



# *Russian IT Seasons Seminar*

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## Summary of Presentation

- Legal Overview and Structures
- IP, employment and tax issues:
  - Individual contractors
  - Companies as contractors
- Protection of trade secrets
- Proposed IP provisions of Civil Code

## Principal Legal Issues in Software Development in Russia

- Intellectual property (IP) rights
- Trade secrets protection
- Labor law
- Taxation, especially VAT
- Civil (contract) law

## Lessons on Legal Issues

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

# Software Development: Structure

Two situations:

- Contracting with Russian:
  - Individuals
  - Companies
- Setting up in-house development center

## IP Rights

Distinction between:

- Non-proprietary personal rights – lie solely with individuals, and are not assignable, even under proposed new legislation
- Proprietary rights – assignable if contract for this correctly.

## Contracting with Individuals

- Must be registered entrepreneur
- Draft agreement to avoid employment relationship
- Use Chapter 38 of Civil Code:
  - Allows automatic assignment of IP rights, avoiding copyright law limitations on assignments and assignments of future rights
  - Facilitates VAT exemption
- Implementation: documentation

# Contracting with Companies

Two steps for assignment of IP rights:

- Individual employees to contractor company
- Contractor company to customer

## Individual to Contractor (1)

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

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

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

## Individual to Contractor (2)

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

## Contractor to Customer

Similar to contract with individuals:

- Utilize Chapter 38 of Civil Code to facilitate automatic IP assignment and VAT exemption
- Implementation: documentation
- Provide for protection of trade secrets

# In-House Software Development: Main Legal Issues

- Corporate
- Employment law
- IP issues
- Trade secrets regime
- Special economic zones

## Protecting Trade Secrets

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

## Definitions

- **trade secrets:** "the confidentiality of information that allows its owner under existing and potential conditions to increase income, avoid unjustified costs, preserve its position on the market for [its] products, works or services, or to obtain other commercial advantages"
- **information constituting trade secrets:** "scientific-technical, technological, production, financial-economic or other information (including secrets of production (know-how)), which has actual or potential commercial value because it is not known to third parties, to which there is no free access on a legal basis and in relation to which the owner of such information has established a trade secrets regime"

## “Trade Secrets Regime”

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

## 5 Requirements of Trade Secrets Regime

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

## Application to Employment Relationships

- Present list of information to employees having access and have them acknowledge receipt
- Present regime and consequences of violations to employees and have them acknowledge same
- Create necessary conditions for employee to comply with regime
- Reflect regime in employment agreements, with particularities for General Director
- Three-year continuation of protection after termination of employment, unless contract specifies other period

## Application to Contractors

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

## Proposed IP Provisions of Civil Code

- New draft dated March 23, 2006
- Covers all IP law generally, but not trade secrets
- Would replace all existing IP laws
- Proposed to go into effect beginning 2007

## Concept of New Provisions

- Existing IP law protects IP, but says little about how to exploit it in market economy.
- Proposed new provisions focus more on transactions (*oborot*) in IP
- Therefore is proposed to transfer IP law to Civil Code, which contains contract law
- Specific provisions dealing with software and software development

## Substantive Provisions: General

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

## Software Development Provisions

- Employment situation (Art. 1296): Copyrights to programs will be owned by employer if agreement does not provide otherwise and compensates employee for this. Personal, non-proprietary rights not assigned.
- In case of special-orders for software development (Art. 1297): Copyright will be owned by customer if agreement does not provide otherwise.
- Effect of above is to sweep up all IP rights, reduces risk. But still should execute acts of assignment and transfer, make work orders clear, etc.

## Importance of New IP Law and Trade Secrets Law

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

# Questions?

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