SHOOK LIN & BOK EST 1918 KUALA LUMPUR

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## Shook Lin & Bok gives back

Taking a leaf out of the American Idol experience, a group of Lawyers from the firm organised the firm's annual Christmas party held for 2009 at the Praise Emmanuel Children's Home (PECH) in Petaling Jaya on 17 December 2009.

A total of 40 lawyers and partners attended the event where we ate, sang carols and played games with the children from PECH. At the tail end of the evening, Father Christmas, played by our very own Maximillian Tai, gave out presents to each child and entertained them with stories from the North Pole.

All in all, it was truly an evening to remember. As one lawyer observed, "our previous Christmas parties may have been fun, but this was a different kind of high".

PECH started in January 2004 with 2 children. Today they provide approximately 40 children of varied ages a homely, comfortable and conducive environment. Efforts are made to provide them with a balanced diet, proper clothing, medical checkups for their physical well being and proper education as well as spiritual guidance to build them to become good and useful citizens.

PECH believes that children are a gift from God, regardless of race, culture, creed or religion. The home has committed itself to serving the cause of abandoned, abused, homeless, neglected and orphaned children and helping them overcome their troubled past to achieve meaningful and productive lives.

*Starting from this issue, we will be presenting a series of features on the departments of the firm*

# Banking and Finance Litigation Department

Shook Lin & Bok's Banking and Finance Litigation Department established in the early 1980s, was a pioneering team dedicated to banking litigation. It remains today one of very few teams of lawyers in law firms in the country, whose lawyers focus exclusively on litigation work for banks and financial institutions.

What started off with a team of one has grown into a department of 9 partners and 16 lawyers, with the managing partners being some of the most senior lawyers in the country. With the combined experience and resources of a team of this magnitude, the firm is able to offer a one stop solution to the banking industry, with the attributes of responsiveness and adaptability to their needs.

The founder and head of the department, Too Hing Yeap, shares with us his recollections on the history and insights on the objectives of the department.

Q.**How did the banking litigation department come to be set up**?

The department was created in the late 80's. I was the sole lawyer in the department then. Prior to that, all litigation were handled by the firm's litigation department, which dealt with all litigation matters. In those days, the firm's portfolio was mainly corporate and conveyancing work, including bank documentation. The setting up of the banking litigation department arose when the partners recognized the needs of its banking clients who increasingly required representation for their litigation cases. It soon became obvious that the needs of banks and financial institutions were different and they were better served by lawyers focusing on banks' and financial institutions' problems. Now we even customize our services to the needs of specific banks or financial institutions.

Q. **How different is banking litigation now**?

In the early days of the Department, commercial life was much slower. Banking litigation then involved mainly vanilla products like term loans and overdrafts, with some syndicated loan recovery as well. Then over the years, two things happened. One - the advent of technological advances. Everything became faster, more urgent and with the use of the internet and cell phones, speed became of the essence. All partners in the Department now carry Blackberries - we take accessibility of our lawyers to clients very seriously. Secondly - globalization. This spurred a huge growth in the types of bank facilities and transactions, including, for instance, trade facilities (arising from Malaysian borrowers going global and requiring credit), private debt securities (where borrowers sought new ways to raise funds and bankers took the role of corporate financing advisors instead of the traditional lender), forex transactions, and in the last few years, we have seen the meteoric rise of Islamic banking in Malaysia. Bank mergers also took place, changing the face of the banking landscape. Different types of litigation surfaced and with sometimes millions of ringgit at stake, the need for lawyers with litigation expertise (in banking) and deep knowledge of banks' products rose. We found that lawyers with extensive knowledge in banking litigation had a decided advantage over others in contentious matters. One by-product of so many types of financing transactions is the fact that banks (with their deep pockets) became targets for disgruntled borrowers, security providers and third parties and many filed suits against the banks. The need for competent lawyers to defend banks against claims grew. Our department was renamed Banking and Finance Litigation Department a few years back, in the light of these changes.

Q.**How has the firm prepared itself to meet these challenges**?

Our banking litigation department is a dedicated unit geared towards resolving all problems faced by financial institutions. We recognized that the needs of our banking clients were very different and thus, the department was set up with our lawyers trained and steeped in banking and finance issues. For instance, in the case of a facility that has turned bad, the focus is on recovering the money for the bank in the shortest possible time or adopting and executing a strategy that will get the customer to run to and settle with the bank in the shortest possible time.

Q.**How does having a dedicated banking and finance litigation department help**?

This brings with it experience and knowledge. The team has encountered the whole gamut of defences, claims and strategies by debtors and has developed an answer for each of them. We need not reinvent the wheel every time. When our clients consult us on a problem, our lawyers are already familiar with such problems. Where lawyers new to the area face a steep learning curve, our team is already ahead of the curve.

Our economies of scale also allow us to continually invest in training the lawyers and enhancing research capabilities and information technology tools.

Finally, the depth of knowledge of the senior lawyers in the department is constantly tapped and shared with other members of the team. And the advantage of our firm is that we also consult the bank documentation colleagues in our firm and vice versa on various issues. There is constant sharing of experience and knowledge, plus vast resources for research.

Q. **What are the areas of work of the department**?

Apart from debt recovery across the whole spectrum of banking products, we provide advisory and litigation services in relation to, inter alia, banking and securities laws, private debt securities, receiverships and insolvencies, restructuring of debts, mergers of financial institutions, vesting of non-performing loans to non-bank institutions, asset-management corporation recoveries, Islamic financing and stock-broking. In addition, we defend banks against all possible legal actions.

Q. **What are some of the challenges faced by the department**?

Arising from the financial crises over the years, clients have become very cost-conscious while maintaining their high expectations. There is downward pressure on fees but we have not compromised on maintaining quality of service. We have to balance the pressure on fees against the increasing cost of recruiting good lawyers and maintaining a high quality practice. These days, young lawyers have many options including employment in other countries and going inhouse. Thus far, I am proud to say that we have managed to maintain the standards of our department which our clients have become accustomed to.

## Arbitration Department

Arbitration plays a complementary role to court litigation in dispute resolution, and over the years has assumed an increasingly prominent and important position. It is often the preferred choice for dispute resolution in commercial contracts with an international dimension to them. In tandem with the ascendancy of arbitration, the firm's Arbitration department has grown briskly. We sat down with the firm's Partner Mohanadass Kanagasabai, who is currently the President of the Malaysian Institute of Arbitrators (MIArb), for a discussion on arbitration and the Arbitration Department.

Q.**How significant a role does arbitration play in dispute resolution compared with court litigation in Malaysia**?

Arbitration is well established in Malaysia as an alternative mode of dispute resolution to that offered by the national courts. Increasingly, more and more cases are resolved by arbitration.

Malaysia has modern arbitration laws particularly the Arbitration Act 2005 which is based on the UNCITRAL Model law, and also boasts an internationally recognized arbitration centre, the Kuala Lumpur Regional Centre for Arbitration (KLRCA). In addition, organizations like the Malaysian Institute of Arbitrators (MIArb), actively promote arbitration, and arbitration education in Malaysia. Both the government and the Courts are extremely supportive of arbitration thus guaranteeing that arbitration will have a place in the dispute resolution landscape for many years to come.

Q. **How did the firm's Arbitration department develop**?

The firm has been involved in arbitration work over the years. Our leading position in litigation work inevitably meant that senior counsel from the firm would be instructed to appear as counsel in arbitration matters, both domestic and international. I remember that one of the first cases I worked on as a chambering student almost 20 years ago was to assist Dato Dr. Cyrus Das on an arbitration claim arising from a fire insurance policy. The client's business had been wiped out in a fire, and the insurance company was refusing payment. Needless to say the client was virtually broke. It was a small claim in comparison to some of the claims we have since handled, but I remember vividly how grateful the client was when we won the case.

We also handled very high value international arbitrations. Days after we concluded the fire insurance arbitration, I again worked with Dato Das on an international joint venture dispute involving a state government, a Malaysian company and a Japanese multinational. It was my first KLRCA arbitration and watching Dato Das cross examine the then Chief Minister of one of our state governments was one of the most instructive and impressive cross examination displays that I have ever seen.

In the earlier years, we did have a fair degree of arbitration work, but not a dedicated arbitration department. This was set up in the late 90s. When I became a Partner in 1998, I was tasked with expanding the department.

I had by then established a strong client base in construction and engineering work, and had many friends

in the construction industry. In 2003, I was approached by a Korean multinational which was then working on a large project in Malaysia to act for them in an arbitration in London. This was a huge dispute. The documentary evidence alone ran into 500 files, and the other party was represented by an international firm which, as their letterhead proclaimed, had branches in 25 countries. In addition, the Tribunal was to consist of top class international arbitrators. Needless to say, I was a little nervous.

I remember that I had a very frank discussion with the clients as to my lack of international exposure at that time. The clients were not deterred and decided to place their faith in me and the firm. We won that case very convincingly. Building on that experience and success, we created a dedicated domestic and international arbitration department, and today we routinely handle both international and domestic cases. Our international work takes us both near and far. I am currently appearing in arbitrations in London, Singapore, India and Bangkok, and I think it is safe to say we are now market leaders in the very specialised area of international arbitration work.

Q.**In what areas of industry are disputes commonly referred to arbitration**?

Most arbitration work arises from construction, engineering and oil and gas disputes. It is, however, quite common to find that international commercial or joint venture agreements will also contain an arbitration clause. The major part of the firm's arbitration work tends to be in these areas.

Q.**How is Malaysia faring in its plan to become a leading center of arbitration in the region**?

Malaysia is making definite progress in becoming an arbitration hub. Our strategic advantage as a leading oil and gas player including in the oil and gas design and fabrication industries, and our geographical position along one of the busiest waterways in the world, makes us a natural choice for maritime and oil and gas disputes. We just need to get the fundamentals right. Particularly, we must have the right infrastructure, including good laws which are well implemented, and a strong talent base. The KLRCA now has a new Director, Mr. Sundra Rajoo, and I must say that efforts are under way to expand arbitration in Malaysia. The future looks bright.

Q.**What are the strengths of the firm's Arbitration department**?

Our firm now has an international and domestic arbitration department with 6 partners and 7 lawyers. Our great strength is that we are thoroughly familiar with international and domestic arbitration work, and have a very broad based arbitration practice including in the construction, engineering, commercial, maritime, oil and gas and power sectors. This means that there is really no area where we cannot be of assistance to our clients. In addition, our large talent pool of arbitration lawyers enable us to meet the high resource requirement that is often required in the more complex cases. We can, at very short notice, mobilize a crack team to address the clients' needs.

Q.**What do you foresee as future trends and challenges for arbitration in Malaysia**?

In the future, we will see more specialized arbitration work in Malaysia. This is certain to happen given our cost effectiveness and natural advantages. However, we may see other forms of alternative dispute resolution flourishing, for example mediation and adjudication. This is all good news for the end users, and will ensure faster and more cost efficient dispute resolution.

At the same time, the industry needs to work on improving the quality of Arbitrators. We have some of the best internationally recognized Arbitrators, but we cannot ignore the fact that their members are few. We need to be conscientious about building the knowledge base and skill levels of our Arbitrators. Not only do Arbitrators need to improve technical skills, but they also need to have good people skills as well. These are areas that we need to focus on if Arbitration is to grow and stay relevant as a form of dispute resolution.

## The firm admits new Partner

The firm has admitted Lee Lin Li as a new Partner of the firm for 2010.

Lee Lin Li was born in Penang and graduated in law from University of Leeds in U.K. She was called to the bar in 2001. Her area of practice is Intellectual Property and Information Technology. She is an executive committee member of the Malaysian Intellectual Property Association (MIPA) and a member of the Asian Patent Attorneys Association Malaysia (APAA).

# Case Updates

## Land

**_Boonsom Boonyanit_ and Immediate Indefeasibility: Federal Court reverses its position**

The Federal Court in *Tan Ying Hong v. Tan Sian San and 2 others* [2010] 2 CLJ 269, has overruled its earlier decision in *Adorna Properties Sdn Bhd v. Boonsom Boonyanit* [2001] 1 MLJ 241, which held that section 340 of the National Land Code (the Code), conferred immediate indefeasibility and not deferred indefeasibility, to a bona fide purchaser, in a case where the transfer of title is vitiated by a defect or illegality.

Section 340 of the National Land Code provides as follows.

"340. Registration to confer indefeasible title or interest, except in certain circumstances

(1) The title or interest of any person or body for the time being registered as proprietor of any land, or in whose name any lease, charge or easement is for the time being registered, shall, subject to the following provisions of this section, be indefeasible.

*(2) The title or interest of any such person or body shall not be indefeasible:*

(a) in any case of fraud or misrepresentation to which the person or body, or any agent of the person or body, was a party or privy; or

*(b) where registration was obtained by forgery, or by means of an insufficient or void instrument; or*

(c) where the title or interest was unlawfully acquired by the person or body in the purported exercise of any power or authority conferred by any written law.

*(3) Where the title or interest of any person or body is defeasible by reason of any of the circumstances specified in sub-section (2):*

*(a) it shall be liable to be set aside in the hands of any person or body to whom it may subsequently be transferred; and*

(b) any interest subsequently granted thereout shall be liable to be set aside in the hands of any person or body in whom it is for the time being vested.

*Provided that nothing in this subsection shall affect any title or interest acquired by any purchaser in good faith and for valuable consideration, or by any person or body claiming though or under such a purchaser."*

The cornerstone of the Torrens system of registration of titles under the Code, is certainty of title. The fact of registration of a proprietor on the land register is assumed, with limited exceptions, to be conclusive of the validity of the title, obviating any necessity of going behind the register to investigate the history of the title.

At common law, a person's title is vulnerable to any defect such as forgery of transfer, in the chain of title leading up to the person, a principle expressed in the latin maxim *nemo dat quod non habet* (no one can give better title than they have). The Torrens system is a statutorily mandated exclusion of the principle, and confers indefeasibility on the title of the person registered for the time being as the proprietor, despite any earlier defect in the chain of title.

However, on a plain construction of section 340, it appears that indefeasibility is delayed by one step. Section 340(2) appears to make defeasible the title of a registered proprietor who takes directly under a forged or defective transfer ("1st Transferee"), or one vitiated by one of the vitiating elements set out therein, even though the proprietor may be a bone fide purchaser.

However, a defeasible title under section 340(2) can be the root of an indefeasible title. If the proprietor

subsequently transfers the title to a subsequent purchaser ("2nd Transferee"), the proviso to section 340(3) ("the proviso") operates to confer indefeasibility of title on the 2nd Transferee, if he is a bona fide purchaser i.e. who has no knowledge of the earlier fraud or defect.

Therefore, it appears that the Torrens system confers "deferred", but not "immediate", indefeasibility, i.e. only the 2nd Transferee, but not the 1st Transferee is conferred an indefeasible title.

That was the position affirmed by the Supreme Court in *M & J Frozen Food Sdn Bhd v. Siland Sdn Bhd* [1994] 1 MLJ 294. However, later, in *Adorna Properties Sdn Bhd. v. Boonsom Boonyanit*, the Federal Court (successor to the Supreme Court) had taken a contrary position, and held that section 340 admitted of immediate indefeasibility, construing the proviso to section 340(3) as applying to section 340(2) as well as section 340(3).

In the *Boonsom* case, a fraudster forged a transfer from the owner, Boonsom, to Adorna Properties. Boonsom fought in the courts to reclaim her land. The Federal Court, however decided that the proviso applied to section 340(2) as well, and the once the transfer is registered, even if by forged or void instrument, the bona fide 1st Transferee gets a good title. This is the concept of immediate indefeasibility.

The decision had a ripple effect, and meant that in many cases of forged transfers, the owners who were victims, lost their land and were deprived of any recourse.

In *Tan Ying Hong*, the Federal Court by a 5 judge panel, decided that *Boonsom* was wrongly decided and had misconstrued the proviso to section 340 (3) as applying to section 340(2) as well.

In that case, the owner Tan Yin Hong, received a notice or demand from UMBC Bank and discovered that someone had forged a charge over the land to the bank. The charge to the bank was held to be invalid, as it was the 1st Transferee. With that decision, the principle of deferred indefeasibility has been reinstated.

On a plain reading, the proviso will operate to protect a 2nd Transferee who takes a limited interest, eg a charge, rather than an outright transfer, so that for example, if there is a forged transfer of land to the 1st Transferee, who then charges the land to a bank (2nd Transferee), the bank should be protected by deferred indefeasibility.

Although this scenario did not arise for decision in *Tan Ying Hong*, the court remarked that this would be the effect of the deferred indefeasibility principle.

## Banking

### No necessity to sell charged land before commencing personal action for recovery

*Chan Boi Loi v. Public Bank Berhad* [2009] 6 CLJ 81 concerns an application for leave to appeal to the Federal Court against a decision of the Court of Appeal.

The Applicant was a borrower who had charged his land to the respondent bank. The bank sued the Applicant to recover the debt. The Applicant resisted the action by relying on a clause in the Charge annexure for the land charged to the bank which provides as follows:

> "If the amount realized by the Bank on a sale of the said Land under the provisions of the National Land Code after deduction and payment from the proceeds of such sale of all fees dues cost rents rates taxes and other outgoing on the said land, is less than the amount due to the Bank… the Chargor (s) shall pay to the Bank the difference between the amount due and the amount so realized…".

The Applicant contended that by virtue of this clause, the bank was precluded from commencing the personal action for recovery of the debt against the Applicant until it has first sold the charged land by way of an action for sale of the land.

The High Court agreed with the Applicant's contention and dismissed the suit. On the bank's appeal, the Court of Appeal by a majority decision

allowed the appeal. The Federal Court dismissed the Applicant's application for leave to appeal but made remarks on the issue of law involved in the action.

The Applicant had relied on the cases of Hong *Kong & Shanghai Banking Corp v. Wan Mohd bin Wan Ngah* [1991] 3 MLJ 119 and *Tan Kong Min v. Malaysian National Insurance Sdn Bhd* [2006] 1 MLJ 601 to support his contention in the court below.

The Federal Court stated that it disagreed with the contention and noted that the decision in *Wan Mohd Wan Ngah* which was relied on by the Applicant, has been overtaken by the decision of the Federal Court in *Low Lee Lian v. Ban Hin Lee Bank Ltd* [1997] 1 MLJ 77 where the Court held that a lender is entitled to pursue all remedies available simultaneously or successively or not at all, and *Wan Mohd Wan Ngah* must now be regarded as overruled. The observations in *Tan Kong Min* which followed the reasoning in *Wan Mohd Wan Ngah* was only obiter dicta and were not part of the actual decision of the case, and is not binding authority. The Federal Court reaffirmed the position stated in *Low Lee Lian*.

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**Credit card customer's liability for unauthorized transactions on lost cards limited to RM250**

In *Diana Chee Vun Hsai v. Citibank Bhd* [2009] 5 MLJ 643, the customer held a Mastercard credit card issued by the bank. On September 7 2008 she discovered that her credit card was missing. On the same day she notified the bank and lodged a police report on the following day. The bank charged a transaction for RM1859.01 incurred by unauthorized use of the card on September 6 2008, to the customer.

The customer filed the action in the High Court seeking a declaration that the Bank Negara guidelines limiting a customer's liability for unauthorized transactions in respect of lost credit cards, had the force of law and the customer's liability was limited to RM250.

The main relevant provision of the Bank Negara Guidelines BNM/RH/GL-014-01 is as follows:

"15.2 The cardholder's maximum liability for unauthorized transactions as a consequence of a lost or stolen credit card shall be confined to a limit specified by the issuer of credit cards, which shall not exceed RM250, provided the cardholder has not acted fraudulently or has not failed to inform the issuer of credit cards as soon as reasonably practicable after having found that his credit card is lost or stolen."

The bank relied on on the terms and conditions of the credit card agreement which incorporated the Guidelines with modifications, in particular a provision in the agreement that the limit of RM250 is only for any transaction effected for a period of one hour prior to the reporting of the loss of the card.

The Court granted the declarations sought by the customer, holding that the Guidelines were subsidiary legislation having the force of law, and the bank could not through the terms and conditions of the credit card agreement, qualify or modify the provisions of the Guidelines. The customer did not act fraudulently and had reported the loss promptly and in the circumstances, her liability was limited to RM250.

## Companies

**Fixed charge granted in debenture prevails over subsequent fixed charge**

In *Affin Bank Berhad v. Malayan Banking Berhad* [2009] 3 AMR 1, a debenture containing fixed and floating charges was created by the borrower in favour of Phileo Allied Bank Berhad as security for credit facilities.

By Clause 3(1) (f) of the debenture, the borrower created a fixed charge on "all shares.... now owned or hereafter acquired by the Borrower" in favour of the Bank.

Subsequent to the execution of the debenture, the borrower acquired 8 million shares in another company, which it then charged to BSN Commercial Bank (Malaysia) Berhad (subsequently Affin Bank Berhad).

Affin Bank then disposed of the shares despite having been put on notice that Phileo Allied Bank claimed a prior fixed charge over the share. The High Court upon the application of Phileo Allied Bank (subsequently substituted by Malayan Banking Berhad as plaintiff), declared that Phileo Allied Bank's charge had priority over the charge to Affin Bank. The Court of Appeal affirmed the decision on appeal, holding that the charge over shares did not come under the floating charge created by the debenture over book debts, but was instead a fixed charge over shares under Clause 3 (1) (f) of the debenture which was intended to include all shares subsequently acquired by the borrower, i.e. the 8 million shares. As the charge over the shares was not a floating charge, the Borrower was not at liberty to deal with the shares. The charge in favour of Phileo Allied Bank therefore had priority over the Affin Bank charge.

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**Bankruptcy provisions on capping of interest rate for Proofs of Debt, imported into winding up of companies.**

In *Ipmuda Berhad v. Eurodec Development and Construction Sdn Bhd* [2009] 2 AMR 532, the petitioner had obtained judgment against the respondent for RM167,017.62 together with contractual interest on the judgment sum at 1.5% per month. The petitioner's petition to wind up the respondent was granted by the High Court. The petitioner then lodged its Proof of Debt for RM206,110.38. However, the Official Receiver (OR) admitted the debt for RM164,303.05 only, after capping interest at 6% per annum instead of the 1.5% per month under the judgment.

The petitioner applied to reverse or vary the OR's decision.

The High Court upheld the OR's decision and held that it was justified by section 291(2) of the Companies Act 1965 which provides:

> " Subject to s 292, in the winding up of an insolvent company the same rules shall prevail and be observed with regard to the respective rights of secured and unsecured creditors and debts provable and the valuation of annuities and future and contingent liabilities as are in force for the time being under the law relating to bankruptcy in relation to the estates of bankrupt persons, and all persons who in any such case would be entitled to prove for and receive dividends our of the assets of the company may come in under the winding up and make such claims against the company as they respectively are entitled to by virtue of this section."

The Court held that by virtue of section 292, the bankruptcy laws governing inter alia, proofs of debt against individuals, are applied to winding up of companies.

Section 43(6) of the Bankruptcy Act 1967 caps the interest for proofs of debt at 6% per annum:

> " Where a debt has been proved upon a debtor's estate and such debt includes interest or any pecuniary consideration in lieu of interest, such interest or consideration shall for the purposes of dividend be calculated at a rate not exceeding six per centum per annum, up to the date the receiving order is granted by the court."

On account thereof, the OR's decision was valid.

## Intellectual Property

### Passing Off

In September 2006 the Kuala Lumpur High Court ruled that fast-food company McDonald's had an exclusive right to use the prefix 'Mc'. The court ordered McCurry Restaurant to stop using the prefix as part of its trade name and awarded damages and costs to McDonald's. However, on April 29 2009 the Court of Appeal overturned the High Court's decision. The appeal court held that McCurry did not misrepresent itself or confuse the public when carrying out business under the name 'Restoran McCurry'. The court noted the following distinguishing features in how the two parties conducted their business:

- The McDonald's logo consists of a distinctive 'M' shaped as golden arches with the word 'McDonald's' in the background, while McCurry's sign comprises the words 'Restoran McCurry' in white and grey lettering on a red background, with a picture of a chicken giving the thumbs-up and the phrase 'Malaysian chicken curry'.
- The food sold by McDonald's carries the prefix 'Mc', while the food sold by McCurry does not.
- McCurry serves only Indian food, while McDonald's serves fast food.
- The majority of McCurry's patrons are adults and senior citizens, while McDonald's is mainly patronised by children.

The appeal court held that the High Court had overlooked these material facts when ruling in favour of McDonald's. It further held that based on the evidence, the inference to be drawn was that reasonable people seeing the McCurry's sign would not be misled into believing that McDonald's was associated with McCurry.

The appeal court also held that McDonald's had no monopoly over the use of the prefix 'Mc', and that McDonald's had failed to establish that McCurry had committed the tort of passing off. McDonald's applied for leave to appeal to the Federal Court. According to TheStar Online, the two questions for the Federal Court to consider were:

- whether, once the prefix 'Mc' was used by McCurry, the public would associate McCurry with McDonald's; and
- whether usage of 'Mc' would reduce the importance of 'Mc' to McDonald's.

On September 8 2009 the Federal Court unanimously dismissed McDonald's application on the grounds that the questions for consideration were not related to the appeal court's findings and hence did not satisfy the requirements for leave to appeal to the Federal Court under section 96 of the Courts of Judicature Act 1964.

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### Trade Marks

The Federal Court considered the issue of what constitutes an 'aggrieved person' for the purposes of rectifying the Trademarks Register in *McLaren International Limited v Lim Yat Meen* ([2008] 1 CLJ 613).

The respondent has owned the trademark MCLAREN in Class 25 in respect of "articles of clothing, including boots, shoes and slippers" since 1992. In 1999 the appellant, claiming to be the bona fide owner of the MCLAREN trademark, filed an application for the mark in respect of "articles of clothing, footwear and headgear" in Class 25. The Trademarks Registrar rejected the application on the grounds that the appellant's mark was either identical to the respondent's registered trademark or so similar that it would be likely to deceive or cause confusion.

Consequently, the appellant sought an order to expunge the respondent's mark from the Trademarks Register, or alternatively an order to vary the entry by deleting the words 'articles of clothing, including'. The application to expunge was made under sections 45(1)(a) and 46(1) of

the Trademarks Act 1976. In order to invoke these sections, an applicant must show that it is 'a person aggrieved' within the meaning of the act. The appellant failed to do so at the High Court and the Court of Appeal.

The appeal court also held that even if the mark was knowingly appropriated by the respondent, this was not illegal. No additional burden should be placed on the respondent to check whether a foreign company is claiming rights over the mark, provided that the applicant has not used the mark before the respondent's registration in Malaysia.

The appellant was granted leave to appeal to the Federal Court on the following questions:

" whether a party whose application to register a trademark is obstructed under section 19 of the act by the prior registration of an identical or similar mark on the Trademarks Register is an 'aggrieved person' under sections 45 and 46; and

" whether, in the face of evidence of non-use of a registered mark in relation to only some of the registered goods, such goods may be rectified by their removal or expunged pursuant to Sections 45 and 46.

On the first question the Federal Court overruled the decision of theHhigh Court in *Fazaruddin bin Ibrahim v Parkson Corp Sdn Bhd* ([1997] 4 MLJ 360), and held that a party whose application for trademark registration is merely jeopardised by Section 19(1) of the Act cannot qualify as a person aggrieved. The Federal Court relied on the decision of the Singapore High Court in *Re Arnold D Palmer* ([1987] 2 MLJ 681), which held that if an applicant for rectification has no original trading interest in the goods concerned, the mere filing of an application cannot confer the necessary standing on the applicant for the purpose of rectifying proceedings.

The Federal Court proceeded to state that were the appellant to succeed in this appeal on the question of standing, it would allow the appeal, but only to the extent of granting the alternative request to delete the words 'articles of clothing, including' from the respondent's registration.

The Federal Court has raised the threshold of what constitutes an 'aggrieved person'. This may be unfavourable to foreign proprietors which have yet to use their marks in Malaysia but have filed applications to register their marks.

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**Trade description order**

In *Thye Huat Chan Sdn Bhd v Thye Shen Trading Sdn Bhd* ([2008] 6 MLJ 99) the applicant was the registered proprietor of two trademarks, the first registered for rice and sago flours, and the second for rice, sago and tapioca flours. The applicant alleged that the respondents had infringed its trademarks by selling tapioca starch bearing a confusingly similar mark.

The applicant applied for an ex parte trade description order under section 16 of the Trade Descriptions Act 1972. The court held that, on a comparison of the applicant's marks and the mark on the alleged infringing goods, the applicant's second mark was infringed. Accordingly, the court granted a trade description order on the grounds that a registered trademark was being infringed in the course of trade within the meaning of the Trademarks Act 1976.

Following a grant of the trade description order, the applicant filed a draft order in accordance with the terms granted by the court. The wording of the draft order was amended by the Registrar to state that get-ups were being infringed, rather than a registered mark. The draft order amended and approved by the Registrar was not in the terms granted by the court. The court stated that the applicant's solicitors should have noticed and corrected this error.

The court observed that a trade description order creates an offence in that an act that may not be capable of being proved to be an offence (e.g, applying a false trade description to goods) can be proven by relying on the trade description order.

Pursuant to the trade description order, the enforcement officers seized goods from the respondent's premises. The respondent applied for the trade description order to be set aside. The trade description order was set aside by the court on the following technical grounds:

" The trade description order was in a form not granted by the court and was therefore invalid.

" Photographs of the infringing trademark were merely attached to the trade description order and the infringing marks were not described in the order. Relying on an earlier Court of Appeal decision, the court held that the order was invalid as it did not describe the infringing marks.

" The applicant failed to make full and frank disclosure when applying for the trade description order. It did not disclose the fact that it was aware that the respondent and other traders had been importing and selling tapioca starch bearing its trademark and that it had sent cease-and-desist letters to them. The court stated that if the respondent's particulars had been disclosed, it would have ordered the application for the trade description order to be served on it.

The court observed that seizure of the respondent's goods and prosecution could have been avoided if the application had been dealt with inter partes from the start. The trade description order was set aside on technical grounds with damages to be assessed and costs.

# Trade marks: survey evidence and generic marks: the Malaysian position

By Michael Soo, Lee Lin Li and Olivia Khor

*This article looks at the issues surrounding the admissibility and probative value of survey evidence in trademark litigation and the test to determine whether a mark has become generic.*

**Survey evidence**

Survey evidence has become common in infringement and passing-off actions, although the probative value of such evidence remains contentious. Such evidence is almost always challenged and rejected as being fundamentally flawed. Unlike in the United States, where it is relatively common for defendants to conduct independent market surveys to establish that there is no likelihood of confusion, in Malaysia it is usually the plaintiff that commissions such surveys. Plaintiffs that can afford to finance such exercises are drawn to the perceived value of market surveys undertaken by independent market researchers and private investigators in establishing confusion or likelihood of confusion. The cost of conducting a market survey in Malaysia is relatively reasonable in light of the results produced from such surveys.

In actions for rectification of the Register of Trade Marks - in particular for cases where the reason for rectification is non-use - survey evidence is central to a plaintiff's suit. It is imperative that a rectification action based on non-use be filed one month after the last interview is conducted by the market researcher to ensure that the statutory period of non-use is satisfied (ie, that there has been no use of the mark at issue for a continuous period of three years up to one month before the date of application of the rectification proceedings).

Over the years the courts have consistently approved and followed judicial principles laid down in decisions of the UK courts and the courts of Commonwealth countries such as Australia and New Zealand when confronted with market survey evidence. The following cases examined some of the legal principles involved in the admissibility of survey evidence and its probative value, and their recent application by the Malaysian High Court.

**Guidelines on admissibility and probative value of survey evidence**

One of the early leading cases on survey evidence in Malaysia is the Court of Appeal decision in *Lim Yew Sing v Hummel International Sports & Leisure A/S* ([1996] 3 MLJ 7). In *Lim Yew Sing* the Court of Appeal was faced with market survey evidence commissioned by the plaintiff to establish that the reputation and goodwill of the mark HUMMEL belonged to or was associated with it. The court made several observations on the market survey evidence. It noted that:

- the precise instructions given by the plaintiff's solicitors to the surveyors were not in evidence;
- the heading "HUMMEL and device - research study" did not positively establish whether the trademark being investigated was HUMMEL (M), the offending mark, or HUMMEL (D), the plaintiff's mark;
- the survey was not signed; and
- the persons who conducted the survey were not identified.

The court stated that since the survey was challenged, it was incumbent upon the plaintiff to prove its contents by calling the market researchers as witnesses. Since they were not called to prove the survey, it was considered to be hearsay and was therefore inadmissible as evidence. The court further said that if a survey is to be of any use, it must fairly reflect the factual position at the time when the application to expunge was made. In this regard, the court found that when the survey was conducted (between May 1991 and October 1991) there was no evidence that the respondent's products with the HUMMEL (D) mark were being sold or advertised in Malaysia. Consequently, the market researchers could not have asked their interviewees whether they thought a particular shoe or sports shirt bearing the HUMMEL (D) mark was manufactured by the respondent in Malaysia or another party, since the interviewees would not have been shown the actual products.

The court stated that even if the authorship of the survey is proven to be valid, the survey evidence must still meet the minimum criteria spelled out in *Imperial Group plc v Philip Morris Ltd* ([1984] RPC 293); it concluded that in this case that the minimum criteria were not met.

The Court of Appeal clearly identified and dealt with two distinct questions: the admissibility of market survey evidence and the probative value of such evidence. In practice, counsel have a tendency to blur these two questions in argument.

Recently, the High Court applied the criteria laid down in *Imperial Group plc* and followed by the Court of Appeal in *Lim Yew Sing to Sanbos (M) Sdn Bhd v Tiong Mak Liquor Trading (M) Sdn Bhd* ([2008] 3 MLJ 100) and *Consitex SA v TCL Marketing Sdn Bhd* ([2008] 3 MLJ 574).

In *Sanbos* the plaintiff adduced market survey evidence in an attempt to show possible deception and confusion more than 15 months after filing its application for an interlocutory injunction for trademark infringement and passing off. The court reiterated the guidelines in *Imperial Group plc* and held that in order for market survey evidence to be admissible, the following guidelines, amongst others, must be observed:

- The interviewees must be selected so as to represent a relevant cross-section of the public;
- The size must be statistically significant;
- The survey must be conducted fairly; and
- All the surveys carried out must be disclosed, including:
  - the number carried out;
  - how they were conducted; and
  - the total number of the persons involved.

The minimum criteria set out in *Imperial Group plc* were intended to assist in ascertaining the probative value of market survey evidence (ie, its validity), and not its admissibility as evidence in court. The question of whether market survey evidence is admissible must necessarily be guided by the rules of evidence, which would include a consideration of whether the actual material upon which the market survey seeks to be admitted is hearsay. It will be hearsay, and thus inadmissible, if the object of the evidence is to establish the truth of what is contained in the statement. In *Customglass Boats Ltd v Salthouse Brothers Ltd* (1976) 22 RPC 589) this subject was addressed by the court which, in the course of examining US authorities on the subject, held that such evidence was not hearsay and that even if it did fall within the technical concept of hearsay evidence (ie, statements made out of court), it would still be admissible as an exception to the hearsay rule because the object of such evidence was to exhibit the existence of a particular state of mind shared by a designated class of person and not the truth of those statements. This exception to the hearsay rule may be found in various judicial dicta of high authority in Malaysia. It was also opined in this case that such evidence was necessary as it was relevant to establish a particular state of mind and was the best possible evidence available to show such a state of public opinion (and preferable to a parade of witnesses or any other substitute purporting to represent the public). The *Customglass Boats Ltd Case* has been approved and followed by the Malaysian courts.

In *Sanbos* the court further added that the results of a market survey will be of no value if it is not sufficiently well designed and the answers are not sufficiently well analysed. In this case it was held that the survey evidence suffered from fundamental defects as it failed to comply with the minimum criteria laid down in the *Imperial Group plc* case and thus had no probative value. Some of the defects noted by the court were that:

- the survey was not conducted among relevant persons or a relevant cross-section of the public;
- the questionnaires did not have the date and time of the interview and some were not signed and not answered;
- the interviewees were not shown the plaintiff's products; and
- the questions were leading questions.

In *Consitex SA* the plaintiff had similarly adduced market survey evidence to strengthen its case on confusion within the industry and the public between its own mark and the defendant's mark. The market survey was conducted some five months before the trial commenced and around four years after the suit was filed. In this case the court also rejected the market survey evidence and made several observations as follows:

- The questions were mostly leading questions and were biased;
- There was no accurate or verbatim recording of the answers;
- None of the interviewees were called as witnesses although some had agreed to be witnesses; and
- The questions were in English.

Regarding the complaint that the questions were in English, the court stated that a majority of Malaysians do not use English as their first language and hence it is highly likely that the interviewees might not have understood the questions clearly or at all. On the issue that none of the interviewees were called as witnesses although some had agreed to be witnesses, the court added that it would draw an adverse inference against the plaintiff for failure to call these interviewees to testify.

**Conclusion**

It would appear from recent High Court decisions that in order for market survey evidence to be admissible and have significant probative value, strict adherence to the criteria laid down in *Imperial Group plc* is crucial. More importantly, all the parties involved, including the client, solicitors, market researchers and questionnaire designers, must work together to ensure that the market survey is conducted in a meaningful manner.

## Long Service Awards

In 2009, six members of the staff of the firm reached a major milestone in their career with the firm, namely the 25th anniversary of their joining the firm. In recognition of their loyalty and dedication, an award and gratuity was presented by the firm to Jafri Mohd Zain, Cheah Yoke Leng, Tay Chai Pek, Adnan Yunus, Abdul Hamid Mat and Azmi Johan.

## Young Lawyers' Committee Charity Night

The Malaysian Bar Young Lawyers' Committee's (YLC) Charity Night was held at Modestos at Capsquare on 3 July 2009. Themed "Legally Talented" the 8 finalists were given a free reign to showcase their talents, which included bands, latin dancesport, impersonations and even pole-dancing.

The firm's Goh Siu Lin (with Wong Khai Hoong) under the stage name of "Bu Bu Cha Cha" mesmerized those present with their flirtatious cha-cha-cha moves and dips, leaving the crowd clamouring for more. Loud ecstatic cheers filled the room when "Bu Bu Cha Cha" were announced champions for the night, with a collection of more than RM14,000.00 double that of their nearest contender and incidentally, the highest amount raised in the YLC's Charity Night history.

Total donations of approximately RM40,000.00 were channeled to benefit Rumah Warga Emas NACSCOM in Setapak (an organization providing shelter for the old and the destitute), Persatuan Penjagaan Kanak-Kanak Cacat Klang and Touch Dialysis Centre.

## Shook Lin & Bok's Working Lunch Tradition

In the 92 years of the firm's history, it has grown from a sole practitioner to a firm of 85 lawyers today. As an organization grows, the greater the effort that is required to maintain the sense of belonging and cohesion that is desired.

It is partly with a view towards this purpose that the firm has had a long time honoured tradition of holding a "working lunch" every quarterly, in which all lawyers gather for a lunch followed by a general meeting at which the developments and directions of the firm are discussed and the decisions and policies of the firm disseminated to all lawyers. This tradition is valued not merely for its utility as a management instrument but for the opportunity to foster camaraderie among all the members of the firm.

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