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New Challenges for International Franchising

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FINDING AND HOW TO WORK WITH THE RIGHT LOCAL COUNSEL

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INTRODUCTION

Franchising can be an international affair. While most franchise systems start off and stay domestic, others embark on something more exotic, by taking their brands and systems across international borders.

And while many franchisors would dearly love their international deals to be no more complicated than their domestic ones, the reality is invariably different. In most if not all international franchise deals, the domestic franchisor will need to consider a host of issues unique to international franchising, and the unique laws and practices of each international target market.

The international franchise contract is the key instrument by which the arrangements for the use of the brand and knowhow in exchange for payment of fees is achieved. Very often it is crafted by a specialist in the field of franchising and licensing, perhaps with a subspecialty in international contracts.

Yet any such lawyer cannot hope to know all of the relevant the laws and practices of the target international markets. Nor should he or she be expected to.

So this paper will consider issues relating to the need for use of local counsel, how to structure the local counsel relationship, and some of the risks of "going it alone". These issues arise whether the home country counsel is in-house or outside counsel to a franchisor in the United States or elsewhere.

1. Laying the Foundation: Knowing the Issues You Need to Know to Deal with or Ask About

Being able to appreciate the need and value for local counsel in the international market begins with an understanding of the range of sometimes complex issues that commonly need to be addressed in these arrangements. Then there are the local legal issues that may not be able to be predicted.

1.1 Typical Legal Issues that Need to be Addressed

(i) *IP Use and Protection*

Many clients do not understand that protection of trademarks in countries outside their home market is even required, let alone that it can take a lot of time, and/or be expensive. Some do not understand that protection of trademarks is, with some exceptions, done on a country by country basis or that trademark rights are attained in different ways in different markets. That will often manifest itself in relation to the timing and budget of a proposed international franchise expansion. So a franchisor looking to a foreign market, and new to international franchising, may very well not appreciate that protection of the trademarks in any one or more potential target countries should be undertaken well in advance of any actual planned expansion.

Just because a trademark is registered in the franchisor's home country, one cannot assume it will be "registerable", let alone usable, in any one or more of the target markets. Generally, applications should be filed and registrations sought as soon as possible so as to minimize the risk that an individual who has observed the trademark or franchise's value abroad will seek to register first. Franchisors should not easily dismiss this risk, as the world is more exposed than ever to new brands through online sources, travel and media exposure, and many, if not most, countries have adopted a system rewarding the first to file an application (as opposed to a "first to use" system which is the rule in, e.g. common law countries). Many brand names will likely be recognized outside the country, and it is certainly possible for an opportunistic person in another country to register and make actual use of a trademark, or simply register for the purposes of selling it back to the franchisor.

Further, it is also possible that a franchisor will not be able to register a trademark that is already in use in the home country. This might transpire when a business in the new foreign market already uses a brand or logo that is the same or sufficiently similar to one used by a franchisor looking to register later in that country. This can and sometimes does happen by sheer coincidence. By investigating such registrations as early as possible, the franchisor will be better equipped to either avoid this situation, or proactively plan to modify the trademark(s) they plan to use in that new market outside their home country.

The failure to have the principal trademark registered in the target market when starting to entertain prospective franchisees in that market can create a whole set of negotiation issues that could be easily avoided had the franchisor started earlier, or waited until registration took place. Put bluntly, the failure or ultimate inability to protect the trademark(s) of the business to be expanded to that new market can very often simply kill any prospects of expansion to that country.

Using local or regionally specialized counsel for trademark prosecution is relatively common, especially when counting local offices of the multi-national law firms that exist today. Many larger company franchisors, and especially those in the US (as they tend to be the largest), will have one set of counsel for their trademark work that is separate from their counsel doing their specialized franchise law work. So, even when trademarks are applied for early in a target market, there is a lack of communication or understanding of franchise law issues when the IP specialist chooses local specialized IP only counsel. Meanwhile, in many countries, and in particular those with smaller numbers of lawyers and franchise law specialists, the lawyer or firm offering franchise law services is also an intellectual property lawyer/firm. Invariably there are many more IP lawyers than franchise lawyers in these countries. So most franchisors would better serve their interests by relying on their franchise counsel to find the local trademark lawyer who also understands the franchise law issues. This approach would likely be more efficient and cheaper in the long run for the franchisor, as costs of IP protection in many countries can already be very expensive.

(ii) *Tax and Corporate Structure*

There are several ways franchisors can enter a foreign market. Franchisors can directly franchise from their home country into the target market, or use a joint venture structure, in any case using an existing or new corporate entity that is created in their home or the target country. The structure chosen is often dictated by tax issues, along with franchise law requirements (if any). And an analysis of the tax issues arising from a deal as between any two (or more) countries can mean a different resulting structure every time..

It used to be quite common for franchisors to expand into a new market through a single-unit franchise model. While still common across certain national borders, an increasing number of franchisors consider international expansion only through a multi-unit expansion strategy, mostly due to the realistic costs and complexities of expansion.

A multi-unit strategy allows the franchisors to delegate functions to a more sophisticated entity of their choice, with local expertise. Multi-unit franchisees or area representatives typically assume many of the functions normally done by the franchisor, such as site selection, construction, training and operational support, and where appropriate, subfranchisee recruitment. While these arrangements can be beneficial, franchisors have to be mindful that they come at the cost of decreased control, and if the multi-unit candidate has a large territory, the choice of the multi-unit candidate can be that much more critical. Franchisors should think carefully about vesting so much control in unrelated third-parties, lest they find the multi-unit franchisee unmanageable or “too big to fail”. But if the territories and unit expectations are too small, then the franchisor may still be left performing many of the functions of franchisor in the market.

The franchisor's home country counsel will often prepare the draft agreements, based on their experience, which could be limited to home country domestic franchising, or to international franchising in different markets. They will then present that agreement to the candidate in the target market, on the assumption that any such contract will fundamentally "work" in the target market. This is an obvious error, as that approach could be correct, or it may lead to a "fatal" legal mistake. Prudent home country counsel should always seek the advice of local counsel prior to franchising in a new market. The laws and practices of the target markets can vary considerably, even if the home market and target market are both common law, and both civil law jurisdictions. The only way that home country counsel can ensure their own client's interests are protected, is to engage local counsel to at least review and comment on the draft agreements, which should include any proposed letter of intent or similar preliminary document. Otherwise, the home country franchisor may miss an issue they are not even aware of.

And, of course, tax issues cannot be ignored. At the very least, consideration needs to be given to the fact that non-resident withholding taxes will typically apply and require that foreign franchisees withhold from the amounts otherwise due to the non-resident franchisor a percentage of the non-resident franchisor's royalty payments and initial franchise fees, and remit them to the local income tax authorities, as the non-resident franchisor's income in the target market. The rate is often fixed, but then may be reduced, and there may be an offsetting credit in the home market, but that will depend on the existence and content of any tax treaty between the two countries.

Most home country franchisor counsel are aware that there is a withholding tax issue. Some are even aware that a common strategy to make sure the home country franchisor is not negatively affected is to require that the franchisee "gross up' the payments, to compensate for any amounts withheld.

But truth be told, the home country franchisor's counsel that deals only with the withholding tax issue is not serving their client's best interests. Prudent home country counsel retains an advisor that is capable of giving local country advice related to tax matters prior to franchising in a new market. That is but one issue, as others will arise depending on whether the franchisor entity to be used is in the home or target market, the nature of the rights granted, the type of payments being made, and whether the franchisor requires that funds be repatriated to the home market, or used to fund operations in that target market or in other countries.

At some point, tax advice needs to be obtained, and that advice needs to be from the perspective of the home market (presumably where the funds will be paid) and the target market. This may or may not require that separate tax professionals be consulted, so that the ultimate pieces fit together like a well-made puzzle that provides a clear picture.

In some instances that advice is not obtained at all, is obtained late, or the tax advice does not take into account the franchise law implications of the advice given. Those are situations that should be avoided, as then strategic decisions are made in haste, without complete information, or issues are missed entirely.

(iii) ***Payment Issues***

One of the most important issues for a franchisor is making sure they can get paid by the target market franchisee. Apart from the non-resident withholding tax issue discussed above, being able to get paid can raise both practical and legal issues. Some countries still restrict payments from their country's citizens to foreigners, except with central bank permission. Other contractual issues include the designated currency of payment, whether funds are to be converted by the franchisee before payment to the franchisor, and who bears the cost and risk of loss when converting funds.

And then there are the practical issues relating to payment, such as taking guarantees, security interests in tangible or intangible personal property and real estate, letters of credit, and the legal and practical ramifications of getting a valid and enforceable security interest, taking all necessary steps to ensure payments are received, and enforcement mechanisms upon default.

(iv) *Governing Law and Venue*

Most franchisors would naturally prefer to specify that their home country law applies to the contract, and that any disputes are to be heard in courts or by arbitrators in their home market. That may work fine for contracts in some countries, but not in others. On the other hand, the franchisor may have no practical choice, depending on the laws of the target market, but to have the target market's laws apply, and those courts be the venue specified. Alternatively, a neutral site may be most advantageous. And the answer may be very different depending on which countries are involved.

Then there is the practical issue on whether the "rule of law" is at all respected by the citizenry, and whose court system can be most trusted. And if a judgement can even be obtained, can it be enforced? Governing law and venue is generally seen as a business issue. While local counsel should advise home country counsel on the enforceability of such provisions, this is an area where the franchisor will likely have a strong preference toward uniformity and to deal with local law issues when they arise.

(v) *Litigation and ADR*

Similar to the issue described above, some franchisors gravitate to litigation as the best dispute resolution mechanism, while others believe mediation and/or arbitration are more advantageous to them. That view often comes from the franchisor's home country's counsel, and their own views are based on their local experience. That, once again, may be entirely relevant or irrelevant to a particular international target market. But, this is another example of a business issue upon which the franchisor will generally have strong views, and where local counsel input can be critical. International conventions on the enforceability of court judgments may also have to be considered.

1.2 Common Legal and Business Issues Negotiated in these Agreements

The title of this subsection of the paper is a bit misleading. The reality is that almost any provision of an international multi-unit agreement, and especially those for a significant territory and at significant cost, are commonly subject to negotiation. The same may even be true for single unit franchises, especially where they are significant investments.

Obviously, the business issues are always the first issues to be subject to negotiation, namely, the amount and timing of payment of any initial fees, the ongoing royalties, the advertising fund amounts, and even renewal and transfer fees.

The secondary "payment" issues that often arise include who is to share in the volume rebates and benefits generated in the target market, any obligation to purchase goods or services from the franchisor or franchisor designated suppliers, as well as the right to profit on the supply chain. This is especially true in situations where a significant master franchisee or developer are taking significant responsibility for the brand in the target market.

But make no mistake, for a variety of reasons, almost every other provision of an international multi-unit agreement may end up being challenged, changed and negotiated. This can include such often controversial provisions as those relating to territory, reservations of rights, alternate channels of distribution, a development schedule, ownership and use of customer data, responsibility to operate an

advertising fund, levels of training and ongoing support, renewal and transfer conditions, trademark warranties and indemnities, and obligations on termination.

1.3 Franchise Law Compliance

More and more countries are adopting franchise laws. Many deal with regulating the sale of a franchise, while others regulate the relationship amongst the parties, either by mandating what can be in the contract, or insisting on provisions that will override the contract. Some countries require delivery of a disclosure document prior to signing the franchise agreement, some forbid any payment before a certain time after a disclosure document is given. But even in countries without franchise specific laws, there may be other laws that impinge on the franchisor's ability to offer a franchise in the target market, or will affect the nature of the legal relationship.

There are several good sources for basic information on these laws. However, those resources seem to merely reinforce the view that the franchisor's home country counsel cannot assume they can be competent to give the necessary level of advice to the franchisor about franchise law compliance in the target market. In some countries, the laws are interpreted by the government, while in others, the resulting case law is important. And in some countries, knowledge of both is necessary in order to be able to comply.

Franchise laws often impose serious civil and/or quasi-criminal liability on a franchisor that fails to adequately comply. The money saved by not retaining local counsel in the target market will usually pale in comparison to the franchisor's possible exposure if they fail to adhere to a franchise law's requirements.

1.4 Other Laws that may affect the Grant of a Franchise

As mentioned in the section immediately above, some countries do not have franchise specific laws, but instead have laws that can be just as onerous if and when applied to franchising. For instance, various Middle Eastern countries have laws designed to protect local agents of foreign distributors. But there is a fear that these laws may be interpreted to catch the franchise business model relationship.

But apart from franchise and franchise-like laws, any number of laws can affect the franchisor's industry. Only competent counsel can advise with any certainty on any number of local laws that can affect the franchisor's business. A short list of examples would include laws regulating the sale of alcohol, regulating certain types of brokers and dealers (such as real estate brokers and financial advisors), regulating certain industries (such as car, boat and other equipment dealers), and offering certain services (such as residential contractors). No book or paper could ever hope to comprehensively list all such permits, licenses or laws that need to be obtained or adhered to in every country. If nothing else, the list is likely ever changing.

2. Choosing and Using Local Counsel

The title of this paper is "Finding and How to Work with the Right Local Counsel". That is key to remember, as the exercise always should be to find a way to give the best and most cost effective advice to a common client, and that you are each "on the same team". But there are a myriad of ways that can be done, depending on the situation. Not every local counsel will be the right for each transaction, and not one approach will appeal to all franchisors, and their home country counsel. In most instances, the franchisor wants their home country counsel to be intimately involved both in selecting the local counsel and in the local counsel's activities. Once a local counsel is selected, in some situations the home country counsel backs away, for fear of duplicating the work that must in any event be done by counsel in the target market. In other situations, where the matter is not managed correctly, there is duplication as home country counsel

and target market counsel do end up duplicating effort, costs escalate, and client's expectations are not met. So, how can the players on the same team work together efficiently?

2.1 Considerations for Choosing Local Counsel and Where to Find Them

When a franchisor chooses home country counsel it is likely an involved process involving an RFP process, or at least the decision is based on weighing factors such as the lawyer's knowledge of local franchise laws and experience in the franchisor's particular industry, their general approach to the practice of law, and legal fees. There are also likely other factors that play in to the decision, even if only subconsciously. For example, how business focused the lawyer is, and how able the lawyer is to understand and adapt to the franchisor's business concerns may play in to the decision.

When choosing local counsel, presumably the franchisor and their home country counsel will consider the local counsel's knowledge of franchise law and will ask for fee estimates. Some of the other factors outlined above may not seem as relevant. After all, in most cases the relationship with the local counsel will be limited after the initial transaction closes. However, given the importance of how that first relationship is structured, franchisors and their home counsel are advised to think about the other factors as well.

The general approach to the role of a lawyer can vary significantly between countries. In the U.S. and Canada, for example, a lawyer is often called on and expected to provide business focused advice to their clients that goes well beyond just interpreting the law. This is not always the case in other countries. When looking for competent counsel, the parties should look not only for legal competence, but also to the local counsel's ability and willingness to think about and offer up legal solutions that may better accomplish the franchisor's business and financial goals. In the same vein, lawyers in some jurisdictions may be unaccustomed to handling clients who are willing to take some degree of risk when faced with uncertainties in the law.

Mostly these types of issues can be worked out if the franchisor and home country counsel spend some time upfront in selecting and instructing local counsel. In today's global economy it is common that home country counsel will have at least some contacts with franchise lawyers in other jurisdictions. This is certainly the case with home country counsel that regularly advises on cross-border franchise matters. Likewise, through basic online research it is easy to find franchise lawyers across the world and with just a little bit of extra digging it will become obvious who is recognized in the field. General instructions to local counsel will also help ensure the likelihood of a better experience for all parties involved. For example, instead of just asking local counsel to review form agreements for enforceability under local law, the parties should consider to also request that local counsel reviews the agreements with an eye towards what is common in the local market and whether any of the provisions are likely to be problematic (even though they may be enforceable).

2.2 Franchisor retains Local Counsel vs. Outside Counsel in Home Market Retains Local Counsel

This issue can be looked at on two levels.

One way to consider the issue relates to the technical retainer issues that arise. The choice is typically between having local counsel retained directly by the franchisor and the home country counsel being the direct client of the local counsel. Local counsel in a target market will usually be looking at the franchisor as a new client, in a country far, far away. So, if there is a prior relationship between the home country counsel and the local counsel, local counsel will often want the comfort of the home country counsel as their client, and ultimately responsible for payment, or for adequate retainer arrangements to be put in

place by this new client. This is often the case even where there is no prior relationship between the two lawyers. Whether this arrangement appeals to franchisors depends on the circumstances. If the involvement of local counsel is significant and there is a need to review extensive invoices, the franchisor may prefer to have a direct relationship with the local counsel.

The discussion above deals with the formalities of the retainer, and administration of the account. But, a second way to look at this issue relates to whether a franchisor can better control the ultimate cost of outside legal counsel on an international deal by directly retaining and instructing local counsel in the target market. While home country counsel may stay involved, a direct retainer presumes that the franchisor, and not home country counsel, will take on the bulk of the responsibility in dealing with target market counsel.

But this can only work well if the franchisor's in house staff, legal or otherwise, can adequately advise target market counsel. If not, then the practical reality is likely that home country counsel will have to play a valuable role with their knowledge of company and deal history, and the client's legal and brand related issues.

Sometimes a franchisor will require that home country franchise counsel stay very actively involved by being the "quarterback" on all activity outside of the home market. This would likely be more the case where a company is embarking on their first international deals.

The reality is that often the level of activity by outside counsel will vary by the level of comfort that the client's in-house team has in relation to the target market.

2.3 The Various Ways to Work with Local Counsel

(i) *Who does what, and where, and when?*

As already suggested, local counsel should be consulted as early as possible to deal with the trademark protection, and in any event, at the point in time when the franchisor is ready to discuss or negotiate a letter of intent, term sheet, or other preliminary document, if any. That is for two key reasons. The first is that the target market's local laws may themselves interfere with the franchisor's freedom to enter into a binding, or non-binding, letter of intent or equivalent. In some cases, no binding agreement of any kind between a franchisor and prospective franchisee can be entered into until the local country's franchise laws are complied with. Likewise, sometimes a letter of intent may bind a franchisor to more than they intended, if not drafted as required local law. Secondly, it is at this stage that the franchisor should be considering corporate and franchise structure, and any relevant tax issues.

(ii) *Is there a Preferred or Most Efficient Approach to Dividing the Work?*

A franchisor with plans to expand to more than one country is likely best advised to create template forms of agreements that it is content with under the laws and practices of the home market, using their home market counsel. Those agreements and documents should also include the types of provisions that are standard in international franchise documents, addressing concerns such as the tax and payment issues raised above, and other provisions frequently addressed in international deals (e.g. language and translation issues and post-termination issues). But the franchisor should also recognize that for every country those template forms will need to be sent to target market local counsel retained on behalf of the franchisor for review and customization. The franchisor should assume that some changes will always be needed to comply with the laws and practices of the target market, while local counsel should assume that the franchisor will be adverse to such changes.

If the target market has a franchise or similar law mandating pre-sale disclosure through a franchise disclosure document or equivalent (FDD) then a closer analysis on process should be made. Whether or not home market counsel should prepare the FDD, may depend on whether the home market itself has a requirement for a FDD, such that one already exists. If so, then it is likely most efficient to deliver the home market FDD to local counsel, so that local counsel can then use that to prepare a FDD that complies with the laws of the target market. This approach assumes that local counsel can and should be in a better position to advise on the correct content of a target market FDD.

Another approach could be to have home market counsel prepare a draft target market FDD and then send it to local counsel for review. The efficiency of that approach may depend on what experience the home country counsel has on preparing a target market FDD. If it is their first time, if they do not have a lot of practical experience, or if the requirements can vary greatly by industry, or due to ongoing case law developments, etc., then the home market counsel is likely learning as they are going, and being educated by local counsel. This is likely to require more time being spent, and lead to greater cost for the client.

Preparing agreements and target market FDDs without seeking input or advice from local counsel in the target market is high risk. While it is apparent that the theme of this paper is that such activity should be avoided, it is certainly something that goes on despite the practical and legal risks for client and lawyer. The consequences of that approach will be considered below.

Once the documents (including FDD) are in the hands of the candidates, there is then the issue of negotiation of the terms. In some cases, the division between home market and local counsel is not relevant, as the client takes the lead. In other cases, and for the sake of consistency with prior deals, the home market counsel will take the lead. In other cases, the deal will hinge on many local market issues, and local counsel will take the lead. In both situations, the counsel taking lead may rely on the other for strategic advice on necessary issues. At some point one or both may have to be involved with the client in the negotiation process. Roles and responsibilities in the contract negotiation process should be clearly defined between home market and local counsel at the beginning of the transaction, if at all possible. That being said, the roles can changes as the negotiations evolve. Good communication between all team members is key to ensuring a smooth process and an outcome that considers relevant aspects such as local law compliance and the franchisor's financial and business goals.

(iii) *Does the Same Approach Work in Every Country?*

This issue can also be looked at in two ways.

On one level, a similar approach to working with local counsel can likely work the same in every country, and likely produce the most efficient results possible. The best division of labor is likely as mentioned above. But in the end, it is determined by the franchisor client. At some point both may have to be involved with the client in the negotiation process, although one may take the lead at some point in time.

But the same approach still likely never means that the same results will be achieved. Laws are too different, business practices vary so greatly from country to country, prospects raise too many different issues of importance to them, and negotiations go in too many directions for the ultimate agreement to end up exactly the same as one concluded with prospects in another country.

(iv) *Does the Method of Franchising Chosen Affect the Approach?*

It is likely the case that the more the franchisor intends to have a presence in the target market, the more likely it is that they will have use for local counsel in the target market sooner, and with greater frequency. So, for instance, a franchisor that enters into a target market using single unit franchising, and a

target market subsidiary corporation, will need local counsel earlier and often. In contrast, if the franchisor intends to use their home country corporation and grant one single country wide master franchise, then it is more likely that local counsel will be needed in relation to that deal, but infrequently thereafter.

Nevertheless, in terms of any multi-unit expansion from home country to target market, the approach outlined above will likely not change. Local counsel still needs to be used for IP protection, corporate and tax structure, localization of the documents and franchise and other law compliance. Home country counsel should still prepare the template documents, instruct and interact with local counsel, and one or both will be involved in negotiations.

The costliest route will be where a franchisor who decides to change their method of franchising from country to country. But there are some franchisors who have decided for business reasons to use single unit franchising to enter a closer target market, area development for larger markets, and then master franchising for markets that are geographically distant. Not only does this sometimes mean that various template forms of agreement need to be created, but it can also change the cost, complexity and timing of preparing any necessary FDD.

3. Consequences of Not Using Local Counsel

As this paper has likely already made clear, it is the view of these authors that any home country counsel that does not engage or have their franchisor client engage target market local counsel is proceeding in a dangerous fashion both for the lawyer and their client. For the franchisor, it may mean being stuck with an agreement for a substantial market that is either not enforceable according to its express terms, or that may not produce the business and financial results that the franchisor thought it negotiated for. For the lawyers, it may raise issues of malpractice.

Historically, lawyers have drawn careful lines between practicing law in their own jurisdiction and advising on the law of another jurisdiction. However, the increased integration of world economies has resulted in the globalization of legal practice and the requirement of cross-border legal expertise. With the increase of cross-border transactions, lawyers will inevitably run into foreign legal issues.

Generally, lawyers from any one jurisdiction are only permitted to practice law within that jurisdiction, but the question of what actions are deemed the "practice of law" is sure to arise. The discussion below will outline some of the rules and regulations for lawyers involved in cross-border transactions, specifically lawyers located in Canada and the United States; insurance and liability issues will also be discussed. It is not practical or practicable to canvass every state and the District of Columbia for their treatment, so the United States will be discussed generally with a few specific examples. The discussion of these jurisdictions is meant to be illustrative of the issues involved in home market counsel providing to their clients direction on the laws of a foreign country/target market.

3.1 Canada

(i) *Foreign Counsel Providing Advice on Canadian Law*

The rules regulating the practice of law in Canada are quite stringent. Canada has fourteen provincial and territorial law societies which regulate the legal profession in the public interest. Canadian lawyers are part of a self-governing profession and are required to be members of their province's law society. Each law society is functionally similar and serves to license and regulate lawyers. Canada's law societies are authorized through provincial legislation and a set of rules or bylaws that provide procedural clarity to the society's power. Each province's legislation has a similar requirement that its practitioners be licensed members of that province's law society. This ostensibly prohibits foreign lawyers from advising

clients with regard to Canadian law. Further, foreign lawyers are prohibited from representing themselves as a lawyer in a Canadian province if they have not been licensed by that province's law society.

(ii) *Canadian Counsel Providing Advice on Foreign Law*

Some provinces have explicitly banned foreign counsel from practising law in their province, while other provinces are silent. The difficulty in policing may add to the reluctance of the law societies to enforce sanctions on lawyers advising clients outside of the province. Ontario, for example, allows foreign lawyers to apply for a permit that grants them permission to practise their foreign law in the province, under certain conditions. This means that, for example, a lawyer from New York could be permitted to practise New York state law in Ontario jurisdiction as a foreign legal consultant. There are several requirements that must be fulfilled to acquire a permit of this nature, most notably the requirement to be authorized to practice law in a jurisdiction which has provisions respecting the giving of legal advice comparable to Ontario's. *Canadian Counsel Providing Advice on Foreign Law.*

Canadian lawyers are barred from giving legal advice on foreign law if they are not licensed in the relevant jurisdiction and are liable to be fined for committing such an offense.

Canadian lawyers from every province, who are involved in private practice, are required to be insured for professional liability. Accordingly, each province has a corresponding insuring entity. These policies provide lawyers coverage for the performance of professional services, and protection from claims resulting from the lawyer's errors, omissions, and negligent acts. Lawyers' insurance covers professional services provided in Canada, where such services are performed with respect to the laws of Canada, its provinces, and territories. The insurance policies are such that even the most basic advice with respect to foreign law may be beyond a lawyer's coverage. Canadian lawyers are advised to direct their clients to seek the opinion of foreign counsel where issues of foreign law arise.

Under Canadian legislation, a lawyer could be practising law in a Canadian province even if they are not present in that province, or even the country. For example, if a lawyer is giving legal advice with respect to the laws of Ontario on the telephone, by e-mail or through correspondence from a province outside of Ontario they are considered to be practising law in Ontario.

3.2 United States

(i) *Foreign Counsel Providing Advice on U.S. Law*

Determining what rules apply to foreign counsel providing legal advice on U.S. law requires the determination of several issues: (1) Is the advice regarding federal law, or state law, and if so, which state; (2) Who is the "foreign" counsel; and (3) What constitutes the practice of law in the relevant jurisdiction?

Franchise law is a good example of how the first issue plays out in the U.S: there is federal regulation of disclosure of franchisees, but there is also a multitude of state laws that regulate disclosure, registration and franchise relationships. Therefore, while franchise law advice in the U.S. will almost always include federal law it may also include the laws of one or more states.

The second issue – who is a foreign lawyer – arises because of how lawyers are licensed in the U.S. Just as franchising is governed on a federal and state basis, lawyers are licensed on a state basis (and federal in some areas, such as patent law), making the epithet "U.S. lawyer" a misnomer. U.S. lawyers are really New York lawyers, Illinois lawyers, and so on. Consequently, foreign counsel in a U.S. state may very well be a U.S. lawyer who is not licensed in that state, just as well as a lawyer who is not licensed in *any* U.S. state.

Finally, because each state regulates the practice of law for that state this means that the definition of "practice of law" varies between states. In a number of states the definition is very narrow, only encompassing litigation. Most states, however, have a broader, more general definition, also covering typical transactional and regulatory matters.

Many states model their rules after the American Bar Association Model Rules of Professional Conduct. Rule 5.5 of the Model Rules discusses the unauthorized practice of law. Generally, a lawyer may only practice law in a jurisdiction in which he or she is authorized to do so. Many states, though, have a very vague definition of what the unauthorized practice of law entails. As a result of the lack of specificity, it is unclear how much advice a foreign lawyer may give before crossing the threshold into unauthorized advice.

(ii) *U.S. Counsel Providing Advice on Foreign Law*

There are no specific rules or guidelines that mention American lawyers giving advice on the laws of a foreign jurisdiction. The U.S. counsel, when giving advice on a foreign jurisdiction, is only charged with advising "competently". It seems that courts have embraced the notion that as long as the lawyer is knowledgeable in the foreign law, then they have fulfilled their duty of competence. Once the lawyer has identified an issue of foreign law, they must address it promptly and with the same skill as a foreign counsel would. The competency requirement will often lead them to refer their client to foreign counsel.

The American professional liability model is not like the Canadian one. There is no overarching insurer that covers all practitioners in a given state. Rather, professional liability insurance is treated like general insurance as opposed to an occupationally specific one. Since there are multiple insurers, the individual firm must choose the coverage that suits its needs. Unlike Ontario, the policies are not a matter of public information, so the specific breadth of coverage will change from policy to policy.

4. Working with Local Counsel in Foreign Jurisdictions: The View from In-House

All franchisors engaging in cross-border franchising should seek the counsel of experienced target market counsel prior to the launch of a franchise program. The importance of retaining experienced, local franchise counsel is critical to avoiding unnecessary errors, or worse, non-compliance with local franchise and other laws. There are a variety of structures that support obtaining local legal advice, but generally a larger corporation will have a designated in-house attorney managing international expansion, either globally or regionally. In turn, in-house counsel is likely to retain a preferred "go to" home market firm with a specialized practice in international franchising. This firm often will need to turn to true "local" counsel in the target market to confirm their understanding of local law. From an in-house counsel perspective, tracking the activities and advice of three layers of attorneys from different firms, often with multiple attorneys and paralegals at each firm, can be expensive, confusing, and time consuming.

To increase operational effectiveness and to reduce costs, an ounce of prevention is worth a pound of cure. Thinking through in advance the structure of your target market and local market retention practices as well as matter management can significantly reduce the number of touch-points (and head-aches) in-house counsel may have in dealing with numerous local counsel. Converging home market representation – and possibly international regional representation, perhaps through utilizing a request for proposal ("RFP") process is one way to streamline the provision of local market advice. The intent of any attempts to converge representation and any related RFP should be to find competent counsel in the home market and, if deal flow warrants it, in a target growth region, to act not only as advisers, but also as relationship managers. A true relationship manager should understand the client's development history, negotiation practices, brand initiatives, and company culture. There is a learning curve to this, but the relationship can be cultivated through the interview or RFP process, and as necessary subsequent on-boarding. Firms

selected as relationship managers should be aligned to always consider the inefficiencies related to costs and speed of service in the current process and to recommend alternatives to increase efficiencies. The efficiencies of cost and time can be enhanced by alignment on alternative fee arrangements for repetitive types of work and agreement on pre-planned budgeting and billing guidelines, which the relationship manager should take the lead on communicating and gaining alignment on when local market legal advice is needed. The relationship manager "owns" the relationship with local counsel, and works to reduce the amount of time each in-house attorney spends on matter management, by incorporating local law advice into their own advice, as well as having local counsel bill through their law firms (and to devise a streamlined way to permit in-house counsel to review local billing records). The benefit to the relationship manager counsel is a steady volume of work and a strong relationship with the corporation.

Even with relationship counsel acting as a manager of local counsel, there are times when the use of local counsel cannot be avoided – and a direct relationship between in-house counsel is necessary and desirable.

As an in-house counsel representing a U.S. brand in its global franchising projects, if there comes a time when that direct local counsel relationship is necessary, there a number of characteristics/qualities in local counsel that are key to successful and efficient representation. Probably the most important quality in local counsel is timeliness or speed of service. When in-house counsel seeks advice from local counsel, it is likely that the advice is needed in order to complete a necessary stage within a deal, and that any delays in obtaining the advice could throw an entire project timeline off course, impacting multiple in-house client professionals assisting in the transaction. Returning emails and phone calls in a timely manner can make or break local counsel's odds of being retained for future matters. In fact, when international local counsel directly returns messages and provides prompt completion of projects, they are nearly certain to be rewarded with more work.

A second important quality is creativity in fee structure. Propose alterative fee arrangements; consider whether blended rates, flat rates for specific transactions, retainer-based work is appropriate, etc. The more creative counsel can be in proposing alterative fee arrangements that ensure budgeting certainty for the company, the more likely that attorney is to be retained.

Don't underestimate costs. It is better to overestimate how much a matter will cost than try and "win" business by underestimating costs and hoping for the best. In-house counsel will rely on the budget proposed. Absent circumstances that could not be foreseen at the time, requests for additional funding for a budgeted matter will not be well received and will reflect on your level of experience in the area in which you are advising. Whatever happens, do not exceed the budget in the matter without consulting in-house counsel and don't make decisions on your own that will put the budget in jeopardy. An inability to communicate effectively with in-house counsel on cost is serious red-flag for in-house counsel and a fundamental reason local counsel are not rehired when budgeting issues arise.

Think carefully when staffing a matter and confirm staffing changes or additions with your in-house counsel. In-house counsel expects that both the number and specialties of the attorneys that local counsel identifies to staff a matter will be appropriate to the matter at hand. Some companies, for example-through their billing guidelines, may retain approval rights over which attorneys and paralegals may staff a matter and may not permit staffing changes without approval. The reason for this is two-fold. First, in-house counsel is seeking to control the amount spent on legal services by ensuring that multiple layers of attorneys are not handling the same matter. Second, staffing changes are inevitably accompanied by a learning curve, which increases costs and slows process. In-house counsel do not view their U.S. matters as learning opportunities for local market counsel and they should not be treated as such. Unless the junior team members are well-versed in the work to be done and have been already proven to provide value, U.S. based franchise companies will usually not pay for staffing matters with junior team members or staff that

is inexperienced in franchise matters or that otherwise require supervision at a more senior level. Nor do in-house counsel want to become the junior team or staff members' educators. There simply are not time or resources for this level of oversight.

Appreciate how pressed for time the in-house attorney is. Never draft a legal memo without being absolutely certain that the in-house counsel desires this. If the question that is being asked can be answered with a "yes" or "no" or other short e-mailed, high-level response, you should respond that way and then ask the attorney if a more formal or detailed response is required. And even then, ask whether a separate formal written memo is necessary. Never assume that you should do research without formal approval. And do not assume that if research is performed, even with in-house counsel approval, that the legal budget will cover your legal research costs.

If it at all can be avoided, do not present problems or issues without also presenting potential solutions to that problem or issue. Always consider and provide a risk assessment of how likely the problem or issue is to occur. Is the problem likely to occur? Is the risk remote? If the worst case scenario does occur, what will the impact to the company be? Too often I have been advised by local counsel with absolutely zero risk tolerance. In the world of business, where the plans have already been made to perform the project, this is not an acceptable viewpoint from which to provide advice. It is better to provide an understanding of the risks, and then solutions for risk mitigation.

Understand your client's business. Having a deep knowledge of franchising as a business and the sector your client is in is critical to giving advice that is not only legally sound, but makes business sense. If a target market is highly regulated, it does no good to the in-house counsel if the local market counsel has only "dabbled" in the local franchise regulatory structure. While anyone can read rules and interpret them, there are often local "gloss" or understandings of how local regulatory agencies work in practice that, if known by the local target counsel, are clearly a benefit to the in-house counsel's project needs. The local advisor that truly understands franchising as a business and the relevant industry is virtually certain to be retained the next time an issue arises.

Having the appropriate technology is critical. Be ready to implement e-billing and/or matter management systems. Such matter management systems are the future and required by an increasing majority of corporations. More in-house departments are establishing rules that they will plainly not retain counsel that is unable to electronically transmit invoices into its matter management system. At a minimum, if local counsel not able to adapt the in-house departments' e-billing needs, local counsel should be prepared for delays in the payment of their bills.

Understand roles and responsibilities. While it is important to develop a good working relationship with in-house counsel's business partners, it is the role of in-house counsel to communicate local counsel's advice to the client. When communicating with the company, always work through in-house counsel, unless he or she directs you otherwise. If the need arises and direct communication with in-house clients is required, always copy in-house counsel on such communications and ensure they are aware of any verbal communications you have directly with the client.

Finally, remember that the goal of the engagement is to resolve the matter to the company's satisfaction, not to "win". Do not prepare and/or file lengthy expensive (budget-killing) briefs without in-house counsel's advance knowledge. .Any advice provided should be with mitigation of eventual legal or litigation costs in mind. A negotiated business solution is nearly always preferable to a victory in court.

BIOGRAPHIES

Kerry Renker Green

Kerry is Associate General Counsel, Global Franchise at The Wendy's Company. Kerry has significant experience in both corporate law and as a complex commercial litigator. She has represented franchisors and business clients in multiple jurisdictions in various aspects of developing their business around the world. Kerry has drafted Franchise Disclosure Documents, overseen registration obligations, led transactions to establish, transfer, and/or procure single and multi-unit franchised businesses, negotiated and closed service agreements within the IT, advertising, supply chain and logistics, and design sectors, as well as assisted with issue-spotting and navigating the many legal questions that arise in the business of franchising. Kerry also has experience advising in the area of advertising and in closing large sponsorship and marketing transactions as well as in the areas of privacy and cyber security. Litigation experience includes discovery, arbitration, and trial and appellate work in state and federal courts. Kerry's current experience is as in-house counsel in the quick service restaurant sector, focusing on global franchise advice, including domestic and international growth and issues arising at all stages of the franchise life-cycle.

Beata Krakus

Beata is a partner of Greensfelder, Hemker & Gale, P.C., and part of the firm's Franchising & Distribution Practice Group. She works out of the firm's Chicago office. She works with franchisor clients in domestic and international franchise transactional matters, as well as related areas such as distribution and sales representative arrangements, and other commercial contracts. She has advised, structured, and prepared franchise programs for many different franchise concepts including real estate brokerages, hotels, restaurants, and fitness and personal health systems. Beata holds both Swedish and U.S. law degrees and before practicing law in the U.S. she practiced in Warsaw, Poland with the Swedish law firm of Magnusson Wahlin.

Beata is a member of the Governing Committee of the ABA Forum on Franchising. She is a frequent author on franchise-related topics and has written articles for the Franchise Law Journal and other franchise law publications, and has spoken repeatedly at the ABA Forum on Franchising and International Franchise Association Legal Symposium, as well as the International Distribution Institute and the International Franchise Association Convention. She is recognized by International's Who's Who of Franchise Lawyers and by Chambers USA and Chambers Global.

Larry Weinberg

Larry is a partner at the Toronto law firm of Cassels Brock & Blackwell LLP. Since 1989 he has had a practice that specializes in franchise law and providing all necessary legal services to franchisors. He is a Past Chair of the IBA's International Franchising Committee and the Ontario Bar Association's Franchise Law Section, and was the founder of, and to date has organised and chaired four Ontario Bar Association annual franchise law conferences. He is a member of the American Bar Association's Forum on Franchising, and in 2006, he was the first Canadian lawyer to be appointed Director of the ABA Forum's International Division and to a leadership role on its Governing Committee. In 2009 he had the honor of being Co-chair of the ABA's 32nd Annual Forum on Franchising conference. He is also a member of the International Franchise Association, and the Canadian Franchise Association. In 2017 he acted as co-editor of the ABA Forum on Franchising's book entitled ***Fundamentals of Franchising-Canada (2nd edition)***.

As well he was co-editor and co-author of the Canadian Franchise Association's first and still only official book publication entitled, ***How To Franchise Your Business***. He is a co-author of the chapter on Canada for the ABA Forum's book entitled ***International Franchise Sales Laws***. Starting in 2004 and continuing to and including 2019 Larry has consistently been named by Franchise Times to their "Legal Eagles" list of the top franchise lawyers in the United States and Canada. He and Cassels Brock are each listed in the *Lexpert*® Canadian legal directory as being among the leaders in Canada in franchise law. In each of 2014, 2015, 2016 and 2017 Larry received Who's Who Legal's one and only worldwide Lawyer of the Year award for Franchise law. Larry was called to the Bar of the Province of Ontario in 1989.