MAYER · BROWN

Global Sourcing & Technology Changes: Reboot Your Sourcing Strategies



Mayer Brown LLP

- 1,500 Lawyers in the Americas, Europe and Asia
- More than 50 lawyers around the world focused on Business & Technology Sourcing
- Advised on more than 300 significant outsourcing transactions valued at more than \$100 billion
- Recognized Market Leader







- "Top tier" ranking in IT/Outsourcing for nine consecutive years (Chambers 2004-2012)
- Sole occupant of the top Outsourcing ranking for the US in 2009 and ranked again in the top tier for 2010 and 2011
- Ranked as one of the top law firms in 2009, 2010 and 2011 on The World's Best Outsourcing Advisors list for The Global Outsourcing 100™

Our BTS Team in North America

Counsel



Our BTS Team in South America



Our BTS Team in Asia





Duncan Abate
Partner - Employment &
Benefits

Our BTS Team in Europe

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies



David Bates Partner



Peter Dickinson Partner



Serge Levine Partner



Mark Prinsley Partner



Andrew Stewart Partner



Guido Zeppenfeld Partner



PARIS

BRUSSELS



Laurence Dumure Lambert Partner - Employment & Benefits



Miles Robinson Partner - Litigation-Dispute Resolution



Nicholas Robertson Partner - Employment & Benefits



Rani Mina Partner - Litigation-Dispute Resolution

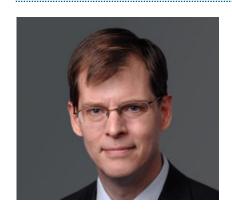
MAYER · BROWN

Talking SMAC: Contracting for Social, Mobile, Analytics and Cloud





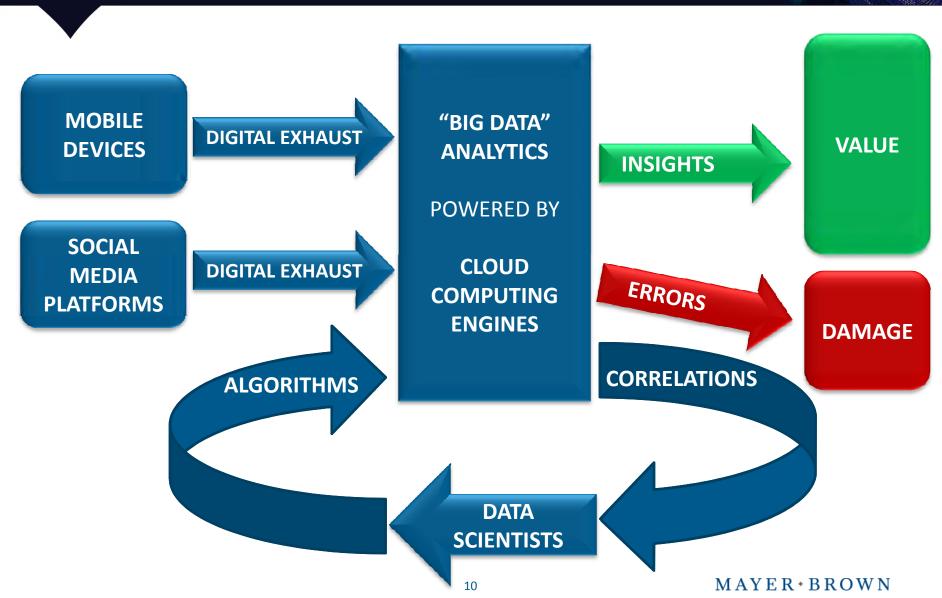
Paul Roy is a partner in the Business & Technology Sourcing practice in Mayer Brown's Chicago office. He represents clients in a broad range of onshore, nearshore, and offshore information technology and business process outsourcing transactions. He regularly advises clients on the outsourcing of IT infrastructure services and support, application development and maintenance, network management and support and help desk/call center services. Paul also advises clients on the outsourcing of finance and accounting functions, HR/employee services, CRM and financial services operations, among other business process functions.



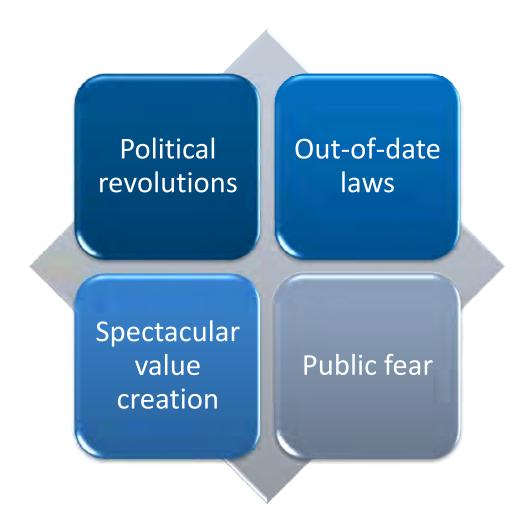
Brad Peterson is a partner in the Business & Technology Sourcing Practice in our Chicago office. He has represented clients in dozens of large outsourcing transactions and hundreds of software license and services agreements. In the past year, he has represented leading companies in entering into mission-critical agreements for information technology, finance & accounting and human resources services and in replacing critical information technology. With both an MBA from the University of Chicago and a JD from Harvard Law School, he provides practical, business-focused advice and completes transactions efficiently and effectively.

- How the confluence of SMAC technologies creates revolutionary new value
- How to help your company maximize value
- How to help your company avoid legal pitfalls

How SMAC Technologies Combine to Create Value



The Confluence of the SMAC Technologies is Truly Revolutionary



HOW TO HELP YOUR COMPANY TO MAXIMIZE VALUE

A Cautionary Tale

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

66 For example, in Amazon's early days it signed a deal with AOL to run the technology behind AOL's e-commerce site. To most people, it looked like an ordinary outsourcing deal. But what really interested Amazon, explains Andreas Weigend, Amazon's former chief scientist, was getting hold of data on what AOL users were looking at and buying, which would improve the performance of [Amazon's] recommendation engine. Poor AOL never realized this. It only saw the data's value in terms of its primary purpose — sales. Clever Amazon knew it could reap benefits by putting the data to a secondary use.

From Big Data: A Revolution That Will Transform How We Live, Work, and Think Viktor Mayer-Schonberger and Kenneth Cukier (Houghton Mifflin Harcourt, 2013), p. 105.

Recommendation: Update Your Contract Clauses To Protect Your Interests in SMAC Data and Insights

- Value may be generated in a form that is not protected by traditional contract clauses
- Review contract templates and standards to guard against value leakage. For example:
 - Designate your data as trade secret and as Confidential
 Information and as Customer Data
 - Remove, narrow, or apply royalty rates to exceptions such as:
 - Secondary use, of your data
 - Use "to improve our services"
 - Use of "anonymized" data or data consolidated across customers
 - Information available from other sources

Recommendation: Obtain Options on Data/Insights

- Providers are rapidly developing their available services and types and sources of data
- Obtain options to:
 - Continue using data that you need, including right to provide that data to outsiders for data analysis, license fees, etc.
 - Obtain copies of other data in provider's possession
 - Obtain access to new data streams or analytical tools when implemented by the provider
 - Learn findings from provider's analysis of aggregated data including your data
 - Continue use of SMAC services that you may depend on
 - Prevent changes in services that may harm you or reduce value

Recommendation: Use Reasonable Measures to Protect Secrecy of Your Valuable Data and Insights

- Unlike Europe, the US does not offer statutory protection to databases except as trade secrets
- Designating data or insights as trade secrets in a contract is helpful but not sufficient
- Trade secret laws require that the data and insights to be protected are actually secret and subject to reasonable measures to preserve their secrecy
 - This legal standard may be impractical operationally or factually for some key types of data
 - Consider using instead for particularly valuable data and insights

Recommendation: Use Incentive-based Sourcing Strategies to Drive Value Creation by Providers

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

Current key challenges in contracting for SMAC services

- Difficulty in specifying outcomes
- Difficulty in specifying skills
- Difficulty in specifying activities
- Rapidly evolving technology and laws

Sourcing strategies

- Ongoing multi-provider competitive model
- Gain share or other outcome-based model
- Agile sourcing model

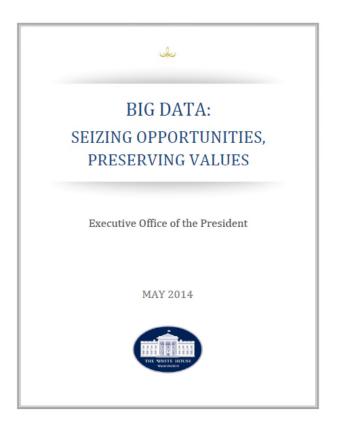
HOW TO HELP YOUR COMPANY AVOID LEGAL PITFALLS

A Cautionary Tale

- For over 100 years, credit reporting agencies (CRAs) have analyzed data about borrower behavior to develop credit scores. Prior to regulation, much of that data was more moralistic than directly related to credit.
- The Fair Credit Reporting Act of 1970 defined "permissible uses" of consumer credit information, required that data be verifiable, and gave consumers access and correction rights. By complying with these safeguards, CRAs were shielded from defamation suits.
- Despite long experience, cleaner data than social media postings and oft-amended regulation, a recent landmark study found that 26% of credit reports have errors substantial enough to affect credit scores.

Recommendation: Obtain Compliance Commitments

- Regulations and market norms are also evolving rapidly
 - A White House report on May 1, 2014 concluded that "The federal government must pay attention to the potential for big data technologies to facilitate discrimination inconsistent with the country's laws and values."
- Obtain rights to:
 - Audit and obtain reports on uses of your data
 - Know the basis for recommendations, including sources of data and types of algorithms
 - Prevent use of your data by others without your consent (and perhaps adequate license fees)
 - Stop uses of your data that are prohibited by regulations or your policies (as each may change)



Recommendation: Flow Down Privacy Obligations to Providers

- SMAC technologies create new issues and concerns in:
 - Informed consent
 - Access /participation
 - Anonymization/de-identification
 - Do Not Target
 - Legitimate business purposes
 - Data minimization
 - Profiling
- Update your contracts to require your providers to be consistent with your compliance strategies

Recommendation: Continue to Destroy Appropriate Data as Part of Your Records Retention Policy

- Your big-data enthusiasts will say that it is always better to retain more data because you will find more secondary uses as time goes on
- However, more data may impose more legal burdens, such as:
 - Expense of preservation and production in discovery
 - Expense of complying with contractual and legal obligations to protect and limit use of that data
 - Increased liability for product defects or other safety problems because more harms are arguably foreseeable
 - Risk of privacy or data security breaches and related regulatory actions and consumer class actions

Recommendation: Carefully Allocate Liability for Potential Harm

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

The law isn't clear on allocation or extent of SMAC liability, making it hard to size the risks when contracting and expensive to resolve disputes when they occur

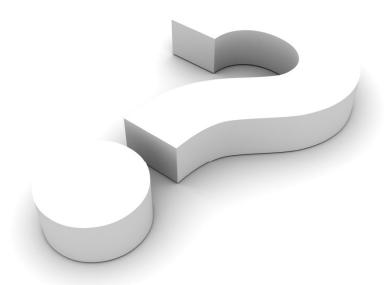
SMAC providers often seek broad liability waivers

Identify and allocate risks such as:

- Collection or retention of data in violation of law or contract
- Improper or unwanted disclosure of data
- Inaccurate, incomplete or misleading data
- Incorrect analysis or recommendations
- Use of analysis and recommendations

- The confluence of social media, mobile devices, "big data" analytics and cloud computing engines is generating new value and new risks.
- There's a lot you can do right now to capture value and mitigate risks, including:
 - Reviewing and improving contract clauses to reduce restrictions on your use of data and secure options and commitments from providers
 - Establishing trade secret or other protection
 - Updating policies

QUESTIONS



Paul Roy

Partner
Mayer Brown LLP
+1 312 701 7370
proy@mayerbrown.com

Brad Peterson

Partner
Mayer Brown LLP
+1 312 701 8568
bpeterson@mayerbrown.com

MAYER · BROWN

Foreign Corrupt Practices Act Compliance

Lori E. Lightfoot

Partner

+1 312 701 8680

llightfoot@mayerbrown.com



Speaker

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies



Lori Lightfoot has extensive experience in every facet of complex commercial litigation in areas ranging from breach of contract and business tort claims; franchisor/franchisee disputes; foreclosure actions and other real estate related litigation; and products liability actions. Lori also has litigated or otherwise resolved disputes concerning employment discrimination, particularly class actions or those involving senior executives. Lori regularly advises clients on avoidance of and preparation for potential litigation. Lori also regularly advises clients on a range of complex criminal law issues stemming from federal, state or local grand jury investigations or investigations by federal, state or local inspectors general.

- Overview of the FCPA
- Trends in FCPA Enforcement
- Risk Management



What is the FCPA?

The Foreign Corrupt Practices Act (FCPA) makes it a crime to bribe foreign government officials, either directly or through intermediaries, in order to obtain or retain business. The FCPA also imposes record-keeping obligations on certain companies.

Why the FCPA?

- As a result of SEC investigations in the mid-1970s, over 400 US companies admitted making questionable or illegal payments in excess of \$300 million to foreign government officials, politicians, and political parties.
- The abuses ran from bribery of high foreign officials, to paying the expenses of family members, to making smaller, regular payments to lower-level officials.
- Congress enacted the FCPA in 1977 to halt bribery of foreign officials and to restore public confidence in the integrity of the American business system.

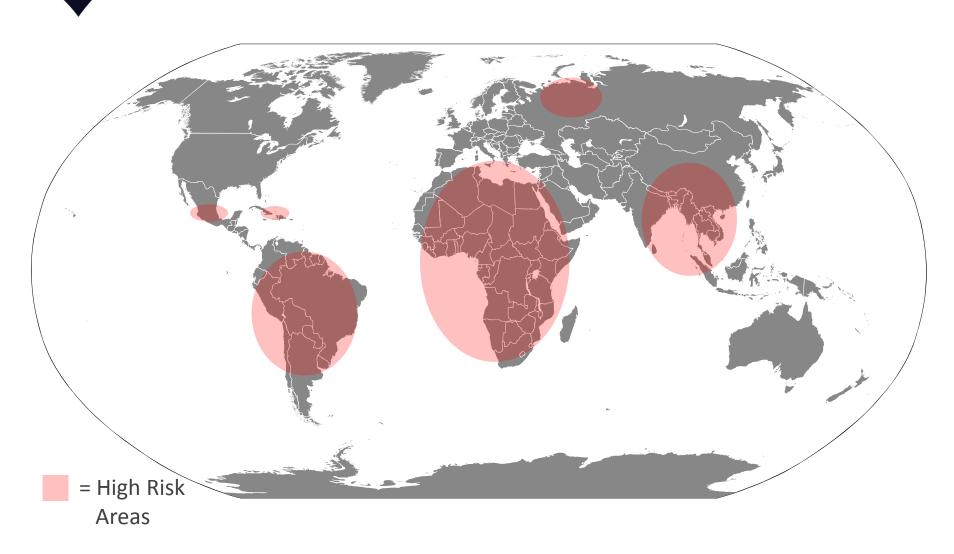
- The FCPA consists of two sections:
 - 1) Anti-bribery Provisions
 - 2) Record-Keeping and Internal Control Provisions
- US Department of Justice ("DOJ") and the Securities and Exchange Commission ("SEC") work in conjunction to enforce the FCPA, both separately and in combined efforts.

FCPA: Anti-Bribery Provisions

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

 The anti-bribery provisions of the FCPA make it unlawful for a US person, a company with ties to the US and for most foreign companies who are issuers of US securities, to make a corrupt payment to a foreign official for the purpose of obtaining or retaining business, or for directing business to any person.

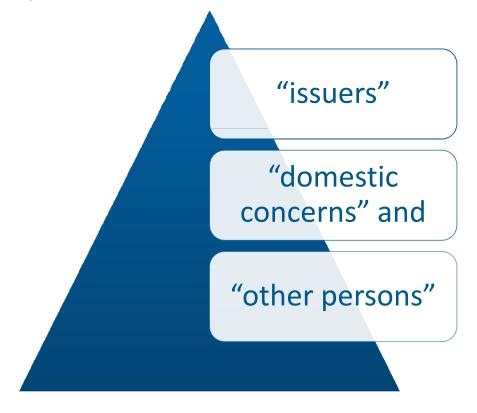
FCPA Corruption Perception Index Risk



To Whom Does the FCPA Apply?

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

The FCPA's anti-bribery provisions apply to three categories of companies or persons:



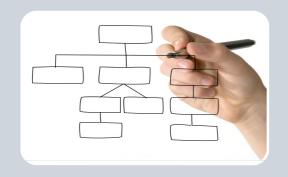
...as defined under the statute.

Who is an "Issuer"?

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies







All companies with US publicly registered securities

All companies required to file reports with the SEC

All the officers, directors, employees and agents of those companies

Who is a "Domestic Concern"?



Who are the "other persons" to Whom the FCPA Applies?

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

 The Act also applies to foreign firms and persons ("other persons") who are neither issuers nor domestic concerns, but who take any act in furtherance of the corrupt payment while within the territory of the United States.

Bribery — What Acts are Covered?

- For a specific act to be considered an illegal bribe under the FCPA anti-bribery provisions, there needs to be adequate proof of:
 - Payment
 - Foreign Official Recipient
 - Corrupt Intent
 - Business Purpose



Corrupt Payments

- The FCPA prohibits paying, offering, promising to pay (or authorizing to pay or offer) money or anything of value.
- "Anything of value" can include paying for trips or hotel rooms, meals, promises of future employment, loans, entertainment expenses, etc.

FCPA Covers Direct and Indirect Payments

- The FCPA does not just prohibit direct transactions.
 It also prohibits corrupt payments through intermediaries.
- Intermediaries may include suppliers or their subcontractors or agents. It is unlawful to make a payment to a third party, while knowing that all or a portion of the payment will go directly or indirectly to a foreign official.
- The offer or promise of a corrupt payment can constitute a violation (the corrupt payment need not actually be made).

Who is a Foreign Official?

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

- Officer or employee of a foreign (i.e. non-US) government or agency, member of a political party, party official, legislator or candidate
- Member of royal family who has official governmental responsibilities
- Employee of state-controlled business (such as a doctor in a statecontrolled hospital or employees at state-owned airports)
- Business person who is a government agent acting on behalf of the government
- A public international organization as well as its employees (UN, IMF, etc.)
- The official's rank is not significant, focus is on the payment's purpose not duties

Practice Point:

In many countries, the line between "public" and "private" may be blurred so be careful.

Compliance Point: Political Donations Prohibited

- Because officials, political parties, and even candidates for office are considered "Foreign Officials," no company funds, assets, or personnel should be used to make any political donation, or render assistance to any party or candidate for office.
- For example, use of company office space for a political meeting would be prohibited.
- Similarly, charitable donations are only permitted after they are cleared through an approval process. *Guidelines at Section 6.0.*

Anti-Bribery – Corrupt Intent

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

• To constitute a "corrupt payment" under the FCPA, the person offering or authorizing the payment must have a "corrupt intent" and the payment must be intended to induce the recipient to misuse his or her official position to affect a decision by a government institution or employee to secure an improper advantage or to assist in obtaining, retaining, or directing business to anyone.

Anti-Bribery – Corrupt Intent

- A person may be liable under the FCPA if he knows a corrupt payment will be made to a foreign official.
 "Knowledge" includes:
 - Actual knowledge
 - Awareness or suspicion that an event is likely to occur
 - Avoiding actual knowledge of corrupt acts through willful blindness
 - In other words, you can't "play dumb."

Anti-Bribery – Corrupt Intent

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

Practice Point:

The FCPA prohibits corrupt payments through intermediaries. It is unlawful to make a payment to a third party, while "knowing" that all or a portion of the payment will go directly or indirectly to a foreign official.

Remember: The term "knowing" includes "conscious disregard" and "deliberate ignorance."

Anti-Bribery — Corrupt Intent



"That's all I know, because it was at precisely that moment that I pulled the wool over my eyes."

FCPA - Business Purpose

- The FCPA prohibits payments made in order to assist the firm in obtaining or retaining business, or directing business to, any person.
- The Department of Justice interprets "obtaining or retaining business" broadly, such that the term encompasses more than the mere award or renewal of a contract. The Act prohibits payments for the purpose of obtaining "any improper advantage" in obtaining or retaining business such as waivers and licenses.
- The business to be obtained or retained does not need to be with a foreign government or foreign governmental authority.

Facilitating Payments: Defined

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

- The FCPA does not prohibit "facilitating payments for routine governmental action." Facilitating payments are also known as "grease payments."
- "Grease payments" can be thought of as small payments
 to persuade low-level government officials to perform
 functions or services which they are obliged to perform
 as part of their governmental responsibilities, but which they
 may refuse or delay unless compensated.

Practice Point:

"routine governmental action" does not include any decision by a foreign official to award new business or to continue business with a particular party.

Facilitating Payments: Examples

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

are ordinarily and commonly performed by a foreign official:

- Approving permits, licenses, or other official documents
- Processing papers such as visas and work orders
- Providing police protection, mail pick-up and delivery or scheduling inspections associated with contract performance or transit of goods
- Providing phone service, power and water supply, loading and unloading cargo, or protecting perishable products

Compliance Point: Facilitating Payments

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

 Smart Company Policy should require employees and business partners to obtain prior written approval before making any facilitating payment.

NOTE: While the FCPA contains an exception for Facilitating Payments, other countries' laws do not. (UK Bribery Act; Chinese law).

Reasonable and Bona Fide Business Expenses

- The Act permits payment of reasonable businesses expenses, such as travel and lodging if the expenses are:
 - Related to the promotion, demonstration, or explanation of products and services, or
 - The execution or performance of a contract with a foreign government.
- Gifts are permitted under the FCPA, but only if they are reasonable and not given as a *quid pro quo* to get or retain business.

Additional Affirmative Defenses

- The payment was lawful under the written laws of the foreign country; or
- The money was spent as part of demonstrating a product or performing a contractual obligation.
- An affirmative defense requires that a defendant show that the payment met these requirements.

Indirect Payments Are NOT Protected

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

The FCPA also prohibits corrupt payments made through third parties or intermediaries.
Thus, you can't do through someone else what you are prohibited yourself from doing.



FCPA: Record Keeping and Internal Controls

Overview of Record-Keeping Requirements

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

 The FCPA requires every issuer to "make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect the transactions and disposition of assets."

FCPA: Record Keeping and Internal Controls

Overview of Accounting Control Requirements

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

- The FCPA also requires issuers to maintain a system of internal accounting controls sufficient to provide reasonable assurances that:
 - 1) transactions are executed in accordance with management's general or specific authorization;
 - 2) transactions are recorded as necessary;
 - 3) access to assets is permitted only in accordance with management's general or specific authorization; and
 - 4) the recorded accountability for assets is compared with the existing assets at reasonable intervals, and appropriate action is taken w/r/t any differences.

These rules codify existing auditing standards.

FCPA: Record Keeping and Internal Controls Compliance Point: Policies on Record Keeping and Internal

Accounting Controls GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

- Company Guidelines should specify how books and records must be kept for all suppliers, subsidiaries and affiliates both in the US and abroad.
- Guidelines should identify examples of prohibited record keeping activities that must be reported immediately, such as:
 - False expense reports
 - "Slush funds" or other unrecorded petty cash funds
 - Mislabeled expenditures

Ultimate Risks: Serious Criminal and Civil Penalties

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

Corporate sanctions:

- **Heavy fines** (up to \$2 million for each violation of the anti-bribery prohibition, up to \$25 million for violation of accounting provision, or up to twice the benefit sought to be obtained) and disgorgement of proceeds associated with improper payments
- Injunction to prevent future violations
- Suspension and debarment

Individual Liability

- Heavy fines up to \$100,000 (No indemnification allowed)
- Prison sentences up to five years

Collateral Consequences

 Damage to reputation, recession of contracts, loss of government licenses or business with the federal government

How FCPA Issues Can Arise In Outsourcing

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

As discussed, FCPA issues can arise in a number of ways, including:

- Direct bribery to government officials
- Indirect bribes to government officials (via agents or third parties)
- Negotiations related to licenses or waivers
- Renegotiation of government contract terms
- Marketing of products or services to government agencies

FCPA: Recent Developments and Trends in the Law FCPA Prosecutions Continue to Rise; FCPA Remains High Government Priority GLOBAL SOURCING AND TECHNOLOGY CHANGI

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

 The number of FCPA prosecutions has increased significantly since 2004, and has remained high in recent years.

| YEAR | 2009 | | 2010 | | 2011 | | 2012 | | 2013 | |
|-------------------|------|-----|------|-----|------|-----|------|-----|------|-----|
| AGENCY | DOJ | SEC |
| # OF PROSECUTIONS | 26 | 14 | 48 | 26 | 23 | 25 | 11 | 12 | 19 | 8 |

- Prosecutions grew both of companies and persons in the US and those abroad.
- Do no misinterpret smaller numbers in 2012 and 2013.

Principles for Due Diligence

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

The Guidance issued by DOJ & SEC in November 2012 set forth three guiding principles for conducting important due diligence, which are acknowledged risk areas for companies.

- 1) Qualifications and associations, including reputation and relationships with foreign officials;
- 2) Business Rational for the use of the supplier;
- 3) Continuously monitor the relationship, exercising audit rights, training and requiring certifications.

Elements of a Successful Compliance Plan



Due Diligence – Risk Assessment

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

The level of due diligence is always a balance based upon risk assessment. Certain geographic areas of the globe have always been known to have a more significant risk of corruption. However, any acquisition should look at the following:

- (A) substantial revenue from government contracts;

(B) lack of training on FCPA;



(C) questionable financial statements or unexplainable expenditures;



- (D) lack of an adequate compliance infrastructure;
- (E) contracts involving excessive use of the same consultants;
- (F) relationships of owners, directors, employees or consultants to foreign officials; and
- (G) involvement with governmental agencies that appear inconsistent with economic purpose.

Supplier Compliance Issues

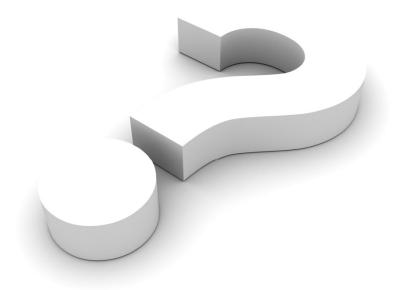
- 1) Is compliance audited for suppliers? (How?)
- 2) Is compliance training mandated for suppliers? (How?)
- 3) Suppliers disciplined for non-compliance? (How?)
- 4) What mechanisms are in place to memorialize this?
- 5) What systems are in place to check on relationships to Foreign Officials prior to and during use of suppliers?
- 6) Who manages the review of contracts with suppliers to ensure they are with reputable, pay is within industry norms, terms do not allow for "slush funds" or kickbacks?

Supplier Compliance Issues: Risk Management

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

 Are reps, warranties and an indemnity from a supplier related to anti-corruption law violations enough?

QUESTIONS



Lori E. Lightfoot

Partner
+1 312 701 8680

llightfoot@mayerbrown.com

NSA Data Collection: Your Risks and Potential Responses

Marcus A. Christian

Partner
+1 202.263.3731
mchristian@mayerbrown.com



Speaker

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies



Marcus Christian is a Washington DC partner in Mayer Brown's Litigation & Dispute Resolution practice and White Collar Defense & Compliance group. Previously, he was the executive assistant United States attorney at the US Attorney's Office for the Southern District of Florida, the third-highest ranking position in one of America's largest and busiest offices of federal prosecutors. In this role, Marcus worked on the senior management team with responsibility for the Criminal, Civil, Appellate, Asset Forfeiture and Administrative Divisions. In addition, Marcus conducted and supervised numerous investigations involving communications data analysis, electronic surveillance, and intercepted communications.

This Presentation Will Cover

- I. Understanding the NSA's data collection activities
- II. Assessing the risks to your company
- III. Mitigating the effect on your company of the NSA's activities

I. Understanding the NSA's ActivitiesA. Patriot Act Tools

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

FISA Orders

Granted for intelligence agencies by Foreign Intelligence Surveillance Court on application by DOJ

For electronic and physical searches, pen registers, and certain business records; all generally regarding foreign persons or for foreign intelligence purposes

 Must meet "minimization requirements" for US person-only information Hearings are *ex parte* and judicial opinions are classified

Authorized by FISA Amendments Act (FAA) and USA PATRIOT Act

DOJ appealed 2
FISA Order
denials to FISCR
and several
telecom
companies have
challenged FISA
Orders

I. Understanding the NSA's Activities A. Patriot Act Tools (cont.)

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

National Security Letters

Generally, FBI requests for telephone/e-mail metadata and financial/credit records

Subjects cannot disclose receipt to targeted person or other personnel not essential to fulfilling the request

Authorized by five federal statutes; Right to Financial Privacy Act, Electronic Communications Privacy Act, Fair Credit Reporting Act, Patriot Act amendments, and National Security Act

Several challenges in court, but not all documented due to gag orders

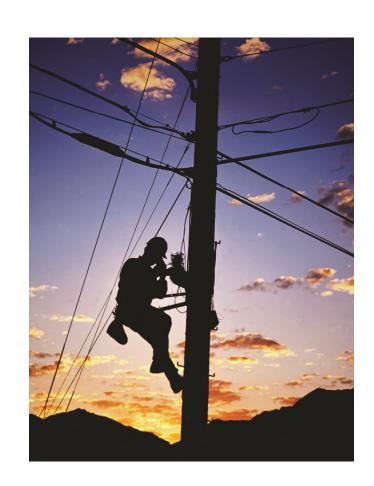
 Pending court action to prohibit use of gag orders regarding challenges

I. Understanding the NSA's ActivitiesB. PRISM

- Collects internet communications from various companies
 - 91% of 250M NSA-collected internet communications
 - Authorized by Section 702 of the FAA
- Publicized through 2013 Snowden unauthorized disclosures
 - Very controversial in parts of Europe due to privacy laws and norms
- Companies deny allowing the NSA direct access to their systems
 - Accepted that the NSA used the DOJ to obtain FISA orders that compelled the companies to turn over data to the NSA
- Interest groups have sued the government and the companies on various constitutional, administrative, and other statutory grounds

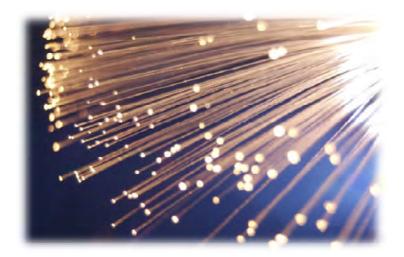
I. Understanding the NSA's ActivitiesC. Phone Records Program

- Collects the metadata of telephone calls made within the US
 - Authorized by Section 215 of the USA PATRIOT Act and supervised by the FISC
- Industry provides the government with the data and the government retains it for up to five years
- Industry was granted immunity from private lawsuits in 2007, but challenges against the government remain
- At least six lawsuits are pending challenging the constitutionality of the program
 - Lawsuits will be moot if Congress acts to terminate the program



I. Understanding the NSA's Activities D. Upstream

- Intercepts telephone and internet traffic from major internet cables and switches and retains them for at least two years
 - 9% of 250M NSA-collected internet communications
 - Authorized by FISA, FAA, "Transit Authority," and EO 12333
- Publicized through 2013 Snowden unauthorized disclosures



I. Understanding the NSA's ActivitiesE. Backdoors

- Appears to be unknown to industry
 - Weakening NIST encryption
 - Encryption companies' use of NSA tools
 - Access via advanced surveillance technologies
 - Disguising as website server
 - Maintaining collections of known weaknesses in various products
 - Use of Heartbleed exploit for two years prior to public discovery



II. Assessing the Risks to Your Company A. Overview

- The first step to preparing a response is to understand the risks
- Some risks arise from concerns regarding the integrity and confidentiality of your data (or your customers' data in your custody)
- Some risks arise from the perception that your data (or your customers' data in your custody) is vulnerable
 - Your data may not actually be vulnerable
 - Or at least, it may be no more vulnerable than most other data
 - But, negative perceptions can have serious implications

II. Assessing the Risks to Your CompanyB. Assessing Reputational Risk

- Will NSA access (or the perception of possible NSA access)
 be a concern for your customers? Will customers:
 - Ask you questions;
 - Seek other providers;
 - Request new contract terms;
 - Request whole or partial refunds; and/or
 - Consider legal action?
- Will investors/shareholders be concerned?
- Senior executives and board?



II. Assessing the Risks to Your Company

B. Assessing Reputational Risk (cont.)

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

Greater concern if:



Your company's reputation is based on security, privacy, or safety (e.g., communications systems, customer information databases)



Customers can easily migrate to more secure options (e.g., short-term/retail contracts, fungible product, many small purchasers)



Your client base is sensitive to these issues, e.g., Europeans, certain retail customers, have financial, health or IP or other sensitive data at issue



Your competitors will attempt to advertise or distinguish themselves based on a "firewall" against NSA collection activities

II. Assessing the Risks to Your CompanyC. Violation of Home Country Privacy Laws

- If the NSA obtains your non-US customers' data, have you violated non-US privacy laws?
 - Unlikely to be an issue if NSA obtains unauthorized access
 - What about FISA Order or NSA letter to your company or your vendor?
 - Consider gag order vs. obligation in some European countries to notify certain customers before sharing data

II. Assessing the Risks to Your Company D. Violation of Contractual Provisions

- Violation of contractual obligations
 - What do terms of your customer agreements say about obligations not to share data, or to give notice
 - What might you be asked to say in your contract
 - In US, contractual obligations are trumped by government obligations

II. Assessing the Risks to Your Company E. Loss, Interference or Misuse of Data

- FBI use of NSLs to obtain data has caused some data losses
 - FBI seizure of one company's servers temporarily downed unrelated websites
 - FBI seizure and return of another company's servers was done without communicating the seizure or return to the company
 - We do not view this as a large risk

II. Assessing the Risks to Your Company F. Fairness

- Some companies may wish to take a stand based on concepts of fairness and commitment to privacy
 - Twitter challenged government's gag orders in court to permit it to notify users of government requests for users' information
 - CEOs of major technology companies publicly requested that the government permit them to release sanitized summaries of their responses to government requests

III. Mitigating the NSA EffectA. Strategy Crafted to Specific Effects

- Your strategy should be customized to meet the NSA effects you have identified
 - Example: how one customer might evaluate risks and solutions

| | Customer relations / marketing | Customer contract | Vendor contract | Vendor selection | Tech | Lit | US Gov't relations | Overall campaign |
|----------------------|--------------------------------|-------------------|--------------------|---------------------|------|-----|--------------------|------------------|
| Reputational Risk | Ā | Ā | Ä | Y | Υ | Υ | Υ | Υ |
| Home country law | N | ? | ? | ? | ? | Υ | Υ | ? |
| Contractual breach | ? | Υ | Υ | Y | ? | ? | ? | 3 |
| Lawsuits | Υ | Υ | ? | ? | ? | ? | ? | ? |
| Data loss | N | N | Υ | Υ | Υ | ? | ? | N |
| Fairness | N | N | N | Ν | N | ? | Υ | Υ |

III. Minimizing the NSA EffectB. Customer Relations/Marketing

- Manage customer expectations about your ability and obligation to safeguard data
 - Some companies inform customers that customer data cannot be secured against issues like the NSA's activities
 - This aligns customers' expectations of privacy with reality
 - This has sometimes resulted in criticism/backlash

III. Minimizing the NSA EffectB. Customer Relations/Marketing (cont.)

- Educate customers about the nature of the risks
 - For some content, NSA not likely to be interested
 - NSA does not appear to have used information commercially
- Educate customers that moving data elsewhere may not redress their concerns
 - NSA has long reach (e.g., tapping transatlantic cables)
 - US government obtains treaty assistances
 - Other governments engage in intelligence activities for their own reasons
 - Recent court decisions, such as *Daimler*, may provide some legal comfort, but cannot prevent NSA access through cooperation with foreign intelligence agencies or its own technological tools

III. Minimizing the NSA Effect

B. Customer Relations/Marketing (cont.)

- Broader marketing campaign
 - Can be a positive opportunity to develop and sell new products and services
 - Can be a way to differentiate from competition

III. Minimizing the NSA Effect B. Customer Polations/Marketic

B. Customer Relations/Marketing (cont.)

- Broader public relations campaign
 - Many companies have engaged in public dialogue regarding the NSA's activities, including
 - Explaining how their companies are limited in what they can disclose
 - Calls to action requesting the public be allowed to know the full extent of the NSA's activities
 - Discussion of how US interests are harmed by the resulting balkanization of critical infrastructure systems
 - Coordination of messaging with industry peers to guide public action
 - Feature other steps company is taking (industry groups, technological, litigation, government relations, etc.)

III. Minimizing the NSA EffectC. Customer Contracts

- Specific provisions to consider (want to include or exclude, depending on the contract)
 - Waiver of right to notice before data is shared in response to government request
 - No mandatory use of specific encryption protocols or software
 - Waiver of claims for negligence in instances of data breach
 - Arbitration requirements for data breach issues
 - Prohibition on class arbitration
 - Express notice that customer is aware company complies with national security requests
 - Limitation of damages to those foreseeable to the company

III. Minimizing the NSA EffectD. Selecting Vendors

- Moving servers or data to (1) locations outside of the US that are (2) maintained by non-US companies may reduce the NSA's ability to obtain it
 - Recent *Daimler* decision helps protect data with non-US companies that have US offices
 - Perception that data outside US is less vulnerable to NSA may be reassuring to customers and stakeholders



III. Minimizing the NSA EffectD. Selecting Vendors (cont.)

- Data abroad still may face risk of NSA or similar access
 - NSA may still be able to obtain access to non-US servers
 - Other governments may use the same methods as the NSA to acquire data, and may cooperate with US authorities
 - Data may still pass through the US on its way to and from customers
- Keeping data outside of the United States, and with only non-US companies, may be impractical and/or costly

III. Minimizing the NSA EffectD. Selecting Vendors (cont.)

- In Housing Options
 - No vendors = fewer potential NSA cooperators
 - Consider "private cloud" or in-house systems for critical data
 - Remember though that proprietary systems tend to have more vulnerabilities than publicly available systems
 - Consider adopting off-line/segregate implementation of publicly available system
 - Incorporate the "human factor"; employees will work-around security systems that are hard to use

III. Minimizing the NSA Effect E. Vendor Contracts

- Your vendors may be cooperating with the NSA through "back-doors" in the products they sell you
- We have seen companies request certifications from their vendors
 - Certifications may be broad or narrow, depending on the concerns
 - They may require affirmative declarations or negative confirmations
 - Even seeing how the vendor responds to the request for certification can be valuable

III. Minimizing the NSA Effect E. Vendor Contracts

- Requiring vendor to provide you with notice of request for your data, and to litigate against gag orders that would interfere with that obligation
 - In December 2010, Twitter received subpoenas for account information of Wikileaks-related persons with gag orders preventing notification of such persons
 - Twitter challenged the gag orders in court and won, permitting it to notify its users of the subpoenas
 - This, in turn, permitted those users to challenge the subpoenas to protect their information

NIST Framework Compliance

- NIST released a Framework for Improving Critical Infrastructure Cybersecurity in February 2014
- Companies can demonstrate compliance with the NIST Framework to:
 - Show their commitment cybersecurity
 - Meet minimum basic standards
- Not sufficient alone
 - NIST's Framework is not comprehensive
 - Companies may not want to be seen only doing what the government suggests they do

Congressional Lobbying

- Many Senators and Representatives have taken public stands against the NSA's US and non-US activities
- A concerned company should engage with members
 - Who serve on its industry-specific Congressional committee or subcommittee
 - Who are from its home-state
 - Who have publicly expressed their concern with the NSA's activities in the company's industry



Industry "Best Practices"

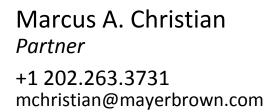
- Alphabet soup of security and/or privacy programs your company or its employees can become certified in (e.g., IAPP, GIAC, CISSP, etc.)
 - Identify those that your customers think are useful and relevant
 - Identify those adopted by peer companies
- Industry trade associations and conferences offer opportunities to discuss and identify best practices
 - Identify panels at annual conferences discuss privacy and security concerns
 - Attend "brown bags" on "hot topics" in data privacy
 - Participate in association committee on data privacy and security

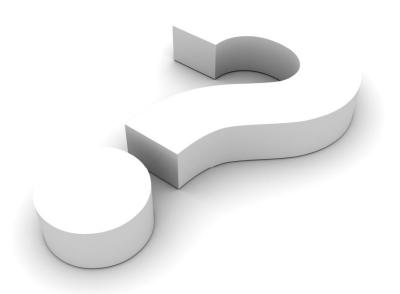


- Some companies may proactively litigate the NSA's data collection efforts by:
 - Refusing to comply with requests for information and letting the NSA sue them in court to obtain the information
 - Filing Freedom of Information Act (FOIA) lawsuits to dissolve the confidentiality provisions of NSA requests
 - Suing the NSA for unauthorized acquisition or use of their data
 - Generally lawsuits resulting from refusals to comply with NSA requests are more effective than suing the NSA for unauthorized acquisition of data

Conclusions

QUESTIONS





Protecting Enterprise Interests in Cloud Computing

Rebecca Eisner

Partner

312.701.8577

reisner@mayerbrown.com



Speaker

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies



Rebecca Eisner, a partner in the Chicago office, serves on Mayer Brown's Partnership Board. She focuses her practice on technology and business process outsourcing and sourcing, information technology transactions, privacy, and security. Her practice focuses on complex global technology, licensing and business process outsourcing transactions, including IT infrastructure and licensing, cloud computing, applications development and maintenance, back office processing, ERP implementations, finance and accounting, payroll processing, call center, HR, technology development, system integration and hosting. She regularly advises clients in Internet and e-commerce law issues. She also regularly advises on complex data protection and data transfer issues, frequently as part of transactions, as well as privacy issues and electronic contracting and signatures.

- How can you and your enterprise get ready for the cloud
- Five key areas of enterprise interests to protect in the cloud and "watch outs"
- How EU Data Protection developments are influencing cloud contracting

Getting Ready: What Is Cloud Computing?

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

National Institute of Standards and Technology defines it as:

 A model for enabling convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be rapidly provisioned and released with minimal management effort or service provider interaction.

SERVICE MODELS

Software as a Service

(e.g., Google Gmail, Google Docs, Facebook and Twitter)

Platform as a Service

(e.g., Microsoft Azure, Force.com, Google App Engine)

Infrastructure as a Service

(Amazon, Google, Rackspace, IBM, AT&T, etc.)

DEPLOYMENT MODELS

Private Cloud

Public Cloud

Hybrid Cloud

Getting Ready: What Are You Buying? Who Controls?

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

| Cloud Elements (Stack) | Customer IT/ITO Provider Manages | IAAS | PAAS | SAAS |
|------------------------------|----------------------------------|------|------|------|
| Network | -C | Р | Р | Р |
| Storage | С | Р | Р | Р |
| Server | С | Р | Р | Р |
| VM | С | C/P | C/P | Р |
| Applications | С | С | C/P | Р |
| Data | С | С | С | C/P |

C = Customer, P = Provider

Getting Ready: Know What You Are Buying

- Terms you may hear:
 - Public, private, hybrid, dedicated, shared, multi-tenant, single tenant
 - You need to know what is dedicated (used solely for the particular customer), and what is shared (used by two or more customers)
- What elements of the "stack" are dedicated versus shared?
- Why does this matter?
 - Affects privacy, security and compliance risks
 - Affects control and transparency the customer may have
 - Affects commercial terms of the solution

Getting Ready: Doing the Due Diligence

| Need a team | Technical/solution Data Security Data Privacy and Data Protection Legal Transition | |
|---------------------------------|--|--|
| External help | Most advisors will help with cloud assessments (e.g., Gartner, ISG, KPMG, Booz, Deloitte, McKinsey, PwC, etc.) | |
| Due Diligence Questionnaires | Some focus on technical and security issues, often don't properly address legal issues, but provide helpful information (e.g., BITS Shared Assessments; Cloud Security Alliance Cloud Matrix; advisor tools) | |
| RFPs and RFIs | In cloud, RFIs may be better | |
| Key Point | Buying cloud is different from buying other outsourced services. The due diligence process is about evaluating the provider's offering as compared to your requirements, versus setting out your requirements, and having the provider develop a solution around them. | |

Getting Ready: Have a Cloud Policy

- Many companies are developing cloud computing policies that cover these and other topics:
 - Linking cloud use policy with security policies for gap analysis and risk review
 - Requirement for a business case (build versus buy versus keep what you have)
 - Risk review
 (risks change depending on the type of cloud service, provider, type of data and criticality to business)
 - Compliance review
 (with data protection, privacy and security at top of the list)
 - Assignment of one or more team members to manage and oversee cloud procurement and ongoing monitoring
 - Acceptable range of contract terms outcomes for cloud (covering the topics in the "5 Key Areas" portion of this presentation)

Who is in the Cloud?

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

Manufacturers (many segments)

Retailers

Media, entertainment and hospitality

Healthcare companies

Professional services organizations (consultants, accountants, etc.)

Food and consumer products companies

Financial Institutions and Insurance Companies (selectively)

Media, entertainment and hospitality

What is in the Cloud?

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

Collaboration (email, shared sites, enterprise collaboration sites)

Many HR functions

Back office functions

Many IT functions (enterprises buy "platforms" to host their apps and data)

Website and ecommerce hosting

ERP systems

Sample List of Cloud Providers

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

































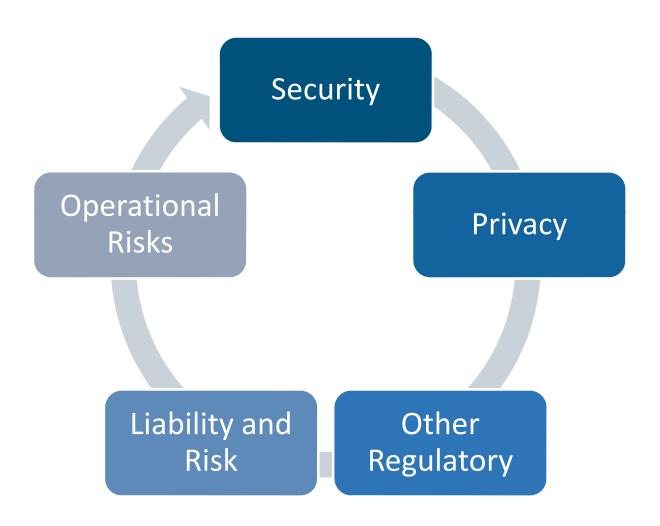






MAYER · BROWN

5 KEY ENTERPRISE INTERESTS TO PROTECT



5 Key Areas: Security

- Audit Rights for customer, regulators and others
- Standards and certifications—e.g., ISO 27001
 - Watch out: Exceptions in Statement of Applicability
- Data Breach—timely notification, cooperation, liability
 - Watch out: Cover data breach laws applicable to the enterprise
- Background checks for any personnel where administrative access to customer data is possible
- Encryption in transit standard, including between data centers
- Encryption at rest for certain sensitive data, becoming more prevalent
- Other security requirements of your business (e.g., PCI compliance)

5 Key Areas: Privacy

- Privacy regulation GLB, HIPAA, States, EU, other countries
 - Watch out: IT and Security professionals often don't spot privacy compliance issues in their security due diligence
- Data transfers data storage, processing, back ups and archives and cases of remote access
 - Watch out: Customer support and remote database administration
- Data destruction how will data be destroyed? wiped, overwritten, pointers removed? How long before it is gone?
- Subcontracting who, where, and what functions? Are contractual protections properly flowed down?
 - Watch out: Cover all tiers of subs, not just first tier of provider
- Privacy "Image" what is the public and regulatory perception of the cloud provider?

5 Key Areas: Other Regulatory

- Compliance does the solution meet your other compliance requirements?
- E-discovery tools do they work, what are the shortcomings? Do they cover all services, or only some?
 Do you have to find an external provider for ediscovery?
 How does that impact the ROI of the cloud?
 - Watch out: Understand the weaknesses and exceptions in your cloud provider's tools or the cloud architecture, and their impact on ediscovery
- Litigation holds can they be implemented, or are frequent data "dumps" necessary (costly!)

5 Key Areas: Liability and Risk

- Limitations capped damages (12-24 months or more), some exclusions
- Consequential damages typically fully excluded, or with limited exceptions
- SLA credit sole remedy common problem, difficult to overcome try language that permits damages if some other claim under agreement can be made
 - Watch out: The "sole and exclusive remedy" language is often buried in technical service level agreements (versus legal terms)
- Reps and warranties need more than just meets the SLA's, need performance warranties and others
 - Watch out: Without performance warranties, the customer's ability to bring claims for damages for service failures will be severely limited

5 Key Areas: Operational Risks

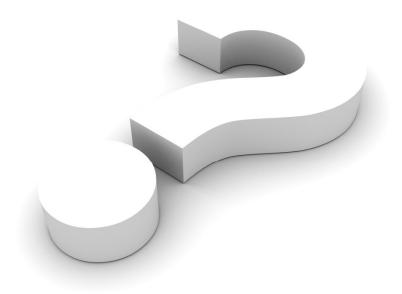
- Service Changes
- Changes to terms (links)
- Performance/SLA's
- Suspension of services
- Easy exit rights for provider
- Data use and ownership
- Interoperability with other systems
- Data portability
- DR/BCP

UPDATE ON EU DATA PROTECTION AND CLOUD COMPUTING

Additional Resources and Reading

- Cloud Security Alliance www.cloudsecurityalliance.org
- National Institute of Standards and Technology, Cloud Computing Synopsis and Recommendations, Special Publication 800-146, 1 (May 2012), available at http://www.nist.gov/customcf/get_pdf.cfm?pub_id=911075 (11 PVLR 977, 6/18/12).
- NIST Special Publication (SP) 800-53 Guide for Assessing the Security Controls in Federal Information Systems, available at http://csrc.nist.gov/publications/nistpubs/800-53A/SP800-53A-final-sz.pdf
- Federal Financial Institutions Examination Council, Outsourced Cloud Computing (July 10, 2012), available at http://docs.ismgcorp.com/files/external/062812 external cloud computing public statement.pdf.
- Article 29 Data Protection Working Party, Opinion 05/2012 on Cloud Computing, 01037/12/EN, WP 196
 (July 1, 2012), available at http://ec.europa.eu/justice/data-protection/article-29/documentation/opinion-recommendation/files/2012/wp196 en.pdf (11 PVLR 1097, 7/9/12).
- http://www.mayerbrown.com/Cloud-Computing--Article-29-Working-Party-Guidance-on-EU-Privacy-and-Security-concerns-07-10-2012/
- CNIL, Recommandations pour les entreprises qui envisagent de souscrire à des services de Cloud computing, available at http://www.cnil.fr/fileadmin/images/la-cnil/actualite/Recommandations-pour les entreprises qui envisagent_de_souscrire_a_des_services_de_Cloud.pdf (11 PVLR 1082, 7/2/12).

QUESTIONS



Rebecca Eisner

Partner

312.701.8577

reisner@mayerbrown.com

MAYER BROWN

Solving Tomorrow's Governance Problems Today

Peter Dickinson

Partner
+44(0) 202 3130 3747
pdickinson@mayerbrown.com

Robert J Kriss

Partner
+1 312 701 7165

rkriss@mayerbrown.com





Peter Dickinson is head of Mayer Brown's Corporate group in the UK and a Firm Practice Leader in Mayer Brown's global corporate and securities practice. Peter's practice focuses on mergers and acquisitions, joint ventures and other significant commercial transactions including, in particular, large scale multi-jurisdictional outsourcing projects. He is a widely acknowledged leader in the telecommunications industry and is highly recommended in this field by both *Chambers UK* and the *UK Legal 500*. He is also recognized as a leading mergers and acquisitions lawyer and a leading outsourcing lawyer by both *Chambers UK* and the *UK Legal 500*.



Robert Kriss is a partner in the Litigation Practice in Mayer Brown's Chicago office. He has represented some of the world's largest technology, financial services and manufacturing companies in complex commercial, class action and intellectual property litigation. Bob has substantial experience with disputes arising in the context of financial services, real estate, securities transactions, information technology implementation and outsourcing, mergers and acquisitions, and high technology products.

- Why is a strong governance model critical to a successful sourcing relationship?
- What should a "good" governance model look like?
- How to achieve the desired state of good governance
- The practical application of governance post contract signature
 - Keeping the lines of legal responsibility clear during customer/supplier joint activities
 - Avoiding inadvertent amendments to the contract
 - Positioning disputes for favorable resolutions

Aligning Interests

- Upfront discussions between parties and key stakeholders
- Jointly agreed vision mutually beneficial relationship
- What is promised at negotiation stage vs what can be delivered in practice
- Early stage discussions
- Your challenges
- Cultural fit



Breeding a Culture of Good Governance

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

Good

- Empowered participants
- Direct and honest conversations

Better

- Appropriate behaviours
- Promote trust and accountability

Stronger

- Unfettered visibility across hierarchy
- Strategic implementation

Clear Governance Framework

- Construct a decision-making framework, process and system
- Implement clear, distinctive operating and strategic roles
- Emphasise accountability
 - Individuals
 - Organisational
- Consider authority of participants
- Monitor performance





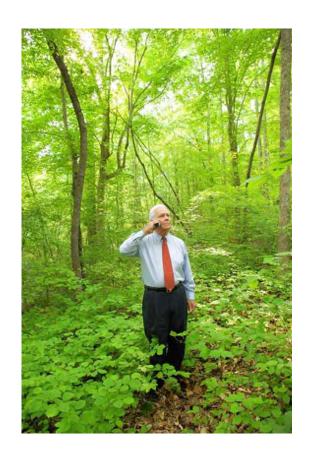
Many-to-many communications

Control over what information is delivered and how it is received



Don't Get Lost in the Woods

- Focus on strategic business objectives
- Early stage of negotiation
- High level vs detailed discussions
- Common purpose
- Benefits both parties
- Learn from past experience



Seeking Synergies

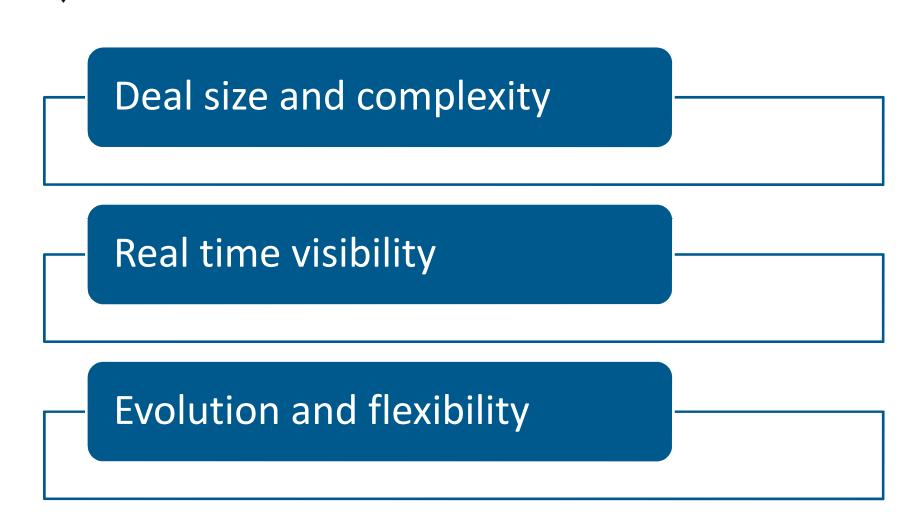
GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

Governance structure and relationship management

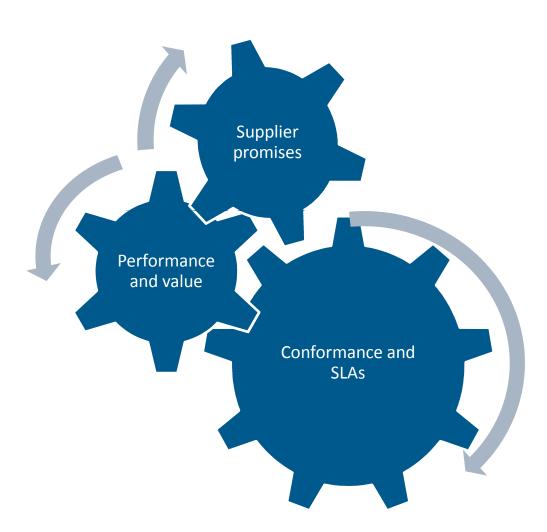
Joint governance system which helps manage and govern

Complimentary competencies

Proportionate and Effective Framework



Value to You, Conformance and Performance



Real-time Resolutions

- Issues should be deal with as they arise, as quickly as possible
- Appropriate solutions; quick resolutions
- Blame culture
- Dispute resolution procedure

Permitting Change

- The framework should promote change as a normal part of the business
- Hierarchy vs devolved authority
- Moving forward post contract
- Changing markets and evolving business demands
- Future-proof contract

CONTRACT MANAGEMENT

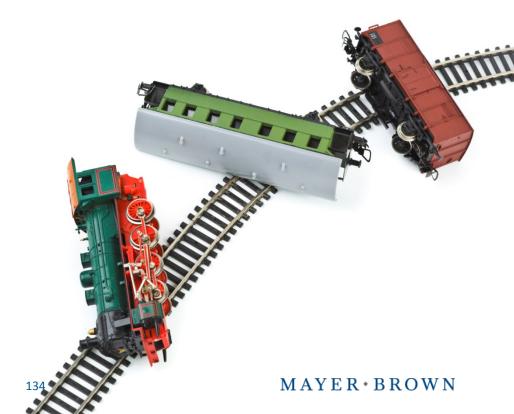
Protecting the Benefit of the Bargain

- Good Management Supports Effective Dispute Resolution
 - What you say and do in managing a contract can be used as evidence if a dispute must be resolved in a formal proceeding
 - Course of performance can be used to interpret ambiguous provisions of the contract and to amend the contract
 - Good communication is good management and good evidence
 - Statements and actions must be consistent with your interpretation of the contract



Examples of Potential Problem Areas

- Collaboration
- Scope disputes
- Inadvertent changes to contract terms



Hypothetical Case Study

- Outsourcing contract for transformation services
- Milestones for multiple sites
- Your cooperation will be necessary
- Missed milestones
- "Collaborative" status reports
- Procedure Manual
- Resources added by you
- Supplier asserts New Services

Hypothetical Case Study

- Management personnel added by you
- You want to terminate for cause and be reimbursed for additional personnel costs
- Supplier claims delays and costs were caused by you

Red Flags and Responses

- Close collaboration/missed milestones
 - Action log; written procedures for asserting excuse
- "Collaborative" Status Reports
 - Clarification of authorship; written objections
- Procedure Manual
 - Level of review; limiting authorization to amend
- Personnel deficiencies
 - Notice of material breach and intent to cover before adding personnel



Red Flags and Responses

- New Service claim
 - Escalate immediately to management and legal
 - Consistent action: e.g., do not ask for price quote without reservation of rights
 - Assert contract position and invite response from supplier
 - Give prior notice of intent to cover through alternative vendor and intent to seek reimbursement



Contract Management Principles

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

- State your position in writing and invite supplier to respond before deciding whether to escalate
- Make clear written record of what supplier must do to have standing to blame your company for failure to perform
- Make clear written record of who is authorized to bind your company
- Make sure what you say and what you do is consistent with your interpretation of the contract

139

 Give notice of material breach before attempting to cover



Contract Management Principles

- Respond in writing to any material written assertion of supplier with which you disagree
- Require supplier to make real time log of specific actions requested of your company and deadlines for those actions necessary to meet milestones
- Keep written record clear as to responsibilities of supplier; working together does not mean supplier is no longer responsible for outcomes

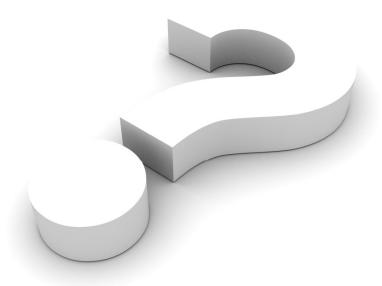
Contract Management Principles - Lessons Learned

- Clear lines of responsibility between suppliers and your business in the contract and during contract management will promote productive collaborations
- Communication and actions consistent with the contract will protect the benefits of the bargain
- Changing the contract to address changed business requirements and to obtain enhanced performance from supplier should be deliberate and documented
- Good governance delivers the potential value of the contract and may result in enhanced value over time

- Early foundations lead to strong governance
- Learn from past mistakes
- Contract principles
- Value for you



QUESTIONS



Peter Dickinson

Partner
+44(0) 202 3130 3747
pdickinson@mayerbrown.com

Robert J Kriss

Partner
+1 312 701 7165

rkriss@mayerbrown.com

Speaker

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies



Linda Rhodes is a partner in the Business & Technology Sourcing practice in Mayer Brown's Washington office. Linda focuses her practice on complex commercial transactions, primarily in IT and business process outsourcing matters. She has represented a wide spectrum of clients in a variety of industries, including information technology, telecommunications, pharmaceuticals, health care, automotive, financial services, insurance, energy, chemicals and consumer products. Linda has been recognized in *Chambers USA* as "highly regarded for her 'direct, astute, fast, responsive and efficient' client service."

- Understand and Focus on Deal Objectives
- Establish and Execute Against a Project Plan
- Leverage Expertise and Experience
- Review Results to Improve Processes

Understand and Focus on Client Objectives

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

Deal objectives should:

Drive the project plan.

Set the priorities.

Set the pace and approach for negotiations.

Align the team members.

Establish and Execute Against a Project Plan for the Contracting Process GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

Establish the Project Plan

Set forth the activities and responsible parties.

Set forth the date(s) by which each activity/document is to be completed.

Consider the timing for critical path items.

Consider risks and mitigation strategies.

Build in time for sign-offs/approvals.

Establish and Execute Against a Project Plan for the Contracting Process

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies

Execute Efficiently

Ensure each team member understands his or her area of responsibility.

Plan ahead / Avoid duplication of efforts.

Allow for timely input from subject matter experts.

Ensure checkpoints for alignment of team members.

Avoid interim agreements.

Use competitive leverage to drive results.

Leverage Expertise and Experience

GLOBAL SOURCING AND TECHNOLOGY CHANGES: Reboot Your Sourcing Strategies



Invest time in deal templates, tools and methodologies.



Use templates, tools and methodologies wisely.



Build your knowledge database.



Share knowledge with colleagues.

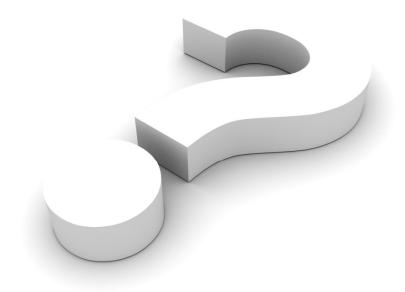


Capture knowledge during the course of the deal where practical.

Review Results to Improve Processes

- Review results promptly after deal close for maximum value.
- Assess what worked well and build on successes.
- Assess what can be improved.
- Build that knowledge into templates, tools and methodologies where appropriate.
- Add to your deal database.

QUESTIONS



Linda Rhodes
Partner
+1 202 263 3382
Irhodes@mayerbrown.com

MAYER BROWN

