Internet and E-Commerce Law in Canada

VOLUME 19, NUMBER 8 Cited as (2017-18), 19 I.E.C.L.C. DECEMBER 2018

• SETTLEMENT PRIVILEGE AND DOMAIN NAME ARBITRATIONS — THE CASE OF WWW.POTTERYBARNBABY.CA •

Tamara Céline Winegust, Associate, Bereskin & Parr LLP

Tamara Céline Winegust

Settlement privilege was found to apply to certain documents filed with a Complaint in a recent CDRP proceeding and, therefore, not considered when assessing the alleged bad faith of the domain name registrant. In *Williams-Sonoma Inc v Bensabath*, (October 12, 2018), (CDRP, BCICAC) (potterybarnbaby.ca), the sole Panelist found that other *admissible* facts did show that the Registrant, Gad Bansabath, who owns and operates a Montreal-area business selling baby products, Boutique Pinkiblue, registered the contested domain name in bad faith, that he had no legitimate interest in the domain name, and that it was confusingly similar to the Complainant's (Williams-Sonoma) registered trademarks, including for POTTERY BARN. The Panelist ordered that the domain name be transferred to the Complainant.

The Panelist's decision to "disregard" correspondence between parties marked "without prejudice" or that was argued to be settlement privileged, but that was submitted by the Complainant as evidence, is consistent with the finding of a 2014 CDRP panel in *Tucows.com Co v Interex Corporate Registration Services Inc* 2014 LNCIRA 13, (2014) 118 CPR (4th) 472 (CIRA, Resolution Canada). In that case, the Panel held:

> The correspondence is marked "without prejudice" and is directed to resolving the issues between the parties by agreement. Accordingly the correspondence is privileged and its contents are inadmissible in evidence in Courts. The goal of this privilege is to encourage parties to resolve their differences by permitting candour and compromise

• In This Issue •

LexisNexis®

INTERNET AND E-COMMERCE LAW IN CANADA

Internet and E-Commerce Law in Canada is published six times per year by LexisNexis Canada Inc., 111 Gordon Baker Road, Suite 900, Toronto ON M2H 3R1 by subscription only.

ISBN 0-433-42472-9 (print) **ISSN 1494-4146**
ISBN 0-433-44674-9 (PDF)
ISBN 0-433-44385-5 (print & PDF)

Subscription rates: $275.00 per year (print or PDF)
$400.00 per year (print & PDF)

> without the risk of having their concessions held against them if no settlement can be reached. This Panel respects that policy and has not considered the contents of the correspondence.

Of note in *Williams-Sonoma*, despite finding that certain email correspondence between the parties was settlement privileged and could not be considered, the Panelist nonetheless proceeded to summarize the substance of those emails in the context of his findings. This would seem to be contrary to the purpose of affording such correspondence protection under settlement privilege, as stated in the *Tucows.com* decision, where the content of the settlement-privileged documents was not discussed.

Further, the Panelist in *Williams-Sonoma* went on to find that because he could not consider the privileged correspondence, the Complainant was unable to show the Registrant acquired the domain name for the purpose of transferring it to the Complainant or a competitor for a value in excess of the actual costs in registering the domain name, which is one way to demonstrate a registrant's bad faith. In particular, even though the remaining (admissible) evidence indicated that the Registrant attempted to sell the domain name to Williams-Sonoma, because it did not indicate whether the amount offered was in excess of what it cost to register the domain name, it was not enough to make out that particular ground of bad faith.

Also of interest, despite the failure of Williams-Sonoma to show this particular kind of bad faith registration, the Panelist found the evidence filed showed there was bad faith registration for other reasons. Namely, the Registrant engaged in a pattern of domain name registrations that showed bad faith, in particular because they were similar to other third party domain names and brands connected with the baby and children's products industry, including babyjoggerstrollers.ca, babybjornbouncers.ca, ergobabycarries.ca, buybuybaby.ca, and westcoastkid.ca. This pattern of registering domain names that are confusingly similar to third party competitor websites offering children's products also contributed to the Panelist's finding that the Registrant registered the potterybarnbaby.ca domain name to capitalize on

confusion between this domain name and Williams-Sonoma's POTTERY BARN business and brand, and drive internet users to the Registrant's website at the domain name:

> "[the Registrant] developed a bad faith strategy of appropriating well-known product retailers … by registering domain names which are identical to, or confusingly similar to, the well-known marks and brands in order to divert Internet users away from the Registrant's well-known competitors".

The decision is a reminder that settlement privilege may be critical to discussions with respect to a domain name transfer, even outside the context of formal litigation, and careful consideration should be given to how such correspondence is marked. In the absence of other facts outside of the settlement privileged correspondence that can support a finding of bad faith, deeming correspondence "without prejudice" may impact a complainant's ability to prove the registrant's bad faith and could ultimately decide the outcome of the dispute.

[***Tamara Céline Winegust*** *is an associate at Bereskin & Parr LLP. and a member of the Trademarks and Copyright & Digital Media practice groups. Her practice focuses on trademarks, copyright & digital media, licensing, marketing and advertising law, in addition to litigation.*]

• CRYPTOCURRENCY RECOGNIZED AS LEGAL "PROPERTY"? BRITISH COLUMBIA SUPREME COURT OPENS THE DOOR •

Tamara Céline Winegust, Associate, Catherine Lovrics, Partner, and Paul Horbal, Partner,
Bereskin & Parr LLP


Tamara Céline Winegust


Catherine Lovrics


Paul Horbal

Over CND$400,000 of cryptocurrency has been ordered by the British Columbia Supreme Court to be traced and recovered from "whatsoever hands the Ether Tokens [the cryptocurrency] may currently be held" following a decision on summary judgment in *Copytrack Pte Ltd. v Wall*, [2018] B.C.J. No. 3325, 2018 BCSC 1709. The Court found "it is undisputed that they [the cryptocurrency tokens] were the property of Copytrack [the plaintiff], they were sent to [the defendant] Wall in error, they were not returned

when demand was made, and Wall has no proprietary claim to them". The Court ordered the plaintiffs be entitled to trace and recover the tokens received by the defendant. However, the Court did not go so far as to determine whether cryptocurrencies are a "good" that could ground a claim in conversion and/or detinue, finding this to be "a complex and as of yet undecided question that is not suitable for determination by way of a summary judgment application".

The decision in *Copytrack* is one of the first judicial considerations in Canada of digital currencies, and what remedies, if any, a defendant's improper dealing with these kinds of assets could attract. Practically speaking, the decision — while not going so far as to find cryptocurrencies could be subject to traditional common law claims based in property — could provide support for future litigants to argue that cryptocurrencies are "property" enforceable through common law and through legislation such as various provincial *Personal Property Security Acts* ("PPSA").

Courts have grappled with the characterization of intangible digital 'assets' for some time. For example, in *Tucows.com Co. v. Lojas Renner S.A.*, [2011] O.J. No. 3576, 2011 ONCA 548, the Court of Appeal, as a matter of first impression, found a domain name could be "property", and also "property in Ontario" that ought to be subject to that province's *PPSA*. In particular, the Ontario court found in *Tucows* that a domain name had associated with it a "bundle of rights" that "satisfies the attributes of property" that was enforceable against others: it generated income; had value in relation to the defendant's business; had associated exclusive rights (in that case, to direct traffic to the domain name's corresponding website and to exclude others from using that domain name); and also that it was definable, identifiable by third parties, capable in its nature of assumption by third parties, and had some degree of permanence or stability. As cryptocurrencies become more popular and proliferate as an investment asset and method of monetary exchange, it will be important to watch how the decision in *Copytrack* is employed and whether it becomes relied on to advance a position similar to the domain names in *Tucows*, but with respect to the "property-ness" of cryptocurrencies. Unlike domain names, however, there is a tension with cryptocurrencies — should they be treated and regulated as intangible property or as currencies proper, in which case, they could be classified as a "good". For example, courts at the Federal and provincial levels have both recognized money or investment funds could be subject to conversion claim. (*see e.g., Shibamoto & Co v Western Fish Producers Inc.*, [1991] F.C.J. No. 243, (1991) 43 FTR 1 (F.C.T.D.); *Ast v. Mikolas*, [2010] B.C.J. No. 160, 2010 BCSC 127; *Li v Li*, [2017] B.C.J. No. 1489, 2017 BCSC 1312). In *Copytrack*, the Court sidestepped this question, and issued the order so as to not deny the plaintiff a remedy.

The underlying action in *Copytrack*, was brought by Copytrack, a Singapore company engaged in the business of digital content management and automated copyright enforcement. Copytrack created its own cryptocurrency, Copytrack tokens (CPY), and mistakenly transferred another more valuable cryptocurrency, "Ether", to the defendant investor instead of CPY. The Ether was then transferred to third parties. Copytrack sought the tracing and recovery of the "Ether". In particular, Wall had subscribed to receive 530 CPY, worth about CND$780, as part of Copytrack's Initial Coin Offering (ICO). Rather than transfer 530 CPY to Wall, Copytrack mistakenly transferred 530 Ether tokens (ETH), with a value of about CND$495,000 at the time. In its claim, Copytrack alleged it immediately asked Wall to return the Ether tokens, and that Wall refused to do so. The Ether tokens were then transferred to third parties, and no longer resided in Wall's cryptocurrency account (known as his "Wallet"). In his defense, Wall claimed to no longer be in possession or control of the Ether tokens, and also that his account was hacked, which resulted in that further transfer to third parties. To complicate matters, Wall died during the course of the proceedings. The Court found Wall's death did not impact whether Copytrack's legal claim could continue (it could); however it did have "certain practical implications", as it made "trial untenable" and a solution more ripe for summary judgement

since, in part, a trial would not result in further or better evidence on Wall's behalf as to what, in fact, occurred.

The Court characterized the issue of whether property law doctrines of conversion and wrongful detention could apply to cryptocurrencies as a "critical issue" and the "real issue on this application". Of note, the issue only arose during the oral submission phase of the motion, when, in passing, Wall's counsel challenged an assumption made by Copytrack in its written submissions and argument, that the Ether tokens were "goods". In fact, the Court commented that it would have been open to the Court to simply dismiss Copytrack's summary judgement motion on the basis of its failure to address this issue.

In additional submissions requested by the Court, Copytrack made arguments that the Ether tokens should be subject to claims in conversion and detinue on the grounds that a "broad range of things", like funds, shares, customer lists, accounts receivable, crops, and mineral interests, could be subject to such claims — although they were not strictly "goods" — and relying on the decision in *Li v. Li*, 2017 BCSC 1312, where the BC Supreme Court followed a line of cases that found funds could be subject to a claim of conversion. Copytrack took the position that the tokens could be subject to property law claims as they shared the following characteristics with traditional forms or property:

a) They are capable of being possessed, stored, transferred, lost and stolen;
b) They were, at the time the conversion and wrongful detention began, held by Wall in his Wallet;
c) They are specifically identifiable and have been traced to other Wallets in which they are currently being held; and
d) They can be used as a medium of exchange, a store of value, and a unit of account, like funds or currency.

While not going so far to as rule on whether cryptocurrencies could, in fact, be subject to these specific property law claims, the Court found that "in the circumstances, it would be both unreasonable and unjust to deny Copytrack a remedy". As such, the Court ordered that Copytrack be entitled to trace and recover the wrongfully transferred tokens received by Wall from whoever now held those tokens, even if a third party. The request for the remaining relief sought by the plaintiffs, including dislodgement and/or damages, was dismissed by the Court on the basis they were not appropriate for summary judgment.

Additional practical and legal hurdles for Copytrack likely lay ahead, as it attempts to trace through and recover from third parties. For example, additional legal issues may be raised if the recipient of the Ether tokens claim they received the tokens with clean hands. Stay tuned.

[***Tamara Céline Winegust*** *is an associate at Bereskin & Parr LLP. and a member of the Trademarks and Copyright & Digital Media practice groups. Her practice focuses on trademarks, copyright & digital media, licensing, marketing and advertising law, in addition to litigation.*

Catherine Lovrics *is a partner with Bereskin & Parr and co-leader of the firm's Copyright & Digital Media practice group. Catherine's practice focuses on copyright, trademarks, personality and publicity rights, as well as marketing and advertising law, consumer protection and privacy law. She advises on legal issues related to the Internet and digital media, including social media and apps.*

Paul Horbal *is a partner with Bereskin & Parr LLP. He is a member of the firm's Electrical & Computer Technology group and is Chair of the Financial Technology group. His practice focuses on patent, industrial design and technology law, with an emphasis on securing and leveraging intellectual property rights for high-tech and Fintech clients.*]