

## DISCOVERY

## Equitable Bill of Discovery: a Five-part Test

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### Introduction

The equitable principle of discovery allows a party to obtain information and/or documents regarding a potential and future cause of action that are in the power, possession or control of a third party. Used in Canada with a slow but increasing frequency since 1998, the equitable bill of discovery "relief" is also known in Canadian courts as a "Norwich Order," named after a case in the House of Lords.<sup>1</sup>

### Norwich Pharmacal Co. and Others v. Customs and Excise Commissioners

Although *Norwich* is not the first case to allow the relief for an equitable bill of discovery, it is the basis upon which the principle has resurfaced in recent legal history, particularly in the United Kingdom and Canada. Prior to *Norwich*, the principle of seeking discovery from a third party before an action was commenced was a vestige of the courts of equity, which, of course, had historically been treated as separate from the courts of common law. *Norwich* resurrected this discovery principle in the common law forum.

The Commissioners in *Norwich* unknowingly participated in the importation of compounds, which infringed a patent owned by Norwich. The Commissioners were in an intermediate position, because although their conduct was an innocent exercise of their statutory duty, "without certain action on their part the infringements could never have been committed."<sup>2</sup> The Commissioners had documents that showed the identity of the

infringing importers and that information had to be disclosed.<sup>3</sup>

The House of Lords held that the factors to consider when determining when to allow the discovery included: (i) the strength of the applicant's case against the unknown, alleged wrongdoer; (ii) the relationship between the alleged wrongdoer and the respondent; (iii) whether the information could be obtained from another source by the applicant; and (iv) whether the giving of the information would cause the respondent difficulty, for which he or she could not be compensated by the payment of expenses by the applicant.<sup>4</sup> In addition, the public interest both for and against disclosure were weighed in *Norwich*.<sup>5</sup>

As will be seen below, these factors have since been applied in Canadian jurisprudence and form part of what has now evolved into a five-part test.

### Glaxo Wellcome PLC v. Canada (Minister of National Revenue – M.N.R.)<sup>6</sup>

*Glaxo* involved facts similar to those in *Norwich*. In *Glaxo*, a drug had been imported into Canada that violated a patent owned by Glaxo Wellcome PLC ("Glaxo"). Glaxo applied to the Minister of National Revenue ("MNR") for production of the names of the importers as recorded in its customs records. MNR refused to produce the records on the ground of confidentiality. After discussing the principles laid out in *Norwich*, the Federal Court of Appeal held that Glaxo was entitled to an equitable bill of discovery to disclose the names of the infringing importers.<sup>7</sup>

The Court summarized the two threshold requirements for obtaining a Norwich Order as follows: (i) an applicant must have a *bona fide* claim against the alleged wrongdoers, rejecting the argument that the applicant also must demonstrate that the claim will likely succeed at trial;<sup>8</sup> and (ii) an applicant must share some sort of relationship with the respondent.<sup>9</sup>

<sup>3</sup> *Ibid.* at 188.

<sup>4</sup> *Ibid.* at 199.

<sup>5</sup> *Ibid.* at 188.

<sup>6</sup> [1998] F.C.J. No. 874 (F.C.A.) (hereinafter "*Glaxo*").

<sup>7</sup> *Ibid.* at paragraph 65.

<sup>8</sup> *Ibid.* at paragraph 30.

<sup>9</sup> *Ibid.* at paragraph 24.

<sup>1</sup> *Norwich Pharmacal Co. and others v. Customs and Excise Commissioners*, [1974] AC 133 (H.L.) (hereinafter "*Norwich*").

<sup>2</sup> *Ibid.* at 174.

Balancing “the public interest in preserving the confidentiality of the importers’ names against the public interest in the proper administration of justice,”<sup>10</sup> the Court held that it would be unreasonable to regard the identity of the importers as sensitive information because that information had likely passed through many hands before reaching the customs officials.<sup>11</sup> Therefore, the public interest in ensuring that Glaxo was able to pursue a claim against the importers in court was found to outweigh public interest in maintaining the confidentiality of the importers’ names.<sup>12</sup>

**BMG Canada Inc. v. John Doe**<sup>13</sup>

*Glaxo* was followed in *BMG*, a 2005 Federal Court of Appeal decision, in which the issue was whether the identity of Internet users alleged to have infringed musical copyright should be disclosed, despite the fact that their right to privacy may be violated.<sup>14</sup>

The Federal Court of Appeal confirmed that the proper test is whether the plaintiff has a *bona fide* claim against the proposed defendant and does not require the establishment of a *prima facie* case.<sup>15</sup>

In this case, the public interest was found not to outweigh the privacy rights at stake.<sup>16</sup> The lengthy delay between the time the plaintiffs collected their information and the time the request for the information was made could result in the collection of inaccurate information about innocent Internet users and “might well justify a court in refusing to make a disclosure order.”<sup>17</sup> The Federal Court of Appeal dismissed the appeal without prejudice to BMG’s right to commence a further application for disclosure of the identities of the Internet users if a finding of infringement were made.<sup>18</sup>

**Straka v. Humber River Regional Hospital**<sup>19</sup>

*Glaxo* was also followed by the Ontario Court of Appeal in *Straka*. *Straka* involved the application of Straka against his employer, Humber River Regional Hospital, for disclosure of reference letters Humber had received from Straka’s former employer. The reference letters were believed to contain negative information that had damaged Straka’s opportunity to obtain a more favourable position at Humber and he therefore required the letters to determine whether he had a cause of action against his former employer.<sup>20</sup> He believed that such litigation would be impossible without the disclosure of the information contained in the letters.<sup>21</sup>

The Court first determined that Straka had a *bona fide* claim against his former employer, but Humber submitted that the equitable bill of discovery was unavailable if an applicant seeks evidence which he or she only thinks might assist in determining whether or not a right has been infringed or a tort committed.<sup>22</sup> Humber was implying that such discovery was confined to cases where the applicant has the evidence of the legal wrong and lacks only the name of the wrongdoer.<sup>23</sup> The Court held that this was too narrow an approach and that Straka had satisfied the first part of the test.<sup>24</sup>

The Court found that Humber was not a “mere witness”<sup>25</sup> to the potential wrong and that Humber was the only practical source of information available to Straka.<sup>26</sup> Even if Straka could obtain copies of the letters in a discovery process under the *Public Hospitals Act*, he could be restrained by the implied undertaking principle from using them for the purpose for which he sought them.<sup>27</sup>

However, when considering the public interest, the Court of Appeal decided not to grant the discovery because the Court

<sup>10</sup> *Ibid.* at paragraph 58.

<sup>11</sup> *Ibid.* at paragraph 62.

<sup>12</sup> *Ibid.*

<sup>13</sup> [2005] F.C.J. No. 858 (F.C.A.) (hereinafter “*BMG*”).

<sup>14</sup> *Ibid.* at paragraph 5.

<sup>15</sup> *Ibid.* at paragraphs 31-32.

<sup>16</sup> *Ibid.* at paragraph 43.

<sup>17</sup> *Ibid.*

<sup>18</sup> *Ibid.* at paragraph 55.

<sup>19</sup> 2000 CanLII 16979 (Ont. C.A.); 51 O.R. (3d) 1 (hereinafter “*Straka*,” as cited to CanLII).

<sup>20</sup> *Ibid.* at paragraph 52.

<sup>21</sup> *Ibid.* at paragraph 10.

<sup>22</sup> *Ibid.* at paragraph 42.

<sup>23</sup> *Ibid.* at paragraph 43.

<sup>24</sup> *Ibid.* at paragraph 52.

<sup>25</sup> *Ibid.* at paragraph 40.

<sup>26</sup> *Ibid.* at paragraph 57.

<sup>27</sup> *Ibid.* at paragraph 56.

considered confidentiality vital to the methods used by hospital boards to appoint staff.<sup>28</sup>

### **Cinar Corporation v. Groia**<sup>29</sup>

In *Cinar*, Cinar Corporation (“Cinar”) sought an order for equitable discovery in Ontario of the financial and accounting records of the lawyers for various individuals and companies engaged in litigation with Cinar in Quebec (collectively the “Weinberg Parties”). Such an order was sought to trace and recover any funds paid by the lawyers to third parties, as well as to determine whether Cinar had any claim against the lawyers for distribution of any such funds in contravention of an existing injunction against the Weinberg Parties.<sup>30</sup> The Ontario Superior Court of Justice granted Cinar equitable disclosure of certain financial and accounting information from the lawyers’ trust account records.

In reaching its conclusion and in granting the relief sought, the Court addressed the three conditions set out in *Straka*, but reiterated that “the scope of equitable discovery is not yet settled.”<sup>31</sup> As in *Straka*, the identities of the third party recipients were unknown and the equitable discovery was directed to determining whether a wrong had been committed.<sup>32</sup> However, unlike *Straka*, Cinar could not point to any particular transaction or document that would determine whether there was a claim and, therefore, Cinar sought equitable discovery “on the widest definition of this remedy.”<sup>33</sup> Following *Straka*, the Court agreed that a flexible approach was appropriate in this regard and that Cinar had satisfied the first threshold requirement of having a *bona fide* claim as it had a “*bona fide* intention to bring an action against [a] party identified by the disclosure as having committed a tort or other wrong.”<sup>34</sup>

When it came to balancing the public interest for or against disclosure, the Court held “there [were] two important considerations – the public interest in the maintenance of solicitor-client privilege and the limits

placed on pre-litigation discovery.”<sup>35</sup> The Court decided to restrict the grant of equitable discovery to disclosure that would not injure any public interest invoked against such disclosure, so the Order allowed for an exception for any privileged information contained in the financial and accounting records.<sup>36</sup>

### **Isofoton S.A. v. Toronto Dominion Bank**<sup>37</sup>

On the basis of investigation results and discussions with Alternate Energy Solutions (“AES”), Isofoton believed that it had been defrauded of a \$3,240,000 deposit that had been wired to AES at the Toronto Dominion Bank. It sought a Norwich Order to discover what happened to the funds and to compel Toronto Dominion Bank to provide it with access to bank records so that Isofoton could trace and recover the funds.<sup>38</sup>

The Court considered the application of *Norwich* in England to obtain bank records in cases of alleged fraud, and also reviewed the five factors set out in *Straka* as applied in *Alberta (Treasury Branches) v. Leahy*,<sup>39</sup> which were articulated as follows:

- (i) whether the applicant has provided evidence sufficient to raise a valid, *bona fide* or reasonable claim;
- (ii) whether the applicant has established a relationship with the third party from whom the information is sought such that it establishes that the third party is somehow involved in the acts complained of;
- (iii) whether the third party is the only practicable source of the information available;
- (iv) whether the third party can be indemnified for costs to which the third party may be exposed because of the disclosure, some [authorities] refer to the associated expenses of complying with the orders, while others speak of damages; and

<sup>28</sup> *Ibid.* at paragraph 73.

<sup>29</sup> 2006 CanLII 40102 (Ont. Sup. Ct.) (hereinafter “*Cinar*”).

<sup>30</sup> *Ibid.* at paragraphs 5 and 7.

<sup>31</sup> *Ibid.* at paragraphs 15 and 16.

<sup>32</sup> *Ibid.* at paragraph 16.

<sup>33</sup> *Ibid.*

<sup>34</sup> *Ibid.* at paragraphs 16-17.

<sup>35</sup> *Ibid.* at paragraph 22.

<sup>36</sup> *Ibid.* at paragraph 23.

<sup>37</sup> 2007 CanLII 14626 (Ont. Sup. Ct.); 85 O.R. (3d) 780 (hereinafter “*Isofoton*,” as cited to CanLII).

<sup>38</sup> *Ibid.* at paragraph 3.

<sup>39</sup> [2000] AJ No. 993 (Q.B.), aff’d 2002 ABCA 101 (CanLII).

- (v) whether the interests of justice favour the obtaining of disclosure.<sup>40</sup>

The Court clarified that the standard for the first factor is that the claim must not be frivolous or vexatious, as opposed to the higher standard such as the “strong *prima facie*” case required to obtain various types of injunctions.<sup>41</sup> Such a standard was considered appropriate because the applicant does not seek to infringe the rights of the alleged wrongdoer in any significant way, but rather, seeks an opportunity to discover information that may lead to a claim.<sup>42</sup>

With respect to the second factor, the Court held that Toronto Dominion Bank was sufficiently involved to be a proper third party from which to obtain information required to determine the appropriateness of the legal proceeding.<sup>43</sup> The bank was in receipt of funds allegedly procured by fraud and, without the bank’s involvement, the wrongful receipt and possible transfer of funds could not have occurred.<sup>44</sup>

With respect to the third factor, Toronto Dominion Bank was found to be the only practicable source of the information sought by Isofoton,<sup>45</sup> as it had already unsuccessfully approached the wrongdoers for the information.<sup>46</sup> This is similar to the situation in *Cinar*, where the Weinberg Parties were first asked to produce the information and asked to participate in proceedings in Quebec respecting an Order to Declare Assets and served with the Application itself, but declined those opportunities.

With respect to the fourth factor, either “that the applicant provide an indemnity for costs, ... [or] an indemnity for damages,”<sup>47</sup> the affidavit evidence included an undertaking to indemnify any party subject to the Order for any costs of compliance, which the Court considered to be sufficient.<sup>48</sup>

With respect to the fifth factor, the Court held that the interests of justice favoured

granting the Norwich Order, as the potential prejudice arising from the granting of the Order was not sufficient to override Isofoton’s equitable right to the information that would allow it to pursue its legal remedies.<sup>49</sup>

*Isofoton* has since been followed in Ontario in *Enbridge Gas Distribution v. Toronto Dominion Bank (TD Canada Trust)*.<sup>50</sup>

## Conclusion

There is now a relatively clear test for parties to seek discovery from third parties, even before commencing litigation; to verify the extent to which they may have a claim, and against whom.

To date, the following five factors must be satisfied to obtain such discovery:

- (i) Provide evidence sufficient to raise a valid, *bona fide* or reasonable claim. This does not have to be a *prima facie* claim and can also be established by proving a *bona fide* intention to bring a claim, which is not frivolous or vexatious.
- (ii) Establish a relationship between the applicant and the third party from whom the information is sought and, in so doing, establish that the third party is somehow involved and not a “mere witness” in the wrongdoing. This can be established if the facts are such that without the third party’s involvement, the wrongful act could not have occurred.
- (iii) Establish that the third party from whom the discovery is sought is the only practicable source of the information. Note that practicable avenues do not include Access to Information/Freedom of Information Requests, use of a private investigator, or obtaining the information under an Act that contains an implied undertaking which would prevent use of the information in the anticipated future litigation.
- (iv) Establish that the third party from whom the discovery is sought will be indemnified for costs incurred as a result of complying with the Order. It appears that an undertaking to indemnify for costs, rather than for damages, will be sufficient.

<sup>40</sup> *Isofoton*, supra note 37 at paragraph 40.

<sup>41</sup> *Ibid.* at paragraph 46.

<sup>42</sup> *Ibid.* at paragraph 47.

<sup>43</sup> *Ibid.* at paragraph 50.

<sup>44</sup> *Ibid.*

<sup>45</sup> *Ibid.* at paragraph 52.

<sup>46</sup> *Ibid.* at paragraph 53.

<sup>47</sup> *Ibid.* at paragraph 54.

<sup>48</sup> *Ibid.* at paragraph 56.

<sup>49</sup> *Ibid.* at paragraphs 57 and 61.

<sup>50</sup> 2008 CanLII 13363 (Ont. Sup. Ct. [Commercial List]).

(v) Establish that the interests of justice and the public interest favour granting the discovery. If, for example, the ability to pursue the claim outweighs the protection of the identity of wrongdoers, or the information sought is not absolutely confidential or privileged, and the other four factors are satisfied, a Norwich Order will

likely be granted. Conversely, a Norwich Order will not be granted if the discovery would result in harm to the integrity of and/or public trust in an important process, such as appointment of hospital staff, or if such discovery could implicate potentially innocent parties in wrongdoing and breach their privacy rights.