

Main-Line Corporate Holdings Ltd v United Overseas Bank Ltd and Another
[2008] SGHC 55

Case Number : Suit 806/2004, SUM 5347/2007
Decision Date : 10 April 2008
Tribunal/Court : High Court
Coram : Sharon Lim SAR
Counsel Name(s) : Wong Siew Hong and G Radakrishnan (Infinitus Law Corporation) for the plaintiff;
Ang Wee Tiong (Tan Kok Quan Partnership) for the first defendant; Koh Chia Ling
and Arthur Yap (Alban Tay Mahtani & De Sliva LLP) for the second defendant
Parties : Main-Line Corporate Holdings Ltd — United Overseas Bank Ltd; First Currency
Choice Pte Ltd

Civil Procedure

10 April 2008

Judgment reserved.

Senior Assistant Registrar Sharon Lim:

1 The plaintiff's patent is in respect of a method and system to automatically determine a preferred currency of a credit card, a charge card or a debit card transaction at the point of sale between a merchant and the holder of the relevant card. The defendants were held to have infringed the plaintiff's patent as the second defendant's system, which was used by the first defendant bank, performed the same functions as described in the elements of the patent. Pursuant to this the trial judge ordered that there be an inquiry by the registrar on damages or an account of profits and that the plaintiff was to make its election at or before the directions stage for the inquiry. This decision was upheld by the Court of Appeal. For the purpose of making the election, the plaintiff applied for discovery of the defendants' documents. The application was initially mentioned during several pre-trial conferences held for the purpose of the inquiry in the hope that parties would reach an amicable position on the discovery process. However, as the issues turned substantially contentious, parties were directed to file affidavits stating their grounds for asserting why further discovery should or should not be provided.

Applicable principles

2 The principles governing the discovery process require that the defendants disclose such documents that would enable the plaintiff to make an informed election. It should be noted that the purpose and therefore the scope of discovery in relation to this specific act of election between an account of profits and assessment of damages is different from the usual pre-trial discovery process.

In pre-trial discovery, the process of determining the relevancy of the documents to the issues is framed by the pleadings. However, the scope of discovery for the purpose of election is more limited – it is merely to assist the plaintiff in making the choice between remedies.

3 The English High Court decision of *Island Records Limited v Tring International PLC and another* [1995] FSR 560 is instructive in this regard. The plaintiff had successfully obtained judgment against the defendant for infringement of its copyright in sound recordings embodying performances of certain works by Cat Stevens. Justice Lightman examined the practical rationale behind requiring the plaintiff to make an election between an account of profits or an assessment of damages and opined that the plaintiff in that situation was entitled to such information to make an informed election. He said that it

would be quite unreasonable to require the plaintiff to 'speculate totally in the dark' as to whether or not the sum recoverable by way of damages will exceed that recoverable under an account of profits.' The judge however cautioned:

'There should be no over lengthy or unnecessarily sophisticated exercise. The plaintiff is not be entitled to know exactly the amount of any damages or profits to which he is entitled, but only to such information as the court considers to be a fair basis in the circumstances of the particular case for an election.'

On this basis, he ordered that the defendants provide an audited schedule detailing the sums received or receivable by the defendants in respect of their infringements; the sales of infringing copies; the number of infringing copies unsold; and the costs incurred by the defendants in respect of the manufacture, distribution and sale of infringing copies.

4 In the subsequent case of *Brugger v Medicaid* [1996] FSR 362, the practical application of the above principles was considered. The case concerned an infringement of a patent on medical devices known as nebulizers. Justice Jacob considered the extreme view which would require the defendant to provide all the information necessary to ascertain the precise number of devices sold and the precise prices they were sold at – a process that would involve complicated matters of costing. The audited schedule setting out such information that was sought by the plaintiff in this case would involve a substantial amount of work on the part of the defendants. The learned judge did not feel that this was what was envisaged or required by the court in *Island Records v Tring* and held that it was sufficient for the defendant to supply an affidavit setting forth the numbers of infringing devices made and sold, the sums received or receivable and an approximate estimate of the costs incurred and a statement of how the estimate was made.

Discovery sought

5 Suffice it to say, although the cases were useful for the purpose of understanding the general principles and for examples of the extent of discovery that would be ordered by the court in similar circumstances, the type of information that should be provided would vary in amount of detail depending on the nature of the patented item or method in question and the nature of the business engaged in by the parties. In the case before me, the plaintiff sought discovery of all documents relating to the defendants' infringement of the patent which included documents passing between the defendants and the merchants, computer records showing the turnover or business done by the defendants using the infringing system, and full particulars of all merchants who used the infringing system. Prior to the hearing of the applications, the first defendant provided a table of extracts of entries from its general ledger showing a table of commissions it received from the second defendant from the time it had been imputed with knowledge of the patent and infringement (May 2002). The second defendant, who was held to have infringed the patent since November 2001, supplied its audited accounts from 2001 to 2005; draft accounts for the year ending 31 March 2006; management accounts from 1 April 2006 to 30 November 2007; and, a table showing the total number of transactions by month and period and the second defendant's Singapore revenues generated from its system.

6 The plaintiff argued that the information supplied was inadequate for the purpose of enabling the plaintiff to make an informed choice in its election. In the circumstances of this case, the information sought by the plaintiff was necessary because, unlike the nature of the goods in *Island Records v Tring* and *Brugger v Medicaid*, the patent here did not concern the straightforward sale and costings of physical products. The subject matter here being the method and system of automatically determining a preferred currency of a card transaction at the point of sale, usually from

a terminal at the merchant's end, involved earnings and profits from a more complex business set up that included computerized foreign exchange margins, credit card transactions and a whole string of parties in the transaction.

7 As the acquiring bank, the first defendant entered into an arrangement with the merchant regarding the use of the point of sale terminal. The plaintiff asserted that this arrangement combined with the use of the system allowed the first defendant to earn the foreign exchange spread profit that was previously only earned by a foreign cardholder's issuing bank. This was as a result of the exchange rate margin that would apply if the cardholder elected to pay in his foreign card's currency indicated by the system as opposed to the traditional means of paying in the currency of the country in which the merchant was located. By doing so, the cardholder paid a sum at the exchange rate set by the acquiring bank which included the exchange rate margin. Subsequently when the sum transacted was paid by the card scheme to the acquiring bank in the foreign currency, it would then be reconverted from the foreign currency into Singapore dollars in order for the acquiring bank to settle the payment to the merchant. Due to the margin, the acquiring bank would earn the resulting foreign exchange spread profit. Since the first defendant asserted that it only earned a commission from the transactions and the foreign exchange spread profit was earned by the second defendant, it was necessary for the defendants to supply documents that better fleshed out the structure of the business to explain how the profits were shared. Without this, the plaintiff would not be able to accurately determine whether the sums recoverable by way of damages would be more than that recoverable under an account of profits. The information provided in the tables on earnings from the use of the automatic currency conversion system was prepared by the defendants *ex post facto*. This was not enough for the plaintiff to make an informed choice. The first defendants should have provided contemporaneous, original documents indicating the summary value of all transactions involving foreign exchange (indicative of the fact that the patented system was being used) and the bank confirmations of foreign exchange deals to indicate the relevant exchange rates. This foreign exchange gain would be then one of the heads of profit that the plaintiff could elect to claim against the first defendant.

8 In addition, the plaintiff raised issue with the fact that based on the accounts provided, the use of the patented system had resulted in a loss for the second defendant. Although the second defendant claimed to earn the foreign exchange profit, part of this was paid to the first defendant as a commission. In addition, an alleged percentage was paid to the merchants as an incentive/rebate. Adding on the second defendant's overall costs of business, there appeared to be a loss. The plaintiff was of the view that transfer pricing practices were taking place inside the second defendant and therefore required, in addition, the actual records of payments received from the first defendant, subsequent payments of the commission made to the first defendant and summaries of the payments. Finally, the plaintiff took the view that the information should include revenue from operations in other countries that were hosted from Singapore in the second defendant's servers.

9 The defendants took largely similar positions against the plaintiff. The first defendant argued that the only information the plaintiff was entitled to at this stage was such information to allow the plaintiff to have a fair basis to make the election. The court had to balance this against the cost, expense and effort that would be imposed on the defendants to provide the information sought. As was the case in *Brugger v Medicaid*, the approximations of profit and revenue earned by the first defendant attested to on affidavit provided enough information for the plaintiff to decide. The source documents sought by the plaintiff were very voluminous. Furthermore, the second defendant had confirmed on affidavit that the profit from the foreign exchange spread accrued entirely to them and only a commission was payable to the first defendant.

10 The second defendant asserted that the audited accounts and draft accounts, where audited

accounts were not available, were sufficient for the plaintiff to make its election. Additionally, the second defendant was concerned about the scope of the plaintiff's request which included information on transactions that took place outside Singapore using the system. The second defendant submitted that this was outside the scope of the decision as the scope of the patent was limited, by jurisdiction, to Singapore. Issues of confidentiality also arose as the information sought by the plaintiff included customer lists.

Documents to be disclosed

11 The two cases cited by parties held that while the plaintiff was entitled to such information that would enable it to make an informed choice, the discovery exercise was not to be an over lengthy or onerous exercise. The amount of time required for the exercise is critical as there should not be undue delay in the process of making the election to the prejudice of the defendants. The word of the defendants in those cases on sale volume, revenue and profit, in so far as they were audited or attested to, was regarded as sufficiently sound information for the purposes of the election. The issue in the present case then is whether the nature of the patented system and the way in which revenues are generated from its use makes it untenable for the plaintiff to rely on the information and audited/draft accounts prepared by the defendants thus far.

First defendant's documents

12 In respect of the first defendant's disclosure of a schedule of commissions and a table of total revenue earned from using the system via the commissions, I am of the view that this is sufficient for the plaintiff to make its election. Although the plaintiff raised its concerns about the veracity of the statements that this was all that was earned by the first defendant, it was unable to point conclusively to any fact to support its position. All that the plaintiff's representative was able to raise in his affidavit was the fact that the first defendant, as 'owner' of the transaction, was entitled to all the gains that would be made from the foreign exchange spread profit. While this might be the case if there was no other arrangement between the parties, the contract governing the relationship between the first and second defendants indicated that the foreign currency business would be enjoyed by the second defendants, and in consideration, the first defendant would be paid a commission. I noted that the second defendant had confirmed the first defendant's position on affidavit i.e. that the only revenue accruing to the first defendant from the use of the system was the commission paid by the second defendant and that it was the second defendant that earned the foreign exchange spread profit.

13 The plaintiff sought documents such as the first defendant's business case in relation to the system. It also wanted documents to account for the additional merchant discount rate profits (that accrued independently pursuant to the contract between the first defendant and the merchants whether the system was used or not) from these transactions. This is on the basis that these additional profits would not otherwise have been gained by the first defendant if cardholders had not been attracted by the system and used it. However, there was no evidence in the affidavits that a cardholder would decide to use the first defendant's point of sale terminal just because of the system. As such, the additional documents would not assist in the plaintiff's process of election.

14 Bearing in mind that the first defendant has been able to show, with the assistance of contemporaneous contractual documents, the basis of how it earned its revenue from the use of the system and if the figures in the documents already disclosed are confirmed on affidavit by the first defendant's representative to be the only income derived from the system, I do not see any utility in requiring the first defendant to disclose further documents. The plaintiff has received the necessary information on the revenue that had accrued to the first defendant to make an informed election.

Second defendant's documents

15 The second defendant provided its audited accounts between 2001 and 2005, draft accounts for year ending 31 March 2006 and management accounts for 1 April 2006 to 30 November 2007. It also disclosed a table showing the total number of transactions by month and period and the second defendant's Singapore revenues generated from its system. I am of the view that the second defendant had not provided sufficient contemporaneous documents to give the plaintiff a good enough picture to make a proper election. The general format of the accounts is insufficiently clear for this purpose as it is only an overall summary of financial information and not the turnover resulting from the business using the system. The figures could include other turnover pertaining to non-infringing activity. It was hence not easy to glean from the accounts a true picture of the revenue resulting from the use of the system. The related costs have also not been identified.

16 It should be noted that the documents ordered to be disclosed in *Brugger v Medicaid* were fairly specific in that they related to the number of items sold, the cost and the profit made, even if this was just an approximation. The information ordered to be provided in *Island Records v Tring* was similarly detailed, with the additional requirement that it be audited. The table of transactions currently provided by the second defendant does not give this breakdown. This is in contrast with the first defendant who, in addition to providing the table of commissions, was able to show supporting contractual documents to indicate that this was the only income earned from using the system.

17 One of the types of documents asked for by the plaintiff to assist it in making its election was a detailed breakdown of revenue and all expense headings for the relevant periods. The plaintiff's counsel asked that this be divided into the following categories i.e. (a) the revenues and expenses pertaining solely to the infringement in respect of transactions carried out jointly with the first defendant, (b) the revenues and expenses pertaining to the infringement in respect of transactions apart from those carried out with the first defendant, (c) the revenues and expenses pertaining to non-infringing activities and (d) the revenues and expenses pertaining to transactions using the same system that may have been carried out outside Singapore but were hosted in Singapore. In my judgment, this information should be given. Where there are no revenues or expenses due to the fact that the second defendant does not carry out the category of business described, its representative can say so on affidavit. The argument over whether the last category of information resulted from infringing activities in Singapore and is claimable by the plaintiff can be dealt with during the assessment of damages or account of profits inquiry. I was mindful of the fact that the second defendant should not be put to too much work in preparing the documents. However, on balance, such information was required as it would, even in approximate form, be the minimum necessary for the plaintiff to make its election given the nature of the first defendant's business. In contrast, the accounts provided thus far were too general.

18 Another class of documents sought by the plaintiff was also necessary, in my view, for the informed choice to be made. These were the reports of the transactions resulting from the use of the patented system referred to by the plaintiff as the monthly DCC transaction breakdown by merchant and currency. The information would assist the plaintiff in ascertaining the overall value of the transactions carried out by the second defendant. The information is equivalent to the direction in *Brugger v Medicaid* to state the number of items sold. With some estimation of the exchange rates, the second defendant's revenue from the foreign exchange spread could be determined. Read in conjunction with the cost estimates, the plaintiff would then have a clearer, though perhaps still not definitive, picture of the profits earned by the second defendant from using the patented system. An example of the document can be found in exhibit TBK-10 of the second defendant's representative's affidavit filed on 12 January 2007. The second defendant would not be put to too much difficulty in disclosing these documents as they had themselves exhibited one of these reports previously. The

issue of difficulty of preparation was not raised in relation to this document. Their concerns of client confidentiality can be addressed by redacting the names of the merchants and the merchant ID number.

19 I did not think that the rest of information requested by the plaintiff was necessary at this stage taking into account the substantial amount of work that would have to be done and the voluminous records that would have to be produced by the second defendant. In the context of the way the transactions were carried out and the evidence on the business set-ups of both defendants, the additional documents I have ordered the second defendant to disclose, read together with the documents already provided by both defendants, should help sketch out a fairly clear outline within which the plaintiff can make an informed choice. The full details can be coloured in to complete the picture at a later stage after the plaintiff has made its election.

Conclusion

20 Turning to the specific prayers in the summons, I order as follows:

- (a) Prayer 1 is dismissed.
- (b) Order in terms of prayer 2, but limited to following two categories of information:
 - (i) A detailed breakdown of revenue and all expense headings for the relevant periods for (A) the revenues and expenses pertaining solely to the infringement in respect of transactions carried out jointly with the first defendant by month, (B) the revenues and expenses pertaining to the infringement in respect of transactions apart from those carried out with the first defendant by month, (C) the revenues and expenses pertaining to non-infringing activities by month and (D) revenues and expenses pertaining to transactions using the same system that may have been carried out outside Singapore but were hosted in Singapore by month.
 - (ii) The monthly DCC transaction breakdown by merchant and currency in the form set out in TBK-10 of the second defendant's representative's affidavit filed on 12 January 2007 with the merchants' names and IDs redacted.
- (c) The documents (including those earlier given over to the plaintiff but not yet formally disclosed) are to be disclosed in a list of documents with affidavit verifying the list. For avoidance of doubt, this order also applies to the first defendant relating to the documents earlier handed over to the plaintiffs.

I will now hear parties on costs and any other consequential directions pertaining to the assessment of damages or account of profits hearing.

Copyright © Government of Singapore.