

# Information & Communication Technology Law

**Lecture Title: The implications of IT Law on legal processes (II)**

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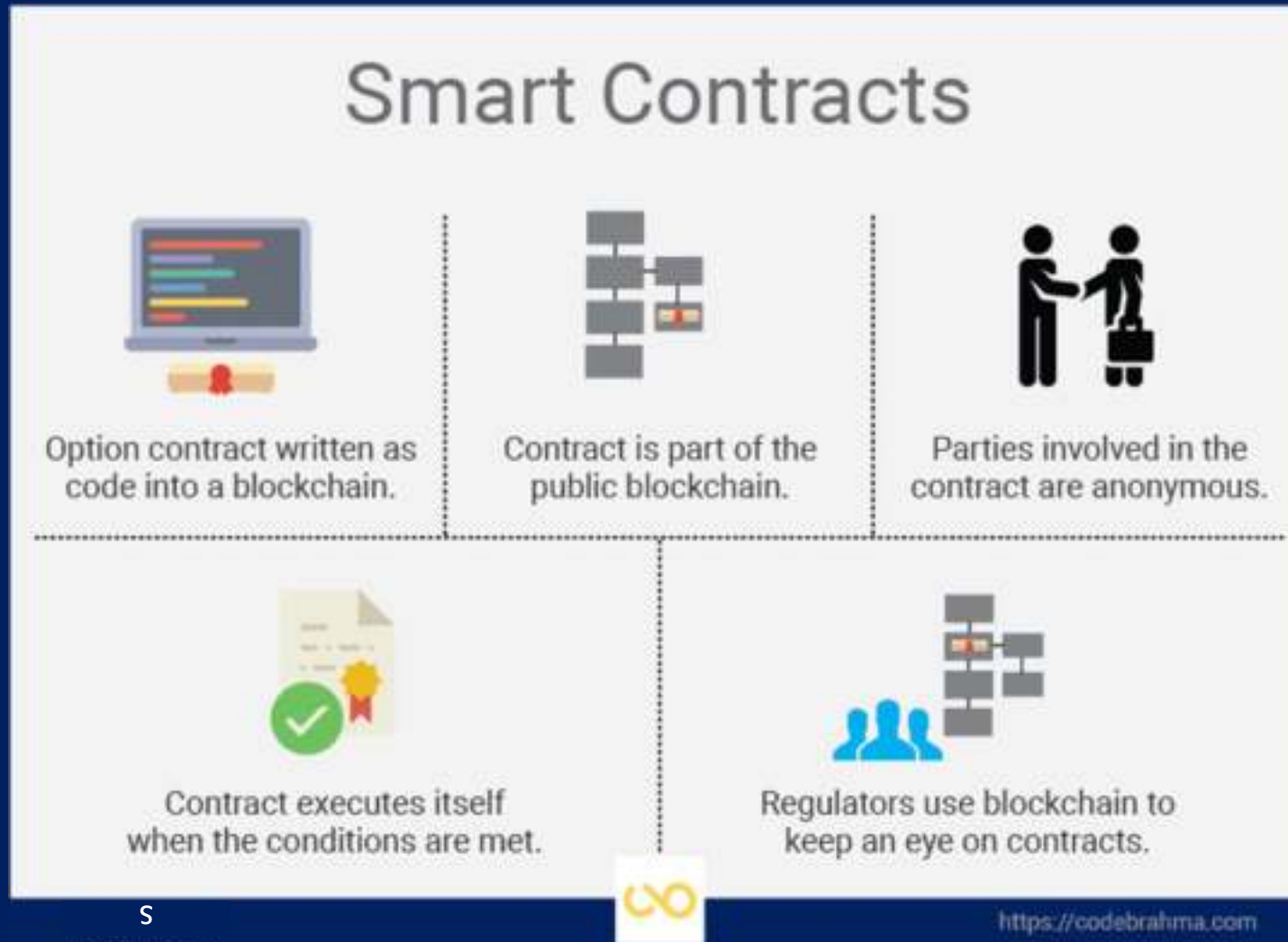
**Diploma in Law (Malta)**



# Lex Specialis

- *Lex Specialis* means 'specific law' and is derived from the Latin maxim '*lex specialis derogat legi generali*'.
- In essence, this doctrine means that sector-specific rules will prevail over more general rules, should there be a conflict in interpretation between both laws.
- For example, S.L.586.10 (Processing of Data concerning Health for Insurance Purposes Regulations) supersedes any data protection provisions that may be found in the Insurance Business Act.

# Smart Contracts



# Smart Contracts

- Nick Szabo first introduced the concept of 'smart contracts' in a peer-reviewed journal in 1997.
- He defined a smart contract as “a set of **promises**, specified in digital form, including protocols within which the parties perform on these promises”.
- Like in a physical contract, one party binds itself (promises) to perform an obligation (be it a sale or service) for the other party.
- The performance characteristics usually linked with blockchain are also directly linked to smart contracts: transparent, immutable, irrevocable, programmable, no single point of failure and time-stamped.



# Smart Contracts - Legislation

- Smart Contracts were previously captured within Chapter 592 of the Laws of Malta. This Act contemplated the certification of 'Innovative Technology Arrangements', with smart contracts falling in the definition of such arrangements.
- Other Innovative Technology Arrangements included DLTs, and it was anticipated that Artificial Intelligent Systems would also fall within its scope.
- However, Chapter 592 was repealed on 14<sup>th</sup> June 2024 through Legal Notice XIX of 2024 and we now have the Innovative Technology Arrangements and Services (ITAS) Certification Regulations (SL 591.01). Smart contracts, however, are not specifically included in scope.
- The now amended MDIA Act (Chapter 591 of the Laws of Malta) includes artificial intelligence, DLT and internet of things are considered to be Innovative Technology.



# Validity of Contracts

- The prerequisites for the validity of a contract under Maltese law are as follows:
  - Capacity to contract;
  - Consent of the parties;
  - Causa – subject matter; and
  - Lawful consideration.
- The absence of any one of these requirements will render the contract null and void in the eyes of the law.

# Issues Relating to Smart 'Contracts'

- Predominantly code-based, so not the typical form of a contract one may imagine.
- Depending on the information within the code, may not strictly adhere to the contractual requirements, therefore, would not be considered as a contract regardless of the obligations therein.
- 'Consent' may be difficult to obtain and prove.



# What are DLTs?

- Distributed ledger technologies (**DLTs**) are digital systems for recording the transaction of assets in which the transactions and their details are recorded in multiple places at the same time. Unlike traditional databases, distributed ledgers have no central data store or administration functionality.
- Previously defined as “a database system in which information is recorded, consensually shared, and synchronised across a network of multiple nodes, or any variations thereof” in the old MDIA Act. New act does not have a definition.
- While having their benefits from the technical perspective, legally speaking, DLTs face certain discrepancies within National and EU Laws.



# Virtual Financial Assets



# VFA Framework

- In tandem with the previously mentioned laws, Malta had promulgated legislation regulating virtual currencies. These were the Virtual Financial Assets Act (Chapter 590, Laws of Malta – the “VFA Act”) and the Virtual Financial Assets Regulation (S.L 590.01).
- The VFA Act set out the general legal framework regulating the issuance of DLT tokens in or from Malta, and the operation of certain DLT-related activities in Malta. It collectively refers to assets which intrinsically depend on or which utilise DLT as DLT assets.



# VFA Framework

- Being the primary legislative tool, the VFA Act set out the four categories under which DLT assets may be classified in terms of Maltese law. The Act itself regulated Virtual Financial Assets (“VFAs”), those being DLT assets that are not classified as being utility tokens, electronic money or financial instruments in terms of the Act.
- In addition, the VFA Act regulated several aspects of the DLT environment including, inter alia, initial VFA offerings, admission of VFAs to trading on DLT-based exchanges and the operation of VFA exchanges. The operation of such exchanges is restricted to entities licenced as VFA Service Providers by the MFSA under the VFA Act.



# Initial Coin Offerings

- The Financial Instruments Test must have been carried out compulsorily by the issuer and their VFA Agent, prior to the Initial Coin Offerings (“**ICO**”) on the exchange. This was the issuer (or “**Applicant**”)’s first port-of-call in obtaining a licence.
- The VFA Act stated that no person shall provide, or hold itself out as providing, a VFA service in or from within Malta unless such person is in possession of a valid licence granted under the Act by the MDIA.



# Cybersecurity

- Issuer must establish a cybersecurity framework which shall *inter alia* include:
  1. Information and data security roles and responsibilities;
  2. Access management policy;
  3. Sensitive data management policy;
  4. Threats management policy;
  5. Business continuity plan;
  6. Response and recovery plan; and
  7. Security education and training
- Naturally, the above may vary depending on the nature, scale and complexity of the Issuer's business. In any case, the framework must comply with international cybersecurity standards and be in line with the GDPR.



# IT Infrastructure

- The Issuer shall ascertain that its IT infrastructure ensures:
  - the integrity and security of any data stored therein;
  - availability, traceability and accessibility of data; and
  - privacy and confidentiality.
- The Issuer shall ensure that its IT infrastructure is located in Malta and/or any EEA member state and/or any other third country jurisdiction wherein the Authority is satisfied that the above can be satisfied.
- Where not held in Malta or located in a cloud environment, the Issuer shall ensure that data is replicated real time by virtue of a live replication server located in Malta.



# MiCA

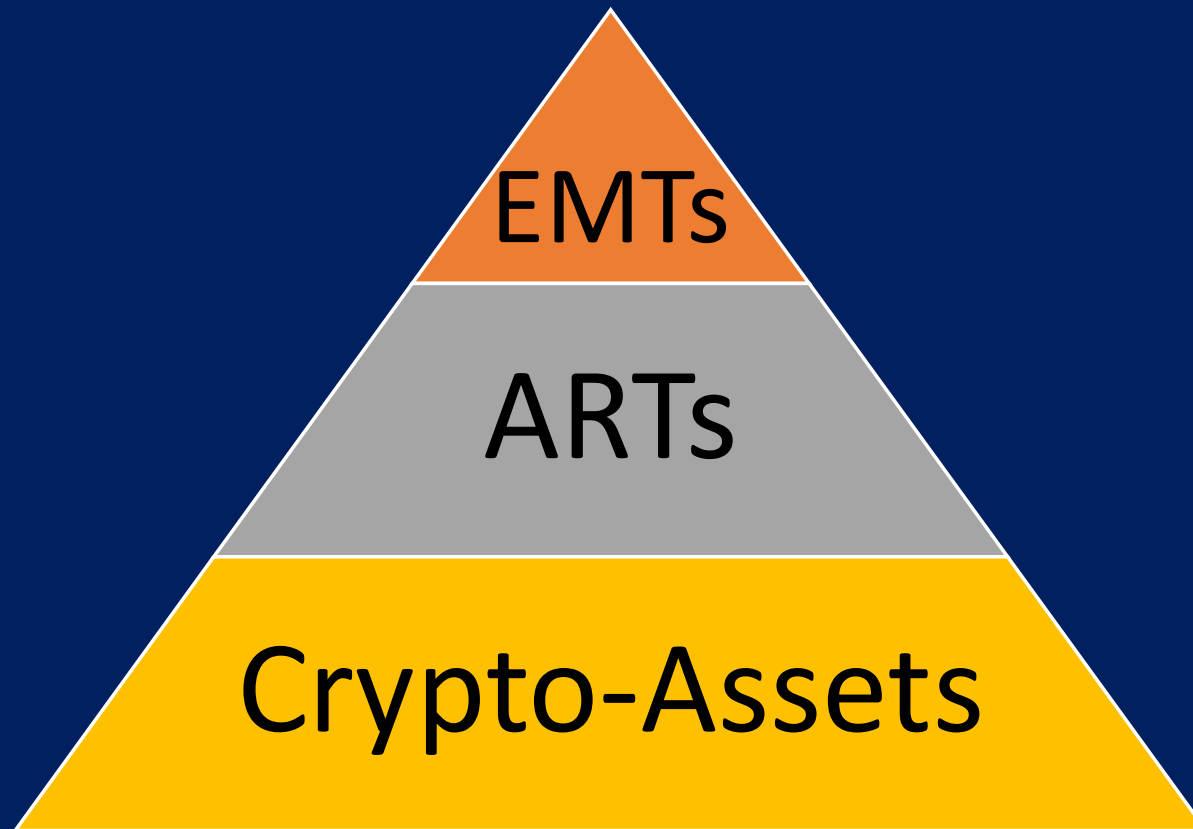
**MiCA** sets out uniform requirements for:

- i. the offer to the public and admission to trading on a trading platform of **crypto-assets other than asset-referenced tokens and e-money tokens**, of **asset-referenced tokens (“ARTs”)** and of **e-money tokens (“EMTs”)**; and
- ii. **crypto-asset service providers (“CASPs”)**.

Became applicable to issuers of asset-referenced tokens (‘ARTs’) and electronic money tokens (‘EMTs’) on 30 June 2024, and to crypto-asset service providers as of 30 December 2024.



# Key Definitions



# VFA Act and MiCA

- MiCA Act (Chapter 647) was published on 5<sup>th</sup> November 2024
- Whereas MiCA is directly applicable in all European Union Member States, the MiCA Act establishes those rules which Member States were given discretion on in terms of MiCA. In this regard, the MFSA has been established as the competent authority for the purposes of the MiCA Act, while other provisions have been included with a view to clarify the remit of the MFSA, as the Maltese competent authority, in relation to the remit of any other foreign competent authority appointed under MiCA.
- The VFA Act will cease to apply on 3 July 2026



# Artificial Intelligence



# What is 'AI'?

- The proof of concept was initialized through Allen Newell, Cliff Shaw, and Herbert Simon's *Logic Theorist*.
- The Logic Theorist was a computer program designed to mimic the problem-solving skills of a human and was funded by Research and Development (RAND) Corporation.
- It's considered by many to be the first artificial intelligence program and was presented at the Dartmouth Summer Research Project on Artificial Intelligence (DSRPAI) hosted by John McCarthy and Marvin Minsky in 1956.



# Practical uses of AI systems

- The private, transport, health, and education sectors stand to gain the most through prevalent use of AI systems, at least in the short term. In the private sector, AI becomes especially useful in conducting client due diligence assessments. AI's main strength lies within its ability to effectively recognise patterns and deduce outcomes to an effective degree of certainty.
- Researchers at the University of Malta have conducted a study into the feasibility of introducing 'driverless' vehicles in Malta using AI systems under Malta's Introduction of Shared Autonomous Mobility ("MISAM") project.



# Practical uses of AI systems

- Within the health sector, certain local companies have partnered with entities outside of Malta to enhance the electronic patient record system and to provide patients in the UK with the accessibility to set hospital appointments, reschedule or cancel them in real time.
- Within the education sector, the University of Malta and the Ministry for the Economy and Industry have partnered up with the MDIA to run three projects using AI. One of the three projects, 'Edu AI', targets children aged between 8 to 10 years of age and uses AI-powered puppets during shared reading sessions. The AI system includes language and literacy tasks and games involving speech and text recognition.

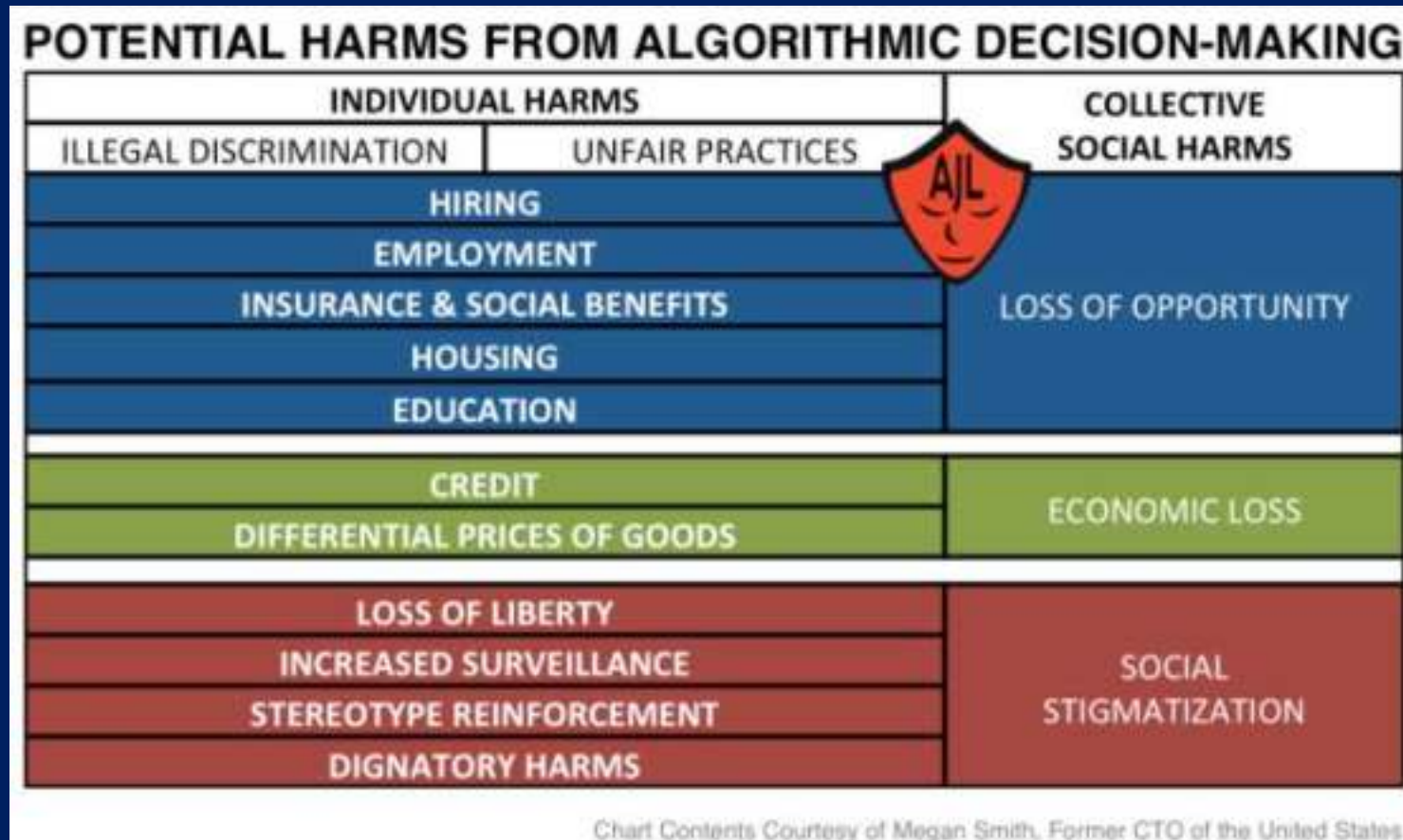


# Concerns with AI

- The main concerns with implementing AI systems is the **lack of legal certainty** surrounding such systems, as our current legislative framework does not cater for complex issues which may arise.
- Currently, AI systems bring about lacunae within Maltese Law, which does not cater for certain scenarios, such as:
  1. Discrimination and bias within the AI system;
  2. Civil Liability;
  3. Intellectual property rights; and
  4. Competition Law.



# Discrimination and Bias



# Discrimination and Bias

- A core concern with AI systems is the innate human bias of its developers which is embedded within the system per se. If one views code as an expression of the developer's self, it is not difficult to understand how such bias arises within AI systems.
- This has been identified as a major challenge related to the use of algorithms and automated decision-making. The principle of non-discrimination as enshrined in Art. 21 of the Charter of Fundamental Human Rights of the European Union is not to be taken lightly and must be at the forefront of any system.
- Potential examples of discrimination relate to candidates for job interviews, scores in creditworthiness or during trials, amongst others.



# Discrimination and Bias

- In August 2019, Malta published a draft Ethical AI Framework: 'Towards Trustworthy AI', which aims to establish a set of guiding principles and trustworthy AI governance and control practices.
- The intention is for the Malta Ethical AI Framework to support AI practitioners in identifying and managing the potential risks of AI, while also serving to identify opportunities to encode a higher ethical standard into AI.
- There is also the IEEE P7003 standard for algorithmic bias considerations which provides a development framework to avoid unintended, unjustified, and inappropriately differential outcomes for users.



# The EU's AI Act

## Artificial Intelligence

'artificial intelligence system' (AI system) means a machine-based system that is designed to operate with varying levels of autonomy and that can, for explicit or implicit objectives, generate outputs such as predictions, recommendations, or decisions, that influence physical or virtual environments;

## Scope

- Providers if AI system is put in the market\into service in the EU
- Deployers located in the EU
- Providers/deployers if output of the system is used within the EU
- Importers and distributors of AI Systems



# The EU's AI Act

## Scope - Exceptions

- This Regulation does not apply to any ***research, testing or development*** activity regarding AI systems or AI models ***prior to their being placed on the market or put into service***. Such activities shall be conducted in accordance with applicable Union law. ***Testing in real world conditions shall not be covered by that exclusion.***
- This Regulation does not apply to obligations of deployers who are ***natural persons using AI systems in the course of a purely personal non-professional activity.***



# General Principles



Human agency and oversight



Transparency



Technical robustness and safety



Diversity, non-discrimination,  
fairness

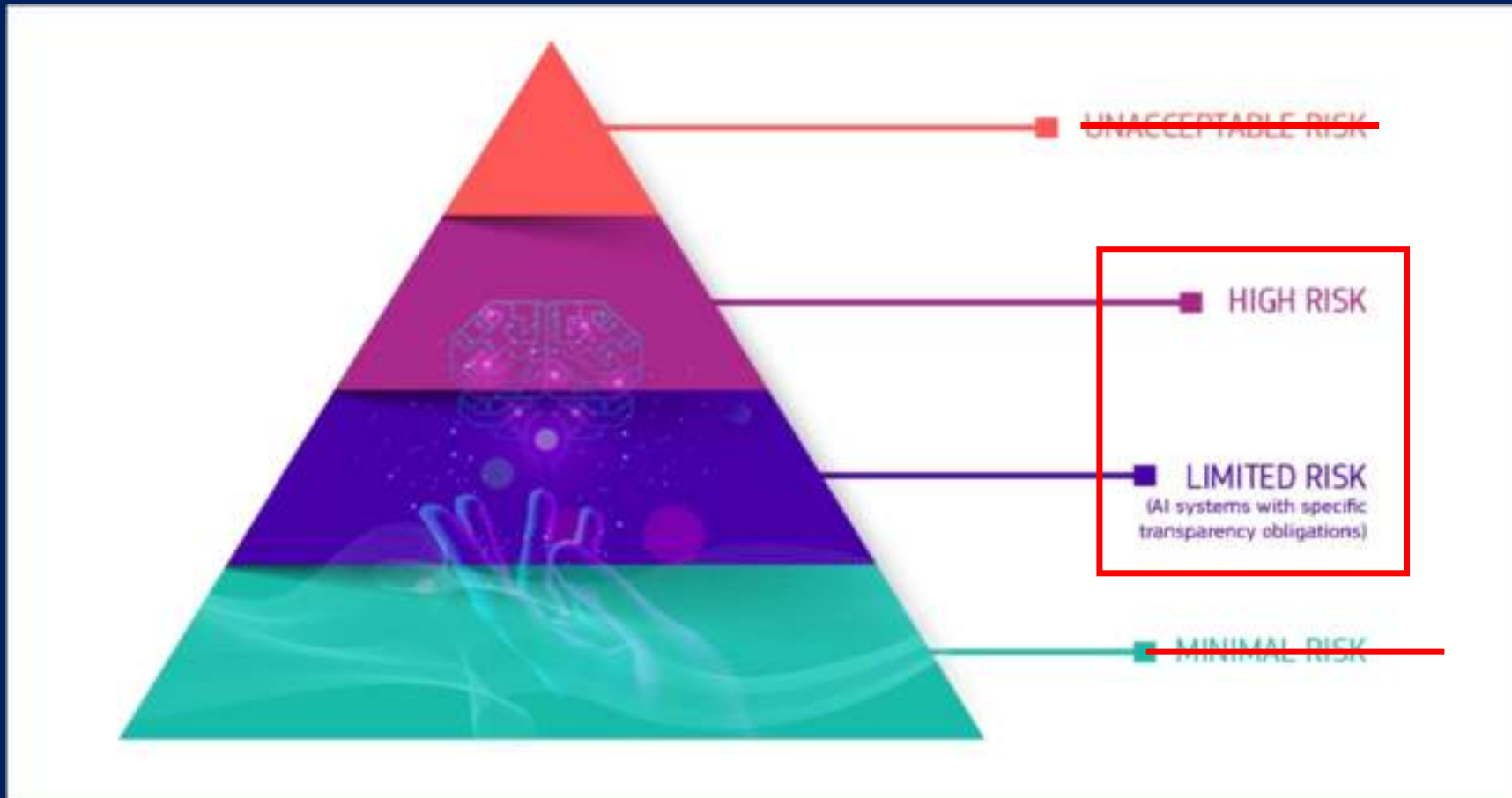


Privacy and data governance



Social and  
environmental  
well-being

# Risk Based Approach



# Unacceptable Risk – Prohibited AI Practices

The placing on the market, the putting into service or the use of an AI system:

- (a) that deploys subliminal techniques beyond a person's consciousness or purposefully manipulative or deceptive techniques, with the objective, or the effect of materially distorting the behaviour of a person or a group of persons by appreciably impairing their ability to make an informed decision, thereby causing them to take a decision that they would not have otherwise taken in a manner that causes or is reasonably likely to cause that person, another person or group of persons significant harm;
- (b) that exploits any of the vulnerabilities of a natural person or a specific group of persons due to their age, disability or a specific social or economic situation, with the objective, or the effect, of materially distorting the behaviour of that person or a person belonging to that group in a manner that causes or is reasonably likely to cause that person or another person significant harm;
- (c) for the evaluation or classification of natural persons or groups of persons over a certain period of time based on their social behaviour or known, inferred or predicted personal or personality characteristics, with the social score leading to either or both of the following:
  - (i) detrimental or unfavourable treatment of certain natural persons or groups of persons in social contexts that are unrelated to the contexts in which the data was originally generated or collected;
  - (ii) detrimental or unfavourable treatment of certain natural persons or groups of persons that is unjustified or disproportionate to their social behaviour or its gravity;
- (d) for making risk assessments of natural persons in order to assess or predict the risk of a natural person committing a criminal offence, based solely on the profiling of a natural person or on assessing their personality traits and characteristics; this prohibition shall not apply to AI systems used to support the human assessment of the involvement of a person in a criminal activity, which is already based on objective and verifiable facts directly linked to a criminal activity;



# Unacceptable Risk – Prohibited AI Practices

(e) that create or expand facial recognition databases through the untargeted scraping of facial images from the internet or CCTV footage;

(f) to infer emotions of a natural person in the areas of workplace and education institutions, except where the use of the AI system is intended to be put in place or into the market for medical or safety reasons;

(g) or the use of biometric categorisation systems that categorise individually natural persons based on their biometric data to deduce or infer their race, political opinions, trade union membership, religious or philosophical beliefs, sex life or sexual orientation; this prohibition does not cover any labelling or filtering of lawfully acquired biometric datasets, such as images, based on biometric data or categorizing of biometric data in the area of law enforcement;

The use of 'real-time' remote biometric identification systems in publicly accessible spaces for the purposes of law enforcement, unless and in so far as such use is strictly necessary for one of the following objectives:

(i) the targeted search for specific victims of abduction, trafficking in human beings or sexual exploitation of human beings, as well as the search for missing persons;

(ii) the prevention of a specific, substantial and imminent threat to the life or physical safety of natural persons or a genuine and present or genuine and foreseeable threat of a terrorist attack;

(iii) the localisation or identification of a person suspected of having committed a criminal offence, for the purpose of conducting a criminal investigation or prosecution or executing a criminal penalty for offences referred to in Annex II and punishable in the Member State concerned by a custodial sentence or a detention order for a maximum period of at least four years.



# High-risk AI Systems

Irrespective of whether an AI system is placed on the market or put into service independently of the products referred to in points (a) and (b), that AI system shall be considered to be high-risk where both of the following conditions are fulfilled:

- (a) the AI system is intended to be used as a safety component of a product, or the AI system is itself a product, covered by the Union harmonisation legislation listed in Annex I;
- (b) the product whose safety component pursuant to point (a) is the AI system, or the AI system itself as a product, is required to undergo a third-party conformity assessment, with a view to the placing on the market or the putting into service of that product pursuant to the Union harmonisation legislation listed in Annex I.

2. In addition to the high-risk AI systems referred to in paragraph 1, AI systems referred to in Annex III shall be considered to be high-risk.



# High-risk AI Systems

**Annex I:** Machinery, safety of toys, lifts, radio equipment etc

**Annex III:** AI systems listed in any of the following areas:

1. Biometrics, in so far as their use is permitted under relevant Union or national law
2. Critical infrastructure: AI systems intended to be used as safety components in the management and operation of critical digital infrastructure, road traffic, or in the supply of water, gas, heating or electricity.
3. Education and vocational training
4. Employment, workers' management and access to self-employment
5. Access to and enjoyment of essential private services and essential public services and benefits
6. Law enforcement, insofar as their use is permitted under relevant Union or national law.



# High-risk systems – General Requirements

- **Transparency:** High-risk AI systems must be designed and developed to ensure that the system is sufficiently transparent to enable users to interpret its output and use it appropriately;
- **Human oversight:** High-risk AI systems must be designed and developed in such a way that there is human oversight of the system, aimed at minimising risks to health, safety and fundamental rights;
- **Risk management system:** A risk management system must be established and maintained throughout the lifetime of the system to identify and analyse risks and adopt suitable risk management measures;



# High-risk systems – General Requirements

- **Training and testing:** Data sets used to support training, validation and testing must be subject to appropriate data governance and management practices and must be relevant, representative, accurate and complete;
- **Technical documentation:** Complete technical documentation that demonstrates compliance with the AI Regulation must be in place before the AI system is placed on the market and must be maintained throughout the lifecycle of the system; and
- **Security:** A high level of accuracy, robustness and security must consistently be ensured throughout the lifecycle of the high-risk AI system.



# High-risk systems – Specific Requirements

- **Compliance** with the general requirements;
- **Registration:** Register the AI system in the EU AI database to be managed by the European Commission;
- **Conformity assessment:** Ensure the system undergoes the relevant conformity assessment procedure;
- **Corrective action and notification:** Immediately take corrective action to address any suspected non-conformity and notify relevant authorities of such non-conformity;



# High-risk systems – Specific Requirements

- **Quality management system:** Implement a quality management system, including a strategy for regulatory compliance, and procedures for design, testing, validation, data management, and record-keeping;
- **Post-market monitoring:** Implement and maintain a post-market monitoring system, by collecting and analysing data about the performance of the high-risk AI system throughout the system's lifetime.
- Monitoring obligations include reporting any serious incident or any malfunctioning of the AI system, which would constitute a breach of obligations under EU laws intended to protect fundamental rights.



# High-risk systems – User Requirements

- Use the systems in accordance with the instructions of the provider and implement all technical and organisational measures stipulated by the provider to address the risks of using the high-risk AI system;
- Ensure all input data is relevant to the intended purpose;
- Monitor operation of the system and notify the provider about serious incidents and malfunctioning; and
- Maintain logs automatically generated by the high-risk AI system, where those logs are within the control of the user.



# Non High-Risk Systems

- AI systems which do not qualify as prohibited or high-risk AI systems are not subject to any specific requirements.
- **Limited** risk AI-systems are subject to transparency obligations, particularly if they are intended to interact with people, such as chatbots.
- All other **minimal** risk AI systems can be developed and used subject to existing legislation without additional legal obligations.

# General-purpose AI Models



A general-purpose AI model shall be classified as a general-purpose AI model **with systemic risk** if it meets **any** of the following conditions:

- (a) it has high impact capabilities evaluated on the basis of appropriate technical tools and methodologies, including indicators and benchmarks;
- (b) based on a decision of the Commission, ex officio or following a qualified alert from the scientific panel, it has capabilities or an impact equivalent to those set out in point (a) having regard to the criteria set out in Annex XIII.

A general-purpose AI model shall be presumed to have high impact capabilities pursuant to paragraph 1, point (a), when the cumulative amount of computation used for its training measured in floating point operations is greater than 10.

3. The Commission shall adopt delegated acts in accordance with Article 97 to amend the thresholds listed in paragraphs 1 and 2 of this Article, as well as to supplement benchmarks and indicators in light of evolving technological developments, such as algorithmic improvements or increased hardware efficiency, when necessary, for these thresholds to reflect the state of the art.

# General-purpose AI Models

For the purpose of determining that a general-purpose AI model has capabilities or an impact equivalent to those set out in Article 51(1), point (a), the Commission shall take into account the following criteria:

- (a) the number of parameters of the model;
- (b) the quality or size of the data set, for example measured through tokens;
- (c) the amount of computation used for training the model, measured in floating point operations or indicated by a combination of other variables such as estimated cost of training, estimated time required for the training, or estimated energy consumption for the training;
- (d) the input and output modalities of the model, such as text to text (large language models), text to image, multi-modality, and the state of the art thresholds for determining high-impact capabilities for each modality, and the specific type of inputs and outputs (e.g. biological sequences);
- (e) the benchmarks and evaluations of capabilities of the model, including considering the number of tasks without additional training, adaptability to learn new, distinct tasks, its level of autonomy and scalability, the tools it has access to;
- (f) whether it has a high impact on the internal market due to its reach, which shall be presumed when it has been made available to at least 10 000 registered business users established in the Union;
- (g) the number of registered end-users.



# Enforcement

- Member States must designate **national competent authorities** and a national supervisory authority responsible for providing guidance and advice on the AI Regulation. The MDIA and the IDPC are the competent authorities in Malta.
- The Regulation provides for the establishment the European Artificial Intelligence Board (“**EAIB**”), to advise and assist the Commission in connection with the AI Regulation.
- The EAIB facilitate cooperation between the national supervisory authorities and the Commission, coordinate and contribute to guidance by the Commission and assist the national supervisory authorities and tshe Commission to ensure consistent application of the Regulation.



# Sanctions

- Infringement of the AI Regulation is subject to financial sanctions. Most severe sanction is €35,000,000 or 7% of total annual worldwide turnover, whichever is the higher.
- The level of fine imposed depends on the nature of the infringement, granting a degree of discretion to the supervisory authority in handing out sanctions.



# Applicability

It shall apply from 2 August 2026.

However:

(a) Chapters I (General Provisions) and II (Prohibited AI Practices) shall apply from 2 February 2025;

(b) Chapter III Section 4 (Notifying Authorities), Chapter V (General Purpose AI), Chapter VII (Governance) and Chapter XII (Penalties) and Article 78 (Confidentiality) shall apply from 2 August 2025, with the exception of Article 101 (Fines for providers of General-Purpose AI Models);

(c) Article 6(1) (High-Risk AI) and the corresponding obligations in this Regulation shall apply from 2 August 2027.



# Civil Liability

- Maltese legislation does not currently provide for non-contractual liability for damages caused by AI or other alternative digital technologies.
- In lieu of this, one must fall back on the provisions of the Civil Code (Chapter 16 of the Laws of Malta) to determine liability from a traditional tort-based perspective.
- Therein, article 1031 establishes the principle that every person is liable for damages caused through their own fault. The standard of proof in determining such fault is that of the bonus paterfamilias (“reasonable man”).



# Civil Liability

- It would appear that the developer of an AI system would be deemed to be the legal person against whom claims for damages may be brought.
- This thinking would currently apply to damages arising both as a result of the use of the AI system itself, as well as the reliance on any of the outcomes of that system, even if such outcomes arose from the system's own processes.
- This is because ultimately, it is the developer who implemented the system's 'cognition'. When coupled with the concept of the bonus paterfamilias, this entails that the developer should be liable for not implementing appropriate 'fail-safes' or be found liable for producing a defective product.
- This would also suffice for the sake of practicality. A natural person would not be able to seek legal redress against an AI system, unless a separate legal personality is attributed to it, or some form of agency status is recognised, as a minimum.



# Civil Liability

- This standard is evident within article 1032 of the Civil Code, which provides that a person is deemed to be at fault where they fail to exercise the attention, diligence and prudence of a “reasonable man”. The extent of reasonableness is only determined by the Courts, which must exercise discretion in their determination.
- Moreover, article 1033 of the Civil Code further provides that any person who with or without intention to injure, voluntarily or through negligence, imprudence, or want of attention, is guilty of an act or omission which breaches the duty of care as imposed by law, will be liable for any damage resulting from their negligence.
- This begs the question as to whether, if an AI system acts of ‘its own’ volition and through no prior instructions of the developer, the owner would be indirectly liable for creating a system which gives rises to the damage.

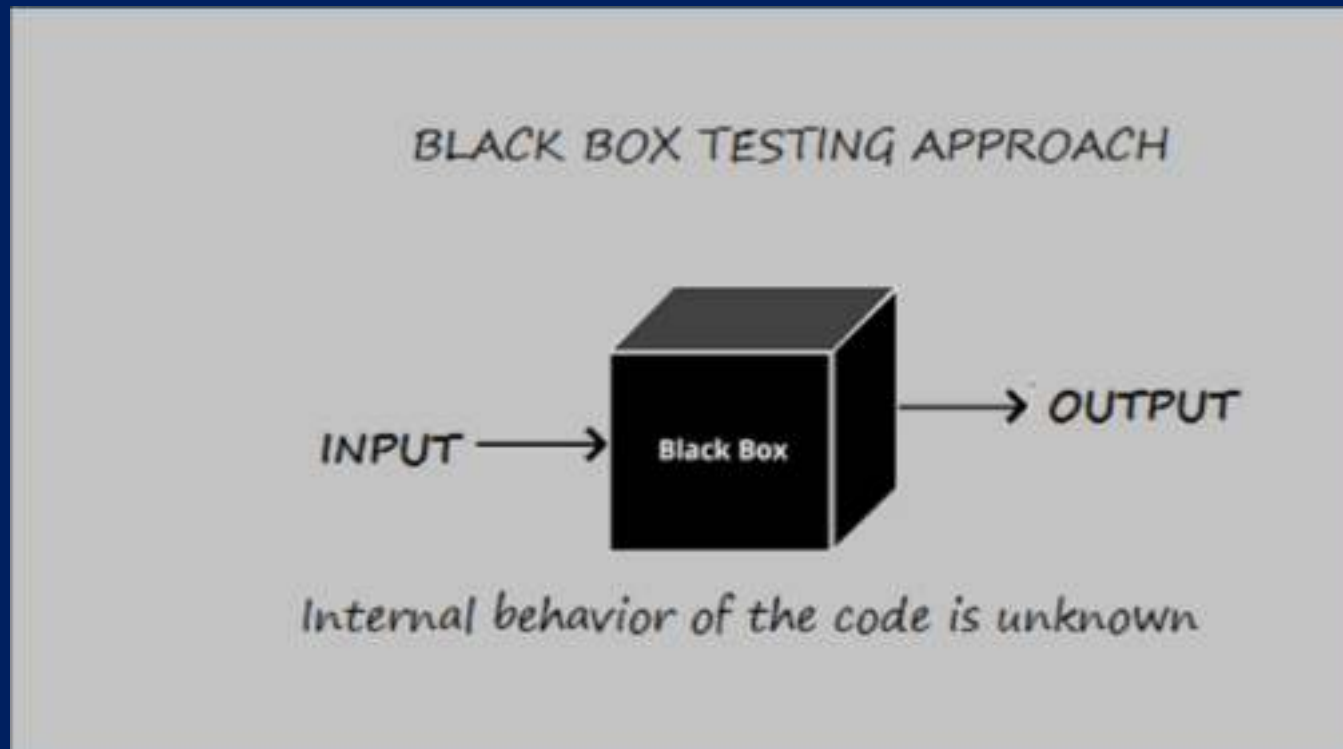


# The Product Liability Directive

- Council Directive 85/374/EEC of 25 July 1985 on the approximation of the laws, regulations and administrative provisions of the Member States concerning liability for defective products and the Consumer Affairs Act (Chapter 378 of the Laws of Malta) and its subsidiary legislation.
- It is evident that current liability rules do not fit 'black-box' systems such as AI, which results in a number of legal complexities, particularly when it comes to proving any defects and the causal link between such defects and the damage incurred.
- The EU Product Liability Directive is being revised, with the aim of a new Directive covering all products and adapting to the rules of the digital age and the circular economy.



# Intellectual Property Rights



# Competition Law Concerns

- Big data in combination with AI has not changed the basic tenets of competition law. However, under certain circumstances, the two feature as a contributing factor to competition concerns, including:
  1. increasing market power and facilitating exploitative or exclusionary practices by dominant firms;
  2. facilitating collusion; and
  3. merger control issues.
- Determining any alleged illegality depends on the factual context of each case and the legislative framework in the particular jurisdiction.
- Maltese (and EU) courts are yet to decide on such matters.



# Algorithmic Pricing

- One relevant issue faced in the competition sector, for example, is that of algorithmic pricing, wherein an AI system utilizes 'big data-sets' and machine learning techniques to automatically re-calibrate prices based on internal or external factors. These include supply and demand variables, competitor's prices, or external market data (which is typically purchased by the respective undertaking).
- Algorithmic pricing is not deemed illegal per se where the information is obtained legitimately, and if the AI system was developed independently. Should, however, the system be a result of collusion or collaboration between competing undertakings to set prices then regardless of whether the price setting was conducted orally, through correspondence or through algorithms, the basic tenets of Maltese / EU competition law remain true in an online environment as well, including that prohibiting the setting of unlawful pricing among competitors.

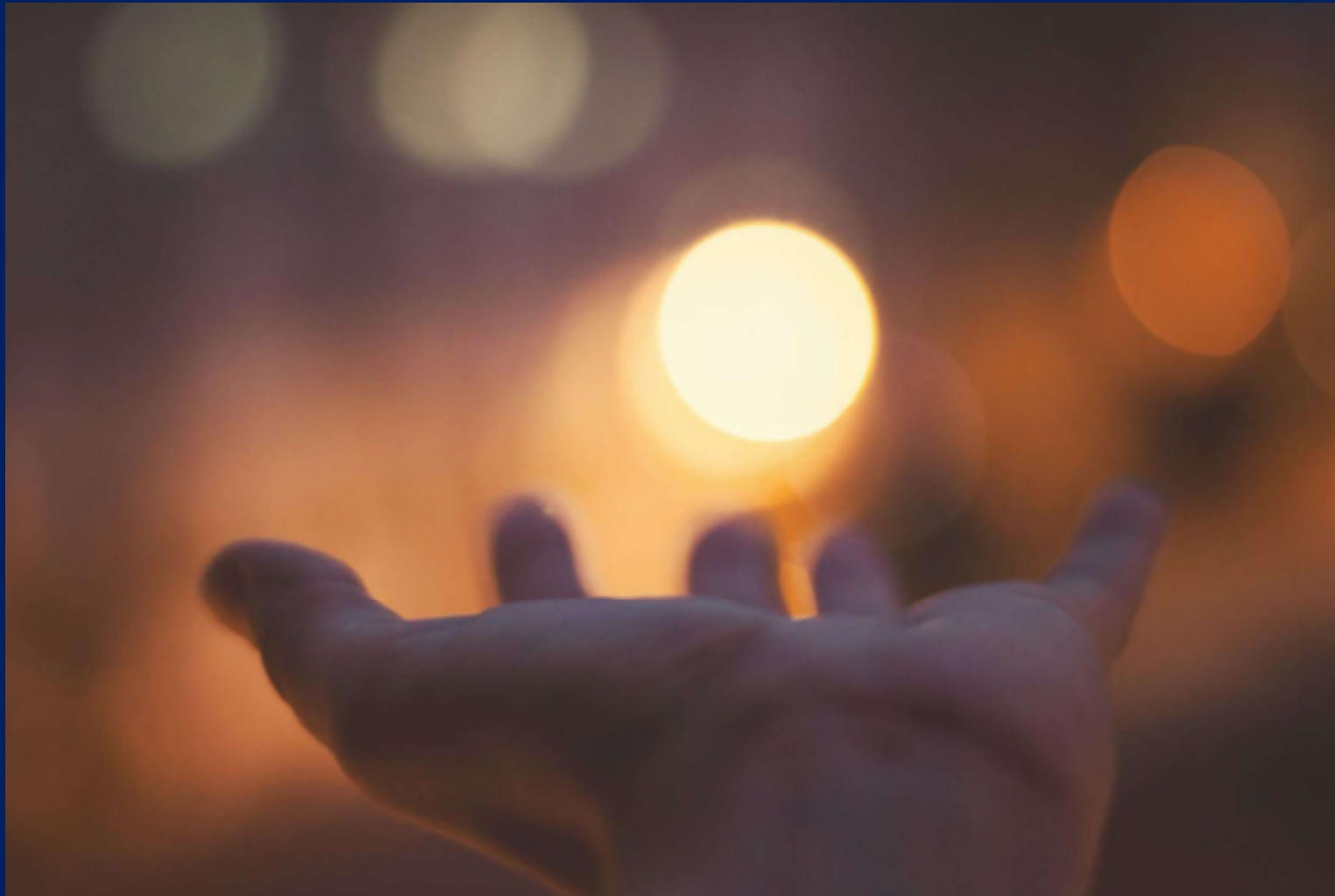


# Questions

- How does the EU regulate AI systems?
- What are the different levels of risk associated with AI systems?
- What are the main risks associated with AI systems? How can these be mitigated?



# Intellectual Property



# Intellectual Property - General

- Intellectual property (“IP”) refers to intangible assets that are products of the mind. IP assets are not physical in nature. Rather, they are the ideas, knowledge and creativity that go into making a product, service, process or business.
- IP is incredibly valuable for businesses as it gives them a competitive edge. Therefore, organizations protect intellectual property assets with legal safeguards.
- Having legal protection over one’s IP means that the proprietor has certain rights which:
  1. Can be treated as property;
  2. Allow the proprietor to control the use of their IP;
  3. Amounts to a specified type of intangible asset;
  4. Can be enforced by civil, commercial and competition law.



# Copyright – Applicable Legislation

- In so far as copyright is concerned, the relevant legislation is as follows:
  - The Copyright Act (**Cap 415**);
  - **S.L 415.01** on Control for the Establishment and Operations of Societies for the Collective Administration of Copyright,
  - **S.L 415.02** on Revival of Rights and Neighbouring Rights and the Exhaustion of Distribution Rights;
  - **S.L 415.03** on Artists' Resale Rights;
  - **S.L 415.08** on Copyright and related rights in the Digital Single Market Regulations.
- In 2009, Malta also acceded to the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty.



# Copyright - General

- Copyright (or author's right) is a legal term used to describe the rights that creators have over their literary and artistic works.
- Works covered by copyright range from books, music, paintings, sculpture, and films, to computer programs, databases, advertisements, maps, and technical drawings.
- In the majority of countries, and according to the Berne Convention, copyright protection is obtained automatically without the need for registration or other formalities. That said, having voluntary registration systems can help solve disputes over ownership or creation, as well as facilitate financial transactions, sales, and the assignment and/or transfer of rights.



# Copyright - Rights

- There are two types of rights under copyright:
  1. **economic rights**, which allow the rights owner to derive financial reward from the use of their works by others; and
  2. **moral rights**, which protect the non-economic interests of the author.
- This protection remains valid for a period of **70** years after the end of the year in which the author dies, irrespective of the date when the work is lawfully made available to the public.
- In the case of performers, such protection generally expires **50** years from the publication of the performance.



# Copyright - Rights

- Such rights include the right of the author to authorise and prevent third parties from reproducing the entirety (or a substantial part of) the protected work. Another of such rights includes the right to alter, adapt, distribute, or communicate the work to the public. Hence, the main protection is that of protecting the author against the commercial exploitation of the copyrighted work, without prior approval.
- Protection arises automatically once a work which is eligible for copyright is created. This hinges upon the essential elements of copyright coexisting, which require the work in question to be:
  1. a work eligible for copyright protection;
  2. original in character; and
  3. certain works must also be reduced to writing.

Seeing as there is no need to register copyrighted work for the author to benefit from such protection, there is currently no register available locally to register copyrighted works.



# Copyright - Rights

- There is no such thing as an international copyright since copyright protection is a territorial concept. This means that each country regulates copyrights according to their own set of local regulations.
- In other words, if an IPR is recognised in Malta, this does not necessarily mean that such an IPR would be recognised in any other jurisdiction.
- Although there are international efforts to set minimum standards for copyright and patent protection, the different requirements in national laws can present a challenge for global organisations.



# Copyright in Software

- The Copyright Act provides protection to computer programs as a literary work, as per Directive 2009/24/EC (the “Software Directive”).
- Therefore, software copyright is protection granted over the source codes and/ or object code which enables a computer to perform a specific task.
- As copyright protects the original work, any software which is an original creation of the programmer, is eligible for Copyright protection.



# Source Code vs. Object Code

- Source code represents an original code of a program written in a particular programming language. The source-code is independent of the platform so that it does not refer to certain types of processors or operating system. Access to the source code allows understanding of the techniques and the programming technology.
- Object code is expressed in binary form, meaning a series of zeroes and ones, and is the compilation of the source code through a compiler.
- A part of these elements, such as the formulae included in the source code, the implemented algorithms, the architecture of the information system or the database structure, may be protected by both copyright and trade secret, as long as it has economic value and retains secret character.



# The Database Directive

- Directive 96/9/EC on the legal protection of databases (the “**Database Directive**”) provides for two different form of protection:
  - That based on copyright, which extends to databases “by reason of the selection or arrangement of their contents, constituting the author's own intellectual creation”; and
  - *Sui generis* rights over the database *per se* since making such databases requires “the investment of considerable human, technical and financial resources” (Recital 7 of the Directive).
- Note that the former does not extend to the content of the database itself while the latter prohibits the extraction and re-use of substantial part of the contents of the database.
- To be awarded protection under the Database Directive, the makers of the database must show that there was a substantial investment in obtaining, verifying or presenting the contents of a database.



# The Database Directive

- Rights holders may only stop data from being extracted from databases or reused when the conduct they are complaining of affects their investment in obtaining, verifying or presenting the information that makes up databases.
- AG Szpunar (Attorney General of the Court of Justice of the European Union) opines that there must be:
  1. A balance of interests of the database operators with those of content aggregators and users of content aggregation services; and
  2. Preventing database rights being used to exclude others from the same market as those in which the database right holder operates in.
- The aim of this opinion is not to afford protection against all competition, but rather, to avoid commercial parasitism.



# Patents

- Patents are governed by the Patents and Designs Act (Cap 417) and are a form of IP which confer upon the inventor exclusive rights over the subject-matter within the patent application.
- The protection granted hinges upon the valid registration of the patent within the register of patents kept under the Patents and Designs Act (unlike copyright). It should be noted that the register contains national patents and information related to European patents validated in Malta.
- Patent protection may be conferred over a product or a process. Accordingly, protection is conferred over the inventive idea which may be embodied within a product or process, not the actual product or process *per se*.
- Entitles the inventor to an exclusive right over his invention, which is essentially deemed to be a product or process which is employed in an innovative manner or which offers a new technical solution to a problem.
- The term of a patent is (20) years from the filing date of the application.



# Patents

- Under the Act, inventions are patentable in Malta if they:
  1. Are novel (not forming part of the prior art);
  2. Involve an inventive step; and
  3. Are susceptible to industrial applications.
- However, not all forms of inventions are eligible for patent protection. The following are all excluded from the scope of patent eligibility:
  - a. Discoveries, scientific theories and mathematical methods;
  - b. Aesthetic creations;
  - c. Presentations of information;
  - d. Rules, and methodologies for performing mental acts, playing games or doing business; and
  - e. computer programs.



# Issues with Software Patentability

- Maltese law does not protect computer programs and technically, they shall not be considered as inventions and are thus not eligible for patent protection.
- That said, the exclusion within Art. 4(3) “shall exclude the patentability of the subject matter or activities... only to the extent to which a patent application or patent relates to such subject matter or activities **as such**”.
- The European Patents Office (“EPO”) has considered various jurisprudence in determining the benchmark for software to be considered as patentable.



# Jurisprudence - Vicom

- Vicom (T 0208/84) is an early (1986) legal decision which helped define the EPO's approach to software inventions in the 1980s and 1990s. In this decision, it was stated that: "Decisive is what technical contribution the invention as defined in the claim when considered as a whole makes to the known art." (T 208/84, Reasons 16)
- If a claimed invention makes a technical contribution that goes beyond the exclusions to patent eligibility, then the exclusions to patent eligibility are avoided.
- This approach was followed by the EPO and led to a large volume of case law concerning what can be considered to be "technical", much of which is still relevant today.



# Jurisprudence – Comvik and Hitachi

- Through Comvik (T641/00) and Hitachi (T258/03), EPO case law began to evolve away from the “technical contribution” approach of Vicom, into what became known as the ‘Comvik approach’:
  1. Differentiate between features having technical character (“technical” features) and features lacking technical character (“non-technical” features);
  2. If the claim includes any technical features, the patent eligibility exclusions are avoided;
  3. Assess the inventive step of technical features using the EPO’s ‘problem-and-solution approach’, whilst allowing non-technical features to be incorporated into the technical problem that is to be solved.



# Jurisprudence – Comvik and Hitachi

- The assessments of patent eligibility and inventive step are tightly coupled together. The non-technical features are considered to be part of the prior art, and can be used to attack the inventive step of the remaining technical features.
- This is a dramatic shift away from the Vicom approach, but means that patent eligibility and inventive step analyses are based on the same set of technical features.



# Differences between the Comvik and Vicom approaches

- Under Vicom, the assessment of patent eligibility and inventive step were performed separately, allowing a gap to exist between the set of claimed features used as the basis for arguing that the invention provides a “technical contribution”, and the set of claimed features used as the basis for arguing inventive step.
- Under Comvik, patent eligibility and inventive step are argued based on the same set of technical features:
  - ☐ What claimed features can be considered technical; and
  - ☐ can those technical features be considered non-obvious to a skilled person armed, not only with the prior art, but also with knowledge of any “non-technical” features of the claim.



# Technical Character

- In order to have a technical character, and thus not be excluded from patentability, a computer program must produce a "further technical effect" when run on a computer.
- A "further technical effect" is a technical effect going beyond the "normal" physical interactions between the program (software) and the computer (hardware) on which it is run.
- The normal physical effects of the execution of a program, e.g. the circulation of electrical currents in the computer, are not in themselves sufficient to confer technical character to a computer program

# Domain Names

- Domain names are registered at a domain name registrar. The process usually takes three to four days from application to access the domain. Part of the process requires a physical signature on a document sent by the Maltese Network Information Centre, which needs to be sent back before it is processed.
- The registrars ensure that the requested domain name is available and, if so, match the domain name with an IP address. The registrant can use the domain name for as long as the renewal fee is paid to the registrar and as long as the registration of the domain name does not infringe the rights of others.
- Anyone can own an ".mt" domain and there is no need for the applicant to be established in Malta. The applicant must declare the right to use the domain name, ideally via a trade mark or a business name.



# Protecting One's Domain – Cease & Desist

- Sending a formal 'Cease and Desist' letter to the Website's owner as a first step. In practice, it is typical for Cease and Desist letters to be circulated to the alleged infringer before any further action is taken in order to give the recipient fair notice of the proceedings which may be filed against them and to give the recipients time to regularise their position.
- The Cease and Desist letter would essentially assert that the Website infringes the domain holder's registered trademarks and its registered domain name, and that the use and operation of this Website constitutes passing off in terms of article 32 of the Commercial Code and article 6bis of the Paris Convention.
- Letter should be sent to the operator of the Website as well as the registrant. Following the implementation of the GDPR, the Register no longer displays contact details of the persons behind the websites and this means that it can be difficult to find contact details which we could use to send out such legal letters.



# Protecting One's Domain – UDRP

- The Uniform Domain Name Dispute Resolution Policy (“UDRP”) involves arbitration to resolve disputes concerning the abusive registration of the domain name and where successful, the domain name in question may be cancelled or transferred to the complainant. An abusive registration is one where:
  1. The domain name is identical or confusingly similar to the complainant's trademark;
  2. The registrant has no rights or legitimate interests in the trademark;
  3. The registration has been made and is being used in bad faith.
- Model Complaint Form to be sent via e-mail to [domain.disputes@wipo.int](mailto:domain.disputes@wipo.int).
- Once a complaint is filed, the WIPO Centre requests the concerned registrar to “lock” the disputed domain name so that the domain name will not be transferred to another registrant during the UDRP proceeding. Within two business days of receiving the Centre's request, the registrar must confirm that a lock has been applied and that the disputed domain name will remain locked during the pendency of the UDRP proceeding.
- The required payment should be made to the WIPO along with the submission of the complaint. Depending on whether 1 or 3 Panellists were chosen to assist in the procedure, the administrative fees vary from \$ 1,500 to \$ 4,000, respectively.



# Trademarks

- A trademark is any sign capable of being represented graphically and of distinguishing the goods and services of one undertaking from those of another. It may consist of words, figurative elements, letters, numerals or the shape of goods or their packaging.
- Trademark registration offers the following benefits, such as prohibiting:
  - the use of an identical or similar sign in the course of trade in relation to similar or identical goods or services; and
  - the use of an identical or similar sign in the course of trade where the goods or services are not similar, but the trademark has a reputation in Malta and such use take unfair advantage of or is detrimental to the distinctive character or the repute of the trademark.
- Trademark registration covers the classes of goods and/or services (under the Nice Classification) designated in the application.



# Trademarks

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- A trademark will not be registered if:
  - It lacks distinctive character;
  - It is made up entirely of signs/indications which may serve, in trade, to designate the kind, quality, intended purpose, value, geographical origin, time of production of goods or rendering of services, or other characteristics of goods or services;
  - It consists entirely of signs or indications which have become customary in the current language or in the bona fide and established practices of trade;
  - Its shape results from the nature or shape of the goods themselves and said shape gives substantial value to the goods;
  - It is contrary to public policy or morality;
  - It is of such a nature as to deceive the public as to the nature, quality or geographical origin of the goods/services;
  - Its use is prohibited in Malta by any law;
  - It consists of or contains any signs, arms, armorial bearings or flags; or
  - It is made in bad faith.



# Intellectual Property - Summary

|                               | Trademarks                                                                                                                   | Copyright                                                                                                                                                                              | Patent                                                                                                                                        | Designs                                                                                      |
|-------------------------------|------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| Example                       | Logos                                                                                                                        | Computer programs                                                                                                                                                                      | Inventions                                                                                                                                    | The shape of a Coca-cola bottle                                                              |
| Registerable?                 | Yes                                                                                                                          | No                                                                                                                                                                                     | Yes                                                                                                                                           | Yes                                                                                          |
| Requirements for Registration | List of Goods and Services                                                                                                   | N/A                                                                                                                                                                                    | Completed patent application                                                                                                                  | Completed Design application form                                                            |
| Term of Protection (Malta)    | 10 years from the date of filing of the application with the possibility of renewing protection for further 10 year periods. | For works other than audio-visual works, 70 years after the end of the year in which the author dies, irrespective of the date when the work is lawfully made available to the public. | The term of a patent shall be 20 years from the filing date of the application.                                                               | 5 years with the possibility of renewing such registration for a maximum period of 25 years. |
| Fees for Registration         | €115 per class per mark (Malta)                                                                                              | N/A                                                                                                                                                                                    | Application is subject to the payment of a filing fee amounting to €58.23 and a further €58.23 shall become due upon the grant of the patent. | €46.59                                                                                       |

# Intellectual Property Rights & AI

- Code is predominantly based on arithmetic expression. Hence, AI (being code for the most part) is protected through the Maltese Copyright Act (Chapter 415 of the Laws of Malta) as a literary work, provided that the work satisfies the definition of 'computer program' found therein.
- Issues will arise for any work generated by the AI system because Maltese copyright law defines an 'author' as a natural person who created the work, thus excluding the possibly of automated systems as 'authors'.
- The main argument is whether the AI system was developed specifically to generate the work in question and if so, whether the system was merely a 'tool' utilised by the author and therefore, the system would not be deemed to be an author itself.
- Hence, while the developer of the AI system would be the owner of that system in terms of our Copyright Act, any subsequent works generated by this system fall within a lacuna which is not currently catered for in national legislation.



# Intellectual Property Rights & AI

- In terms of Maltese patent law, ownership over such patented ideas or processes is bestowed upon the applicant, who must be a legal person in order to fulfil the criteria of the patent legislation.
- While this is understandable when an AI system is developed using one's intellectual endeavours, matters become increasingly complex when that system generates its own 'content' or solution, without the intervention of a legal person. If the AI system generates any invention without any human intervention, current patent law would not consider such an invention as being patentable.
- It is therefore necessary to update current legislation to provide for ownership of IP generated entirely by automated systems or to bestow such ownership rights to agents and consider having an agency status allocated to AI automated systems.





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