ETHICS WATCH

Preserving the Attorney-Client Privilege and Protecting Work Product as In-House Counsel

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In 2015 there were approximately 1.3 million lawyers in the U.S. Of that number approximately eight percent, or more than 100,000, worked in private industry. Most lawyers employed by private industry practice in corporate legal departments. In addition, law firms regularly deal with lawyers employed by corporate legal departments. Therefore, a significant percentage of the American bar should be concerned with the ethical issues that in-house counsel (IHC) face. One issue encountered by IHC and outside counsel (OC) with whom they work is preservation of attorney-client privilege (ACP) and work product (WP) protection outside of litigation. This article addresses privilege protection in (1) the advice-giving role of IHC, (2) corporate investigations, and (3) international transactions.

Providing advice: Be aware of the "business advice" risk to the privilege

A fundamental difference between IHC and OC is that a central part of the role of IHC is rendering not only legal but business (or other nonlegal) advice; by contrast, advice giving beyond the legal remains a secondary aspect of the role of OC.

Involvement of IHC in nonlegal advice poses a fundamental risk to the ACP. One of the central elements of the privilege, as it is conventionally defined, is that the communication must involve "legal advice." See *Tobaccoville USA, Inc. v. McMaster*, 387 S.C. 287, 692 S.E.2d 526 (2010) (stating the elements of ACP). IHC may often be involved in "dual purpose communications," which include both business and legal advice. Courts are divided on the test to be used to determine privilege protection for such communications. Most courts apply a "predominant purpose" test but some use a "because of" standard. Under the "because of" standard a court examines the totality of the circumstances to determine whether privilege protection is appropriate. See *Phillips v. C.R. Bard, Inc.*, 290 F.R.D. 615 (D. Nev. 2013).

Given this uncertain standard, what steps can IHC and OC take to preserve the privilege?

- Labeling communications as "privileged and confidential, subject to both attorney-client privilege and work product protection or both" is essential, but mere designation is insufficient to assure privilege maintenance. Also, over-labeling (i.e., the use of the privilege labels for communications that are clearly not protected, for example communications exclusively concerning business advice or that are not in confidence) is actually detrimental to other legitimate claims of privilege.
- Both IHC and OC should be conscious of the "business advice" issue in any communications they make whether internally or with each other. The best practice is to "separate and label accurately" whenever possible. If a communication would involve both legal and business advice, separate the communication into two parts (typically two e-mails), with one identified in the subject line as legal advice and containing an appropriate privilege label, while the other is referred to as "business considerations" or "other considerations" without privilege label.
- If the advice is being given at a meeting, for example a meeting of the board of directors, the best practice is clearly identify the communication made by the IHC as legal advice and possibly to have a "legal advice" segment separate from the other parts of the meeting with the board or one of its committees going into executive session to seek or receive the legal advice. The minutes should be appropriately labeled to identify the section as privileged and confidential.

The risk of loss of privilege is heightened when the IHC also performs other functions inside the organization, for example service as compliance officer, head of HR, or CFO who does not report to the general counsel. Because non-legal activities are not covered by privilege, a good practice is clarifying the role the IHC is performing.

Investigations and responses to auditors' requests: Adjusting to the scope of privilege protection

Imagine that you are the IHC of a corporation that has just finished the construction of a production plant in Vietnam. In an executive session for legal advice (a best practice, see above), a board member reports on allegations that the local manager might have paid

bribes to governmental authorities to ignore the plant's non-compliance with safety standards. The corporation's IHC then discusses the implications of the Foreign Corrupt Practices Act (FCPA). If the IHC and the secretary have followed best practices (see above), the minutes should be privileged.

Imagine now that the board resolves to initiate an internal investigation on the possible violation of FCPA, and an investigator flies to Vietnam to interview the manager and the relevant employees. Is this investigation privileged? Is the final report privileged? It really depends, but an IHC concerned about privilege protection can take steps to increase the odds.

As an initial point both IHC and OC should consider what law might govern claims of privilege. With regards to FCPA matters, enforcement actions would be brought in federal court and there is no private right of action under the Act. However, FCPA violations could become the basis of derivative actions brought in state court against directors who fail to take action to deal with FCPA violations. See FCPA Professor, Archive on Private Right of Action, www.fcpaprofessor.com/category/private-right-of-action. So it is possible that either federal or state law could govern claims of privilege.

IHC and OC need to consider the different attitudes of federal courts and state courts towards the privilege. As the Supreme Court put it in *Upjohn Co. v. United States*, 449 U.S. 383 (1981), "the privilege exists to protect not only the giving of professional advice to those who can act on it, but also the giving of information to the lawyer to enable him to give sound and informed advice." *Id.* at 393. The scope of the privilege in *Upjohn* is wide and includes information gathered by counsel from lower level employees where that factual information is important to counsel's role in giving legal advice; the privilege is not limited to communications with the "control group" of the entity. On the other hand, in some states the scope of the ACP is much narrower. Compare *Upjohn* with *Consolidation Coal Co. v. Bucyrus-Erie Co.*, 432 N.E.2d 250 (Ill. 1982) ("control group" test applies under Illinois law). Therefore, in the situation described above in which the IHC is interviewing employees for the investigation, it is more likely that the content of interview would be protected in federal court than state court, unless IHC makes it clear that the investigation is undertaken to render advice to the control group.

We have not identified any South Carolina appellate court decisions that deal with the scope of the ACP in an entity context, so the issue appears to be open in this state.

In light of the differing standards for scope of the privilege, what steps should IHC and OC take to protect the privilege?

- The investigation should be conducted under the direct supervision of a lawyer, ideally OC, but at least IHC (while courts are more prone to recognize ACP when OC is involved, the cost of hiring an OC must be considered). The authorization for the investigation should specifically state that the primary purpose of the investigation is to provide legal advice to the board of directors, CEO, or other authorizing entity.
- When interviewing employees the interviewer should make clear that the activity is performed to gather facts for the purpose of providing legal advice to the organization; it is also advisable to instruct the employees that they should not reveal the content of the communication, or the privilege for the organization might be lost. Confidentiality agreements with employees and organization policy on nondisclosure of information might help. Employees should be given a written statement, to be signed by the employee, specifying these points. Counsel should also keep in mind that employees are not clients and should give the *Miranda* warning required by SCACR 1.13(f), particularly when the employee might have some legal exposure for the employee's conduct.
- Any disclosure of information obtained in the investigation should be only on a "need to know" basis for the purpose of giving or receiving legal advice. In general, counsel conducting the investigation should only reveal information to other counsel for the client involved in the investigation and to the corporate decision maker in an executive session.
- Involvement of foreign IHC in the investigation should be minimized for the reasons we discuss below.

Turning to another common situation that can grow out of an investigation: communication by IHC with independent auditors. Are such communications ever protected? ACP protection is highly unlikely because auditors are third parties and typically a communication from IHC to the auditors would not be for the purpose of legal advice. However, if the communication was in connection with actual or anticipated litigation, it may be possible to obtain WP protection. To avoid loss of WP it will be necessary for IHC or OC to take steps to prevent disclosure of information to the opposing party. See Restatement (Third) of the Law Governing Lawyers §91(4). For example, disclosure to the auditors could state:

> This information has been gathered or prepared in anticipation of litigation with _____ and is being disclosed to you in confidence and with your agreement that you will use reasonable precautions

to prevent the disclosure of this information to that person.

Dealing with foreign counsel and foreign privilege: Don't forget that foreign IHC generally do not enjoy the privilege

Documents and other data containing client information are transferred daily across international borders. IHC and OC based in the United States who deal regularly with foreign IHC need to be aware of two important aspects of such international communications. First, ACP and WP protection are uniquely American (with the exception of other common law countries) because of our system of discovery. If litigation is brought in the United States and an issue arises about privilege protection for an international communication, the tribunal dealing with the matter must engage in a choice of law analysis. If foreign law controls, often ACP will not be recognized. See Nathan M. Crystal & Francesca Giannoni-Crystal, *Using Occam's Razor to Solve International Attorney-Client Privilege Choice of Law Issues: An Old Solution to a New Problem*, forthcoming in North Carolina Journal of International Law and Commercial Regulation, volume 41. Second, IHC in other countries are generally not recognized as members of the bar because they lack professional independence due to their status as employees. As a result they do not enjoy ACP. Also, you should remember that generally abroad you do not have WP protection. See Nathan M. Crystal & Francesca Giannoni-Crystal, *Understanding* Akzo Nobel: *A Comparison of the Status of In-House Counsel, the Scope of the Attorney-Client Privilege, and Discovery in the U.S. and Europe*, Global Jurist: Vol. 11: Iss. 1 (Topics) (2011).

In light of the risks associated with international communication, what practices should IHC and OC adopt in dealing with foreign IHC?

- To preserve the possibility of privilege protection, it is desirable to attempt to have U.S. law govern the issue of privilege. While courts have used a number of approaches to choice of law governing ACP, the predominant method used with international communications (at least in New York, where much such litigation occurs) is the "touch base" approach. Under this standard if the advice involves U.S. law or relates to a U.S. proceeding (disregarding the proceeding in which the claim of privilege is made), U.S. law will govern the application of the privilege. IHC and OC should keep in mind the touch base approach in their communications with foreign lawyers and foreign IHC and attempt to have as many communications as possible meet the "touch base" standard by being with a U.S. lawyer or advice about a U.S. proceeding.
- In dealing with foreign IHC who are generally not admitted to the bar, it would be desirable to have the communications to the client through a U.S. admitted attorney (or at least a foreign OC). See *Gucci Am., Inc. v. Guess?, Inc.*, 271 F.R.D. 58 (S.D.N.Y. 2010), in which communications made by and with a non-lawyer IP professional were subject to ACP in the U.S. because the IP professional was acting under the supervision of an IHC for Gucci who was admitted in New York (as well as in Italy and Belgium). Be careful, however, it the IHC is not admitted or is inactive, there may be a problem in protecting the privilege. See *Gucci Am., Inc. v. Guess?, Inc.*, 2011 U.S. Dist. LEXIS (S.D.N.Y. Jan. 3, 2011) (holding that communications with IHC for Gucci were subject to ACP even though he was working in New Jersey, where he was not admitted, and was inactive in California).

There are many other situations in which IHC face a privilege protection issue—for example, representation of members of a corporate group, derivative actions, and sale of a company. For more information please feel free to contact us. ⚖