the Companies Code, it is striking that there is a range of disuniform provisions to be taken into account: ss.228, 229, 230, 233, 556 and the accounts provisions and the Seventh Schedule are amongst the provisions which have particular relevance. It seems to me that many of these provisions are addressing similar problems in markedly different ways. There is no uniformity on such questions as the extent to which breach of duty should attract onerous criminal penalties, whether offences should be defined in terms of absolute liability or a high degree of mens rea, and whether the statutory provision can be avoided by shareholder waiver or exoneration. I am on record as saying that the statutory law of directors duties is in need of a thorough overhaul, to try to make uniform the principles and approach which should be taken to statutory re-enforcement of the general law.

There is no time here to give an exhaustive review of the statutory provisions. Our focus today is on the conflict/profit/business opportunity area rather than on the director's duty of care, skill and diligence and his duty to act bona fide for the benefit of the company. The statutory provisions extend to these other matters and a full review would need to look at them as well.

The Sections which are most relevant to the case law which I have discussed above, are ss.228 and 229.

Section 228(1) deals with disclosure of interests in contracts. As pointed out above, the Articles of the company will frequently set a standard of disclosure which is lower than the general law would otherwise require. While, therefore, s.228(8) preserves the general law in addition to the Section, the effect of the Articles will frequently be to make the general law relatively insignificant, and the main emphasis will therefore be to comply with s.228 by disclosure to the directors either in particular or in general terms.

Several other provisions are approximations of the general law (which is preserved) but an apparent failure on the part of the draftsman of the legislation to understand the scope of the general law has led him to impose some curious and almost whimsical restrictions in the wording of the Sections. For example s.228(5), which is evidently intended to deal generally with conflicts of interest, applies only where the director holds an office or possesses property whereby a conflict is created. Conflicts which arise in other circumstances are evidently not covered. Section 229(3) applies only when the officer "make[s] improper use of information acquired by virtue of his position as such an officer". Proof of this offence seems to involve showing that the information was actually made use of; the sub-Section applies only to "information" and the connection between profit and office is defined in very limited terms. Much the same points can be made about s.229(4), which speaks in terms of making "improper use of his position as such an officer". *Waldron* v *Green* (1978) C.C.H. C.L.C. para. 40-381 confirms that these provisions are likely to receive a restrictive interpretation.

Neither s.229(3) nor s.229(4) covers the range of situations which may fall within the profit rule. Neither of them is expressed in terms which are apt to re-enforce the business opportunity doctrine. Therefore in a significant range of situations, Sections 228 and 229 will be irrelevant. Even where they do apply, their interpretation is likely to be governed by the cases of the general law.

The Lawyer as Client

Address by Ronald Merkel Q.C. to Business Lawyers Conference at Sydney on Monday 27th October, 1986.

1. The Problem

The role of the lawyer as a professional adviser has recently come under greater scrutiny than ever before. At the present time several Solicitors and Accountants and one member of Queen's Counsel have been charged by the Director of Public Prosecutions in relation to tax offences. One may expect that other advisers may be charged. It is too narrow a view for the profession to see the issues raised as limited to tax conspiracies. As the challenge of law enforcement extends to other regulatory bodies who are charged with prosecutions under their legislation one can readily see problems and issues arising in other commercial areas similar to those recently experienced in the tax area. Such bodies as the NCSC and the TPC as well as the respective officers charged with Customs prosecutions may well find that the line between wrong or misconceived advice and criminal advice is increasingly difficult to draw.

2. It is of course no coincidence that these problems are occurring in a climate —

(a) where the legal profession has become involved in a participatory sense in many of the commercial events in respect of which they are required to give advice.

(b) where the standing of the legal profession has been seriously eroded by continuing large trust defalcations.

(c) where the profession has had an active involvement in the tax avoidance industry.

(d) where charges have been brought against some members of the judiciary.

The inevitable consequence of such a climate is that both the public's image of and confidence in the profession has suffered. Those circumstances do make it easier for prosecutorial policy to also change course. Prosecutors may be more ready to equate the role of the professional adviser to an alleged illegal tax scheme to that of an active participant in the scheme. The logical outcome of such an approach of course is for the lawyer to be seen as a co-conspirator with his clients.

3. Only a short time ago a suggestion that Counsel or a Solicitor could be charged with the giving of advice which happened to be wrong would be seen as a fundamental confrontation between the profession and the Government. Now such a course seems to be publicly accepted as a logical consequence of charges being brought against the clients who acted in reliance on the advice. It is easy to understand the logical slide involved in the statement that if those persons are guilty why should their advisers be innocent. It is quite clear that a serious and quite critical issue has arisen which the profession needs to identify and answer firmly and clearly. That matter is of particular concern to business lawyers as the tendency increases and indeed snowballs for the legislature to create offences in respect of conduct in the commercial arena which it disapproves of.

4. In this address I am not concerned with the role of the dishonest professional adviser. Unfortunately such persons have existed in the past and will continue to exist in the future. When they are charged with offences concerning the role that they may have played their case will not raise any issue of general principle. Such an adviser is charged with being an active and knowing participant in criminal conduct. That person does not stand in any different position to any other accused.

5. The same however cannot be said where an endeavour is made to attach criminal liability to the legal adviser who gives advice in the normal course as to the legality of conduct proposed by a client that is then relied and acted upon by the client who is later charged with offences in relation to that conduct. The issue raised is the legal adviser's right to be wrong. It is anomalous that if the wrong advice is not negligent advice it still may form the basis of criminal charges.

6. The capacity of this issue to arise in the normal course of advice being given concerning business law ought not to be underestimated. The legislature has in so many areas prohibited commercial conduct by providing that it is an offence for such conduct to be engaged in.

7. The Lawyer's Right to be Wrong

The lawyer's right to be wrong can hardly be challenged. Appellate courts only exist because of the primary judges right to be wrong. The bookshelves are lined with law books which have as their prima facie raison d'etre the judiciary's right to be wrong. The issue reminds me of a sequence that was outlined to me by a friend who participated in the ABC Hypotheticals program. He was asked to advise a client as to the countries that don't have extradition treaties with Australia and to advise generally in relation to the possibility of extradition from such countries to Australia. He gave the advice. Next day the client returned to seek more specific advice in relation to extradition from a particular country. However, before the client came in the adviser heard on the radio that the police were seeking to charge a person by the same name with indictable offences and were fearful that he would be endeavouring to leave the country. The adviser then was asked as to what he would do. The adviser said that he wouldn't believe what he heard on the radio and give the advice. He was wise because he knew that if he had reason to believe that he was going to become a participant in the client's endeavours to avoid legal apprehension he may well be seen by the prosecutorial authorities as crossing the fine line between adviser and participant.

8. One can see how easy it is for the problem to arise. A solicitor or counsel may be asked to advise a hospital board as to the duties of its doctors to put patients on or take them off life support systems. The adviser may be told that the doctors and the hospital will rely upon the advice as a code of conduct. The advice is given and the inevitable happens. A doctor is charged with manslaughter. A court finds that the advice was wrong. Ignorance or mistake as to one's legal obligations is no defence for the doctor. It clearly cannot be any better a defence for the adviser. Is the adviser a person who has been involved in the sense of a person who has aided, abetted, counselled, procured or directly or indirectly been knowingly concerned in the commission of the offence. Those words appear to be picked up in general in Commonwealth and State legislation in respect of many offences. Can the adviser be said to be a co-conspirator? Does the situation become any more difficult for the adviser if he was asked to advise specifically in relation to proposed conduct of a doctor in a particular case? Does it assist the adviser if he expresses the view but he has great doubt about his conclusion. Logically it is not easy to see why such a caveat ought to in any way alter the adviser's liability for the advice.

9. Such problems are readily translatable to all areas with which business lawyers are concerned. Tax, corporate, customs and trade practices law are often premised upon the commission of offences where an Act is contravened. Even the Copyright Act contains offence provisions. In relation to Commonwealth offences the provisions of s.5 of the Crimes

Act (the general aiding and abetting provision referred to above) and s.7A are capable of embracing the involvement of a professional adviser. S.7A of the Act makes it an offence for any person to aid or encourage the commission of the offence whether orally or in writing. The conspiracy provisions of s.86 of the Commonwealth Crimes Act not only establish as an offence a conspiracy to defraud the Commonwealth but also a conspiracy to prevent or defeat the execution or enforcement of a law of the Commonwealth.

10. The practical problems that arise are not new. When I was an articled clerk many years ago I was warned by my principal not to advise any client as to how to get rid of assets so as to defeat the claims of an actual or contingent creditor. The problem is not new but the extent and manner in which it can arise at the present time is. It is important to understand the reasons for that. They are as follows:-

(a) Business law today is a maze. It is not getting any simpler. Legislative schemes are becoming progressively more complex. One needs only to look at provisions of the Income Tax legislation, the takeover/companies Codes or even the Trade Practices Act to appreciate the labyrinth the layman may well see himself in. For that person legal advice becomes a necessity. Increasingly the prudent client will only act if advice is given to the effect that the conduct he proposes to engage in is lawful.

(b) Regulators are increasingly turning to their wide criminal enforcement powers. The use of civil remedies is seen as increasingly inadequate. Deterrent and retribution became dominant forces in the tax area. It is easy to see why that underlying philosophical approach to law enforcement will spread to other commercial areas.

(c) Legislative schemes governing many areas of common commercial activity are often both obscure and complex. The difficulty in that regard is not assisted by differing approaches of the judiciary to the problems that arise. I do not blame either the judiciary or legislators. The fact is that regulatory life in a complex commercial area is far from easy.

11. The Legislation

I turn to particular legislation:-

Income Tax

The Income Tax Assessment Act was perceived to be a toothless tiger notwithstanding what ought to have been the supportive enforcement provisions of ss.5 and 7A of the Crimes Act and s.86 of that Act. As a consequence the Crimes Taxation Offences Act was enacted to prevent asset stripping. With fairly little fanfare substantial areas of tax law were criminalised by the 1984 Tax Administration Act admendments. S.8J of that Act provided that when assessable income was ommitted from a tax return that was a statement that that income was not derived. S.8K of the Act provided that any material, false or misleading statements including non-disclosure that makes a statement false and misleading constitute an offence. One can readily see the difficulties inherent in an adviser's role as to the information that must be set out to ensure that a tax return lodged by a client fully, properly and accurately discloses all material information relevant to the assessment. The professional adviser may quite easily be seen to cross the line from adviser to participant if he gives wrong advice which is acted upon by the client in the filing of his return. Can the adviser be liable for drafting the inadequate disclosure?

Trade Practices

Part IV of the Act provides for penalties to be imposed in respect of contraventions but no offences are created. Part V of the Act provides for offences to be committed in respect of contraventions save for contraventions of s.52. However, even in respect of Part IV it is easy to see how s.86(1)(b) of the Commonwealth Crimes Act could involve an adviser in the client's conduct leading to charges of conspiracy. For example, in a merger situation if advice is given that there should be an immediate sale of assets after the merger for two reasons. The first is that it would be less likely to result in a breach of s.50. The second is that one could scramble the egg so that divestiture proceedings under s.81 of the Act would be unlikely to succeed. In giving that advice can it be said that the adviser has become a participant in seeking to prevent or defeat the execution or enforcement of a Commonwealth law and has thereby become a co-conspirator with the client under s.86(1)(b) of the Crimes Act? If that did not occur by the giving of advice alone can it be said that the adviser then crossed that fine line and became a participant when he settled documents for the client to enable the proposal to be implemented? Can he be said to be a person involved in the contravention under s.75B of the Trade Practices Act where the conduct has the effect of defeating the operation of s.81?

Customs Act

Value for duty is the cornerstone of the Customs Act. It is based on the contract price of the goods in question. A client may seek to average the price of goods so that he can on average fall below a customs threshold. He proposes to implement the scheme if legal advice is given that it is lawful to do so. Advice is given that is proved to be wrong. Charges are brought against the client. Is the adviser also guilty of an offence?

Takeover/Companies Codes

A brief glance at the main operative provisions of the Codes enables one to see how advisers can become involved in their client's conduct.

Problems concerning Part A Statements, identification of "associates", financial assistance in relation to acquisition of a company's shares (s.129) and general requirements such as those that relate to directors' duties (s.229) demonstrate how easy it is for a client who has received wrong advice to be guilty of an offence in respect of the conduct engaged in. Misleading statements in a takeover situation and the giving of profit forecasts are also areas which are fraught with difficulty.

12. The Lawyer as Participant

Increasingly today the professional adviser may become a participant in so many of the events in respect of which he is required to give advice. Many lawyers became involved in tax avoidance not just as promoters but as commission agents or advisers to clients. In a takeover situation lawyers may be required to attend board meetings and give advice in respect of defence strategies. Solicitors often have a financial interest or involvement with their clients with respect to particular transactions. In many cases solicitors are directors of the companies for whom they act. It is worth noting what Mr. Justice Brennan said in his judgment in *Leary* v *F.C.T.* (1980) 32 A.L.R. 221 at 239:

"the evidence in this case suggests that the scheme was promoted by members of the legal and accounting professions, who assumed the mantle of entrepreneurs. But it does not appear that any of the entrepreneurs in the present case assumed the functions of professional adviser to a client, nor does it appear that any professional adviser assumed the role of an entrepreneur. It has not been material to consider whether it is possible for the role of a professional adviser and the role of an entrepreneur properly to coincide or overlap, but the appearance of solicitors performing these respective roles in the present case leads me to invite attention to significant differences between the two functions. These differences do not arise out of any judicial view as to the lawfulness or morality of tax avoidance... They arise because the field of professional activity is co-extensive with a lawyer's professional duty. That duty is to give advice as to the meaning and operation of the law and to render proper professional assistance in furtherance of a client's interests within the terms of the client's retainer. It is a duty which is cast upon a lawyer, as a member of an independent profession, whether his services are sought with respect to the operation of taxing statutes, the provisions of a contract, charges under the criminal law or any other of the varied fields of professional concern. It is a duty which arises out of the relationship of lawyer and client.

But activities of an entrepreneur in the promotion of a scheme in which taxpayers will be encouraged to participate falls outside the field of professional activity; those activities are not pursued in discharge of some antecedent professional duty. Entrepreneurial activity does not attract the same privilege nor the same protection as professional activity; and the promotion of a scheme in which particular clients may be advised to participate is pregnant with the possibility of conflict of entrepreneurial interest with professional duty".

Although his Honour was there concerned with lawyers, his comments are equally apposite to accountants and tax agents.

13. The Line Between Adviser and Participant

The line to be drawn between the role of adviser and that of participant is far from clear but it is there. It is a line of great importance. When that line is crossed the adviser becomes a participant and as such is in the same category as those that act in accordance with his advice. It is for that reason that it becomes critical for the profession to identify the line and act accordingly. The point of my address is that it is my firm view that a legal adviser who gives advice that is bona fide and honest but mistaken ought never without more to be criminally liable for the conduct of the client who acts on the faith of that advice and is found to have committed an offence. The reason for that conclusion is simple. In giving proper advice the lawyer cannot be said to be urging, inciting or in any real sense encouraging the client to act or proceed in a particular manner. That is always the client's decision. When he makes it he must accept the consequences. It is of no concern or moment to the lawyer whether the client proceeds or not. He is asked to give and does give his advice in relation to the proposed course of conduct. It can therefore be seen that the line is there and can be drawn. It can also be easily crossed. One great difficulty I have is in the area where the adviser settles documents necessary for the implementation of a particular proposal. In doing so he has done more than give advice. On the other hand in settling documents he has done no more than fulfil his obligations as a professional adviser in relation to the implementation of his advice. It is not easy to reconcile that situation with the line that I have identified. Again but with some doubt it is my view that when that occurs as no more than a logical consequence of the giving of advice to the client who has made all the decisions concerning implementation, then the settling of documents would be more likely than not to also fall on the adviser rather than the participant side of the line. The main reason for that conclusion is that in seeking to have the legal adviser settle documents which the client wishes to use it is not easy to see why the adviser when doing that task properly, honestly and bona fide can be said

to be urging, inciting or in any real sense encouraging or participating in the client's decision to proceed or conduct in proceeding with the proposal.

14. The Fundamentals

There are a number of conclusions that can be stated:

A. A lawyer is not the moral guardian of the client. When he undertakes to give legal advice he is duty bound to give that advice honestly, properly and bona fide no matter how unpopular the client is.

B. Every member of the community has a fundamental right to receive legal advice as to his or her rights, duties and obligations and as to the law that may apply to any given situation.

C. In principle it is difficult to see how the giving of that advice if wrong could or should whether with or without negligence, attract criminal liability.

D. In essence the lawyer advises in relation to a problem or a course of proposed action. He does not thereby advise, counsel, procure or induce the client to take that course. Put another way the lawyer does not advise the client to take the proposed course when he advises in relation to it.

The above conclusions are not easy to reconcile as a matter of logic or common sense with the client's criminal liability where he does no more than act in accordance with the advice properly sought. However, for reasons I have endeavoured to set out above it is my firm view that if the line is maintained than no criminal liability will attach to the adviser. That is an important principle underlying our legal system.

15. Where Is The Line To Be Drawn — The Legal Principles

The "line" is of critical importance. Recently the High Court in *Yorke* v *Lucas* (1986) 61 ALR 307 stated clearly that any participation under aiding and abetting provisions referred to above must be intentional and with knowledge of the facts which constitute the offence. The crossing of the line in a given case will clearly vary with the circumstances. However, some judicial comments are helpful in that regard. Recently Gibbs C.J. in *Giorgianni* v *R.* (1985) 59 A.L.J.R. 451 at 463 suggested that the words "aid", "abet", "counsel" and "procure" are synonymous with help, encourage, advise, persuade, induce and bring about by effort. In *Attorney-Generals Reference (No. 1 of 1975) (1975) 2 All E.R.* 684 the English Court of Appeal said —

"To procure means to produce by endeavour. You procure a thing by setting out to see that it happens and taking the appropriate steps to produce that happening".

More recently the English Court of Criminal Appeal in *R.* v *Calhaem* (1985) 2 All E.R. decided the word counsel should be given its ordinary meaning i.e. "advise", "solicit", or something of that sort. The mental element of an accessory was usefully described in *United States* v *Peoni* (1938) 100 F 2d 401 as follows:-

It was said that the accessory must in some way —

"associate himself with the venture, that he participate in it as in something that he wishes to bring about, that he seeks by his action to make it succeed. All the words used — even the most colourless 'abet' — carry an implication of purposive attitude towards it".

The accessory must have knowledge of the essential circumstances creating the offence —

". . . both knowledge of the circumstances and intention to aid, abet, counsel or procure are necessary to render a person liable as a second party."

per Gibbs C.J. in *Goirgianni,* p.465.

Wilful blindness or recklessness may however be equivalent to knowledge.

"When a person deliberately refrains from making inquiries because he prefers not to have the result, when he wilfully shuts his eyes for fear that he may learn the truth, he may for some pruposes be treated as having the knowledge which he deliberately abstained from acquiring".

R v *Crabtree* (1985) 59 A.L.J.R. 417

but ". . . Merely neglecting to make inquiries is not knowledge at all".

Devlin J. in *Roper* v *Taylors Central Garages Ltd.* (1951) 2 T.L.R. 284.

In briefly referring to these principles I am not endeavouring to undertake a legal analysis of the issues that arise in this area. I am merely indicating the nature of the problems that arise and the general principles that ought in a practical sense govern the adviser's conduct in relation to those problems.

16. The Solution

Clearly the situation will vary from case to case, however, there are a number of practical matters that ought to be taken into account —

1. In identifying the legal problem that has arisen in a particular case it is important to be conscious of whether that problem impinges upon areas that the relevant statute treats as an offence. Where only civil issues arise such as those that occur in contract, tort or for example s.52 of the Trade Practices Act then no problem of the kind I have outlined need to or ought to arise.

2. Where however, the problem may involve what the law has made an offence then it is critical that the adviser is conscious of maintaining the line between adviser and participant. The adviser must

be aware that if that line is crossed he could become involved in an offence. In such circumstances particular care should be taken to ensure that it is entirely the client's decision to proceed in a particular manner with the client's proposal. It is no part of the adviser's role as such to incite or encourage the client to carry out or implement the proposal in a particualr way or at all.

3. The adviser ought to be conscious of making a full, frank and honest disclosure to the client of all relevant matters including the risks inherent in the client proceeding. That advice can of course encompass the risk involved in departing from the course advised upon by the adviser.

4. As an adviser it is imperative that you do not turn a blind eye to any matters relevant to the advice. The issues raised must be confronted openly, directly and properly. The reason for the line being drawn in the manner I have set out above is the independence of the professional adviser from the participant. That must be maintained.

17. Conclusion

To many of you here this may sound like a plea that the burden of a practising certificate in today's economic and legal climate is too much to bear. That is not so. The issues I have endeavoured to raise are important and cannot be ignored when one has regard to the increasing commercial role of the legal profession in business matters as well as the increasing Government role in regulating business in a manner that raises the kind of problems I have endeavoured to address today. The raising of these issues and problems were inevitable.They clearly throw out a challenge to the profession but that is a challenge that can be firmly and soundly met by the two qualities that the profession has enjoyed and can be proud of, that is its independence and its high and clearly established ethical standards. Finally if the unfortunate day arrives and the adviser becomes the client I can speak both as Counsel and adviser in saying remember a lawyer who has himself as a client has a fool as a client. Thank You.

Protection of Intellectual Property in Integrated Circuit

Lindsey Naylor
(for on behalf of The Intellectual Property Committee of the Business Law Section)

1. Historical Development

1.1 The Printed Circuit

The first electronic equipment was manufactured using discrete components mounted on an insulating material and connected together with solid copper wires (busbars) of roughly square cross section and about 3/32" across each face. The discrete components and the busbar were massive by comparison with modern standards and even a simple wireless receiver was a large and imposing piece of equipment.

Later, towards the middle of the 1920s, to facilitate commercial production, and to reduce interaction between components and to shield the equipment from stray fields, a metal chassis, in the form of a metal, open sided box came into use with larger components mounted on one side, smaller components mounted within the box and all components connected together within the box by flexible, often multi-stranded wire. This is the familiar "wireless chassis". However, even at this time attempts were being made to reduce the manual labour involved in inter-connecting discrete components. As early as the 1920s, in Germany, one manufacturer produced an "integrated circuit" consisting of several valves, with components, in the one evaluated glass envelope, so that this early integrated circuit could be used to minimise the number of discrete components and valves in a wireless receiver of that time. Later, integrated circuits were produced which consisted of all the components required to couple two valves together in, for example, amplifying stages, in one package which required a limited number of connections to other circuitry.

Thus, the development of "integrated circuits" as a package of interconnected components which could be used to replace discrete components has been an objective of the electronic industry for very many years.

The direct ancestor of the modern integrated circuit is the printed circuit board. Manual wiring together of discrete components is a laborious and tedious operation, very prone to errors on the part of those who carry out the operation. If ony a few items of equipment are needed, then they must be wired by persons with the necessary skill and experience to