

LEGAL INSIGHT

Financial Technology Intellectual Property (FinTech IP) Welcome in the Cayman Islands.

Introduction

Recent years have seen an unprecedented rise of the FinTech industry, *i.e.* financial technology businesses. According to the World Fintech Report 2017¹, more than half of financial services users worldwide do business with at least one non-traditional service provider, while traditional financial services firms are desperately trying to foster innovation (and usually end up seeking partnerships with or outright buying out FinTech start-ups). According to the same report, venture capital funding in FinTech companies reached close to US\$25 billion in 2015.

FinTech companies have experienced major growth in recent years mainly due to addressing the needs of financial institutions with respect to modernising payment services and improving customer experience in the digital age. As the industry matures, however, FinTechs will have to deal with attention from regulators, a wave of mergers and consolidations and a slow-down or drop in valuation, and they will need a more pragmatic approach to business development, with a stronger focus on IP management and exit strategies.

As one of the foremost offshore financial centres, home to 70% of the offshore investment funds, the Cayman Islands may soon become an attractive destination for FinTech entrepreneurs aiming to provide solutions for capital markets analytics, trading and portfolio management, as well as risk management and compliance². According to another recent report³, a third of the hedge fund managers are already using some type of FinTech-related solutions for their investment strategies and are carefully monitoring the FinTech landscape to maintain their competitive edge. Overall, FinTech can flourish in the Cayman Islands through synergies with already established industries.

In the first issue of our series of legal insights on owning IP through a Cayman Islands structure, we explored some of the key benefits of the Cayman Islands Special Economic Zone (SEZ). In this second issue, we take a closer look at how the Cayman Islands protects intellectual property, with a focus on FinTech IP.

The Cayman Islands legal framework has been modernized to cover intellectual property rights in the digital age.

FinTechs generally own a combination of an established “brand” or “trade name” (including logos or icons) protected as registered or unregistered trademarks and original works including software and codes which in certain cases may benefit from copyright protection. In some cases, patents and industrial designs are also included. All these IP rights are protected under Cayman Islands laws to the same standards as in the UK.

1. **Modern copyright protection, including with respect to computer-generated works.** The Cayman Islands have recently updated the copyright protection laws⁴ to bring them in line with the most recent developments under the UK Copyright, Designs and Patents Act 1988, as amended, which expressly includes computer programs, including any preparatory design materials, as well as databases, within the definition of “literary works” and therefore protects them as such for a duration of 50 years.
2. **Stand-alone comprehensive trademark protection to replace current system of extension of UK/EU IP rights.** At present, trademarks registered in the UK (or with WIPO with UK designation) or at the European level with the Office for Harmonization in the Internal Market (OHIM) may benefit from the same protection in the Cayman Islands by a simple filing with the Cayman Islands Register of Patents and Trademarks, without any substantive examination or opposition period. However, under The Trade Marks Bill, 2016, which is expected to be passed into law and enter into force in early 2017, a stand-alone mechanism for the registration of trademarks will allow companies incorporated in the Cayman Islands as well as foreign companies to obtain trademark protection without going through the UK.
3. **Extension of UK/EU patents & industrial designs, and reinforced protection against “patent trolls”.** Patents and industrial designs registered in the UK or at the European level can also be protected in the Cayman Islands subject to a simple filing with the Cayman Islands Register of Patents and Trademarks. In addition, the patent regime has now been amended⁵ to grant inventors additional protection against abusive challenges to their rights by “patent trolls”, *i.e.* entities that obtain patents for the purpose of suing those who innovate and develop new products⁶. The Cayman Islands patent laws have now been amended to specifically prohibit bad faith infringement claims.

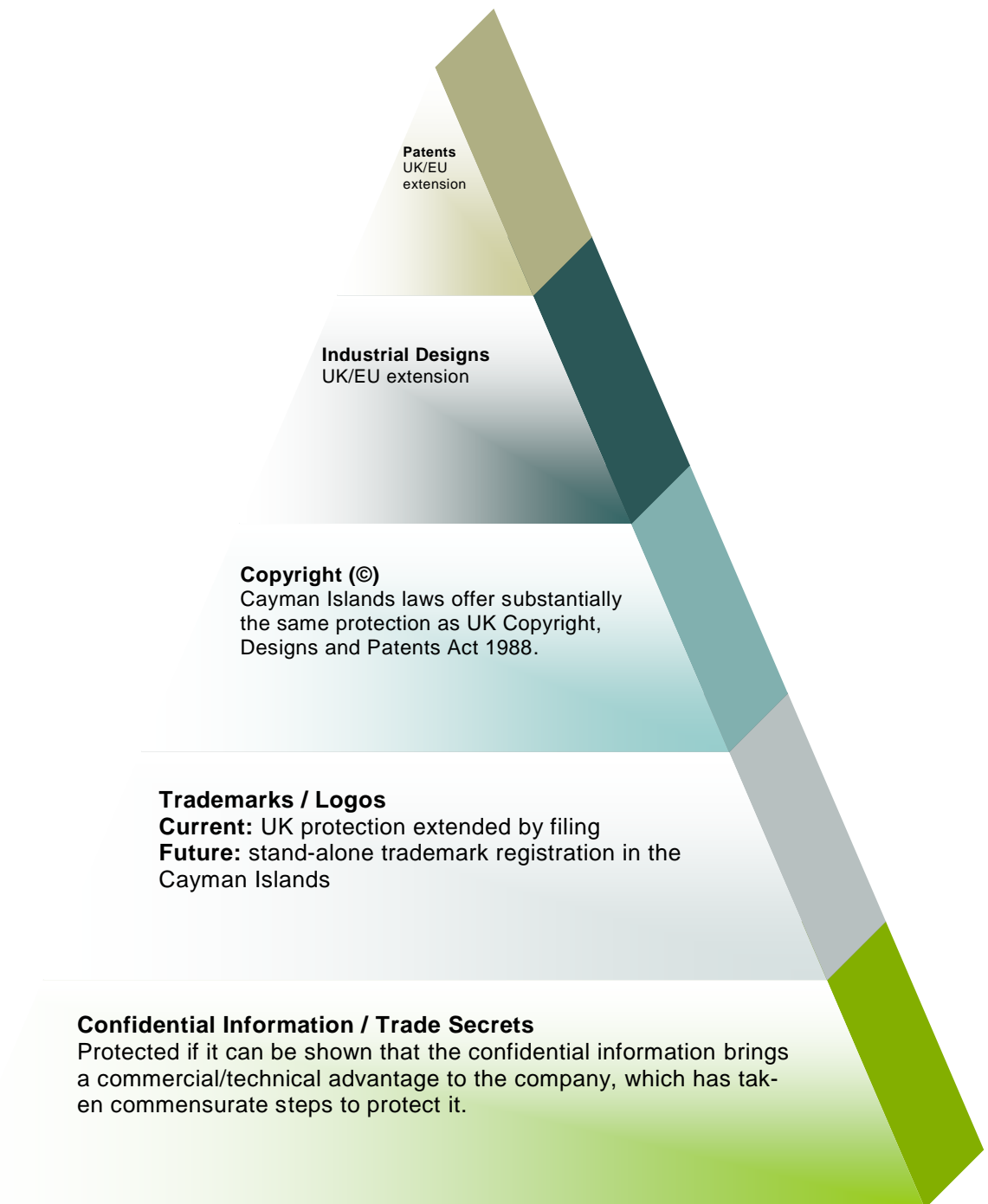
Confidential information (including “trade secrets”) is well-protected in the Cayman Islands as part of the law of equity.

As is the case with other industries, in addition to trademarks, patents and copyrighted works, a lot of the value of the intellectual property developed in the FinTech industry comes in the form of confidential information, especially proprietary information constitutive of “trade secrets”, *i.e.* information which is valuable for being secret and that a company protects from public disclosure. This is especially true for business methods, ideas and algorithms, which cannot be patented. Also, in some cases, confidentiality may be preferable to patent protection.

The law of the Cayman Islands, as it relates to confidentiality, is a combination of common law, rules of equity and statute⁷, and is based heavily upon English law, which treats the protection of confidential information, including trade secrets, as part of the law of equity⁸. Despite the lack of statutory provisions in English law⁹, several remedies (such as injunctive relief or damages) are available where trade secrets have been improperly acquired, disclosed or used. The Cayman courts will follow the established English case law on these issues¹⁰.

As a result, FinTech companies benefit in the Cayman Islands from a protection of their most important asset, intellectual property, substantially at the same levels as in the UK, including with respect to confidential information and “trade secrets”, provided that they made reasonable efforts to maintain secrecy.

Protecting IP rights in the Cayman Islands:



Trade Secrets Best Practices for Fintech Companies:

- In most cases, the biggest threat to trade secrets comes from employees. Make it clear to the employees and contractors having access to customer information, business models, pricing structures, proprietary software and data analytics applications that such information is constitutive of “trade secrets” and that its disclosure to any third party or its use for any purpose other than to further the company’s business are strictly forbidden, including after the end of the employment or business relationship. If the employees and/or contractors are not aware that the information should be protected as a “trade secret”, then the courts will not grant the protection sought.

Information about the state of the company’s financials, its solvency or ability to carry on business and its commercial relationships does not usually fall under “trade secrets”. Profit margins, costs, sales and development plans, however, may be deemed confidential information equivalent to a trade secret.

- Have Non-Disclosure Agreements (NDAs) signed with potential clients, contractors or investors before providing them with any confidential information.
- Have confidentiality, exclusivity, non-competition / non-solicitation and intellectual property clauses in the agreements with your employees.
- Write up and implement a good information / data security policy and restrict access to information constitutive of “trade secrets” on a need-to-know basis.
- Have an internal policy about communicating confidential information to third parties, including in scientific publications, industry conferences, to family and friends and in applications filed for public funding. Valuable information could also be disclosed when key employees are invited to speak at various industry conferences.

Confidential information constitutive of “trade secrets” will no longer be protected as such if it has been disclosed to the public, for example by being included in a patent application.

- Have a policy on the classification and documentation of “trade secrets”.
- Label and distinguish between
 - Category 1/public or non-confidential information,
 - Category 2/ confidential information, and
 - Category 3/information constitutive of trade secrets
- Train all your employees and contractors on how to maintain confidentiality, and also on how to prevent infringement of third party IP rights (having your employees use confidential information learned from their previous companies is likely to result in the contamination of your own “trade secrets” and potential liability¹¹).
- Be prepared to provide sufficient detail to show why information is constitutive of “trade secrets” and must be protected and also that the company took “reasonable efforts” to protect it.

This Guidance Note is not intended to be a substitute for specific legal advice or a legal opinion. It deals in broad terms only and is intended to merely provide a brief overview and general guidance only. For more specific advice please refer to your usual Loeb Smith contact or:

E: gary.smith@loebsmith.com

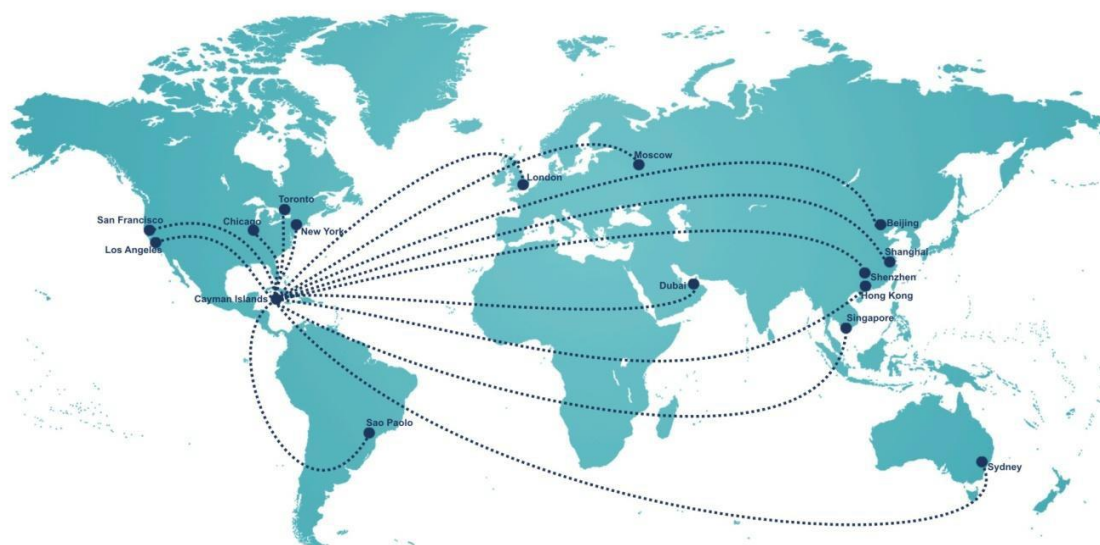
E: ramona.tudorancea@loebsmith.com

E: elizabeth.kenny@loebsmith.com

E: vivian.huang@loebsmith.com

© Loeb Smith Attorneys, 2018
www.loebsmith.com

SERVING CLIENTS GLOBALLY



¹ A study recently published by Capgemini and LinkedIn, in collaboration with Efma, a leading European non-profit retail banking association.

² Risk management and compliance needs have increased following the outpour of transparency, monitoring and testing regulatory requirements, resulting especially from AIFMD and MiFID II in Europe. FinTechs are in a good position to provide solutions for, among other things, the monitoring and testing of algorithm trading required from January 2017.

³ The 2015 KPMG / AMIA / MFA Global Hedge Fund Survey

⁴ The Copyright (Cayman Islands) Order 2015 and the Copyright (Cayman Islands) (Amendment) Order, 2016.

⁵ The Patents and Trade Marks (Amendment) Law, 2016.

⁶ Traditionally, this phenomenon was specific to the United States market where patents are easier to register, but over the last few years "patent trolls" also appeared in the UK.

⁷ The Confidential Information Disclosure Law, 2016, adopted in line with the Cayman Islands' commitment to transparency and tax and law enforcement cooperation, operates a decriminalisation of unlawful disclosure of confidential information and also clarifies what disclosures will not be deemed unlawful, but does not include specific penalties for breach of confidentiality. Accordingly, courts continue to apply common law and rules of equity in the event of a breach.

⁸ See discussion in *Force India Formula One Team Ltd v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch).

⁹ At the European level, a harmonized legislative framework has been adopted as the Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure, to be implemented by the member States by 2018. Taking account of Brexit, however, it is unlikely that this will be transposed into English law.

¹⁰ For example, *Cayman Stock Exchange v Nealon* (1999 CILR 359) amply discussed the leading UK case on the distinction between confidential information and trade secrets, *Faccenda Chicken Ltd v Fowler* [1984] ICR 589 (upheld in the Court of Appeal at [1987] Ch 117), as well as several other cases.

¹¹ In the United States, this is now covered under the Defend Trade Secrets Act of 2016, which created a federal cause of action for misappropriation of "trade secrets".