

Moscow



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AmCham ICT Committee Meeting: Software Development in Russia under Part 4 of the Civil Code

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Summary of Presentation

- Legal Overview and Structures
- IP, employment and tax issues:
 - Individual contractors
 - Companies as contractors
- Protection of trade secrets
- Details of Part 4
- Case Study

Principal Legal Issues in Software Development in Russia

- Intellectual property (IP) rights
- Trade secrets protection
- Labor law
- Taxation: VAT, special tax regime for developers focusing on export market
- Civil (contract) law, documentation
- Legal compliance issues (e.g., tax fraud, money laundering)

Lessons on Legal Issues

- Russian law is mainly sufficient to deal with the legal issues in software development. New Part 4 will help.
- Most legal problems arise from failure to manage the issues up front and in implementation of agreement (or, in in-house operations, at the workplace).

Software Development: Structure

Two situations:

- Contracting with Russian:
 - Individuals (often are subcontractors)
 - Software development companies
- Setting up in-house development center

IP Rights

Distinction between:

- Non-proprietary personal rights – lie solely with individuals, and are not assignable. Part 4 has not changed this old rule.
- Proprietary rights – assignable if contract for this correctly.

Contracting with Individuals

- Must be registered entrepreneur
- Draft agreement to avoid employment relationship
- Use special contract provisions of Part 4 of Civil Code:
 - Allows automatic assignment of IP rights, avoiding copyright law limitations on assignments and assignments of future rights
 - Facilitates VAT exemption
- Implementation: documentation

Contracting with Companies

Two steps for assignment of IP rights:

- Individual employees/contractors to developer (employer) company
- Developer company to customer

Individual → Developer → Customer

Individual to Contractor (1)

Generally, proprietary rights created by employees automatically transfer to employer if:

- Created within the scope of employment
- Employment agreement does not provide otherwise

Generally, no need for separate assignments from employees to contractor.

Individual to Contractor (2)

- Check employment agreement or get representation that employee rights are automatically assigned.
- If possible, avoid company contractors using individual subcontractors.

Contractor to Customer

Similar to contract with individuals:

- Utilize contract provisions of Part 4 to facilitate automatic IP assignment and VAT exemption
- Implementation: documentation
- Provide for protection of trade secrets

In-House Software Development: Main Legal Issues

- Corporate
- Employment agreement, documentation
- IP issues: employees, and use of contractors
- Trade secrets regime
- Special economic zones

Documentation

- Employment agreement (or independent contractor agreement)
- Software development agreement
- Service level agreement (SLA)
- Work orders, acts of transfer

Protecting Trade Secrets

- Trade Secrets Law
- Application of Law:
 - Personal data – separate law
 - Inventions of employees
 - Foreign companies with no presence in Russia

Definition: Trade Secret

“a regime of confidentiality of information that allows its owner under existing and potential conditions to increase income, avoid unjustified costs, preserve its position on the market for [its] products, works or services, or to obtain other commercial advantages”

Definition: Information Constituting a Trade Secret (Production Secret)

“information of any character (production, technical, economic, organizational and other), including that concerning the results of intellectual activity in the scientific-technical sphere, and also information regarding the means of carrying out professional activity, which has actual or potential commercial value because it is not known to third parties, to which there is no free access on a legal basis *and in relation to which the owner of such information has established a trade secrets regime*”

“Trade Secrets Regime”

- Protection of trade secrets arises only when regime is created
- Aspects:
 - Establishment of basic regime (within independent or in-house developer)
 - Application to employment relations (in-house software development)
 - Application to independent contractors (developers)

5 Requirements of Trade Secrets Regime

- Create list of information constituting trade secrets
- Limit access to such information by establishing and implementing controls
- List people having such access and who have been given access or to whom information was transferred
- Reflect regime in agreements with employees and contractors
- Put legends on copies of such information

Application to Employment Relationships

- Present list of information to employees having access and have them acknowledge receipt
- Present regime and consequences of violations to employees and have them acknowledge same
- Create necessary conditions for employee to comply with regime
- Reflect regime in employment agreements. Include particularities for General Director.

Note: Current law has three-year continuation of protection after termination of employment unless contract specifies other period. Repealed by Part 4.

Should regulate in employment agreement.

Rules Regarding Contractors

Repealed by Part 4:

- Must reflect regime in contracts, which must specify conditions for protecting information, including in case of reorganization or liquidation of one of the parties, and also the contractor's liability for unauthorized disclosure
- To extent not specified otherwise in contract, contractor is responsible for determining method of protecting information
- Contractor must report unauthorized disclosures
- Contractor's obligation not to disclose information to third parties or to terminate its status as trade secrets, unless contract allows otherwise

Part IV of the Civil Code

- Covers all IP law generally.
- Would replace all existing IP laws.
- Enters into effect on January 1, 2007.
- Law on Enactment is coming into force as of (i) publication date; (ii) January 1, 2007.

Concept of New Provisions

- IP legislation has historically been a part of Civil Law.
- Existing IP law protects IP, but says little about how to exploit it in market economy.
- Proposed new provisions are meant to focus more on transactions (*oborot*) in IP.
- Specific provisions dealing with software and software development.

Substantive Provisions: General

- For software development: General and copyright provisions are relevant – Software issues are now regulated by general copyright provisions.
- Allows outright assignment of copyright, including future copyrights. Compensation required.
- Employment situation (outside software development): worker (author) normally holds copyright and employer right of use. But is subject to general right to assign, for compensation.
- Special-order copyright agreements: Can agree that copyright will be owned by customer.

New Regulation

- New types/terms of free reproduction of software/databases (Art. 1280).
- Assignment of exclusive rights (Art. 1285).
- New terms of special order (“zakaz”) agreements (Arts. 1288 – 1290) + special regulation of special order agreements related to software. (Art. 1296)
- New terms for regulation of software created within performance of employment duties (Art. 1295).
- General terms for software created under other contracts (Art. 1297).

Importance of New IP Law and Trade Secrets Law

- Changes legal environment for software development.
- Developers must revise employment agreements and commercial agreements, and implement trade secrets regime.
- Customers must negotiate contracts to take advantage of new law and protect trade secrets, and comply with trade secrets requirements.

Case Study

Elements of transaction

- Acquisition of Russian software development company
- Revision of contracting structure with development company
- New software development agreement and SLA

Contracting Scheme



Issues:

- Tax compliance
- U.S. law implications
- Chain of IP rights

Questions?

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