LITIGATION MANAGEMENT –
Avoiding the Dangers of the Loss Of Privilege In Cross-Border Litigation, And Other Pratfalls on the Litigation Highway

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I. Introduction: The North American Privilege Regime and Its Interface

In cross-border litigation (U.S. – Canada), the majority of cases commence in the United States or involve a U.S. parent or affiliate corporation of a Canadian entity. Therefore, it is important to first understand how the law of privilege applies in the United States. If the U.S. entity has insufficient protections and guidelines to establish and protect privileged communications, it is very rare and difficult to revive privilege for its Canadian subsidiary or affiliate. Avoiding inadvertent loss of privilege in cross-border litigation then continues with an understanding of how the law of privilege applies in Canada.

II. The Attorney-Client Privilege and the Work-Product Doctrine in the United States

A. The Attorney-Client Privilege (U.S.)

The attorney-client privilege is a fundamental tenet of the attorney-client relationship. Attorneys depend upon the privilege to obtain full and frank disclosure of client information and to offer candid advice. The attorney-client privilege standard was set forth in *United States v. United Shoe Mach. Corp.*, 89 F.Supp. 357 (Mass. D. Ct. 1950). In *Shoe*, the court found that the attorney-client privilege applies when invoked by a potential or current client, communicating with a member of the bar or a bar member's subordinate, who is "acting as a lawyer."[1] Moreover, the communication must relate to a fact communicated by the client to the attorney in privacy for the purpose of securing legal assistance.[2] The privilege does *not* attach if the client does not claim the privilege, waives the privilege, or seeks legal assistance for the purpose of committing a crime or tort.[3]

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[1] *United States v. United Shoe Mach. Corp.*, 89 F.Supp. 357, 359 (Mass. D. Ct. 1950).
[2] *Id.*
[3] *Id.*

B. The Work-Product Doctrine (U.S.)

The work-product doctrine is distinct from and broader than the attorney-client privilege.[4] The attorney work-product doctrine originated in *Hickman v. Taylor*, 329 U.S. 495 (1947) and is now codified in Federal Rule of Civil Procedure 26(b)(3).[5] The work-product doctrine provides a qualified protection for materials prepared by a party's counsel or other representative in the anticipation of litigation.[6] Thus, opinion work product, including an attorney's "interviews, statements, memoranda, correspondence, briefs, [and] mental impressions" receive heightened protection.[7]

The mere possibility of litigation is insufficient to warrant work-product protection. A majority of courts have adopted a "because of" test to determine whether materials were prepared in anticipation of litigation.[8] Thus, "if a party prepares a document in the ordinary course of business, it will not be protected even if the party is aware that the document may also be useful in the event of litigation."[9] The work-product doctrine is qualified in that a party seeking work-product materials must show a "substantial need for the materials" and that the materials cannot be obtained without suffering undue hardship.[10] Unlike the attorney-client privilege, which belongs to the client, the work-product doctrine can be invoked by either the client or the attorney.

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[4] *See United States v. Nobles*, 422 U.S. 225, 238 (1975).
[5] *Hickman v. Taylor*, 329 U.S. 495 (1947); *see also* FED. R. CIV. P. 26(b)(3).
[6] *Hickman*, 329 U.S. at 508.
[7] *Id.* at 511.
[8] *See United States v. Adlman*, 134 F.3d 1194 (2d Cir. 1998); *Maine v. U.S. Dep't of the Interior*, 298 F.3d 60, 69 (1st Cir. 2002); *Nat'l Union Fire Ins. Co. v. Murray Sheet Metal Co.*, 967 F.2d 980, 984 (4th Cir. 1992); *Binks Mfg. Co. v. Nat'l Presto Indus., Inc.*, 709 F.2d 1109, 1118-19 (7th Cir. 1983); *Simon v. G.D. Searle & Co.*, 816 F.2d 397, 401 (8th Cir. 1987); *In re Grand Jury Subpoena*, 357 F.3d 900, 907-09 (9th Cir. 2004).
[9] *See Martin v. Valley Nat'l Bank*, 140 F.R.D. 291, 304 (S.D.N.Y. 1991).
[10] FED. R. CIV. P. 26(b)(3)(A)(ii).

C. Attorney-Client Privilege: Communications with Auditors (U.S.)

In light of recent corporate scandals, corporations are required to make disclosures to outside entities, including auditors. Communications with others, such as outside auditors or accountants may waive the privilege. Generally, disclosure of privileged information to a third party, including an outside auditor, waives the privilege because the interests of outside auditors are not aligned with the corporation.[11] The privilege is waived as to information provided to auditors because they do not serve as the "functional equivalent[s]" of the client in handling the litigation, nor do they facilitate communications between the attorney and the client.[12]

Attorneys are often required to submit responses to auditors regarding client information. The American Bar Association, in coordination with the American Institute of CPA's, released the "Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information" which provides guidance on how attorneys should respond to auditor requests to avoid waiving the privilege.[13] The ABA Statement of Policy indicates that an attorney must obtain client consent before responding to auditor's request.[14] Furthermore, when responding to an auditor's request, the attorney should "refrain from expressing judgments as to the outcome [of litigation] except in those relatively few cases where it appears to the lawyer that an unfavorable outcome is either 'probable' or 'remote.'"[15] To avoid waiving the privilege, an attorney must also ensure that audit response letters comply with Securities and Exchange Commission ("SEC") regulations. Under SEC Rule 13(b)(2)-(2), an attorney must make certain that audit response

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[11] *See Chevron Corp. v. Pennzoil Co.*, 974 F.2d 1156, 1162 (9th Cir. 1992) *citing Weil v. Investment/Indicators, Research & Mgmt*, 647 F.2d 18, 24 (9th Cir. 1981) (noting that voluntary disclosure of a privileged attorney communication to a third party constitutes waiver of privilege).

[12] *Export-Import Bank v. Asia Pulp & Paper Co.*, 232 F.R.D. 103, 113 (S.D.N.Y. 2005) *citing In re Bieter Co.*, 16 F.3d 929, 937 (8th Cir. 1994) (noting that "under the [functional equivalent] doctrine . . . communications between a company's lawyers and its independent contractor merit protection if, by virtue of assuming the functions and duties of full-time employee, the contractor is a *de facto* employee of the company.") (emphasis in original).

[13] *See ABA Statement of Policy regarding Lawyers' Responses to Auditors' Requests for Information*, 31 BUS. LAW. 1709 (1976).

[14] *Id.* at 1718.

[15] *Id.* at 1717.

letters do not mislead the auditor and result in rendering a financial statement that is materially misleading.[16]

However, in most jurisdictions disclosure of privileged material to auditors does not waive the work-product doctrine.[17] In *Lawrence Jaffe Pension Plan v. Household Int'l Inc.*, plaintiffs argued that defendants waived the work-product privilege by disclosing information to its outside auditor.[18] The court disagreed, holding that "the fact that an independent auditor must remain independent from the company it audits does not establish that the auditor also has an adversarial relationship with the client as contemplated by the work-product doctrine."[19] Furthermore, the disclosure did not "substantially increase the opportunity for potential adversaries to obtain the information."[20]

D. Attorney-Client Privilege: Attorney Retained Investigators (U.S.)

In the U.S., communications between a client and an investigator hired by its counsel are likely privileged. To invoke the attorney-client privilege, a party must demonstrate that there was: (1) a communication between client and counsel, which (2) was intended to be and was in fact kept confidential, and (3) made for the purpose of obtaining or providing legal advice. *United States v. Construction Products Research, Inc.,* 73 F.3d 464, 473 (2d Cir.1996). With respect to private investigators, the Second Circuit in *In Re Grand Jury Proceedings, John Doe Co.*, 79 Fed.Appx. 476, 477, 2003 WL 22469714 (2nd Cir. 2003) explained, generally, the privilege applies only to communications between a client and its lawyer, not between the client or its lawyer and third parties. Under certain limited circumstances, however, the attorney-client privilege may extend to communications with a third party, such as an accountant or private

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[16] 17 C.F.R.§ 240 (2012).
[17] *See Lawrence Jaffee Pension Plan v. Household Int'l Inc.*, 237 F.R.D. 176, 179-183 (N.D. Ill. 2006).
[18] *Id.* at 178.
[19] *Id.* at 183.
[20] *Id.* at 183; *see also In re JDS Uniphase Corp. Sec. Litig.*, 2006 WL 2850049, at *1-*2 (N.D. Cal. Oct. 5, 2006) (noting that disclosure of document to corporate auditor did not waive work-product protection).

investigator hired to assist in the rendition of legal services. *See, e.g., United States v. Kovel,* 296 F.2d 918 (2d Cir.1961). Like any communications protected by the attorney-client privilege, however, communication with such third-party agents is only protected if it is "made *in confidence* for the purpose of obtaining *legal* advice *from the lawyer." Id.* at 922 (emphasis in original).

E. Attorney-Client Privilege: Application to In-house Counsel (U.S.)

In-house counsel face unique challenges with respect to attorney-client privilege because they routinely provide both legal and business services to their organization. While it is clear that the attorney-client privilege applies to corporations,[21] not all communications between in-house counsel and the organization are protected. Communications with in-house counsel for the purposes of legal advice are protected. However, communications conveying business advice are not.[22] "An in-house lawyer may wear several other hats (*e.g.*, business advisor, financial consultant) and because the distinctions are often hard to draw, the invocation of the attorney-client privilege may be questionable in many instances."[23] Because "courts fear that businesses will immunize internal communications from discovery by placing legal counsel in strategic corporate positions and funneling documents through counsel" many courts require that in-house counsel make a "clear showing" that the communications were for a legal purpose rather than a business purpose.[24]

In order for the privilege to apply, the protected communication must be between a lawyer and client. When the client is a corporation, courts have struggled to identify which

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[21] *Upjohn Co. v. United States*, 449 U.S. 383 (1981).
[22] *Id.* at 395.
[23] *City of Springfield v. Rexnord Corp.*, 196 F.R.D. 7, 9 (Mass. D. Ct. 2000).
[24] *In re Vioxx Prod. Liab. Litig.*, 501 F.Supp.2d 789, 797 (E.D. La. 2007).

corporate employees should be considered the client.[25] The applicable law varies by jurisdiction. Some jurisdictions apply the "control group" test that limits the definition of client to upper-level management employees and individuals responsible for directing the organization's actions.[26] Under the 'control group' test, a communication is protected by attorney-client privilege only if it involves people who are authorized by the business entity to seek, receive, and act on legal advice.[27] The United States Supreme Court expressly rejected the "control group" test in *Upjohn Co. v. United States*.[28]

In *Upjohn*, the company's independent accountants, while conducting an audit of one of the company's foreign subsidiaries, discovered that the subsidiary made payments to foreign government officials to secure business.[29] The company obtained outside counsel to assist its in-house counsel with an internal investigation of the "questionable payments."[30] The attorneys prepared a questionnaire and sent it to its foreign managers.[31] The company voluntarily submitted a report of the investigation to the IRS to determine the tax consequences of the payments.[32] The IRS demanded production of all files related to the investigation. The company refused, arguing that the documents were protected by attorney-client privilege and were the work product of attorneys prepared in anticipation of litigation.[33] On appeal, the Sixth Circuit determined that the documents were discoverable because they consisted of communications with employees outside of the company's control group.[34] The Supreme Court disagreed,

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[25] *Upjohn*, 449 U.S. at 390 (stating that "[a]dmittedly complications in the application of the privilege arise when the client is a corporation, which in theory is an artificial creature of the law, and not an individual: but this Court has assumed that the privilege applies when the client is a corporation.")
[26] *Radiant Burners, Inc. v. Am. Gas Ass'n*, 320 F.2d 314 (7th Cir. 1963).
[27] *See National Tank Co. v. Brotherton*, 851 S.W.2d 193, 197 (Tex. 1993).
[28] *Upjohn*, 449 U.S. at 390.
[29] *Id.* at 386.
[30] *Id.*
[31] *Id.*
[32] *Id.* at 387.
[33] *Id.* at 388.
[34] *Id.*

reasoning the "control group" test frustrates the purpose of the privilege because in the corporate context, middle-level or low-level employees may have information relevant to the representation that merits protection.[35]

While *Upjohn* is controlling in federal courts, several states apply varying tests to determine when communications between an attorney and an organizational client are protected. In addition, since *Upjohn*, courts have applied two separate tests in determining whether the attorney-client privilege attaches to communications between in-house counsel and an organizational client.

1. The "Primary Purpose" Test (U.S.)

The "primary purpose" test was described in *United States v. Chevron Corp.*, where the IRS requested documents regarding certain tax credits claimed by Chevron that were paid to the Indonesian government.[36] The documents under consideration included documents from Chevron's in-house counsel that contained both business and legal advice.[37] The district court determined that the magistrate judge applied the wrong test in determining whether the documents were protected by the attorney-client privilege.[38] According to the court, when business and legal advice are intertwined, the legal advice must be the primary purpose of the communication. The court held that "a party seeking to withhold discovery based upon the attorney-client privilege must prove that *all* of the communications it seeks to protect were made primarily for the purpose of generating legal advice."[39] Acknowledging this standard, the court

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[35] *Id.* at 391.
[36] *United States v. Chevron Corp.*, 1996 WL 264769, *1 (N.D. Cal. Mar. 13, 1996).
[37] *Id.* at *2.
[38] *Id.* at *3 (noting that "the Magistrate's finding that only 'purely business advice' fell outside of the privilege was thus incorrect, and substantially reduced Chevron's burden of demonstrating that the *primary purpose* of each document was the production of legal advice.) (emphasis in original).
[39] *Id.* at *3 *quoting Griffith v. Davis*, 161 F.R.D. 687, 697 (C.D. Cal. 1995) (emphasis added).

returned the case to the magistrate for specific findings.[40]

2. The "Professional Legal Capacity" Test (U.S.)

Under the "professional legal capacity" test set forth in *Georgia-Pacific Corp. v. GAF Roofing Mfg. Corp.*, communications between in-house counsel and the organizational client are not protected by the attorney-client privilege if the attorney is acting as a business advisor.[41] In *Georgia-Pacific*, GAF purchased properties and other assets related to Georgia-Pacific's roofing business.[42] In-house counsel for GAF assisted in negotiating portions of the agreement specific to the environmental issues relating to the transaction.[43] After GAF terminated the agreement, Georgia-Pacific filed suit and requested that the court compel GAF's in-house counsel to answer questions relating to his communications with GAF concerning the negotiations.[44] The court held that because GAF's in-house counsel did not act in a legal capacity, but rather acted as a business advisor, his communications were not privileged.[45] The court reasoned that GAF's in-house counsel did not communicate with management regarding "imminent litigation," the record revealed that he was acting "as a negotiator of the environmental provisions of GAF."[46]

The difference between the tests applied in a corporate context turns upon where the focus of the communication is directed. The 'control group' test focuses upon who receives the communication; the 'primary purpose' test focuses on the content of the communication; and the 'professional legal capacity' test focuses on the role of the attorney as a business or legal advisor. Regardless of which test applies, the court's analysis will be fact-specific and inherently difficult to predict. As one commentator described "since every conversation that in-house counsel has

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[40] *Id.*
[41] *Georgia-Pacific Corp. v. GAF Roofing Mfg. Corp.*, 1996 WL 29392 (S.D.N.Y. Jan. 25, 1996).
[42] *Id.* at *1.
[43] *Id.*
[44] *Id.* at *2.
[45] *Id.* at *4.
[46] *Id.* at *4-5.

with his company likely relates in some way to the company's business, the line between 'legal' and 'business' advice can sometimes be about as clear as mud."[47]

F. Attorney-Client Privilege: Parent-Subsidiary Considerations

As a general rule, in the United States, the majority of courts have found that communications between a parent and a subsidiary are confidential and privileged, despite the fact that each party is a discrete legal entity.[48] These holdings are premised upon the notion that an attorney representing a parent and a subsidiary is only representing one client, because the parent and subsidiary share a common interest. There are two separate privileges that may apply in the parent-subsidiary context, the "co-client" or "joint-client" privilege and the community-of-interest" or "common interest" privilege.[49]

The "joint-client" privilege applies "when multiple clients hire the same counsel to represent them on a matter of common interest."[50] The "community-of-interest" privilege applies "when clients with separate attorneys share otherwise privileged information in order to coordinate their legal activities."[51] The "community-of-interest" privilege is normally inapplicable to communications between in-house counsel and corporate family members, such as parents and subsidiaries, because both entities will most likely use the same in-house counsel.[52] In most parent-subsidiary relationships, the "joint-client" privilege will apply,

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[47] Albert L. Vreeland & Jennifer l. Howard, *The Care and Feeding of In-House Counsel,* 67 ALA. LAW. 340, 346 (Sept. 2006).

[48] *Glidden Co. v. Jandernoa*, 173 F.R.D. 459, 472 (W.D. Mich. 1997) (stating that "[t]he universal rule of law, expressed in a variety of contexts, is that the parent and subsidiary share a community of interest, such that the parent (as well as the subsidiary) is the 'client' for purposes of the attorney-client privilege."); *see also United States v. AT&T Co.*, 86 F.R.D. 603, 616 (D. D.C. 1979) (treating all wholly-owned and majority-owned subsidiaries as a single corporate client).

[49] *In re Teleglobe Communications Corp.*, 493 F.3d 345, 359 (3rd Cir. 2007); *see also Holmes v. Collection Bureau of Am. Ltd.*, 2010 U.S. Dist. LEXIS 4253, at *6 (N.D. Cal. 2010) (recognizing that "[t]he concept of a joint defense is not technically a privilege in and of itself but instead constitutes an exception to the rule on waiver where communications are disclosed to third parties.")

[50] *In re Teleglobe Communications Corp.* at 359.

[51] *Id.* at 359.

[52] *Id.* at 365.

meaning that when co-clients and their common attorneys communicate with each other, those communications are privileged and protected from disclosure to parties outside of the joint representation.[53] Additionally, "waiving the joint-client privilege requires the consent of all joint clients."[54] If, however, the parent and its subsidiary sue one another, or the legal interests of the two entities diverge due to a change in position such as a sale or insolvency, the parties should secure outside representation to avoid potential waiver of the attorney-client privilege.[55]

G. Special Considerations for Counsel with Foreign Subsidiaries or International Disputes

Many U.S. companies have offices or operate abroad. It is not uncommon for attorneys to find themselves working with international counsel or engaging in cross-border transactions or litigation. In these instances, client communications that would normally be privileged in the U.S. may not receive an equal degree of protection in a foreign jurisdiction. A number of countries do not recognize the attorney-client privilege for internal in-house counsel communications. For example, in the European Union ("EU"), the attorney-client privilege does not extend to communications between a corporation and its in-house counsel in investigations initiated by European Commission.[56] Consequently, in EU countries, the protections of the attorney-client privilege do not apply to foreign attorneys not licensed to practice in the foreign country or to in-house attorneys operating in the United States.[57] Given the important

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[53] *Id.* at 363.
[54] *Id.* at 363.
[55] *Id.* at 373 (noting that "once the parties' interests become sufficiently adverse that the parent does not want future controllers of the subsidiary to be able to invade the parent's privilege, it should end any joint representation on the matter of the relevant transaction."); *see also Polycast Tech. Corp. v. Uniroyal, Inc.*, 125 F.R.D. 47 (S.D.N.Y. 1989); *Medcom Holding Co. v. Baxter Travenol Lab.*, 689 F.Supp. 841 (N.D. Ill. 1988).
[56] Case 155/79, AM & S Eur. Ltd. V. Comm'n, 1982 E.C.R. 1575, 1611 (noting that the privilege only applies to communications that "emanate from independent lawyers . . . not bound to the client by a relationship of employment.")
[57] Stephen A. Calhoun, *Globalization's Erosion of the Attorney-Client Privilege and What U.S. Courts Can Do to Prevent It*, 87 TEX. L. REV. 235, 241 (2008); *see also* Case No. 155/79, AM&S Europe Ltd. V. Commission of the European Communities, 1982 E.C.R. 1575 (1982) (stating that not only is attorney-client privilege inapplicable to in-house counsel, but it also does not extend to any lawyer not licensed by a "Member state.")

distinctions between U.S attorney-client privilege and attorney-client privilege in foreign nations, caution should be exercised when disseminating documents or communicating legal advice across borders and attorneys should consult the law of the specific country.

U.S. cases involving international communications can also implicate foreign privilege laws. When analyzing communications that occurred in a foreign country or with foreign attorneys, federal courts apply "a form of traditional choice of law 'contacts' analysis to determine whether to defer to the privilege laws of another nation."[58] In doing so, federal courts recognize principles of comity and the need to balance U.S. and foreign interests. This standard, commonly referred to as the "touch base" test, is summarized as follows: "any communications touching base with the United States will be governed by the federal discovery rules while any communications related to matters solely involving [a foreign country] will be governed by the applicable foreign statute."[59]

In applying the "touch base" test, if the court determines that privileged communications took place in a foreign country or involved foreign attorneys or proceedings, deference is given to the law of the country that has the "predominant" or "the most direct and compelling interest" in whether those communications should remain confidential, unless that foreign law is contrary to the U.S. public policy.[60] The jurisdiction with the "predominant interest" is either "the place where the allegedly privileged relationship was entered into" or "the place in which that relationship was centered at the time the communication was sent."[61] The burden of persuasion is on the party claiming the benefit of the attorney-client privilege.[62]

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[58] *In re Rivastigmine Patent Litig.*, 237 F.R.D. 69, 74 (S.D.N.Y 2006).
[59] *Golden Trade, s.l.r. v. Lee Apparel Co.*, 143 F.R.D. 514, 520 (S.D.N.Y. 1992).
[60] *See Astra Aktiebolag v. Andrx Pharmaceuticals, Inc.*, 208 F.R.D. 92, 98 (S.D.N.Y. 2002) *citing Golden Trade, s.l.r. v. Lee Apparel Co.*, 143 F.R.D. 514, 522 (S.D.N.Y. 1992).
[61] *Astra*, 208 F.R.D. at 98.
[62] *Id.* at 103.

The "touch base" test was recently applied in a cross-border dispute involving trademark infringement.[63] In *Gucci America v. Guess?, Inc.*, Gucci asserted attorney-client privilege concerning communications by in-house counsel of Gucci's Italian affiliate.[64] Despite his title as counsel, and his receipt of the "In-house Counsel of the Year Award" Gucci's employee, Volpi, was not an attorney.[65] The documents at issue included Volpi's work-product documents and communications with other company employees and Gucci affiliates worldwide, in effort to obtain information about Guess's alleged trademark infringement.[66] Guess argued that the documents were not privileged because Italian law does not extend attorney-client privilege to in-house counsel.[67] The court applied U.S. law because the communications "touched base" with the U.S. and as such were privileged.[68] The court reasoned that although the communications occurred in Italy and concerned Italian litigation, they were part of a global plan to collect evidence for litigation in both the U.S. and Italy.[69] Furthermore, the court concluded that even though Volpi was not an attorney, his communications were still protected because he acted as an agent to Gucci's general counsel in gathering the evidence.[70]

H. Attorney-Client Privilege Issues in Tripartite Relationships

The tripartite relationship exists between an insurer, an insured, and defense counsel appointed by the insurer to defend the insured against third party claims. The tripartite relationship consists of two contracts: the liability contract between the insurer and the insured,

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[63] *Gucci America v. Guess?, Inc.*, 271 F.R.D. 58 (S.D.N.Y 2010).
[64] *Id.* at 61.
[65] *Id.* at 62.
[66] *Id.* at 63 (Volpi was instructed to commence the investigation by the affiliate's general counsel who was admitted to the bar).
[67] *Id.* at 66.
[68] *Id.*
[69] *Id.* at 67.
[70] *Id.* at 71.

and the retainer agreement between defense counsel and the insurer.[71] Because potential waiver of the attorney-client privilege arises with disclosure of information to a third party, the tripartite relationship creates a complex relationship with respect to how privileged information is shared.

Most insurance policies include a "duty to defend" provision in which "[a]n insurer may be obligated to pay any judgment or settlement up to the policy limits, and thus is generally permitted to assume control of defending the insured for any covered lawsuits."[72] Traditionally, where both the insurer and the insured share a common goal, limiting liability to a third party, they have been considered joint clients and the attorney-client privilege is shared among them.[73] Thus, in this scenario, the insured and the insurer can share information without rendering the information discoverable by third parties.[74] Some courts, however, hold that although the insured and insurer share a common interest, defense counsel's paramount duty is to the client, the insured.[75] Resolution of the privilege issues in the tripartite context will depend on the applicable state law and rules of professional conduct, judicial interpretation of the joint client privilege and the common interest privilege, as well as the insurer's policy terms.

Many insurance policies contain a reservation of rights clause that may further complicate privilege issues in a tripartite relationship. A reservation of rights occurs when an insurer agrees to provide a defense, but reserves its rights to disclaim coverage in the event that

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[71] Charles Silver & Ken Syverud, *The Professional Responsibilities of Insurance Defense Lawyers*, 45 DUKE L. J. 255, 270 (1995).
[72] Robert P. Vogt, *When Does an Insured Have a Right to Independent Counsel?*, 97 ILL. B. J. 142, 143 (2009).
[73] Robert E. O'Malley, *Ethics Principles for the Insurer, the Insured, and Defense Counsel: The Eternal Triangle Reformed*, 66 TUL. L. REV. 511, 513 (1991); *see also Nat'l Union Fire Ins. Co. v. Stites Prof'l Law Corp.*, 235 Cal. App. 3d 1718, 1727 (Cal. Ct. App. 1991) (stating that "so long as the interests of the insurer and the insured coincide, they are both the clients of the defense attorney and the defense attorney's fiduciary duty runs to both the insurer and the insured.")
[74] *See N. River Ins. Co. v. Phila Reinsurance Corp.*, 797 F.Supp. 363, 366 (D.N.J. 1992) (noting that "[t]th [joint defense doctrine] has been recognized in the insured/insurer context when counsel has been retained or paid for by the insurer, and allows either party to obtain attorney-client communications related to the underlying facts giving rise to the claims, because the interest of the insured and insurer in defeating the third-party claim against the insured are so close that 'no reasonable expectation of confidentiality is said to exist.")
[75] *See Metro Life Ins. Co. v. Aetna Cas. & Sur. Co.*, 730 A.2d 51 (Conn. 1999) .

one of the policy exclusions proves to be applicable. Where the insurer defends under a reservation of rights, a conflict of interest is created between the insured and the insurer, and some courts hold that the insurer must obtain independent counsel at the expense of the insurer.[76] Indeed, in *Lectroalarm Customs Sys., Inc., v. Pelco Sales, Inc.,* defendant's liability insurance carrier was defending defendant against a patent infringement action subject to a reservation of rights.[77] Under California law, defendant obtained independent counsel because the reservation of rights created a conflict of interest between defendant and the insurer.[78] The court concluded that because defendant obtained independent counsel, no attorney-client relationship existed between the insurer and defendant's counsel, and communications between them were not protected under the attorney-client privilege.[79] Accordingly, whether the attorney-client privilege applies when an insurer has reserved its rights is a jurisdiction specific inquiry and defense counsel should research applicable state statutes or case law to determine if the insured must obtain independent counsel to protect privileged communications.

III. The Canadian Privilege Perspective

In Canada, privilege is considered both an independent legal doctrine and a rule of evidence, the latter as an exception to the rule that all documents[80] relevant and material to an action, or to the issues to be adjudicated in an action, are producible and must be disclosed to the parties involved in a legal proceeding. Within the past 10-15 years, Canadian law has seen an

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[76] *Lectroalarm Customs Sys., Inc. v. Pelco Sales, Inc.*, 212 F.R.D. 567 (E.D. Cal. 2002).
[77] *Id.* at 568.
[78] *Id.* at 570.
[79] *Id.* at 571 (although the communications were not protected under the attorney-client privilege the court held that the communications were privileged under the "common interest" exception); *compare Finley v. Home Insurance Co.*, 975 P.2d 1145, 1151-52 (Haw. 1998) (recognizing the potential divergent interests where an insurer reserves its rights, however, concluding that the "best result is to refrain from interfering with the insurer's contractual right to select counsel and leave the resolution of the conflict to the retained defense counsel.")
[80] For ease, the term "document" will be used throughout, though in Canada the broader term "record" is typically used to identify any type of paper, electronic, meta-date or other source of information producible in the course of litigation.

erosion of the sanctity of privilege in favour of truth-seeking in legal proceedings,[81] which complicates the analysis of how and when privilege attaches to documents, and in what instances privilege may be maintained following an inadvertent disclosure.

A. The Solicitor-Client Privilege (Canada)

The attachment of solicitor-client privilege is predicated upon two critical facts: that the communication between counsel and client was intended to be confidential, and that it was made for the purpose of obtaining legal advice based on the lawyer's legal expertise.[82] Communications of corporate counsel are protected by solicitor-client privilege as long as they are made in the context of seeking and providing legal advice.[83] Privilege does not attach where the lawyer is providing business or personal advice, a distinction which tends to be more problematic for corporate counsel who have broader involvement in a corporations' operations and decision-making, or in instances where counsel also acts as a director. The character of the activity being carried out is the key determinant of whether or not privilege attaches.

B. The Litigation Privilege (Canada)

Litigation privilege is an extension of solicitor-client privilege, also referred to as "work product doctrine", and is not accorded the same sanctity as solicitor-client privilege.[84] Canadian courts have described the purpose of the litigation privilege as ensuring the efficiency of the adversarial process and allowing the preparation of contending positions in private.[85]

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[81] Alan W. Bryant, Sidney N. Lederman & Michelle K. Fuerts, *Sopinka, Lederman & Bryant: The Law of Evidence in Canada*, 3rd ed. (LexisNexis Canada Inc., 2009) [*Sopinka on Evidence*] at 14.3.
[82] *Sopinka on Evidence*, *supra* at 14.171.
[83] *Sopinka on Evidence*, *supra* at 14.107.
[84] *Sopinka on Evidence*, *supra* at 14.187.
[85] *General Accident Assurance Co. v. Chrusz*, [1999] O.J. No. 3291 (ONCA) [*General Accident Assurance*] at paras. 22-24.

In Canada, two conditions must be met for the litigation privilege to attach:

1. The communication must have been made with **specific litigation** in mind, whether contemplated or ongoing. Requests for legal advice in and of themselves are not protected by litigation privilege.

2. The **dominant purpose** of the communication must have been to assist in the litigation.[86] Referred to as the "dominant purpose test" in Canada, this excludes documents which would otherwise have been producible but were provided to counsel for review in preparation for litigation. Investigative reports created after an incident or accident are often misconstrued as being protected by litigation privilege, but will likely not enjoy such protection, particularly if the corporation's policies and procedures require an investigation to be conducted.[87]

The litigation privilege also protects the work of third party experts engaged to assist parties in litigation.[88] In a number of recent Canadian cases, courts have critically examined the extent to which the contents of an expert's file may be protected, and whether previous drafts of an expert's report may be producible.[89] A fulsome discussion of these cases goes beyond the scope of this paper, but litigants in Canada should exercise caution when providing information or documents to experts for use as a basis for their expert findings, and in asking experts to commit their findings to paper.

A second critical feature of litigation privilege is that it does not extend beyond the life of the litigation. As such, once an action has ended, none of the documents to which litigation privilege attached will be protected by privilege.[90]

C. Cases of Inadvertent Loss of Privilege (Canada)

Until relatively recently, the law in Canada stated that privilege was void automatically where physical custody of the otherwise privileged document was lost. However, courts have more recently found that loss of privilege is not automatic and that the judge seized with the case

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[86] *Sopinka on Evidence*, *supra* at 14.185.
[87] The reasoning for which is based in the House of Lord's decision in *Waugh v. British Railways Board*, [1972] 2 All E.R. 1169, as cited in *General Accident Assurance*, *supra* at para. 29.
[88] *Sopinka on Evidence*, *supra* at 14.191.
[89] By way of example, see *Flinn v. McFarland*, 2002 NSSC 272.
[90] *Sopinka on Evidence*, *supra* at 14.199.

ought to have discretion over whether privilege may be maintained.[91] These cases have given rise to a body of law in which inadvertent loss of privilege is examined in more detail, a few examples of which are discussed below.

1. Communication between insurer, independent adjustor/investigator and solicitor (Canada)

This case arose from a fire which destroyed a motel, and in which the insurer had immediate suspicions of arson. In the weeks following its investigation, however, the insurer paid out loss at the appraised cash value of the property.[92] Several months later, a former employee of the motel came forward with information that one of the hotel owners fraudulently inflated the quantum of the loss. The plaintiff insurer brought an action against its insured, which gave rise to additional actions involving the insured and the former employee. As an interim proceeding, the court analyzed a series of documents and communications between the insurer, its counsel, and the independent claims adjustor hired at the time of the preliminary arson investigation to determine whether or not privilege attached.[93]

In applying the dominant purpose test to a number of documents in question, including the investigative report of the insurer into the cause of the fire, the court found that privilege could *not* attach, because the documents would have been created in any event. Further, privilege would not come to attach to an otherwise producible document simply by virtue of it having been copied and placed in the solicitor's file.[94] The court also looked for indicia of a waiver of the privilege,[95] and looked to the conduct of the insurer. Interestingly, documents and communications created between the time when payment was made under the policy and when the former employee came forward were deemed *not* to be protected by litigation privilege,

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[91] By way of example, see *Airst v. Airst*, [1998] O.J. No. 2615 (Ont. Ct. Just.).
[92] *General Accident Assurance*, *supra* at paras. 2-4.
[93] *General Accident Assurance*, *supra*.
[94] *General Accident Assurance*, *supra* at para.
[95] *General Accident Assurance*, *supra* at para. 48.

because the court found that at that time, the payments were evidence that the insurer was not contemplating litigation against its insured.[96]

2. *Corporate client inadvertently releases email otherwise protected by solicitor-client privilege (Canada)*

The defendant corporation's director of operations prepared an email for external counsel to seek advice concerning a problematic employee, which contained an attached email from a manager recommending the employee be terminated. When sending the email to external counsel, the director inadvertently copied the employee in question. The director tried to recall the email message, but the employee received and read it. The employee interpreted the message as termination of her employment and stopped coming to work, later bringing a wrongful dismissal claim against the company.[97] The defendant corporation sought a declaration from the Court that the email was privileged and preventing the employee from relying on it.[98] It was conceded that the email was privileged and as such, the court's analysis centred on whether the employee ought to be able to rely on the email, in spite of its privileged status.[99]

In its decision to allow the employee to rely on the email in part, the court emphasized its discretion in waiving privilege where fairness requires. The court found that because the email affected the employee's state of mind and would form part of the court's analysis of whether her conduct was reasonable, it would be unfair to exclude the email from evidence entirely. The employee was allowed to rely on it for the limited purpose of explaining her conduct.[100]

IV. Steps to Take if Privileged Documents are Inadvertently Disclosed (Canada)

A body of case law exists across Canadian jurisdictions concerning instances in which an inadvertently disclosed but otherwise privileged document may be allowed to maintain its

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[96] *General Accident Assurance*, *supra* at para. 53.
[97] *Fernandez v. Marketforce Communications*, 2012 ONSC 6392 [*Fernandez*] at paras. 4 - 9.
[98] *Fernandez*, *supra* at para. 10.
[99] *Fernandez*, *supra* at para. 18.
[100] *Fernandez*, *supra* at paras. 25-33.

privileged status.[101] While the nuances of the law in this area go beyond the scope of this paper, certain elements of the Courts' analysis are common, including whether the error was excusable and whether the preservation of privilege will cause unfairness. In addition to these elements, Canadian courts have examined whether immediate attempts were made to retrieve the document and whether the purpose of the retrieval was made clear. These indicia provide a helpful roadmap of what to do if a privileged document is inadvertently disclosed:

1. Make immediate attempts to retrieve the document. This could include recalling an email message or writing to the recipient and asking for the document back.

2. When making attempts to retrieve the document, make it clear that the document is privileged, that it was released inadvertently, and that the intention is for privilege to be maintained.

3. Seek judicial relief as soon as possible. In addition to how quickly a party discovers the inadvertent disclosure, the speed with which the matter is brought before the Court to have privilege restored is meaningful.

V. Conclusion: Best Practices to Avoid Loss of Privilege/Both Jurisdictions (Canada & U.S.)

The following practices and procedures may assist in avoiding loss of privilege:

1. Maintain *separate email strings for legal and business advice.* This is particularly important for corporate counsel because in both jurisdictions, privilege only attaches where counsel is acting in their capacity as legal advisor and does not extend to business advice.

2. *Ensure that the* signature *line for every email includes a very clear statement of solicitor and client or litigation privilege.*

3. *Keep the list of* recipients *of privileged communication to a minimum.* This is another practice most relevant to corporate communication where counsel is involved and the corporation wants to maintain solicitor-client, litigation privilege

[101] Canadian case law in this area also varies province-to-province. It is recommended that jurisdiction-specific advice be obtained if privileged documents are inadvertently disclosed.

or attorney/client. The longer the list of recipients, the more likely the topics of communication will broaden to those outside of the provision of legal advice and that the communication will be forwarded to someone outside the need-to-know/decision maker group without proper protections.

4. *Be cautious when* summarizing *legal opinions.* It is common for legal advice to be distilled for the purpose of board meetings or presentation to directors. However, privilege may be lost in instances where these presentations are not prepared by counsel or are incorporated into open, non-privileged discussions in director's meetings. It is preferable to reference legal advice because a reference alone does not interfere with maintaining privilege.

5. *Be aware of* corporate *conduct that conflicts with the contention that litigation is being contemplated.* In *General Accident Assurance*[102], the Court found that litigation privilege did not attach to documents created between the period of time when the insurer was making payments to its insured under the policy and the time the former employee came forward with suspicions of fraud, finding that the payments were evidence that the insurer was not contemplating bringing an action against its insured at that time.[103]

6. *When communicating with counsel by email, have checks in place to ensure that no one is copied inadvertently.*

7. *Label documents as privileged (not a foolproof guarantee, but helps, privilege is documented at point of creation).*

8. *Label internal substantive memos as Work Product.*

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[102] *Supra.*
[103] *General Accident Assurance*, *supra* at para. 53.

9. *Label every page of each document, not just the front page.*

10. *Careful of copying third parties on communications to/with counsel (waiver issues).*

11. *Separate reply and reply all buttons on keyboards/screens.*

12. *Use Esquire (Esq.) to clarify/confirm in house counsel.*

13. *Bcc in house counsel to avoid waiver arguments.*

14. *Do not "cc" a client on an email unless all recipients are representatives or lawyers for the same client (danger that client will hit Reply All and forward beyond cloak of privilege).*

15. *Hyper vigilance as to other client advisors copied on communications with client (agent of client, joint defense agreement).*

16. *Careful of substantive privileged communications in elevators, restrooms and corridors.*

17. *Client should work through counsel to retain consultants/experts, to protect work product and attorney client privileges.*