



# RESEARCH NOTE

## RESEARCH AND DOCUMENTATION DIRECTORATE

Personal civil liability of the directors of commercial companies for the infringement of an intellectual property right

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[...]

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## SUMMARY

### INTRODUCTION

1. The Research and Documentation Directorate (RDD) received a request for a research note on the personal civil liability of the directors of commercial companies, such as limited-liability companies or public limited companies ('the companies concerned'), for the infringement of an intellectual property right ('IP infringement').
2. As a preliminary point, it should be noted that, at first glance, holding directors liable for acts connected to the activity of their companies is not always a simple matter. The companies concerned, to the extent that they have legal personality, have their own rights and obligations and are thus themselves liable for acts carried out in connection with their activities. However, they can only interact with third parties through their organs,<sup>1</sup> which are in principle composed of natural persons.<sup>2</sup> When a third party considers that it has suffered harm as a result of the activity of one of these companies, the question arises as to whether that third party can bring an action solely against the company or whether it can also bring an action against the persons acting on its behalf. That question arises *a fortiori* in case of infringement of intellectual property rights, which generally confer on their holders absolute rights which must be respected by everyone.
3. It is against that background that this research note aims to analyse the rules governing the personal civil liability of the directors of the companies concerned in case of IP infringement. It covers a selection of 10 Member States: **Austria, Estonia, France, Germany, Ireland, Italy, the Netherlands, Poland, Spain and Sweden.**
4. The analysis is summarised in two parts. The first sets out the legal framework governing directors' personal liability (Part I). The second compares the conditions governing directors' liability for IP infringement in the selected national legal systems (Part II).

### I. LEGAL FRAMEWORK GOVERNING DIRECTORS' PERSONAL CIVIL LIABILITY

5. It is clear from the research conducted for this research note that the legal systems examined contain neither specific provisions referring explicitly to the personal civil liability of the directors of the companies concerned in case of IP infringement,<sup>3</sup> nor provisions excluding such liability.
6. As a general rule, it is the company which, in so far as it has rights and obligations, is liable to third parties for infringements committed in connection with its activities, with acts of its directors carried out in connection with their duties being attributed to it.<sup>4</sup> Directors are, on the other hand, liable to the company for breaches of their managerial obligations (internal liability

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<sup>1</sup> Generally speaking, two theories aim to conceptualise the legal nature of the representation of legal persons: "agency theory" and "organic theory". The latter now appears to be the predominant theory. For a comparative overview, see Gerner-Beuerle, and C., Schillig, M.A., *Comparative Company Law*, Oxford University Press, Oxford, 2019, p. 195 *et seq.*

<sup>2</sup> This is the case in most of the Member States concerned. On the other hand, in **Spain, France, Italy and the Netherlands**, it is possible for the role of director of some of the companies concerned to be attributed to legal persons.

<sup>3</sup> In **German** and **Austrian** law, there are specific provisions which provide for the liability of "business owners" in intellectual property matters, but they do not refer specifically to the directors of the companies concerned.

<sup>4</sup> Although for the most part unwritten, this principle appears to be generally recognised in company law in the legal systems under analysis.

of the director). Nevertheless, the company's liability to third parties does not preclude, in certain cases, directors from being held personally liable to third parties for their conduct.

7. Firstly, many legislative provisions on the organisation and operation of the companies concerned explicitly state that directors of these companies are personally liable to third parties (in particular to partnership creditors) in certain specific situations. This applies in particular if they fail comply with their specific obligations, such as obligations to register in the commercial register or to confirm that contributions have been made, or if specific laws are breached (**Germany, Austria, Estonia, Poland and Sweden**).
8. Secondly, there are national laws which set out a general principle according to which the directors of the companies concerned are liable to third parties for their acts when those acts are committed in the performance of their duties (**Italy, France and Spain**). Even if such a rule is not explicitly enshrined in certain legal systems, it is accepted in the case-law, particularly in relation to the tortious liability of directors <sup>5</sup> (**Germany, Austria, Estonia, Ireland, the Netherlands and Poland**). No such case-law could be identified in **Sweden**.
9. Nonetheless, in all these legal systems, the status of director does not appear sufficient per se for persons in this role to incur liability. For that liability to be incurred, an individual act on the part of the director is required. For example, if a case of tortious liability arises, the damage caused must be shown, in specific terms, to be the result of the director's conduct, and not of the company's activity in general.
10. Finally, several legal systems provide for directors' secondary liability to third parties where the company is no longer solvent (**Germany, Austria, Estonia, Ireland, Italy and Poland**).

## II. PERSONAL CIVIL LIABILITY OF DIRECTORS IN INTELLECTUAL PROPERTY MATTERS

11. Research into the above-mentioned legal systems identified two groups:
  1. Those in which the case-law was confirmed to provide for the personal liability of the directors of the companies concerned in case of IP infringement (Part A);
  2. Those in which no case-law developing a system of personal liability of directors could be identified, but in which such liability cannot be excluded on the basis of general rules (Part B). <sup>6</sup>

### A. LIABILITY CONFIRMED BY THE CASE-LAW

#### 1. OVERVIEW OF THE MEMBER STATES CONCERNED

12. The possibility of holding directors personally liable in case of IP infringement is recognised in the case-law of most of the Member States examined, namely **Germany, Austria, Spain, France, Ireland and the Netherlands**. Examples from case-law were also noted in **Sweden**, although it appears to be less developed in comparison with the above-mentioned Member States. The case-law in all seven Member States has much in common but also some significant differences.

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<sup>5</sup> In addition, in **Germany** and **Austria**, examples of case-law concerning the contractual liability of the director were also identified. However, they concern areas other than intellectual property and appear to play a rather exceptional role.

<sup>6</sup> Companies identified at national level as being "limited-liability companies" and/or "public limited companies" are largely subject to the same rules in the respective legal systems, irrespective which of these two categories they fall into.



13. In the absence of civil liability rules in case of IP infringement based on the infringer's status of director,<sup>7</sup> the legal basis for bringing an action against a director in a personal capacity is not a simple matter. The case-law examples that were identified are based, sometimes explicitly, sometimes implicitly, on tortious liability and/or intellectual property provisions allowing claims to be brought against any person infringing a right in this area.
14. It is important to emphasise that, in some of the Member States referred to above, company law sets out express rules on directors' personal liability to third parties in the performance of their duties (see paragraphs 7 and 8 above). However, these provisions are of varying relevance where intellectual property is concerned. In **Germany, Austria and Sweden**, these are rules governing liability for breaches of obligations or specific company law statutes which have no apparent connection with intellectual property. In **Spain**, directors' liability to third parties, which is explicitly provided for in case of wilful misconduct or gross negligence attributable to the director as an organ, is not limited *ratione materiae*. However, the case-law provides no illustrations as to how this provision is applied in intellectual property matters. On the other hand, the corresponding rule in **French** company law, which provides for the third party liability of directors, in particular in case of mismanagement, has been applied by the courts in IP infringement cases.

2. CONDITIONS FOR THE DIRECTOR TO INCUR LIABILITY AS THE INFRINGING PARTY OR AS AN ACCOMPLICE.

15. It follows from the case-law under review that, in all the above-mentioned Member States, the mere fact that a person acts as the director of one of these companies does not automatically mean that they incur personal liability to third parties. The common thread among these Member States is the requirement that there be specific conduct attributable to the director in this capacity, namely a positive act (Part (a)) or a failure to act (Part (b)), qualifying them as the perpetrator of or accomplice to IP infringement. Moreover, a certain degree of misconduct on the part of the director is sometimes required (Part (c)).
16. In any event, given the burden of proof which normally rests on the applicant, an injured party cannot simply rely on the fact that a person performs the duties of a director. The success of an action based on the personal liability of the director will depend, on a case-by-case basis, on the circumstances alleged and – where applicable – established, relating to the specific conduct of the director.<sup>8</sup> Furthermore, in some Member States (**Spain, Ireland and the Netherlands**), the examples of case-law identified concern only cases in which the director and the infringing company are held jointly liable and in which claims are brought against both parties in parallel. However, no obligation to bring proceedings jointly against the director and the company could be identified.

(a) POSITIVE ACT

17. Directors may be held personally liable if they have actively participated in or been involved in an IP infringement (**Austria, France, Germany, Ireland, Netherlands and Spain**). Infringement resulting from a fault on the part of the director personally may also give rise to

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<sup>7</sup> For the purposes of this summary, the concept of "infringement" refers, in the broadest sense, to violations of an intellectual property right. See the definition given by Cornu, G., *Vocabulaire juridique*, 11th ed., PUF, Paris, 2016, p. 264.

<sup>8</sup> However, according to **German and Austrian** case-law, in certain cases the director must show that, through no fault of his own, he was prevented from taking action against the infringement committed in the course of company activities.

liability in **Sweden**, but the case-law has only examined a few cases depending on the degree of fault established (see below, paragraph 22).

18. In **France**, the case-law is not limited to merely establishing a fault not connected with the performance of a director's duties (*faute détachable*), allowing that person to be held personally liable. It relies on more detailed factors, in particular the deliberate and persistent nature of the infringing acts committed by the director.

(b) FAILURE TO ACT

19. According to the case-law of some Member States, a director also incurs liability for failure to act. These are essentially cases in which directors fail to intervene to prevent infringement committed in the course of the company's activities despite being aware of the infringement, or if they should have been aware of it in the performance of their duties.
20. The case-law of the Federal Court in **Germany** offers indications in this respect. It maintains that directors may be held liable if they, as 'guarantors', had an obligation to prevent the wrongful act, that is to say by virtue of their role, requiring them to prevent the misdemeanour or damage. However, this personal liability of the director has been narrowed so that merely exercising the functions of director is not sufficient to establish 'guarantor' obligations. Similar reasoning can be found in the case-law of the **Austrian** Supreme Court. Although it does not expressly mention the concept of 'guarantor', it refers to those obligations which, for directors, arise from the performance of duties as an organ in order to establish directors' liability for failure to act. This type of solution is also found in **Dutch** case-law. It centres on situations in which the director fails to prevent the unlawful acts in question from being committed, despite being in a position to do so as the company's 'policymaker'. In **France**, according to the case-law of the Court of Cassation, liability can be incurred for failure to act on the part of directors where the latter have refrained from preventing a wrongful decision by the collective management organ in which they perform their duties, although this case-law does not relate specifically to intellectual property.

(c) DEGREE OF FAULT

21. In addition to the existence of a positive act or failure to act on the part of the director, which is a common condition for personal liability to be incurred, a third party claim against the director presupposes, where it is based on fault-based liability, the existence of wrongful conduct on the part of the director. However, the required degree of the fault committed by the director is not uniform.
22. **French** case-law appears to be the strictest. According to the Court of Cassation, only a particularly serious offence incompatible with the normal exercise of corporate functions, such as wilful criminal conduct, constitutes a fault not intrinsically connected with the performance of the director's duties. This degree of fault is relevant where intellectual property is concerned given the fact that IP infringement constitutes a criminal offence. Serious misconduct on the part of the director is also required under **Dutch** case-law. In **Spain**, the case-law on intellectual property makes no mention of a particular degree of fault. The general legislative provisions on directors' tortious liability stipulate that wilful misconduct or gross negligence is required, although no case-law referring to this condition relating to intellectual property could be identified (see paragraph 14 above). In **Sweden**, negligence is sufficient to incur liability in case of infringement, and the case-law shows that proceedings can be brought against a director

when both the company and the director have committed an IP infringement through negligence. However, the case-law does not explicitly address other degrees of fault.

23. By contrast, under **German, Austrian** and **Irish** law, no condition relating to a particular degree of fault on the part of the director, or case-law in that regard, could be identified.

### 3. 'INTERFERER' LIABILITY (*STÖRERHAFTUNG*)

24. Finally, **German** case-law has developed a special type of liability known as *Störerhaftung*, or 'interferer' liability, on the basis of the rules on possession and ownership. This liability regime makes it possible, in case of an infringement of absolute rights, such as intellectual property rights, to bring an action against any individual who – without being the perpetrator of or accomplice to the infringement – contributes in any way, deliberately and with an adequate causal link, to the infringement of the protected right. The case-law developed this system in matters pertaining to intellectual property. For this liability to be incurred, obligations of conduct must have been breached, taking into account the standard of conduct reasonably required and the circumstances of the individual case. In any event, this regime allows proceedings to be brought against an 'interferer' only in case of cessation and prohibition of the infringement of the right concerned.

## B. LIABILITY NOT CONFIRMED BY CASE-LAW

### 1. OVERVIEW OF THE MEMBER STATES CONCERNED

25. In **Estonia, Italy** and **Poland**, no case-law examples of directors being held personally liable for IP infringement could be identified. Nor are there any civil liability rules in this area based solely on the infringer having the status of director.
26. It is important to note that these three legal systems have rules on directors' personal liability to third parties without referring explicitly to the field of intellectual property. The scope of the rules, however, differs in each system. In **Estonia** and **Poland**, these provisions relate to the liability of directors in certain specific situations and do not appear to be relevant where a third party seeks to bring an action against a director for IP infringement. In these two Member States, the director can only incur personal liability in this area under the general rules of tortious liability and the specific laws on intellectual property rights. In **Italian** law, on the other hand, the starting point is a more general rule which expressly provides for the tortious liability of directors to third parties,<sup>9</sup> set out in the Civil Code provisions relating to companies and whose material scope of application is not limited to a specific area.
27. It follows from the analysis of that legislative framework that it is conceivable that directors may be held personally liable in these three Member States.

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<sup>9</sup> There is, however, a special intellectual property regime for calculating damages, which takes precedence in this respect over the general rules of tortious liability.

## 2. CONDITIONS FOR DIRECTORS TO INCUR LIABILITY

28. As in the case of the other Member States presented in the previous chapter, there is nothing to suggest that, under **Estonian**, **Italian**<sup>10</sup> or **Polish** law, directors' personal civil liability can automatically arise from the mere fact that they perform that function. However, it does appear possible to hold directors liable in tort in case of damage resulting from IP infringement (Part (a)) or on the basis of a secondary liability regime (Part (b)). Various indications to this effect were identified in the three above-mentioned legal systems.

### (a) TORTIOUS LIABILITY

29. In the three above-mentioned legal systems, the fact that directors are members of an administrative organ of one of the companies concerned does not shield them from personal liability in tort. In **Estonia**, the three types of wrongful acts generally recognised as a basis for a director's liability in tort appear to be applicable in this case, namely: 1) infringement of an absolute right similar to the right to property, which, according to the case-law, includes infringement of an intellectual property right; 2) breach of a "protective provision" if another party's trade name has been used; and 3) intentional breach of accepted principles of morality.<sup>11</sup> In **Italy**, the Civil Code provision on the tortious liability of directors to third parties is not limited *ratione materiae*, so that it also appears to apply in case of IP infringement. According to the case-law, the conduct of a director is unlawful, under that provision, if the director fails to comply with the obligations inherent in the position of director or of a general nature laid down by the law protecting third party rights. **Polish** tort law expressly provides for the principle that a legal person is liable for damage caused by a fault of its organs. However, the case-law has noted that that liability of the legal person does not release the natural person within the organ from liability for their own act.
30. The conditions that must be met for a director to be liable in tort are the same in all three legal systems: the existence of an unlawful act on the part of the director, a causal link between that act and the damage caused, and misconduct on the part of the director. In **Italy** and **Poland**, the onus would be on the injured intellectual property right holder to prove that all these conditions are met. In **Estonia**, however, the injured party is not normally required to furnish proof of the misconduct. Consequently, it would be up to the director, as the tortfeasor, to prove that they committed no misconduct.

### (b) SECONDARY LIABILITY

31. As mentioned above (see paragraph 10 above), certain legal systems provide for the secondary liability of directors where the company under their management is no longer solvent. In **Poland**, it is possible to apply the secondary liability regime to the directors of certain companies<sup>12</sup> where, in essence, they have failed to take the necessary steps to declare the company in question bankrupt. The secondary nature of this regime arises from the fact that bringing an action against the director presupposes that the holder of the infringed right obtains an enforceable judgment against the company and then brings enforcement

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<sup>10</sup> According to a recent decision, the fact that a person is the director of a company responsible for infringing intellectual property rights does not automatically mean that person incurs concurrent liability, in the absence of specific allegations of unlawful conduct on the part of the director.

<sup>11</sup> These three situations also constitute a source of tortious liability of the director in **Germany** and **Austria**.

<sup>12</sup> Limited-liability companies and public limited companies.

proceedings against it, which prove unsuccessful. In any event, this regime only applies to pecuniary claims. Consequently, it appears that not all actions that can be brought against the company in case of infringement can be "transformed" into actions against the directors under this particular regime.

32. In **Italian** law, the Civil Code provision on the secondary liability of directors presupposes that they have breached their obligations to safeguard the integrity of company assets. However, it does not appear directly relevant when an intellectual property right holder wishes to bring proceedings against a director. On the other hand, under **Estonian** law, the regime of derivative liability of the director, which allows the company's creditors to bring a claim for damages against the director on behalf of the company, appears to be applicable in case of IP infringement, although, like the regime introduced in **Polish** law, it involves a more complicated procedure than the rules on tortious liability.

## CONCLUSION

33. In none of the legal systems examined can personal civil liability be ruled out for the directors of the companies concerned by this research in case of IP infringement committed in the course of the activity of the company in which they perform their functions.
34. Admittedly, it is commonly accepted that, in principle, it is the company concerned which, in so far as it has its own rights and obligations, is liable to third parties, with the acts of the directors carried out in the course of their duties being attributed to the company. However, in all the legal systems analysed, such company liability does not preclude directors from being held personally liable for their own acts.
35. In most of the legal systems analysed, the possibility of directors incurring personal civil liability in IP infringement cases has been confirmed by the case-law. Furthermore, even in legal systems where specific case-law on intellectual property was not identified, the possibility of the director incurring such liability does not appear to be ruled out.
36. Notwithstanding certain specificities observed in some of the national laws studied, the element that makes it possible for directors to incur such liability, whether confirmed by the case-law or inferred at least in theory from the legislative framework, is essentially similar. In all the legal systems analysed, directors cannot automatically be held liable by virtue of the fact that they perform this function, as individual behaviour attributable to directors in the performance of their duties must be demonstrated in order to incur personal liability. The factors to be analysed which could allow directors' conduct to be isolated from the activity of company relate, for example, to their active participation in the commission of IP infringement or to their failure to prevent such an infringement in the course of the company's activities.

[...]