

ORDER
of the Court of Appeal of the Unified Patent Court issued on
16 September 2024
concerning security for costs

HEADNOTE

- The Court of Appeal shall of its own motion consider how to exercise its discretion under R.222.2 RoP. The Court of Appeal may therefore decide to disregard late filed requests, facts, and evidence even if these were not objected to by the other party.
- From R.172.1 RoP it clearly follows that there is a duty to provide evidence that is already available to a party.
- The Court has a discretionary power to request the production of evidence pursuant to R.172.2 RoP. It is not obliged to do so.
- A bank guarantee issued by a bank licensed in the US does not provide adequate security, as R.158 RoP requires. As the reason for not allowing a bank guarantee to be issued by a US licensed bank is not solely based on nationality, but on substantive grounds, this is not contrary to any prohibition of discrimination.

KEYWORDS

- Scope of appeal proceedings; security for costs; duty to provide evidence; adequate security under R.158; bank guarantee

APPELLANT / CLAIMANT IN THE MAIN PROCEEDINGS BEFORE THE COURT OF FIRST INSTANCE

ICPillar LLC, Houston, Texas, USA,

hereinafter also referred to as: 'ICPillar';

represented by: attorneys-at-law and European patent attorneys Lionel Martin and Geoffrey Grandjean, SCP August Debouzy, Paris, France

RESPONDENTS / DEFENDANTS IN THE MAIN PROCEEDINGS BEFORE THE COURT OF FIRST INSTANCE

1. ARM Limited, Cambridge, United Kingdom

3. Apical Limited, Cambridge, United Kingdom

4. Arm France SAS, Biot, France

5. Arm Germany GmbH, Grasbrunn, Germany

6. Arm Germany d.o.o., Sentjernej, Slovenia

7. Arm Ireland Limited, Galway, Ireland

8. Arm Poland Sp. z.o.o., Katowice, Poland

9. Arm Sweden AB, Lund, Sweden

10. Simulity Labs Limited, Cambridge, United Kingdom

12. SVF Holdco (UK) Limited, London, United Kingdom

hereinafter also jointly referred to (in singular) as 'ARM';

all represented by: attorneys-at-law Christoph Crützen, Benjamin Beck and Alexander Balan, Mayer Brown

LLP, Düsseldorf, Germany

PATENT AT ISSUE

EP 3 00 0239

PANEL AND DECIDING JUDGES

This order was adopted by Panel 2:

Rian Kalden, Presiding judge and judge-rapporteur

Ingeborg Simonsson, legally qualified judge

Patricia Rombach, legally qualified judge

IMPUGNED ORDER OF THE COURT OF FIRST INSTANCE

- Date: 21 May 2024; ORD_23494/2024 in related proceedings (application for security for costs) App_22767/2024, in the main infringement action ACT_596432/2023
- Action number attributed by the Court of First Instance, Local Division Paris: UPC_CFI_495/2023

LANGUAGE OF THE PROCEEDINGS

English

ORAL HEARING

The oral hearing was held on 20 August 2024 (on site)

SUMMARY OF FACTS AND PROCEDURAL HISTORY

1. On 22 December 2023, ICPillar brought an infringement action against ARM based on the patent at issue before the Paris Local Division of the Unified Patent Court (UPC). On 26 April 2024 ARM filed an application under R.158.1 RoP (App_22767/2024), requesting the Court of First Instance to order ICPillar to provide adequate security for legal costs and other expenses incurred by ARM. The Court of First Instance allowed the Application. Leave to appeal was requested by ICPillar on 28 May 2024 and granted by the Court of First Instance by order dated 30 May 2024.
2. The order contains the following considerations:

“The criterion of the claimant's financial situation is decisive for the Court when it has to decide whether or not to order the security for the legal costs. The essential risk is that the lack of financial resources to pay the successful party's costs, which are to be borne by the losing party, may lead to a situation where the costs ordered cannot in reality be collected. (...)

Respondent in its written comments did not provide any indication of its financial situation. (...)

The only response from ICPILLAR has been to provide an insurance broker's declaration that ICPILLAR has required an insurance that will cover to ICPILLAR the legal costs of the opposing party in this litigation up to the amount of EUR 800,000 in case ICPILLAR would be obliged to cover such costs (Exhibit 1-ICPILLAR-declaration of Mohsin Patel).

The main question in this context is therefore whether the insurance taken out by the Respondent to cover the financial risks in this case is sufficient and would prevent it from being required to provide the security for costs as provided for in R. 158 RoP.

The insurance broker's declaration is not sufficient to justify that the legal costs can be recovered from it by

ARM for two reasons. Firstly, the purpose of this type of insurance is to provide a financial protection for ICPILLAR (the insured party), and not to protect the potential rights of the ARM entities (the applicants of the Security for cost request). Secondly, the full terms of the said insurance have not been disclosed and it is hence unclear what are the actual terms of the insurance. (...)

In order to guarantee the secure recovery of the legal costs potentially due to ARM entities, which are all based in Europe and most of them in the EU, a bank guarantee by a bank licensed to operate in EU must be provided. The Respondent's request to approve also a guarantee from a bank licensed to operate in the United States of America is dismissed"

3. On 5 June 2024, ICPillar lodged a Statement of appeal and grounds of appeal, together with *inter alia* Exhibit 4, being a legal expense insurance policy, which had not been submitted in the proceedings before the Court of First Instance.
4. On the same date, ICPillar also lodged an application under R.262A RoP in relation to Exhibit 4. This request was rejected by order of 23 July 2024, as the Court of the Appeal considered the reasons brought forward by ICPillar to be insufficient to justify protection of the information contained in the unredacted version of this Exhibit.
5. After the R.262A RoP application was rejected, ARM was allowed to amend its Statement of response that had already been lodged. The Court allowed ICPillar to submit further exhibits and ARM to comment thereon. One of the exhibits submitted by ICPillar was the Judgment of the UK High Court of dated 20 April 2023 ([2023] EWHC 850 (Ch)).

PARTIES' REQUESTS

6. In the appeal proceedings, ICPillar requests that the Court of Appeal annuls the impugned order. As an auxiliary request, if the impugned order is confirmed, ICPillar requests that it is also allowed to provide a bank guarantee provided by a bank licensed in the United States of America.
7. ARM requests that the appeal be rejected and that ICPillar is to bear the costs of the Appeal proceedings.

POINTS AT ISSUE

Security for costs pursuant to R.158 RoP.

SUBMISSIONS OF THE PARTIES

ICPillar – insofar as relevant – submits:

8. ICPillar has taken out insurance that will cover reimbursement of costs to ARM. This was confirmed by a declaration from its insurance broker (hereinafter the Declaration), which was submitted in the proceedings before the CFI.
9. In the Declaration it was stated that the Insurance Policy, not submitted in the proceedings before the Court of First Instance (hereinafter: the Insurance Policy) includes an Anti-Avoidance Endorsement specifying that:
 - a. the subscribed Policy is non-voidable and non-cancellable and
 - b. any claim made against this subscribed Policy will be honoured in full irrespective of:
 - i. any exclusions or any provisions of the subscribed Policy; or
 - ii. any provisions of general law which would have otherwise rendered the subscribed Policy or the claim unenforceable.
10. The Insurance Policy “presents a security equal to a cash deposit or to a bank guarantee” as stated by

the broker. The execution of the Insurance Policy could be directly invoked to the benefits of the 'Opponent', or of a 'Loss Payee' nominated by the Opponent, as soon as this Opponent, or the nominated Loss Payee, makes a direct claim against the insurer. The Opponents' definition, benefiting from the policy through the anti-avoidance endorsement, includes all defendants of the main infringement proceedings.

11. Under R.171 RoP ICPillar was not obliged to immediately submit the Insurance Policy in the proceedings at first instance. It was sufficient to refer to it as a possible means of evidence. If not satisfied by the content of the Declaration, the Court of First Instance should have asked ICPillar to submit the Insurance Policy pursuant to R.172.2 RoP. Furthermore, it is a very relevant document and there is no substantial disadvantage for ARM as it has been given the opportunity to comment on it in the appeal proceedings. The Court of Appeal should therefore use its discretion under R.222.2 RoP to allow ICPillar to rely on the Insurance Policy despite the fact that it was submitted for the first time in the appeal proceedings.
12. The obligation to provide additional security will represent an undue burden and a limitation to the right of an effective remedy.
13. If ICPillar is to provide security it must be able to provide a bank guarantee by a bank licensed in the United States of America. The Paris Convention (art. 2.1) contains the principle of non-discrimination which entails that nationals of any country party to the convention shall have the same protection and the same legal remedy against any infringement of their rights.
14. Dutch (and other EU national) law does not allow a security to be ordered against its own / EU nationals and the same should apply to US based claimants in view of this non-discrimination principle.

ARM – insofar as relevant – submits:

15. There is a legitimate and real concern that a possible cost order might not be recoverable and/or the likelihood that a possible cost order by the UPC may not, or in an unduly burdensome way, be enforceable.
16. ICPillar was formed for the sole purpose of enforcing and licensing its own patents. There are no public records about ICPillar's assets and financial situation, which raises a legitimate concern as to whether it would have assets sufficient to cover a future costs order, particularly if one or more of its few patents are invalidated in any of the pending proceedings.
17. The Insurance Policy must be disregarded as it could and should have been submitted in the proceedings before the CFI.
18. The Insurance Policy is not a permissible means of security under R.158 RoP. The second sentence lists the type of security that the UPC may order, namely "security by deposit or bank guarantee". This is exhaustive as is clear from R.352.1 RoP that does allow the court to make the enforcement of decisions and orders subject to security "by deposit or bank guarantee or otherwise".
19. The Insurance Policy is not an adequate means of security and for various reasons does not provide the same level of security as a bank guarantee or a deposit.
20. A bank guarantee issued by a bank licensed in the US does not provide security equally adequate and is more burdensome than one issued by a bank licensed in the EU. A bank guarantee issued by a US licensed bank may be subject to a different legal and regulatory framework, has to be enforced in the US, possibly involving litigation and/or exequatur proceedings in the US, involving delays and higher costs and if issued in US Dollars involves exchange rate risks.

GROUNDS FOR THE ORDER

21. The Court of Appeal shall reject the appeal for the reasons set out below.
22. According to R.222.1 RoP, requests, facts, evidence and arguments submitted by the parties under R.221, R.225, R.226, R.236 and R.238 RoP shall, subject to R. 222.2 RoP, constitute the subject-matter of the proceedings before the Court of Appeal. The Court of Appeal shall consult the file of the proceedings before the Court of First Instance.
23. Art. 74(4) UPCA provides that new facts and new evidence may only be introduced in accordance with the RoP and where the submission thereof by the party concerned could not reasonably have been expected during proceedings before the Court of First Instance. R.222.2 RoP further provides that the Court of Appeal may disregard requests, facts, and evidence which were not submitted during the proceedings at first instance. Given the use of the word 'may' the Court has a discretion. The Court of Appeal shall of its own motion consider how to exercise its discretion. The Court of Appeal may therefore decide to disregard late filed requests, facts, and evidence even if these were not objected to by the other party.
24. R.222.2 RoP contains guidance on how the Court of Appeal shall exercise the discretion. It shall in particular take into account:
 - (a) whether a party seeking to lodge new submissions is able to justify that the new submissions could not reasonably have been made during proceedings before the Court of First Instance;
 - (b) the relevance of the new submissions for the decision on the appeal;
 - (c) the position of the other party regarding the lodging of the new submissions.The Court of Appeal considers each of these hereafter.
 - (a) *whether ICPillar is able to justify that the Insurance Policy could not reasonably have been submitted during the proceedings before the Court of First Instance*
25. The Court of Appeal is of the opinion that ICPillar has not provided any reasons that can justify that it has not submitted the Insurance Policy during the proceedings before the Court of First Instance.
26. It is undisputed, and it also follows from the Declaration, that the Insurance Policy, signed by the participating insurers on 14 December 2023, existed and thus could have been submitted in the first instance proceedings together with ICPillar's 'Written observations on the application for security for legal costs' lodged on 14 May 2024. ICPillar has not disputed this.
27. It is true that the Endorsement 2, which adds the Respondents under 3-10 and 12 as Opponent in addition to Respondent under 1 who was already named as Opponent, was only signed on 28 May 2023. However, that did not prevent ICPillar from submitting the Insurance Policy as it then was, clarifying that it was in the process of, or had the intention, to add Respondents 3-10 and 12 as Opponents to it.
28. The Court of Appeal rejects ICPillar's argument that under R.171 RoP it was only required to mention the existence of the insurance policy and that the Court of First Instance should have requested its submission if that was considered relevant.
29. From R.172.1 RoP it clearly follows that there is a duty to provide evidence that is already available to a party: "Evidence available to a party regarding a statement of fact that is contested or likely to be contested by the other party must be produced by the party making that statement of fact."
30. ICPillar – rightly – does not assert that it was not likely to be contested that the Insurance Policy would provide sufficient security under R.158 RoP. In the UK High Court decision of 20 April 2023, relied on by ICPillar, it was held (par. 30) that "an ATE policy and its anti-avoidance endorsement can provide sufficient protection" as a security for costs, but also that "It is clear that the construction of the terms and wording of the policy will be important". ICPillar therefore should have anticipated that the mere mentioning of the existence of the Insurance Policy was insufficient. The Declaration was not an adequate substitution

for it, as it does not set out all terms of the Insurance Policy.

31. ICPillar also cannot rely on R.172.2 RoP as it argues. Under this Rule, the Court “may at any time during the proceedings order a party making a statement of fact to produce evidence that lies in the control of that party.” The use of the word ‘may’ makes clear that the Court has a discretionary power to request the production of evidence. It is not obliged to do so.
32. In the first instance proceedings ICPillar has not disputed that there is a risk that ICPillar was lacking the financial resources to pay ARM’s costs should ICPillar be held the unsuccessful party. This shifted the burden to ICPillar to not only state that despite the undisputed lack of financial resources there was nevertheless no risk that ICPillar would be unable to reimburse ARM’s costs, but also to provide the available evidence to prove it.
33. Under these circumstances, where ICPillar had merely mentioned the existence of the Insurance Policy, without submitting, or even offering to submit it, it was within the discretion of the Court of First Instance not to order ICPillar to produce the Insurance Policy pursuant to R.172.2 RoP. In the opinion of the Court of Appeal, the Court of First Instance did not use its discretion under R.172.2 RoP in a manifestly wrong manner, nor did it otherwise overstep the boundaries of its discretion, by deciding on the application for security for costs on the basis of the facts and evidence presented to it by the parties.
34. To conclude, the Court of Appeal considers that ICPillar should have known that it was under a duty to submit the Insurance Policy in the proceedings before the Court of First Instance and that it could not rely on the Court to order its production.

(b) the relevance of the new submissions for the decision on the appeal

35. It cannot be denied that the Insurance Policy is of particular relevance to ICPillar’s argument that there is no need for a security of costs. However, ICPillar must already have been aware of this importance at the stage of the first instance proceedings and, as said, should have known it was under a duty to produce it. ICPillar nevertheless chose not to submit the Insurance Policy as evidence. Under these circumstances, the Court of Appeal considers the disadvantageous consequences of disregarding the Insurance Policy suffered by ICPillar of insufficient weight, balanced against the interests of ARM, as discussed below.

(c) the position of the other party regarding the lodging of the new submissions

36. ARM has rightly argued that it is disadvantaged by the late production of the Insurance policy. In addition to it not being produced already during the first instance proceedings, on appeal it was at first only submitted in a heavily redacted form, which prevented the representative to discuss it with his client in full as from the moment the time period for lodging the Statement of response started to run. Even though ARM was to a certain extent compensated for this by being allowed to amend its Statement of response after ICPillar’s request for confidentiality was rejected and the Insurance Policy became available in full, ARM was still faced with short time limits to respond to a document that requires specialist knowledge of English insurance law.
37. ICPillar pointed out that ARM only objected to the late production of the Insurance Policy during the oral hearing. As already mentioned, the Court of Appeal shall of its own motion consider how to exercise its discretion. The (time of) objection by the other party is only a factor that the Court of Appeal may consider under R.222.2 (c) RoP. Balanced against the difficulty of properly evaluating the level of protection offered by the Insurance Policy which is subject to English law within a short period of time, the Court of Appeal considers the fact that ARM only objected to its late submission at the oral hearing as a factor of very limited relevance.

38. Weighing all relevant circumstances, in particular the ones mentioned in R.222.2 (a)-(c) RoP as set out above, the Court of Appeal decides to disregard the Insurance Policy.
39. In the appeal proceedings, as in first instance, ICPillar has not disputed that there is a risk that it lacks the financial resources to pay ARM's costs should ICPillar be held the unsuccessful party. The Court of First Instance was therefore right to order IC Pillar to provide adequate security pursuant to R.158 RoP. The proper amount of the security, set by the Court of First Instance at EUR 400,000. -, has not been disputed.
40. ICPillar's auxiliary request must also be rejected. For the reasons given by ARM, which were not contested by ICPillar, the Court of Appeal agrees with the Court of First Instance that a bank guarantee issued by a bank licensed in the US does not provide adequate security, as R.158 RoP requires. As the reason for not allowing a bank guarantee to be issued by a US licensed bank is not solely based on nationality, but on substantive grounds, this is not contrary to any prohibition of discrimination, as ICPillar has suggested.

Costs

41. ARM's request for a cost order will be denied. No decision on the reimbursement of legal costs will be made in this order since this order is not a final order or decision concluding an action.

ORDER

The Court of Appeal:

- rejects the appeal;
- denies ARM's request for a cost decision.

Issued on 16 September 2024,

Rian Kalden, Presiding judge and judge-rapporteur

Ingeborg Simonsson, legally qualified judge

Patricia Rombach, legally qualified judge