Patent Mediation and Arbitration Centre
Mediations- und Schiedszentrum für Patentsachen
Centre de médiation et d'arbitrage en matière de brevets

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# Guidelines for Dealing with FRAND Disputes in Mediation, Arbitration, Expert Determination and Hybrid Formats

*OUTLINE — DRAFT FOR DISCUSSION*

*Note: Guidelines for dealing with FRAND disputes are contemplated in Article 27 of the Mediation Rules, Article 49 of the Arbitration Rules and Article 21 of the Expert Determination Rules. The non-binding Guidelines are intended to be generally descriptive in character: they describe practices, options and considerations that have proven useful in resolving FRAND disputes. The Guidelines are intended to promote consistency, efficiency and best practices, without imposing obligations on parties, neutrals or the Centre, and without derogating from the Rules.*

*While the Guidelines will be descriptive rather than prescriptive, the intention is to formulate the Guidelines in such a way as to allow parties and neutrals to draw on lessons that have been learned from FRAND disputes in the past.*

*Party autonomy in determining the shape of ADR proceedings is a significant benefit of ADR compared to litigation. That is particularly the case at the PMAC, where the Rules provide for a wide degree of procedural flexibility. We see the FRAND Guidelines as being a source of guidance to parties when considering whether to make use of the ADR facilities of the PMAC in the first place - and when designing their ADR pathway. The Guidelines are also intended to assist litigants and neutrals in the conduct of ADR proceedings, once underway.*

*The Guidelines will be updated by the Centre from time to time to take account of the evolution of caselaw and dispute resolution in this area.*

*In what follows, we have attempted to identify in general terms the structure of the intended Guidelines, and to give a rudimentary indication of the proposed contents. At this stage, none of what follows should be considered as being set in stone: the purpose of this initial exercise is* *simply to invite feedback and comments from stakeholders on what they think the PMAC Guidelines should contain. We are particularly interested in hearing about our proposed structure - and about any topics we may have missed.*

# Part 1 — Introduction and General Matters

## 1.1 Purpose, legal basis and status of the Guidelines

This sub-section will explain the mandate for the Guidelines under the Mediation, Arbitration and Expert Determination Rules; their non-binding, best-practice character; their relationship to the Rules (the Rules prevail); and the Centre's intention to review and update the Guidelines periodically.

## 1.2 Definitions and scope of application

This sub-section will note that the Guidelines are to be read in conjunction with the Rules and that the capitalised terms relevant to FRAND disputes (FRAND/RAND, Standard, SEP, FRAND dispute, Related Disputes) have the meaning given to them in the Rules.

## 1.3 Characteristics of FRAND disputes relevant to ADR

This sub-section will set out the features that distinguish FRAND disputes from other, more typical patent disputes, and in particular touch on the circumstance that FRAND disputes frequently relate to global, portfolio-based licensing negotiations, which may in some cases involve licensing through a platform or an agent-managed pool. The connection with standards and the standardisation process will be discussed, as will the nature of FRAND declarations. The sub-section will describe the commercial character of the dispute and in broad terms the various economic methodologies that can be applied to it.

The Guidelines will explain the commercial sensitivity surrounding the details of comparable licence agreements on the one hand; and the interest that (third) parties and neutrals may (or may not) have in a degree of transparency on the other. The Guidelines will note the frequent occurrence of parallel litigation in multiple jurisdictions, including attempts by parties to obtain injunctive and anti-suit injunctive relief (and anti-anti-suit relief and so on). The Guidelines will point out the advantages of considering ADR before the PMAC as a means of streamlining and resolving FRAND disputes.

This sub-section will also make the point that party autonomy in arbitration proceedings before the PMAC means that parties are in principle free to decide the substantive law that should be applied by the tribunal to their dispute (Article 19 Arbitration Rules), provided that parties and tribunals do not deviate from the law governing the interpretation of the relevant FRAND declaration and their obligations stemming from it.

## 1.4 The Centre's procedures

This sub-section will outline the ADR menu available for FRAND disputes before the PMAC: the free, confidential ADR information session (Article 4 Arbitration Rules); arbitration (including expedited and emergency procedures); mediation; expert determination (binding or non-binding); and hybrid Med-Arb structures. The sub-section will note that the procedures are modular and may be combined. For example, an essentiality assessment by expert determination might take place within the framework of an arbitration; or, in hybrid Med-Arb proceedings, it may be possible to reach agreement on significant parts of the FRAND dispute, while reserving arbitration for more intractable points.

## 1.5 Defining the scope of the FRAND dispute

This sub-section will describe the shared premise of all three sets of Rules that parties should define the scope of the FRAND dispute as precisely as possible, at the earliest stage and preferably before the first case management conference or first mediation session.

The sub-section will make clear that while the Arbitration Rules contemplate (in Article 20) a comprehensive initial case management conference to determine the roadmap for the arbitration, there is nothing to prevent parties from agreeing detailed Terms of Reference in advance of the conference.

## 1.6 Confidentiality and protection of sensitive licensing information

This sub-section will describe the confidentiality architecture common to the PMAC's ADR procedures covered by the Guidelines, and the additional measures parties typically agree in FRAND cases: restricted-access arrangements (confidentiality clubs), separate NDAs, confidentiality orders from a competent court (Article 25 Mediation Rules; Article 47 Arbitration Rules), and potentially also confidentiality advisers.

The sub-section will note the balance struck by the Rules between confidentiality and transparency through anonymised publication of awards and determinations absent timely objection. While recognising party autonomy over the publication question, the Guidelines will encourage parties to agree to anonymised publication, not least in order to help build up a coherent body of caselaw for the future benefit of parties and neutrals.

## 1.7 Selection of neutrals in FRAND disputes

This sub-section will describe the qualities parties typically look for in mediators, arbitrators and experts in FRAND matters (familiarity with patent disputes, and with the relevant technology, familiarity with the models commonly used in licensing practice, valuation economics, and standardisation). Where a dispute concerns royalty determination, portfolio valuation, comparables, cross-licensing or damages, parties may wish to consider whether the appropriate expertise is best provided by an economically qualified member of the panel, a jointly instructed expert, a tribunal-appointed expert, party-appointed experts, or a combination of the above.

The Guidelines will point to the Centre's lists of neutrals and shortlisting procedures, and the disclosure and independence requirements under the Rules and Codes of Conduct.

# Part 2 — Arbitration of FRAND Disputes

## 2.1 Commencing the arbitration: model submission agreements for FRAND cases

This sub-section will briefly describe the main ways in which FRAND disputes are likely to find their way into arbitration before the PMAC: by existing contractual agreement between the parties or by *ad hoc* submission during litigation or otherwise. The Guidelines will provide, in an Annex, suggestions for crafting suitable FRAND-specific submission agreements.

## 2.2 Case management in FRAND cases

Building on what is set out in Part 1.5 above, this sub-section will discuss in more detail the matters that will likely need to be addressed in any Terms of Reference and / or in the first procedural order in arbitration proceedings.

In particular, this sub-section will deal with the potential for the sequencing or staging of the FRAND issues by the parties and the tribunal (one possibility being a "FRAND first" approach, for example). The Guidelines will emphasise the importance of absolute clarity in the Terms of Reference / submission agreement and explain the value of decomposing FRAND disputes into decidable components (for example: essentiality, methodologies to be used, rate setting, geographical scope, determining (other) terms), and matching each component to the most appropriate and proportionate procedure.

To this end, an exemplary checklist of points parties may wish to consider when framing a FRAND arbitration will be provided in an Annex to the Guidelines.

## 2.3 Evidence in FRAND arbitrations

This sub-section will discuss, in general terms, the evidence likely to be adduced in FRAND arbitrations.

The Guidelines will focus on three FRAND-specific concerns.

First, on the question of portfolio strength and valuation, the Guidelines will briefly summarise in general terms a number of approaches commonly taken to FRAND rate determination.

The Guidelines will note that in FRAND litigation, parties often rely on expert evidence from economists and accountants on the question of the valuation of the portfolio; and that Courts will be called upon to select and analyse relevant comparable licences. In some cases, this may involve "unpacking" licenses and cross-licences. The Guidelines will explain that some Courts use a top-down approach, for example by way of a cross-check.

Although the intention is to discuss in general terms different possible ways of approaching portfolio valuation and FRAND determinations, the Guidelines themselves will remain methodology-neutral.

There may be disagreement between the parties as to the methodology that should be used, but the Guidelines will encourage parties to seek to agree as far as possible the general framework approach they wish the tribunal to adopt for portfolio valuation at an early stage of the dispute. Parties should consider whether agreement can be reached on such matters as the proposed valuation methodology; the disclosure of relevant comparable license agreements; the valuation date; the royalty base and structure; and any assumptions that may need to be made. Agreeing a framework structure will allow parties to tailor their evidence appropriately and enable the tribunal to focus on the issues dividing the parties. The Guidelines will also encourage tribunals to be transparent in their awards about the methodology used.

The Guidelines will provide guidance on the tribunal's powers over admissibility and weight (Article 23 Arbitration Rules) and document production (Article 29 Arbitration Rules).

Second, building on what is set out in general terms in part 1.6 above, the Guidelines will deal with the likelihood that the tribunal will have to make appropriate detailed provisions as to confidentiality, for example in order to allow appropriate evidence relating to comparable licenses to be shared. The Guidelines will make suggestions as to how a confidentiality club might be set up, including suggestions as to appropriate commercial safeguarding. The Guidelines will also flesh out the role of the confidentiality adviser referred to in the Arbitration Rules.

Third, where disputes concerning essentiality arise in the context of large portfolios of patents, the Guidelines will describe approaches to determining essentiality, including by using representative portfolio sampling. The Guidelines will describe examples of existing sampling methods, based on common practice.

Other ways of evaluating essentiality, such as the use of specialized evaluation databases and landscape reports, will also be described.

The Guidelines will also point to the possibility of making use of tribunal-appointed experts (Article 28 Arbitration Rules) for such determinations.

Finally, the Guidelines will describe approaches taken elsewhere to party expert evidence, including the use of joint expert statements, the "hot tubbing" of experts, and the use of schedules agreed by the parties to identify those matters on which there is agreement between the experts and the parties, and those on which the experts or parties remain divided.

The way in which evidence is to be presented and evaluated is likely to depend to some extent on the parties' choice of law, but the Guidelines will recommend that in all cases careful thought be given to the question of evidence at the outset of arbitration proceedings. Parties and tribunals may wish to consider, for example, referencing, in the Terms of Reference or in the first procedural order, the provisions of Article 27(4) of the UNCITRAL Rules, and / or Article 5 of the IBA Rules on the Taking of Evidence in International Arbitration, or otherwise setting out in some detail the ways in which the parties and the Tribunal intend to deal with evidence.

## 2.4 Confidentiality and publication (Article 47 Arbitration Rules)

This sub-section will describe the default confidentiality of the arbitration, the *in camera* hearings, and the anonymised publication of awards, absent written objection, within sixty days (Article 47(7) Arbitration Rules).

As noted in part 1.6 above, with an eye on promoting consistency and transparency in arbitration, the Guidelines will encourage parties not to object to the publication of anonymised versions of awards.

## 2.5 Interim measures

This sub-section will describe, in general, high-level terms, interim and protective measures (Article 24 Arbitration Rules) in the context of FRAND cases, including a discussion of the criteria of urgency, irreparable harm, merits, necessity and proportionality.

## 2.6 Form of awards and relief in FRAND cases

This sub-section will describe the forms of relief a tribunal may grant in a FRAND arbitration, including for example: an order to conclude a license agreement on given terms; an isolated determination of the FRAND terms (FRAND rate or rate range, structure, territorial scope and duration); declaratory relief; monetary awards for past use; and orders giving effect to the determined licence.

It will describe the possibility of injunctive relief where the implementer refuses to enter into a licence on the terms determined by the tribunal, including, where appropriate, awards structured so that the enforceability of the injunctive relief is conditional upon the implementer's refusal, within a given time limit following the order, to accept a licence on the FRAND terms determined by the tribunal (mirroring conditional FRAND injunctions developed by some Courts).

The sub-section will remind the parties and the tribunal of the considerations relevant to such relief, including proportionality; and the territorial scope of any injunction.

## 2.7 Limits of arbitration in patent cases

This sub-section will remind parties of the limits set by Article 35(2) UPCA: a patent cannot be revoked or limited with *erga omnes* effect by the arbitral tribunal. The findings of the tribunal on patent validity will instead have *inter partes* effect, unless an arbitral award by consent is made, or a settlement is agreed, in which case the parties may jointly agree in writing to apply to the UPC to obtain an enforceable decision of the Court, confirming the terms of any settlement or arbitral award by consent reached using the facilities of the Centre (Article 36 Arbitration Rules).

## 2.8 Proportionality and cost management

This sub-section will describe the cost-management possibilities offered by the Rules and Fee Schedules – including the availability of expedited procedures, the instruction of sole arbitrators or single experts, the use of online hearings, and fee reductions for early UPC referrals and for small and micro-enterprises.

More generally, the Guidelines will encourage parties and tribunals to seek to ensure that the resources that are deployed in ADR, and the way in which such proceedings are conducted, at all times remain proportionate to the issues in dispute.

## 2.9 The relationship of the arbitration procedure to pending or contemplated Court proceedings

This sub-section will describe the parties' options under Article 50 of the Arbitration Rules to agree to stay parallel proceedings or parts of them; to refrain from seeking or enforcing injunctions or orders granted by a competent court; and to allow proceedings on non-overlapping parts of the dispute to continue. The Guidelines will summarise the pros and cons of parties' agreeing to stay or suspend parallel Court proceedings pending the outcome of ADR.

The sub-section will also point to the possibility of carving out certain matters in pending proceedings to allow them to be resolved in ADR. For example, the rate-determination might be referred to arbitration, while the remainder of the dispute is dealt with by the competent Courts.

# Part 3 — Mediation of FRAND Disputes

## 3.1 Routes into mediation

This introductory sub-section will describe how FRAND mediations typically commence: by agreement (before or after a dispute arises), following an ADR information session, or upon the suggestion of the UPC or another competent court.

## 3.2 Matters commonly addressed (Article 26(2) Mediation Rules)

This sub-section will describe in more detail, and with practical commentary, the matters already mentioned in sub-section 1.5 above. The Guidelines will provide a non-exhaustive list of matters that may be raised in mediation and describe for example how issues of confidentiality (for example in relation to comparable licenses) might be dealt with in the context of mediation.

## 3.3 The role of the mediator in FRAND disputes

This sub-section will describe the facilitative role of the mediator under Articles 12 and 16 of the Mediation Rules, and will include a discussion of structures that have proven effective in FRAND mediations in the past, including for example the use of multi-stage mediations moving from scope definition to valuation; the deployment of parallel technical and commercial tracks; and the use of sampling techniques to render portfolio discussions manageable.

The Guidelines will discuss best practice when undertaking confidential caucusing sessions, the making of settlement proposals with party consent, and the mediator's options under Article 18 of the Mediation Rules to propose other processes (expert determination, early neutral evaluation, arbitration), where issues are not susceptible to resolution by mediation alone.

In particular, the Guidelines will describe how the mediator may suggest, in accordance with Article 18(i)(a) Mediation Rules (or the parties may independently decide) that certain technical or economic questions arising in mediation (for example: essentiality, rate methodology, portfolio valuation) should be referred to expert determination under the Centre's rules, on a binding or non-binding basis. The pros and cons of such an approach will be discussed. (The outline for the Guidelines on Expert Determination is set out in Part 4 below).

## 3.4 Timetable and expedited mediation

This sub-section will address how good scheduling practice in complex FRAND matters can allow the time limit expectations set out in the Mediation Rules in Articles 16(4) and 17 (and any other guidance from a referring Court) to be respected.

## 3.5 Outcomes: settlement and confirmation

This part of the Guidelines will describe the forms an outcome of mediation may take: a settlement agreement (Article 22 Mediation Rules); a joint request for confirmation by decision of the UPC under Rules 11.2 and 365 RoP, potentially including contractual terms obliging a patentee to limit, surrender, accept revocation or not assert (Article 21 Mediation Rules); attestation and storage by the Centre; and where appropriate appointment of the mediator as an arbitrator to record the settlement as a consent award.

## 3.6 Hybrid Med-Arb in FRAND disputes

This sub-section will describe how the two Med-Arb models under Article 19 Mediation Rules (co-mediator assuming the arbitrator role; or the separately appointed sole arbitrator deciding only unresolved issues under the expedited arbitration procedure) might be deployed in FRAND cases. It will discuss the advantages and potential disadvantages of the two models when applied to FRAND cases and offer guidance on the details of how the models might be put into practice.

The Guidelines will also discuss procedural safeguards to ensure the enforceability of any awards arising out of hybrid Med-Arb proceedings.

## 3.7 Parallel proceedings, limitation and standstill

This section will describe the suspension of limitation periods (Article 23 Mediation Rules), optional standstill undertakings and their (partial) application where only parts of a FRAND dispute are mediated (Article 24 Mediation Rules), and coordination with continuing UPC or national Court proceedings. The pros and cons of these procedural measures in the context of the mediation of FRAND disputes will be discussed.

# Part 4 — Expert Determination in FRAND Disputes

## 4.1 Nature and function

This sub-section will highlight expert determination as a flexible mechanism for discrete legal, factual or technical issues, used either standalone or in support of a PMAC mediation or arbitration, and the potential uses of expert determination in the context of FRAND disputes.

## 4.2 Binding and non-binding determinations

This sub-section will explain the default position that a Determination is binding unless the parties agree otherwise in writing (Article 18(1) Expert Determination Rules); the parties' ability to agree in advance that the outcome be binding or non-binding (Article 2(3) Expert Determination Rules); the requirement for a clear statement of the intended effect in the Request (Article 7(3)(viii) Expert Determination Rules), and the ways non-binding determinations may typically be used (as a negotiation benchmark, as input to mediation, or as agreed evidence).

## 4.3 Procedure and selection of the expert

This sub-section will describe the procedural framework, including the general three-month duration from appointment and the requirement for a reasoned written Determination unless the parties agree otherwise (Article 18 Expert Determination Rules). The Guidelines will emphasise that careful thought needs to be given as to the specific qualifications required for the question that is to be referred. Expertise in claim construction and standards analysis is likely to be required when considering questions of essentiality, whereas expertise in licensing economics is likely to be required when looking at rate determination questions. Some cases may require separate technical and economic experts.

The Guidelines will seek to provide guidance on scheduling to ensure as far as possible that the indicative duration set out in the Rules is respected.

## 4.4 FRAND and SEP determinations (Article 20 Expert Determination Rules)

This sub-section will describe and explain the dedicated FRAND/SEP provisions: determinations in relation to one or more SEPs or portfolios, comprising an essentiality assessment of one or more claimed SEPs and/or an assessment of the FRAND terms, including the royalty rate, for a particular SEP or portfolio. It will explain that such determinations may be requested by the parties, including following a recommendation by the UPC, by a neutral conducting proceedings at the Centre or by other competent authorities, whether or not proceedings are pending, and that essentiality requests will require submission of the technical specification and identification of the portion to be evaluated (Article 20(2) Expert Determination Rules).

The Guidelines will cross-refer to the arbitration Guidelines on the ways in which Courts commonly assess both the essentiality of patent portfolios and rate determinations; and will again encourage parties to seek to agree among themselves the methodology that is to be adopted by the expert.

## 4.5 Confidentiality and publication (Article 19 Expert Determination Rules)

This sub-section will describe the confidentiality of the existence and content of the proceedings and the Determination, the exceptions (agreement, public domain, court actions, legal requirement), the publication of the determination with the consent of all parties, and anonymised publication by the Centre unless a party objects in writing within sixty days of the date of the determination (Article 19(6) Expert Determination Rules). Again, with an eye on improving consistency and promoting transparency, parties will be encouraged not to object to publication of an anonymised version of the determination.

## 4.6 Combination with other proceedings

This sub-section will describe how expert determinations may be embedded in mediations and arbitrations in FRAND disputes or requested by agreement during UPC litigation (with a stay where jointly requested).

# Annexes

## Annex 1 — Model clauses, submission agreements and schedules

This annex will cross-refer to the Centre's model dispute resolution clauses and model submission agreements and provide additional model clauses including FRAND-specific considerations (detailed scope of dispute definition, detailed confidentiality provisions, staging, interface with UPC proceedings). Indicative timelines and appropriate schedules will be suggested for ordinary and expedited mediation, arbitration and expert determination of FRAND disputes.

## Annex 2 — Checklist for FRAND case

This annex will contain a descriptive checklist of points parties typically address when framing a FRAND mediation, arbitration or expert determination (including for example the patent/portfolio perimeters, issues referred, whether sampling is necessary or appropriate, including any agreed sampling criteria, evidence and confidentiality protocol, timetable, costs, form of outcome, potential route to UPC confirmation).