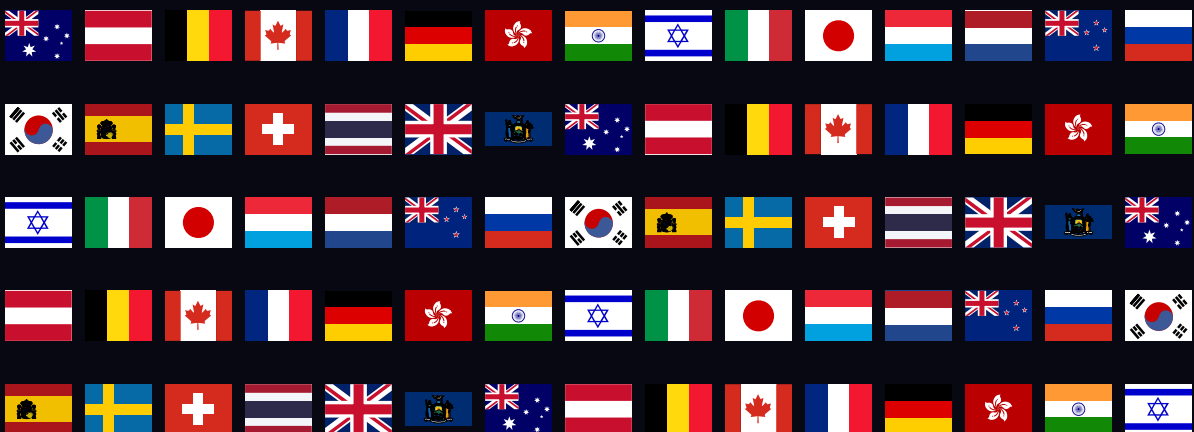


LITIGATION FUNDING

Hong Kong



Litigation Funding

Consulting editors

Jonathan Barnes, Steven Friel

Woodsford

Quick reference guide enabling side-by-side comparison of local insights, including regulation and regulators; funders' rights (choice of counsel, participation in proceedings, veto of settlement and funding termination rights); conditional and contingency fee agreements; judgment, appeal and enforcement; collective actions; costs and insurance; disclosure and privilege; disputes between litigants and funders; and recent trends.

Generated 08 December 2021

The information contained in this report is indicative only. Law Business Research is not responsible for any actions (or lack thereof) taken as a result of relying on or in any way using information contained in this report and in no event shall be liable for any damages resulting from reliance on or use of this information. © Copyright 2006 - 2021 Law Business Research

Table of contents

REGULATION

Overview

Restrictions on funding fees

Specific rules for litigation funding

Legal advice

Regulators

FUNDERS' RIGHTS

Choice of counsel

Participation in proceedings

Veto of settlements

Termination of funding

Other permitted activities

CONDITIONAL FEES AND OTHER FUNDING OPTIONS

Conditional fees

Other funding options

JUDGMENT, APPEAL AND ENFORCEMENT

Time frame for first-instance decisions

Time frame for appeals

Enforcement

COLLECTIVE ACTIONS

Funding of collective actions

COSTS AND INSURANCE

Award of costs

Liability for costs

Security for costs

Insurance

DISCLOSURE AND PRIVILEGE

Disclosure of funding

Privileged communications

DISPUTES AND OTHER ISSUES

Disputes with funders

Other issues

UPDATE AND TRENDS

Current developments

Contributors

Hong Kong



Briana Young
briana.young@hsf.com
Herbert Smith Freehills LLP



Jojo Fan
jojo.fan@hsf.com
Herbert Smith Freehills LLP



Priya Aswani
priya.aswani@hsf.com
Herbert Smith Freehills LLP



Simon Chapman
simon.chapman@hsf.com
Herbert Smith Freehills LLP

REGULATION

Overview

Is third-party litigation funding permitted? Is it commonly used?

Third-party funding is not generally permitted for litigation in the Hong Kong courts. Such funding is considered infringement of the doctrines of champerty and maintenance, which prohibit any party without a legitimate interest in the action from assisting or encouraging a party to that action in return for a share in the proceeds if the claim succeeds. Champerty and maintenance are both torts under Hong Kong law. They are also indictable offences at common law, punishable under section 1011 of the Criminal Procedure Ordinance by imprisonment and a fine.

There are three – limited – exceptions to the general prohibition on litigation funding, namely the:

- ‘common interest’ cases, involving third parties with a legitimate interest in the outcome of the litigation;
- where ‘access to justice considerations’ apply; and
- a miscellaneous category, including insolvency proceedings.

These exceptions were set out in *Unruh v Seeberger* [2007] 10 HKCFAR 31. Where one of the exceptions applies, litigation funding will be permitted.

Litigation funding is most commonly used in Hong Kong in respect of the third category: insolvency proceedings. Hong Kong courts will permit a funding agreement where it includes an assignment of a cause of action by a liquidator (*In re Cyberworks Audio Video Technology Ltd* [2010] 2 HKLRD 1137). The liquidator’s right to assign causes of action is conferred by section 199(2)(a) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32), which empowers liquidators to ‘sell the real and personal property and things in action of the company by public auction or private auction’. This includes a cause of action.

Section 199(2)(a) does not require the liquidator to seek the court’s consent to the funding arrangement. In practice, however, the liquidator may choose to do so (eg, *Chu Chi Ho Ian v Yeung Ming Kwong* [2014] HKEC 1901).

Even where a claim falls outside the section 199(2)(a) exception to champerty and maintenance, Hong Kong courts have been willing to facilitate litigation funding in the insolvency context, as long as there is a ‘legitimate commercial purpose’ (*Jeffrey L Berman v SPF CDO I Ltd* [2011] 2 HKLRD 815; *In re Po Yuen (To’s) Machine Factory Ltd* [2012] 2 HKLRD 752).

As of 1 February 2019, third-party funding is also allowed for arbitration proceedings in Hong Kong. Following a lengthy consultation period and legislative process, the government introduced amendments to the Arbitration Ordinance (Cap 609) to provide that third-party funding of arbitration and related mediation and court proceedings is not prohibited on grounds of champerty and maintenance. Similar amendments to the Mediation Ordinance have been drawn up, but are not yet in force.

Hong Kong’s Secretary for Justice has also issued a Code of Practice for Third-Party Funding of Arbitration. More recently, on 16 August 2021, the Department of Justice launched a two-month public consultation to seek views on a draft Code of Practice for Third-Party Funding of Mediation, which is largely based on the Code of Practice for Third-Party Funding of Arbitration save for a couple of different provisions. The draft Code sets out the practices and standards that third-party funders are ordinarily expected to comply with in carrying on activities in connection with third-party funding of mediation in Hong Kong. It is likely that the Code will come into effect later this year.

As funding is only permitted in limited circumstances, it is not commonly used in Hong Kong litigation. However, we are aware of some litigation funding activity, particularly for insolvency proceedings. We have seen increased interest in funding Hong Kong arbitrations, and expect levels of funding activity to increase steadily in that area.

Restrictions on funding fees

Are there limits on the fees and interest funders can charge?

Fees and interest are matters for agreement between the funder and the funded party. Hong Kong law does not impose specific limitations on the amounts that third-party funders can charge.

Law stated - 29 September 2021

Specific rules for litigation funding

Are there any specific legislative or regulatory provisions applicable to third-party litigation funding?

Part 10A of the Arbitration Ordinance permits third-party funding of arbitration and related court and mediation proceedings in Hong Kong, as well as funding of work done in Hong Kong on arbitrations and related proceedings outside Hong Kong.

Third-party funding of mediations that are not related to an arbitration will be permitted under Part 7A of the Mediation Ordinance, but the relevant amendments are not in force as at September 2021.

Lawyers and law firms are prevented from funding cases by the Legal Practitioners' Ordinance and by Hong Kong professional conduct rules. With respect to arbitration, section 98O of the Arbitration Ordinance expressly prohibits lawyers (regardless of where they are based or qualified) from funding cases in which they act for any party in relation to the arbitration.

Law stated - 29 September 2021

Legal advice

Do specific professional or ethical rules apply to lawyers advising clients in relation to third-party litigation funding?

Professional conduct rules currently prevent Hong Kong lawyers and registered foreign lawyers from entering into conditional or contingency fee arrangements to act in contentious business. This prevents lawyers, or their firms, from funding clients' claims in litigation or arbitration through such fee arrangements. However, we are not aware of any rules that prevent lawyers from advising their clients on using third-party litigation funders, selecting funders or working with the funders during the proceedings. Indeed, the Third-Party Funding Code of Practice requires funders to take reasonable steps to ensure that a party knows it is entitled to seek independent legal advice before it enters into a funding agreement.

Law stated - 29 September 2021

Regulators

Do any public bodies have any particular interest in or oversight over third-party litigation funding?

Section 98X of the Arbitration Ordinance empowers the Secretary for Justice to appoint an 'authorised body', which may issue a 'code of practice setting out the practices and standards with which third-party funders are ordinarily

expected to comply in carrying on activities in connection with third-party funding of arbitration'. Section 98Q sets out a number of criteria that the code of practice might include.

The same section authorises the Secretary for Justice to appoint an 'advisory body' to monitor and review the operation of the Funding Ordinance, including the Code of Practice.

On 18 May 2018, Hong Kong's Department of Justice appointed Ms Teresa Cheng SC, Secretary for Justice, as the authorised body with a remit to draw up the Code of Practice.

The advisory body is composed of three senior, Hong Kong-based lawyers: Kathryn Sanger, Edward Liu and Victor Dawes SC.

On 7 December 2018, the Secretary for Justice issued the Code of Practice for Third-Party Funding of Arbitration. The Code applies to any funding agreement commenced or entered into on or after 7 December 2018. Failing to comply with the Code of Practice does not, of itself, give rise to civil or criminal liability. However, the Code is admissible in evidence before a court or arbitral tribunal, which may take into account any failure to comply with it, if such failure is relevant to a question that court or tribunal is deciding (section 98S of the Arbitration Ordinance).

On 16 August 2021, the Department of Justice launched a two-month public consultation to seek views on a draft Code of Practice for Third-Party Funding of Mediation, which is largely based on the Code of Practice for Third-Party Funding of Arbitration.

In addition, to the extent that funders raise capital in Hong Kong, those activities could arguably be regulated by the Securities and Futures Commission, if the sources of funds amount to a 'collective investment scheme' under the Securities and Futures Ordinance. If the funds provided by a funder are considered a loan, the funder might be considered a 'money lender' under the Money Lenders' Ordinance and require a licence to conduct business with the funded party. However, most of the funding structures of which we are aware are unlikely to fall within either of these statutes.

Where funders operating in Hong Kong, but based elsewhere, belong to a regulatory body, such as the United Kingdom's Association of Litigation Funders, they will typically adhere to that regulator's requirements when funding proceedings in Hong Kong.

Law stated - 29 September 2021

FUNDERS' RIGHTS

Choice of counsel

May third-party funders insist on their choice of counsel?

In practice, yes, through their decision whether to fund the claim. Funders may decline to offer funding for a number of reasons, including that they are not happy with the party's choice of counsel. Where the funder is involved in the case before counsel is selected, the funder will generally be involved in the selection process.

Law stated - 29 September 2021

Participation in proceedings

May funders attend or participate in hearings and settlement proceedings?

Funders of arbitration proceedings may attend hearings, if the tribunal and all parties agree. Court hearings in Hong Kong are generally open to the public (apart from arbitration-related proceedings, which are not open to the public, unless one or more parties apply to be heard in open court and can satisfy the court that there is good reason),

meaning that representatives of a funder may attend if they wish. In neither case is it usual for funders' representatives to take an active part in the proceedings.

Funders may attend mediation or other settlement negotiations if the parties (and any mediator or other third-party facilitator) agree.

Law stated - 29 September 2021

Veto of settlements

Do funders have veto rights in respect of settlements?

A funder's rights to approve or reject a proposed settlement will depend on the terms of the funding agreement. In practice, the funded party will be guided by the terms of the funding agreement in deciding what to accept in settlement negotiations. This is because any settlement must allow the funded party to pay the funder its agreed share of the settlement amount or percentage of the funding amount (depending on the terms of the funding agreement).

Law stated - 29 September 2021

Termination of funding

In what circumstances may a funder terminate funding?

The circumstances in which a funder may terminate funding are a matter for agreement between the funder and the funded party, and should be recorded in the relevant funding agreement. Examples include the assessment of the merits becoming significantly worse during the case or the funder becoming aware of wrongdoing by the funded party.

In respect of arbitration, paragraph 2.13 of the Code of Practice requires funding agreements to state 'whether (and if so, how) the third-party funder may terminate the funding agreement' if the funder:

- reasonably ceases to be satisfied about the merits of the arbitration;
- reasonably believes there has been a material adverse change to the funded party's prospects of success, or recovery on success; or
- reasonably believes that the funded party has committed a material breach of the funding agreement.

This list is exhaustive. The Code of Practice stipulates that funding agreements 'may not establish a discretionary right for a third-party funder to terminate the funding agreement in the absence of the circumstances described in paragraph 2.13'.

Law stated - 29 September 2021

Other permitted activities

In what other ways may funders take an active role in the litigation process? In what ways are funders required to take an active role?

Hong Kong's Code of Practice (paragraph 2.3(3)) requires funding agreements to 'set out and explain clearly the key features and terms of the proposed funding and the funding agreement' including 'the degree of control that third-party funders will have in relation to an arbitration'. The Code prohibits funders from seeking to influence the funded party, or its lawyers, 'to give control or conduct of the arbitration or mediation to the third-party funder except to the extent

permitted by law'. It also requires the funder not to take steps that cause, or are likely to cause, the funded party's legal representatives to breach their professional duties, and not to seek to influence the arbitral tribunal or institution (see paragraph 2.9 of the Code).

In practice, some funders take a much more active role than others. At minimum, funders generally require regular updates from counsel on the progress of the case. They may also ask for updates on an ad hoc basis, or when there is a significant development in the case. Funders may also advise counsel and the funded party on aspects of the case. In England and Wales, it is generally accepted that funders must not control the conduct of the case; such control remains with the litigant. Funders in other jurisdictions, notably Australia, exercise a higher degree of control. For example, some funders are known to have placed a representative within the counsel team for the duration of the case.

Law stated - 29 September 2021

CONDITIONAL FEES AND OTHER FUNDING OPTIONS

Conditional fees

May litigation lawyers enter into conditional or contingency fee agreements?

No. Hong Kong solicitors and barristers may not enter into conditional or contingency fee arrangements for acting in contentious business. The same restriction applies to foreign lawyers who are registered to practise in Hong Kong.

The restriction derives from section 64(1) of the Legal Practitioners Ordinance, Principle 4.17 of the Solicitors Guide to Professional Conduct, paragraph 9.9 of the Bar Association Code of Conduct, and the common law. It is confirmed by section 980 of the Arbitration Ordinance (Cap 609). These restrictions prevent law firms from acting as funders in Hong Kong, other than where they are providing third-party funding at arm's length in relation to a matter in which they do not act for any party.

In December 2020, the Hong Kong Law Reform Commission launched a public consultation on whether to permit 'outcome related fee structures', including conditional and contingency fees, for Hong Kong arbitration and related proceedings. The Law Reform Commission is expected to issue its final report at the end of 2021.

Law stated - 29 September 2021

Other funding options

What other funding options are available to litigants?

Litigants may fund proceedings using a bank loan, obtained on an arm's-length basis. However, a significant number of claimants who seek funding are impecunious, and may have difficulty obtaining a loan.

There is anecdotal evidence in Hong Kong of third parties who wish to fund a litigation, in which they have no legitimate interest, acquiring shares in the claimant entity, in order to create an interest and avoid liability for champerty and maintenance.

Law stated - 29 September 2021

JUDGMENT, APPEAL AND ENFORCEMENT

Time frame for first-instance decisions

How long does a commercial claim usually take to reach a decision at first instance?

According to the statistics on Ten Years' Implementation of the Civil Justice Reform released by the Judiciary of Hong

Kong covering the period from April 2009 to March 2019, claims at first instance take an average of two to two-and-a-half years from commencement to trial. The accumulative average time from commencement to trial for the past 10 years is 855 days with 1,728 trial hearings in total. Anecdotal evidence suggests that it can take anywhere from three to six months before judgment is handed down after trial, but this can vary depending on the judge in question and general workload levels.

Law stated - 29 September 2021

Time frame for appeals

What proportion of first-instance judgments are appealed? How long do appeals usually take?

Data from the Hong Kong Judiciary Annual Report 2020 (the 2020 Report) shows that only a small proportion of first instance judgments under the civil jurisdiction are appealed to the Court of Appeal, despite the fact that leave is not required in every case (generally, only in the case of interlocutory judgments) to make an appeal from the Court of First Instance to the Court of Appeal. According to the 2020 Report, only an estimated 3 per cent of first instance civil judgments were appealed to the Court of Appeal. Although the overall proportion of judgments that were appealed is small, interestingly the percentage of first instance civil judgments that were appealed to the Court of Appeal recorded in the 2020 Report has doubled since the 2017 Report. The 2020 Report recorded 85 days (ie, close to three months) as being the average waiting time for civil cases at the Court of Appeal from application to fix a hearing to the hearing date, which represents a 24 per cent improvement from the time reported in 2015 (ie, 112 days).

Law stated - 29 September 2021

Enforcement

What proportion of judgments require contentious enforcement proceedings? How easy are they to enforce?

These statistics are not available. Whether or not a judgment may easily be enforced in Hong Kong depends on various factors, including the following:

- the availability of assets within the jurisdiction;
- the accessibility of assets that may be available;
- the type of judgment being enforced;
- whether a party is seeking to enforce a domestic or a foreign judgment; and
- in the case of a foreign judgment, whether there is a reciprocal enforcement arrangement between that country and Hong Kong.

Law stated - 29 September 2021

COLLECTIVE ACTIONS

Funding of collective actions

Are class actions or group actions permitted? May they be funded by third parties?

At present, there is no class action regime in Hong Kong. The only avenue that is currently available for multiparty litigation is by way of a 'representative action' brought by a party on behalf of a group of others who have the same interest in the proceedings. The 'representative action' framework, however, is inadequate for dealing with large-scale

multi-party situations, and courts in Hong Kong have had to proceed on an ad hoc basis without rules designed to deal specifically with group litigation. Representative actions are not common in Hong Kong. Where they do occur, third-party funding is, in principle, permitted, where one of the recognised exceptions to champerty and maintenance applies.

In May 2012, the Law Reform Commission published a report recommending the introduction of class actions in Hong Kong with a number of key features, including:

- the regime is implemented on an incremental basis, beginning with consumer cases (ie, tort and contract claims by consumers);
- such actions may only proceed with certification by the court;
- one of the criteria of the certification should be a representative plaintiff's financial ability to satisfy an adverse costs order, which should also be required to prove to the court's satisfaction that suitable funding and costs-protection arrangements are in place at the certification stage;
- an 'opt-out' approach be adopted as the default position for local parties and an 'opt-in' approach be adopted for overseas parties; and
- a general class actions fund be established in the long term to help fund eligible impecunious plaintiffs to pursue class actions, and the Consumer Legal Action Fund be expanded in the short term to fund class actions arising from consumer claims.

The Department of Justice, in response to the report, established a working group to consider the details of the proposed regime and make recommendations to the government. Several years after its formation, on 31 December 2020, the working group announced its intention to commission a consultancy study on the economic and other impacts on Hong Kong if a class action regime was to be introduced. The working group has started drafting a consultation paper.

Law stated - 29 September 2021

COSTS AND INSURANCE

Award of costs

May the courts order the unsuccessful party to pay the costs of the successful party in litigation?
May the courts order the unsuccessful party to pay the litigation funding costs of the successful party?

Order 62, Rule 6A of the Rules of the High Court and sections 52A and 52B of the High Court Ordinance empower the Hong Kong courts to order costs for or against any party to the proceedings, or a non-party, including a third-party funder. This is usually referred to as an 'adverse costs order'. The courts also have the discretion to order the extent to which the costs are to be paid. Usually the courts order that costs 'follow the event' (ie, that the unsuccessful party must pay to the successful party costs that were necessary to pursue or defend the action). It is exceptionally rare for a successful party to recover all of its costs in litigation. In practice, a party can expect to recover about half of the actual costs incurred by the litigant. It is not clear whether Hong Kong courts will be willing to order an unsuccessful litigant to pay the funding costs of its successful counterparty. English law is no longer binding on Hong Kong courts, although it is persuasive. Hence, it is at least possible that the Hong Kong courts might make such an order in appropriate circumstances, following the English case of *Essar Oilfields Services Ltd v Norscot Rig Management PVT Ltd* [2016] EWHC 2361 (Comm).

Arbitral tribunals sitting in Hong Kong have broad discretion to allocate the costs of the arbitration as they see fit.

Section 74(2) of the Arbitration Ordinance (Cap 609) provides that the tribunal may direct in its award 'to whom and by whom and in what manner the costs [of the arbitral proceedings] are to be paid'. However, the tribunal must only allow costs that are 'reasonable in all the circumstances' (section 74(7)(a) of the Arbitration Ordinance). It is most usual for Hong Kong tribunals to order that costs follow the event, but there is no universal practice.

In arbitration-related court proceedings in Hong Kong, the courts have developed a practice of ordering costs on a higher basis (known as the 'indemnity' basis) against a party that fails in an arbitration-related application. This has been applied in applications to challenge arbitral agreements, set aside arbitral awards, and resist enforcement of awards (among others). On the ordinary basis, the unsuccessful party will generally pay 50 to 75 per cent of the other side's actual expenditure. An indemnity costs order requires the unsuccessful party to pay all of the successful party's costs, except where they are unreasonable in amount or have been unreasonably incurred (Order 62, Rule 28(4A) of the Rules of the High Court).

Law stated - 29 September 2021

Liability for costs

Can a third-party litigation funder be held liable for adverse costs?

In Hong Kong litigation, Order 62, Rule 6A of the Rules of the High Court and sections 52A and 52B of the High Court Ordinance empower the courts to order any third-party, including a third-party funder, to pay costs. The court's order is known as an 'adverse costs order'. In the recent Hong Kong decision of *Re A* [2020] HKCFI 493, Marlene Ng J stated that the novelty of commercial litigation funding in Hong Kong means the effectiveness of safeguards against the litigation funders (eg, adverse costs orders) is as yet untested. Even if these measures are applicable in Hong Kong, their vitality turns on whether there is adequate disclosure to the opposing parties and the court about the litigation funding, which is also untested in Hong Kong.

In arbitration, the funder is generally not a party to the arbitration agreement. As a result, the tribunal lacks jurisdiction over the funder and cannot order it to pay adverse costs. Instead, the tribunal may make the adverse costs order against the funded party. Whether the funder will fund (or reimburse) the funded party in respect of any adverse costs paid will depend on the terms of the funding agreement. Paragraph 2.12 of the Code of Practice requires funders to ensure that the funding agreement stipulates whether, and to what extent, the funder will be liable to the funded party for adverse costs orders made against the funded party. Many professional funders routinely accept liability for adverse costs, but approaches among smaller or individual funders may vary.

Law stated - 29 September 2021

Security for costs

May the courts order a claimant or a third party to provide security for costs? (Do courts typically order security for funded claims? How is security calculated and deposited?)

Order 23, Rule 1 of the Rules of the High Court provides that the court can order security for costs against the plaintiff only. The court has no power to order security for costs against a third-party funder. However, the funding agreement can provide for the funder to reimburse the plaintiff for any amount paid into court in compliance with a security for costs order. This is a matter for agreement between the funder and the funded party. In *Re A* [2020] HKCFI 493, Marlene Ng J stated that security for costs against a third-party funder in Hong Kong is arguably not an available procedural safeguard to withstand potential abuse of third-party litigation funding. This lacuna in the Hong Kong procedural rules in fact highlights the importance of regulation over litigation funders' capital adequacy requirements.

In relation to whether courts typically order security for funded claims in Hong Kong, the market in this area is not

mature and cases dealing with this issue are rare. The recent decision of *Natural Dairy (NZ) Holdings Ltd (in provisional liquidation) v Chen Keen* [2020] HKCFI 2491 is the first case in Hong Kong in which an after-the-event (ATE) insurance policy (used to reimburse parties for litigation costs and disbursements) was raised as an answer to an application for security for costs. The plaintiff submitted that its ATE insurance constituted adequate security for the defendant's costs. Several English cases on point were considered. From the analysis, it appears that the answer in each case would depend on the actual terms and conditions of such a policy, in particular the likelihood of the insurance cover being eroded. However, in practice, since insurance policies are voidable by the insurers and subject to cancellation for many reasons (none of which are generally within the control or responsibility of the defendant), it is likely that in most cases an ATE policy is unlikely to provide such good security as a payment into court.

Unless the parties agree otherwise, arbitral tribunals sitting in Hong Kong can order security for costs against a party to the arbitration (section 56(1)(a) of the Arbitration Ordinance). The tribunal has no jurisdiction to make such an order against a third-party funder. In practice, arbitration funding agreements will typically provide that a funder will pay any security for costs order, because, if such order is not paid, the claim will not proceed. Paragraph 2.12 of the Code of Practice requires funders to ensure that the funding agreement stipulates whether, and to what extent, the funder will be liable to the funded party for security for costs orders made against the funded party.

Law stated - 29 September 2021

If a claim is funded by a third party, does this influence the court's decision on security for costs?

As far as we are aware, this question has not arisen in funded litigations in Hong Kong. Arbitral tribunals sitting in Hong Kong may order the claimant to give security for the costs of the arbitration. However, they may not make such an order only on the grounds that the claimant is not based in Hong Kong (section 56(2) of the Arbitration Ordinance). These decisions are usually confidential, so it is not possible to say whether a tribunal is likely to be influenced by the existence of third-party funding in deciding whether to order security for costs.

Law stated - 29 September 2021

Insurance

Is after-the-event (ATE) insurance permitted? Is ATE commonly used? Are any other types of insurance commonly used by claimants?

There is no legislative or regulatory prohibition on ATE insurance in Hong Kong. However, third-party funding is a nascent market in Hong Kong. We are not aware that ATE or any other type of insurance are commonly used at present, but this is likely to change.

Law stated - 29 September 2021

DISCLOSURE AND PRIVILEGE

Disclosure of funding

Must a litigant disclose a litigation funding agreement to the opposing party or to the court? Can the opponent or the court compel disclosure of a funding agreement?

Where the funded party voluntarily seeks the court's approval of the funding arrangement, the court and other party will become aware that the arrangement exists and (possibly) learn the funder's identity. However, there is no general obligation on a funded litigant to seek the court's approval of the funding arrangement, nor is there a general obligation

to disclose details of the funding arrangement to the court or the opposing party.

In June 2016, a Hong Kong court ordered plaintiffs to disclose details of the court's earlier approval of their litigation funding arrangements, where these were contained in evidence filed in support of the plaintiffs' ex parte applications to extend time for service of legal proceedings (*Enrich Future Ltd v Deloitte Touche Tohmatsu HCCL 10/2011*, 22 June 2016). The judge acknowledged that disclosure of the funding arrangement might put the defendant at an advantage, in particular by giving it an understanding of the plaintiffs' litigation 'war chest'. However, he considered that the principle of open justice prevailed over any concern about giving one party a tactical advantage. In accordance with that principle, the plaintiffs were entitled to know in full the evidence that had been presented to the court to obtain ex parte relief against them, including the evidence regarding the funding arrangements.

Section 98U of the Arbitration Ordinance (Cap 609) requires a funded party to give written notice of the fact that a funding agreement has been made, as well as the name of the funder. The notice must be given to each other party to the arbitration, and to the arbitral tribunal, court or mediator (as appropriate). The funded party must also give notice if the funding agreement ends, other than because the arbitration has ended.

Law stated - 29 September 2021

Privileged communications

Are communications between litigants or their lawyers and funders protected by privilege?

The right to assert legal professional privilege is enshrined in Hong Kong's Basic Law. Article 35 provides that Hong Kong residents shall have the right to 'confidential legal advice'.

To maintain privilege in any communication under Hong Kong law, the communication must remain confidential. Assuming that communications between a funder and the funded party are confidential (either pursuant to a confidentiality agreement or otherwise), they should be protected by litigation privilege. Litigation privilege protects communications between a lawyer, the lawyer's client and any third party, where litigation is pending or in reasonable contemplation, and the communications are made for the 'sole or dominant' purpose of preparing for or dealing with the litigation. (For the purposes of this test, 'litigation' includes both litigation and arbitration proceedings.)

In the context of arbitration, section 98T of the Arbitration Ordinance permits a party to disclose information relating to the arbitration to a person without losing confidentiality in the information, for the purpose of having or seeking third-party funding from the person. However, the person to whom the information is disclosed may not communicate it further, subject to certain exceptions.

Common interest privilege may also apply between the funder and the funded party, since they will have a common interest in the outcome of the proceedings. Common interest privilege is not a freestanding form of privilege, as it relies on the existence of a communication or document that satisfies the test for either legal advice privilege or litigation privilege. For common interest privilege to apply, the purpose of the communication must be for the parties to inform each other of the facts, issues or advice received in respect of a legal issue, or to obtain or share legal advice in respect of contemplated or pending litigation.

Law stated - 29 September 2021

DISPUTES AND OTHER ISSUES

Disputes with funders

Have there been any reported disputes between litigants and their funders?

We are not aware of any such disputes.

Law stated - 29 September 2021

Other issues

Are there any other issues relating to the law or practice of litigation funding that practitioners should be aware of?

There are no other issues.

Law stated - 29 September 2021

UPDATE AND TRENDS

Current developments

Are there any other current developments or emerging trends that should be noted?

The Hong Kong Law Reform Commission has recently conducted a public consultation on whether to permit 'outcome related fee structures', including conditional and contingency fees, for Hong Kong arbitration and related proceedings. The consultation period ended in March 2021, and the Law Reform Commission is expected to publish its report at the end of 2021.

Law stated - 29 September 2021

Jurisdictions

	Australia	Piper Alderman
	Austria	Nivalion AG
	Belgium	Nivalion AG
	Canada	Omni Bridgeway
	France	Nivalion AG
	Germany	Omni Bridgeway
	Hong Kong	Herbert Smith Freehills LLP
	India	Khaitan & Co
	Israel	Woodsford
	Italy	Fideal S.R.L
	Japan	Miura & Partners
	Luxembourg	Nivalion AG
	Netherlands	De Brauw Blackstone Westbroek
	New Zealand	Thorn Law Limited
	Russia	Aperio Intelligence
	South Korea	KL Partners
	Spain	Procurator Litigation Advisors
	Sweden	Nivalion AG
	Switzerland	Nivalion AG
	Thailand	Rajah & Tann Asia
	United Kingdom - England & Wales	Woodsford
	USA - New York	Liston Abramson LLP