



THE CASSELS BROCK
LITTLE BOOK OF
BIG TIPS

100 Things U.S. Attorneys Need
To Know About Canadian Law



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FAVORABLE CORPORATE INCOME TAX RATES

Canada has combined federal/provincial corporate tax rates for non-Canadian controlled corporations that range from 25% to 31%. This is lower than U.S. corporate tax rates.



DISTRIBUTORSHIP AGREEMENTS WITH CANADIANS

Distributorship agreements should set out the U.S. seller's rights to terminate without cause in order to avoid potentially considerable liability.

DIVIDE AND CONQUER

Recent amendments to Canada's *Trademarks Act* will allow applicants to file divisional applications to “carve out” contentious portions of an application for further examination while allowing the non-contentious portions to proceed to advertisement.



ISSUE AND RESALE RESTRICTIONS

Private company stock is subject to issue and resale restrictions. Canada has a “closed system” – stock can only be issued and resold under prospectus exemptions and does not become freely resalable unless the company has gone public.

LOSER-PAY SYSTEM FOR LEGAL COSTS

A successful party in normal civil litigation can expect to be awarded a significant portion of its legal expenses against the unsuccessful party.



FINDERS' FEES

Private equity participants should be aware that the payment of referral fees to finders, private placement agents, intermediaries or similar entities is regulated under Canadian securities law. The payment of a fee may be prohibited if an unregistered referring party engages in registerable activities.

WHERE TO SUE – WHERE TO ENFORCE

Canadian courts accord to U.S. judgments a very strong presumption of enforceability and will not re-litigate the merits. The only major defences to enforcement are lack of jurisdiction, fraud, lack of due process or strong public policy reasons.



FAIR DEALING

Unlike “fair use” in the U.S., “fair dealing” with a copyright-protected work will not infringe copyright only if the dealing is for one of a limited number of allowable purposes – research, private study, education, parody, satire, criticism, review or news reporting – and is both qualitatively and quantitatively “fair”.

RESALE PRICE POLICIES/ MINIMUM ADVERTISED PRICE (MAP) POLICIES

Resale pricing or MAP policies are now legal in Canada unless they result in an “adverse effect on competition” with the only possible sanction being an order to discontinue the policy. Previously, they were illegal *per se* and subject to both criminal sanctions and civil damages claims.



TAXING AMENDMENTS

Tax amendments may result in adverse tax consequences where a foreign-controlled Canadian corporation invests directly or indirectly in certain foreign corporations.

USE-LESS

Once Canada's new *Trademarks Act* comes into force, applicants will no longer need to include any statement or declaration of use or prove that a mark has actually been used in Canada. A mark could, in theory, become registered even though it was never used, although any registrations for unused marks may be vulnerable to expungement.



INTERNET SALES

The consumer protection legislation of certain provinces requires electronic sale contracts to contain specified provisions.

CONSUMER PRODUCTS SAFETY LEGISLATION

U.S. manufacturers and exporters – and their Canadian subsidiaries – should become familiar with the product testing, incident reporting and recordkeeping requirements of Canada’s consumer products safety laws. Short reporting timelines and mandatory recalls create traps for the unwary.



CROSS-BORDER LOANS TO AFFILIATES

The Canada-U.S. tax treaty may permit qualified U.S. shareholders to lend funds to their Canadian subsidiaries free of withholding tax.

CLASS ACTION REQUIREMENTS

Predominance and numerosity are not required for a Canadian class action. The courts weigh common issues in relation to individual issues as part of the preferability analysis, but have rejected a requirement that common issues predominate over individual ones.



NATIONAL SECURITY REVIEW OF FOREIGN DIRECT INVESTMENTS

Under the *Investment Canada Act* the Canadian Government can review and block a foreign investment where it is “injurious to national security.” This is the Canadian equivalent to the U.S. CFIUS process.

INSOLVENT PROTECTION UNDER CCAA

Unlike under the U.S. Bankruptcy Code, a company must be insolvent to receive protection under Canada's equivalent *Companies' Creditors Arrangement Act* ("CCAA"). Solvent companies may reorganize under the plan of arrangement provisions of the *Canada Business Corporations Act* or an equivalent provincial statute.



COPYRIGHT OWNERSHIP

The concept of "work made for hire" does not exist in Canadian law. Without a written copyright assignment, an independent contractor will own the copyright in a work that he or she creates.

THIN CAPITALIZATION RULES

The debt-equity ratio (as computed for tax purposes) of a Canadian corporation was reduced to 1.5:1 (from 2:1) for debt owed by a Canadian company to its non-Canadian shareholder or to a third party which benefits from a guarantee from the U.S. shareholder. Excessive interest will not be deductible and will be treated as a deemed dividend subject to withholding tax.



UNREGULATED CANADIAN FINANCE SUBSIDIARIES

Following an initial approval, a U.S. financial institution which is not affiliated with a bank can operate a Canadian finance subsidiary free from regulation.

COLLECTION, USE AND DISCLOSURE OF PERSONAL INFORMATION

Obtaining appropriate consents from individuals is key to compliance with Canada's comprehensive privacy legislation.



CANADA'S CRIMINAL USURY RATE

Although the legislation was enacted to catch loan sharks using a 60% annual rate, the extremely broad "interest" definition has ensnared numerous commercial transactions which have legal fees, cancellation penalties or participation features.

REDUCED BENEFITS OF UNLIMITED LIABILITY COMPANIES

Existing ULCs (in Nova Scotia, Alberta or British Columbia) may no longer be the preferred structure for a Canadian subsidiary of a U.S. corporation because of changes to the Canada-U.S. tax treaty.



HANG ONTO YOUR TRANSFER

Land transfer or recording taxes may be payable on some transactions. The exigibility and rates of such taxes vary from province to province.

CRITICAL PREPOSITION

A U.S. company that carries on business IN Canada may be subject to Canadian tax and regulatory requirements – which it may avoid by doing business WITH Canadians from the U.S. on a cross-border basis.



EXAMINING YOUR PATENT

In Canada, payment of the examination fee and actual examination can be deferred for up to five years from the Canadian filing date, or international filing date for a PCT application. The first office action usually issues within two to three years from the request for examination.

EXCLUSIVE LICENSEES

In Canada, an exclusive licensee is entitled to commence proceedings in its own name to enforce its rights in a copyrighted work. However, it may be necessary for procedural reasons to join the copyright owner as a party to litigation.



BEWARE THE SHORTENED LIMITATION PERIOD

The new basic limitation period for commencing actions in Ontario is two years from the day that a claim is “discovered”. Exceptions include a ten year period for land-related claims and an ultimate fifteen year period that applies regardless of when the claim was discovered (again subject to exceptions).

DEFYING TRADITION

Canada recently changed its laws to allow a number of new, non-traditional marks. Once the law comes into force, an applicant could obtain a registration for any “sign”, which is defined as “a word, a personal name, a design, a letter, a numeral, a color, a figurative element, a three-dimensional shape, a hologram, a moving image, a mode of packaging goods, a sound, a scent, a taste, a texture and the positioning of a sign.”



EMPLOYMENT CONTRACTS

There is no at-will employment in Canada – if an employment contract does not specify the employee’s entitlement on being terminated without cause, the employer may have significant liability for wrongful dismissal.

IT'S A WRAP!

It can be relatively straightforward for a U.S. company to sell debt or equity securities to Canadian institutional investors – simply use a dealer with the appropriate Canadian license (held by many U.S. broker-dealers) and attach a short Canadian disclosure “wrapper” to the U.S. offering document.



MERGER REVIEWS

In addition to, or instead of, going through Canada’s HSR-type pre-merger review process, companies can obtain pre-merger clearance from the Commissioner of Competition in the form of an Advance Ruling Certificate or a No-Action Letter.

LIMITING BENEFITS UNDER THE CANADA-U.S. TAX TREATY

A U.S. person must now satisfy requirements under a “Limitation of Benefits” provision to obtain benefits under the Canada-U.S. tax treaty.



AVOIDING CANADIAN CONTENT

If a U.S. company does not want its Canadian subsidiary to have a Canadian resident director, it can incorporate (or continue) the subsidiary in a province which does not impose residency requirements for directors, such as British Columbia. As with incorporating in Delaware, it would not be necessary for the subsidiary to carry on business in the selected province.

WE'RE NOT SPAM-A-LOT

New anti-spam legislation came into force in Canada in 2014. The new law regulates the way businesses market to prospective customers and will, in most cases, require a business to obtain prior express opt-in consent from the recipient before sending commercial electronic messages to them.



TWO-TIERED INSURANCE REGULATION

In Canada, insurance is subject to regulation by both federal and provincial regulators.

SELLING INFORMATION TECHNOLOGY

A sale of information technology may fall within the scope of provincial sale of goods legislation and attract unexpected rights and obligations.



BARGAINING POWER

Landlords often possess strong bargaining power for prime commercial or retail space since holdings are generally more concentrated than in the U.S. During economic downturns, the long term perspective and economic health of some landlords means that they may not be willing to enter into short-term leases simply for immediate cash flow.

NON-RESIDENTS PERFORMING SERVICES IN CANADA

Canadian withholding tax applies to amounts paid to a non-Canadian in respect of services that are rendered in Canada. A special trap: this even applies to amounts paid in the U.S. by one U.S. resident to another if the amount paid relates to a service rendered in Canada.



U.S. INSURANCE COMPANIES OPERATING IN CANADA

A U.S. insurer can carry on business in Canada as a branch or by establishing a Canadian insurance subsidiary.

HERE COMES THE JUDGE

There is no constitutional right to a trial by jury in Canadian civil cases. Courts have discretion to dispense with a jury, and jury trials for civil matters are the exception rather than the norm.



PARLEZ-VOUS FRANÇAIS?

Certain provincial and federal laws may require that written materials be made available in French, especially with respect to certain types of consumer products. This may include written content on the products' packaging and labelling.

NOT SO STANDARD

Severance plans or policies are uncommon in Canada. To minimize liability for wrongful dismissal claims, best practice is to address severance entitlements in the contract of employment.



U.S. EMPLOYEES IN CANADA

The Canada-U.S. tax treaty deems a U.S. person to have a permanent establishment in certain circumstances if its employees work in Canada. This can result in a U.S. company losing treaty protection against Canadian taxes on income that it earns from carrying on business in Canada.

DOES YOUR U.S. ACQUISITION COME WITH A CANADIAN SUB?

The *Investment Canada Act* applies to “indirect” acquisitions of a Canadian business. Although WTO-controlled purchasers are not required to go through the pre-merger review process, they must file a post-closing notice of the transaction.



RAISING FUNDS IN CANADA

Canadian institutional and retail investors are very receptive to small and medium sized public issuers.

Bought deal financings make accessing capital relatively easy, with much of the risk assumed by underwriters. Private placements are common and typically do not involve registration rights.

MONITORING THE SITUATION

Unlike in a U.S. Chapter 11 proceeding, a court officer known as a “Monitor” is appointed in proceedings under the CCAA. The Monitor acts as the “eyes and ears” of the CCAA court and monitors the progress of the restructuring and reports back and makes recommendations to the court.



CREATIVITY NOT REQUIRED

In Canada, like the U.S., a work must be original in order to qualify for copyright protection. However, originality requires only the “skill and judgment” of the author, resulting in something that is more than a mere copy of another work. No “creativity” is required.

MAKE IT UNANIMOUS

By entering into a Unanimous Shareholder Agreement, the U.S. and other shareholders of a Canadian company can generally assume the rights, powers, duties and liabilities of the company's directors. This is particularly useful if a Canadian subsidiary of a non-Canadian company appoints Canadian directors in order to satisfy Canadian residency requirements.



MONETIZING U.S. ASSETS THROUGH A CANADIAN IPO

Significant exit or expansion capital can be raised through an IPO in Canada that involves U.S. (or other non-Canadian) assets. The costs of being a public company in Canada are generally less than those of being a U.S. registrant.

EXPANDING TO CANADA – NOTICE OR APPROVAL?

Establishing a new Canadian business (as opposed to acquiring an existing one) typically requires notification under the *Investment Canada Act*. However, restrictive policies apply to cultural businesses such as book publishing and film distribution.



YOU SAY DEPOSE, WE SAY DISCOVER

In most provinces, parties are entitled only to discover each other, and only one representative of a corporate party. There is no absolute right to discover a third party witness. Exceptions are possible with court approval, but uncommon.

PUNITIVES ARE RARELY TOO PUNISHING

Punitive damage awards tend to be much smaller in Canada and are the exception rather than the rule. According to the Supreme Court of Canada, they should be imposed only for high-handed, malicious, arbitrary or highly reprehensible conduct that departs to a marked degree from ordinary standards of decent behavior.



FEDERAL VS. PROVINCIAL AUTHORITY

The Canadian federal government is responsible for bankruptcy law. The provinces, however, are responsible for property and civil rights, including employment (except in federally-regulated industries).

RIGHT TO PRIVACY

The Superior Court of Justice in Ontario has recognized a new tort of invasion of privacy (“intrusion upon seclusion”). Four other provinces have enacted legislation that creates a statutory cause of action for invasion of privacy.



DIFFERENCE OF APPOINTMENT

Unlike under the U.S. Bankruptcy Code, the CCAA does not provide for the appointment of an official committee of unsecured creditors. However, it is possible to have representative counsel appointed at the expense of an estate to represent certain vulnerable groups of stakeholders.

MAINTAINING YOUR PATENT

Annual maintenance fees are applicable in Canada in respect of applications and issued patents. The first maintenance fee is due two years from the actual Canadian filing date, or International Filing Date for a PCT application. Subsequent payments are due annually thereafter up to the end of year 19 from the actual Canadian filing date.



BUSINESS METHOD PATENTS

It has now been judicially determined in Canada that business methods do constitute patentable subject matters when the claim is properly worded to distinguish it from a pure abstract idea.

CRIMINAL MATTERS

There's a single *Criminal Code* that applies across Canada. Provinces cannot establish their own criminal laws.



FOREIGN CORRUPT PRACTICES: CFPOA

Canada's *Corruption of Foreign Public Officials Act* (CFPOA) was recently amended to strengthen its jurisdictional reach, create a books and records offence and increase the maximum length of imprisonment for individuals convicted of an offence. Also of note? In Canada, breaches of the CFPOA are only prosecuted criminally.

DISCLOSURE GRACE PERIODS

Canada has a one-year grace period for direct or indirect disclosure by a patent applicant.



FOREIGN CORRUPT PRACTICES: RCMP

The Royal Canadian Mounted Police recently stepped up enforcement and prosecution for suspected violations of the CFPOA. The establishment and monitoring of a robust anti-corruption compliance program for Canadian subsidiaries and subsidiaries that employ Canadian citizens and residents, regardless of where they work, is essential.

CURRENCY CONTROL

Canadian courts can only render monetary judgments in Canadian currency. Contracts with a Canadian counterparty that provide for payments in U.S. or other non-Canadian currencies should therefore contain a provision that indemnifies against potential currency exchange exposure.



NO CRAMMING ALLOWED

Unlike under the U.S. Bankruptcy Code, a plan of compromise or arrangement in a CCAA proceeding may not be “crammed down” on a class of creditors that has not voted in favor of the plan.

REGISTERED AND UNREGISTERED REINSURANCE BUSINESS

A U.S. reinsurer can reinsure the business of a Canadian insurer on a registered or unregistered basis, but unregistered reinsurance will not provide capital relief without collateral support.



SPIRIT OF COMPETITION

Canadian courts will not modify non-compete covenants and will strike them out if they are overly broad or ambiguous.

SOFTWARE LICENSE ASSIGNMENTS

The courts may consider a software license “personal” and therefore not capable of being assigned or sublicensed without the licensor’s consent.



CHOICE OF LAW

A U.S. choice of law clause in a standard form consumer contract will be unenforceable in those provinces that require local law to apply to such contracts.

WIN, LOSE OR DRAW

Formal patent drawings are a requirement for allowance in Canada, rather than issue. If the application relies on informal drawings, it will be rejected.



LONG ARM OF THE (CANADIAN) LAW

Canadian securities regulators take the position that cross-border sales of securities to Canadian resident retail or institutional investors must comply with the prospectus and registration requirements of the applicable provincial statute, unless an appropriate exemption applies.

NO LIMIT ON PATENT CLAIMS

In Canada, there's no limit to the total number of claims or the number of independent claims that may be included in a patent application.



THE ONE-TWO ON LEASES

Leases frequently require two primary lease documents. A binding offer to lease (which would typically include conditions for both landlord and tenant) is often used to establish basic terms and mutual expectations. The parties then enter into a binding long form lease to incorporate the offer to lease terms.

UNDUE HARDSHIP

Canadian employers are required to accommodate an employee's disability to the point of undue hardship to the employer as a whole. Alcoholism and drug addiction are recognized as disabilities.



PARLEZ-VOUS FRANÇAIS ON THE NET?

Québec's French language laws may require websites to be translated into French if they are directed to Québec residents.

THE REAL ESTATE UNIFORM

Real estate practices across Canada share many commonalities and in some areas, such as leasing, are materially uniform. An exception is the Province of Québec which is governed by a civil code as opposed to the common law.



REST EASY IN CANADA

North of the border, existing retirees are protected against reduction of their post-retirement benefits without notice. In fact, it's almost impossible to reduce these benefits.

TAXING RESTRICTED STOCK

Grants of restricted stock are taxed to Canadian employees at the time of grant – not at the time the restrictions end, which is when U.S. employees are taxed.



NON-RESIDENT INSURANCE AGENTS AND BROKERS

Non-resident insurance agents and brokers can become licensed in Canada on a non-resident basis and receive insurance commissions on business placed in Canada.

TRACING OUR COMMON ROOTS

U.S. states and most Canadian provinces take a similar approach when it comes to the laws governing things like contracts and negligence. That's because their legal systems each trace their origins to English common law.



FORMALITIES

Canadian lawyers in many provinces address judges as “My Lord”, “My Lady”, or “Justice _____”, not “Judge _____”.

M&A STRATEGIES

Acquiring a Canadian company through a court-supervised “plan of arrangement” can offer significant benefits.



MULTIPLE SECURITIES REGULATORS

Unlike the U.S., Canada does not have a single federal securities regulator. Each province and territory has enacted securities legislation to protect its own residents. While public offering regulation and other regulatory requirements are generally harmonized, differences can be found in the laws, rules or policies of the 13 Canadian jurisdictions. Efforts are being made to create a co-operative common securities regulation.

JOINTLY-OWNED WORKS

A co-owner of a copyright in Canada may assign his or her interest in a jointly-owned work without the consent of other co-owners. However, use of a jointly-owned work under licence requires the consent of all co-owners.



CROSS-BORDER LOANS

With an appropriate structure, non-Canadian financial institutions can make cross-border loans to Canadian borrowers without being subject to either Canadian regulation or taxation.

BANKRUPTCY AND UNIONS

Canadian collective agreements survive insolvency and extend to successor employers. So, the threat of bankruptcy won't necessarily force unions to accept a deal.



LONG LIVE THE QUEEN

Even though we live in an independent nation, Canadians have chosen the British monarch as their sovereign. So, while you hear prosecutors in the U.S. talk about acting in the name of “the people”, Canadians refer to representing “the Crown”.

FEDERAL EXCISE TAX PAYABLE ON INSURANCE PLACED WITH UNLICENSED U.S. INSURER

If a Canadian resident purchases insurance from a U.S. insurance company that is not authorized to insure risks in Canada, a 10% federal excise tax on premiums may be payable.



UTILITY

In Canada we are required to demonstrate utility or support a sound prediction of utility with sufficient data at the time of filing a patent application.

Unlike the U.S., utility or sound prediction cannot be supported by submitting post-filing data.

UNDER CONSIDERATION

Continued employment will generally not be treated as sufficient consideration in Canada.

For example, if an employer wants to add a non-solicitation clause to an employee's employment agreement, new consideration is needed, such as an increase in salary.



LOWER VS. HIGHER LIFE FORMS

Patent claims to some gene sequences, plant cells and lower life forms are allowable in Canada.

However, animals at any stage of development, from fertilized eggs onward, are considered higher life forms and are not patentable.

TAKING STOCK OF YOUR OPTIONS

There are differences between the Canadian and U.S. tax rules in respect of employee stock options. If certain conditions are satisfied, only one half of the taxable benefit realized by an employee on the exercise will be taxable.



SECRET LIENS

Canadian tax authorities have a super-priority charge over a taxpayer's property for certain (but not all) types of taxes and other payment obligations. The charge does not have to be registered (unlike the comparable IRS lien), and will defeat most existing and future security interests held by the taxpayer's creditors.

SHARING THE NAPOLEONIC CODE

Québec's legal system is unique. Its French heritage resulted in Québec keeping elements of French civil law. The civil codes of both Québec and Louisiana trace their roots to the Napoleonic Code.



NAMING RIGHTS

A business that plans to operate across Canada should consider a federal incorporation. This will give it the right to register its corporate name in every province and territory without obtaining permission from individual provincial and territorial authorities.

INTEREST MATTERS

Interest rates must be annualized – no 1% per month for certain types of loans – such as mortgage based.



MANDATORY DISCLOSURE FOR FRANCHISE AGREEMENTS

Currently, 5 of 10 provinces have a franchise law requiring that a franchisor deliver a compliant “franchise disclosure document”, and wait a minimum of 14 days, before a franchise agreement can be signed (or any money taken in respect of the franchise).

AN AUTHOR'S LIFE, PLUS...

Canada recognizes the author's life, plus 50 years after the end of the year of his or her death, as the duration of copyright. In the U.S., it's the author's life plus 70 years.



TAX LIABILITIES FOR DIRECTORS

Subject to a due diligence defence, directors of Canadian corporations (including subsidiaries of U.S. companies) may be personally liable for employee source deductions, non-resident withholding taxes and goods and services taxes.

CAN'T GET AROUND IT

Under the new anti-circumvention provisions of the *Canadian Copyright Act*, circumvention of a technological protection measure (TPM) that controls access to a work is prohibited. So is offering services or technology to circumvent a TPM that prevents a user from doing anything that falls within the exclusive rights of the copyright owner.



CANADIAN TAX “BUMP”

There are very favorable tax rules that allow a “bump” in the tax cost of the shares of a Canadian target’s subsidiaries, up to the market value of such shares at the time the target is acquired. This would potentially allow a spin-out of the subsidiaries’ shares without triggering a taxable gain.

ABOUT CASSELS BROCK

- Canadian law firm of more than 200 lawyers based in Toronto and Vancouver focused on serving the transaction, advocacy and advisory needs of the country's most dynamic business sectors
- Emphasis on core practice areas of mergers and acquisitions, securities, finance, corporate and commercial law, taxation, intellectual property and information technology, international business and government relations
- One of the largest business law practices in Canada, serving multinational, national and mid-market entities
- Consistently ranked at or near the top of Bloomberg, Thomson Financial and MergerMarket deals league tables for mergers and acquisitions and equity offerings
- Cited as market leaders by *Chambers Global*, *ALM 500*, *Best Lawyers*, *Lexpert*, *Global Counsel* and others
- Regularly act on deals honored at the Canadian Dealmakers' Gala and for counsel recognized at the Canadian General Counsel Awards
- Dedicated to staying on the leading edge of trends in law and business to offer timely proactive and preventative advice that adds demonstrable value
- Serving leadership roles in business, political, civic, charitable and cultural organizations in community, national and international organizations



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