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Trade Secrets and Confidentiality: Attorney Ethics in the Silent World of Tax Planning

I. INTRODUCTION

As multi-disciplinary practice become increasingly acceptable, a range of ethical and legal problems also becomes increasingly common. Since the legal profession has only recently developed some tolerance for multi-disciplinary practice, many of these ethical and legal problems remain unsolved. This comment addresses one such problem involving confidentiality agreements between attorneys and accounting and financial planning firms. Specifically, this comment discusses the issues involved when accounting and financial planning firms claim either trade secrets protection for, or a proprietary interest in, tax-planning strategies, and the potential ethical problems involved when attorneys bind themselves to confidence regarding such strategies. This comment uses as its basic fact scenario an ethical analysis provided by the Illinois State Bar Association:

Accounting Firm tells Client A that Accounting Firm will disclose to Client A a package of ideas that can significantly reduce Client A's taxes if: (1) Client A pays Accounting Firm a fee for the information and (2) Client A and Client A's Lawyer each enter into a confidentiality agreement pursuant to which Client A and Lawyer agree to never divulge the idea in the package.¹

Part II of this comment deals with trade secrets problems involved in this transaction, exploring whether an accounting or other financial planning firm may claim a proprietary interest in aggressive new strategies for minimizing tax liability, considering that such strategies become available and work only within the context of the publicly accessible Internal Revenue Code (IRC). Part II also deals with the question of whether the law should protect the use of these strategies by attorneys.

Part III of this comment deals with the contracts, ethics, and public policy issues arising from this transaction. This section discusses whether an attorney unethically creates a conflict of interest between her client for whom she signs the confidentiality agreement and her other

1. Ill. State Bar Ass'n Advisory Op. on Prof'l Conduct, No. 00-01 (2000).

clients who do not have dealings with the outside firm. It also addresses whether such an agreement unethically restricts the attorney's ability to practice law and whether the attorney signing such an agreement unethically assists the accounting firm in the unauthorized practice of law. Finally, Part III examines public policy concerns arising from third-party beneficiary liability.

II. TRADE SECRETS PROTECTION FOR TAX-PLANNING STRATEGIES

An increasing number of accounting firms² seek to protect their strategies by claiming a proprietary interest and keeping them secret.

[M]any financial advisers, in their efforts to woo new clients and retain old ones in today's hotly competitive industry, are harnessing a marketing tool more familiar to people who sell soap or software. Treating certain strategies and the documents used to implement them as intellectual property, they are trying to slow the speed with which materials describing them leak into the public domain. To do that, accounting firms, insurance companies, investment banks, and some law firms have asked clients and other advisers to sign [confidentiality agreements]. The premise behind these agreements is that the marketer has something that amounts to a trade secret: confidential information that could give them a competitive edge.³

Thus accounting firms use confidentiality agreements to protect what they consider proprietary secrets. Part III of this comment deals directly with the issue surrounding confidentiality agreements. Because the law protects trade secrets even in the absence of such agreements, Part II considers only trade secret issues. Further, even when the information the firm seeks to protect does not benefit from trade secrets protection, a confidentiality agreement may still protect the accounting firm's interests in the information. Thus, the issues surrounding the information's trade secrets status and the issue surrounding the confidentiality agreements do not necessarily converge, and this comment deals with them as separate problems arising from separate bodies of law.

A. Overview of Trade Secrets Law

The first question centers on the formal status of these tax-planning strategies and whether they rise to the level of trade secrets the law will protect. The Uniform Trade Secrets Act (UTSA), adopted in thirty-four

2. This comment will refer solely to accounting firms. However, for convenience I use this term to refer to the whole range of non-attorney firms within the financial planning industry.

3. Deborah L. Jacobs, *When Mum's the Word*, BLOOMBERG WEALTH MANAGER, Dec. 2001/Jan. 2002, at 66.

states and the District of Columbia in one form or another,⁴ defines a “trade secret” as follows:

“Trade secret” means information, including formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.⁵

Thus, for trade secrets law to protect an idea, the idea must produce an economic advantage to the proprietor by virtue of its secrecy.⁶ This definition also requires “reasonable” efforts by the proprietor to protect the secret from public disclosure.⁷ Finally, to constitute a trade secret under this definition, another person must not have the ability to readily ascertain the idea without resorting to improper means:

[In order to recover, a] plaintiff claiming misappropriation of a trade secret must prove that: (1) the plaintiff possessed a trade secret; (2) the defendant is using that trade secret in breach of an agreement, confidence, or duty, or as a result of discovery by improper means; and (3) the defendant’s use of the trade secret is to the plaintiff’s detriment.⁸

The UTSA definition, however, does not precisely answer the question of how “unknown” the secret must be in order to receive trade secrets protection. Case law has developed to produce general guidelines in resolving this question. For example, in Nebraska, and New York case law holds that “[a] trade secret is something known to only one or a few, kept from the general public, and not susceptible of general knowledge.”⁹ Further, “[i]f the principles incorporated in a device [and presumably in an idea or process] are known to the industry, there is no trade secret which can be disclosed.”¹⁰

4. UNIF. TRADE SECRETS ACT, Table of Jurisdictions Wherein Act has Been Adopted (1985).

5. UNIF. TRADE SECRETS ACT, § 1(4) (1985).

6. See RESTATEMENT OF TORTS § 757 cmt. b (1939); *Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1199 (5th Cir. 1986).

7. UNIF. TRADE SECRETS ACT, § 1(4).

8. 54 AM.JUR. 2d, *Monopolies, Restraints of Trade, and Unfair Trade Practices* § 1114 (1996) (citations omitted).

9. *Selection Research, Inc. v. Murman*, 433 N.W.2d 526, 532 (Neb. 1989). See also *Abdallah v. Crandall*, 76 N.Y.S.2d 403, 406 (1948) (following *Kaumagraph Co. v. Stampagraph Co.*, 138 N.E. 485 (N.Y. 1923)).

10. *Murman*, 433 N.W.2d at 532. See also *Garner Tool & Die v. Laux*, 285 N.W.2d 219 (Neb. 1979); *Wilkin v. Sunbeam Corp.*, 466 F.2d 714 (10th Cir. 1972).

This final guideline produces a split in authority regarding whether a court should protect an idea that is susceptible to “reverse engineering” by others using principles “known to the industry.” Some jurisdiction will not protect such an idea whether or not the defendant in fact discovered the idea using generally known principles.¹¹ On the other hand, some jurisdictions will protect the “idea person”¹² to the extent that the defendant, while capable of reverse engineering the secret through the use of generally known principles, nevertheless used improper means to obtain the secret: “The fact that a trade secret is of such nature that it can be discovered by experimentation or other fair and lawful mean does not deprive its owner of the right to protection from those who would secure possession of it by unfair means.”¹³ Misappropriation of a trade secret is, after all, a tort and the law seeks both to reward the idea person for her creativity and to punish the tortfeasor for wrongdoing.¹⁴ Those jurisdiction that protect the idea person to the extent the defendant used improper means will nevertheless allow reverse engineering if the defendant invested the capital necessary to arrive at the idea independent of the idea person’s knowledge of it and investments to develop it.¹⁵

B. Can Tax Strategies Be Protected?

Accounting firms claim the protections outlined above for a wide variety of tax strategies, including:

everything from income-tax strategies—for example, deferring taxes, creating deductions, changing the tax basis of property, or converting ordinary income to capital gain—to wealth-transfer tools and techniques for financing life insurance. . . . The deal may involve a novel technique or one that is being widely used but that each firm executes with a slightly different twist.¹⁶

These firms do not charge an hourly fee, but instead charge a premium for the use of such strategies thus bringing in revenue that far exceeds the initial investment to develop the strategy.¹⁷

11. *See* *SI Handling Sys., Inc. v. Heisley*, 753 F.2d 1244 (3d Cir. 1985), *aff’d* 772 F.2d 896 (3d Cir. 1985).

12. The term “idea person” refers to the inventor or developer of a proprietary idea. I use this term to refer either to the actual individual responsible for the idea’s creation, or to the firm or entity claiming ownership of the idea from its inception.

13. *Kubik, Inc. v. Hull*, 224 N.W. 2d 80, 89 (1974) (quoting HARRY D. NIMS, *UNFAIR COMPETITION AND TRADE MARKS*, § 148 (1947)).

14. *See id.*

15. *See id.*

16. *Jacobs*, *supra* note 3, at 66.

17. *Id.*

Accounting firms that seek to protect tax-planning strategies with trade secret laws implicate the difficult questions and splits of authority outlined in Part IIA above. Notably, tax-planning strategies necessarily involve principles generally known in the financial and estate planning industries. For example, trust, gifts, business entities, tax deferral mechanisms, a wide variety of investment vehicles, and so on constitute the basic grammar of tax planning. Anyone initiated into the world of tax planning knows the basic principles of these mechanisms, which work and must be understood within the context of the Internal Revenue Code.

Thus, a very difficult question arises from the outset regarding whether the strategies that accounting firms seek to protect rise to the level of trade secrets as a matter of law.¹⁸ After all, the industry knows, and for the most part thoroughly understands, all of the tools and principles involved in tax planning and lacks only knowledge of the exact combinations of these tools and principles used to benefit a given profile of clients. Of course, some authority suggests that even where all the individual components of a trade secret receive general circulation in the industry, the law will still protect the particular combination of the elements. “The fact that some or all of the components of the trade secrets are well-known does not preclude protection for a secret combination, compilation, or integration of the individual elements.”¹⁹ The point here is that tax-planning strategies have a very particular character within the world of proprietary idea.

Some advisers . . . question whether there really are all that many new and proprietary ways to make money for clients or save them a bundle on taxes. With everybody reading the same law, court cases, and IRS rulings, “it’s only reasonable to assume that people think in parallel terms and can come up with the same or similar solutions to a problem.”²⁰

A plaintiff may not be able to make a very strong argument that there is a trade secret involved where the defendant has the skills necessary to devise the strategy on her own. Further, the proprietor must show that the strategy is virtually unknown in the industry. A showing that the industry does not *generally* know the strategy does not give rise to the

18. Accordingly, most firms do not seek to rely solely on trade secrets law, and seek instead to impose confidentiality agreements on all those to whom the firms disclose the strategies. This comment analyzes these confidentiality agreements in Part III as the central and most important issue.

19. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. f (1995).

20. Jacobs, *supra* note 3, at 72. (Arthur Meyers is “a lawyer and employee-benefits specialist with Hutchins, Wheeler & Ditmar in Boston.”) *Id.* at 66.

existence of a trade secret. Put differently, a strategy that is mostly unknown “may not be converted into confidential information merely by accumulating the information by one’s own efforts.”²¹ Since the plaintiff in a tort action has the burden of proving misappropriation, it seems very unlikely (or at least immensely difficult) that any firm could prove by the preponderance of the evidence that the strategy exists *only* as the result of the plaintiff’s efforts, that no one else in the industry knows the strategy, that the defendant did not develop the idea, and that the defendant obtained the strategy through improper means.

Generally, an action for misappropriation of a secret tax-planning strategy will ensue under facts similar to those recited in the introduction, and thus, there often will arise no question as to the circumstances surrounding disclosure of the strategy—the plaintiff will probably prove that the plaintiff did in fact disclose the strategy to the defendant. However, this does not resolve whether use of the strategy after such disclosure constitutes “improper means.” A court must determine the impropriety of the means of acquisition (in this case, acquisition from the accounting firm) within the context of the other questions listed above, namely whether others in the industry know the strategy, and whether the plaintiff’s disclosure of the strategy constituted the only way the defendant could have learned it and in fact did learn it. This determines whether the strategy is a trade secret, which then bears on whether the defendant’s later use of the idea becomes improper. In other words, when a lawyer learns a tax-planning strategy from an accounting firm, the propriety or impropriety of the use of that strategy depends largely on whether the industry knows the strategy, and whether she could have learned the strategy in any legitimate way other than by the disclosure in question. The accounting firm’s efforts to keep the strategy secret, even coupled with a lack of general circulation in the industry, does not settle the propriety question until the court determines that the strategy rises to the level of trade secret.²²

In those jurisdictions requiring actual investment in the reverse engineering process to avoid misappropriation liability, the problem is compounded because developing a tax-planning strategy may require a great deal more time and effort for some than for others, depending on the relative skill of the professional. An elite tax planner may require virtually no investment in time or effort to develop the strategy, protesting that all tax planners are not created equal, and might create it in a matter of seconds. A court could not rationally impose on this elite

21. 54 AM.JUR. 2D *Monopolies, Restraints of Trade, and Unfair Practices* § 1115 (1996).

22. I admit that this uses woefully circular reasoning, but this appears to be the general malaise of the entire body of trade secrets law.

planner the duty to invest to the same degree the plaintiff invested in order to escape liability.

These problems all point to the difficulty involved when trying to *prove* a proprietary interest in a tax-planning strategy that would give rise to trade secret protection. The second major problem, however, deals with whether a firm may claim a proprietary interest as a matter of law. This problem arises from the economic realities of tax planning. Deborah Jacobs reports in *Bloomberg Wealth Manager* that often the strategies accounting firms seek to claim as a propriety interest either already circulate widely in the industry or do not work anyway, given that the accounting firm does not have the expertise necessary to analyze many of the legal problems invoked by the strategy.²³

Aside from these specious attempts to claim a proprietary interest, what about the case of a genuinely novel strategy, developed through actual investment, and which the would-be proprietor genuinely believes to be virtually unknown in the industry? Would trade secrets law protect these strategies?

Certainly the usual lengths to which accounting firms go to protect the strategy's secrecy constitute "reasonable efforts" within the meaning of the UTSA use of that term.²⁴ Firms place clients and their attorneys under confidentiality agreements not to disclose the content of these strategies, and these agreements require money to draft. Surely a firm would not invest money, time and effort into protecting the secrecy of a strategy the industry already knows. Some jurisdictions hold that efforts to protect the idea's secrecy constitute "evidence that the secret has real value."²⁵ Such evidence does not end the inquiry, however, because it does not give rise to a presumption that the plaintiff in fact has something of "real value" to protect.²⁶ Such a presumption would produce absurd consequences because anyone could create a trade secret surrounding any bit of common knowledge so long as she went to some lengths to keep the "idea" secret.

Instead, the amount of effort in maintaining the secret constitutes only evidence of value, but not *conclusive* evidence.²⁷ A court must still

23. See generally Jacobs, *supra* note 3.

24. UNIF. TRADE SECRETS ACT § 1(4)(ii).

25. Rockwell Graphic Sys., Inc. v. Dev. Indus. Inc. 925 F.2d 174, 179 (7th Cir. 1991).

26. *Id.*

27. Given the discussion below that tax strategies might in fact never be novel and largely known in the industry, these efforts to keep such strategies "secret" more likely amount to advertising schemes in which firms hope to attract clients by offering them something which their neighbors do not know, something dangerous, something cutting edge. In other words, the confidentiality efforts probably reveal more about the psychic value of these strategies than their economic and trade secrets value.

inquire into the industry workings and realities to determine whether the firm has something worthy of trade secrets protection. In the financial planning industry, such an inquiry may prove devastating to accounting firms' proprietary claims.

Developers know few strategies remain secret for long, but they hope to profit from a head start. . . . Many advisers . . . think information circulates so quickly they won't have to wait long to learn about a technique through other channels. "My network is so good that I could probably find out the strategy on my own," says Albert Gibbons, president of AIG Financial Services in Phoenixville, Pa., who adds that colleagues have given him materials he knows were subject to confidentiality agreements. "Would my client have to wait another week or another months or another 90 days?" he asks. "Nothing's going to hold out much longer than that."²⁸

If Jacobs is correct that even the developers of tax-planning strategies have no expectation that their strategies will remain a secret for longer than a few weeks, then the claimed proprietary interest may not meet the UTSA requirement that the secret must "[derive] independent economic value . . . from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use."²⁹ Jacobs' article seems to indicate that proprietors in fact expect other practitioners to obtain the strategies within a very short time, and that they hope only to gain as much economic advantage from the strategies as they can before the inevitable general disclosure.

Of course, the proprietors will argue that this meets the very essence of the UTSA requirement that the secret must give the proprietor an economic advantage while it remains secret. The other side of this argument, however, is that the UTSA, in the same sentence, requires that the secret not be "readily ascertainable by proper means."³⁰ As demonstrated above, determining what constitutes proper means under the circumstances must involve a highly fact-specific inquiry and somewhat circular reasoning. Perhaps the best approach to solving this problem, then, would be to ask, "What does the industry generally do?" This question, of course, would very likely end in the answer that tax planners have nothing of "real value" to protect from other in the industry, given the general understanding of virtually all the principles and tools involved in tax planning and the relative speed and inevitability with which strategies disseminate. The Massachusetts Superior court,

28. Jacobs, *supra* note 3, at 66, 70.

29. UNIF. TRADE SECRETS ACT § 1(4)(i) (1985).

30. *Id.*

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speaking in dicta, said that insurance providers and other businesses engaged in the sale of financial products “are hardly the kinds of businesses deeply steeped in trade secrets and other truly confidential materials.”³¹

This inevitable and speedy dissemination of tax-planning strategies also gives rise to a third major problem for an accounting firm in claiming trade secret protection: “the defendant’s use of the trade secret [must be] to the plaintiff’s detriment.”³² In other words, the use of the secret must cause the plaintiff to lose the economic advantage which the secret otherwise afforded her. In an industry where the economic advantages of the strategies have very short shelf lives, damage calculations may prove very speculative and uncertain. This not only imposes enormous difficulty on a court to determine how much, if any, damages to award, but in fact undercuts the plaintiff’s proprietary claim to a trade secret which gives her an economic advantage, as required by the UTSA.

C. Should Tax Strategies Be Protected?

The above analysis does not suggest that no case will ever rise to the level of a trade secret that the law should protect. This comment merely intends to emphasize the difficulty of asserting such a claim in the context of tax planning, given the realities of the industry. Nevertheless, no court should use the above analysis to decree a blanket presumption against trade secret protection in the case of a tax-planning strategy. Instead, courts must determine the genuineness of a claimed trade secret on a case-by-case basis. Courts must make this determination with an eye toward the policy concerns involved in trade secrets law generally, but with care to consider the overall character of tax-planning strategies that makes them unlikely candidates for trade secrets protection.

III. CONFIDENTIALITY AGREEMENTS WITH ACCOUNTING FIRMS

Either from a recognition of the weak position of tax-planning strategies in trade secrets doctrine, or out of an attempt to bolster the trade secrets position by increasing efforts to keep them secret, or for both reasons, accounting firms generally do not rely solely on the protection afforded by trade secrets law. Instead, they rely heavily on

31. *Kruanelis v. Sentinel Benefits Group, Inc.*, No. CA000487C 2000 WL 33159206, at *1 (Mass. Dist. Ct. 2000).

32. 54A AM. JUR. 2D, *Monopolies, Restraints of Trade, and Unfair Trade Practices* § 1114 (1996) (citations omitted).

confidentiality agreements to bind clients and clients' attorneys to silence in order to protect the claimed proprietary interest.

The increasing use of confidentiality agreements during the past five years coincides with the growth of multidisciplinary efforts, in which advisers in various fields team up to better serve the client. Yet these agreements have strained relationships new and old as recipients have divided into two camps: those who will sign and those who won't.³³

At least two broad categories of problems make the prospect of signing such an agreement unpleasant at best and potentially devastating to an attorney's career and her clients' interests at worst. First, confidentiality agreements potentially suffer from serious contract problems, possibly lacking definiteness and therefore enforceability. Second, confidentiality agreements put the attorney who signs them into very dangerous ethical territory, creating potential conflicts of interests between her clients, imposing unreasonable duties on potential clients, and restricting the free flow of competent legal advice.

A. Contract Problems

1. When the attorney signs an agreement: indefiniteness

When offering to divulge a secret tax-planning strategy to an attorney in exchange for a signed confidentiality agreement, accounting firms generally phrase their promise like this, "The technique . . . could produce significant saving . . ." or the accounting firm has "developed a new, proprietary estate-planning technique that could save [the client] money in transfer taxes."³⁴

In this transaction, the accounting firm (the promisor) clearly bargains for the attorney's (the promisee's) confidentiality in order to earn the fees from the client. No doubt a court would find this contract to have consideration. However, this contract probably lacks sufficient definiteness in the promisor's promise, making the return confidentiality promise unenforceable.

The Restatement (Second) of Contracts states:

- (1) Even though a manifestation of intention is intended to be understood as an offer, it cannot be accepted so as to form a contract unless the terms of the contract are reasonably certain. (2) The terms of

33. Jacobs, *supra* note 3, at 66.

34. *Id.* at 66, 67.

a contract are reasonably certain if they provide a basis for determining the existence of a breach and for giving an appropriate remedy.³⁵

Pyeatte v. Pyeatte, a leading case in certainty and definiteness, states the rule as follows: “Although the terms and requirements of an enforceable contract need not be stated in minute detail, it is fundamental that, in order to be binding, an agreement must be definite and certain so that the liability of the parties may be exactly fixed.”³⁶ Farnsworth explains “examples of agreements that do not meet the [definiteness] requirement are those in which the description of the subject matter is inadequate, as in the case when the description or quantity of goods to be sold is lacking.”³⁷ In other words, for a contract to be certain or definite enough to support an enforceable contract, it must describe in reasonably clear terms what exactly the promisor promises, such that a court can determine whether the promisor has fulfilled that promise.

In the case of an accounting firm promising to divulge a tax-planning strategy in exchange for a confidentiality agreement, the promisee’s return promise to remain silent regarding the strategy clearly meets the definiteness requirement. A court can determine with reference to the evidence at hand whether the attorney has revealed the strategy to anyone else, including the attorney’s other clients. The problem of definiteness lies only in the promisor’s promise to reveal a secret tax-planning strategy that will “benefit” the client or yield “significant savings.”

This promise uses such vague terms that a court could hardly determine whether the accounting firm has in fact tendered to the attorney and her client a strategy as promised. The promise does not describe anything about the means used in the strategy, or its ends in potential tax savings. Were the court to set the standard such that any benefit whatever to the client, even one cent in tax savings, fulfills the promise to “benefit the client,” the court must then deal with even more uncertainty in muddling through unconscionability doctrine. Instead, a court that insists that this contract has sufficient definiteness would better serve the interests of justice and the expectations of the promisee³⁸ by substituting the promisor’s expectations of what “benefit” or “significant” means with the court’s or the promisee’s understanding of what those terms mean. However, substituting the court’s judgment of

35. RESTATEMENT (SECOND) OF CONTRACTS: CERTAINTY § 33(1981).

36. *Pyeatte v. Pyeatte*, 661 P.2d 196, 200 (Ariz. Ct. App. 1983).

37. 1 E. ALLAN FARNSWORTH, FARNSWORTH ON CONTRACTS § 3.27 (1990).

38. The expectations of the promisee serve as a foundational principle in contract law generally and definiteness doctrine specifically. *Id.* (“[T]he requirement of definiteness is implicit in the principle that the promisee’s expectation interest is to be protected”).

the meaning of such words produces its own problems because it forces to court to write terms of definiteness into the contract that did not appear there before litigation.

Accordingly, a court should hold this contract unenforceable for lack of definiteness, in the absence of any clearer terms, such as “this strategy could save your client up to \$X.” A court might well require other elements of definiteness to appear in the contract, such as a discussion of the relative risk and aggressiveness involved in the strategy, particularly if the terms of the agreement state something like “this strategy *will* save your client \$X.” A discussion of the relative risk and aggressiveness would allow the promisee to know what she bargained for. Without such a discussion, even if the strategy would in fact save the client the promised amount, it might involve such a high degree of risk and aggressiveness that no reasonable client, nor this client in particular, would consider using such a strategy and would not therefore bargain to receive such a strategy.

After requiring reasonable certainty in disclosing to the client and her attorney enough details about the strategy that the contract becomes enforceable, a new problem arises. Any discussion about the potential savings and relative risk and aggressiveness would almost inevitably involve some level of disclosure regarding the tools and combinations involved in the strategy itself. This creates two problems. First, if definiteness would require such disclosure, no accounting firm with a truly novel, worthwhile, and proprietary strategy would make such disclosure because such a disclosure would compromise the strategy’s secrecy and thus would compromise the economic advantage which the strategy gives to the firm. The disclosure would compromise the economic advantage because now, in making the offer for a contract, the firm has already made the disclosures it promises to make in exchange for confidentiality. If a firm does make a sufficiently definite offer, however, a second major problem arises in such contracts because now the firm has already performed its promise before binding the promisee to confidentiality. In other words, the accounting firm asks the client and her attorney to bind themselves to confidentiality in exchange for past consideration, and past consideration cannot support a contract.

Only if [the] action has not yet been taken when the promise is made can the promisor be bargaining for it when making the promise. If the action has already been taken, the promisor cannot be seeking to induce it. Such ‘past consideration’ – action already taken before a promise is made – cannot be consideration for the promise.³⁹

39. *Id.* at § 2.7. Farnsworth cites several cases in support of this. “Plowman v. Indian Ref.

Applying Farnsworth's language to our scenario, the "promisor" represents the client and her attorney, who promise to remain silent in seeking to induce disclosure. If the promisee has already disclosed the strategy by the time the attorney and her client promise to remain confidential, then this past disclosure cannot constitute consideration, supporting enforceability of the client's and the attorney's promises to remain confidential.⁴⁰ In fact, Jacobs reports that this scenario happens frequently. "No matter what they say, when rich, 'marquee' clients are involved, promoters 'will disclose the substance, if not the details, of the transaction to both the individual and his or her lawyer' without a confidentiality agreement, Meyers says."⁴¹

Of course, courts must consider these promises on a case-by-case basis in determining their definiteness. However, if the promise by the accounting firm meets the definiteness requirement, the promisee runs the risk of having disclosed too much, so that any promise by the client and her attorney to keep the strategy confidential does not become an enforceable contract for lack of consideration. Such confidentiality agreements therefore swim in murky waters, and accounting firms may find that they are damned if they do disclose and damned if they don't. The tension between the definiteness and consideration doctrines should not imply, however, that no confidential agreement would ever have both sufficient definiteness and consideration. This comment simply emphasizes the extreme unlikelihood and difficulty in satisfying both requirements at the same time.

2. *When the attorney refuses to sign an agreement: implied contracts and confidential relationships*

Aside from trade secrets protection and confidentiality agreements, a proprietor may protect its strategy by claiming an implied-in-fact contract with the person to who the proprietor discloses the idea, requiring confidentiality.⁴² The court in *Reeves v. Alyeska Pipeline Service Company* outlined three distinct situations where ideas might be

Co., 20 F. Supp. 1 (E.D. Ill. 1937) (promise of pension held unenforceable); . . . *Allen v. Bryson*, 67 Iowa 951, 25 N.W. 820 (1885) (promise to pay for past legal services)." *Id.* at n.1.

40. This not only undercuts the enforceability of the accounting firm's desired confidentiality agreement, but it also potentially undercuts the firm's trade secrets position. If the firm goes about disclosing the strategy to potential buyers without first obtaining a confidentiality agreement, then the firm may no longer claim that it has taken "reasonable" steps to maintain the strategy's secrecy. Without those reasonable steps to maintain secrecy, the law will not protect the strategy as a trade secret. See UNIF. TRADE SECRETS ACT § 1(4)(ii) (1985).

41. Jacobs, *supra* note 3, at 72.

42. See *Reeves v. Alyeska Pipeline Serv. Co.*, 926 P.2d 1130 (Alaska 1996).

disclosed to a recipient: (1) submission occurs by the idea person without advance warning and without solicitation and before objection by the recipient; (2) submission occurs by the idea person without solicitation by the recipient, but the recipient allows the disclosure; and (3) “a solicited submission.”⁴³ Under the first two scenarios, a court will not find an implied contract because an idea person cannot impose a confidential relationship upon another without the other’s consent.⁴⁴ The third scenario, where the recipient asks for the idea person to disclose the idea, “implies a promise to pay for the idea if the recipient uses it.”⁴⁵

In the case of the tax strategy scenario, the accounting firm must claim that the implied promised payment includes confidentiality. This claim has enough problems in itself, and can only be resolved by showing that not only did the recipients not object to receiving the idea, but that they in fact solicited the idea or otherwise meant to be bound by a confidentiality agreement. Accordingly, a court must ask whether the client and her attorney knew or should have known that the strategy in fact amounts to a trade secret.⁴⁶ The necessity of this inquiry, in turn, puts a heavy burden on the recipients to make the same conclusions of law that a court will make about the trade secrets status of the strategy. As previously noted, such an inquiry also presents a litany of pitfalls and uncertainties. Moreover, the recipients must make this critical and very difficult determination in an atmosphere of severely limited information since the accounting firm will likely divulge at best incomplete details about the strategy.

However, assuming that the accounting firm can demonstrate an implied confidentiality agreement or a voluntary confidential relationship, at least two additional problems arise. First, what consideration does the proprietor furnish in exchange for an implied agreement not to use or publish the idea? Second, what degree of novelty must the idea involve for the law to protect it as a trade secret?

This comment has already demonstrated the difficulty in answering the first question regarding consideration versus definiteness in contracting for confidentiality in exchange for a secret tax-planning strategy. The answer to the second problem, regarding what level of novelty the law requires, depends on whether the accounting firm claims a confidential relationship or an implied-in-fact contract. If the firm claims an implied-in-fact contract, then a severe split in authority suggests that courts may or may not demand a novel idea to support an

43. *Id.* at 1140-41.

44. *Id.*

45. *Id.* at 1141.

46. *See generally* Metallurgical Indus., Inc. v. Fourtek, Inc., 790 F.2d 1195 (5th Cir. 1986).

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enforceable contract.⁴⁷ California dispenses with the novelty requirement:

The policy that precludes protection of an abstract idea by copyright does not prevent its protection by contract. Even though an idea is not property subject to exclusive ownership, its disclosure may be of substantial benefit to the person to whom it is disclosed. That disclosure may therefore be consideration for a promise to pay.⁴⁸

On the other hand, New York still requires a novel idea, even in the case of implied contracts, to support protection of an idea in trade secrets law: “[W]hen one submits an idea to another, no promise to pay for its use may be implied, and no asserted agreement enforced, if the elements of novelty and originality are absent.”⁴⁹ If the accounting firm claims an implied contract in a state following the New York rule, the firm will have a difficult time proving novelty, given the difficulty of showing that the entire industry has no knowledge of the strategy, as noted in Part II above.

On the other hand, if the accounting firm cannot successfully prove an implied-in-fact contract, the accounting firm must rely on its last resort, a confidential relationship. Under the Restatement of Torts, “[o]ne who discloses or uses another’s trade secret, without a privilege to do so, is liable to the other if . . . his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him.”⁵⁰

As the comment to this provision states, the proprietor of a trade secret may not unilaterally create a confidential relationship without the knowledge or consent of the party to whom he discloses the secret. No particular form of notice is necessary, however; the question is whether the recipient of the information knew or should have known that the disclosure was made in confidence.⁵¹

A confidential relationship may thus arise where the recipients solicited the idea, or at least knew or should have known the accounting firm would disclose the idea in confidence and took no steps to stop it.

The existence of a confidential relationship does not prevent the greatest problem in this case. Where the accounting firm approaches the client and her attorney, offers to disclose the strategy, and the client and

47. See *Stanley v. Columbia Broad. Sys.*, 221 P.2d 73, 85, 35 Cal.2d 653, 674 (1950) (Traynor, J., dissenting) (stating California law does not require novelty); *but see Downey v. Gen. Foods Corp.*, 286 N.E.2d 257, 259, 334 N.Y.S.2d 874, 877 (1972) (requiring novelty).

48. *Stanley*, 221 P.2d at 85 (Traynor, J., dissenting).

49. *Downey*, 286 N.E.2d at 259.

50. RESTATEMENT OF TORTS § 757(b) (1939).

51. *Smith v. Snap-On Tools Corp.*, 833 F.2d 578, 580 (5th Cir. 1987).

her attorney know that such confidential disclosures will occur in the course of making a deal, most courts say a confidential relationship arises.⁵² In this case, the accounting firm can claim breach of the confidential relationship if the client or her attorney uses the strategy without having paid the accounting firm for its use and because the parties impliedly developed a confidential relationship.

Instead, the problem arises because most jurisdictions require a novel idea to support a finding of a breached confidential relationship.⁵³ Again, the strategies' novelty will prove difficult to show. Thus, the accounting firm will have a difficult time recovering damages for breach of a confidential relationship.

To recover for breach of a confidentiality contract, the accounting firm must prove the existence of either an express contract or an implied contract. In the case of an express contract, the firm will struggle to show both definiteness and consideration at the same time. In the case of an implied contract, the firm will struggle with the same problems as in the express contract context, but with the added burden in many jurisdictions of proving a novel idea. In the absence of an express or implied contract, an accounting firm may still recover for breach of a confidential relationship, but with the very difficult burden of proving a novel idea, regardless of the jurisdiction in which the action ensues or the transaction occurred. This section demonstrates that, in any event, accounting firms will always struggle to recover for breach of a confidentiality agreement or for breach of a confidential relationship.

B. Ethical Problems

Even if an accounting firm succeeds in fashioning an enforceable confidentiality agreement, ethical rules may still prevent an attorney from binding herself to confidence. At least two major ethical rules enter into this problem. First, such a transaction may impermissibly create a conflict of interests between the client for whom the attorney signs the agreement and the attorney's other clients. Second, such a transaction may impermissibly restrict the attorney's ability to practice law.

1. Conflicts of interest

Under ABA Model Rules of Professional Conduct, Rule 1.7(b), an attorney may not enter into a transaction with one client that will compromise the interests of the attorney's other clients.

52. *Id.*

53. *See, e.g.,* Johnson v. Benjamin Moore & Co., 788 A.2d 906, 916 (N.J. Super. 2002); Paul v. Haley, 183 A.D.2d 44, 52, 588 N.Y.S.2d 897, 903 (1992).

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(a) A lawyer shall not represent a client if . . . (2) . . . the representation of [that client may] be materially limited by the lawyer's responsibilities to another client . . . or a third person, or by [the lawyer's own interests], [unless]: (b)(1) the lawyer reasonably believes the representation will not be adversely affected; and (2) the client consents after consultation. . . .⁵⁴

The Illinois State Bar Association (ISBA) released an advisory opinion in October 2000, interpreting Rule 1.7(b) in the context of the fact scenario hypothesized above.⁵⁵ In this opinion, the ISBA advised that the attorney who enters into a confidentiality agreement in this context impermissibly creates a conflict of interests between the clients for whom the attorney signs the agreement and the attorney's other clients.

[T]he package of ideas (the 'information') includes interpretations and applications of the tax laws and regulations that would be useful to Lawyer in performing legal services for Clients B, C, and D. Thus, we assume that once Lawyer has learned of the Information, she will be prohibited from applying ideas that would directly assist her representation of other clients. Based upon that assumption, if Lawyer were to sign the Confidentiality Agreement, Lawyer would have a conflict of interest in representing Clients B, C and D.⁵⁶

Moreover, the ISBA opinion states that it doubts whether an attorney could cure such a conflict by obtaining informed consent from the attorney's other clients.⁵⁷ No client would likely give such consent when the client knows that the attorney has useful tax-planning strategies that could benefit the client.⁵⁸ Even if the attorney could obtain such consent, however, "it does not appear that [the attorney] could reasonably assume

54. MODEL RULES OF PROF'L CONDUCT R. 1.7(b). The American Law Institute proposed a similar restraint on attorneys entering into relationships involving conflicts of interest.

§ 201. Basic Prohibition of Conflict of Interest. Unless all affected clients and other necessary persons consent to the representation . . . a lawyer may not represent a client if the representation would involve a conflict of interest. A conflict of interest is involved if there is a substantial risk that the lawyer's representation of the client would be materially and adversely affected by the lawyer's own interests or by the lawyer's duties to another current client, to a former client, or to a third person.

RESTATEMENT (THIRD) OF THE LAW GOVERNING LAWYERS § 201 (Proposed Final Draft No. 1, 1996)).

55. Ill. State Bar Ass'n., *supra* note 1.

56. *Id.*

57. The ALI proposal also imposes a consent requirement to cure conflicts of interest. RESTATEMENT (THIRD) OF THE LAW GOVERNING LAWYERS, § 202 (Proposed Final Draft No. 1 (1996)). However, "[n]otwithstanding the informed consent of each affected client or former client, a lawyer may not represent a client if . . . (c) in the circumstances, it is not reasonably likely that the lawyer will be able to provide adequate representation to one or more of the clients." *Id.* § 202(2)(c).

58. Ill. State Bar Ass'n., *supra* note 1.

that withholding material tax strategies would not adversely affect Clients B, C, and D.”⁵⁹

The ISBA opinion does not constitute binding ethical authority over attorney conduct, nor does it represent the opinion of the majority of state bar associations. However, the opinion soundly analyzes and interprets Rule 1.7(b) within the Rule’s clear language. Given the facts hypothesized above, it seems no good argument supports the conclusion that an attorney could ethically sign an agreement if the attorney presently represents other clients who could benefit from the proposed strategy.⁶⁰

2. *Restraint on ability to practice law*

However, what if the attorney does not presently represent other clients who could benefit from the proposed strategy? The ISBA opinion also draws from Rule 5.6 in support of its conclusion that signing a confidentiality agreement under these facts would violate attorney ethics.⁶¹ Rule 5.6 reads in pertinent part,

A lawyer shall not participate in offering or making: (a) a partnership . . . [or] employment . . . agreement that restricts the rights of a lawyer to practice after termination of a relationship . . . or (b) an agreement in which a restriction on the lawyer’s right to practice is part of the settlement of a client controversy.⁶²

While the facts do not hypothesize an attorney who enters into “a partnership or employment agreement,” the transaction may nevertheless violate “the spirit of Rule 5.6.”⁶³

The comments to Model Rule 5.6(b) explain that the rule was designed to prohibit lawyers from entering into agreements that “restrict a lawyer’s right to represent certain clients or to sue specific parties as part of a settlement of a controversy.” ABA Formal Opinion No. 93-371 cited three reasons for Rule 5.6(b):

First, permitting such agreements restricts the access of the public to lawyers, who, by virtue of their background and experience, might be the very best available talent to represent these individuals. . . . Second, the use of such agreements may provide clients with rewards

59. *Id.*

60. One must never forget, however, that the strategy in question likely has no unique value the attorney could not obtain for her clients in other ways. Thus, this discussion will remain largely academic, affecting few, if any, clients’ interests. Accordingly, this ethical discussion focuses on the unlikely situation where a confidentiality agreement would protect a legitimately valuable strategy.

61. Ill. State Bar Ass’n., *supra* note 1.

62. MODEL RULES OF PROF’L CONDUCT R. 5.6(a), (b) (2002).

63. Ill. State Bar Ass’n., *supra* note 1.

that bear less relationship to the merits of their claims than they do to the desire of the defendant to “buy off” plaintiff’s counsel. Third, the offering of such restrictive agreements places the plaintiff’s lawyer in a situation where there is conflict between the interests of present clients and those of future clients.⁶⁴

Accordingly, the ISBA opinion weighs the interests of future clients against the immediate benefit that the present client could derive from disclosure of the strategy.⁶⁵ It concludes that the attorney may not ethically create conflicts between the present client and the interests of future clients, and that signing a confidentiality agreement in this situation creates such conflicts of interests.⁶⁶

Michael L. Shakman and Marc O. Beem criticize the ISBA opinion in the *Chicago Bar Association Record* by responding that to disallow the attorney from signing such agreements may negatively and unfair impact the present client’s interests:

If the lawyer did not have other clients similarly interested in the accountant’s idea when the accountant sought the lawyer’s agreement to confidentiality, most of the reasoning of the Opinion suggests that the lawyer could agree. . . . The reference in the Opinion to the spirit of Rule 5.6 clouds this conclusion, for it focuses upon the “conflict between the interest of Lawyer’s current Client A and those of future clients who could benefit from the knowledge.” Rule 5.6 should not control if the lawyer is to give proper weight to the interest of the lawyer’s present client. That client wants immediate access to the accountant’s presumably beneficial ideas, and is prepared to pay. That client will be immediately prejudiced if use of the idea is withheld. It seems difficult to justify such harm to a current client because of an ethical rule focused on the interest of a potential future client, who may or may not ever approach the lawyer at a time when the idea is still relevant.⁶⁷

In other words, the present client’s interests are real, concrete, immediate, and measurable, while the future clients’ interests are hypothetical and speculative. Shakman and Beem argue that the ISBA opinion, in allowing these hypothetical interests to outweigh the real interests of the present client, dogmatically applies ethical rules in unrealistic ways to the detriment of all clients presently in need of secret tax-planning strategies.

64. *Id.* (citing ABA Comm. on Ethics and Prof’l Responsibility Formal Op. 93-371 (1993))

65. *Id.*

66. *Id.*

67. Michael L. Shakman & Marc O. Beem, *Can Lawyers Protect, and Sell at Premium, a Secret and Valuable Idea?*, 15 CHI. B.A. REC., July 15, 2001, at 49.

Such a rule would prejudice all present clients who might have a need for the confidential information and are willing to pay for it. These clients would have to do without either the valuable information or the assistance of a lawyer in the matter. The Opinion does not consider this issue.⁶⁸

This analysis fails to overcome the concerns outlined in the ISBA opinion for at least two reasons: (1) it brazenly ignores the time-honored ethical tradition that Rule 5.6 codifies and which virtually all states who follow the ABA Model Rules accept; and (2) it wrongly assumes that the secret strategies promoted by accounting firms necessarily have sufficient worth that preventing a client from obtaining the strategies would prejudice the client's interests.

First, Shakman and Beem's analysis disregards the policy concerns and ethical traditions behind Rule 5.6. Citing the speculative and unimportant interests of future clients,⁶⁹ the analysis relegates Rule 5.6 to a historical curiosity and a present ethical irrelevancy. Shakman and Beem's discussion of future client's interests unfairly and incompletely characterizes the purpose of Rule 5.6. Reasonable people may disagree over the relative weight that the ethics rules give to the interests of potential future clients compared with those of present clients. However, those interests do not represent the entire policy behind Rule 5.6 and its prohibition against attorneys binding themselves to agreements that restrict their ability to practice law.⁷⁰ ABA Formal Opinion 93-371 lists three public policy interests protected by Rule 5.6 that are in addition to future clients' interests that Shakman and Beem apparently consider inadequate to support the ISBA opinion's conclusions.

First, permitting such agreements restricts the access of the public to lawyers, who, by virtue of their background and experience, might be the very best available talent to represent these individuals. . . . Second, the use of such agreements may provide clients with rewards that bear less relationship to the merits of their claims than they do to the desire of the defendant to "buy off" plaintiff's counsel. Third, the offering of such restrictive agreements places the plaintiff's lawyer in a

68. *Id.* at 51.

69. *Id.* at 49 ("It seems difficult to justify such a harm to a current client because of an ethical rule focused on the interest of a potential future client, who may or may not ever approach the lawyer at a time when the idea is still relevant.").

70. In fairness to Shakman and Beem, the ISBA opinion itself focused only on the interests of future clients as the sole principle behind this ethical dilemma. Ill. State Bar Ass'n, *supra* note 1. ("The third reason [proffered by ABA Formal Opinion No. 93-371] applies in the situation at hand. The terms of the Confidentiality Agreement would create a conflict between the interest of Lawyer's Current Client A and those of future clients who could benefit from the knowledge gained by Lawyer from Accounting Firm."). Shakman and Beem merely hone in on this limited analysis of the ethical problem.

situation where there is conflict between the interests of present clients and those of future clients.⁷¹

Not only do future clients' interests weigh against the present client's interests, but so do the general public's interest in the free-flow of competent legal advice, coupled with the danger of lawyers self-dealing by entering into agreements restricting the availability of their advice. Further, not only does an attorney self-dealing itself raise ethical problems, but also it possibly inappropriately allows outside third parties access to the all-important attorney-client relationship.

The first policy concern deals not only with the public's (and by implication future clients') right to consult with this particular attorney, but also with the public's interest in the substance of the legal advice itself. The law generally disfavors the restriction of trade, and imposes ethical rules such as Rule 5.6 to curb the restriction of legal advice particularly.

Although the secret strategies promoted by accounting firms will generally provide little or no value to clients, a strategy which does provide real value makes an even stronger case in support of disallowing confidentiality agreements. The ISBA notes, "We have assumed that the tax package to be disclosed by Accounting Firm to Client A contains legal advice or analysis."⁷² The next section deals directly with the problems of attorneys assisting accounting firms in the unauthorized practice of law. The problem here, however, rests in the fact that tax-planning strategies have the nature of legal advice, which public policy should allow to flow freely from attorneys to the public.

The problem of future clients' interests remains only academic, Shakman and Beem seem to argue, and therefore, weighs lightly against the interests of the present client. However, even assuming that Shakman and Beem balance the interests correctly, the conclusion in favor of allowing confidentiality agreements remains correct only so long as no other clients seek to retain the attorney. Once another client in fact seeks to retain the attorney's services, the attorney may not represent that client, pursuant to Rule 1.7(b), without first obtaining full informed consent from the new client. As already noted, that consent will prove difficult, if not impossible, to obtain. Even if the attorney can obtain the consent, the attorney must still objectively determine whether the withholding of the strategy will substantively affect the client's tax or estate plan. As already noted, this will also prove difficult, if not impossible, to overcome. If the attorney's entire practice consists of tax

71. *Id.* (citing ABA Comm. on Ethics and Prof'l Responsibility Formal Op. 93-371 (1993)).

72. Ill. State Bar Ass'n, *supra* note 1.

and estate planning, then this confidentially agreement may in fact utterly limit to the attorney to one client for whom the attorney signed the agreement, and for the entire duration of the agreement. If the agreement requires indefinite confidentiality, then the attorney may find that her career has disappeared. This result clearly violates Rule 5.6.

The second policy concern behind Rule 5.6, the “desire of the defendant to ‘buy off’ plaintiff’s counsel,”⁷³ seems to arise more out of the litigation model of attorney representation than from a planning or transactional model.⁷⁴ Nevertheless, attorney self-dealing may remain a possibility even outside of the litigation setting. Thus, the potential harms to the public interest in the form of restricting the free-flow of legal advice, the potential for attorney self-dealing, and the potential conflicts with future clients’ interests all combine to present a powerful argument against permitting attorneys to sign confidentiality agreements in this context. Thus, Shakman and Beem’s ethical analysis focuses inappropriately only on the ethical duties of the attorney to her clients, neglecting the ethical duty which the attorney owes to “the system” as a whole.

Ordinarily, in performing his duty to the client, the lawyer carries out his duty to the system well. There are times, however, when the lawyer, while pursuing his client’s interests competently, loyally, and discreetly, must hold himself and his client’s interests in check in order to perform the less defined, and seemingly contradictory duty which he owes to the system as a whole.⁷⁵

The second error in Shakman and Beem’s analysis, that it assumes the secret strategies promoted by accounting firms have sufficient worth to the client’s interests, ignores the realities of the tax planning industry, where few or no tax planners ever develop new strategies entirely unavailable to the rest of the industry. Further, the analysis ignores the reality that, even if a firm did develop a new strategy, the firm could not protect the strategy for long.⁷⁶ Even if the firm could protect the strategy’s secrecy, the firm would struggle to place an attorney under a binding confidentiality agreement.

73. *Id.*

74. “[The] Model Rules of Professional Conduct . . . [are] composed largely of general, litigation-based rules that do not address many of the difficult problems that arise in specific areas of practice.” JOHN R. PRICE, J. ET AL, ACTEC COMMENTARIES ON THE MODEL RULES OF PROFESSIONAL CONDUCT 7 (3d ed. 1999).

75. BERNARD WOLFMAN & JAMES P. HOLDEN, ETHICAL PROBLEMS IN FEDERAL TAXATION PRACTICE 1-2 (3d ed. 1995).

76. Jacobs, *supra* note 3, at 70 (“‘Would my client have to wait another week or another month or another 90 days?’ [Gibbons] asks. ‘Nothing’s going to hold out much longer than that.’”).

Thus, the attorney may still serve the present client's interests, even without signing the agreement and without purchasing this particular strategy from this particular accounting firm. After all, seldom do tax planners find only one perfect solution to their clients' problems to all exclusion of other possible and comparatively beneficial strategies. Of course, these realities make most confidentiality agreements more irrelevant than unethical. However, even in a case where the accounting firm has something of real value to offer, a confidentiality agreement would unethically restrict the lawyer's ability to practice law during the period that the strategy remains a secret.

3. *Unauthorized practice of law*⁷⁷

The final ethical dilemma implicated by the hypothesized facts and addressed by the ISBA opinion arises out of Rule 5.5(b), which prohibits attorneys from assisting others in the unauthorized practice of law.⁷⁸

Pursuant to . . . Rule 5.5(b), a lawyer is prohibited from assisting "a person who is not a member of the bar in the performance of activity that constitutes the unauthorized practice of law." We have assumed that the tax package to be disclosed by Accounting Firm to Client A contains legal advice or analysis. Although the services performed by accountants and lawyers do overlap in some areas, there is a line that can be crossed at some point at which the accountant's services may become the "practice of law."⁷⁹

Although the opinion does not conclude whether, under these facts, the attorney assists the accounting firm in the unauthorized practice of law,⁸⁰ it suggests that the lawyer who signs such an agreement at least implicates a Rule 5.5(b) question. American jurisprudence lists the following activities as the unauthorized practice of law:

Drafting and supervising the execution of wills for others. . . . The assembling, drafting, execution, and funding of a living trust document constitutes the practice of law because a living trust document involves the disposition of property at death and, thus, requires legal expertise; however, non lawyers may gather the necessary information for the living trust. One not licensed to practice law who advises a particular person as to wills, trusts, and other schemes for the conservation and

77. BERNARD WOLFMAN & JAMES P. HOLDEN, *ETHICAL PROBLEMS IN FEDERAL TAX PRACTICE* 1-2 (3d ed. 1995).

78. MODEL RULES OF PROF'L CONDUCT R. 5.5(b) (2002).

79. Ill. State Bar Ass'n., *supra* note 1 (citing MODEL RULES OF PROF'L CONDUCT R. 5.5(b) (2002)).

80. *Id.* "Unauthorized practice of law questions are very fact specific and therefore no opinion can be stated on that issue given the general facts presented in the inquiry." *Id.*

disposition of his or her estate at death, thereby engages in the unauthorized practice of law, whether such advice is offered as a separate service or as an incident to carrying on the business of selling insurance.⁸¹

Activities designed to secure tax reductions or refunds for others may constitute the unauthorized practice of law. Factors that are significant in determining whether such activity constitutes the practice of law [include] . . . whether the special knowledge required for the undertaking is legal or economic. . . . It was intimated, though not decided, in one case that when an accountant deals with a question of law which is only incidental to preparing a tax return, he or she is not engaged in the unauthorized practice of law. But an accountant may not as an independent service render opinions regarding tax liability based on his or her study of authorities in order to construe a tax statute. Other jurisdictions have rejected the incidental test and have ruled that an accountant may not give legal advice or do legal work even in connection with his or her regular work as an accountant in tax matters.⁸²

A court's determination whether the accounting firm's preparation and sale of tax-planning strategies constitutes the unauthorized practice of law depends on a highly fact-specific inquiry.⁸³ However, given the guidelines and holdings outlined in American Jurisprudence, cited above, the accounting firm at least sits dangerously on the edge of entering territory historically reserved only for licensed attorneys.⁸⁴ If the law of a given jurisdiction would hold the accounting firm in our fact scenario to liability for engaging in the unauthorized practice of law, then the ethical rules forbid an attorney to assist the accounting firm in that practice.⁸⁵

Assuming that the accounting firm's practice constitutes the unauthorized practice of law,⁸⁶ the final question then rests in whether

81. AM. JUR. 2D *Attorneys at Law* § 122 (1997) (citations omitted).

82. AM. JUR. 2D *Attorneys at Law* § 126 (1997) (citations omitted).

83. Ill. State Bar Ass'n., *supra* note 1 ("Unauthorized practice of law questions are very fact specific and therefore no opinion can be stated on that issue given the general facts presented in the inquiry.")

84. See 7 AM. JUR. 2D *Attorneys at Law* § 122 (Supp. 2002) ("Corporation in business of creating and selling complex estate planning documents engaged in unauthorized practice of law when nonlawyer [sic] employees answered customers' specific legal questions, determined appropriateness of living trust based on customers' particular needs and circumstances, assembled, drafted, and executed documents and funded living trusts; although trust documents were reviewed by attorneys, employees' conduct went beyond mere gathering of necessary information.") See generally Fla. Bar v. Am. Senior Citizens Alliance, Inc. 689 So. 2d 255 (Fla. 1997).

85. MODEL RULES OF PROF'L CONDUCT R. 5.5(b) (2002).

86. See generally, LAWS MAN. ON PROF'L CONDUCT (ABA/BNA), 21:8201 for an excellent discussion of what constitutes the unauthorized practice of law.

the attorney's transaction with that firm, in signing a confidentiality agreement and counseling the client to do the same, constitutes assistance within the meaning of Rule 5.5(b). If the lawyer's conduct does constitute assistance within the meaning of that rule, then the lawyer may not ethically engage in that transaction.

In summary, the lawyer who signs a confidentiality agreement with an accounting firm likely violates at least three fundamental rules of ethics. The lawyer violates Rule 1.7(b) by creating unethical conflicts of interest between the current clients. Such conflicts arise because the attorney no longer has the ability to bring all her knowledge and ability to bear on the problems of the clients for whom the attorney did not enter into a confidentiality agreement. The attorney also violates Rule 5.6(b) by restricting her ability to practice law and creating conflicts of interest with future clients. While some debate continues regarding the relevance of the policies underlying Rule 5.6(b) in the tax-planning context, the rule nevertheless stands as an ethical barrier to the attorney signing such an agreement. Further, the policies underlying Rule 5.6(b) may still play an important role in securing the public interest beyond future clients' interests. Finally, the lawyer may violate Rule 5.6(b) by assisting the accounting firm in the unauthorized practice of law. While the legal profession may incrementally loosen this standard as multi-disciplinary practice becomes more common and more acceptable, this ethical standard nevertheless remains relevant and binding authority. No general rule appears readily available to determine whether under the hypothesized facts the attorney violates this rule. Attorneys should therefore carefully consider this ethical rule when trying to decide whether to sign a confidentiality agreement with an accounting firm.

C. Third-Party Beneficiaries of Secrets

Allowing attorneys to sign confidentiality agreements with respect to proprietary tax-planning strategies would result in at least one devastating result: third-party beneficiary liability to the proprietor. Many jurisdictions, in protecting proprietors' interests in trade secrets, imposes a duty upon third parties who benefit from the defendant's misappropriation of the idea to know whether the idea they are purchasing from the defendant constitutes a protected trade secret.⁸⁷ In these jurisdictions, if the third party knew or should have known that the defendant misappropriated the idea the third party purchased from the

87. *See Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1204 (5th Cir. 1986) ("The law imposes liability not only on those who wrongfully misappropriate trade secrets by breach of confidence but also, in certain situations, on others who might benefit from the breach."). Rule 10.9(a).

defendant, then a court will impose liability on the third party as well as the defendant.⁸⁸

One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if . . . (c) he learned the secret from a third person with notice of the facts that it was a secret and that the third person's disclosure of it was otherwise a breach of his duty to the other. . .

One has notice of facts under the rule stated in this Section when he knows of them or when he should know of them. . . . He should know of them if, from the information which he has, a reasonable man would infer the facts in question or if, under the circumstances, a reasonable man would be put on inquiry and under an inquiry pursued with reasonable intelligence and diligence would disclose the facts.⁸⁹

This puts an enormous burden on the third party, because she must become judge and jury to determine whether the direct defendant stole the secret obtained it legitimately.⁹⁰

In our facts, third-party liability means that all tax-planning clients and potential clients must always inquire of their attorney whether the attorney misappropriated any proprietary strategies for the clients' benefit. Third-party liability also means, however, that where the client knows or should know the attorney has confidential dealings with accounting firms, the clients must inquire of those accounting firms whether the strategies the attorney proposes constitutes proprietary trade secrets owned by the accounting firms.⁹¹

Allowing attorneys to enter into confidential relationships with accounting firms regarding secret tax-planning strategies creates two serious problems in the third-party beneficiary context. First, third-party liability creates a highly charged, potentially litigious atmosphere where seeking legal advice may expose clients and their attorneys to liability in tort. Second, such exposure creates an additional restraint on the attorney's ability to practice law by providing a strong disincentive for clients to seek legal advice. As already noted, Rule 5.6 deals with attorneys entering into relationships that limit their ability to practice

88. *Id.*

89. *Id.* (quoting RESTATEMENT OF TORTS § 757, cmt. 1 (1939)).

90. For this idea, I am indebted to Professor Jean Burns. Professor Burns proposed this idea during a lecture on February 29, 2002 regarding *Metallurgical Industries, Inc. v. Fourtek* as a problem inherent in third-party beneficiary liability in trade secrets law. She did not apply this idea directly to the problem at hand, although if the proposition applies in general trade secrets law, then it probably will apply in this context as well.

91. *Metallurgical Indus. Inc.*, 790 F.2d at 1204 ("[I]n attention to possible wrongdoing . . . amounts to a failure to reasonably inquire into the facts involved. . . . [The third-party defendant] might therefore be held accountable, provided it used any trade secrets conveyed.").

law.⁹² Whether or not the contractual relationship between the attorney and the accounting firm directly violates Rule 5.6, the disincentive created by that relationship seems to further violate “the spirit of Rule 5.6” by potentially freezing the free flow of competent legal advice.

IV. CONCLUSION

As presently constituted, the laws of trade secrets and contracts and the rules of attorney ethics largely disfavor both trade secret protection for tax-planning strategies and confidentiality agreements between attorneys and accounting firms. Accounting firms will struggle to prove that tax-planning strategies amount to novel ideas that meet the definition of trade secrets. This struggle arises out of both evidentiary problems in proving novelty and from the economic realities of the industry, both of which make tax strategies unlikely candidates to receive trade secrets protection. Most accounting firms seem to recognize the uncertain ground on which their trade secrets claims stand, and therefore, attempt to impose duties of confidentiality on clients and clients’ attorneys. However, these confidential relationships and confidentiality contracts stand on perhaps even shakier ground than the trade secrets claims. The confidential relationships claims suffer from the same problem as the trade secrets claims. More importantly, the confidentiality agreements likely fail to satisfy both definiteness requirements and consideration requirements at the same time.

Even if the law will enforce such agreements, attorneys may not sign them because of three fundamental attorney ethics rules. These agreements violate Rule 1.7(b) by creating conflicts of interest between the attorney’s clients; they violate Rule 5.6(b) by restricting the attorney’s ability to practice law; and they may violate Rule 5.5(b) by obligating the attorney to assist the accounting firm in the unauthorized practice of law. If an accounting firm can prove the existence of a trade secret, prove the existence of an enforceable contract, and show that the contract does not force the attorney into violating ethical rules, one last problem remains. The potential consequences of protecting tax-planning strategies by imposing trade secrets law, by allowing attorneys to enter confidentiality agreements, and by enforcing those contracts should seriously harm the public interest by imposing third-party liability on clients and potential clients. This liability contradict both the spirit of Rule 5.6 and the public good generally by providing a severe disincentive for clients to seek counsel, thus freezing the free flow of competent legal advice.

92. MODEL RULES OF PROF’L CONDUCT R. 5.6 (2002).

Ultimately, the laws of trade secrets and contracts, as well as the rules of attorney ethics seek to promote the public interest and to protect all parties' substantive legal rights. To the extent that accounting firms prove successful in enforcing confidentiality agreements, the public interest and clients' rights suffer. As demonstrated above, however, the law and rules as presently constituted already protect the public from these undesirable consequences. The tax bar must continue to inquire, however, into the inevitable developments of multi-disciplinary practice, the consequences of those developments, and the changes the law must make to accommodate the public interest in that context. Such an inquiry, however, must not ignore the considerations outlined in this comment in order to accommodate multi-disciplinary practice. Instead, such an inquiry should seek to develop multi-disciplinary practice in ways consistent with the whole body of trade secrets law, contract law, and ethical rules.

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