10] (1925), 56 O.L.R. (635 (C.A.).

between the advisor and the advised. The British Columbia Supreme Court in *Morrison-Knudson v. British Columbia Hydro and Power Authority*[12] took umbrage at the view that a "legal adviser" is one whose name appears on the official rolls of the forum. The *Morrison* view was echoed in 1988 by McKeown, J., then of the Ontario Supreme Court, who held that the *Mammoth* approach was incompatible with the reality of modern international trade and commerce.[13] The *coup de grace*, though, may have come from a recent decision of the Manitoba Court of Appeal, *Gower v. Tolko Manitoba Inc*.[14] ("Gower"), that is considered more fully below. On whether privilege encompasses communications with a foreign legal advisor, the Court stated the following:

> Next, not only must the communication involve legal advice in order to be privileged, but it must also be legal advice given by a duly qualified lawyer. Although the Canadian law in this area was at first rather restrictive in finding that the solicitor must be duly qualified to practice law in the jurisdiction in question, the more recent jurisprudence, and the better in my opinion, acknowledges the globalisation of business and legal advice:
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> > The real inquiry should focus on the purpose of the relationship and the communications arising therefrom rather than a solicitor's place of call or residence.[15]

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[11] (1980), 48 C.P.R. (2d) 63 at 64 (F.C.T.D.).

[12] (1971) 19 D.L.R. (3d) 726 (B.C.S.C.).

[13] *Hartz Canada Inc. v. Colgate-Palmolive Co*. (Ont. H.C.), [1988] O.J. No. 663. See also *Quinn v. Federal Business Development Bank*, [1997] N.J. No. 105 (T.D.), where the fact that counsel was not a member of the Bar of Newfoundland had no impact on the privilege claim.

[14] [2001] M.J. No. 39.

[15] *Ibid*. at para. 21 (QL), quoting from Ronald D. Manes and Michael P. Silver, *Solicitor-Client Privilege in Canadian Law* (Toronto: Butterworths, 1993). Sopinka and Lederman in *The Law of Evidence in Canada* also support the modern trend away from the *Mammoth* approach, as they state at p.648:

"More recent authority suggests that the protection should not be so limited and that as long as one of the parties to the communication is a lawyer, though perhaps not called to the bar of the jurisdiction in which the issue arises, then the umbrella of privilege should cover it."

The Manitoba Court of Appeal went on to hold explicitly that "so long as one of the parties to the communications is a lawyer, though perhaps not called to the bar of the jurisdiction in which the issue arises, legal advice privilege attaches. 'To hold otherwise would be to ignore the realities of the modern practice of law.'"[16]

Applying the more nuanced and contextual inquiry of *Gower*, the better view affirms the privileged nature of the report in our hypothetical. Until an appellate-level Ontario decision addressees the matter, or guidance arrives from the Supreme Court of Canada, however, prudence might suggest that Ontario-based and licensed in-house counsel should consider steps to maximise the protection available for the confidentiality of such sensitive communications. One approach might be a formal request by a locally qualified lawyer for the advice of the foreign-qualified lawyer, and adoption by the general counsel and transmission to the corporate client of the conclusions of the foreign advisor in such a situation. While this may strike the reader as a triumph of form over substance, matters of form shape and influence the substantive findings of courts – as the next portion of this note makes clear.

4. The Legal/Business Continuum

It has been said that in-house counsel earn their law degrees by going to law school, and gain their MBAs from empirical experience.[17] In today's legal climate, where clients expect legal service providers to "add value" to the corporation, business acumen has come to count for nearly as much as legal expertise. In the case of corporate counsel, that "value added" component has come in the form of increased participation by lawyers in the business decisions of the corporation. Today, the title "General Counsel" takes as its frequent companion the

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[16] *Ibid*. at para. 46.

designations “Vice President,” “Corporate Secretary” or “Director of Governmental Affairs” – offices that import a high degree of participation in the management of the corporation. It is not unheard of for corporate counsel to serve as members of the board of directors and on executive management committees. And even in the absence of official, non-legal responsibilities, corporations frequently seek the opinion of corporate counsel on matters falling outside the traditional ambit of the practice of law. Often, it is precisely the opportunity to participate in such business activities that lies behind the decision of many lawyers to go “in-house.”

Beyond the potential conflict of interest issues that such functions may raise, corporate counsel’s dual role as both business and legal advisor has important implications for an assertion of solicitor-client privilege. As discussed above, communications between management and corporate counsel lose the protection of solicitor-client privilege when they cease to be about legal matters. A corporation’s whole *raison d’être* being the conduct of “business,” in-house legal communications frequently confront the courts with basic questions about where the business advisor’s function ends, and the legal advisor’s role begins. The line has proven difficult to delineate, as an oft-cited passage from a decision of the New York Court of Appeals points out:

> …staff attorneys may serve as company officers with mixed business-legal responsibility; whether or not officers, their day-to-day involvement may blur the line between legal and nonlegal communications; and their advice may originate not in response to the client’s consultation about a particular problem but with them, as part of an on-going, permanent relationship with the organisation.[18]

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[17] See Catherine Kentridge, “The New All-Rounders,” (Sept. 1994) 18 Can. Lawyer No. 7, 5.

[18] *Rossi v. Blue Cross, and Blue Shield of Greater New York*, 540 N.E.2d 703 at 705 (N.Y. 1989).

In this context, reference should be had to a U.S. decision that has attracted considerable attention south of the border, *Georgia Pacific v. GAF Roofing Manufacturing Corp ("Georgia Pacific").*[19] The general issue in that case was whether an in-house lawyer engaged in contractual negotiations is acting in a business or legal advisory capacity. The lawyer in *Georgia Pacific* had assisted in the negotiation of an asset-purchase agreement. When litigation ensued, the in-house lawyer was asked to disclose the recommendations he had made to his employer during negotiations regarding certain provisions of the contract. In the court's view, the negotiation of contractual provisions did not constitute the exercise of a lawyer's traditional function. The lawyer had been acting in a business capacity, and was accordingly compelled to disclose the substance of the communications.

While the decision has been criticised, the tenor of the judgement has been picked up in several subsequent decisions in the United States. For instance, the Maryland Court of Appeals recently ordered disclosure of communications passing between in-house counsel and a collection agency hired to collect a company receivable.[20] In that case, in-house counsel authorised the collection agency to retain a firm to file suit against the debtor. The collection agency forwarded its communications with in-house counsel to the firm that was retained. In the ensuing litigation, the court rejected the claim of privilege over the communications, reasoning that in-house counsel's pursuit of a corporate debt constituted the performance of a business as opposed to a traditional legal function. As the two decisions demonstrate, recent trends in the U.S. jurisprudence have given in-house counsel south of the border justifiable cause for alarm.

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[19] 1996 WL 29392 (S.D.N.Y. 1996).

[20] *E.I. duPont de Nemours & Co. v. Forma-Pak Inc.*, 351 Md. 396 (1998).

Awakened to the potential for abuse, courts appear increasingly inclined to scrutinise the privilege assertion of general counsel.[21]

Indeed, closer to home, a recent decision of Justice Winkler, *Toronto-Dominion Bank v. Leigh Instruments*[22] ("Leigh") illustrates starkly the tension between the legal and business advisory role, and should be considered required reading for corporate staff counsel. The plaintiff bank in *Leigh* had loaned money to a subsidiary corporation on the strength of comfort letters provided by the subsidiary's parent company. When the subsidiary defaulted on the loan, the bank brought action to enforce the comfort letters as being in the nature of a guarantee. It was common ground that the Bank's corporate state of mind about the strength and enforceability of the letters was an issue in the action. During the trial, the defendants moved for the production of four documents from a general file in the Bank's legal department. One of those documents was a "head office circular" stated to be from a senior vice-president who was the Bank's general counsel and secretary. Another document in issue was a legal memorandum prepared by a lawyer in the legal department.

Justice Winkler's decision reads like a "Do Not" list of corporate management practices. With respect to the "head office circular," the lawyer's initial error was in signing the memorandum as "senior vice-president, general counsel and secretary." As a result, it was not clear to the court whether the lawyer was acting in an executive or a legal capacity when the document was drafted and circulated. In an illustration of how form affects substance, the title of the document – "head office circular" – pointed to a general statement of corporate policy as

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[21] In the case of corporate staff counsel, the scope for the doctrine's abuse is arguably greater, as a well-known decision of the New York Court of Appeals demonstrates. In *Abel v. Merrill Lynch & Co., Inc.*, 1993 WL 33348 (S.D.N.Y., 1993) the corporate defendant sought to shelter documents from discovery by funnelling all information concerning potential terminations in its work force to in-house counsel. The Court ordered the documents produced.

opposed to a piece of legal analysis. The most egregious error, however, lay in the decision to circulate the document to every branch and department, on an international basis, within the Bank. Conspicuously absent from the document, moreover, was any assertion or warning that the contents were confidential. With the loss of confidentiality went any hope of maintaining the protection of solicitor-client privilege.

With respect to the legal memorandum, while the document was circulated to only 13 executives, there was no evidence as to whether those executives had further circulated the memo throughout their departments. Further, although at least 13 copies of the memorandum were initially made, the Bank was unable to pinpoint the whereabouts of 11 of those copies. Finally, there was no notation anywhere on the document that it was to be kept confidential. While the Court ultimately concluded that the claim of privilege was properly founded for that document, the risks created by those shortcomings on the face of the evidence could easily have been avoided. Indeed, *Toronto-Dominion Bank* points up the extent to which relatively minor matters of form may later impact upon an assertion of attorney-client privilege. Like the two American decisions described above, it also illustrates the increasing inclination of Canadian courts to question the privilege claims of in-house counsel.

Fortunately, *Toronto-Dominion Bank* also provides general counsel with a number of helpful guidelines. For example, the decision tells us that internal privileged memoranda between in-house counsel and employees should bear the title, “For the purpose of receiving/giving legal advice.” A memo to an employee requesting facts might be titled, “Request for facts so that legal advice may be given.” In addition to the wisdom of dropping

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[22] 32 O.R. (3d) 575 (1997).

their non-legal titles in connection with communications for which privilege may be claimed, in-house counsel who also serve as corporate officers should specify that they are writing in their capacity as corporate counsel for the purpose of rendering legal advice. And whenever possible, communications and documents should be associated with a particular piece of litigation.

In a similar vein, where the subject-matter partakes of both a legal and a business dimension, in-house counsel are well advised to describe in some detail the legal considerations raised on the facts. As a general rule, in-house counsel should avoid mixing law and business in the same document, as a decision of the New York State court, *Cooper-Rutter Associates, Inc. v. Anchor National Life Insurance Co.*,[23] illustrates. At issue there were two memoranda written by an in-house lawyer who also held the office of Corporate Secretary. The memoranda discussed the business and legal aspects of the corporation's then ongoing negotiations regarding a business transaction. As "the documents were not primarily of a legal character, but expressed substantial non-legal concerns,"[24] the memoranda were not privileged.

Corporate counsel should also take care to circumscribe the distribution of internal memos on a "need to read" basis, bearing in mind the potential for a waiver argument. The memo should clearly state the rationale for each recipient's appearance on the distribution list. If the individual is not involved with the problem, he or she should not appear on the distribution list.[25] Furthermore, policies and controls should be implemented to protect the confidentiality of the documents by restricting subsequent copying or the circulation of the document. Communications should always bear the heading "CONFIDENTIAL LEGAL

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[23] 563 N.Y.S.2d 491 (N.Y. App. Div. 1990).

[24] *Ibid.* at 492.

ADVICE – DO NOT COPY OR TRANSMIT," and a circulation list should be retained in the file as evidence of an intention to treat the communication as confidential. Even more fundamentally, it should be remembered that attaching a document to a "public" record such as a corporate minute book will destroy the confidentiality of the document, and with it any opportunity to claim solicitor-client privilege.

5. Internal Investigations[26]

The watchword in the post-Enron economy is accountability. Even before Enron, corporations were increasingly being held to account by a range of stakeholders. Governmental regulatory bodies, shareholders, employees and the general public – expectations on the part of these powerful stakeholders render the internal corporate investigation an increasingly indispensable tool, not only for detecting misconduct, but also to maintain management's broader fiduciary obligations. Employee theft and fraud, discrimination in the workplace and securities law violations, to say nothing of price fixing or market allocation offences,[27] can threaten the stability and long-term health of the corporation. The prospect of US style shareholder challenges for perceived management shortcomings can do the same, as well as creating distractions that can disable the effectiveness of management and corporate counsel over an extended period. In essence, corporations and their lawyers can no longer afford to view the internal investigation as an expensive luxury.

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[25] For these suggestions, the authors acknowledge a debt to Michael A. Lampert and Joseph M. Fairbanks, "Defending Inside Privilege," in *Legal Times* (October 2, 2000).

[26] For a good overview of the issues raised by internal corporate investigations, see John M. Rosen, "Internal Corporate Investigations: Avoiding the Pitfalls," paper presented on November 1-2, 1999 at Insight.

[27] The highest fine in Canadian criminal law history was imposed on F. Hoffmann-La Roche, $50.9 million, in the vitamins price fixing case. The civil claims continue to unfold. Roche and its co-competitors settled the civil class action in the vitamins case in the United States for U.S. $1.2 billion.

At the same time, internal investigations are not without their own risks. In particular, for our present purposes, these investigations generally generate highly sensitive documents. As one commentator notes,

> "[p]roduction of these non-privileged materials, which may include the names of witnesses spoken to, the types of documents reviewed and other such items, can serve as a virtual road map for either the government or private plaintiffs in their own inquiries."[28]

And if the confidentiality of an internal investigation is compromised, the corporation may discover that it has waived the right to resist production of otherwise privileged documents. Because of their acknowledged ability to sift facts and appreciate the underlying legal ramifications, corporate clients will often turn to in-house counsel to navigate the minefield around such situations. A critical responsibility of investigating counsel, in turn, is to ensure that the process takes place beneath the shelter of solicitor-client privilege, because lawyers on the other side increasingly target the file of in-house counsel, for the same reason.

The Manitoba Court of Appeal's recent decision in *Gower* v. *Tolko Manitoba*[29] affords an excellent introduction to the subject. We saw above that the court in *Gower* offered some important observations about the extension of privilege to communications with foreign legal advisors. But at a more general level, the decision also showcases the tension that exists between the counsel's legal advisory and fact-finding function during the course of an investigation. In *Gower*, the corporation retained external counsel to investigate a sexual

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[28] Peter J. Comodeca, "What You Should Know About Internal Investigations," available online at www.calfee.com/publications/internalinvestigations.pdf

[29] *Supra* note *14*

harassment complaint. A formal retainer agreement was executed that contained the following provisions:

(a) The Investigator will conduct an investigation as counsel on behalf of the Employer for the purpose of providing a fact finding report and giving legal advice based on the findings in the report;

(b) the Investigator's notes, fact-finding report and legal advice will be protected by solicitor/client privilege. The Investigator will advise all witnesses, including the Complainant and the Respondent, that she is conducting this investigation as legal counsel for the Employer;

(c) All information supplied to the Investigator by the individuals whom the Investigator interviews, including the Complainant and the Respondent, will be supplied in confidence and will be treated by the Investigator as strictly confidential. The information will be revealed only on a "need to know" basis in order to ensure that the investigation is fair;

(d) The Investigator will prepare a report for the Area Manager stating her findings of fact and her conclusion as to whether the findings of fact constitute sexual harassment and a breach of the Employer's harassment policy and will provide legal advice based on those findings of fact and conclusions;

(e) The Area Manager will treat the report as strictly confidential and will review the report only with their advisors.

In accordance with the terms of reference, the lawyer interviewed the complainant and prepared a report consisting of five parts: (i) Introduction; (ii) Witness Statements; (iii) Credibility; (iv) Findings of Fact; (v) Legal Analysis; and (vi) Legal Advice. Following receipt of the report, the corporation dismissed the plaintiff, who then commenced an action for damages for wrongful dismissal. At the Court of Appeal, the only issue was whether the entire report was the subject of solicitor-client privilege.

The plaintiff argued that solicitor-client privilege was not available, because of the investigative –or non-legal - function performed by the lawyer. As the court found, however, the investigation to determine the veracity of the allegations made against the plaintiff was only one part of her tasks. She was also charged with making recommendations based on the facts as

found, and providing advice with respect to the legal implications of those recommendations.

On counsel's investigative or fact-finding function, the court stated:

> …the communication must be connected to obtaining legal advice, but legal advice is not confined to merely telling the client the state of the law. It includes advice as to what should be done in the relevant legal context. It must, as a necessity, include ascertaining or investigating the facts upon which the advice will be rendered. Courts have consistently recognised that investigation may be an important part of a lawyer's legal services to a client so long as they are connected to the provision of those legal services. As the United Stated Supreme Court acknowledged:
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> > The first step in the resolution of any legal problem is ascertaining the factual background and sifting through the facts with an eye to the legally relevant. [Upjohn Co. v. United States, 449 U.S. 383 (1981) (S.C.) at para. 23]

The relevant question was not whether the lawyer was retained to conduct an investigation, but whether the investigation was related to the "rendition of legal services." In this context, the wording in the retainer agreement afforded critical evidence that the investigation was related to the rendering of legal advice.

At a practical level, *Gower* underscores the advisability of reducing the nature and purpose of the engagement to writing. If the corporation retains external counsel to conduct the investigation, a generally wise practice, it is critically important that the parties execute a formal retainer letter setting out the nature, extent and limitations of the retainer.[30] As we saw in *Gower*, beyond clarifying the expectations of the parties, a well-drafted engagement letter can serve to insulate the sensitive, confidential results of an investigation from unwanted disclosure.

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[30] From both an internal and external public relations standpoint, corporations are generally well advised to farm out responsibility for the investigation to outside counsel, as the participation of lawyers external to the corporation may also connote impartiality and independence. In many cases, this is more than a matter of mere impression, as in-house counsel may well enjoy long-standing relationships with several of the witnesses.

In particular, the retainer should articulate the fact that the investigating counsel is acting as a lawyer and not a business advisor, and that the purpose of the investigation is to enable counsel to provide legal advice to the corporation. The letter should also explicitly provide that all communications with counsel are protected by solicitor/client privilege, and as such, are intended to remain confidential. As a further safeguard, management may wish to circulate the retainer letter to potential interviewees.[31] In short, in these cases, it is wise to draft the retainer letter with the clear sense that you are creating a piece of evidence, not just formalising a business and professional relationship with outside counsel.

At a more general level, *Gower* illustrates three cardinal principles that should be borne in mind during any investigation. First, counsel should be alert to the fact that the giving of legal advice does not generally encompass a purely "fact-finding" function. The lawyer's investigative function should accordingly be explicitly tied to his or her legal advisory role. In other words, the retainer letter or perhaps company policy should make it explicit that the factual investigation is occasioned by, or necessarily incidental to, the provision of the legal advice that the circumstances require. Secondly, counsel's role at all stages should be informed by the disjunction between legal and business advice. For instance, counsel should intersperse his or her legal theories, opinions and mental impressions throughout notes and memoranda that support the factual report. Rather than recording an interviewee's answers verbatim, counsel should attempt to include his or her mental impressions and opinions with a synthesis of the testimony. The lawyer should also clarify that the interview is being conducted for the purpose

of gathering factual information in order to provide the corporation with legal advice in anticipation of litigation.[32]

Finally, the confidentiality of all communications between corporate officers – including in-house counsel - and the outside investigating counsel should be considered sacrosanct. This last principle deserves special emphasis because of the countless opportunities for inadvertent waiver that arise during the course of an investigation. The investigating counsel should inform each interviewee that the information provided during the interview is confidential and should not be discussed with anyone else. In fact, all corporate employees should be informed that voluntary disclosure to a third party will ordinarily cause the loss of privilege and be regarded as a disciplinary matter. Additionally, counsel should limit the distribution of confidential materials to members of the investigation team and senior management who have a specific need to see the documents. In light of the natural interest of every employee who may be aware of the problem, this is a critical area to regulate, in the distribution of these sensitive materials. Whether disclosed or not, all documents should bear the warning "do not duplicate" and "attorney-client privilege, do not release to third parties." If documents are disclosed to a third party, it should be pursuant to a confidentiality agreement prohibiting further dissemination of the materials.

6. The Problem with Europe

In Canada and the United States, we have seen a few aspects of the relationship between in-house counsel and the corporate client that can generate complicated issues of privilege. Life in Europe is much simpler. The complicated, nuanced issues discussed above

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[32] *Supra* note 28.

simply do not arise for corporate counsel in dealing with the European Commission, at least in connection with competition matters. The law of the European Union is quite clear on those matters: there is **no** protection for the confidentiality of communications between in-house lawyers and their corporate client. That much is unequivocal from the decision of *AM&S Europe Ltd. v. EC Commission*[33] and subsequent policy positions adopted by the staff of the European Commission.

Under Article 14 of Regulation 17 of the European Council, an undertaking may be required to produce its "business records." The Commission had ordered AM&S to produce its records, including a number of legal opinions it had obtained about the competition requirements that would apply to AM&S after the accession of the UK to the European Union. AM&S declined to produce its legal opinions and related documents, claiming that they were privileged. Regulation 17 made no specific reference to privilege, or to communications between lawyers and clients. The Commission argued that the opinions and other documents had to be produced, because "business records" covered everything "required" in the course of its investigation, including relevant written communications between a company and its lawyers.

On the one hand, the European Court recognised that its member states generally protected communications between clients and their lawyers. It recognised the principle of privilege as an important element of the administration of justice, and one that was common to the laws of its member states. It went on, however, to qualify the protection that would extend to such communications by imposing two conditions. In the first place, it held that to be protected against seizure, the records have to be made "for the purposes and in the interests of the client's

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[33] [1982] ECR 1575; [1982] RCJ Celen Lexis 4197.

rights of defence." The second proviso is that the communication must "emanate from independent lawyers, that is to say, lawyers who are not bound to the client by a relationship of employment."

The Court held that "rights of defence" are implicated "after initiation of an administrative procedure [an investigation by the Commission] which may lead to a decision . . . imposing a pecuniary sanction on the undertaking." So once a European competition investigation has been initiated, (a precondition for an "inspection" by the Commission's investigators, more commonly described as a "dawn raid"), a company will have a sufficient basis to warrant a claim of privilege. But that is not the end of the issue. Once the concept of privilege had been acknowledged, it became a question of what was protected, as well as the criteria for invoking privilege.

The Court *derived* the protection of lawyer-client communications as an incident of European Union law because it was "common to the laws of the Member States." The scope of state protection was not uniform, however, and the criteria for according privilege to such communications appear to diverge from one state to another. The Court consequently seems to have gone to a lowest common denominator approach.

It decided that the protection of lawyer-client communications must cover "all written communications exchanged *after* the initiation of the administrative procedure" – the opening of the investigation – as well as "earlier written communications which have a relationship to the subject matter of that procedure." Not all legal advice on all European competition questions will be protected, therefore, only that which has the requisite relationship with the particular investigation. Functionally and initially, that may be tolerable to the party

that is subject to the particular investigation, even though there may be a right of the Commission investigators to “examine” other legal communications in the course of their work. The scope of what is subject to examination is thus unclear, but there may be grounds to restrict the scope of the examination, especially if care is taken in file maintenance and segregation policies for corporate counsel files. But if that is a manageable concern, the next criteria laid down by the Court may be less so.

In a discussion that seems invidious, as it relates to the professionalism and integrity of in-house counsel, the Court said:

> …the requirement as to the position and status as an independent lawyer which must be fulfilled by the legal advisor from whom written communications which may be protected emanate, is based on a conception of the lawyer’s role as collaborating in the administration of justice by the courts and as being required to provide, in full independence, and in the overriding interests of that cause, such legal assistance as the client needs. The counterpart of that protection lies in the rules of professional ethics and discipline which are laid down and enforced in the general interest by institutions endowed with the requisite powers for that purpose.

The essence of that language, is that the confidentiality of communications relating to the subject matter of an EU competitions investigation, including specific cartel, merger and abuse of dominance issues, may be protected. But no claim of privilege applies to confidential legal advice provided by professional legal advisers who are employees of the corporation. The policy basis for withholding protection for confidential, internal legal communications lies in the Court’s perception that employed lawyers lack the professional independence and the ethical and disciplinary oversight that applies to outside lawyers who work for a fee. That is a distinction that does not apply in the UK, and it is one that has been rejected in both Canada and the United States. It disregards the professional ethics and integrity of

corporate counsel, and necessarily associates the employment relationship with a lack of independence.

Secondly, privilege does not attach to confidential legal advice provided to a corporation by outside, independent counsel who are not entitled to practice in a member state of the EU. The Court held that privilege is limited to legal advice provided to a company by an external counsel who are qualified to practice in one of the EU states. The Court said

> ". . .[T]he protection thus afforded . . . must apply without distinction to any lawyer entitled to practice his [sic] profession in one of the member states, regardless of the member state in which the client lives. Such protection may not be extended beyond those limits. . . ."

The European position is therefore clear. The Court and the Commission have set their face against recognising privilege for legal communications between a corporation and its in-house counsel. And it is now equally clear that the Commission will not necessarily respect the confidentiality of communications by outside counsel whose professional qualifications to practice derive from a jurisdiction outside the EU, so that, for example, US lawyers practising European law in Brussels may not be able to provide legal advice that would necessarily be privileged. Recent representations have been made to senior officials of the European Commission by an ABA Working Group on which we are members. The response was a flat rejection of the extension of the scope of the protection as defined by the AM&S decision, in particular, as it applies to in-house lawyers.

It should be expected that when it is conducting a dawn raid, the Commission's staff will examine corporate counsel's files and will seize all relevant communications to and from in-house lawyers. If a communication indicates on its face that it emanates from external

EU counsel, the Commission will not claim to examine it. If the confidential/privileged character of a communication by a non-EU-qualified, outside counsel is apparent on the face of the document, the Commission's staff may –perhaps, even probably, will - choose not to seize it, despite their apparent legal right to do so. But that is clearly a matter of official forbearance, for which there can be no assurance.

In a world where multi-jurisdictional, co-ordinated action by competition regulators is becoming commonplace, the implications of a European dawn raid for material that would be privileged in North America seem grim. Loss of such sensitive communications to European investigators, and the resulting ability of the European regulators to use them against the corporate client, is bad enough. Once the documents are in the hands of the European Commission, however, there are two further, downstream risks.

One is the possibility that the European authorities would be able to provide the communications to competition agencies in Canada and the U.S. Realistically, the chance of that happening, at least during the EU investigation, is likely to be quite limited, at present. That projection is due to the strictures of the EU confidentiality requirements, which require that the Commission seek consent of the party from which the documents were obtained, before disclosing them to a third party . In all likelihood, that would inhibit onward transmission of confidential legal communications to other enforcement agencies. But the future, as always, is a bit murky, and increasing cooperation among competition agencies is the flavour of the year.

Secondly, however, there is an undecided question whether these documents, once seized by the EU and used for its purposes, might lose their privileged character. One would hope not, but the argument might be available to both regulators in the U.S. and Canada,

on the one hand, and to class action lawyers in both countries, on the other, in an effort to require production and disclosure from the company in non-EU proceedings. The resolution of that question is uncertain. What is resoundingly obvious is that no client would want to be mixed up in the litigation that would be required to resolve that question. Are there some good or better, if not best, practices to manage this hypothesis?

Because of the restricted scope of privilege in Europe under the AM&S analysis, and the inflexibility of the regulators, full protection for legal confidences is likely to be difficult, inconvenient and costly. Rigorous file management policies are one relatively simple approach, though likely to be of limited utility in the event of a dawn raid. AM&S applies in the competition context, and one option might be to flag competition issues in-house for consideration in Europe only with external European qualified counsel. Where a Canadian or American affiliate is implicated, it might be prudent to provide communications to the European client only through European counsel, and to maintain all related documents in the files of the European counsel, rather than to have them in-house in a European location that might be subject to a dawn raid. If outside counsel are used in Canada or the US, care should be taken not to have their communications held in-house in Europe. In one recent experience, our European client decided that it would review communications from our firm only at the premises of its European counsel, and all our advice was channelled through and held at the office of their European lawyers. In that instance, the client foresaw a very direct and immediate risk of a dawn raid, while North American investigations were underway.

For practical purposes, though, such a course might be excessively inconvenient for in-house counsel. That is particularly so in light of the world-wide merger phenomenon of recent years, where in-house lawyers in different jurisdictions are stick-handling a complex

transaction with tight time lines. An option in such a case, if a risk of EU intervention were considered significant, would be to send North American legal advice through co-ordinating European counsel, who could append the non-EU advice to a "privileged" message with the appropriate formal indications about the nature of the communications on the face of the document.

None of these administrative measures will assist in protecting in-house legal advice and documents relating to it. The position of the European authorities seems to imply that in-house lawyers are not independent, that they may be unprofessional, unethical and knowingly or otherwise willing to condone illegal conduct by the corporate employer, and that their exposure to professional discipline, in connection with legal advice given in the course of their employment, is not assured. The corollary of European policy, that in-house lawyers are not an integral component of the administration of justice that deserves the same measure of support that outside counsel enjoy, is an inference that is hard to resist. And the consequences to the corporate client are potentially onerous.

Regrettably, professional organisations in Europe do not appear to have a uniform view of this issue, or of a solution. They have been unwilling to challenge the European Commission on this. Perhaps predictably, professional organisations in Europe exhibit little concern about the apparent lack of protection for confidential legal communications between non-European lawyers and European corporate clients Apparently, there is little prospect of a government supported initiative, for example, through the WTO, the OECD, or elsewhere, to advance the position of in house counsel in Europe or to promote uniform treatment of outside lawyers in Europe and elsewhere. And there seems no will anywhere to stand up for the professionalism and the integrity of corporate counsel in Europe. The dearth of obvious

solutions implies that in-house counsel for a multi-national company, wherever they are located, should be sensitive to this European issue, in at least situations where it might be a predictable risk.

An Australian Footnote

The European experience is not an aberration. In Australia, under Section 155 of the *Trade Practices Act*, the Australian Competition and Consumer Commission may require a person to produce documents or information that relates to a suspected contravention of the Act. Not only is there no privilege against self-incrimination under the Australian Act, there is presently no protection for the confidentiality of privileged communications.

In a recent and controversial decision, *ACCC v. The Daniels Corporation,*[34] the Federal Court of Australia decided that a person subject to a s. 155 notice is not excused from compliance on the ground that responsive documents or information are privileged. The Court reached this conclusion more as a matter of textual, rather than functional or purposive, interpretation. In *TNT Australia v. Multigroup Distribution Services*, the High Court of Australia enjoined the ACCC from requiring privilege documents, pending the disposition of an appeal in *Daniels*. Leave to appeal in both cases has been given, with a hearing set for June 18, 2002. The concern in Australia is at least as troublesome as the European position, and perhaps more so, as it would appear that a notice to produce under the *Trade Practices Act* could reach the legal advice of external lawyers. It may be that the scope of s.155 of the Australian Act will be cut back by the High Court. If not, care will continue to be required. If it is, it may be that the ACCC will seek to have the Act amended to exclude the concept of privilege in competition cases: its

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[34] [2001] FCA 244 (March 16, 2001).

pleadings in these cases argue forcefully against the recognition of privilege as a matter of policy.

Conclusion

The law of privilege is evolving in North America in a manner that increasingly recognises the functional need for corporations to rely on the experience, knowledge and professionalism of their in-house legal advisors. There are risks, and the courts are certainly alive to the possibility of abuse, so that care and precision in both the form and the substance of communications is imperative. In Europe and elsewhere, there is less willingness to accept that in-house legal advisors have the same ethical and professional attributes as their external colleagues do, and that the protection of the entire range of confidential legal communications is a value of fundamental importance in the European legal space. And just as a matter of intellectual consistency, the unarticulated reluctance of the European authorities to protect privileged communications from non EU-qualified counsel is hard to understand.

There are two general implications. One is that competition regulators, aware that a potential road map may be at hand in corporate counsel's files, or convinced that there is a risk of abuse by in house lawyers, are increasingly assertive on the privilege front. The second flows from the paucity of available guidance in areas of considerable multi-jurisdictional risk. In a field fraught with uncertainty, corporate counsel are well advised to think through the management of their critical legal communications, to ensure that the corporate client understands both the risks and the risk avoidance strategies that may be available, to focus on the apparent international complications that may arise and when circumstances warrant, seek the assistance of experienced advisors.