

ACKNOWLEDGEMENTS

The Editorial Board of the *University of Puerto Rico Business Law Journal* would like to thank all the authors whose works compose the second number of our fifth volume. This number includes three incredibly interesting articles written by practitioners and students alike, as well as a labor and employment law term analysis.

I would like to thank all of the members of our Editorial Staff for all of their excellent work during the semester. It was a very challenging year and the way the editors and Editorial Staff came through was truly remarkable. I would like to thank all of the editors that were part of our final editing process, especially Rosimar Fraticelli, Kariana Ortiz, Carlos Carrión, Hecrian Martinez, Jonathan Camacho and Pedro García, our Articles Editor, who went above and beyond the call of duty in order to reach this goal. I am incredibly blessed and thankful to have worked with such an incredible team and hope that our presence keeps growing in order for everyone to see how amazing the work done here is. I would also like to thank our previous Board of Editors for allowing me and trusting me to work as Editor in Chief for the fifth volume, it is an experience I will always cherish.

The Editorial Board would also like to thank professor Luis A. Avilés, Associate Dean, and Antonio Escudero, for their support and advice during this endeavor. With our mission in mind, the Business Law Journal will continue to be a forum for academics, practitioners, and students to incite academic and professional discussions about business law topics while working towards becoming a more useful instrument for practitioners and students. We encourage our readers to share this work and become part of it in any way you can because the satisfaction of being a part of this project is incredible.

With the utmost gratitude,

Annelise Rivera Rivero

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THE CONVERGENCE OF DESIGN PATENT LAW, TRADEMARK LAW, AND COPYRIGHT LAW FOR BETTER PROTECTION OF INTELLECTUAL PROPERTY FOR COMMERCIAL DESIGNS

*SEBASTIÁN M. TORRES RODRÍGUEZ

I.	Introduction	122
II.	What are Copyrights, Trademarks and Design Patents?	124
A.	Copyrights	126
B.	Trademarks	130
C.	Patents and Design Patents	135
III.	An Introduction to Protection Overlapping	138
A.	Overlaps between Copyrights and Design Patent.....	139
B.	Overlaps between Trademarks and Design Patent.....	141
C.	Overlaps between all three forms of federal protection	147
D.	Problems of overlapping	148
IV.	Conclusion.....	151

I. INTRODUCTION

Products, services, and brands cover all aspects of modern life. In order to be successful among costumers, it is vital to take into consideration their appearance and ornamental design, as well as their utility and functional elements. As CIBC (put the entire word and not just the abbreviation) Professor of Entrepreneurship and e-Commerce at the Wharton School of the University of Pennsylvania, Karl T. Ulrich, expounds:

Let me cite three reasons, giving a preview of a theory of aesthetics to follow. All other things equal, most users will prefer a beautiful artifact to an ugly one, even in highly functional domains such as scientific instruments. Thus, beauty can be thought of as “just another attribute” in a user’s evaluation of preference, alongside durability, ease of use, cost, and safety. In this respect, the aesthetic

quality of an artifact is an important factor in providing a satisfying user experience, the prime motive for design.¹

Big companies invest a large percentage of their budget on research and product development in order to keep up with technological advances. This way, they can get an advantage in the market place and surpass their competition. Accordingly, companies engage in a process known as Research and Product Development (R&D) in order to transform their market opportunities and ideas into profitable market products.² R&D is defined as “the process of acquiring knowledge to create a new product to serve the needs and wants of customers who are already buying a company's products”³ or as the process of acquiring new clients. The R&D process is costly and can take an effort of years; in fact, a magazine specialized in business and industrial innovation, *Battelle's R&D Magazine*, forecasted that U.S. research and development expenditures will grow by slightly more than two percent from 2011, with an estimate of \$427.2 billion, to \$436.0 billion in 2012.⁴

In today's technologically driven world, the speed of innovation and product development grows at a faster pace. For the purpose of this article, commercial design will be defined as “the process concerned with planning,

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¹ KARL T. ULRICH, DESIGN: CREATION OF ARTIFACTS IN SOCIETY 97 (2011), available at <http://opim.wharton.upenn.edu/~ulrich/ulrichbook-10Aug12.pdf>.

² See Vish Krishnan & Karl T. Ulrich, *Product Development Decisions: A Review of the Literature*, *Management Science*, 47 MGMT. SCI. 1 (2001), available at <http://www.ktulrich.com/uploads/6/1/7/1/6171812/pdreview.pdf>.

³ L.G. Mohamed, *The Significance of Product Development to Firm Competitiveness: A Case of Plastic Product Firms in Ekurhuleni*, ANNUAL FORUM 2005, TRADE AND UNEVEN DEVELOPMENT: OPPORTUNITIES AND CHALLENGES 775-2 (2005), available at <http://www.tips.org.za/files/775.pdf>.

⁴ See BATELLE WITH R&D MAGAZINE, 2012 GLOBAL R&D FUNDING FORECAST (2011), available at http://battelle.org/docs/default-document library/2012_global_forecast.pdf.

designing, and manufacturing new consumer products using the disciplines of art and engineering.”⁵ Correspondingly, commercial design can include: *product design*, where a designer concentrates on the design of a product; *brand design*, where a designer creates a distinct identity and personality to promote an organization, product or service; or *technology design*, where a designer develops new and modern technological advances.

Companies must protect their investment in innovation. Otherwise, the company’s lack of protection may result in a deficit of successful earnings or the recovery of previous investments. As a result, companies are constantly searching for new and more effective ways to protect the investment that goes into their product development and the ideas that they transform into merchandise for the public. Companies not only need to protect their investments, but also once all the effort and investment is turned into final products, companies have the complicated task of protecting their final products, services, and brands.

Nowadays, a wise businessperson or entrepreneur would take a few moments to learn how Intellectual Property Law can work to their benefit. Companies and small business need to seek broad protections, which are nimble to implement and capable of providing effective mechanisms to defend their inventions, brands, new products, and technological developments against infringement. The existing legal scheme in the United States provides for three types of intellectual property rights: patents, copyrights, and trademarks.

This paper will focus specifically on the discussion about the convergence and juxtaposition of these protections. Specifically, this article covers the rights protected by design patents, Trademark Law and Copyright Law to shield commercial designs from both: a theoretical perspective and a practical business approach. In addition, this paper will provide a general guideline designed to help business owners and entrepreneurs make informed decisions regarding their trademarks, copyright, and patents rights.

II. WHAT ARE COPYRIGHTS, TRADEMARKS AND DESIGN PATENTS?

Copyrights, trademarks, and patents are part of the wider body of law known as *Intellectual Property*. The term “Intellectual Property” refers to the mind’s work product which is considered an intangible asset. The Supreme Court of Puerto Rico has defined Intellectual Property as the set of rights recognized to the author of an intellectually created work. The Court emphasized that authorship will be recognized and respected by authorizing

⁵ *What is Commercial Design?*, WHATISINDUSTRIALDESIGN.COM (FEB. 20, 2012), <http://whatisindustrialdesign.com/what-is-commercial-design>.

or denying reproduction.⁶ Although the term intellectual property rights include the aforementioned set of legal rights, it is important to note that each is distinguished by the structure, scope, and spheres of application. Trademarks, copyrights, and patents protect different types of intellectual property. As the United States Patent and Trademark Office (USPTO) explains:

A trademark typically protects brand names and logos used on goods and services. A copyright protects an original artistic or literary work. A patent protects an invention. For example, if you invent a new kind of vacuum cleaner, you would apply for a patent to protect the invention itself. You would apply to register a trademark to protect the brand name of the vacuum cleaner. And you might register a copyright for the TV commercial that you use to market the product.⁷

Despite the fact that each of these rights has a particular subject matter, they are prone to an overlapping protection and thus, a work can be simultaneously protectable through design patents, copyrights, and trademarks. Patent, copyright, and trademark are familiar concepts that protect products emerging from today's competitive business environment. All of these have the power of granting the owner exclusive rights over the economic exploitation of his idea or creation.⁸ "Such rights are generally exclusive, meaning that the owner is given a special kind of legal monopoly over the protected creation over a certain amount of time."⁹

Such body of law exists pursuant to Art. I § 8, cl. 8 of the United States Constitution which grants Congress the power "[t]o promote the progress of science and useful Arts, by securing for limited times to Authors . . . the exclusive right to . . . their . . . writings."¹⁰ This clause has been commonly referred to as the "Patent and Copyright Clause" or the "Intellectual Property Clause." In words of the United States Supreme Court: "the economic philosophy behind the clause empowering Congress to grant patents and

⁶ See *Cotto Morales v. Ríos*, 140 P.R. Dec. 604, 612 (1996).

⁷ UNITED STATES PATENT AND TRADEMARK OFFICE, PROTECTING YOUR TRADEMARK: ENHANCING YOUR RIGHTS THROUGH FEDERAL REGISTRATION 1 (2012), available at <http://www.uspto.gov/trademarks/basics/BasicFacts.pdf>.

⁸ See Giovanni B. Ramello, *Intellectual Property and the Markets of Ideas*, 4 REV. OF NTWK. ECON. 161 (2005), available at <http://www.degruyter.com/view/j/rne.2005.4.2/issue-files/rne.2005.4.issue-2.xml>.

⁹ *Id.* at 1.

¹⁰ U.S. CONST. art. 1, § 8, cl. 8.

copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in science and useful arts.”¹¹ Moreover, the congressional power to enact trademark laws derives from the Commerce Clause of the Constitution, Art. 1, § 8, cl. 3, which grants Congress the “power to regulate commerce with foreign nations, and among the several States, and with the Indian tribes.”¹²

A. Copyrights

Copyright is a legal concept enacted by most countries, granting exclusive rights to the creator of an original work, usually for a limited period of time. In the United States a copyright of a work created on or after January 1, 1978 subsists from its creation and during the life of the author, plus an additional 70 years after the author’s death.¹³

Broadly, a copyright guarantees the author of the work several exclusive rights: the right to copy his work, the right to be credited for the work, the right to determine who may adapt the work to other forms, who may perform the work, and who may financially benefit from it, among other related rights. Copyright relates to artistic creations such as books, music, paintings, and sculptures, as well as films and technology-based works such as computer programs and electronic databases. The copyright implies that the main use, reproduction or alteration of literary and artistic creations may be made by the author or with the author’s authorization.¹⁴ This way, the copyright law protects the property rights of the owner against those who copy, use or alter the form in which the original work was expressed by the author.

In Puerto Rico the protection of copyrights, also called “author’s rights”, is divided in two main categories. One gives statutory protection over the moral rights of a creation while the other protects the creator’s economic rights over his creation. There are two laws that give legal force to this policy. One is the *Copyright Act of 1976*,¹⁵ a federal law that protects an author’s “economic rights” (rights of an author to obtain economic benefit from their work) on its work. The other is the *Copyright Law of Puerto Rico*,¹⁶ which

¹¹ Mazer v. Stein, 347 U.S. 201, 219 (1954).

¹² U.S. CONST. art. 1, § 8, cl. 3.

¹³ See 17 U.S.C. §§ 302–303 (2012).

¹⁴ See WORLD INTELL. PROP. ORG., UNDERSTANDING COPYRIGHT AND RELATED RIGHTS, *available at* http://www.wipo.int/freepublications/en/intproperty/909/wipo_pub_909.pdf.

¹⁵ Copyright Act of 1976, Pub. L. 94-553, 90 Stat. 2541 (codified as amended in scattered sections of 17 U.S.C.).

¹⁶ Authors’ Moral Rights Act of Puerto Rico, Law 55-2012, P.R. LAWS ANN. tit. 31, §§ 1401i–1401ff (2013).

protects authors' "moral rights" (rights of an author to defend the integrity, reputation and prestige of his work).¹⁷

Nevertheless, the *Federal Copyright Act of 1976* preempts state law and exclusively rules the legal or equitable economics rights as specified in sec. 106 of the Act, which provides:

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
- (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.¹⁸

¹⁷ See Cotto Morales, 140 P.R. Dec. at 620. See also Pedro F. Silva Ruiz, *Nueva Ley de Derechos Morales de Autor de Puerto Rico* [Puerto Rico's New Authors' Rights Act], ACADEMIA NACIONAL DE CIENCIAS SOCIALES Y DERECHO DE CÓRDOBA [ACADERC] (Sp.), available at http://www.cea.unc.edu.ar/acaderc/doctrina/articulos/nueva-ley-de-derechos-morales-de-autor-de-puerto/at_download/file.

In general terms, copyright law does not prohibits a person from reselling, copying or altering legitimately obtained copies of copyrighted works if such reproduction, copy or alteration is done by or with the permission of the copyright holder. The copyright infringement occurs when a party who does not own the copyright to a work exploits one of the rights conferred without permission. Often, it may involve a claim of improper copying or a creation of a new work based upon the original, but it may also include other type of violations.

For example in *Litchfield v. Spielberg, et al.*,¹⁹ plaintiff asserted that the producers of the movie *E.T.* infringed the copyrights of a music play she had wrote entitled *Lokey from Maldemar*. In *Litchfield*, the court clearly stated the steps for indirectly proving copyrights infringement. The person alleging the infringement must show: (1) ownership of the copyrighted work; (2) that the alleged infringer had “access” to the copyrighted work; and (3) that there is “substantial similarity” between the copyrighted work and the alleged infringer’s work.²⁰

In any case of copyright infringement, the fact that a person copied the work is easier to prove indirectly since direct proof would require that the infringer would confess or that a witness would testify that the alleged infringer was observed copying the work. Any similar type of evidence would be extremely difficult to produce. The best manner to prove that the person alleging infringement owns the copyrights is to show that the work is registered in the U.S. Copyright Office. As to the second step of the test, “access” is defined as the reasonable opportunity to review the copyrighted work. For example, in *Litchfield*, the plaintiff submitted a copy of the music play to the defendants to consider adapting the play into a movie and defendants reviewed and rejected the play.²¹ In a case involving a claim of infringement, proving access depends upon the facts and circumstances of each particular case. Ultimately, to establish “access” it must be proved that the alleged infringer actually reviewed or had a reasonable opportunity to review the work. Finally, to prove copyright infringement, plaintiff must show that there is a “substantial similarity” between the copyrighted work and the defendant's work.²² Nevertheless, “substantial similarity” is one of the most difficult determinations in copyright law and courts have applied different tests depending on the nature and complexity of the subject matter at issue.²³

¹⁸ 17 U.S.C. § 106 (2012).

¹⁹ See *Litchfield v. Spielberg*, 736 F.2d 1352 (9th Cir. 1984).

²⁰ See *id.* at 1356.

²¹ See *id.* at 1355.

²² See *id.* at 1358.

²³ See 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 13.03[A] (1998).

However, there is a well-known exception to the use of a copyright that permits the use of copyrighted works without the authorization of the author or copyright holder. The doctrine is known as *fair use* or *fair dealing*. Accordingly, not all copies or replications are banned. The fair use doctrine, codified by the *Copyright Act of 1976* as 17 U.S.C. Section 107, permits some copying and distribution without permission of or payment to the copyright holder in certain circumstances. The statute does not clearly define fair use, but instead gives four non-exclusive factors to consider in a fair use analysis. Those factors are: (1) the purpose and character of the use, including whether such use falls under a commercial nature or if it is used for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) what amount and proportion of the whole work is copied, and (4) the effect of the use upon the potential market for or value of the copyrighted work.²⁴

Although, to obtain copyright protection over a creation an author is not required to file a copyright registration in the United States Copyright Office, since the law provides protection as soon as the creation is placed in a tangible or fixed medium of expression, in reality “a copyright without copyright registration is next to worthless.”²⁵ The U.S. Copyright Office describes registration as:

[A] legal formality intended to make a public record of the basic facts of a particular copyright. However, even though registration is not a requirement for protection, the copyright law provides several inducements or advantages to encourage copyright owners to make registration. Among these advantages are the following:

- 1-Registration establishes a public record of the copyright claim.
- 2-Before an infringement suit may be filed in court, registration is necessary for works of U.S. origin.
- 3-If made before or within five years of publication, registration will establish prima facie evidence in court of the validity of the copyright and of the facts stated in the certificate. If registration is made within three months after publication of the work or prior to an infringement of the work, statutory damages and attorney's fees will be available to the copyright

²⁴ See 17 U.S.C. § 107 (2012).

²⁵ Jeff Schewe, *The Key To Copyright Protection*, APA Bus. Handbook, available at <http://www.apanational.com/files/public/keytoprotection.pdf>.

owner in court actions. Otherwise, only an award of actual damages and profits is available to the copyright owner.

4- Registration allows the owner of the copyright to record the registration with the U.S. Customs Service for protection against the importation of infringing copies.²⁶

Although after March 1, 1989, registration in the U.S. Copyright Office is optional for purposes of preserving the right, registration is still of great importance.²⁷ As discussed, the reality is that, absent a registration, the creator loses some important advantages and impedes the enforcement by the court of law. In Puerto Rico, in order to protect an author's moral rights, the author must file an Intellectual Property Registry at the Department of State of Puerto Rico.²⁸

B. Trademarks

A trademark is a legally protected name, word, symbol, or design (and their combinations) used by a manufacturer or seller to identify a product or service and distinguish it from other goods.²⁹ A trademark is used to identify the maker of a good. Since buyers ordinarily infer information about the features of goods by experience in using certain brands, Congress sought trademark protection by enacting the *Federal Trademark Act of 1946*, also known as *The Lanham Act*. In U.S. Supreme Court's words: "[t]raditional trademark infringement law is a part of the broader law of unfair competition, that has its sources in English common law, and was largely codified in the Lanham Act."³⁰ Furthermore, many States offer some trademark protection within their respective boundaries through a registration process.

It is imperative to understand that trademarks serve two primary purposes: "protecting consumers from being confused or deceived about the source of goods or services in the marketplace, and encouraging merchants

²⁶ US COPYRIGHT OFFICE, CIRCULAR 1: COPYRIGHT BASICS (rev. 2012), available at <http://www.copyright.gov/circs/circ01.pdf>.

²⁷ See ECO ONLINE SYSTEM, <http://www.copyright.gov/eco/> (last visited March 12, 2013), for more information on the federal copyright registration process.

²⁸ See REGISTRO DE PROPIEDAD INTELECTUAL [Intellectual Property Registry] <http://www2.pr.gov/agencias/estado/Pages/PropIntelectual.aspx> (Sp.) (last visited March 12, 2013), for more information on the copyright registration process in the Commonwealth of Puerto Rico.

²⁹ 15 U.S.C. § 1127 (2012).

³⁰ *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 428 (2003).

to stand behind their goods and services by protecting the goodwill they have developed in their trademarks.”³¹ As the U.S. Supreme Court has noted:

[T]rademark law, by preventing others from copying a source-identifying mark, “reduce[s] the customer’s costs of shopping and making purchasing decisions,” for it quickly and easily assures a potential customer that this item — the item with this mark — is made by the same producer as other similarly marked items that he or she liked (or disliked) in the past. At the same time, the law helps assure a producer that it (and not an imitating competitor) will reap the financial reputation related rewards associated with a desirable product.³²

An internationally recognized scholar, Professor Nicholas Economides, of the Stern School of Business at New York University *expounds trademark protections* in his article *Trademarks Forthcoming in the New Palgrave Dictionary of Economics and the Law*.³³ He explicitly mentions that:

The trademark holder is given a legal monopoly on the use of these trademarked symbols and names in connection with the attached commodity, and is exclusively protected against infringement... Legal protection of trademarks is granted with respect to specified and related goods and does not extend to all products. For example, the trademark FORD owned by the automobile manufacturer does not cover unrelated items, say clothing. Thus, the same (or similar) trademark can be used by different owners in different product categories.

Trademarks qualify for legal protection immediately upon use when they are “inherently distinctive.” For marks that are not “inherently distinctive,” the owner must establish a “secondary meaning” or “acquired distinctiveness” to receive legal trademark protection. Inherently distinctive trademarks fall into three types, “fanciful,” “arbitrary,” and “suggestive” trademarks. Fanciful trademarks are words that usually have no other meaning, such as EXXON. Arbitrary marks are words that have an inherent meaning, but have no apparent meaning when applied to the specific product,

³¹ MARY LAFRANCE, UNDERSTANDING TRADEMARK LAW 2 (LexisNexis, 2nd ed. 2009).

³² *Qualitex Co. v. Jacobson Prods. Co. Inc.*, 514 U.S. 159, 163 (1995).

³³ Nicholas Economides, *Trademarks*, in THE NEW PALGRAVE DICTIONARY OF ECONOMICS AND THE LAW (Peter Newman ed., 1997), available at <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.29.4217&rep=rep1&type=pdf>.

such as APPLE as applied to computers. Suggestive trademarks imply or suggest certain properties of the product to which they apply, such as FRIGEDAIRE as applied to refrigerators. For suggestive trademarks the implied meaning is not immediate but requires mental effort by the consumer.

Non-inherently distinctive trademarks are legally protected if they have acquired a “secondary meaning,” attesting to the mark’s acquired distinctiveness. Non-inherently distinctive trademarks may be surnames, such as MACY’S that have acquired a distinctiveness. They also may be geographically descriptive terms, such as MARLBORO, which have acquired distinctiveness and do not indicate the place of origin of a good.

The existence of a “secondary meaning” must be proved as an association in the consumer’s mind between the trademark and the origin of the good. Marks that are merely descriptive terms for a good or its features or purpose do not qualify for legal protection.

A “generic” term that just describes a class of goods is a primary example of a descriptive mark that cannot be trademarked. For example, the word BOOK cannot be trademarked. Often, the big success of certain brand names makes them vulnerable to becoming generic by describing a whole class of goods rather than the product(s) of a particular manufacturer. Famous examples of trademarks that became generic to the detriment of the original trademark owners include ASPIRIN, ESCALATOR, CELLOPHANE, and THERMOS.³⁴

Trademark law also encompasses the protection known as *Trade Dress*. Trade dress is the design and appearance of a product, including all the elements that compose the overall image that serves to identify the product presented to the consumer.³⁵ In other words, trade dress is a product’s “look and feel.” Trade dress may include features such as size, shape, colors, texture, graphics or even particular sales techniques.³⁶ Trade dress is a broad concept, encompassing both product packaging and product design/configurations.³⁷ If conditions for its configuration are met, the protection of a trade dress may apply to the features of a business or its product. For instance, it may apply to a restaurant decor, both interior and exterior and to written materials used in brochures such as texture, finishes,

³⁴ *Id.*

³⁵ See *Yankee Candle Co., Inc. v. Bridgewater Candle Co.*, 259 F.3d 25, 38 (1st Cir. 2001).

³⁶ See *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 765 (1992).

³⁷ See *Wal-Mart Stores, Inc. v. Samara Bros Inc.*, 529 U.S. 205, 209–10 (2000).

color combinations, design elements, artwork, logos, signs, shapes, sounds, smells, among others.

However, for trade dress or a trademark protection to apply, the elements making the commercial design need to be both, non-functional and distinctive.³⁸ Under trademark law, a product feature is functional and thus not protectable “if it is essential to the use or purpose of the article or if it affects the cost or quality of the article.”³⁹ The United States Supreme Court has indicated that having a utility patent on a product is strong evidence that the patented features are functional and thus, are not protectable under trade dress.⁴⁰

Like any other element of a trademark protection, a trade dress has to meet the distinctiveness requirement by demonstrating that it: 1) is inherently distinctive; or 2) has acquired distinctiveness through secondary meaning.⁴¹ Generally, distinctiveness of a product’s design trade dress will not be considered inherent and can only be obtained through secondary meaning.⁴² On the other hand, distinctiveness of product packaging trade dress may be either inherent or acquired.⁴³ In many instances, the most practical way to develop secondary meaning for trade dress and trademark protection is by advertising a product’s features or design elements in such a way that the feature, brand and source become readily associated.⁴⁴ Certainly, advertising plays a major role for acquiring distinctiveness on a brand in relation to the brand’s competitor and thus, developing secondary meaning.

It is important to understand that acquiring secondary meaning and distinctiveness for trademark protection is not a merely legal formalism. As the World Intellectual Property Organization (WIPO) explains:

By enabling companies to differentiate themselves and their products from those of the competition, trademarks play a pivotal role in the branding and marketing strategies of companies, contributing to the definition of the image, and reputation of the company’s products in the eyes of consumers. The image and reputation of a company create trust which is the basis for

³⁸ See *id.* at 210; see also *Two Pesos*, 505 U.S. at 775.

³⁹ *Qualitex*, 514 U.S. at 165.

⁴⁰ See *Traffix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 29 (2001).

⁴¹ See *Two Pesos*, 505 U.S. at 769.

⁴² See *Wal-Mart Stores*, 529 U.S. at 214–16.

⁴³ See *id.* at 214–15.

⁴⁴ See 2 J.T. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 8.01 (Clark Boardman Callaghan, 3rd ed. 1996).

establishing a loyal clientele and enhancing a company's goodwill. Consumers often develop an emotional attachment to certain trademarks, based on a set of desired qualities or features embodied in the products bearing such trademarks.⁴⁵

As a result, a carefully selected and nurtured trademark is a valuable business asset for any company. For some, it may be the most valuable asset they own. However, it must be emphasized, as Professor Mary LaFrance of the William S. Boyd School of Law, University of Nevada, Las Vegas, indicates that:

Unlike other types of intellectual property, such as patents and copyrights, trademark rights are not property rights in gross. A fundamental principle of trademark law is that trademark rights arise only through the actual use of a mark in commerce to indicate the source of goods and services, and the public must actually recognize the mark as a source indicator in order for it to be protected.⁴⁶

The Supreme Court addressed this trademark aspect in *United Drug Co. v. Theodore Rectanus Co.*,⁴⁷ stating that “[t]here is no such thing as property in a trademark except as a right appurtenant to an established business or trade in connection with which the mark is employed.”⁴⁸ Another different aspect of trademark is the duration of the protection conferred. “The rights of a trademark owner last as long as the owner continues to use the mark, provided it is not abandoned or forfeited, and provided the mark does not otherwise cease to function as an origin indicator.”⁴⁹

Similar to copyrights, Trademark registration in the United States Patent and Trademark Office (USPTO) is not required to assert ownership. The creation of a trademark right is based on the use of the mark in commerce, independent of a formal registration. However, owning a federal trademark registration provides several advantages, including:

A legal presumption of your ownership of the mark and your exclusive right to use the mark nationwide on or in connection with the goods and services listed in the registration (whereas a state

⁴⁵ WORLD INTELL. PROP. ORG., *Making a Mark: An Introduction to Trademarks for Small and Medium-sized Enterprises*, in INTELLECTUAL PROPERTY FOR BUSINESS SERIES 1 (2006), available at http://www.wipo.int/freepublications/en/sme/900/wipo_pub_900.pdf

⁴⁶ LAFRANCE, *supra* note 31, at 1.

⁴⁷ *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918).

⁴⁸ *Id.*

⁴⁹ LAFRANCE, *supra* note 31, at 12.

registration only provides rights within the borders of that one state); public notice of your claim of ownership of the mark; listing in the USPTO's online databases; the ability to record the U.S. registration with the U.S. Customs and Border Protection Service to prevent importation of infringing foreign goods; the right to use the federal registration symbol ®; the ability to bring an action concerning the mark in federal court; and the use of the U.S. registration as a basis to obtain registration in foreign countries.⁵⁰

The word "commerce" in the concept "use of the mark in commerce" refers only to interstate commerce. Therefore, a business in a state or in Puerto Rico must demonstrate that its products are being traded in another state of the Union. In Puerto Rico, a business may acquire protection under the recently approved Act No. 169 of 2009, known as the "Trademark Act of the Commonwealth of Puerto Rico"⁵¹ by using the mark in Puerto Rico's commerce and filling a registration at the Trademark Registry of the Department of State of Puerto Rico. All the other conditions are the same as those of the federal protection.

C. Patents and Design Patents

Since copyright protection does not extend to the utilitarian elements of a creation and trademarks do not covert functional components, patent law plays a unique role in the protection of the way an article is used and works. As defined by the United States Patent and Trademark Office (USPTO):

A patent is an intellectual property right granted by the Government of the United States of America to an inventor "to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States" for a limited time in exchange for public disclosure of the invention when the patent is granted.⁵²

There are three types of patents: utility, design, and plant patents. Utility patents may be granted to anyone who invents or discovers any new and useful process, machine, article of manufacture, composition of matter or

⁵⁰ UNITED STATES PATENT AND TRADEMARK OFFICE, *supra* note 7.

⁵¹ P.R. LAWS ANN. tit. 10, §§ 223–224b (2013).

⁵² *Patents*, U.S. PAT. & TRADEMARK OFF., <http://www.uspto.gov/patents/index.jsp> (last visited April 4, 2013).

any new and useful improvement thereof. Design patents may be granted to anyone who invents a new, original, and ornamental design for an article of manufacture. Plant patents may be granted to anyone who invents or discovers and asexually reproduces any distinct and new variety of plant. While a utility patent protects the way an article is used and works,⁵³ a design patent protects an article's ornamental appearance.⁵⁴ Both a design and a utility patent may be obtained on an article if invention resides both in its ornamental appearance and its utility.

To understand and explain the concept of design patents, one must first comprehend the definition of the term "design". The USPTO defined design as "the visual ornamental characteristics embodied in, or applied to an article of manufacture."⁵⁵ Since a design is connected to the appearance, the subject matter of a design patent application relates to the configuration or shape of an article, the surface ornamentation applied to an article, or the combination of both.⁵⁶ A design patent confers to its owner the right to prevent others from making, using, offering to sell, or actually selling within the United States or in international transactions.⁵⁷

Although the criteria for obtaining design and utility patents are the same, as in the available remedies for their infringement, some requirements may vary. There are five main requirements for obtaining a design patent: the subject matter must be an article of manufacture,⁵⁸ original,⁵⁹ novel,⁶⁰ non-obvious,⁶¹ and ornamental.⁶² Attorneys James Hamilton, Philippe Signore & Christopher Ward of the *Oblon, Spivak, McClelland, Maier & Neustadt, L.L.P.*, one of the largest law firms in the United States focusing exclusively in intellectual property law, explain the requirements of design patents:

The design to be patented must be "for an article of manufacture." In other words, the patentable design must be embodied into, or applied to, a man-made tangible object... Importantly, the US design patent statute does not limit design protection to a whole article of

⁵³ See 35 U.S.C. § 101 (2012).

⁵⁴ See 35 U.S.C. § 171 (2012).

⁵⁵ U.S. PAT. & TRADEMARK OFF., A GUIDE TO FILING A DESIGN PATENT APPLICATION, *available at* http://www.uspto.gov/web/offices/com/iip/pdf/brochure_05.pdf

⁵⁶ 35 U.S.C. §171 ("Whoever invents any new, original and ornamental design for an article of manufacture may obtain a patent therefore, subject to the conditions and requirements of this title.")

⁵⁷ See 35 U.S.C. § 271 (2012).

⁵⁸ See 35 U.S.C. § 171.

⁵⁹ See *id.*

⁶⁰ See 35 U.S.C. § 102 (2012).

⁶¹ See 35 U.S.C. § 103 (2012).

⁶² See 35 U.S.C. § 171.

manufacture, but can be for a portion of an article of manufacture, which is useful to obtain a relatively broad protection.

The originality requirement bars issuance of a design patent for a design derived from any source or person other than the individuals named as inventors. A design can be original even if it corresponds to a reassembling or grouping of familiar forms and decorations. However, any simulations of known objects, persons, or naturally occurring forms are excluded from patentability.

The standard for evaluating the novelty of a design is the “average observer test”. The overall appearance of a design in the eyes of an average or ordinary observer must be different of any other prior design. There is an important difference between the novelty of a design patent and a utility patent. The novelty of a design patent comes from the ornamentation of the claimed design, while the novelty of a utility patent comes from the technical characteristics of the claimed invention. Accordingly, a product can be protectable by a design patent based on its appearance and separately protectable by a utility patent based on its technical components.

The courts have held that the proper standard to evaluate a design’s non-obviousness is whether “a designer of ordinary skill of the articles involved” would have found the design as a whole obvious at the time the design was invented. The non-obviousness analysis for design patents therefore, closely parallels the non-obviousness analysis for utility patents.

Finally, a patentable design must be “ornamental”. The ornamental design, however, need not be artistic nor aesthetically pleasing. To be ornamental, the design must have an overall distinct appearance that is not dictated by the function of the article of manufacture. In other words, the shape or configuration of a functional object is protectable by a design patent if the shape or configuration is not governed solely by the function of the object.⁶³

As opposed to the other forms of intellectual property, patents are completely governed by federal legislation, no state or common right regulates the concession of patent rights. The USPTO is the federal agency

⁶³ James Hamilton et al., *U.S. Design Patents: An Underdog That Bites*, in 124 *MANAGING INTELL. PROP.* 19 (2002), available at <http://www.oblon.com/sites/default/files/news/18.pdf>.

that examines applications and grants patents on inventions when applicants are entitled to them. The preparation of a design patent application and the conducting of the proceedings in the USPTO to obtain the patent is an undertaking requiring the knowledge of patent law and rules, as well as Patent and Trademark Office practice and procedures. A patent attorney or agent specially trained in this field is best able to secure the more extensive patent protection to which applicant is entitled.⁶⁴ Design patents are granted for a period of fourteen (14) years, from the date of grant.⁶⁵

Recently, the U.S. Court of Appeals for the Federal Circuit (CAFC) in *Egyptian Goddess, Inc. v. Swisa, Inc.*, held that the proper test for infringement of a design patent is solely the ordinary observer test, as performed from the perspective of an individual who is familiar with the prior art.⁶⁶ In order to verify if a design patent is infringed, courts must do a side-by-side comparison of the accused design with the patent figure. The U.S. Supreme Court in *Gorham v. White* elaborated on the ordinary observer test and stated that:

[I]f, in the eye of an ordinary observer, giving such attention as a purchaser usually gives, two designs are substantially the same, if the resemblance is such as to deceive such an observer, inducing him to purchase one supposing it to be the other, the first one patented is infringed by the other.⁶⁷

III. AN INTRODUCTION TO PROTECTION OVERLAPPING

Historically, the subject matters of patent, copyright, and trademark law were quite distinct and questions of dual protection rarely arose. However, as a result of the expansion of the scope of federal intellectual property protection, the different systems have begun to overlap in significant ways. Overlapping protection arises in two ways: “intellectual property owners may seek concurrent coverage of more than one form of protection or they may request sequential protection.”⁶⁸

The following examples demonstrate only a few instances where convergence of rights can coexist. Nonetheless, there is a possibility of other combinations.

⁶⁴ See UNITED STATES PATENT AND TRADEMARK OFFICE, *supra* note 55, at 10.

⁶⁵ See 35 U.S.C. § 173 (2012).

⁶⁶ See *Egyptian Goddess, Inc. v. Swisa, Inc.*, 543 F.3d 665 (Fed. Cir. 2008).

⁶⁷ *Gorham v. White*, 81 U.S. 511, 528 (1871).

⁶⁸ Viva R. Moffat, *Mutant Copyrights and Backdoor Patents: The Problem of Overlapping Intellectual Property Protection*, 19 BERKELEY TECH. L.J. 1473, 1499 (2004).

A. Overlaps between Copyrights and Design Patent

Patents and copyrights used to cover very different subject matters: patents were created to protect new and useful inventions and copyrights only protected original expressive works. Therefore, the overlap between utility patents and copyrights has always been virtually impossible since copyright cannot be used to protect strictly utilitarian product designs in the absence of some separable expressive elements, in addition that copyright is not applicable to “useful articles”. A “useful article” is defined as “an article having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information.”⁶⁹ 17 USC § 102 provides: “In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.”

The importance of this distinction was demonstrated in the case of *Aqua Creations USA, Inc. v. Hilton Worldwide, Inc.*⁷⁰ Plaintiffs Aqua Creations USA Inc. and Aqua Creations LTD had designed an artistic light fixture and presented it to Defendant Hilton Hotels Corporation for use in the Hilton’s San Diego Convention Center. Aqua alleged that the parties were unable to agree on a price. Nonetheless, Hilton copied Aqua’s designs and installed them at its San Diego Convention Center. The Court dismissed the claim because it found that Aqua lighting designs constituted “useful articles” under the Copyright Act and did not contain creative elements that were physically or conceptually separable from the light fixtures’ utilitarian aspects.

On the other hand, a significant overlap does exist in the items that can be covered by copyright and design patents. Both the copyright and design patent statutes encompass the protection of aesthetic qualities. In order to obtain both protections, the creation of work must possess the new and ornamental character required by design patents as well as the expressive pictorial, graphic, or sculptural features required by copyright law. Under these circumstances, an inventor-designer could initially copyright his artistic design. Thus, an ornamental design may be copyrighted as a work of art and may also be subject matter of a design patent.

Protecting the aesthetic creations or ornamental features of products with both copyright and patent design has its benefits, especially in the scope of protection to prove infringement. As previously explained, in order to

⁶⁹ 17 U.S.C. § 101 (2012).

⁷⁰ *Aqua Creations USA Inc. v. Hilton Hotels Corp.*, 2011 WL 1239793 (S.D.N.Y. Mar. 28, 2011).

establish a claim of copyright infringement, a plaintiff must prove that the defendant had access to the allegedly copied work and that a substantial similarity exists. Attorney Gregory R. Mues explains, with the forthcoming example, the limits and complications of copyright protection:

Theoretically, two cartographers could set out separately to capture the geography of the same area. If both men were perfectionists, each would produce an identical map. Yet, the mapmaker who published second would not have infringed the copyright of his previously published colleague since each map was the independent creative work of its respective author. Consequently, a multitude of valid copyrights may exist, each having the same or nearly identical subject matter and format. No question of infringement need ever arise if each work product has been independently created.⁷¹

The concurrent existence of a copyright with a design patent may solve this problem since in a claim of design patent infringement the burden of proof is not as demanding. The test for deciding an infringement is whether the ordinary observer may be misled into buying the infringing article because of its like appearance to the patented design.⁷² Unlike its copyright counterpart, the patentee plaintiff is not required to establish access and copying.

This situation is well illustrated in the case *Baby Buddies, Inc. v. Toys "R" Us, Inc.*⁷³ In this case, Baby Buddies had been selling pacifier holders with a decorative bear that could be clipped to an infant's garment. Baby Buddies sold over a million pacifier holder units, and approximately half of those sales came through Toys "R" Us stores.⁷⁴ Toys "R" Us had a consultant design a similar new pacifier holder that Toys "R" Us had manufactured for its stores and soon after began phasing out the Baby Buddies holder, subsequently discontinuing it entirely in 2003. Baby Buddies sued Toys "R" Us for copyright infringement.⁷⁵ Although the Court determined that the ribbon tether, clip and snap components of the pacifier holder were utilitarian and non-protectable as useful articles, the plastic teddy bear and ribbon bow were found to be physically separable and therefore eligible for copyright protection. Although Baby Buddies was successful in securing a right of protection against the copying, the judge determined that there were almost no similarities between the two teddy bear designs beyond the general

⁷¹ Gregory R. Mues, *Dual Copyright and Design Patent Protection: Works of Art and Ornamental Designs*, 49 ST. JOHN'S L. REV. 543, 550 (1975).

⁷² See *Gorham*, 81 U.S. at 528.

⁷³ *Baby Buddies, Inc. v. Toys "R" Us, Inc.*, 611 F.3d 1308 (11th Cir. 2010).

⁷⁴ See *id.* at 1311.

⁷⁵ See *id.* at 1312.

element that comprises the design, in this case: the eyes, nose, mouth, arms, legs, a ribbon bow and a pastel based color scheme. Since copyright does not protect ideas but instead protects the particular expression or authorship, the Court held that there was no copying of protected expression and Baby Buddies' claim was dismissed. A different result for Baby Buddies' would have been reached if their product were to be protected by both a copyright in combination with a design patent.

It is important to note that there have been conflicting interpretations as to whether simultaneous or subsequent copyright and design patent protections can coexist. A solution proposed for this problem has been the so called "election doctrine". However, the Court of Customs and Patent Appeals, in *In re Yardley*,⁷⁶ disregarded the election doctrine, holding that the proprietor of an artistic design for a work of art may, in a proper case, obtain both copyright and design patent protection.⁷⁷ For instance, although not presented directly with the question of election, the United States Supreme Court lessened the harshness of the election doctrine by stating:

Though other courts have passed upon the issue as to whether... the election of the author or patentee of one bars a grant of the other, we do not. We do hold that the patentability of the statuettes, fitted as lamps or unfitted, does not bar copyright as works of art. Neither the Copyright Statute nor any other says that because a thing is patentable it may not be copyrighted. We should not so hold.⁷⁸

As Attorney Gregory R. Mues points out "it is readily apparent, therefore, that the Court recognized the existence of a zone of overlap, holding that patentability and copyrightability were not mutually exclusive. Left unanswered, however, was the question whether an individual must choose only one of the two schemes available."⁷⁹

B. Overlaps between Trademarks and Design Patent

As previously discussed, trademark law has evolved to protect much more than just names, words, and logos. A wide variety of designs, product configurations, and even the overall "look and feel" of a product, as indicators of source are, protectable under the Lanham Act. Since within the scope of

⁷⁶ *In re Yardley*, 493 F.2d 1389 (1974).

⁷⁷ See Mues, *supra* note 71, at 543.

⁷⁸ *Mazer*, 347 U.S. at 217.

⁷⁹ Mues, *supra* note 71, at 572.

protection of a patent design lies that of an ornamental design for an article of manufacture, it makes sense that the two regimes may serve overlapping purposes. As a result, ornamental or aesthetic designs that fall within the scope of design patent protection may now fit into the parallel protection conferred by Trademark or trade dress rights. "Both regimes focus on the visual appearance of a product or its packaging and both regimes allow the rights-holder to exclude others from uses that lead to customer confusion."⁸⁰ However, it should be noted that "design patents are not merely a parallel alternative to trade dress. Rather, the existence of some practical differences means that design patents rights are available in situations where trade dress protection is unavailable or uncertain."⁸¹

Similarly, the requirements for infringement between both systems are profoundly comparable. "While trademark law directly protects against customer confusion between products on the market, design patent infringement considers the potential for confusion "in the eye of an ordinary observer" between the patented design and the accused design."⁸² In *Egyptian Goddess*, the Federal Circuit held that design patent infringement is proven with evidence that an ordinary customer familiar with the prior art would understand that the accused device "embodies the patented design or any colorable imitation thereof."⁸³ The general test for trademark and trade dress infringement asks whether a "likelihood of confusion" exists between the right-holder's creation and the accused creation.⁸⁴

Precisely by playing with the similarities within the two distinct legal frameworks intellectual property creators are beginning to obtain both patent design and trademark protection. Even further, design patent and trademark overlapping can serve a key role in expanding the duration and quality of rights through a process that Associate Professor Dennis D. Crouch, of the University of Missouri School of Law, has termed *doctrinal bootstrapping*. Professor Crouch has defined doctrinal bootstrapping as "the process of using rights granted under a first doctrine to aid in procuring rights under a second doctrine."⁸⁵ He correctly illustrated that design patents are being used to help obtain trade dress protection over the same industrial design. Professor Crouch explains:

⁸⁰ Dennis D. Crouch, *A Trademark Justification for Design Patent Rights* 3 (Univ. of Mo. Sch. of Law Legal Studies Research Paper Series, Research Paper No. 2010-17, 2010).

⁸¹ *Id.*

⁸² *Id.* at 30.

⁸³ *Egyptian Goddess*, 543 F.3d at 678 (modifying the ruling in *Gorham Co. v. White*, 81 U.S. 511, 528 (1871)).

⁸⁴ See 15 U.S.C. §1125 (2012); see also ADAM L. BROOKMAN, *TRADEMARK LAW: PROTECTION, ENFORCEMENT, AND LICENSING* 69 (Aspen Publishers, 1999).

⁸⁵ Crouch, *supra* note 80, at 8.

I consider three mechanisms where doctrinal bootstrapping occurs in the dyad of design patent and trade dress rights: (1) By providing a significant period of exclusivity, design patents can aid in the process of developing an association in the eyes of customers between the design and its source. That association then serves as evidence to support trade dress protection. (2) Although the design patent functionality doctrine differs from that of trade dress, courts have also relied on design patents as evidence that the design (or at least aspects of the design) are nonfunctional. This might be termed the “reverse *Traffix* doctrine.” In the first two mechanisms, design patents operate by increasing the likelihood that trade dress rights are later recognized. (3) In the third mechanism, the design patents operate to extend the patent term at the front-end based on the relatively rapid grant of patent rights.⁸⁶

The first form of doctrinal bootstrapping is the use of a design patent as evidence of non-functionality for a subsequent trademark protection. This recent strategy is derived from the United States Supreme Court decision in *Traffix Devices, Inc. v. Marketing Displays, Inc.*⁸⁷ In this case the Court held that the existence of a utility patent covering a particular design creates a presumption that the patented design is functional. Applying this reasoning, since design patents lack functionality, the holding in *Traffix* would suggest that a prior design patent covering a design provides evidence that the design is non-functional.⁸⁸ In the same manner, Professor Thomas McCarthy has expressed a similar position on the role of a design patent in establishing non-functionality:

A design patent, rather than detracting from a claim of non-functional trade dress or trademark, may support such a claim. Since a design patent is granted only for non-functional designs, it may be presumptive evidence of non-functionality and thus support the trademark claimant. However, while a design patent is some evidence of non-functionality, alone it is not sufficient without other evidence.⁸⁹

⁸⁶ *Id.*

⁸⁷ *Traffix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23 (2001).

⁸⁸ See Crouch, *supra* note 80, at 38.

⁸⁹ 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 7:93 (4th ed. 2005).

The United States District Court for the Western District of New York decision in *Keystone Mfg. Co., Inc. v. Jaccard Corp.*⁹⁰ is an example of the application of the explained strategy that allows design patent rights to serve as evidence supporting the non-functionality of asserted trade dress rights. Jaccard had created a hand-held meat tenderizer that was covered by a design patent that had expired. Jaccard argued that “the design of its JACCARD® meat tenderizer was protected trade dress and that Keystone violated its intellectual property rights by selling the Deni® tenderizer.”⁹¹ The district court agreed that trade dress rights may protect the subject matter of an expired design patent. However, the Court, following McCarthy’s reasoning, rejected the suggestion that the design patent creates a presumption of non-functionality and instead, held that the design patent serves as evidence in determining non-functionality. The Court sustained:

[I]s in this Court's view an accurate recitation of the evidentiary relationship between a design patent and establishing non-functionality: it is relevant evidence suggesting non-functionality. This Court agrees with Keystone that Jaccard's assertion of a legal presumption of non-functionality stemming from the existence of a design patent is not supported in the case law.⁹²

The pronouncements in *Keystone* are widely supported by previous case law.⁹³

⁹⁰ *Keystone Mfg. Co., Inc. v. Jaccard Corp.*, 2007 WL 655758 (W.D.N.Y. Fed. 26, 2007).

⁹¹ *Id.* at 1.

⁹² *Id.* at 9.

⁹³ See, e.g., *Fuji Kogyo Co., Ltd. v. Pacific Bay Intern, Inc.*, 461 F.3d 675 (6th Cir. 2006) (indicating that design patent creates a presumption of non-functionality); *Levenger Co. v. Feldman*, 516 F.Supp.2d 1272 (S.D. Fla. 2007) (prior design patent can rebut a defense of improper functionality of trade dress); *Adventure Products, Inc. v. Simply Smashing, Inc.*, 2007 WL 2775128 (S.D. Cal. 2007). (“Although Plaintiff does not explicitly state that its claimed dress is nonfunctional, that fact can be implied by the existence of the design patents.”); *Global Mfg. Group, LLC v. Gadget Universe.Com*, 417 F.Supp.2d 1161 (S.D. Cal. 2006) (holding that the plaintiff’s design patent, which enclosed the features of an electric scooter served as evidence of non-functionality); *Krueger Int’l v. Nightingale Inc.*, 915 F. Supp. 595, 605, (S.D.N.Y. 1996) (“Because a design patent is granted only for nonfunctional designs, it can serve as evidence that a plaintiff’s trade dress is not functional.”); *In re R. M. Smith, Inc.*, 219 U.S.P.Q. 629 (T.T.A.B. 1983), *aff’d*, 734 F.2d 1482, 222 U.S.P.Q. 1 (Fed. Cir. 1984) (finding that the existence of a design patent is not alone enough evidence of non-functionality); *Topps Co. v. Gerrit J. Verburg Co.*, 41 U.S.P.Q.2d 1412, 1417 (S.D.N.Y. 1996). (plaintiff’s expired design patent “is presumptive evidence of non- functionality”); McCarthy, *supra* note 89, § 6:15 (“A design patent, rather than detracting from a claim of non-functional trade dress or trademark, may support such a claim.”)

The second type of doctrinal bootstrapping deals with the employment of design patent exclusive monopoly to facilitate the acquisition of distinctiveness on brands that do not possess inherent distinctiveness. Although a design patent alone does not prove or provide evidence for secondary meaning,⁹⁴ the period of exclusivity offered by a design patent can aid in the process of developing a consumer association between the design and its source.⁹⁵ The period of monopoly and right to exclude can be used to launch an aggressive campaign of advertisement and branding to develop public awareness. The strategy used to rely on design patents in order to obtain secondary meaning has been labeled by some as “cheating the trademark system.”⁹⁶ Comparatively, this strategy may be used in the same manner in relation with the exclusive monopoly conferred by copyrights.

This is an extremely useful strategy and the approach has been used by companies like Apple. Also, it could become an especially important consideration in situations where the product designs can be easily copied just by its mere observance:

This layered approach was taken by Apple with its famous iPod Nano design. The iPod Nano design patent application was filed first, in August 2005, a few weeks before its September 2005 public release date. The subsequent trademark design registration application appears identical to the patented design. The trademark registration application was filed in July 2006 and received a registration certificate in January 2008 after Apple presented substantial evidence of acquired distinctiveness. The prerelease design patent application filing allowed Apple to make an early claim for rights without publicly releasing any information regarding the design. The later filed trademark claim offers an additional layer of protection with a potentially longer duration.⁹⁷

⁹⁴ See *Goodyear Tire & Rubber Co. v. Interco Tire Corp.*, 49 U.S.P.Q.2d 1705, 1722 (T.T.A.B. 1998) (holding that a design patent of a tire thread did not prove that the design had acquired secondary meaning).

⁹⁵ See Julia Matheson and Stephen Peterson, *Combine and Conquer: How the Synthesis of Design Patent and Trade Dress Achieve Maximum Protection for your Product Design*, FINNEGAN (Apr. 4, 2013), <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=74f843be-c63a-40cc-8ae0-007bc50fdd99>

⁹⁶ Daniel H. Brean, *Enough is Enough: Time to Eliminate Design Patents and Rely on More Appropriate Copyright and Trademark Protection for Product Designs*, 16 TEX. INTELL. PROP. L.J. 325, 364 (2008).

⁹⁷ Crouch, *supra* note 80, at 23.

The third and final form of doctrinal bootstrapping is related to the use of a trademark to obtain perpetual protection over an ornamental design previously protected by a design patent. Since design patents are limited to a fourteen year period⁹⁸ and trademarks persist as long as they continue to be used in commerce, it becomes easy to see the convenience of obtaining a trademark protection after the design patent has expired in order to extend the exclusive rights to use the ornamental creation. Consequently, trademark law can be used to establish a prolonged monopoly on aesthetic features of a product.

In *In re Mogen David Wine Corp.*,⁹⁹ the Court of Customs and Patent Appeals explained that trademark rights do not extend the patent monopoly because:

[T]hey exist independently of it, under different law and for different reasons. The termination of either has no legal effect on the continuance of the other. When the patent monopoly ends, it ends. The trademark rights do not extend it. We know of no provision of patent law, statutory or otherwise, that guarantees to anyone an absolute right to copy the subject matter of any expired patent. Patent expiration is nothing more than the cessation of the patentee's right to exclude held under the patent law.¹⁰⁰

It has been demonstrated that trademark rights are able to continue beyond the expiration of a design patent meaning that patent and trademark rights exist independently of each other and under different law requirements and schemes. This form of doctrinal bootstrapping presents an "overlapping protection of the same subject matter by different forms of intellectual protection delaying full entrance of that subject matter into the public domain."¹⁰¹ In this form of doctrinal bootstrapping, the overlap between trademark and design patents does more than fill a gap in the trade dress protection regime. The overlap of trademark and design patent can play a synergistic role by extending the duration of the monopoly over a design. An example of this practice was exercised by the company Honeywell in order to obtain trademark protection for its wall-attached thermostat, once the design patent had expired.¹⁰²

⁹⁸ 35 U.S.C. § 173 (2012).

⁹⁹ *In re Mogen David Wine Corp.*, 328 F.2d 925 (CCPA 1964).

¹⁰⁰ *Id.* at 930.

¹⁰¹ Samuel Oddi, *The Tragicomedy of the Public Domain in Intellectual Property Law*, 25 HASTINGS COMM. & ENT. L.J. 1, 6 (2002).

¹⁰² See Crouch, *supra* note 80, at 38. See also *In re Honeywell Inc.*, 497 F.2d 1344 (C.C.P.A. 1974).

In the 1940 and 1950's Honeywell designed its now ubiquitous round wall-attached thermostat and obtained both a utility patent on the control mechanism and a design patent covering visible shape of the thermostat. After those patents expired and after some initial setbacks, Honeywell was able to convince the USPTO to register the shape as trade dress. Although Honeywell's competitor Emerson Electric initially objected the two reached a settlement and the trade dress was eventually registered in 1990.¹⁰³

In agreement, McCarthy expresses that "although the Patent Office, in the early years of the Lanham Act, held that a configuration covered by a design patent was unregistrable as a trademark, this is clearly not the law today."¹⁰⁴ Also, when the Supreme Court directly addressed the issue in *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, it found that a prior utility patent did not categorically bar parallel trade dress claims. In fact, the Supreme Court in *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*¹⁰⁵ did not comment upon the plaintiff's pursuit of both copyright and trademark claims for children's clothing designs and rejected the trademark claim solely on the basis that plaintiff had not established secondary meaning.

C. Overlaps between all three forms of federal protection

Because of its unique characteristics, ornamental designs have managed to straddle all three areas of protection. Gerard N. Magliocca, Professor at Indiana University Robert H. McKinney School of Law, sustains that "product designs occupy a unique position in the law because they sit at the confluence of patent, copyright, and trademark doctrine. Indeed, commercial art is the only form of property that can be protected under any of these three traditional categories."¹⁰⁶

¹⁰³ *Id.* See also U.S. Design Patent No. D176, 657 (1956); U.S. Trademark Registration No. 1,622,108 (1990).

¹⁰⁴ 1 J. THOMAS MCCARTHY, *supra* note 89, § 7.91 (citing *In re Mogen David Wine Corp.*, 328 F.2d 925, 140 U.S.P.Q. 575 (C.C.P.A. 1964); *Mine Safety Appliances Co. v. Electric Storage Battery Co.*, 405 F.2d 901, 160 U.S.P.Q. 413 (C.C.P.A. 1969); *In re World's Finest Chocolate, Inc.*, 474 F.2d 1012, 177 U.S.P.Q. 205 (C.C.P.A. 1973); *In re Honeywell, Inc.*, 497 F.2d 1344, 181 U.S.P.Q. 821 (C.C.P.A. 1974), *cert. denied*, 419 U.S. 1080, 42 L. Ed. 2d 674, 95 S. Ct. 669, 184 U.S.P.Q. 129 (1974)). For a historical perspective see WILLIAM L. SYMONS, *THE LAW OF PATENTS FOR DESIGNS* 35 (1914).

¹⁰⁵ *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205 (2000).

¹⁰⁶ Gerard Magliocca, *Ornamental Design and Incremental Innovation*, 86 MARQ. L. REV. 845, 846 (2003).

There are designs that can benefit from the protection of the three forms of intellectual property. Assistant Professor at the University of Denver College of Law, Viva R. Moffat, points out that “an ornamental design used on the front of a car, for example, would be eligible for all three versions of federal intellectual property protection.”¹⁰⁷ The design patent system protects novel, nonobvious, ornamental designs for a period of fourteen years, providing essentially the same property rights that an invention would obtain with a utility patent.¹⁰⁸ The same design may also qualify for copyright protection, provided it is an original and expressive work.¹⁰⁹ The design also may also function as a trademark as long as it serves to indicate the source of the car.¹¹⁰

This is well illustrated with Bavarian Motor Works’ classic signature design of “kidney” grilles with four headlights. Those aesthetic elements have been used through generations of production as a distinctive design of BMW’s cars. The ornamental details that encompass all models produced by the German corporation are original, expressive works that constitute novel, nonobvious, ornamental designs which, by the passage of time, serve to indicate the car’s source or manufacturer. As long as they do not serve a functional characteristic or utilitarian purpose (for example, enhance the suction of cold air into the motor) and only attend the aesthetic appearance of their models, the details may gain the protection from a design patent, copyright, trademark or the combination of all three.

Thus, it would not be uncommon to see a federal court entertaining a complaint alleging the infringement of all three intellectual protections. This is well illustrated in the following introductory language of a summary judgment order rendered by the District Court of the Southern District of New York: “On February 16, 2007, [the plaintiff] filed suit against defendants, asserting claims for copyright, trade dress, design patent and trademark infringement, as well as, claims for false designation of origin, unfair competition, and deceptive trade practices.”¹¹¹

D. Problems of overlapping

Critics have increasingly disapproved the convergence between various forms of intellectual property protection that often allow for an extensive overlap of rights. Some of the problems identified by the overlapping protections are: the development of “rent-seeking behavior” of industry groups, the increase of the transaction costs for consumers and

¹⁰⁷ Moffat, *supra* note 68, at 1511.

¹⁰⁸ See 35 U.S.C. § 171 (2012).

¹⁰⁹ See 17 U.S.C. § 102 (2012).

¹¹⁰ See *Qualitex*, 514 U.S. at 166.

¹¹¹ *Yurman Studio, Inc. v. Castañeda*, 591 F.Supp.2d 471, 481 (S.D.N.Y. 2008).

competitors, the disruption of the public policy balance established by Congress, the ambiguity of an acceptable use by third parties of design elements protected by various forms of intellectual property, and the decrease in the number of works entering the public domain due to extended or perpetual protection, among others.¹¹² As sustained by Professor Crouch: “this reluctance to allow overlapping rights stems from a commonly held belief that intellectual property owners should not be permitted to re-categorize one form of intellectual property as another, thereby extending the duration of protection beyond that which Congress deemed appropriate for their actual creative efforts.”¹¹³

Even if concerns regarding overlapping rights are legitimate, I believe that the problems associated with the overlap require a more insightful consideration and an extensive investigation over time to discern whether or not they truly present the drastic effects that some critics have stated. The problems relating to intellectual property protection are of great and sensitive commercial and economic importance and require meticulously drafted rules. The first step towards dealing with the overlapping protection would require attention by Congress. First, one must be able to determine if those theoretical problems truly exist. As the Canadian attorney Gordon J. Zimmerman illustrates: “Although conceptually, copyright protection could be used to prevent copying of a design that eventually achieves trademark distinctiveness, the lifetime of protection for copyright is so long that this should not be a practical issue.”¹¹⁴

Second, the Supreme Court counts with a useful tool consisting of the Judges’ exercise of judgment, choice, and discretion required in order to be able to answer the most difficult questions of constitutional and statutory interpretation, with which the Supreme Court can limit the impact of this overlap, if it finds the presence of clear abuses in the use of overlapping protections. “Reliance on jurisprudence and the wording of the statutes as they exist seems likely to be the basis for resolution of these issues for the foreseeable future.”¹¹⁵ To illustrate my position I point out that this happened with one of the problems that Professor Viva R. Moffat exemplified in 2004. Moffat argued that:

¹¹² For more information regarding the problems of overlapping IP, see Moffat, *supra* note 68, at 1512–20. See also Oddi, *supra* note 101, at 43–49.

¹¹³ Crouch, *supra* note 80, at 47.

¹¹⁴ Gordon J. Zimmerman, *Extending The Monopoly? The Risks And Benefits Of Multiple Forms Of Intellectual Property Protection*, 17 CAN. INTELL. PROP. REV. 345, 366 (2000).

¹¹⁵ *Id.* at 367.

If a copyright owner obtains an additional form of protection such as a trademark, however, the public may be deprived of some of these bargained for benefits.

Pressing Mickey Mouse into service yet again, the availability of trademark protection means that some uses of Mickey that might be considered “fair use” under copyright law may be actionable under trademark law. A parody of Mickey Mouse used in a magazine, for example, might be deemed fair use under copyright law, but might nonetheless constitute actionable trademark infringement. In this situation, Disney continues to obtain all of the rights and benefits that ordinarily flow to copyright owners, but the public is deprived of elements of the bargain—the fair use exception is an integral part of copyright law and is a significant element of the copyright bargain.¹¹⁶

However, the Supreme Court in *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*,¹¹⁷ held that the fair use defense in trademark law is not precluded by the possibility of confusion. The Court expressed:

The common law's tolerance of a certain degree of confusion on the part of consumers followed from the very fact that in cases like this one an originally descriptive term was selected to be used as a mark, not to mention the undesirability of allowing anyone to obtain a complete monopoly on use of a descriptive term simply by grabbing it first.¹¹⁸

Contrary to some scholars, it is my view that a general rule against overlap would not have a positive impact. This argument is based on the aforementioned cases *In re Mogen David Wine Corp.* and *In re Honeywell Inc.*, and concur with the Court's views that the three forms of intellectual property exist independently of each other, under different law schemes, and for diverse motives. For example, even though, Mickey Mouse, a design originally protected by copyrights, may now or in the future be protected under trademark law, it may do so only because it acquired secondary meaning by its use in relation to some goods and services. It, therefore, meets the underlying public policies of the brand protection that Congress intended to incorporate into *The Lanham Act*.

The Mickey Mouse design, either under trademark, patent design or copyrights, derives its protection from the scheme and set of rules that those

¹¹⁶ Moffat, *supra* note 68, at 1516.

¹¹⁷ *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111 (2004).

¹¹⁸ *Id.* at 122.

systems provided. Thereby the Walt Disney Company may lose its Mickey Mouse figure if it abandons or discontinues using the brand in commerce or if the patent design or copyrights expires. Even if the Mickey Mouse design holds overlapping rights, those protections are nonetheless subjected to the consideration and policies that underlie the different forms of intellectual property. Similarly, Zimmerman exemplifies that:

[I]f the drawing in a patent illustrates a functional article with the super-addition of aesthetic features or an aesthetic design such as the face of "Mickey Mouse," there is no reason why copyright in the design of the "Mickey Mouse" face should be lost. Moreover, if that aesthetic design also functions as a trademark, it would be hard to argue that such protection must be lost simply because the design found its way into patent drawings. Use of that design would almost certainly not be necessary to enjoy the benefit of the invention of the expired patent. The copyright and trademark rights may have preceded the patent rights, and may continue to exist long after the patent expires.¹¹⁹

IV. CONCLUSION

Whether overlapping protection between different forms of intellectual property is desirable or permitted depends on the particular view of those who benefit from it and those who do not. However, there is no denying that such overlap does exist and it presents fertile ground for strategic decision making and commercially oriented planning to maximize the protection of intellectual property. As a result, the creator of the work will achieve higher economic performance and profits in the long run. The different types of protection and their incidental overlapping characteristics reflect the evolution of the industrial, scientific, and artistic production in the United States. It also represents a commercial value in the domestic and international markets. Intellectual Property is one of the United States' most valuable assets and a key driver of the economy.

As recent as in March 2012, the U.S. Department of Commerce, working with the President's Council of Economic Advisors and the Chief Economists of the Office of the U.S. Trade Representative, Department of Labor, and other federal agencies, released an economic report identifying the full range of sectors that generate intellectual property, as well as, the

¹¹⁹ Zimmerman, *supra* note 114, at 365-66.

jobs, exports, and wage premiums which those sectors support. The report found that nearly 30% of all jobs in the U.S. are directly or indirectly attributable to the Intellectual Property Industry. Likewise, the study found that intellectual property is also critical to U.S. trades, since goods from the intellectual property industries account for 60% of all U.S. exports. And in 2010 alone, "IP-intensive industries accounted for about \$5.06 trillion in value added, or 34.8 percent of U.S. gross domestic product"¹²⁰

In order to reap the benefits of time, money, and resources invested in the production of intellectual property there must be a legal and regulatory system with the capability to timely process and assert property rights disputes. Nevertheless, the protection of intellectual property rights in United States can be rendered useless if lawful owners and creators are prone to usurpation and legal attrition for not acquiring the protection that best suits their works. The overlap among the laws presents a new and successful strategy to achieve the maximum protection for intellectual property and knowledge of the applicable statutes and regulations. Correct application in federal, state and, international bodies is a first line of defense in exercising that protection.

¹²⁰ ECON. & STAT. ADMIN. WITH U.S. PAT. & TRADEMARK OFF., INTELLECTUAL PROPERTY AND THE U.S. ECONOMY: INDUSTRIES IN FOCUS vi (2012), *available at* http://www.uspto.gov/news/publications/IP_Report_March_2012.pdf.

EL SEGURO DE TÍTULO EN PUERTO RICO, FUENTE DE SEGURIDAD PATRIMONIAL

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I. Introducción.....	153
II. Trasfondo General:	154
III. Aspectos Generales sobre el Seguro de Título.....	156
IV. El Mercado Secundario de Hipotecas	163
V. La Estructura de la póliza del seguro de título:.....	166
VI. El efecto de la Ley 216 en el Sistema Registral y su Fe Pública.....	167
VII. Conclusión	169

I. INTRODUCCIÓN

En Puerto Rico, todo negocio de compraventa de bienes inmuebles, realizado mediante el financiamiento de instituciones bancarias o hipotecarias, requiere la suscripción de una póliza de seguro de título a favor del acreedor hipotecario. Dentro de nuestra jurisdicción su uso es común y su aplicación es continua. Sin embargo, el alcance y la jurisprudencia del mismo limita, toda vez que la información sobre las reclamaciones a dicho seguro constituyen información privada. El seguro de título en Puerto Rico opera de forma paralela al sistema inmobiliario registral civilista y aporta a la seguridad patrimonial. Ello contrasta con la finalidad que provee el sistema registral, el cual aporta a la seguridad jurídica en materia inmobiliaria. En particular, el seguro de título tiene dos acepciones generales, siendo la primera el seguro de título que se constituye a favor del acreedor hipotecario (en adelante, “STH”). Por otro lado, la segunda manifestación es el seguro a favor del dueño (*Home Owner’s Policy*).

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Este escrito se enfoca en el seguro que se contrae a favor del acreedor hipotecario. El mismo es conocido en los Estados Unidos (en adelante, “EEUU”) como el *Title Lender Policy* y constituye una figura de uso común en el derecho anglosajón, atípica a nuestro sistema de derecho civilista. El seguro de título se introdujo en el sistema puertorriqueño con posterioridad a la invasión norteamericana de 1898, debido al vínculo jurídico existente entre ambos países.¹ Del mismo modo, el crecimiento, expansión y desarrollo de los mercados secundarios de hipotecas han movilizado la utilización de dicho seguro en toda transacción inmobiliaria bancaria.

Se pretende de forma sucinta, definir, analizar e identificar el uso del seguro de título en la sociedad puertorriqueña. El requisito del seguro de título a favor del acreedor hipotecario tiene un impacto directo en los deudores hipotecarios ya que, en la mayoría de los financiamientos, son éstos quienes acarrean el pago de la póliza. De igual forma, las imperfecciones, los errores y los problemas que surgen de las constancias del Registro son garantizadas a los acreedores hipotecarios mediante dicho seguro inmobiliario. No ha de olvidarse que en nuestra jurisdicción, el negocio de seguros está revestido de un alto interés público.² A tenor con ello, el mismo ha sido ampliamente regulado, principalmente por el Código de Seguros de Puerto Rico.³ Debe resaltarse que, a la fecha de la redacción del presente escrito, no se encontraron estadísticas oficiales sobre el STH, específicamente datos acerca de su uso y efecto en Puerto Rico.

El presente escrito busca ampliar la literatura disponible sobre el tema. De igual forma, se intenta colocar en el tinero una realidad que afecta el crédito territorial con el fin de abrir la discusión sobre la necesidad de agilizar y modernizar el sistema registral. En la actualidad no hay datos públicos que monitoreen las reclamaciones que se realizan al referido seguro, y que podrían servir de referencia a la hora de analizar la operación del Registro de la Propiedad en Puerto Rico.

II. TRASFONDO GENERAL:

El crédito territorial es un elemento catalítico para el flujo de capital en las sociedades modernas. El derecho real de hipoteca es la principal asociación que se tiene con el crédito territorial. En síntesis, el gravamen hipotecario recae sobre un bien inmueble que tiene de ordinario preferencia

¹ LUIS RAFAEL RIVERA RIVERA, DERECHO REGISTRAL INMOBILIARIO PUERTORRIQUEÑO 25 (2da ed. 2002).

² Véase S.L.G. Francis-Acevedo v. SIMED, 176 DPR 372, 384 (2009); véase además Echandi Otero v. Stewart Title, 174 DPR 355, 369 (2008); Molina Texidor v. Plaza Acuática, 166 DPR 260, 266 (2005).

³ Código de Seguros de Puerto Rico, Ley Núm. 77 de 19 de junio de 1957, 26 LPRA §§ 101–8096 (2010).

en caso de incumplimiento de la deuda contraída, según su rango. Ciertamente, para que los mercados de capital puedan operar con eficacia, resulta necesaria la seguridad jurídica.

En particular, y con el fin de dotar al sistema de una mayor seguridad jurídica, la tradición civilista española estableció el sistema registral inmobiliario. Debido a los vínculos históricos entre Puerto Rico y la monarquía española, se estableció dicho sistema, mediante la adopción de *La Ley Hipotecaria para la Provincia de Puerto Rico de 1789*.⁴ El sistema registral inmobiliario con eficacia convalidante que existe en Puerto Rico sigue el principio de inoponibilidad de los actos que no estén inscritos.⁵ El sistema registral inmobiliario tiene el fin de proveer la fe pública registral y, a su vez, limita la publicidad posesoria.⁶ De otra parte, dicho sistema estableció una presunción de certeza y corrección sobre las constancias del Registro.

Muchos estiman que el Registro de la Propiedad de Puerto Rico constituye la principal fuente de seguridad jurídica para la adquisición de bienes inmuebles en Puerto Rico. Claramente, no hay duda de que la existencia del Registro de la Propiedad es consustancial para el desarrollo del crédito territorial y su correspondiente seguridad jurídica. Sin embargo, ciertos factores humanos, económicos y tecnológicos han impedido la modernización del Registro de la Propiedad de Puerto Rico.⁷ De igual forma, los procesos de “urbanización e industrialización ocurridos en el [P]aís a partir de la década del cincuenta, así como la gran influencia de capital extranjero, [en su mayoría] estadounidense, han impartido un notable dinamismo en la economía puertorriqueña”.⁸ Ello tuvo el efecto de un acrecimiento en el flujo de presentaciones ante el Registro de la Propiedad.

El Registro de la Propiedad de Puerto Rico tuvo un atraso de gran magnitud en su proceso de calificación. Por tal razón, en el año 2010 se estableció la Ley Núm. 216 de 27 de diciembre de 2010, denominada como la Ley para Agilizar el Registro de la Propiedad.⁹ La aplicación de dicha Ley implicó la inscripción de todos los documentos pendientes que no abrieran finca nueva.¹⁰ Dicha inscripción se realizó por virtud de la propia Ley, por lo que los documentos afectados no fueron calificados por el Registrador. De esta manera, se generaron laceraciones a la fe pública registral. Sin embargo,

⁴ Véase RIVERA RIVERA, *supra* nota 1, en la pág. 25.

⁵ Véase *id.* en la pág. 32.

⁶ Véase Ley Hipotecaria de 1979, Ley Núm. 198 del 8 de agosto de 1979, 30 LPRA § 2355 (Supl. 2012); véase además Banco Santander v. Rosario Cirino, 126 DPR 591 (1990).

⁷ Véase RIVERA RIVERA, *supra* nota 1, en la pág. 28.

⁸ *Id.* en la pág. 29.

⁹ Ley para Agilizar el Registro de la Propiedad, Ley Núm. 216 de 27 de diciembre del 2010, 30 LPRA §§ 1821–1831 (Supl. 2012).

¹⁰ 30 LPRA § 1821.

el atraso en los documentos presentados implicó un estancamiento mayor en el tráfico económico puertorriqueño, por lo que la solución que el legislador ideó resultó en beneficio de todos los acreedores hipotecarios que tenían documentos pendientes y que no habían sido inscritos; hecho que tuvo efectos determinantes en la ejecución de su garantía, toda vez que la hipoteca en nuestro ordenamiento es de carácter real, accesorio y constitutivo.¹¹

Lo antes expuesto ha tenido el efecto de encarecer el crédito territorial, toda vez que en cierta medida la seguridad jurídica se ha visto lacerada. Por ello y por otras razones que se discutirán a continuación, los acreedores requieren que los originadores de préstamos hipotecarios recurran a una garantía adicional que complemente la seguridad jurídica que es ofrecida por el Registro de la Propiedad. De esta forma, buscan alternativas que les permitan minimizar los riesgos al momento de otorgar préstamos hipotecarios. En particular, la fe pública registral es insuficiente para que los instrumentos negociables que surgen de las hipotecas puedan circular en los mercados secundarios. “La movilización de los instrumentos negociables a los mercados secundarios provee a las entidades financieras el desplazamiento del riesgo contraído. Resultando ello en un aumento en la capacidad de prestación para los consumidores”.¹²

En Puerto Rico, el seguro de título opera al margen y de forma paralela, aportando a la seguridad patrimonial inmobiliaria. Ciertamente, la inserción del seguro de título en nuestro sistema jurídico implicó un choque, pues es una figura anómala dentro del sistema hipotecario civilista. No obstante, en la actualidad, su uso es común, además de ser reglamentado por el Código de Seguros de Puerto Rico.¹³

III. ASPECTOS GENERALES SOBRE EL SEGURO DE TÍTULO

En primer lugar, resulta medular señalar que aunque de ordinario en una enajenación de bienes inmuebles se transfiere la posesión del predio con la propiedad, existen derechos y obligaciones que son inseparables, pues gravan el inmueble enajenado. Para poder determinar la existencia de tales derechos y obligaciones que gravan la propiedad es necesario llevar a cabo un estudio de título. En muchas ocasiones no resulta tarea fácil recopilar la información que brinda el tracto a dicho inmueble. Es por esto que la investigación de los antecedentes de la propiedad resulta ser un elemento esencial, ya que pueden aparecer defectos, vicios o anomalías que afecten la propiedad, y que tengan un efecto adverso en las operaciones

¹¹ Véase 30 LPRA § 2552; véase además *Rosario Pérez v. Registrador*, 115 DPR 491, 493 (1984); *S.J. Credit, Inc. v. Ramírez*, 113 DPR 181 (1982).

¹² Entrevista telefónica con el Sr. Edward Hamann, Underwriter para la región del Caribe, Commonwealth Land Title Ins. Co. (10 de enero de 2013).

¹³ 26 LPRA §§ 101-8096.

relativas. El seguro de título representa una seguridad patrimonial que busca proteger a los acreedores hipotecarios y a los consumidores dueños.

Como mencionado anteriormente, la figura del seguro de título que se utiliza en Puerto Rico proviene de Estados Unidos. Nuestro máximo foro, citando a Vázquez Bote explica que:

[L]a figura del seguro de título que se utiliza en Puerto Rico proviene de Estados Unidos. Con ésta se persigue fundamentalmente el que el título se pueda mercadear. Esto se refiere a la necesidad de que el título que es objeto del acuerdo causal se ofrezca libre de circunstancias que puedan generar dudas legales, o simplemente fácticas, acerca de su idoneidad para provocar la transferencia, sin problemas para el adquirente. Acreditar que el título es adecuado, en suma, entendiendo por título un antecedente susceptible de transferir el dominio'.¹⁴

“La necesidad del seguro de título en Estados Unidos surgió del hecho de que en la sociedad norteamericana no existe archivo inmobiliario alguno. A diferencia de Puerto Rico, allá no existe un Registro de la Propiedad que acredite que el título carece de riesgos”.¹⁵ En la jurisdicción estadounidense no existe registro o archivo de bienes inmuebles. De igual forma “[n]o existe un Registro de la Propiedad que acredite que el título carece de riesgos”.¹⁶ A tales fines, el Tribunal Supremo de Puerto Rico cita con autoridad a Vázquez Bote, a fin de explicar que:

[E]l método más común de registro de títulos en los Estados Unidos es el registro de todos los documentos que afecten [el] título [de] la propiedad inmueble. Así, la escritura de traspaso (deeds), las hipotecas, las anotaciones de cargas, las sentencias, los procedimientos de averación (probate) de testamento, las ventas forzosas en cobro de impuestos, los procedimientos hipotecarios y muchos tipos de instrumentos y procedimientos legales, son simplemente copiados en la Casa de los Tribunales (Court House) del condado. No hay ningún funcionario u organismo que tenga el deber

¹⁴ Pérez Sánchez v. Mortgage Investors, 130 DPR 530, 537-38 (1992) (citando a Enrique Vázquez Bote, *El Denominado Seguro de Títulos: Ventajas e Inconvenientes de su Adopción en el Derecho Español*, XCII REV. DER. NOT. 221, 239 (1976)).

¹⁵ *Id.* en la pág. 238.

¹⁶ *Id.*

de calificar el estado de la titulación de una parcela inmobiliaria en particular y de conservarla al día.¹⁷

En EEUU se impone la investigación del título y la existencia del seguro de título. El origen del seguro de título emana de las afluencias por razón de la carencia de seguridad jurídica que se da en la adquisición de bienes inmuebles en los EEUU. A modo de ilustración histórica, en 1867, un comprador perdió su derecho ante la acción ejercitada por otra persona. Debido a ello se ejercitó una acción de daños y perjuicios contra las personas que intervenían en la transmisión de bienes inmuebles, entendiéndose contra los que aprobaban la titulación al vendedor, los denominados *conveyancers*.¹⁸ “El fallo definitivo de los tribunales fue que el ‘*conveyancer*’ estaba obligado a desempeñar su cometido con la debida diligencia, pero que habiéndolo hecho en aquel caso, en la medida exigible, no tenía responsabilidad”.¹⁹ Por motivo de dicha determinación judicial se fundó la primera compañía dedicada al seguro de título, *The Real Estate Insurance Company*.²⁰ Dicha compañía aún opera en los Estados Unidos, aunque bajo otro nombre corporativo.

Sin embargo, en Puerto Rico, al igual que en otros países donde predomina el derecho registral inmobiliario de índole civilista “[s]e ha entendido que la protección que ofrece el seguro de título es más extensa [a nivel patrimonial] que la que es brindada por el registro inmobiliario”.²¹ No obstante, dicho seguro generó controversia ya que nuestro sistema se rige por la fe pública que garantiza el sistema registral. Razón por la que algunos sostienen que no se justifica en nuestro sistema de derecho el seguro de título. Sin embargo, otros sostienen que el mismo es beneficioso. Por ejemplo, se afirma que la protección que ofrece dicho seguro no se limita al Registro de la Propiedad, sino que va más allá, como el proveer indemnización por las deudas contributivas sobre la propiedad que no surjan del Registro, por no estar embargada la finca. Entiéndase que dicha póliza provee un grado de tranquilidad respecto al asegurado por errores o inadvertencias en el estudio de título.

Nuestro más alto foro ha expresado que el seguro de título es aquel “[c]ontrato, en cuya virtud el asegurado le paga una prima al asegurador a cambio del compromiso de este último de indemnizarle en caso de que el primero sufra una pérdida causada por gravámenes o defectos en un título

¹⁷ *Id.*

¹⁸ Manuel A. Romero Vieitez et. al., *El Seguro de Título*, en XVI CONGRESO INTERNACIONAL DEL NOTARIADO LATINO 59 (1977).

¹⁹ *Id.* en las págs. 59–60.

²⁰ *Id.* en la pág. 60.

²¹ *Echandi Otero*, 174 DPR en la pág. 376.

inmobiliario sobre el cual obtiene un interés”.²² Cabe destacar que el asegurado persigue que se realice un estudio con anterioridad a la emisión de la póliza. “[E]l descubrimiento de un defecto durante el estudio del bien inmueble a ser asegurado tiene como consecuencia que la compañía aseguradora decida corregirlo antes de emitir la póliza, exceptuarlo de [ella] o asumirlo”.²³.

El Código de Seguros de Puerto Rico expresamente define el seguro de título en su artículo 4.001 cómo “[e]l seguro de dueños de propiedad inmueble o mueble u otros que tengan interés o gravámenes o cargas sobre la misma, contra pérdida por gravamen, títulos defectuosos o invalidez o reclamación adversa al título, y los servicios correspondientes”.²⁴ Nótese que la definición es amplia, toda vez que, según mencionado anteriormente coexisten otros seguros de título respecto a propiedad inmueble. La modalidad más común del seguro de título es el seguro de hipoteca.²⁵ Las pólizas de seguro de título se expiden por una compañía aseguradora a favor del dueño de una propiedad inmueble o sus acreedores hipotecarios. No obstante, en el caso del titular de la propiedad, estas pólizas se usan para garantizarle a éste su título e indemnizarle en caso de que sufra una pérdida o menoscabo en su derecho. Dichas pólizas son denominadas como *Home Owner's Policy*, el cual de ordinario, asegura el monto de la cantidad pagada por el dueño del inmueble y se mantiene en efecto por el tiempo que el dueño retenga un interés sobre la propiedad.²⁶ Su empleo consiste en cubrir riesgos en los negocios de transmisión de un interés inmobiliario, excepto en aquellos ya cubiertos por el seguro de hipoteca. Así, “[e]stas pólizas se utilizan para garantizarle el título al adquirente de una propiedad en caso de que sufra una pérdida o un menoscabo en su derecho”.²⁷

Sin embargo, las pólizas que se expiden a favor de un acreedor hipotecario son conocidas como *Loan-Policies* y garantizan a éste o a su cesionario el derecho real de hipoteca que tenga sobre la propiedad inmueble. Es menester exponer que tal garantía consiste en una indemnización por el balance de la deuda garantizada por la hipoteca en caso de que surja algún defecto en el título de la propiedad que afectara la validez de la garantía hipotecaria. Entiéndase que asegura al prestamista la validez, prioridad y exigibilidad de su derecho de retención (hipoteca) y, al mismo

²² *Id.* en la pág. 374.

²³ *Id.*

²⁴ 26 LPRA § 410.

²⁵ Véase *Echandi Otero*, 174 DPR en la pág. 375.

²⁶ Véase AM. LAND TITLE ASS'N, TITLE INSURANCE: A COMPREHENSIVE OVERVIEW, *disponible en* <http://www.alta.org/about/TitleInsuranceOverview.pdf> (última visita el 20 de oct. de 2013).

²⁷ *Echandi Otero*, 174 DPR en la pág. 376.

tiempo, sirve como protección de los intereses de la entidad crediticia en la propiedad. Una póliza a favor del acreedor hipotecario se emite por la cantidad del préstamo. De igual forma, la responsabilidad disminuye a medida que la deuda hipotecaria se reduce. Una póliza de seguro de título solamente cubre al asegurado y a los sucesores de éste según la ley disponga.²⁸ Por lo que las pólizas de seguro de título no se extienden al inmueble. En el caso de los seguros de título a favor del acreedor hipotecario, son éstos los únicos con legitimación activa para solicitar representación legal de las aseguradoras puesto que son los beneficiarios de la póliza.²⁹ Esto implica que los dueños de la propiedad no son beneficiarios, aunque hayan pagado la misma póliza como requisito para el financiamiento del bien inmueble.

Las pólizas de seguro de título se expiden por una compañía aseguradora. Las cuales son especialistas, toda vez que dicha cubierta es una compleja. La mayoría de las compañías aseguradoras se agrupan en el *American Land Title Association* (en adelante, "ALTA"). Dicha organización fue fundada en 1907 y, en la actualidad, tiene su sede en el Distrito de Columbia en los Estados Unidos.³⁰ La organización agrupa en su mayoría a casi todas las compañías que emiten pólizas de seguro de título. Hoy día, los seguros de título son emitidos en alrededor de 100 países a nivel mundial.³¹ Ha de señalarse que ALTA estableció un modelo de seguro de título para uniformar la emisión de tales pólizas, ajustado a las necesidades por razón de los defectos encontrados en cada propiedad inmueble durante el estudio del título.³² De acuerdo a estadísticas ofrecidas por la ALTA, en un veinticinco por ciento de las transacciones, las compañías de seguros encuentran y resuelven los problemas de título encontrados en su estudio.³³ Resulta medular resaltar que, a la fecha de la redacción del presente escrito, en Puerto Rico no se encontraron estadísticas disponibles al respecto.

En Puerto Rico el seguro de título es un contrato indemnizatorio que se rige por las reglas generales aplicables a los contratantes de seguros y, al igual que todo contrato, el mismo constituye ley entre las partes.³⁴ A tales efectos, el Tribunal Supremo ha resuelto que este "es un contrato de adhesión, por lo cual debe interpretarse liberalmente en beneficio del asegurado".³⁵ No obstante, si los términos del contrato de seguro son claros,

²⁸ Véase Pérez Sánchez, 130 DPR en la pág. 542.

²⁹ Véase Echandi Otero, 174 DPR en la pág. 371.

³⁰ Véase AM. LAND TITLE ASS'N, <http://www.alta.org> (última visita el 20 de oct. de 2013).

³¹ Véase *id.*

³² Para apreciar un modelo de contrato de seguro de título, véase *id.*

³³ Véase AM. LAND TITLE ASS'N, *supra* nota 26.

³⁴ Véase Monteagudo Pérez v. ELA, 172 DPR 12, 20 (2007); véase además López v. Atlantic Southern Ins. Co., 158 DPR 562, 568 (2003).

³⁵ Monteagudo Pérez, 172 DPR en la pág. 21; véase además Molina Texidor, 166 DPR en la pág. 272.

específicos y no dan margen a ambigüedades o diferentes interpretaciones, se hará valer la clara voluntad de las partes.³⁶ Por otro lado “[l]os términos de las pólizas de seguro deben ser generalmente entendidos en su más corriente y usual significado, sin atender demasiado al rigor gramatical, sino al uso general y popular de las voces”.³⁷

De ordinario, el propósito de todo contrato de seguros es la indemnización y protección en caso de producirse el suceso incierto previsto en este.³⁸ Al determinar cuáles son los riesgos cubiertos por una póliza de seguro es necesario considerar si en el contrato figura una cláusula de exclusión.³⁹ “Estas cláusulas tienen el propósito de limitar la cubierta establecida en el acuerdo principal disponiendo de este modo que el asegurador no responderá por determinados eventos, riesgos o peligros”.⁴⁰ No obstante, y de acorde con la norma general, si una cláusula de exclusión aplica claramente a determinada situación, la aseguradora no está obligada a responder por los riesgos expresamente excluidos.⁴¹

A diferencia de los contratos de seguros, los seguros de título tienen la característica de ser preventivos. Entiéndase que lo que buscan es la eliminación de un riesgo y no la asunción o distribución de uno. “Como norma general, los seguros de título ofrecen cubierta por pérdidas futuras a causa de gravámenes o defectos en el título anteriores a la fecha de emisión de la póliza”.⁴² De este modo, el seguro de título protege contra el riesgo surgido una vez adquirida la propiedad, y “se descubr[e] que en el título ya existía, en el momento de contratar el seguro, un defecto que podía privar de su derecho al adquirente”.⁴³ El verdadero seguro de título no trata de proteger contra el riesgo del surgimiento de algún hecho futuro que afecte el derecho del asegurado. “El riesgo asegurado dimana de un defecto oculto en el derecho del enajenante, que el sistema de *record* no permite descubrir”.⁴⁴ El fin último que persigue el seguro de título a favor del acreedor hipotecario

³⁶ Véase CÓD. CIV. PR art. 1233, 31 LPRA § 3471 (2011); véase además *Coop. de Ahorro y Créd. Oriental v. S.L.G.*, 158 DPR 714, 723 (2003); *Quiñones López v. Manzano Pozas*, 141 DPR 139, 154 (1996).

³⁷ *Morales Garay v. Roldán Coss*, 110 DPR 701, 706 (1981); véase además *Molina Texidor*, 166 DPR en la pág. 267.

³⁸ Véase 26 LPRA § 1125.

³⁹ Véase *Monteagudo Pérez*, 172 DPR en la pág. 21.

⁴⁰ *Id.*

⁴¹ Véase *Molina Texidor*, 166 DPR en las págs. 267–68; véase además *Marín v. American Int'l Ins. Co. of P.R.*, 137 DPR 356, 362 (1994).

⁴² ALEX M. JOHNSON, UNDERSTANDING MODERN REAL ESTATE TRANSACTIONS 272 (3ra ed. 2012).

⁴³ *Echandi Otero*, 174 DPR en la pág. 375 (citando a José Puig Brutau, *El Seguro a Favor del Adquirente de Bienes Inmuebles en los Estados Unidos*, XCIII–XCIV REV. DER. NOT. 245, 254 (1976)).

⁴⁴ *Romero Vieitez*, *supra* nota 18, en la pág. 62.

es que se indemnice al beneficiario de la póliza, en caso de pérdida de la prioridad registral de la hipoteca o por defectos en el título.

Nuestro Tribunal Supremo, haciendo alusión a los mercados secundarios, ha señalado que la finalidad que persigue el seguro de título es que el mismo se pueda mercadear. En particular ha expresado que:

‘[L]a necesidad de que el título que es objeto del acuerdo causal se ofrezca libre de circunstancias que puedan generar dudas legales, o simplemente fácticas, acerca de su idoneidad para provocar la transferencia, sin problemas para el adquirente. Acreditar que el título es adecuado, en suma, entendiendo por título . . . un antecedente susceptible de transferir el dominio’.⁴⁵

De igual forma, se ha establecido en nuestro ordenamiento jurídico que el seguro de hipoteca responde a una necesidad de mercado. El mismo faculta a los prestamistas en Puerto Rico a vender y a traficar en los mercados financiero en Estados Unidos, las obligaciones colateralizadas aquí constituidas. Por ello, se dispone en nuestra jurisprudencia que “[u]n título mercadeable es aquel que una persona razonable no dudará en adquirir porque garantiza que la propiedad está libre de gravámenes”.⁴⁶ De igual forma se señala en nuestra jurisprudencia que:

[L]a compraventa de hogares se realiza en la gran mayoría de los casos por medio de empresas de financiamiento que compran las hipotecas aseguradas por la Federal Housing Authority. Hay una serie de corporaciones, como Housing Investment Corporation y James T. Barnes Inc., que compran las hipotecas aseguradas por la F.H.A. para luego vendérselas a inversionistas continentales. Estos inversionistas quieren que su dinero goce de toda la protección posible. Sin embargo, cuando un deudor hipotecario deja de pagar por su préstamo, la F.H.A. le paga el monto total de la hipoteca al inversionista, solo [sic] si [e]ste le entrega una casa con un título limpio. Si no existe un título limpio el inversionista no puede recobrar de la F.H.A. Como protección contra esta situación los inversionistas requieren el seguro sobre el título. *O sea, el adquirente de la casa tiene que comprar un seguro para que en caso de que el título que esa persona ha adquirido esté viciado, el dinero que el inversionista le prestó para la adquisición de ese hogar esté*

⁴⁵ Pérez Sánchez, 130 DPR en la pág. 538 (citando a ENRIQUE VÁZQUEZ BOTE, *supra* nota 14, en la pág. 239).

⁴⁶ Echandi Otero, 174 DPR en la pág. 379 n.14 (citando a Jessica P. Wilde, *Violations of Zoning Ordinances, The Covenant Against Encumbrances and Marketability of Title: How Purchasers Can Be Better Protected*, 23 TOURO L. REV. 199 (2007)); véase además Pérez Sánchez, 130 DPR en la pág. 538.

*garantizado. El deudor hipotecario paga por un seguro que solo [sic] protege al acreedor hipotecario. Cabe señalar, además, que al evaluar reclamaciones como la del presente caso, hay que tomar en consideración no s[o]lo si el reclamante es el asegurado, sino también si la aseguradora tiene la misma obligación para con el reclamante que tiene con respecto al asegurado. No podemos olvidar que la póliza cubre solamente al asegurado.*⁴⁷

La interpretación que antecede alude a los mercados secundarios hipotecarios. De igual forma, ello refleja nuevamente que “[e]l seguro de título no es un seguro de título del adquirente, es decir, no suple los defectos de los que pueda adolecer el negocio adquisitivo en su celebración, conformación o formalización y autenticación, sino que le asegura el título del transferente”.⁴⁸

IV. EL MERCADO SECUNDARIO DE HIPOTECAS

El mercado secundario de hipotecas es producto de un esfuerzo por parte del gobierno de los Estados Unidos, y que resultó en la aprobación del *Emergency Home Finance Act of 1970*.⁴⁹ Dicha legislación federal creó el mercado secundario de hipotecas convencionales.⁵⁰ Por razón de su creación surge el desarrollo de las formas estandarizadas de hipoteca, que son ingrediente esencial en la creación del mercado secundario de hipotecas de hoy día. Hecho que ha permitido una mayor estandarización y rapidez en los préstamos hipotecarios.

Mediante dicha legislación, el gobierno federal estadounidense intentaba facilitar el financiamiento de unidades residenciales. Debido a que se buscaba una pronta recuperación de la economía a la luz de cambios económicos que alteraron los mercados estadounidenses. De igual forma, se buscaba incrementar la liquidez en el mercado hipotecario. Por motivo de ello, advinieron o se crearon tres organizaciones,⁵¹ a fin de cumplir los objetivos antes descritos, incluyendo el *Federal National Mortgage Association* (FNMA), la cual actualmente opera como una entidad privada. No obstante, dicha organización actualmente mantiene el mercado secundario

⁴⁷ Pérez Sánchez, 130 DPR en las págs. 541–42 (énfasis en original).

⁴⁸ Romero Vieitez, *supra* nota 18, en la pág. 62.

⁴⁹ Véase *Emergency Home Finance Act of 1970*, § 303(f), 12 U.S.C. § 1452(f) (2008).

⁵⁰ Véase Peter M. Carrozzo, *Marketing the American Mortgage: The Emergency Home Finance Act of 1970, Standardization and the Secondary Market Revolution*, 39 REAL PROP. PROB. & TR. J. 765 (2005).

⁵¹ Véase JOHNSON, *supra* nota 43, en la pág. 152.

para hipotecas residenciales al comprar y vender las mismas. De igual forma, se creó el *Government National Mortgage Association* (en adelante, “GNMA”), la cual es una instrumentalidad corporativa del gobierno federal que vende valores con garantía hipotecaria a inversionistas, y cuyos certificados están asegurados por la Administración Federal de Vivienda. El pago mensual de capital e intereses de las hipotecas se pasan al inversionista. En la actualidad, GNMA es la única organización que ofrece valores (“securities”) garantizados por la cláusula de entera fe y crédito del gobierno de los EEUU. Además, se creó el *Federal Home Loan Mortgage Corporation* (en adelante, “FHMC”) en el 1970, como una corporación privada. La FHMC sirve como una línea de crédito central o intermediaria que compra y vende hipotecas, a su nombre, tanto como para los inversores. Además, opera como una empresa privada que tiene el rol de movilizar hacia el sector privado la función del gobierno en el mercado secundario de hipotecas. Debido a la importancia y el rol comercial que representa el mercado secundario de hipotecas, todos los instrumentos negociables para traficar en tal mercado quedan sujetos a las regulaciones del Código de Comercio Uniforme de los Estados Unidos (mejor conocido como “U.C.C.”, por sus siglas en inglés).

Principalmente en la década de los setenta e inicios de los ochenta era común que determinado banco o entidad financiera originara la deuda en una transacción hipotecaria residencial y retuviera la misma en sus libros. Posteriormente, se generaba la hipoteca y a la vez un instrumento negociable, es decir, el pagaré. Una vez, saldada la deuda, el banco liberaba y cancelaba el instrumento negociable que formaba parte de sus libros.⁵² Sin embargo, ese esquema cambió por razón de las fluctuaciones en las tasas de interés, el desarrollo de nuevos productos financieros y “[t]he securitization of mortgages and development of the secondary market for mortgages.”⁵³ La evolución y creación de los mercados secundarios resultó para las entidades financieras:

[V]ery profitable for lenders to originate mortgages, with the intent at the time of origination or very shortly after execution to sell the mortgages on the secondary market, retaining in most cases the right to service the mortgage. These originators, consequently would fund the mortgage and recoup those funds when the mortgage was sold.⁵⁴

Por tal razón, el rol de los emisores de deuda original, entiéndase los bancos, cambió. Toda vez que comenzaron a fungir como especialistas que

⁵² Véase *id.* en la pág. 7.

⁵³ *Id.* en las págs. 161–62.

⁵⁴ *Id.* en la pág. 8.

“[d]ealt with the mortgagor initially in executing and funding the mortgage with no intent of holding the mortgage note as mortgagee to maturity.”⁵⁵ No ha de olvidarse que la transacción hipotecaria y financiera típica tiene dos elementos productos de ellas: el pagaré y la hipoteca. El propósito del pagaré es producir un instrumento negociable regulado por el U.C.C. y permitir al acreedor hipotecario vender su interés en los préstamos hipotecarios, entiéndase, su derecho a recibir pagos mensuales, a fin de ejecutar hipotecas nuevas que sean más rentables. Debido al carácter intermediario de los emisores de deuda original, los inversionistas o los compradores de hipotecas en el mercado secundario han buscado proteger su interés en los bienes inmuebles, tanto como en las hipotecas. Por tanto, exigen que el deudor hipotecario tenga un seguro de título que proteja al acreedor hipotecario si el título no correspondiese al deudor.⁵⁶ Los pagos deberán seguir siendo dirigidos al acreedor original, como parte del servicio del préstamo. No ha de pasarse por alto el hecho de que desde el año 1970, Fannie Mae y Freddie Mac han publicado documentos que hoy en día se utilizan en aproximadamente el 90% de los cierres de préstamos residenciales en los EEUU. Nótese la expansión de esta práctica de negocios:

[u]n proceso similar está en marcha respecto a la documentación de los préstamos comerciales, y la creciente demanda del mercado para la uniformidad. Ello incluye ahora los servicios y productos relacionados con los préstamos hipotecarios, tales como las normas de suscripción, normas de construcción, las prácticas de evaluación, seguro de título, y el seguro hipotecario.⁵⁷

El mercado secundario ha respondido al creciente desarrollo de nuevos productos financieros, tales como los *collateralized debt obligations* y los *mortgage-backed securities* que son *pools* de hipotecas individuales. El requisito del seguro de título como resultado de la protección de los acreedores hipotecarios no ha sido cuestionado por dicho mercado. Sin embargo, estudios demuestran que solamente una pequeña porción de las primas son pagadas. Ha de resaltarse que en muchas ocasiones la prima no se paga, ya que la compañía aseguradora intenta por todos los medios corregir el defecto que se invoca. Si bien es cierto que el seguro de título opera para sus beneficiarios, su operación es retroactiva y no prospectiva. “Thus the

⁵⁵ *Id.* en la pág. 151.

⁵⁶ Véase *id.* en la pág. 152.

⁵⁷ Ann M. Burkhardt, *Real Estate Practice in the Twenty-First Century*, 72 Mo. L. Rev. 1031, 1041 (2007) (traducción suplida).

practical effect of a title insurance policy is to protect the insured against the effect of a title searchers negligence.”⁵⁸ En la actualidad:

[a] lender's title insurance policy is now issued in virtually every residential mortgage transaction in this country because Fannie Mae, Freddie Mac, and the other secondary market buyers will not purchase the mortgage otherwise. As a result, title insurance companies largely have replaced lawyers in the examination and evaluation of land titles in residential real estate transactions.⁵⁹

V. LA ESTRUCTURA DE LA PÓLIZA DEL SEGURO DE TÍTULO:

En primer lugar, ha de señalarse que la prima de dicha póliza es determinada por la compañía aseguradora. La misma se basa en el monto total del préstamo hipotecario o en el precio de compra de una póliza de propietarios y se cobra una sola vez.⁶⁰ En cuanto a su forma, las pólizas del seguro de título se dividen en diversas secciones o anejos. El anejo A es la carátula de la póliza y es identificada como *Schedule A*. Dicho anejo contiene los datos generales del seguro, tales como el número de póliza, el nombre del asegurado, la suma asegurada, el día y hora en que se expidió la póliza, la fecha y hora en que entró en vigor el seguro y la descripción del inmueble asegurado.⁶¹

En el cuerpo de la póliza se encuentran las excluyentes de cobertura (excepciones estandarizadas) y, posteriormente, los términos y condiciones generales del seguro. En los términos y condiciones se establecen una serie de definiciones básicas, una descripción de las transacciones y otros supuestos de terminación de cobertura del seguro. Además de los procedimientos relativos para la presentación de una reclamación del seguro, también se encuentran las obligaciones del asegurado y de la aseguradora, la forma de determinar la suma asegurada, la reducción de la suma asegurada derivada de pagos de reclamaciones, así como una cláusula arbitral junto a las demás cláusulas que gobiernan la cubierta del seguro. “Dentro del clausulado se elimina la cobertura de cualquier riesgo no contratad[o] que pueda derivarse del reporte de título que la aseguradora expide después de efectuar la búsqueda correspondiente y antes de emitir la póliza”.⁶²

⁵⁸ Quintin Johnstone, *Title Insurance*, 66 YALE L.J. 492, 502-05 (1957).

⁵⁹ Burkhart, *supra* nota 58, en la pág. 1063.

⁶⁰ Véase BARLO BURKE, *REAL ESTATE TRANSACTIONS* (5ta ed. 2011).

⁶¹ Odriozola Mariscal, *El Seguro de Título: Análisis Comparado Estados Unidos-México*, en COMISIÓN NACIONAL DE SEGUROS Y FINANZAS 26 (2004), disponible en http://www.cnsf.gob.mx/Eventos/Premios/2004%20Seguros/XI_Premio_SEGUROS_2o.pdf.

⁶² *Id.* en la pág. 27

De otra parte, el anejo B o el *Schedule B* contiene una lista de excepciones de cobertura que aplican a cada seguro en particular.

Mientras que en el cuerpo de la póliza se insertan las excluyentes de cobertura, es decir, las excepciones de cobertura estandarizadas para todos los seguros de título, en el Anejo B se insertan las excepciones de cobertura que aplican al seguro en particular. Dichas excepciones se conforman básicamente por los defectos conocidos y existentes del título que, por lo tanto, no quedarán asegurados.⁶³

Dichos defectos son resultado del estudio de título que realizó la aseguradora. En caso de que el asegurado desee cubrir dichas excepciones, este deberá subsanar los defectos encontrados o asegurarlos mediante un endoso, con el consecuente pago de una prima adicional.⁶⁴ La suma asegurada corresponde a la parte insoluble del crédito hipotecario contratado con el beneficiario de la póliza. “En ese sentido, no ha[] de confundir[se] la simple cesión de derecho de un crédito hipotecario, en donde el seguro original continuará vigente, con el refinanciamiento de hipoteca y, en cuyo caso habrá de efectuar[se] una renovación de la póliza y pagar una nueva prima”.⁶⁵ La póliza es emitida solamente después de un examen de las constancias de los registros y de un análisis de los riesgos. Incluso, algunos estados tienen leyes que prohíben que se logre una emisión de una póliza de seguro si el título no es mercadeable.⁶⁶

VI. EL EFECTO DE LA LEY 216 EN EL SISTEMA REGISTRAL Y SU FE PÚBLICA

La antes citada Ley 216 inscribió por su operación todos los documentos que estaban pendientes y que no creaban finca nueva. La polémica respecto a dicha ley gira en torno a los problemas registrales que puedan surgir por razón de la inscripción legal automática. Sobre ello, señala la profesora Ana Cristina Gómez que “[a]l trazar unos argumentos claves sobre la pertinencia del seguro en Puerto Rico, resulta preciso preguntarse si ese seguro sería suficiente para cubrir los defectos producidos por una inscripción automática”.⁶⁷ En su escrito, la profesora utiliza una póliza de seguro de título a fin de determinar que existe una exclusión por razón de

⁶³ *Id.*

⁶⁴ Véase *Id.*

⁶⁵ *Id.* en la pág. 29.

⁶⁶ Véase Charles Szypszak, *Public Registries and Private Solutions: An Evolving American Real Estate Conveyance Regime*, 24 WHITTIER L. REV. 663, 684–86 (2003).

⁶⁷ Ana Cristina Gómez Pérez, *El Efecto de la Ley Número 216 de 2010 Sobre el Tráfico Económico Inmobiliario en Puerto Rico*, 81 REV. JUR. UPR 845, 859 (2012).

gravámenes o inscripciones resultantes de una ley aprobada por el gobierno. A tales efectos, Gómez apunta que pueden esbozarse varios escenarios que versen sobre los daños ocasionados debido a la pérdida de derechos reales, como producto de la inscripción automática instada por la Ley:

1. La compañía de seguro estará exenta de cubrir cualquier perjuicio causado por la Ley, ya que en su exclusión incluye cualquier acto efectuado por el Estado que no se encuentre registrado al momento de emitir la póliza y que afecte la propiedad. Esto incluye la Ley Número 216.
2. La compañía de seguros estará exenta de cubrir cualquier perjuicio causado por la Ley, ya que la Ley Número 216 no se encontraba 'recorded in the public records at date of Policy'.
3. En contrapartida es posible interpretar que la compañía de seguros tendrá que cubrir cualquier perjuicio causado por la Ley Número 216, ya que en su artículo 2 indica que '[t]odos los documentos presentados en el Registro de la Propiedad al 30 de abril de 2010 quedan inscritos' y el artículo 53 de la Ley Hipotecaria indica que '[s]e considerará como fecha de inscripción para todos los efectos que ésta deba producir, aun para determinar el plazo necesario para la cancelación de asientos, la fecha de la presentación que deberá constar en la inscripción misma'.⁶⁸

La apreciación de la profesora es correcta. No obstante, a preguntas realizadas a Stewart Title, éste indicó que una reclamación que surja por razón de la Ley 216 estará cubierta si los documentos inscritos por operación de ley estaban pendientes de ser calificados y si los mismos habían sido examinados al momento en que se emitió la póliza. Entiéndase, la consideración previa de los documentos presentados ante el Registro de la Propiedad por parte de la compañía aseguradora al momento de emitir la póliza. Por lo que puede argüirse que se cuantificó el riesgo que representaban los mismos. No ha de olvidarse que la aseguradora examina dichos documentos y determina a base de estos si los mismos son susceptibles de ser cancelados o si tienen defectos que no son subsanables.⁶⁹ No obstante señaló que aún no está claro si la póliza cubrirá una inconsistencia que fue creada por razón de la aplicación de la Ley.

En primer término, ha de señalarse que nada de lo esbozado en el presente escrito representa una postura definitiva. Por el contrario, "[e]l resultado solo lo determinará el tiempo y los litigios que surjan con

⁶⁸ *Id.* en la pág. 860.

⁶⁹ Entrevista telefónica con Lcdo. Maymó, Stewart Title (15 de enero de 2013).

posterioridad a la aprobación de la Ley”.⁷⁰ Se puede inferir que según la jurisprudencia aplicable, el seguro de título no es prospectivo. Entiéndase, se puede deducir que todo documento inscrito por virtud de ley y que no fue objeto de examen por parte de la aseguradora quedará excluido de la póliza. Aun así, existen dudas respecto a los problemas que han surgido por razón de la operación de la Ley. En la actualidad aún queda la posibilidad de que surjan problemas por razón de que no hubo calificación registral. En tal caso, el seguro de título puede cobrar un rol predominante dentro de nuestra jurisdicción, dado a que podrá ser utilizado como una garantía adicional.

VII. CONCLUSIÓN

Por razón de la información analizada, se estima necesario que la seguridad jurídica inmobiliaria sea vista no solo desde el marco jurídico civilista, sino desde una perspectiva que garantice el flujo y el tráfico de los instrumentos negociables. Aunque el uso del seguro de título es común, la forma en la cual opera no está clara para todos. La falta de legislación y carencia de estudio pueden ser indicativos de una realidad percibida, pero ignorada. Por lo que el presente escrito busca armonizar ambos sistemas, a fin de promover ideas que no antagonicen a ambos sistemas cuando operen en conjunto. El fin último es promover ideas que aporten a una mayor seguridad jurídica en el País.

Como hemos visto, el seguro de título es producto de una necesidad patrimonial y no representa o implica una laceración a la seguridad jurídica que provee el Registro de la Propiedad en nuestra jurisdicción. Como fuese señalado anteriormente, la información relacionada a las reclamaciones y litigios producto del uso común del STH en nuestro ordenamiento es limitada y la información obtenida fue de carácter general. Tiene que denotarse que en Puerto Rico existe poca regulación a favor de los consumidores en materia de seguros de título. En particular, no se contabilizan o no se puede adquirir información sobre las reclamaciones realizadas a dicha cubierta, y cuál ha sido el alcance y/o los problemas que presenta la Ley 216.⁷¹ En Puerto Rico, debe ser materia de análisis el que se utilice la información relacionada a las reclamaciones a las aseguradoras, a fin de mermar las deficiencias registrales, para así establecer una mayor seguridad jurídica.

De igual forma, existe falta de información respecto a quiénes son beneficiarios de la póliza a favor del acreedor hipotecario. Por todo lo cual, se estima necesario que se le notifique a los clientes sobre la diferencia entre

⁷⁰ Gómez Pérez, *supra* nota 68, en la pág. 860.

⁷¹ La autora reconoce y agradece al personal de Stewart Title por la información gentilmente suministrada para llevar a cabo el presente estudio.

ambos seguros de títulos, los cuales en la mayoría de las ocasiones son pagados por los consumidores. De otra parte, no se encontró información pertinente al incumplimiento con la sección 9 del *Real Estate Settlement and Procedures Act* (RESPA),⁷² por parte de las entidades financieras en Puerto Rico. Dicha sección obliga a los bancos y entidades financieras para que los consumidores que paguen el seguro tengan la oportunidad de seleccionar con qué compañía desean pagar la prima⁷³. La referida sección ha causado problemas en EEUU, toda vez que se habla de una relación simbiótica entre los bancos y las aseguradoras. Nótese, empero, que en Puerto Rico los seguros están revestidos del más alto interés público.

No ha de olvidarse que el STH tiene el resultado de facilitar y promover el flujo en el mercado inmobiliario, produciendo y permitiendo una mayor capacidad prestataria por parte de las entidades financieras. De igual forma, el seguro de título provee en los desarrollos comerciales una garantía adicional que es altamente utilizada. La presente investigación no se centra en determinar cuál sistema provee mayor seguridad jurídica. En particular, se estima que el sistema registral fomenta y promueve una mayor seguridad jurídica. No obstante, se busca reconciliar ambos sistemas a fin de que ambos se nutran mutuamente y promuevan una mayor seguridad jurídica y patrimonial en nuestro ordenamiento. Cabe destacarse que la capacidad de prestación, la minimización de los riesgos y una baja tasa de interés están ligados al seguro de título a favor del acreedor hipotecario.

Por ende, los bancos y las entidades financieras pueden emitir más deuda, lo que en efecto resulta en mayor capacidad prestataria, teniendo un resultado positivo sobre la economía y los consumidores. De otra parte, se justifica el seguro de título en Puerto Rico toda vez que existen problemas en la forma en la cual se maneja el Registro de la Propiedad, incluyendo los atrasos en el proceso de calificación, problemas encontrados con la transcripción de información en el Sistema Ágora y dificultades que surgen al momento de llevar a cabo un estudio de título. Incluso en los EEUU han reconocido dichos problemas y se ha señalado que:

[P]uerto Rico has a register of rights that purges any title defects before registration. However, reportedly, 'it suffers considerable delays. After documents have been lodged (and have, therefore, gained priority) they still wait for years for the registrar's review and eventual registration. As a result, validity of the lodgment entry has had to be extended to four years (a few weeks is usual in systems that function well). Insurance companies have stepped in to cover the risk during the period between lodgment and registration, mainly to meet the demand for security of investors in the US

⁷² 12 U.S.C. § 2608 (2013).

⁷³ Véase *Hopkins v. Horizon Management Services*, 515 F.Supp.2d 649 (2007).

secondary mortgage market.' Arrunada, Property Enforcement as Organized Consent, *Journal of Law, Economics, and Organization*, p. 10 (2003).⁷⁴

Lo antes descrito ha tenido el efecto de encarecer el crédito territorial, ya que la seguridad jurídica se ha visto afectada. No ha de olvidarse que el seguro de título cubre únicamente el hecho que alguien reclame interés dominical en la propiedad adquirida. En particular, la compañía aseguradora defenderá el título en los tribunales y pagará por la pérdida real en determinadas circunstancias. Por ejemplo, cuando un gravamen se presentó en contra de su título porque un propietario anterior dejó de pagar hipoteca, o porque no se pagó la suma correspondiente a la asociación de propietarios o de condominio. De igual forma, el seguro de título cubre si la persona recibe un aviso de embargo anterior a la adquisición del bien inmueble.

Asimismo, el seguro de título cubre gravámenes o reclamaciones en contra del título que no figuran en las excepciones de orden. Se consideran ejemplos de lo anterior: los arrendamientos, contratos y las opciones de compraventa sobre un bien inmueble, que no se inscribieron por lo que no surten efecto *erga omnes*. De igual forma, el seguro cubre sobre la incapacidad de descubrir servidumbres no inscritas que afecten al predio.⁷⁵ El seguro de título cubre además, una firma defectuosa por parte del titular así como los errores cometidos por el notario público al momento de otorgar el documento.

No obstante lo anterior, el seguro de título no cubre los vicios que surjan en el título con posterioridad a la fecha en la cual se realizó la compra de la póliza. Además, el seguro no cubre los problemas que surjan a causa de las servidumbres de carácter público ni de utilidad pública, por violaciones a las ordenanzas públicas, de zonificación u otras leyes. Sin embargo, el seguro de título asegura determinados impuestos. La compra de la póliza asegura que todos los impuestos sobre la propiedad y las evaluaciones sean pagados para el año más reciente disponible.

En particular, la fe pública registral es insuficiente para que los instrumentos negociables que surgen de las hipotecas puedan circular en los mercados secundarios. La movilización de los instrumentos negociables a los mercados secundarios provee a las entidades financieras el desplazamiento del riesgo contraído. Por todo lo cual, se considera necesario que

⁷⁴ 2 JOYCE PALOMAR, TITLE INS. LAW § 22:3 n.7 (2012–2013).

⁷⁵ Véase *What is Title Insurance?*, INFINITY TITLE COMPANY, disponible en http://www.infinitytitleco.com/pdf/What_is_Title_Insurance.pdf (última visita el 21 de octubre de 2013).

las reclamaciones hechas a las aseguradoras del STH puedan ser notificadas al Comisionado de Seguros o al Departamento de Justicia mediante la creación de un acuerdo. Ello debe constituir información pública, ya que el acceso a dicha información puede ofrecer una guía de los problemas concretos registrales que se dan en nuestro ordenamiento.

Por todo lo cual, se estima pertinente que en Puerto Rico al igual que otros estados, se comiencen a cuantificar los litigios y reclamaciones generados por el STH, puesto que proveerá una base para mejorar nuestro sistema registral. Recomendando que de implementarse implicaría un beneficio, que no solo mejoraría la seguridad jurídica sino que puede resultar en un costo menor de la póliza en nuestra jurisdicción. Se estima que no han de verse ambos sistemas de forma antagónica; por el contrario, ambos son necesarios y pueden relacionarse a fin de establecer una mejor seguridad patrimonial y jurídica en nuestro ordenamiento. No ha de olvidarse que en nuestro ordenamiento “los negocios jurídicos nacen, vencen y mueren fuera del Registro de la Propiedad. Sin embargo, es esa entidad administrativa la que ofrece como institución jurídica, como oficina o como un conjunto de libros, la oportunidad de acceder a la información inmobiliaria”.⁷⁶

El seguro de título no solo provee una base de seguridad patrimonial a favor de los consumidores, sino que fomenta una mayor liquidez en nuestra economía. Sin olvidar la función protectora que provee el sistema registral a los terceros que actúan de buena fe. No obstante, debemos ser objetivos y utilizar la información disponible para mejorar nuestra seguridad jurídica desde una óptica real, que en ocasiones es fuente de litigios y los reclamos a las compañías aseguradoras que emiten pólizas de seguro de título. La contabilización de los errores nos permitirá corregir las áreas de problemas potenciales que ostenta el Registro de la Propiedad, y minimizar el margen de error. Finalmente, ambos sistemas pueden complementarse, pues no son mutuamente excluyentes. Contrario a lo pensado, ambos pueden actuar en beneficio de los consumidores y del sistema de Derecho.

⁷⁶ Rolando Torres Rodríguez, *Presentación y consulta telemática de documentos en el Registro de la Propiedad: un estudio comparado de los sistemas registrales de Puerto Rico y otros países latinoamericanos*, 45 REV. JUR. UIPR 115, 116 (2011).

INSTITUCIONES MICROFINANCIERAS EN PUERTO RICO: CONSIDERACIONES GENERALES PARA UN ESQUEMA LEGAL- REGULATORIO Y REINVENCIÓN DEL MODELO CONVENCIONAL DE PRESTACIÓN DEL BANCO GRAMEEN

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I. Introducción.....	174
II. Las microfinanzas en Estados Unidos y el modelo “Group Lending”	178
III. Consideraciones generales para un esquema legal-regulatorio.....	181
IV. Recomendaciones	186

“Dale un pescado a un hombre y comerá por un día.
Enséñele a pescar, y comerá por el resto de su vida.
Dale un préstamo de \$15,000 y abrirá su propia pescadería”.
- Anónimo

I. INTRODUCCIÓN¹

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¹ El presente trabajo parte de la premisa de que el lector está familiarizado con las nociones básicas de lo que es una IMF y cómo esta se diferencia de un banco tradicional. Unas de las diferencias principales es que los bancos exigen como condición para otorgar un préstamo alguna propiedad mueble o inmueble para garantizar el repago de la deuda, mientras que el colateral de las IMFs se puede catalogar como “colateral social” pues por lo general no requieren propiedad mueble o inmueble como garantía. El repago del préstamo es

La industria de las microfinanzas o instituciones microfinancieras (en adelante, "IMF") ha crecido y recibido mucha atención en los pasados años y está jugando un papel cada vez mayor, tanto en las finanzas internacionales como en las domésticas. Las Naciones Unidas catalogó el año 2005 como el año del microcrédito.² Actualmente, las IMF forman una parte innegable de los mercados financieros de Latinoamérica.³

En Asia ocurrió quizás el mayor adelanto de la industria, teniendo un impacto no solo en ese continente, sino a nivel global con el Banco Grameen (en adelante, "Grameen"), fundado por Muhammad Yunus en Bangladesh en el año 1983. Su éxito le mereció tanto a Grameen como a Yunus el Premio Nobel de la Paz en 2006. Dos años más tarde, Grameen hizo su primera entrada exitosa en el mercado estadounidense al concederle préstamos a microempresarios de Nueva York. Poco antes de eso, el desarrollo de la industria ya era palpable en ese país. Uno de los desarrollos más grandes para las IMFs ocurrió en 2007, cuando Standard & Poor's publicó la metodología que usaría para evaluar las IMFs.⁴ Se ha indicado que los problemas que enfrentan los bancos convencionales ("mainstream") tras la crisis de préstamos de alto riesgo del 2008 ("subprime mortgage crisis") ha promovido que las personas acudan a instituciones financieras alternativas para cubrir sus necesidades, y le ha dado una oportunidad a las IMFs para expandirse en los Estados Unidos.⁵ Por lo visto, este país no ha sido la excepción en cuanto a la proliferación de las IMFs. Además, Puerto Rico tampoco ha estado inmune a la recesión económica.

Grameen hizo su entrada en el mercado puertorriqueño al incorporarse como compañía de responsabilidad limitada en el mes de abril del 2013.⁶ La llegada de una de las instituciones microfinancieras más

incentivado por el desembolso fragmentado del mismo préstamo y por la posibilidad de la extensión futura de crédito.

² Véase Rajdeep Sengupta, Craig P. Aubuchon, *The Microfinance Revolution: An Overview*, 90 FED. RES. BANK OF ST. LOUIS REV. 9, 9 (2008) (ing.) ("Aunque los términos 'microcrédito' y 'microfinanzas' suelen utilizarse de manera intercambiable, hay una distinción entre ambos. El primero se refiere al acto de proveer préstamos pequeños a personas de escasos recursos cuyas solicitudes de crédito habían sido rechazadas. El segundo se refiere al acto de proveerle a estas personas servicios financieros, como instituciones de ahorros y pólizas de seguros. No obstante esta distinción, los servicios de microfinanzas abarcan la extensión de microcrédito").

³ Véase Pamela Das, *Avoiding a Subprime-Like Crises in Microfinance: Lessons from the Mexican and Bolivian Experience*, 15 L. & BUS. REV. AM. 819, 821 (2009) (ing.).

⁴ Véase Sengupta, *supra* nota 2, en la pág. 14.

⁵ Véase Zahir Virani, XI. *American Microfinance: Opportunities and Challenges*, 27 REV. BANKING & FIN. L. 370, 379 (2008) (ing.).

⁶ Véase Registro de Corporaciones del Departamento de Estado de Puerto Rico: <https://prcorpiling.f1hst.com/CorpInfo/CorporationInfo.aspx?c=3995-1531>. Tuve la oportunidad

exitosas del mundo, en medio de los problemas económicos a en el plano local e internacional, ameritan una evaluación objetiva del éxito que tendría una organización de este tipo en Puerto Rico.⁷ Por lo que no sería errado pensar que la proliferación global de las IMFs, el advenimiento reciente de este tipo de instituciones a Puerto Rico, el incremento concomitante del conocimiento público de la existencia de este tipo de entidad y, no menos importante, las exigencias financieras del mercado puertorriqueño, causen una mayor demanda por servicios microfinancieros en la Isla.

Soy de la opinión que en Puerto Rico existe un mercado microfinanciero esperando a ser explotado. En comparación con las jurisdicciones estadounidenses, nuestra tasa de participación laboral es menor, mientras que las de desempleo y pobreza son mayores. Precisamente, es en este tipo de ambiente que las IMFs prosperan, o deberían buscar prosperar. Por eso, los formuladores de política pública (“policymakers”) deben comenzar a tomar nota de las particularidades de los servicios de las IMFs, del mercado al que sirven, y de cómo estos elementos se contraponen a los de otras instituciones financieras, en particular, los bancos tradicionales. El objetivo debe ser crear un ambiente legal-regulatorio que fomente el desarrollo de esta industria.

Si esta industria ha de crecer en Puerto Rico tiene que estar adecuadamente regulada. También es importante que cualquier persona que pretenda operar o formar una IMF en Puerto Rico esté al tanto de las particularidades de este ambiente. Esto ayudará a la adaptación de sus servicios en un mercado que, en varios aspectos, está más americanizado, por lo que se tiene que cumplir con formalidades que no existen en países menos desarrollados, en los cuales la mayoría de las IMFs del mundo se han establecido y prosperado. Las diferencias sociológicas entre ambos contextos son también muy relevantes. Estas son diferencias que la persona interesada en implementar un modelo de microfinanzas en la Isla debe considerar, de modo que atempere su servicio a nuestra realidad.

La palabra “microfinanzas” ha sido objeto de muchas definiciones, lo cual, dicho sea de paso, varios académicos opinan que ha dificultado la regulación de la industria. No obstante, para efectos de este trabajo adoptamos la definición sencilla provista por la Alianza Microfinanciera (“Microfinance Alliance”): “servicios financieros dirigidos a clientes que son excluidos del sistema tradicional de banca debido a su estatus económico

de asistir a la actividad de inauguración en el Centro para Puerto Rico en Río Piedras el 2 de noviembre de 2013 como parte las labores de mi Clínica de Asistencia Legal.

⁷ Como veremos más adelante, el modelo de “group lending” característico de Grameen, al que se le atribuye gran parte de su éxito y ha sido emulado por otros IMFs, a pesar de haber halagado a través del mundo, ha tenido resultados en Estados Unidos diferentes a aquellos obtenidos en países en vías de desarrollo.

inferior”.⁸ A esto añadiríamos que un componente de este estatus económico inferior, en el contexto de la banca, es la falta de una historia crediticia y de colateral para garantizar las deudas que contraerían estos clientes. Apoyándonos en la literatura académica general, entendemos que estas son las dos razones principales por las cuales los bancos comerciales les niegan sus servicios a las personas que terminan acudiendo a IMFs. También, aunque las IMFs modernas no tienen una composición uniforme, pudiendo ser estas organizaciones sin fines de lucro, uniones de crédito, cooperativas, bancos comerciales privados y hasta instituciones financieras no bancarias,⁹ cuando nos referimos a “microfinanzas” hablamos de lo que, en nuestra opinión, deberían ser estas entidades: organizaciones que prestan sus servicios basándose en finanzas productivas, que otorgan préstamos única y exclusivamente vinculados a actividades productivas, e.g., comprar equipo para un negocio, contratar empleados, entre otros. Aunque en Puerto Rico existen ocho concesionarios licenciados para emitir préstamos personales pequeños,¹⁰ creemos que estos se diferencian de IMFs porque proveen préstamos personales de consumo y se dedican a una amplia gama de otras actividades comerciales que las distancian del propósito social de las IMFs.¹¹ Además, aunque la pobreza tiene muchos niveles y manifestaciones, hablamos de las IMFs como dirigidas a aquellas personas viviendo en la mitad inferior de la línea de pobreza.¹² De esta forma se puede trabajar “de abajo hacia arriba” y se concibe una definición de microfinanzas que presta sus servicios en los mercados más desventajados.

Este trabajo pretende ofrecer consideraciones generales que un modelo legal-regulatorio de las microfinanzas debe incorporar para fomentar el desarrollo de la industria en Puerto Rico. Además, intenta explicar porqué el modelo de “group lending” que le ha traído tanto éxito a Grameen en otros países no debería ser implementado en Puerto Rico, o de ser implementado,

⁸ Seth McNew, *Regulation and Supervision of Microfinance Institutions: A Proposal for a Balanced Approach*, 15 L. & BUS. REV. AMS. 287, 290 (2009) (ing.).

⁹ Véase Jesse Fisherman, *Microfinance: Is There a Solution? A survey on the Use of MFIs to Alleviate Poverty in India*, 40 DENV. J. INT'L L. & POL'Y 588, 591 (2012) (ing.).

¹⁰ Véase OFIC. DEL COM. DE INST. FIN., INSTITUCIONES QUE OFRECEN PRÉSTAMOS PERSONALES PEQUEÑOS, <http://www.ocif.gobierno.pr/documents/cons/PPP.pdf> (2014). Merece señalar que el Banco Grameen ni Microfinanzas PR aparecen como concesionarios de préstamos personales pequeños en la página de la OCIF ni como ningún otro concesionario que pudimos encontrar, este último quizás por ser un brazo del banco comercial BBVA. Se le envió un correo a la persona encargada en esa oficina unos días antes de la entrega de este trabajo, pero al 20 de diciembre aún no habían contestado.

¹¹ Véase, e.g., Certificado de Incorporación, Atlantic Capital Corp., <https://prcorpfilng.f1hst.com/CorpInfo/CorporationInfo.aspx?c=79803-111> (donde se autoriza a la financiera a realizar más de veinte funciones).

¹² Véase Sengupta, *supra* nota 2, en la pág. 21 (donde se distinguen aquellas personas viviendo debajo del nivel de pobreza y aquellas en la mitad inferior de este parámetro).

atemperarlo a nuestra realidad particular. Al hacer esto, también hablaremos sobre lo que toda persona que pretenda establecer una IMF debería tener en mente para ofrecer sus servicios de la manera más eficiente posible. La relevancia de algunos de los señalamientos para Puerto Rico será automáticamente evidente para el lector, a la medida en que se vayan haciendo. Por último, hacemos unas recomendaciones para la industria en la Isla partiendo de la discusión que sigue.

II. LAS MICROFINANZAS EN ESTADOS UNIDOS Y EL MODELO “GROUP LENDING”

Como puede esperarse, la industria de las microfinanzas en los Estados Unidos es diferente a la de otros países en varios renglones. Hay quienes piensan que, al compararla con la de otros países, la de Estados Unidos ha fracasado.¹³ Aunque ambas tienen la misma meta – fortalecer a personas auto-empleadas con capital de negocios accesible y asequible – la metodología que cada cual ha empleado es distinta. Quizás la diferencia más grande estriba en los resultados que ha alcanzado la implementación del modelo de “group lending” de Grameen en uno y otro contexto; parece que el modelo de “group lending” ha sido un fracaso en los Estados Unidos.¹⁴

Una teoría para esto es que los métodos informales utilizados por Grameen en los Estados Unidos no tienen cabida en este país, donde las prácticas informales de repago son incongruentes con el derecho empresarial imperante. Por ejemplo, la presión social usada por los agentes de Grameen en las áreas rurales de Bangladesh no tiene el mismo efecto en centros más grandes y anónimos como lo son los centros urbanos de los Estados Unidos.¹⁵ Estos resultados no parecen limitarse solo a los centros urbanos de esta nación. Sengupta ilustra esto al hablar sobre el primer intento de Grameen de entrar al mercado norteamericano en la década de los 1980s, cuando se alió con el Fondo Good Faith de Arkansas, una de las primeras IMFs de los Estados Unidos, la cual emuló el modelo de Grameen:

¹³ Véase *id.* en la pág. 25 (sugiriendo en una subsección titulada “Why did Microfinance Initiatives Fail in the United States?” que las microempresas componen solo un 8%–20% de los empleos en los Estados Unidos por la disponibilidad de trabajos asalariados y asistencia gubernamental).

¹⁴ Véase Courtney Gould, *Grameencredit: One Solution for Poverty, but Maybe not in Every Country*, 28 UCLA PAC. BASIN L.J. 1, 11 (2010) (ing.) (“In sum, microcredit institutions in the U.S. that use models similar to Grameencredit have failed. Grameen America is making small adjustments to its strategy . . . but the results are currently unknown.”).

¹⁵ Véase Molly Richardson, *Increasing Microlending Potential in the United States Through a Strategic Approach to Regulatory Reform*, 34 J. CORP. L. 923, 939 (2009) (ing.); véase además Fisherman, *supra* nota 9, en la pág. 591 (señalando que tanto proponentes como críticos están de acuerdo en que la presión ejercida por los grupos hacia el prestatario es basada en vergüenza, o “shame based”).

As the Good Faith Fund grew, practitioners and academics alike began to question the effectiveness of a pure Grameen-Style program in the United States. Much like the original Grameen Bank, the Good Faith Fund has relied on innovation and change to apply microlending to the rural economy of Arkansas [I]mportant social differences arise because rural Arkansas is inherently different from rural Bangladesh and that these social differences cause the group-lending model to fail. Group lending failed for several reasons, but foremost was the inability of potential borrowers to form a group. In Bangladesh, where poverty rates and population density are much higher than those in the United States, potential borrowers can more readily find other entrepreneurs. However, a close network of social ties among the poor does not exist in rural Arkansas. In response to this problem, Good Faith Fund personnel established a mandatory six-week training program for individual new members and then created groups from the training programs. These newly formed groups of relative strangers lacked the social cohesion to enforce contract payments, unlike group members in rural Bangladesh, who often live in the same village and have family/community histories together. Consequently, group lending was slowly phased out of the Good Faith Fund. Today, the Good Faith Fund focuses mainly on career training through their Business Development Center and Asset Builders program.¹⁶

No obstante las limitaciones que presenta el 'Grameencredit' en los Estados Unidos, el movimiento de microfinanzas en general ha tenido éxito en este país, con el único menoscabo siendo que el traslado del movimiento de países en vías de desarrollo y de sociedad rural-agraria a un mercado urbano altamente regulado, como lo es el de los Estados Unidos, no ha fluido como vislumbrado.¹⁷ Hay quienes opinan que esta diferencia en éxito de las IMFs en naciones en vías de desarrollo y los Estados Unidos se debe a diferencias en los mercados, específicamente en el nivel de formalidad que tienen. Las IMFs de países subdesarrollados han tenido más éxito debido a que sus mercados son más informales, lo cual le permite a los microempresarios de estos penetrarlo más fácil, rápido y profundamente que en los Estados Unidos. Los microempresarios de los Estados Unidos, por el contrario, se concentran más en ponderar la viabilidad financiera de sus proyectos y otras consideraciones afines antes de emprenderlos, como competencia pre existente, , mientras que los de los países subdesarrollados reconocen una mayor necesidad de diferentes empresas y se preocupan

¹⁶ Sengupta, *supra* nota 2, en las págs. 16–17.

¹⁷ Véase Jay Lee, *Equity and Innovation: Using Traditional Islamic Banking Models to Reinvigorate Microlending in Urban America*, 16 IND. INT'L & COMP. L. REV. 523 (2006) (ing.).

menos por la saturación del mercado.¹⁸ Además, el microempresario estadounidense se topa con tres obstáculos al tratar de emprender su negocio: la competencia pre existente, los costos de licencia y administración (los cuales a veces pueden impedir del todo la entrada al mercado¹⁹), y el riesgo de responsabilidad hacia terceros, factores que el microempresario de otro país quizás no tendría que sopesar.²⁰

Gould concluye diciendo que si se quiere implantar un modelo exitoso de 'Grameencredit' en Estados Unidos, el ajuste más significativo que se debería hacer es un cambio de prácticas que dependen de normas culturales colectivistas a normas culturales individualistas. La confianza parece ser un factor central. La autora apunta a estudios que indican que sociedades individualistas requieren menos intercambios de información, y menos o casi ninguna confianza entre sus actores, y por esto pueden crecer más rápido. El modelo de "group lending", como sugiere su nombre, está basado en "colateral social", la premisa implica que cada miembro del grupo confía que el otro cumplirá con sus responsabilidades prestatarias. En fin, la autora propone un modelo de concesión de préstamos más individualizado. Esta concluye diciendo, además, que existen alternativas o innovaciones al modelo "group lending" que permiten que se concedan préstamos con garantías no tradicionales, como colaterales diferentes a la cohesión grupal sobre la que yace el modelo.²¹ Por ejemplo, estas garantías podrían tomar la forma de contratos de responsabilidad solidaria que permitan a la entidad dirigirse contra cualquier miembro del grupo, contratos a corto plazo, "due diligence" hacia posibles prestatarios y el uso de promesas de crédito futuro/préstamos progresivos, i.e., que permitan acceder a mayores cantidades de crédito según estos se vayan satisfaciendo. Sugiere también que se hagan préstamos con garantías marginales o pequeñas, haciendo uso de ganado, vehículos o cosecha como colateral.²² A esto Sengupta le añade el mecanismo de esquemas de repagos frecuentes y el de itinerario flexible de repago.²³ Todos estos mecanismos podrían proveerle al prestamista

¹⁸ Véase Richardson, *supra* nota 15, en las págs. 932-33.

¹⁹ Véase Sengupta, *supra* nota 2, en la pág. 25 ("The lack of highly skilled or better motivated workers among the poor in the United States, combined with the high entry costs for successful microenterprise, makes successful microfinance initiatives more difficult.").

²⁰ Véase Gould, *supra* nota 14, en la pág. 12.

²¹ Véase ARMENDÁRIZ & MORDUCH, THE ECONOMICS OF MICROFINANCE 119-46 (2005), *disponible en* http://www.fgda.org/dati/ContentManager/files/Documenti_microfinanza/Economics-of-Microfinance.pdf (detallando de forma extensiva sus hallazgos en cuanto al éxito de incentivos dinámicos y progresivos en las tasas de repago en el contexto de micropréstamos a individuos).

²² Véase Sengupta, *supra* nota 2, en la pág. 21 (describiendo como el Banco Rakyat Indonesia opera bajo el valor teórico o "notional value" de un artículo y permite que cualquier artículo importante para el hogar sirva como colateral, sin importar su valor en el mercado).

²³ Véase *id.* en las págs. 20-21.

suficiente seguridad de que la deuda será satisfecha en ausencia del colateral social de busca de Grameen en su modelo de “group lending”.

III. CONSIDERACIONES GENERALES PARA UN ESQUEMA LEGAL-REGULATORIO

Hay quienes piensan que el problema principal que enfrentan las microfinanzas es que, por el momento, no es un negocio sustentable,²⁴ y no está alcanzando a suficiente gente.²⁵ Las microfinanzas dependen mucho de donaciones, organizaciones no gubernamentales y ayudas económicas. Estos problemas surgen, en cierta medida, de la falta de regulación y supervisión de la industria.²⁶ El costo de las operaciones de las IMFs es muy conocido dentro del mundo en el que operan.²⁷ Para McNew, mantener los costos globales y aquellos asociados con operar una IMF lo más bajo posible es “extremadamente importante” para el éxito de la industria microfinanciera en su conjunto.²⁸ Otros han dicho que para que las IMFs puedan satisfacer las necesidades de los microempresarios, el Congreso de los Estados Unidos tiene que promulgar legislación enfocada en reducir costos transaccionales.²⁹ Un mecanismo muy importante para disminuir costos administrativos y fomentar crecimiento es permitirle a las IMFs aceptar depósitos.³⁰

Aunque el microcrédito es el servicio microfinanciero más conocido, se ha dicho que el microahorro es igual de importante para asegurar la sustentabilidad de las IMFs sin ayudas de donantes, ni del gobierno.³¹ El microahorro se puede definir como el ofrecimiento de pequeñas cuentas de depósitos a familias o individuos de bajos ingresos como un incentivo para

²⁴ Véase Richardson, *supra* nota 15, en las págs. 930–31. ACCION, una de las microfinancieras más conocidas en Estados Unidos, define sustentabilidad como la habilidad de generar suficientes ganancias para cubrir costos operacionales.

²⁵ Véase McNew, *supra* nota 8, en la pág. 291.

²⁶ Véase *id.*; véase además Matthew A. Pierce, Regulation of Microfinance in the United States: Following a Peruvian Model, 17 N.C. BANKING INST. 201, 202 (2013) (ing.) (donde se afirma que en Estados Unidos la industria de las microfinanzas opera en un “área gris desregulada”. Más aún, no hay un marco funcional establecido en ese país que esté dirigido exclusivamente a la industria de las microfinanzas. Véase *id.* en la pág. 210).

²⁷ Véase Lee, *supra* nota 17, en la pág. 546 (señalando un estudio cuyo resultado fue que el costo promedio de un micropréstamo es \$1.47 por cada dólar prestado para hacer y manejar el préstamo, con costos que van desde \$0.67 a \$2.95).

²⁸ McNew, *supra* nota 8, en la pág. 304.

²⁹ Véase Richardson, *supra* nota 15, en la pág. 931.

³⁰ Véase Das, *supra* nota 3, en la pág. 841 (indicando que mientras el esquema de Bolivia permite a las IMFs aceptar depósitos, algunos tipos de IMFs en México no pueden hacerlo, lo cual puede estar contribuyendo a las tasas de interés extremadamente altas de las microfinancieras que operan en ese país, las cuales rondan el 100% para las IMFs comercializadas y son las más altas en Latinoamérica. Similarmente, la autora entiende que la auto-regulación mediante juntas regulatorias disminuye costos administrativos).

³¹ Véase McNew, *supra* nota 8, en la pág. 291.

que guarden fondos para uso futuro.³² El problema estriba en que muchas IMFs están actualmente organizadas de tal forma que no están licenciadas para aceptar depósitos, mientras que los esquemas regulatorios imperantes que permiten a instituciones financieras aceptar depósitos, no cubren estos tipos de entidades.³³ Por un lado, debido a que estas instituciones no tienen licencias financieras, no pueden apalancar (leverage) sus recursos aceptando depósitos, y los requisitos para una licencia bancaria regular son muy onerosos para las instituciones interesadas en clientes pobres. He aquí una de las justificaciones más fuertes para un esquema regulatorio formal para las IMFs.³⁴ Sin esta regulación, las IMFs están destinadas a ocupar la misma posición que ocupan ahora – proveedores de microcrédito a una porción bien pequeña de la población indigente, y solo con la ayuda de gobiernos y donantes.³⁵

Por otro lado, hay quienes creen que las IMFs que son sustentadas por donaciones y se dedican solo al negocio de microcrédito, y no al de tomar depósitos, no necesitan ser formalmente reguladas. Recursos regulatorios deberían ser reservados para instituciones más grandes, y se debería tener cuidado al regular IMFs pequeñas, aunque estas tomen depósitos. Regular estas instituciones puede ser impráctico, porque se incurriría en más costos y se requerirían más recursos para llevarlo a cabo. Debido al tamaño pequeño y el enfoque comunitario de las IMFs, la supervisión por los mismos miembros de la comunidad y depositantes podría ser más efectiva.³⁶

Las leyes contra la usura también juegan un papel importante en la regulación de las IMFs. Es un hecho conocido dentro del mundo de las IMFs que estas entidades cobran un interés más altos de los que cobran bancos tradicionales para poder cubrir sus gastos operacionales. Por esto, las leyes de usura requieren atención especial para dar cuenta de la naturaleza de los préstamos de la industria.³⁷ Uno de los obstáculos más grandes para la

³² Véase *id.*

³³ Véase *id.* en la pág. 297.

³⁴ Véase *id.*

³⁵ Véase *id.*

³⁶ Véase Ian Davis, *Rural Banking: Designing an Effective Legal Framework for Microfinance*, 2 J. BUS. ENTREPRENEURSHIP & L. 394, 399–400 (ing.) (2009).

³⁷ Véase Pierce, *supra* nota 26, en la pág. 213. El Reglamento Núm. 5782 de la Oficina del Comisionado de Instituciones Financieras de Puerto Rico, titulado “Para Disponer Sobre las Tasas de Interés y Otros Asuntos en la Concesión de Préstamos Personales Pequeños”, dispone en su artículo cuatro que “[n]o se fija una tasa de interés anual máxima [para los préstamos personales pequeños]. Las tasas de interés podrán pactarse conforme a la libre competencia”. No obstante, la Ley Núm. 106 de 28 de junio de 1965, mejor conocida como la Ley Préstamos Personales Pequeños, 10 LPRA §§ 941–59 (2010), define el préstamo personal pequeño como un “adelanto de dinero en efectivo de... cinco mil (5,000) dólares o menos... pagadero en plazos mensuales, en cantidades sustancialmente iguales, que incluyan la amortización del principal y el monto del cargo anual de intereses”. 10 LPRA §942(7). Esto hace pensar que cualquier préstamo que exceda la cantidad de \$5,000 estaría sujeto a los

generación de ingresos que enfrentan las IMFs son los límites a las tasas de intereses y la presencia de leyes de usura estatales bien intencionadas, pero equivocadas en el contexto de IMFs. En el campo mundial de las microfinanzas, los bancos comerciales han indicado que las leyes en contra de la usura afectan su decisión de involucrarse con las IMFs, pues estas leyes restringen el potencial de la institución para generar ingreso.³⁸

El papel de los bancos comerciales es quizás el tema más importante en el contexto de la sustentabilidad de las IMFs. Muchos practicantes y académicos han propuesto que las IMFs sean sustentables asociándose con bancos comerciales, de modo que puedan aprovecharse de los sistemas y operaciones de estos.³⁹ En el 1998, el Grupo Consultivo para Asistir a los Pobres (CGAP, por sus siglas en inglés) describió a los bancos comerciales como “los nuevos actores en el mundo de las microfinanzas”.⁴⁰ Comparado con varios proveedores de microfinanzas, los bancos comerciales tienen ventajas en un sinnúmero de áreas, como marcas reconocibles por el consumidor, infraestructura, sistemas existentes y acceso a capital.⁴¹ Este reconocimiento de la importancia de los bancos comerciales sigue hasta el día de hoy.⁴² A pesar del gran número de microempresarios, estos han sido ignorados por los bancos comerciales, porque las necesidades financieras de aquellos son muy pequeñas para ser atendidas por estos.⁴³ En Estados Unidos se ha sugerido el uso de la Ley de Reinversión de las Comunidades (“Community Reinvestment Act”, o CRA), ley que le impone obligaciones a los bancos tradicionales para con las comunidades en donde operan, para fomentar el micropréstamo. Los bancos comerciales se han interesado por las actividades de las IMFs como una forma de cumplir con los requerimientos impuestos por esta ley.⁴⁴ Debido a que las IMFs y el CRA están dirigidos a servir a personas pobres, el microcrédito encaja dentro de

límites a tasas de interés estipulados en la Ley Núm. 1 del 15 de octubre de 1973, mejor conocida como la Ley de Tasas o Cargos de Interés, 10 LPRA §§ 998, 998b, 998g, 998j, 998n, 998o (2010). Más aún, la definición antes transcrita de préstamo personal pequeño, en nuestra opinión, dejaría de aplicar a un préstamo emitido por una IMF cuando esta sujeta el pago del crédito a un incentivo de pago flexible, como por ejemplo un esquema de repago frecuente en el cual el préstamo se pagaría en plazos bisemanales, por ejemplo, y no mensuales. Se requiere más investigación sobre esto.

³⁸ Véase Virani, *supra* nota 5, en las págs. 374–75.

³⁹ Véase Richardson, *supra* nota 15, en las págs. 934–35.

⁴⁰ Jennifer Isern & David Porteous, *Commercial Banks and Microfinance: Evolving Models of Success*, 28 CONSULTIVE GROUP TO ASSIST THE POOR FOCUS NOTES 1 (2005) (ing.), <http://www.cgap.org/sites/default/files/CGAP-Focus-Note-Commercial-Banks-and-Microfinance-Evolving-Models-of-Success-Jun-2005.pdf>.

⁴¹ Véase *id.*

⁴² Véase Das, *supra* nota 3, en la pág. 826 (“Commercial Banks are the newest players in modern microfinance.”).

⁴³ Véase Virani, *supra* nota 5, en la pág. 377.

⁴⁴ Véase *id.*

una estrategia de cumplimiento con el CRA. Las IMFs y esta Ley comparten la meta de satisfacer las necesidades financieras de las personas de bajos ingresos, así que las obligaciones impuestas a los bancos por el CRA pueden ser cumplidas a través de las microfinancieras. Ya que el CRA aplica a todos los bancos asegurados por el FDIC y podría ayudar a las IMFs a ser sustentables, las asociaciones entre IMFs y bancos comerciales parecen ser mutuamente beneficiosas. Los reguladores podrían otorgar crédito a los bancos que crean programas de microcrédito.⁴⁵ Además, varios bancos estadounidenses han creado canales de comunicación mediante los cuales refieren a microempresarios que no cualifican para uno de sus préstamos a IMFs que sí podrían ayudarlos. Los bancos comerciales también han provisto programas de capacitación de empresarios, tecnología e infraestructura, información de mercado y apoyo gubernamental.⁴⁶ La comercialización de los IMFs, a pesar de haber suscitado controversias sobre la moralidad que una entidad dedicada a ayudar a los pobres tome esta vía, según Virani, fortalece la sustentabilidad de estas entidades, aún después del apoyo inicial del CRA.⁴⁷

⁴⁵ Un ejemplo de un programa como este es Microfinanzas Puerto Rico, parte de la Fundación Microfinanzas BBVA. Creada en el 2008, esta microfinanciera tiene como finalidad otorgar préstamos a corto plazo que fluctúan entre los \$500-\$15,000 a personas que ejercen actividades productivas o que tienen pequeñas operaciones comerciales y no cuentan con los requisitos tradicionales que exigen las instituciones prestatarias comerciales. La presidenta ha dicho que “[c]uando evaluamos un caso, miramos todas las deudas y gastos de las personas, tanto familiares como del negocios. También visitamos el comercio y entrevistamos a los vecinos”. *Disponible en* <http://www.elnuevodia.com/microfinanzaspuertoricosurgecomoalternativacrediticia-1198548.html> (16 de diciembre de 2013, 6:15pm). Esta ha dicho, además, que “[c]ontrario a casas de empeño o financieras, Microfinanzas PR se basa en finanzas productivas, lo que significa que los préstamos son evaluados y están única y exclusivamente vinculados a actividades productivas”. *Disponible en* <http://www.envivopr.com/2013/10/microfinanzas-puerto-rico-se-reinventa/> (13 de diciembre de 2014, 6:01 PM). En octubre del 2013 Microfinanzas PR se convirtió en la séptima organización sin fines de lucro en recibir certificación del CDFI de Estados Unidos en Puerto Rico y la primera empresa social dedicada exclusivamente a las microfinanzas en hacerlo. *Id.* BBVA tiene un interés propietario de 75% y el Banco de Desarrollo Económico de Puerto Rico un 25%. Véase <http://www.microcapital.org/microcapital-brief-bbva-microfinance-affiliate-corporacion-para-las-microfinanzas-puerto-rico-pr-reaches-2m-in-entrepreneurial-loans>. A febrero del 2012, la entidad había emitido 790 préstamos, cada uno a una tasa de interés de 25%, con una cantidad agregada prestada de 2.1 millones, para un tamaño promedio de \$2,600 por préstamo. Véase *id.*

⁴⁶ Véase Virani, *supra* nota 5, en la pág. 378.

⁴⁷ Véase *id.* en la pág. 378; Véase además Das, *supra* nota 3, en la pág. 836 (“In 1992, Banco Solidario (BancoSol) became the first microfinance NGO to transform into a commercialized MFI. The commercialized of BancoSol allowed it to become financially independent and expand its loan portfolio to service more clients . . . BancoSol's reputation as a profitable MFI became well known internationally, and its example has been imitated not only in Bolivia but throughout the world.”).

Además de la regulación de depósitos, licenciamiento, leyes de usura y asociaciones con bancos comerciales, también se ha hablado sobre crear leyes que aseguren mayor transparencia en el negocio, de modo que los inversionistas puedan tener más información a su alcance al momento de decidir si invertir en una IMF. Estas leyes, en teoría, aumentarían la inversión en la industria, y por ende, aportarían a su crecimiento. Más allá de ello, legitimaría la industria ante los ojos de estos inversionistas, haciendo que la misma sea sustentable sin tener que depender de fondos federales. Pierce nos apunta hacia países como Perú, Bolivia y Brasil, donde las IMFs se han convertido en sustentables debido a regulación estructurada y hospitalaria dirigida a inversionistas.⁴⁸

Pierce indica que el modelo regulatorio de Perú es el más apropiado para Estados Unidos, porque es inigualable en su sofisticación y supervisión de la industria. Este modelo emplea reglas fuertes de supervisión, regulación prudencial y no prudencial, para aumentar de forma eficiente la transparencia, la protección al consumidor, inversionista y a la industria. Igualmente, permite que las IMFs funcionen de forma más eficiente al designar el negocio de microfinanzas para una serie limitada de instituciones, con barreras de entrada a este negocio, lo cual permite que las regulaciones dirigidas a las microfinanzas den cuenta de los propósitos y objetivos particulares de las IMFs y las afecten más directamente. Cada entidad microfinanciera de Perú es supervisada por la Superintendencia de Banca y Seguros, la cual, encima de supervisar, asegura la solvencia y estabilidad de las IMFs.⁴⁹ Además, este cuerpo requiere que cada IMF someta un informe interno de auditoría en el cual se divulgue información acerca de tasas de interés, portafolios de préstamos y costo de cada préstamo.⁵⁰ El autor plantea que una entidad análoga en los Estados Unidos es crítica para el éxito de la industria. El esquema regulatorio de Perú requiere también que cada IMF del país sea evaluado por una agencia independiente de calificación. Estas agencias de calificación, las cuales investigan índices de desempeño, colocan a los inversionistas en posición de hacer un sano juicio sobre la conveniencia de invertir en una IMF. Por ejemplo, en Perú se requiere, que cada IMF atraviese un proceso de licenciamiento similar al de bancos tradicionales, pero sujetándolos a diferentes requerimientos de capital en comparación con otras instituciones financieras.⁵¹

⁴⁸ Véase Pierce, *supra* nota 26, en las págs. 213–14.

⁴⁹ Véase *id.* en las págs. 216–17.

⁵⁰ Véase Sengupta, *supra* nota 2, en la pág. 24 (explicando que en Bolivia se ha implantado regulación que requiere que cada microprestamista divulgue el nombre y número de identificación nacional de cada prestatario moroso al Superintendente de Bancos e Instituciones Financieras).

⁵¹ Véase Pierce, *supra* nota 26, en la pág. 214.

La regulación de los requisitos de retención de capital para las IMFs también ha sido objeto de discusión. Aunque las leyes que requieren que los bancos retengan altas cantidades de capital estabilizan el mercado, asegurando el hecho que estas instituciones pueden sostenerse en momentos de dificultades financieras, hay quienes creen que los requisitos de retención de cantidades altas de capital disuaden la otorgación de micropréstamos, y son un obstáculo a la sustentabilidad de las IMFs.⁵² Como norma general, mientras más alto el riesgo de un préstamo, mayor será la cantidad de capital que un banco debe retener. Como el negocio de las microfinanzas es arriesgado, cuando se compara con los estándares tradicionales de la banca, los requisitos de retención exigen inversiones proporcionalmente altas para proyectos de pequeña escala como lo son los micronegocios.⁵³ Se ha recomendado que se promulguen leyes que permitan a las IMFs operar con requisitos de retención de capital más laxos que aquellos aplicables a los bancos comerciales. También, los requisitos de retención de capital impuestos a las instituciones financieras afectan directamente el involucramiento entre bancos comerciales y las IMFs,⁵⁴ lo cual según discutido anteriormente, puede ser muy nocivo para la industria.

Las mismas leyes federales y estatales podrían reducir el número de personas dispuestas a buscar los servicios de una IMF. Ciertos microempresarios estarían disuadidos de buscar un préstamo que aumentaría inadvertidamente sus activos por encima del nivel requerido por la ley para cualificar para ayuda gubernamental y de vivienda.⁵⁵ Esto es particularmente relevante en relación a Puerto Rico dado que para muchos, es un gran riesgo privarse de ayudas federales con la esperanza de hacer más dinero con sus negocios.⁵⁶ Los mismos microprestamistas podrían verse disuadidos de prestar por tener que navegar demasiada burocracia, incluyendo tener que cumplir con regulaciones del IRS, leyes de protección al consumidor, y prácticas de publicación de crédito, entre otras.⁵⁷

IV. RECOMENDACIONES

De la discusión anterior parece que lo más importante para el éxito de la industria de las microfinancieras, no solo para Puerto Rico, sino para la operación de esta en cualquier otro país, es la asociación ("partnership") exitosa con los bancos comerciales y un esquema regulatorio que fomente la

⁵² Véase Richardson, *supra* nota 15, en las págs. 936–37.

⁵³ Véase *id.*

⁵⁴ Véase *id.* en la pág. 932.

⁵⁵ Véase Virani, *supra* nota 5, en la pág. 375.

⁵⁶ Véase Sengupta, *supra* nota 2, en la pág. 25 ("[In the United States] the safety net afforded to the poor through welfare discourages many potential entrepreneurs from starting a new venture.").

⁵⁷ Véase *id.*

misma. Los bancos comerciales ya están establecidos y tienen un sinnúmero de ventajas que las IMFs no tienen, entre ellas: tecnología, infraestructura, documentos de clientes, relaciones con el gobierno y una marca reconocida. El BBVA parece haber sido pionero en esto en Puerto Rico, habiendo creado Microfinanzas PR en el 2008, y habiendo tenido bastante éxito en el poco tiempo que lleva operando. Se puede empezar por crear un canal de referidos entre los bancos comerciales e IMFs de modo que aquellas personas que no cualifiquen para un préstamo bancario comercial debido a, por ejemplo, su historial de crédito afectado, la falta de este, o por sus bajos recursos e incapacidad de proveer un colateral suficiente para garantizar una deuda, sean dirigidas hacia una entidad microfinanciera que sí lo pueda ayudar a pesar de estas dificultades. Esta sería la forma idónea que tendrían los bancos para cumplir con las obligaciones impuestas por el CRA, las cuales de acuerdo a una fuente consultada resultan de por sí bastante imprecisas o vagas.

Cualquier esquema regulatorio debería tomar en consideración otros elementos. En primer lugar, se debe de permitir a toda institución microfinanciera aceptar depósitos. Esto aumentaría enormemente la sustentabilidad de estos negocios; una de las mayores preocupaciones que existen en cuanto a ellos, a la vez que se le provee cuentas a personas ignoradas por la banca comercial. También se debería flexibilizar los requisitos legales para poder recibir una licencia bancaria, o en su defecto, crear unos requisitos o licencias particulares para entidades microfinancieras. Los dos factores más importantes que deben incorporar estos requisitos para obtener una licencia para operar una institución microfinanciera, son tasas de intereses ilimitadas, o por lo menos permitir unas significativamente más altas que las que aplican a la banca comercial, y requisitos de retención de capital más bajos. De este modo resultarían aparentes las diferencias inherentes entre los negocios de los bancos comerciales y las IMFs.

Puerto Rico ha cumplido con lo anteriormente expuesto hasta cierto punto, disponiendo de tasas de interés ilimitadas para compañías de préstamos personales pequeños y un requisito de \$100,000 como mínimo en activos líquidos para recibir una licencia para operar una de estas compañías.⁵⁸ No obstante, esto aplica a compañías de préstamos personales pequeños, las cuales según discutido, se diferencian de lo que debería ser una IMF, particularmente en que la primera ofrece préstamos de consumo y la segunda idealmente debería ofrecer préstamos únicamente vinculados a actividades comerciales o productivas. Parecería ser esencial crear una categoría regulatoria dirigida exclusivamente a las IMFs y que excluya a

⁵⁸ Véase 10 LPRA § 945(a).

cualquier otra entidad que no cumpla con los parámetros que se establezcan para ser clasificada como una de estas entidades.

El modelo legal para las IMFs en Perú parece abonar mucho de lo que se debería adoptar en Puerto Rico. Es menester considerar la creación de una Oficina del Comisionado de Instituciones Financieras, o más bien una Oficina del Comisionado de Instituciones Microfinancieras, como un brazo de la primera, similar a Superintendencia de Banca y Seguros de Perú. Debido a que en Puerto Rico la industria es pequeña, por el momento, esto no debería ser tan costoso. Una supervisión efectiva de la industria que incluya informes internos de auditoría y una calificación crediticia y operacional de estas entidades, pondría en manos de inversionistas información valiosa que aumentaría transparencia y crearía incentivos informáticos para invertir. Perú requiere, incluso, un proceso de licenciamiento para las IMF distinto al que exige para operar un banco tradicional.

Parece haber un consenso virtualmente unánime que el modelo de “group lending” ha fracasado en los Estados Unidos. Aunque Puerto Rico es quizás un ambiente más acogedor para este modelo, pues hay muchas áreas rurales y comunidades, donde el modelo ha sido efectivo en otros lugares y, en teoría, existe más cohesión social, se es de la opinión que el colateral social que usa Grameen no es la mejor garantía que se pudiera usar. La ventaja de la llamada cohesión social en sectores rurales y comunidades proviene del sentido de pertenencia al lugar con el paso de los años y por la relativa familiaridad entre sus habitantes. Ello propende a la solidaridad entre los individuos y, por ende, promueve el repago del micropréstamo.⁵⁹ Por ejemplo, es más probable que un grupo de prestatarios que se conocen entre sí repague un micropréstamo, ya por solidaridad, ya por compulsión, en comparación con personas desconocidas entre sí, como suele pasar en centros urbanos.

El uso de incentivos dinámicos y progresivos, el valor teórico de un bien como colateral, colaterales no tradicionales, contratos de responsabilidad solidaria, exámenes más rigurosos de clientes potenciales, esquemas de repago frecuente e itinerarios flexibles, o una combinación de estos, podría ser mejor que usar el modelo de “group lending”. La implementación de Grameen II, un reinvento de sus operaciones que hizo el propio banco en el año 2001 y que incorporó un mecanismo de préstamos más flexible,⁶⁰ sería mejor que implementar el modelo tradicional de Grameen. No obstante las dificultades antes señaladas, la llegada de la IMF es prometedora y abre paso para la entrada de otras IMFs a la Isla y a la

⁵⁹ Nótese que las IMFs prefieren prestar a un conglomerado de individuos para aumentar las fuentes de repago.

⁶⁰ Véase Sengupta, *supra* nota 2, en la pág. 14.

apertura del mercado bancario y crediticio para muchos puertorriqueños que han sido excluidos del mismo.

FEDERAL LABOR AND EMPLOYMENT LAW

2012-2013 TERM ANALYSIS*

SARA CHICO, ESQ.**

I.	Introduction.....	191
II.	Administrative Law.....	191
III.	Alternative Dispute Resolution.....	192
IV.	Bankruptcy Automatic Stay.....	193
V.	Benefits.....	194
VI.	ERISA.....	194
A.	Attorney's Fees.....	197
VII.	Collective Bargaining.....	199
VIII.	Compensation.....	200
A.	Fair Labor Standards Act.....	201
B.	Distribution Tips.....	202
IX.	Workers' Compensation.....	203
X.	Discrimination.....	204
A.	Age Discrimination.....	204
B.	Racial Discrimination and Retaliation.....	204
C.	Political Discrimination.....	205
D.	Age Discrimination and Retaliation.....	211
XI.	Due process.....	212
XII.	Freedom of Speech and Association.....	214

* Based on case law from the Supreme Court of the United States, the United States Court of Appeals for the First Circuit and the United States District Court for the District of Puerto Rico, during the 2013-2013 term.

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XIII. Harassment.....	215
A. Sexual Harassment.....	215
B. Sexual Harassment and Sex Discrimination.....	216
C. Employer Liability for Employee Racial Harassment.....	217
D. Racial and Religious Harassment.....	218
XIV. Legal Fees.....	219
XV. Motion for Summary Judgment.....	219
XVI. Restrictive Covenants in Employment Contracts.....	221
XVII. Successor Employer.....	221
XVIII. USERRA.....	222
XIX. Whistleblower/Retaliation.....	223
XX. The <i>Younger</i> Abstention Doctrine.....	224
XXI. Afterword.....	226

I. INTRODUCTION

From the several cases labor and employment cases handled by courts during the 2012–2013 term, thirty-nine cases are here summarized and discussed. Of these, five cases were determined by the United States Supreme Court and two others by the Puerto Rico Supreme Court (these will not be part of this term analysis). During this term, there were five cases related to political discrimination, two claims under sexual harassment in the workplace, five retaliation cases, three in the compensation area, one case of age discrimination, one case of freedom of speech and association, two cases under alternate dispute resolution, one for legal fees related to benefits received by an injured employee, six related to benefits, one case of employment contract clauses as well as USERRA, collective bargaining agreements also had one case, three cases of administrative procedures and due process, and one interesting case related to employer successors hip. The areas with the most court determinations are benefits, retaliation and political discrimination.

II. ADMINISTRATIVE LAW

In *Kloeckner v. Solis*,¹ the Supreme Court unanimously reversed both lower courts.² The opinion states that a federal employee, who claims that an agency action appealable to the Merit Systems Protection Board (MSPB) violates an antidiscrimination statute under §7702(a)(1), should seek judicial review in the district court, not in the Court of Appeals for the Federal Circuit, regardless of whether the MSPB decided her case based on procedural grounds or based on its merits.

Plaintiff, who worked for the Department of Labor (DOL), claimed that her employer engaged in age and sex discrimination by subjecting her to a hostile work environment. While her complaint was still pending at the Equal Employment Opportunity Commission (EEOC), the DOL dismissed her claim. She then claimed that the decision to dismiss her claim was motivated by unlawful discrimination; thus, making her case a mixed one.

Although the Civil Service Reform Act of 1978 (CSRA) provided to file claims like this one either in the MSPB or in the district court, Plaintiff alleged that requiring [appeals](#) of mixed cases that were decided on procedural grounds to be filed in the Federal Circuit would undermine the purposes of anti-discrimination laws by preventing legitimate claims from being heard and placing federal employees at a disadvantage when pursuing discrimination claims. On the other hand, Defendants alleged that Congress wanted the MSPB procedures to develop in a uniform and consistent way to protect the rights of federal employees who file discrimination claims.

The DOL held that a federal employee who claims that an agency action appealable to the MSPB violates an antidiscrimination statute under § 7702(a)(1) should seek judicial review in the district court and not in the Federal Circuit. However, Solís contended that Federal District Courts should be allowed to review MSPB's decisions. The Supreme Court rejected the DOL argument.

III. ALTERNATIVE DISPUTE RESOLUTION

In *Unión de Periodistas de Artes Gráficas y Ramas Anexas v. Telemundo de Puerto Rico, Inc.*,³ the court affirmed an arbitration award concluding that a layoff due to a technological restructuring did not violate the collective bargaining agreement between the parties, after the Union failed to present evidence about their allegation that there was a need to subcontract technicians.

¹ *Kloeckner v. Solis*, 133 S. Ct. 596 (2012).

² The district court dismissed the complaint, holding that—because MSPB had not decided the case on its merits—Plaintiff's only appellate forum was the Federal Circuit; the Court of Appeals for the Eighth Circuit affirmed.

³ *Unión de Periodistas de Artes Gráficas y Ramas Anexas v. Telemundo de Puerto Rico, Inc.*, 926 F.Supp.2d 410 (D.P.R. 2013).

In the absence of exceptional circumstances, a court should not overturn an arbitrator award if the arbitrator's interpretation of the collective bargaining agreement is founded on the agreement text. In this case, the Court found that the arbitrator's conclusions were directly derived from the plain language of the agreement. The agreement granted Defendant the discretion to lay-off unionized employees due to financial hardship or the introduction of new technology.

In this type of claims, the Union has the burden of proof about the employer's hiring subcontractors to substitute laid-off employees. After making such showing, the burden shifts to the employer to show that the challenged subcontracting does not violate the CBA provisions. Nevertheless, the court found that Plaintiff failed to provide enough evidence to shift the burden of proof to the employer.

IV. PLAUSIBILITY OF PLEADINGS; BANKRUPTCY AUTOMATIC STAY

In *Villafañe Colón v. B Open Enterprises, Inc.*,⁴ Plaintiff filed a claim under Title VII of the Civil Rights Act of 1964,⁵ the American with Disabilities Act (ADA),⁶ and Commonwealth Law, against her employer and several other companies, commonly owned by her employer, and for which he also worked, as well as some coworkers and supervisors as codefendants. The main Defendant filed for bankruptcy debtor protection and asked for the stay of the proceedings which was granted. Codefendants asked for judgment on pleadings pursuant to Fed.R.Civ.P. 12(c). Plaintiff replied, asking for the case not to be stayed pending bankruptcy proceedings.

The Court acknowledged its responsibility of “view[ing] the facts contained in the pleadings in the light most favorable to the nonmovant and draw all reasonable inferences therefrom.”⁷ Moreover, it found that Plaintiff's allegations surpassed speculative level, giving room to a reasonable inference of Codefendants' liability. Therefore, Plaintiff convinced the court of the plausibility of her allegations.⁸ Plaintiff also satisfied the Court's requirement “that the complaint contained well-pleaded allegations that, taken as true, establish an employment relationship between plaintiffs and defendants.”⁹ On these grounds, Defendants' motion for judgment on pleadings was denied.

⁴ *Villafañe Colón v. B Open Enter., Inc.*, 934 F.Supp. 2d 274 (D.P.R. 2013).

⁵ 42 U.S.C. §§ 2000e–2000e-17.

⁶ 42 U.S.C. §§ 12101–12213.

⁷ *Pérez-Acevedo v. Rivera-Cubano*, 520 F.3d 26, 29 (1st Cir. 2008).

⁸ *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 577 (2007).

⁹ *Meléndez-Fernández v. Special Care Pharmacy Serv., Inc.*, No. 11-1662, 2012 WL 4813528, at *5 (D.P.R. Oct. 12, 2012).

Since her own allegations pointed out the common ownership of corporate codefendants, the Court denied Plaintiff's motion to lift the stay of the proceedings while the Bankruptcy Court considered the case before it. "Pursuant to 11 U.S.C. § 105, [however], the Court has 'general equity power to stay litigation that could interfere with the reorganization of the debtor.'"¹⁰ The stay may be extended to non-debtor Codefendants or "third parties when 'unusual circumstances' exist, such as, when (i) the non-debtor and debtor enjoy such an identity of interests that the suit of the non-debtor is essentially a suit against the debtor or (ii) the third-party action will have an adverse impact on the debtor's ability to accomplish reorganization."¹¹ This included the corporate codefendants' insurer. Liability insurance is considered property of a bankruptcy estate under 11 U.S.C. § 541(a)(1).¹²

Title VII and ADA claims against individual codefendants were dismissed, since those laws only apply to employers. But the court kept supplemental jurisdiction over state-law claims against the individual codefendants because the state claims were part of the same controversy of those arising from the Court's original jurisdiction.¹³ There was a complete overlap in the factual allegations of state and federal claims.¹⁴

V. BENEFITS

In *Weiss v. DHL Exp., Inc.*,¹⁵ Plaintiff went to the state court claiming a \$60,000 bonus provided by his employment contract. This bonus was subject to the Employment Benefits Committee (Committee) approval.¹⁶ Such benefit could be waived due to a good-cause dismissal of the failure to comply with other requirements. The Defendant removed the case to the district court under diversity of citizenship jurisdiction.

Since Plaintiff was laid-off before receiving the bonus, he alleged that waiving the bonus was the motive for his dismissal. Defendant replied that the Committee denied the bonus after determining that Plaintiff was going to be separated for a just cause. The circuit court determined that the Committee indeed possessed such authority under state law, and its decision couldn't be overruled.

VI. ERISA

¹⁰ *Rivera-Olivera v. Antares Oil Serv.*, 482 B.R. 44, 47 (Bankr. D.P.R. 2012) (quoting *In re A.H. Robins Co., Inc.*, 828 F.2d 1023, 1025 (4th Cir. 1987)).

¹¹ *Id.* (quoting *In re Bora Bora, Inc.*, 424 B.R. 17, 27 (Bankr. D.P.R. 2010)).

¹² *Tringali v. Hathaway Machinery Co., Inc.*, 796 F.2d 553 (1st Cir. 1986).

¹³ 28 U.S.C. § 1367.

¹⁴ *See Torres Ramos v. Metro Guard Serv., Inc.*, 394 F.Supp.2d 465, 469 (D.P.R. 2005).

¹⁵ *Weiss v. DHL Exp., Inc.*, 718 F.3d 39 (1st Cir. 2013).

¹⁶ The Committee was the sole arbiter of whether a plan participant was terminated for good cause. *See id.* at 41.

In *Gross v. Sun Life Assurance Co. of Canada*,¹⁷ after being denied benefits by her health insurer, Plaintiff challenged the removal of her claim from state to federal court after Defendant successfully invoked ERISA preemption. The circuit court was faced with the question of whether benefit plans provided by employers should be considered as unitary plans under ERISA provisions.

The circuit court agreed with the district court about the inapplicability of the “safe harbor” exception, acknowledging the ERISA preemption, since the record presented enough evidence to support that the company’s benefits package constituted a unified ERISA-governed plan. But subjecting the denial of benefits to *de novo* review, the court reversed and remanded the case with instructions, since the insurer’s standard for proving disability was completely arbitrary, disallowing due deference. Also, the court concluded that the evidence on record was inadequate to fairly determine Plaintiff’s entitlement to disability benefits. Hence, the district court was instructed to return the record to the insurer for further development.

In *Sun Capital Partners III, LP v. New England Teamsters & Trucking Industry Pension Fund*,¹⁸ the circuit court determined that, as a matter of first impression, a private equity fund was in fact a “trade or business” for the purposes of ERISA’s multiemployer plan withdrawal liability provisions.¹⁹ Under ERISA, an employer that withdraws from a multiemployer pension plan is liable for a share of the plan’s unfunded vested benefits. The entities subject to this liability are the employer that contributed to the pension plan, as well as any other “trades or businesses”²⁰ under “common control”²¹ with the withdrawing employer.

The court found that one of two private equity funds in this case was a “trade or business” because, “through layers of fund-related entities [it] was not merely a passive investor, but sufficiently operated, managed, and was advantaged by its relationship with its portfolio company [. . .]”²² The case was remanded to the district court for a determining on whether or not the

¹⁷ *Gross v. Sun Life Assurance Co. of Canada*, 744 F.3d 1 (1st Cir. 2013).

¹⁸ *Sun Capital Partners III, LP v. New Eng. Teamsters & Trucking Indus. Pension Fund*, 724 F.3d 129 (1st Cir. 2013).

¹⁹ See Multiemployer Pension Plan Amendments Act of 1980, incorporated to ERISA, 29 U.S.C. §§ 1381–1453.

²⁰ “[T]o be engaged in a trade or business, the taxpayer must be involved in the activity with continuity and regularity and that the taxpayer’s primary purpose for engaging in the activity must be for income or profit.” *Sun Capital Partners*, 724 F.3d at 139 (citing *C.I.R. v. Groetzing*, 480 U.S. 23, 35 (1987)).

²¹ “Under Treasury regulations, to be in a parent-subsidiary group under common control, the parent must have an 80% interest in the subsidiary.” *Id.* at 149 (citing 26 C.F.R. § 1.414(c)-2(b)(2)(i)).

²² *Id.* at 133.

remaining private equity fund met the "trade or business" standard, and whether or not the private equity funds were under "common control" along with the portfolio company. The relevance of this case is that before it, private equity funds were viewed and treated as passive investments and not as "trade or business" under ERISA's rules.

In *Hannington v. Sun Life & Health Ins. Co.*,²³ the Court determined that monetary benefits received under the Veteran's Benefit Act (VA) should not be deductible from a long-term disability monthly payment, especially those provided by the service-connected disability compensation. Plaintiff participated in an employer-sponsored long-term disability group plan. The plan provided that monthly payments will be reduced by amounts received as "other income" defined as any amount of disability or retirement benefits under: a) the United States Social Security Act (SSA); b) the Railroad Retirement Act ("RRA"); or c) any other similar act or law provided in any jurisdiction. The plan identified Defendant as the claims fiduciary and granted it the sole and exclusive discretion and power to interpret any and all issues relating to eligibility for benefits. Defendant's determination could not be overturned, except in the case of arbitrary or capricious actions.

Defendant made an adjustment in the Plaintiff's monthly benefits after he started receiving service-connected disability compensation under the VA. After the Plaintiff's administrative appeal was denied, he filed a claim in the district court. The court found that the VA followed a different definition of disability and that the VA does not provide employment-related benefits. It also ruled that the "other income" provision in the plan was intended to identify sources of income comparable to the SSA and the RRA. Since VA benefits are not linked to employment but to past service in the Armed Forces, it should not be considered as "other income" for purposes of reducing the monthly payment that the long-term disability owes Plaintiff under the plan.

The central question before the court in *Colby v. Union Sec. Ins. Co. & Mgmt Co. for Merrimack*,²⁴ was whether a risk of relapse into an addiction could be considered a current disability. Plaintiff, an anesthesiologist, started self-administering an opiate used in her practice to ameliorate her back pain. When her addiction became evident, Plaintiff took a leave of absence to enter an inpatient substance abuse treatment program. After leaving the treatment program, Plaintiff followed-up her condition on an outpatient basis and had not resumed her substance abuse. However, her license to practice medicine was eventually revoked.

Plaintiff's group employee benefit plan was governed by ERISA. The plan administrator suspended her benefits after her release from the inpatient clinic. To the plan administrator, the risk of relapse was not the

²³ *Hannington v. Sun Life & Health Ins. Co.*, 711 F.3d 226 (1st Cir. 2013).

²⁴ *Colby v. Union Sec. Ins. Co. & Mgmt Co. for Merrimack*, 705 F.3d 58 (1st Cir. 2013).

functional equivalent of a current disability. Only claimants under the regular care of a doctor for an illness or injury that prevented them from performing at least one of the material duties of their regular occupations could enjoy benefits.²⁵ But plan definitions made clear that substance abuse, dependency, and addiction were conditions that could give rise to sickness within the purview of the plan.

Plaintiff replied that she remained under the regular care of a series of doctors. Moreover, she expressed her fear of relapsing into addiction, since returning to work would give her easy access to opiates and other addictive substances; thus, impairing her from fulfilling her duties. Her assertions were, indeed, supported by evidence. For instance, she was arrested six months after her release from the inpatient program for driving under the influence of alcohol. The court also noted that Plaintiff's addiction was associated to several other physical and mental conditions, *i.e.*, back pain and depression. The district court granted judgment in favor of Plaintiff and the appeal followed.

Notwithstanding its departure from other circuits' precedent, the circuit court concluded that the exclusion of the risk of relapse into addiction as a long-term disability was unreasonable. More specifically, the plan administrator's reliance on an unwritten exclusion was deemed weak, as the risk of relapse persists for other kinds of illnesses.²⁶

A. Attorney's Fees

In *US Airways, Inc. v. McCutchen*,²⁷ the Defendant suffered serious injuries in a car accident and the benefit plan administered by Plaintiff paid \$66,866 to cover his medical expenses. Defendant recovered \$110,000 in a separate suit against the third party, keeping \$66,000 after attorneys' contingency fees were deducted. The plan administrator required the beneficiary to pay back the full amount of the medical expenses covered under the plan out of any amount recovered from his suit against the third

²⁵ According to plan documents, the material duties of a physician included working full-time, reviewing and evaluating medical records, diagnosing patients' medical conditions, prescribing diagnostic measures and treatment, as well as recording and reporting facts and findings. *See Colby*, 705 F.3d at 62.

²⁶ "For example, an air traffic controller with a seizure disorder may be totally disabled with respect to her regular occupation because the radar illumination and the runway's flickering lights put her at grave risk of convulsive episodes. It is not that she is physically unable to go through the motions required by an air traffic controllers job but, rather, that her risk of relapse is prohibitively impairing and thus becomes, for all practical purposes, a current disability." *Id.* at 66.

²⁷ *US Airways, Inc. v. McCutchen*, 133 S. Ct. 1537 (2013).

party.²⁸ Defendant argued that Plaintiff ignored the fact that his lawyers' contingency fees amounted 40% of his award. In a suit seeking appropriate equitable relief under ERISA, Plaintiff contended that a proportional adjustment must be performed over the amount to repay. The district court ordered Defendant to pay the full amount of \$66,866. The circuit court vacated the district court's judgment, holding that ERISA is subject to equitable limitations and that to be able to determine appropriate equitable relief, the district court must take into account the reduction of the amount recovered after deducting attorney's fees.

Plaintiff argued that the language of § 502(a)(3) of ERISA requires courts to enforce the exact terms of health benefit contracts, including terms guaranteeing full reimbursement.²⁹ Defendant argued that the circuit court properly applied equitable doctrines to provide a fair remedy and that since courts are vested authority to determine what constitutes "appropriate equitable relief" within the meaning of § 502(a)(3), they are not bound by express insurance plan terms. Plaintiff replied that the term "appropriate" in § 502(a)(3) of ERISA requires the "equitable relief" sought by Plaintiff to be consistent with the provisions of the benefit plan and thus, does not grant courts unbridled discretion to rewrite contractual terms. Defendant insisted on applying the equitable principle of unjust enrichment to the case. Otherwise, in his view, he would be left in a worse position than that if he had not sought third-party recovery.

The Supreme Court held that equitable limitations do not apply to the benefit plan, a valid contract. Here, the Court said Plaintiff was only demanding what was agreed under that contract. The common fund doctrine,³⁰ however, may provide relief in this case because the benefit plan was silent about the allocation of attorneys' fees. The common fund doctrine allows a litigant to recover attorney's fees from a fund that is created, increased or protected by the same litigant. Because the parties did not contract otherwise, the common fund doctrine fills the void. "[I]f [Plaintiff] wished to depart from the well-established common-fund rule, it had to draft its contract to say so—and here it did not."³¹ Thus, although the equitable relief doctrine cannot override express contractual terms, the common-fund doctrine is applicable to the same in the absence of provisions about attorneys' fees allocation. For this reason, the Court ruled in part for one party and in part for the other. Therefore, the circuit court decision was vacated and the case was remanded to the district court with instructions to

²⁸ See 29 U.S.C § 1132(a)(3).

²⁹ *Id.*

³⁰ "The [common-fund] doctrine rests on the perception that persons who obtain the benefit of a lawsuit without contributing to its cost are unjustly enriched." *U.S. Airways*, 133 S. Ct. at 1545, n. 4 (quoting *Mills v. Electric Auto-Lite Co.*, 396 U.S. 375, 392 (1970)).

³¹ *Id.* at 1548.

adjust the Defendant's reimbursement amount by applying common-fund rules.

VII. COLLECTIVE BARGAINING

In *N.L.R.B. v. Solutia, Inc.*,³² as part of a consolidation plan, a company transferred part of its operations from one building to another. Different labor unions represented the employees of each building within the same landsite. The Company notified its plan to the affected Union. The Union promptly objected, demanding negotiation, but the Company refused, calling its decision a managerial prerogative. The Union filed an unfair labor practice claim before the National Labor Relations Board (NLRB) and a grievance with the Company for violating the collective bargaining agreement (CBA) between them.³³

An NLRB administrative law judge (ALJ) found that the company's unilateral decision did not violate the CBA, but did violate sections 8(a)(1)³⁴ and 8(a)(5)³⁵ of the National Labor Relations Act (NLRA). The ALJ ordered the company to revert its decision, returning the work to its previous building and indemnifying all the employees adversely affected, as well as the Union. After both parties filed exceptions to the ALJ's ruling, a three-member panel of the NLRB adopted it in full. The NLRB petitioned the enforcement of its order to the circuit court. The Company cross-petitioned for review.

The Court agreed with the NLRB finding that its decision was supported by substantial evidence on record. It further stated that an employer violates section 8(a)(5) of the NLRA when it unilaterally changes a term or condition of employment. It also recognized considerable deference to the NLRB is entitled when determining what constitutes "terms or conditions of employment".

The Court then examined the case law looking for an answer to such a novel matter. It found that the Supreme Court had identified business decisions that have a "direct impact on employment . . . [but] ha[ve] as [their] focus only the economic profitability" of the company.³⁶ According to that ruling, collective bargaining is mandatory for these decisions "only if the benefit, for labor-management relations and the collective-bargaining process, outweighs the burden placed on the conduct of the business."³⁷

³² *N.L.R.B. v. Solutia, Inc.*, 699 F.3d 50 (1st Cir. 2012).

³³ The grievance was later dropped.

³⁴ 29 U.S.C. § 158(a)(1).

³⁵ 29 U.S.C. § 158(a)(5).

³⁶ *First Nat'l Maint. Corp. v. NLRB*, 452 U.S. 666, 677 (1981).

³⁷ *Id.* at 679.

The NLRB had already adopted a test to determine “whether a decision to relocate unit work is a mandatory subject of bargaining.”³⁸ If the transfer of work is an allocation, instead of relocation, the NLRB has determined that it is subject to mandatory collective bargaining, regardless of any consideration of profitability for the company.³⁹ Since “there was no change in the scope or direction of the business, the type of work being performed, or the site where the work was performed [. . .] the decision was necessarily a mandatory subject of bargaining.”⁴⁰ Here, the Company was seeking to enhance its operational efficiency by having employees working at more than one building, not changing the actual operations. Workforce reduction was also a main objective.

CBA provisions about employer control over its operations yielded to the long-standing use and practice. Although the plain language of the clause acknowledges company control over general personnel matters, it does not contemplate “remov[ing] work from bargaining unit employees and reassign[ing] it to managers.”⁴¹ Besides, bargaining history showed that the company—and its predecessor—had previously negotiated similar matters with the Union, under the same management rights language. The court also found that Defendant did not provide the Union with the information over the effects of its proposed transfer and that its effects weren’t foreseen by the CBA.

Contrary to what the union contested, the bargaining history also demonstrated the geographical definition of the unit, so the transfer did not change or extend its jurisdiction to the building where its employees were transferred, as the NLRB determined.

Affirming the administrative ruling again, the court deemed reasonable a CBA interpretation that stated that moving a task from one building to another “without moving any employees would be subject to bargaining with the Union, since it would maintain each Union’s representation of all employees on its respective side.”⁴² The remaining objections from the Union and the employer were all dismissed as premature, unnecessary or unmeritorious. That way, the NLRB’s petition of enforcement was granted and the Union and the employer’s petitions for review, denied.

VIII. COMPENSATION

A. Fair Labor Standards Act

³⁸ *Dubuque Packing Co. & United Food and Commercial Workers International Union Local No. 150A*, 303 N.L.R.B. 386 (1991).

³⁹ *See Westinghouse Elec. Corp. & Salaried Employees Association of the Baltimore Division*, 313 N.L.R.B. 452, 453 (1993).

⁴⁰ *Id.*

⁴¹ *Regal Cinemas, Inc. v. N.L.R.B.*, 317 F.3d 300, 312–13 (D.C. Cir. 2003).

⁴² *Solutia, Inc.*, 699 F.3d at 72.

In *Genesis Healthcare Corp. v. Symczyk*,⁴³ the respondent filed a complaint on behalf of herself and all other persons similarly situated, claiming that the petitioners violated the Fair Labor Standards Act (FLSA) by automatically deducting the employees' 30-minute meal break on every shift, even when they performed compensable work during those breaks. Respondent was the only plaintiff throughout all the proceedings. The complaint was answered and the employer made an offer for unpaid wages and attorneys' fees. Respondent didn't accept the offer and petitioners filed a motion to dismiss for lack of subject-matter jurisdiction. The district court found that there were no other individuals in the suit and that the offer Respondent received from her employer fully satisfied her individual claim. The court of appeals reversed, finding that since it was not established, the collective action was not moot.

In his Opinion, Justice Thomas stated that a complaint cannot be safe from mootness for the presence of collective action allegations when the individual that filed the action has received or accepted a remedy that satisfies its claim. The Opinion was based on the fact that there were no other plaintiffs in the lawsuit to sustain the continuance of the case when the employer offered to satisfy the amount owed to the only plaintiff in the case. In addition, the Supreme Court determined that "conditional certification" under the FLSA didn't provide independent status to the collective action, unlike a certification under the rules of Federal Civil Procedure. And because it wasn't certified correctly as required by the FLSA, the collective action became moot as the action of the respondent.

Respondent's suit was appropriately dismissed for lack of subject-matter jurisdiction, as well as the collective action.

Judges J. Kagan, Ginsburg, Breyer and Sotomayor dissented. They wrote that the Court should have corrected that the unaccepted settlement offer mooted Symczyk's individual claim, not the others rights.

In *Manning v. Boston Medical Center*,⁴⁴ plaintiffs brought a wage-and-hour action against defendants. Along with the company, the CEO and the Senior Human Resources Director were also named as defendants. The Plaintiffs alleged that their timekeeping policy and practices violated the Fair Labor Standard Act (FLSA) and Massachusetts common law. Defendants filed a dismissal motion alleging that the issue had to be submitted to a grievance processes under collective bargaining agreements (CBA) that existed between employer and employees.

Regarding the defendants, the court stated that the FLSA provides for personal liability as its definition of "employer" includes "any person acting

⁴³ *Genesis Healthcare Corp. v. Symczyk*, 133 S. Ct. 1523 (2013).

⁴⁴ *Manning v. Boston Medical Center*, 725 F.3d 34 (2013)

directly or indirectly in the interest of an employer in relation to an employee.”⁴⁵ In prior cases courts have normally agreed that “a corporate officer with operational control of a corporation's covered enterprise is an employer along with the corporation, jointly and severally liable [. . .] for unpaid wages.”⁴⁶ As a result, class could hold several individuals liable to their claims, depending on the position they hold and influence on the acts that affect the Plaintiffs.

The first circuit refused to dismiss the case under the grounds that Plaintiffs did not follow the grievance procedure established in the collective bargaining because its wording was too general. They pointed out that “[r]ights conferred by Congress are conceptually distinct from those created by private agreement, and there is no authority for the proposition that rights under the FLSA merge into contractual ones whenever the two overlap.”⁴⁷ As a consequence, FLSA claims are not subject to CBA's grievance and arbitration procedures simply because they address similar subject matter or because the CBAs define the concept of compensable “work.” The court also stated that “in order for a collective bargaining agreement to subject a federal statutory claim to arbitration, any such waiver must be ‘clear and unmistakable’ on its face.”⁴⁸

The first circuit upheld the dismissal of individual charges against the senior human resources director, but overturned the dismissal claims against the former president and CEO, finding that she had sufficient control over working conditions in order to establish individual liability.

B. Distribution Tips

In *Matamoros v. Starbucks Corp.*,⁴⁹ the district court found that Starbucks infringed Massachusetts’ law in a class-action diversity case. It was concluded that the most recent version of the Tips Act,⁵⁰ precludes an employer of dividing tips with employees who perform managerial tasks. The company was dividing tips between “wait staff” employees (“baristas”) and shift supervisors. Both employees were classified as hourly employees, shift supervisors also served customers within other duties including some managerial functions.

The district court certified the class, and awarded damages in an amount exceeding \$14,000,000.00. The circuit court upheld the damages awarded. The appellate court rejected the defendant’s allegation that the class could not include over 450 former baristas who became shift

⁴⁵ 29 U.S.C. § 203(d).

⁴⁶ *Donovan v. Agnew*, 712 F.2d 1509, 1511 (1st Cir. 1983).

⁴⁷ *O'Brien v. Town of Agawam*, 350 F.3d 279, 285 (1st Cir. 2003).

⁴⁸ *Id.*

⁴⁹ *Matamoros v. Starbucks Corp.*, 699 F.3d 129 (1st Cir. 2012).

⁵⁰ MASS. GEN. LAWS ch. 149, § 152A.

supervisors at some point during the class period, and ruled that a barista-turned-shift supervisor will only be considered a member of the class and entitled to damages for the period during which they were baristas. And inasmuch as shift supervisors are not named as defendants, a barista-turned-shift supervisor will not be required to reimburse any funds that he or she received from the tips pools after promotion.

The court also stated that if a barista-turned-shift supervisor is uncomfortable with the attack launched by the plaintiff class on Starbucks' tips policy, they, like other class members, have the right to opt out of the class. The availability of this option is an important factor in weighing the effect of a largely hypothetical conflict on a class-certification decision.⁵¹

IX. WORKERS' COMPENSATION

In *Truczinskas v. Dir., Office of Workers' Comp. Programs*,⁵² while working abroad for a military contractor, Mr. Truczinskas committed suicide. His widow sought benefits under the Defense Base Act ("DBA")⁵³ for herself and her three children. DBA provides disability, medical, and death benefits to employees working in military bases or with government contractors outside the United States who are injured or killed in the course of employment, whether or not the incident was during working hours.

Her claim was rejected by an administrative law judge of the Office of Workers' Compensation. On review, the circuit court affirmed the administrative decision—previously affirmed by a three-judge panel of the Department of Labor's Benefits Review Board—stating that in order to be awarded benefits under the DBA, it is necessary to relate the harm suffered by the employee to his job. Otherwise, the harm should have arisen "out of a 'zone of special danger' created by 'the obligations or conditions of employment.'"⁵⁴ The law bars compensation when the harm is caused by intoxication or when the worker intends to injure/kill himself or another. The burden to show that the harm or death was covered by the DBA rests on the Plaintiff.

X. DISCRIMINATION

A. Age Discrimination

⁵¹ See *Smilow v. Sw. Bell Mobile Sys., Inc.*, 323 F.3d 32, 43 (1st Cir. 2003).

⁵² *Truczinskas v. Dir., Office of Workers' Comp. Programs*, 699 F.3d 672 (1st Cir. 2012).

⁵³ 42 U.S.C. §§ 1651–1654 (2006).

⁵⁴ *Truczinskas*, 699 F.3d at 677 (quoting *O'Leary v. Brown-Pacific-Maxon, Inc.*, 340 U.S. 504, 507 (1951); *Gondeck v. Pan Am. World Airways, Inc.*, 382 U.S. 25, 27–28 (1965); *O'Keeffe v. Smith, Hinchman & Grylls Assocs., Inc.*, 380 U.S. 359, 362–64 (1965)).

In *Acevedo-Parrilla v. Novartis Ex-Lax, Inc.*,⁵⁵ the Court had the chance to address the issue of the reasonability of statistical inference to prove a discriminatory animus. The court held that, when considered in isolation and outside of context, statistical data is not probative of age discrimination.⁵⁶ Plaintiff brought claim asserting that the Defendant terminated him due to his age, in violation of ADEA and state law.⁵⁷

The only evidence offered to support Plaintiff's age discrimination claim was a statistical analysis of Defendant's employment records. But to the court, in order to contextualize such data, a plaintiff needs to submit complementary evidence about the relevant labor market.⁵⁸ Moreover, the Court concluded that "[an] offer of early retirement . . . is not, by itself, evidence of . . . discriminatory animus . . . [s]omething more must be shown that would tie the decision to offer early retirement to discrimination."⁵⁹ Notwithstanding, Defendant's motion for summary judgment was not granted since all plausible inferences must be drawn in favor of the non-movant party.⁶⁰ More specifically, the court concluded that "based on the totality of the record, there was sufficient evidence from which a jury could draw a permissible inference that the defendant reasons for terminating Acevedo were pretextual and that the decision was the result of discriminatory animus."⁶¹

B. Racial Discrimination and Retaliation

In *Pearson v. Massachusetts Bay Transp. Authority*,⁶² an African-American employee was terminated due to a history of absenteeism, discourtesy, and insubordination. Management suggested a demotion instead of termination; but, the labor relations department recommended the termination. Plaintiff wrote a letter to Senator Kennedy complaining of racial unrest. He challenged the decision through arbitration where he prevailed and was reinstated. After his reinstatement he was disciplined at least three or more times before being terminated once again. He later filed a complaint in

⁵⁵ *Acevedo-Parrilla v. Novartis Ex-Lax, Inc.*, 696 F.3d 128 (2012).

⁵⁶ *Acevedo*, 696 F.3d at 146; see, e.g. *Cruz-Ramos v. P.R. Sun Oil Co.*, 202 F.3d 381, 385 (1st Cir. 2000) (noting that appellant's burden to show employer's discriminatory animus cannot be carried simply by a comparison of ages within a sample that lacks statistical significance).

⁵⁷ *Acevedo*, 696 F.3d at 136.

⁵⁸ *Id.* at 146; see, e.g., *Cruz-Ramos*, 202 F.3d at 385 (where failing to point out "whether 'qualified older employees were available or applied for those jobs'" was deemed a "flaw in the statistical evidence" that recent hires were younger than the plaintiff for discriminatory reasons (quoting *Simpson v. Midland-Ross Corp.*, 823 F.2d 937, 943 (6th Cir. 1987))).

⁵⁹ *Acevedo*, 696 F.3d at 147; see also *Álvarez-Fonseca v. Pepsi Cola of P.R. Bottling Co.*, 152 F.3d 17, 27 (1st Cir. 1998).

⁶⁰ *Acevedo*, 696 F.3d at 147.

⁶¹ *Id.*

⁶² *Pearson v. Massachusetts Bay Transp. Authority*, 723 F.3d 36 (2013).

the district court, alleging racial discrimination and retaliation. In his claim, Plaintiff described a series of events that, he argued, showed that his firing was pretextual to cover the real reason: racial discrimination. His arguments were: (1) in two incidents, white co-workers received a better treatment in imposing discipline; (2) he had been active in supporting African-American employees in asserting their civil rights; (3) Defendant ignored his supervisors recommendation that he be demoted, not fired; (4) he was left in “employment limbo” for six months after his recommended termination; (5) he was informed that “someone in labor relations” did not like him; (6) the arbitrator did not find just cause for his termination; and (7) it was unclear who within labor relations made the decision to fire him. With these allegations, employer filed a summary judgment. The United States District Court granted a summary judgment filed by Defendant.⁶³

The First Circuit confirmed the district court’s decision regarding whether the Plaintiff had raised a genuine issue of fact as to whether the termination of his employment was motivated by discrimination, in order to defeat the summary judgment. The First Circuit found that the record established a legitimate non-discriminatory reason for the termination and that the employee had failed to prove that the employer’s reason was pretextual. The Court also rejected both retaliation claims. They found no causal link between the termination and the employee’s letter to Senator Kennedy, which was sent after the recommendation to fire him, and found that the employee had failed to allege a materially adverse employment action after his reinstatement, causally related to his administrative charges. It is important to mention that some of the plaintiff's allegations in his second claim were issues addressed by the arbitration process in the first termination.

C. Political Discrimination

In *Albino v. Municipality of Guayanilla*,⁶⁴ Plaintiff engaged in political activities, supporting the incumbent’s candidacy in a primary election. She was later promoted to the position of Director of the Citizens’ Services Office while simultaneously occupying her previous office clerk position. The fact that her husband supported another candidate in the primaries was well-known and, after public appearances alongside her husband, Plaintiff was removed from her position. After an administrative hearing, Plaintiff was dismissed under allegations of information theft.

Granting Defendant’s motion to dismiss, the district court restated: “Section 1983 does not confer substantive rights.” It rather “provides a venue

⁶³ *Pearson*, 723 F.3d at 41.

⁶⁴ *Albino v. Municipality of Guayanilla*, 925 F.Supp.2d 186 (D.P.R. 2013).

for vindicating federal rights elsewhere conferred.”⁶⁵ It further emphasized on the standard to meet in order to succeed in a claim pursuant to Section 1983: “a plaintiff must plausibly plead (1) that he or she was deprived of a constitutional right; (2) that a causal connection exists between [defendants’ conduct] and the [constitutional deprivation]; and (3) that the challenged conduct was attributable to a person acting under color of the state law.”⁶⁶

Municipalities, although considered persons for the purposes of section 1983, and therefore, subject to claims under the statute, cannot be held vicariously liable for actions of its employees under the theory of respondeat superior. Therefore, a plaintiff has to show that a “municipal ‘policy’ or ‘custom’ harmed him or her.”⁶⁷ Otherwise, municipal liability can be established by convincing the court that “a person with final decision making authority took the action that violated the constitutional right.”⁶⁸ But to the court, Plaintiff failed to state that a municipal custom or policy or a person vested with authority caused her termination.

The Court repeated the four elements of a *prima facie* case for a political discrimination cause of action under the First Amendment: “(1) that the plaintiff and defendant have opposing political affiliations, (2) that the defendant is aware of the plaintiff’s affiliation, (3) that an adverse employment action occurred, and (4) that political affiliation was a substantial or motivating factor for the adverse employment action.”⁶⁹ Though Plaintiff plausibly established the first three elements of her cause of action, she failed to plausibly connect her husband’s political affiliation as motive for her dismissal.

Plaintiff’s political harassment claims pursuant to the First Amendment were dismissed with prejudice as well. Since claims under section 1983 are not provided with a statute of limitations, the Courts apply the appropriate state personal injury statute of limitations to such actions. In the case of Puerto Rico, the statute of limitations consists of one year. Because the alleged facts took place a year before filing suit, Plaintiff’s cause of action was dismissed with prejudice.

Plaintiff’s claim under the Fourteenth Amendment’s Equal Protection Clause was also dismissed with prejudice citing the circuit court holding that for such claims, Plaintiff must show that he or she was “(1) deprived of a property interest, (2) by defendants under color of state law, and (3) without the availability of a constitutionally adequate process.”⁷⁰ Since Plaintiff was extended an impartial administrative hearing procedure, the due process requirement was met; thus, barring her claim.

⁶⁵ *Marrero-Sáez v. Municipality of Aibonito*, 668 F.Supp.2d 327, 332 (D.P.R. 2009).

⁶⁶ *Sánchez v. Pereira-Castillo*, 590 F.3d 31, 41 (1st Cir. 2009).

⁶⁷ *Bd. of Cnty. Comm’rs v. Brown*, 520 U.S. 397, 403 (1997).

⁶⁸ *Kelly v. LaForce*, 299 F.3d 1, 9 (1st Cir. 2002).

⁶⁹ *Lamboy-Ortiz v. Ortiz Vélez*, 630 F.3d 228, 239 (1st Cir. 2010).

⁷⁰ *Maymí v. P.R. Ports Auth.*, 515 F.3d 20, 29 (1st Cir. 2008).

Claims against the Mayor, in his official and personal capacities, were also dismissed with prejudice, since the Court found that Plaintiff “fail[ed] to sufficiently plead a section 1983 claim against” him.⁷¹ Claims against unknown defendants were also dismissed (without prejudice) for failure of service after more than a year of filing suit.

Plaintiff’s supplemental state law claims were also dismissed without prejudice. The court declined to exercise its supplemental jurisdiction over them since they were intricately related to those brought upon its original jurisdiction, all of which were dismissed.

In *Dávila Torres v. Feliciano Torres*,⁷² Plaintiff sued his newly-appointed supervisor both in her personal and official capacities for political discrimination, claiming that he was deprived of a supervisory position in violation of his due process.⁷³ The administrative nullification of his promotion—allegedly against state law—meant a considerable pay cut. He also claimed that due to the severe diminishing of his duties, he was able to perform his daily tasks in just an hour. He also alleged being excluded from staff meetings because of his political affiliation.

Prior to filing suit, Plaintiff allegedly told the Defendant—head of the agency—that he was experiencing political discrimination and asked to be assigned tasks commensurable with his previous position. According to Plaintiff, Defendant did not take action on his grievance. Plaintiff admits, however, that he did not levy a discrimination claim against Defendant at any point prior to the formal complaint in this case.

In order to establish a continuing violation, a plaintiff must allege that a discriminatory act occurred—or that a discriminatory policy existed—within the period prescribed by the statute. The court made reference to the plausibility standard.⁷⁴ As written by the Court, in order to state its claim, Plaintiff must have plausibly plead that he or she was deprived of a constitutional right.⁷⁵ In addition, he also had to state that a causal connection exists between Defendant’s conduct and the constitutional deprivation, and that the challenged conduct was attributable to a person acting under color of the state law.

As in *Albino*,⁷⁶ the Court stated that a political harassment claim can only prevail against a supervisor if the behavior of his subordinates results in a constitutional violation and the supervisor’s action or inaction was affirmatively linked to the behavior in the sense that it could be characterized

⁷¹ See *Albino*, 925 F.Supp.2d at 198.

⁷² *Dávila Torres v. Feliciano Torres*, 924 F.Supp.2d 359 (2013).

⁷³ Plaintiff and Defendant were affiliates of adversarial political parties.

⁷⁴ *Dávila Torres*, 924 F. Supp. at 367.

⁷⁵ *Id.* at 373.

⁷⁶ *Albino*, 925 F.Supp.2d 186 (2013).

as supervisory encouragement, condonation or acquiescence or gross negligence, amounting to deliberate indifference.⁷⁷

In the specific case, the Court found that Plaintiff failed to point to evidence that directly ties Defendant to any allegedly discriminatory act prior to Defendant's appointment as Plaintiff's supervisor. Since it was known that the parties were affiliated to adverse political parties, the prima facie analysis suited. In contrast to *Albino*,⁷⁸ in this case, the Court ruled that even though record does not clearly indicate if Plaintiff's political affiliation substantially motivated Defendant's action, Plaintiff's allegations and their corresponding submissions round out a prima facie case. Circumstantial evidence, such as knowing he was affiliated to the new administration's rival party and depriving him of much of his duties, made relevant to ponder whether his political affiliation was a substantial or motivating factor in the adverse employment decision.

The court noted that Defendant merely recited the governing doctrine for the qualified immunity defense, failing to cite any precedent specifically supporting her request in relation to the facts. Precisely, the court must grapple with the constitutional question before concluding whether Defendant is entitled to qualified immunity. But it didn't allow such immunity to the Defendant based on *Agosto de Feliciano*.⁷⁹ There, the circuit court determined that the right of the plaintiffs to be protected from politically-motivated changes in work conditions and responsibilities was established clearly enough to reject the qualified immunity defense of the Defendants.⁸⁰

The Court determined that the summary judgment related to the existence of political discrimination didn't proceed, but it granted the other claims of the defendant. The Court concluded that no unlawful deprivation took place since a hearing was held and Plaintiff was given the corresponding due process. The Court granted summary judgment as to Plaintiff's due process claim in favor of the Defendant. The Court also found that Plaintiff did not offer legal justification for finding an equal protection violation and granted summary judgment in this claim.

In *Grajales v. Puerto Rico Ports Authority*,⁸¹ Plaintiffs filed a wrongful dismissal complaint in the Federal District Court of Puerto Rico that included a general claim for civil rights violations.⁸² It also included state claims for damages and discrimination under Law No. 100 of the Commonwealth of Puerto Rico.²⁰ After several amendments, in which the plaintiffs added litigants to the complaint, one of the defendants filed a motion for summary

⁷⁷ See *Martínez Díaz v. Unknown Officers of P.R. Police Dept.*, 600 F.Supp.2d 318 (D.P.R. 2008).

⁷⁸ *Albino*, 925 F.Supp.2d 186 (2013).

⁷⁹ *Agosto de Feliciano v. Aponte Roque*, 889 F.2d 1209 (1st Cir. 1989).

⁸⁰ See *Acevedo-García v. Vera-Monroig*, 204 F.3d 1, 6 (1st Cir 2000).

⁸¹ *Grajales v. P.R. Ports Auth.*, 922 F.Supp.2d 20 (2013).

⁸² See 42 U.S.C. §§ 1983–1985 (West 2013).

judgment. Puerto Rico Ports Authority filed motion with the purpose of dismissing the complaint on the basis of the *res judicata*, collateral estoppel, and fragmentation estoppel doctrines.

The motion for summary judgment and its response were not granted. As a result, the Court found that neither party put the Court in a position to determine the merits of the motion. The filings of both parties were insufficient. One of the elements for such denial discussed by the Court was the lack of providing certified translation of Puerto Rico Supreme Court cases used to support their respective motions. This responds to the fact that “[a]ll pleadings and proceedings in the United States District Court for the District of Puerto Rico shall be conducted in the English language.”²¹

Another controverting factor was the lack of citing relevant authority. The Court stated that parties should not expose their arguments in a vague or “skeletal way, [because this leaves] the Court to do counsel’s work.”²² A result of such insufficiencies in structure and the lack of support for their arguments resulted in the denial of the motion for summary judgment.

Former Governor Luis Fortuño’s administration passed Act No. 7 of March 9, 2009.²³ It provided for serious government spending cuts to palliate the Commonwealth’s nine-figure structural deficit. For those purposes, it mandated a 30% reduce the size of the governmental structure.

In *Sauri Cortes v. Fortuño Burset*,⁸³ Plaintiffs alleged that their layoff was motivated due to their political beliefs. They claimed that they were members of the Popular Democratic Party (“PDP”), the administration’s opposing party.

Defendants responded that most of La Fortaleza employee’s salaries were funded by the Salary Incentive Program which expired on December 31, 2008 and there were no other identified funds to pay those employees beyond that date. They were all informed of this by the Human Resources Department in 2008. In the process, Plaintiffs consistently stated that they never saw any political propaganda at La Fortaleza nor heard any of the Defendants making any disparaging remarks about the prior administration or any other similar politically colored remarks during their service under the Fortuño administration. Although Plaintiffs were fully aware that they were employees in trust positions, as opposed to career employees, they claimed that they were not given their right to a due process before being dismissed of their duties. As such, they claimed that they were not provided with a pre-termination hearing and that there was a failure to comply with the proper notice requirement.

Analyzing each of the plaintiffs’ claims in an individual factual basis, the court concluded that the record showed that Plaintiffs failed to establish a

⁸³ *Sauri Cortes v. Fortuño Burset*, 909 F.Supp.2d 91 (D.P.R. 2012).

political discrimination claim. The Court found that Plaintiffs' termination was unavoidable since the funding of their salaries expired on December 31, 2008 and there were no other identified funds available to continue paying their salaries. The Court also stated that Act. No.7 prohibited new contracts and it mandated the elimination of 30% of all authorized trust services positions within all government agencies.

In *Aguilar-Serrano v. P.R. Hwys. & Transp. Auth.*,⁸⁴ Plaintiff claimed that she was deprived from her position as Director of the Legal Division–Property Acquisition because she was a well-known supporter of the administration's political opposition. Defendant alleged that Plaintiff was notified about their intention to dismiss her because her hiring process violated article 10.6(3) of the personnel manual and procedural requirements, according to an audit performed. After an informal administrative hearing, Plaintiff's dismissal was affirmed.⁸⁵

The District Court went over the elements that a plaintiff needs to meet in order to prove a *prima facie* case under a political discrimination claim, based on the First Amendment of the United States Constitution.⁸⁶ The four elements are: (1) that Plaintiff and Defendant are affiliated to opposing political organizations; (2) that Defendant is aware of Plaintiff's affiliation; (3) that an adverse employment action was taken; and (4) that political affiliation was a substantial or motivating factor for the adverse employment action. Moreover, each defendant's role must be sufficiently alleged to make him or her a plausible defendant.⁸⁷

The Court found that Plaintiff was given notice of her termination as well as the opportunity to be heard at an informal hearing, so it granted the Defendants' motions to dismiss. To the Court, Plaintiff failed to state a *prima facie* case of political discrimination under the First Amendment, since she did not plead adequate facts to show that the Defendants themselves knew of her political affiliation or that political affiliation was a substantial or motivating factor for the alleged adverse employment action taken against her.⁸⁸ Establishing that a plaintiff has a different political preference is not enough to meet this burden.

D. Age Discrimination and Retaliation

In *Trainor v. HEI Hospitality, LLC*,⁸⁹ the U.S. Court of Appeals for the First Circuit affirmed a jury verdict finding Defendant liable for retaliation. Plaintiff was hired under the condition that he was going to relocate. After

⁸⁴ *Aguilar-Serrano v. P.R. Highways and Transp. Auth.*, 916 F.Supp.2d 223 (D.P.R. 2013).

⁸⁵ *Aguilar*, 916 F.Supp.2d at 228.

⁸⁶ U.S. CONST. AMEND. I.

⁸⁷ *Aguilar*, 916 F.Supp.2d at 229.

⁸⁸ *Id.* at 230.

⁸⁹ *Trainor v. HEI Hospitality, LLC*, 699 F.3d 19 (1st Cir. 2012).

Plaintiff refused to relocate due to his wife's health condition, Defendant agreed to a work arrangement to keep him as an employee. Two years later, Defendant's new Senior Vice-President of Operations deemed Plaintiff's relocation necessary, allegedly in order to promote him to a Regional Senior Vice-President position. In the alternative, Plaintiff would have had to accept a general manager appointment with a substantial salary cut and the loss of other employment benefits.

Plaintiff's attorney wrote to the Defendant suggesting that age discrimination was the motive for the change. A meeting between Plaintiff and the Senior Vice-President of Operations followed, on which the elimination of Plaintiff's position was notified. Afterwards, a deadline was set for Defendant's offer acceptance. On the same day, Plaintiff filed an age discrimination charge before the appropriate state body, duly notifying the Defendant. Three hours later, Plaintiff was summarily discharged.

On trial, a jury dismissed the age discrimination claim but granted a 2.25 million dollar award. The Court doubled the award after the jury found that the Defendant had purposely violated state law.

Defendant's appeal was founded on the absence of direct evidence of retaliation and Plaintiff's failure to show—under federal or state law—that “(1) [the plaintiff] engaged in protected conduct under federal or [state] law; (2) [he] suffered an adverse employment action; and (3) a causal connection existed between the protected conduct and the adverse action.”⁹⁰

The circuit court replied that in order to make a *prima facie* showing of these elements, the Plaintiff is not required to succeed in the underlying discrimination claim. It is enough that the Plaintiff had a reasonable good-faith belief that a violation occurred; that he acted based on it; that the employer knew of the Plaintiff's conduct; and that the employer lashed out as a result of it.⁹¹ In the court's view, the record contained vast evidence about Plaintiff's engagement in protected conduct. The record also showed that Defendant's challenge to the sufficiency of Plaintiff's proof of retaliation focused on the causation element. The court deemed weak the Defendant's argument that the elimination of Plaintiff's position and his eventual termination were part of a larger plan set in motion long before Plaintiff engaged in any protected activity. In contrast, the court noted that a jury could have reasonably found that the Defendant never considered the outright elimination of Plaintiff's position before being notified of his legal action.⁹² Finally, the close temporal proximity between the state-filed charge

⁹⁰ *Trainor*, 699 F.3d 19 at 26; *see also* *McMillan v. Mass. SPCA*, 140 F.3d 288, 309 (1st Cir.1998).

⁹¹ *See Trainor*, 699 F.3d 19 at 26; *see also* *Mesnick v. Gen. Elec. Co.*, 950 F.2d 816, 827 (1st Cir. 1991).

notification and Plaintiff's summary dismissal supported an inference of retaliation.

XI. DUE PROCESS

In *Clukey v. Town of Camden*,⁹³ Plaintiff was a senior officer, state employee who was laid-off when his department was eliminated. CBA between Plaintiff's union and the Defendant granted Plaintiff first priority to recall if a new position became available within twelve months after his layoff. He was bumped by new hires for two of those positions without notification. He filed suit in federal court under 42 U.S.C. § 1983, alleging deprivation of his property interest in his right to be recalled without providing him the due process of law in violation of the Constitution's procedural due process guarantees. Defendant filed a motion to dismiss and argued the absence of a constitutionally protected property interest in Plaintiff's right to be recalled.

The district court found that Plaintiff did have a property interest in his right to be recalled, but ultimately concluded that Plaintiff's claim was one for breach of contract and therefore, dismissed.

The court of appeals reversed and remanded. In a procedural due process claim under 42 U.S.C. § 1983, the Plaintiff must allege facts which, if true, establish that the he or she (1) had a property interest of constitutional magnitude and (2) was deprived of that property interest without due process of law. In this case, finding if the plaintiff had a legitimate claim of entitlement grounded in the state law was critical. Whether or not he was currently employed at the time of the claim was immaterial. Although the Court had not ruled on this matter before, it previously recognized property interests in the right of employees to return to their positions after a sick leave. The court found that applicable state law recognized the creation of a constitutionally protected property interest by means of a public employment contract.

In general, a benefit is not a protected entitlement if government officials may grant or deny it under their discretion. Property interests exist when an employer's discretion is clearly narrowed so that the employee cannot be denied employment unless specific conditions are met. The Court extracted from the language of the CBA that the defendant's discretion over the right of recall was expressly limited by the words "employees shall be recalled."⁹⁴ The qualification thereby required was only as to the seniority of the laid-off employees.

⁹² Evidence showed that the possible elimination of Plaintiff's position was not mentioned before receiving Plaintiff's attorney first written communication.

⁹³ *Clukey v. Town of Camden*, 717 F.3d 52 (1st Cir. 2013).

⁹⁴ *Clukey*, 717 F.3d 52 at 54.

Grievance procedures provided by the CBA only satisfy a constitutional due process claim if they meet or exceed constitutional standards. Failing to provide Plaintiff with notice of the new job opportunities, Defendant did not meet due process minimums upon the Defendant's property right over the job position.

In *Senra v. Town of Smithfield*,⁹⁵ after a number of extensions, Plaintiff did not obtain a technical certification, required to pass his probationary period. He was terminated after an administrative hearing. A post-termination arbitration was held, which granted Plaintiff more time to obtain his certification. Suit was filed in the state court and removed at Defendant's request to the federal court. The district court granted summary judgment in favor of Defendant. The circuit court affirmed.

The circuit court found that a pre-deprivation hearing with previous notice and union representation and a post-termination arbitration proceeding—where plaintiff was represented by counsel and was able to participate and present evidence to a neutral arbiter—satisfied due process requirements in his termination proceedings. The Court reinforced that previous notification and the opportunity to respond satisfies procedural due process requirements. The Court explained once again the close relationship between federal and state claims to exercise its supplemental jurisdiction.

XII. FREEDOM OF SPEECH AND ASSOCIATION

In *Magriz Marrero v. Unión de Tronquistas de Puerto Rico*,⁹⁶ a collective action, Plaintiffs filed a complaint against the Union of which they were members. Such action was brought up on the grounds of the Labor Management Reporting and Disclosure Act (LMRDA).⁹⁷ Plaintiffs alleged that the Union violated their rights of freedom of speech and association, which are covered by the LMRDA. All this after participating in a strike against the Union due to their rejection of the Union's new slate. They were the only Union's members participating in the strike that were sanctioned. The Union also failed to inform union members that the strike was illegal.

The Court determined that the Union violated its members' rights of free association and speech under the LMRDA. The violations were a result of several actions such as the expelling of the Plaintiffs and the denial of their memberships for a period of six years. There were also violations when the

⁹⁵ *Senra v. Town of Smithfield*, 715 F.3d 34 (1st Cir. 2013).

⁹⁶ *Magriz Marrero v. Unión de Tronquistas de Puerto Rico*, 933 F.Supp.2d 234 (D.P.R. 2013)

⁹⁷ The Labor Management Reporting and Disclosure Act of 1959 (also known as the "Landrum-Griffin Act"), is a federal act that regulates labor unions' internal affairs and their officials' relationships with employers. Its bill of rights guarantees freedom of speech and periodic secret elections of officers. See *McCafferty v. Local 254, Service Employees International Union*, 186 F.3d 52, 57 (1st Cir. 1999).

Union removed the Plaintiffs from their positions, including elected ones as shop stewards. There were violations from the Defendants when they fined the Plaintiffs with \$10,000 in penalties.

The Court discussed that such violations were based on the fact that the LMRDA provided protection to the union members in section 101(a)(2). This statute states that every union member should enjoy the right to meet and assemble freely with other members to express any views, arguments or opinions and to express at union meetings their views upon candidates and other matters brought to the assembly's attention. This protection applies to the complaint brought by the Plaintiffs.

The Court also pointed out that Section 101(a)(5) states that no union member should be fined, suspended, expelled or disciplined without a due process.⁹⁸ This requirement was not followed in this case, according to the Court.

The Court confirmed the allegations held by the Plaintiffs, in terms of free speech and association, as a result of Congress' enactment of the LMRDA. In particular, "Congress modeled Title I [of the LMRDA] after the Bill of Rights" in order to "restate a principal First Amendment value of the right to speak one's mind without fear of reprisal."⁹⁹ Congress intended that the LMRDA Bill of Rights set forth in Title I should provide union members with the protection "necessary to bring an end to abuses by union leadership that had curtailed union democracy."¹⁰⁰

The Court concluded that the Bill of Rights, as well as part of the LMRDA had the intention of protecting Union member's First Amendment constitutional rights. Also, Section 609 of the Law prohibits retaliation against union members who exercise their rights under the law. And for that matter, the Court found that the Union violated such rights provided by the LMRDA with respect to the expelling and fining of the Plaintiffs in comparison to other union members.

XIII. HARASSMENT

A. Sexual Harassment

In *Miranda v. Deloitte, LLP*,¹⁰¹ Plaintiff—a female employee—filed a sexual harassment claim against her employer and her new supervisor. Allegedly, her supervisor enjoyed making offensive jokes of sexual content to female employees. Before going to the court, Plaintiff reported the alleged

⁹⁸ Due process includes being served written notice of specific charges, given a reasonable time to prepare a defense, and afforded a full and fair hearing.

⁹⁹ *G.P. Reed v. United Transportation Union*, 488 U.S. 319, 325 (1989) (internal quotations omitted).

¹⁰⁰ *Id.*

¹⁰¹ *Miranda v. Deloitte, LLP*, 922 F.Supp.2d 210 (2013).

behavior and later submitted an internal sexual harassment complaint. As a consequence, her supervisor confronted her about the complaint. Plaintiff alleged that placing her on a Performance Improvement Plan (“PIP”) constituted retaliation for filing a complaint. She also alleged being subject to a hostile work environment. Afterwards, she was verbally terminated from employment.

Defendants moved to dismiss claims under Title VII and ADEA,¹⁰² contending that Plaintiff failed to exhaust the proper administrative remedies and that she did not engage in any protected conduct under state law. Plaintiff opposed, arguing that Defendants may be individually liable under ADEA and denying the allegation about the exhaustion of proper administrative procedures.

The district court adhered to its precedent, restating that liability does not exist under ADEA, unless a notable exception exists. Such exception applies to corporate officers and managers with authority over ordinary business operations. Generally, to sue under Title VII or ADEA, the Defendant must be a named party in an EEOC administrative charge, unless there is substantial identity between a named party in the EEOC complaint and a defendant in the civil action. Plaintiff’s claim against her supervisor was dismissed since Title VII¹⁰³ does not provide for individual liability.¹⁰⁴

To establish a *prima facie* retaliation case under Puerto Rico’s Act No. 115 of December 20, 1991 (“Act 115”),¹⁰⁵ a plaintiff must establish that he or she “(a) participated in an activity protected . . . and (b) was subsequently discharged due to the activity.”¹⁰⁶ The court found that Plaintiff failed to show that she participated in an activity protected by Act 115, since she did not offer nor attempted to offer testimony or information about her allegations before a legislative, administrative or judicial forum in Puerto Rico. Filing a claim at the EEOC constitutes a protected activity by Act 115. Nevertheless, since Plaintiff filed her claim after termination, it results an unprotected activity.¹⁰⁷

Notwithstanding, Plaintiff’s ADEA and Title VII claims avoided dismissal under the managerial control exception test. The court also found

¹⁰² Age Discrimination in Employment Act, 29 U.S.C. §§ 621–634 (2008). Since Plaintiff was 42 years old at termination and her clients were reassigned to two younger males, she claimed both age and sexual discrimination.

¹⁰³ Title VII of the Civil Rights Act, 42 U.S.C. §§ 2000e–2000e17 (2008).

¹⁰⁴ See *Fantini v. Salem State College*, 557 F.3d 22 at 30 (1st Cir. 2009).

¹⁰⁵ P.R. LAWS ANN. tit. 29, §§194–194b (2009).

¹⁰⁶ *Miranda*, 922 F.Supp.2d at 224 (citing *Lupu v. Wyndham El Conquistador Resort and Golden Door Spa*, 524 F.3d 312, 313 (1st Cir. 2008)). See also *Uphoff Figueroa v. Alejandro*, 597 F.3d 423 (1st Cir. 2010).

¹⁰⁷ *Miranda*, 922 F.Supp.2d at 224.

that Plaintiff properly exhausted the administrative remedies before filing suit.

B. Sexual Harassment and Sex Discrimination

In *Talavera-Ibarrondo v. Municipality of San Sebastian*,¹⁰⁸ the district court refused to reduce a 3.6 million-dollar award under Puerto Rico Act No. 17 of April 22, 1988¹⁰⁹—prohibiting sexual harassment in employment—and Act No. 69¹¹⁰—prohibiting gender discrimination in the employment setting, as requested by Defendant. In the previous case, Plaintiff demonstrated having been subject to a hostile work environment based on the pervasiveness, frequency, and inappropriateness of the supervisor's conduct.¹¹¹

The defendant based its motion on art. 15.04 of the Puerto Rico Autonomous Municipalities Act.¹¹² The court disagreed and concluded that neither statutory language nor case law supported Defendant's proposition. To the contrary, Act No. 17 and Act No. 69 impose double liability¹¹³ on every employer—public or private—that intentionally discriminates against its employees. With no explicit language excluding certain employers from the double liability provisions of Act No. 17¹¹⁴ and Act No. 69,¹¹⁵ the court refused to reduce Plaintiff's award.

C. Employer Liability for Employee Racial Harassment

In *Vance v. Ball State University*,¹¹⁶ Plaintiff, an African-American catering assistant, was allegedly harassed by a white catering specialist because of her race. During her employment, Plaintiff submitted numerous complaints of racial discrimination and retaliation. Vance filed suit in the federal court under Title VII of the Civil Rights Act of 1964,¹¹⁷ for alleged racially hostile work environment and argued that the catering specialist was her supervisor, based on her leadership role. The district court granted summary judgment, dismissing Plaintiff's claim. The Court of Appeals for the Seventh Circuit affirmed.

¹⁰⁸ *Talavera-Ibarrondo v. Municipality of San Sebastian*, 901 F.Supp.2d 306 (D.P.R. 2012)

¹⁰⁹ P.R. LAWS ANN. tit. 29, §§ 155–155m (2009).

¹¹⁰ *See id.* at §§ 1321–1341.

¹¹¹ *See Talavera-Ibarrondo v. Municipality of San Sebastian*, 887 F.Supp.2d 419, (D.P.R. 2012); *Talavera v. Municipality of San Sebastian*, 865 F.Supp.2d 150 (D.P.R. 2011); *Talavera-Ibarrondo v. Municipality of San Sebastian*, 824 F.Supp.2d 254 (D.P.R. 2011).

¹¹² 21 P.R. Laws Ann. § 4704 (2011).

¹¹³ *Talavera*, 901 F.Supp.2d at 309.

¹¹⁴ *Id.* at note 28.

¹¹⁵ *Id.* at note 29.

¹¹⁶ *Vance v. Ball State University*, 133 S. Ct. 2434 (2013).

¹¹⁷ 42 U.S.C. §§ 2000e–2000e-17.

The Supreme Court determined that under Title VII, an employer's liability for harassment depends on the employment category of the alleged harasser. If he or she is the victim's co-worker, the employer is liable only if it negligently failed to provide appropriate working conditions. In cases in which the alleged harasser is a supervisor, the employer is strictly liable if the harassment culminates in a tangible employment action. Such actions are understood as those that result in a "significant change in employment status, such as, hiring, firing, failing to promote, reassignment with significantly different responsibilities or a decision causing a significant change in benefits."¹¹⁸ If no tangible employment action is taken, the employer may elude liability by establishing, as an affirmative defense, that (1) the employer exercised reasonable care to prevent and correct any harassing behavior and (2) that the Plaintiff unreasonably failed to take advantage of the preventive or corrective opportunities that the employer provided.¹¹⁹

D. Racial and Religious Harassment

In *University of Texas Southwestern Medical Center v. Nassar*,¹²⁰ Plaintiff, a physician of Middle Eastern descent, brought a Title VII action against his former employer, an academic medical institution. Plaintiff alleged that Defendant retaliated against him for complaining about his

¹¹⁸ *Vance*, 133 S. Ct. 2434, 2456.

¹¹⁹ Most notably, by means of a non-precedential sentence, the Supreme Court of Puerto Rico applied the Vance test, but with a rather dissimilar outcome. In *Ortiz-González v. Burger King*, 2013 SCPR 77, an employer was found vicariously liable, even after taking action to stop the alleged illegal conduct of one of its managers.

The trial court found that Plaintiff was submitted to sexual harassment and retaliation under P.R. LAWS ANN. tit. 29, §§ 155–155m. Although the employer took measures to deter the illegal conduct, it was found vicariously liable. The store manager and the harasser himself were also found jointly liable. All the parties appealed the decision. The Plaintiff requested an increase in the award and the imposition of the double penalty, as provided by law. The employer denied its vicarious liability based on the cautionary measures taken, while the harasser denied that his conduct constituted harassment. In the alternative, he argued that this was a case of strict employer liability as stated in P.R. LAWS ANN. tit. 29, §§ 155–155m. The court of appeals exonerated the employer, noting its promptly response to the inappropriate conduct of its employee, thus, holding the harasser as the only responsible for indemnification. The rest of the trial court's sentence was affirmed. Vacating the court of appeals decision, the Supreme Court reinstated the trial court's ruling. Defendants were found jointly liable before Plaintiff. Since the alleged harasser did not have the power to take tangible employment actions against Plaintiff, he did not qualify as her supervisor. Defendant, thus, was found vicariously liable for the harasser's unlawful conduct. In a separate opinion, Justice Rodríguez pointed out that art. 5 of Act 17 clearly states that the employer is vicariously liable when the harasser is a supervisor and/or represents the company.

¹²⁰ *University of Texas Southwestern Medical Center v. Nassar*, 133 S. Ct. 2517 (2013).

supervisors' racial and religious harassment, which ended in his constructive discharge. The opinion delivered by Justice Kennedy, emphasized that when claiming compensation for injury from wrongful conduct, Plaintiff must demonstrate connection, between the injury sustained and the wrong alleged. The requirement is governed by the principle of causation. When alleging the existence of discrimination under Title VII, Plaintiff does not need to show that the causal link between injury and wrong is so close that the injury would not have occurred without the action. The plaintiff only has to show "that the motive to discriminate was one of the employer's motives, even if the employer also had other legal motives in taking the decision."¹²¹ If there was also a legal motive and Plaintiff fails to prove his discrimination case, he will not receive compensatory damages nor will he be reinstated in his job, since the employer also had legal reasons to bring the action.

After revisiting the trajectory of the "but for" and "motivating factor" requirements, the Court found that the first is the only applicable to retaliation claims under Title VII and the latter, to discrimination claims. For the purposes of the case before the Court, under the "but for" standard, a claim could be dismissed even if the employer admits taking an adverse action under Title VII, if a jury¹²² believes that the employer would have taken the same action for other legitimate reasons.

In a dissenting opinion, Justice Ginsburg, joined by Justices Breyer, Sotomayor, and Kagan, pointed out that the Court had previously considered retaliation as a form of "discrimination" and that the majority ignored the reasonable interpretation of the Equal Employment Opportunity Commission (EEOC) and the underlying purposes of the "motivating factor" amendment. The dissenting Justices finished by inviting Congress to amend the Law to revoke the majority's opinion by statute.

XIV. LEGAL FEES

In *Rishell v. Medical Card System, Inc.*,¹²³ after being targeted as part of an investigation by the U.S. Department of Health & Human Services and the U.S. Attorney's Office for the District of Puerto Rico, Plaintiff requested prepayment of legal expenses as stated in the employment agreement signed by the parties. Defendant denied payment and Plaintiff sought remedy from the court.

After reviewing the bylaws of the Defendant-company and the employment contract, the court found that the Defendant was not liable since the benefit of prepaid legal expenses applied only to current directors or

¹²¹ *University of Texas*, 133 S.Ct. at 2520; *see also Price Waterhouse v. Hopkins*, 490 U.S. 228 (1989).

¹²² Civil cases by jury are common in federal courts. U.S. CONST. AMEND. VII. Puerto Rico's courts limit the right to be tried by jury to felony cases. P.R. CONST. art. 2, § 11.

¹²³ *Rishell v. Medical Card System, Inc.*, 925 F.Supp.2d 211 (D.P.R. 2013)

officers. Plaintiff was terminated during the investigation process and as a result, the applicable bylaws and contract clauses had no effect. Under state corporate law, "[t]he expenses incurred by other directors, officers, and other employees or [16] agents may be paid in this manner, pursuant to the terms and conditions which the board of directors deems convenient."¹²⁴ This statute provides ample deference to the company to decide to which employees it gives such benefits. All of this goes in favor of the Defendant's allegation, as the Court decided.

XV. MOTION FOR SUMMARY JUDGMENT

In *Cruz v. Bristol-Myers Squibb Co., PR, Inc.*,¹²⁵ the employer informed its employees of its plant-closing plans. During the gradual closing, a professional skills and seniority plan was developed. The later they were to be discharged, the higher a bonus payment they would receive, plus the applicable severance. Cruz never received a severance payment under the Employee Retirement Income Security Act (ERISA)¹²⁶ because he did not sign a waiver to any claim against his former employer. At the time of his dismissal, the two remaining employees in a similar position were older than him. No one else was hired to replace him.

Alongside two other dismissed employees, Plaintiff filed suit in federal court pursuant to ERISA, the Age Discrimination in Employment Act (ADEA),¹²⁷ ADA,¹²⁸ the Worker Adjustment and Retraining Notification Act (WARN),¹²⁹ the Consolidated Omnibus Budget Reconciliation Act (COBRA),¹³⁰ and under Commonwealth Laws No. 80¹³¹ and No. 100.¹³² The court denied their motion for failing to assert a common question of law or fact. The remaining Plaintiff filed an untimely motion to withdraw the ADA, COBRA, and WARN claims from his complaint. After discovery, Defendant filed motion for summary judgment on the remaining claims based on undisputed facts. Defendant's motion was granted. Plaintiffs appealed.

The circuit court affirmed the district court's judgment in full, for the following reasons: (1) "[U]nsupported assertions . . . [and] conclusory allegations were insufficient to warrant the certification of a collective

¹²⁴ P.R. LAWS ANN. tit. 14, § 3568(e).

¹²⁵ *Cruz v. Bristol-Myers Squibb Co., PR, Inc.*, 699 F.3d 563 (1st Cir. 2012).

¹²⁶ 29 U.S.C. §§ 1001–1461.

¹²⁷ 29 U.S.C. §§ 621–634.

¹²⁸ 42 U.S.C. §§ 12101–12213.

¹²⁹ 29 U.S.C. §§ 2101–2109.

¹³⁰ 29 U.S.C. §§ 1161–1169.

¹³¹ P.R. LAWS ANN. tit. 29, §§ 185a–185m.

¹³² P.R. LAWS ANN. tit. 29, §§ 146–151.

action.”¹³³ (2) Under ADEA, an employee must establish by preponderance of evidence that his dismissal was because of his age. Plaintiff was unable to show that Defendant did not treat age neutrally or that younger employees were retained in his position. (3) Laws No. 80 and No. 100 require a similar showing from Plaintiff. “[A] dismissal is for just cause if it results from the ‘[f]ull, temporar[y] or partial closing of the operations of the establishment.”¹³⁴ Moreover, Plaintiff could not rebut Defendant’s treatment of age during its plant-closing. (4) Plaintiff was unsuccessful at proving that Defendant’s severance plan was not a bona fide ERISA plan. (5) A breach of contract couldn’t be detected from the facts. Without considering if the Defendant’s severance plan offer constituted a contract, since Plaintiff received a six-month payment, he could not assert that such payment was lower than the amount awarded by Puerto Rico’s law.

XVI. RESTRICTIVE COVENANTS IN EMPLOYMENT CONTRACTS

In *Corporate Technologies, Inc. v. Harnett*,¹³⁵ Defendant signed an agreement that prohibited “solicit[ing], divert[ing] or entic[ing] away existing [Plaintiff’s] customers or business” as an employment condition.¹³⁶ He worked as an account executive/salesman and after ten years, he went to work with one of the Plaintiff’s competitors. Defendant sent targeted emails to former customers about his change of employer, held meetings with them, and sought exclusive price discounts from third-party suppliers. Plaintiff brought suit in state court asking for a preliminary injunction against Defendant. Defendant obtained removal to federal district court under its diversity of citizenship jurisdiction. The district court granted the preliminary injunction, restraining Defendant from engaging in communications and related marketing or sales activities with former customers for twelve months and required his new employer to withdraw all bids that Defendant helped to formulate.

On review, an issue about the initial contact between the Defendant and his former customers arose. Not finding precedential force or consensus among state courts’ interpretations of the governing law, the court of appeals refused to adopt a “per se rule” about the weight of such factor. “[T]he weight that initial contact should be given depends to some extent on the setting in which a particular case arises.”¹³⁷

Affirming the district court’s decision, the court of appeals recognized that “[i]n the employment context, restrictive covenants are meant to afford

¹³³ *Cruz*, 699 F.3d at 569 (citations omitted).

¹³⁴ *Id.* at 571 (quoting P.R. LAWS ANN. tit. 29, § 185b(d)).

¹³⁵ *Corporate Technologies, Inc. v. Harnett*, 731 F.3d 6 (1st Cir. 2013).

¹³⁶ *Corporate Technologies*, 731 F.3d at 10.

¹³⁷ *Id.* at 11.

the original employer bargained-for protection of its accrued good will."¹³⁸ With this statement, the Court reaffirmed the validity of restrictive covenants in the employment context to protect companies from former employees' unfair competition.

XVII. SUCCESSOR EMPLOYER

In *Alvarado-Rivera v. Oriental Bank and Trust*,¹³⁹ Plaintiffs—former employees of a failed bank—were hired by the Defendant, another bank, which purchased the assets of the failed one as part of a regulatory intervention. Plaintiffs were terminated during their probationary working period for the Defendant. Suit followed in the state court, where Plaintiffs claimed their severance payment under the assertion that the Defendant became their successor employer.

Considering the failed bank's liquidation by the state financial regulator and the FDIC appointment as its receiver, the court denied to apply the successor employer doctrine to the case. The FDIC terminated Plaintiffs as part of the liquidation process. The Defendant hired them afterwards. Furthermore, the agreement between the FDIC and the Defendant provided indemnity for claims arising out of the failed bank's liabilities. Claims arising from the employment relationship between Plaintiffs and Defendant were dismissed as well, as the Defendant asked Puerto Rico's Department of Labor for an extension of the probationary period, notifying Plaintiffs accordingly. The only controversy not summarily dismissed was the alleged termination without just cause of a Plaintiff who became a regular employee of the Defendant after the probationary period.

XVIII. USERRA

In *Rivera-Meléndez v. Pfizer Pharmaceuticals, LLC*,¹⁴⁰ Plaintiff had worked for the Defendant for a period of fifteen years at the time he filed suit, being promoted several times during that time period. After ten years of service, Defendant was promoted to a non-exempt supervisory "group leader" position. As a member of the United States Naval Reserve, he was called to active duty, which lasted eleven months. During his military leave, Defendant restructured the department where Plaintiff worked and eliminated the "group leader" position. Those affected by the restructure were invited to apply to one of the seven exempt supervisory "team leader" positions. If not selected, their alternatives would be (1) to apply for the new

¹³⁸ *Id.*

¹³⁹ *Alvarado-Rivera v. Oriental Bank and Trust*, 914 F.Supp.2d 198 (D.P.R. 2012).

¹⁴⁰ *Rivera-Meléndez v. Pfizer Pharmaceuticals, LLC*, 730 F.3d 49 (D.P.R. 2013).

non-exempt position of “service coordinator”, (2) to be demoted to the “senior operator” position or (3) to participate in a voluntary separation process.

Upon Plaintiff's return to work, he was assigned to a “special tasks” position and was later appointed “service coordinator”, with the same compensation and benefits of his previous “group leader” position, but without any supervisory duties. He asserted entitlement to the “team leader” position under USERRA,¹⁴¹ a law protecting the employment and reemployment rights of veterans. Defendant refused, having filled all the seven positions with Plaintiff's coworkers during his military leave. Plaintiff sued in federal court pursuant to USERRA, in addition to a state law claim. Under 38 U.S.C. § 4313(a)(2), a service member is to be reemployed in a position into which, if not for his deployment of more than ninety days, he could have been promoted. This rule is known as “the escalator principle.”

The district court issued summary judgment in favor of Defendant, deeming USERRA's “escalator principle” inapplicable to automatic promotions (those dependent on seniority), but under the discretion of the employer to assess the employee's fitness and ability, noting that USERRA “should be broadly construed in favor of military service members as its purpose is to protect such members” and incorporating the Department of Labor's regulations under the statute; the Court of Appeals reversed.¹⁴² The court emphasized that the “escalator principle” and its “reasonable certainty” test apply to all possible promotions that an employee qualifies for, but doesn't obtain because of his or her military leave. Specifically, “the employee is entitled to reemployment in the job position that he or she would have attained with reasonable certainty if not for the absence due to uniformed service.”¹⁴³ Such position should reflect, “the pay, benefits, seniority, and other job perquisites, that he or she would have attained if not for the period of service.”¹⁴⁴

If after returning from service, and despite the employer's efforts to qualify him or her, a veteran does not qualify for a promotion, he or she would keep his or her previous job or another of similar seniority, status, duties, pay and benefits. But out of fairness, the “escalator principle” could also work against the protected veteran if the employee's seniority or the job classification would have resulted in his or her demotion—or even layoff—and it continued after his or her return from uniformed service.

XIX. WHISTLEBLOWER/RETALIATION

¹⁴¹ United States Employment and Reemployment Rights Act, 38 U.S.C.A. §§ 4301–4335.

¹⁴² *Rivera-Meléndez*, 730 F.3d at 54.

¹⁴³ *Id.*

¹⁴⁴ *Id.*

In *Colón v. Tracey*,¹⁴⁵ Plaintiff filed a claim alleging being subject to several adverse employment actions, including demotion and suspension, which compelled her to resign after three years working as a human resources generalist. She identified those adverse employment actions as retaliation for being a whistleblower about her former employer's purportedly discriminatory employment practices.

The district court granted Defendant's motion for summary judgment and determined that the adverse employment actions taken against Plaintiff were for bona fide business reasons and that her resignation resulted from her own overreaction to a well-warranted disciplinary action.

Under *McDonnell Douglas*,¹⁴⁶ a plaintiff must first establish a prima facie case of retaliation by showing that: (1) he or she engaged in a protected conduct, (2) he or she was subject to an adverse employment action, and (3) a causal connection existed between the first and second elements. If these requirements were met, then the burden of proof shifts to the Defendant, who would need to articulate a legitimate nondiscriminatory reason for its challenged actions. If the Defendant does so, the ultimate burden falls on the Plaintiff to demonstrate that the proffered legitimate reason is in fact a pretext and that the action was the result of the Defendant's retaliatory animus.

In the first stage of the *McDonnell Douglas* test, the district court found that Plaintiff's conduct was not protected. Moreover, the court deemed Plaintiff's actions as a direct violation of legitimate policies and requirements adopted by the company. In the third stage, *Colón* failed to convince the court that pretext had been the reason for her suspension.

About the alleged demotion, the Court found that it was a temporary change in job responsibilities with no effect on the employee's salary or job title and that it had been applied to similarly situated employees without complaint. The Defendant's independent rationale for Plaintiff's reassignment was to create a more flexible human resources staff and to ensure that all functions of the Human Resources Department could be performed, even in the absence of the employee who usually performed them.

The circuit court affirmed the district court's determination about Defendant's showing of an independent and legitimate basis for their actions and about Plaintiff's failure to rebut it.

XX. THE *YOUNGER* ABSTENTION DOCTRINE

¹⁴⁵ *Colón v. Tracey*, 717 F.3d 43 (1st Cir. 2013).

¹⁴⁶ *See McDonnell Douglas Corp. v. Green*, 411 U.S. 792 (1973).

In *Casiano Montañez v. State Ins. Fund Corp.*,¹⁴⁷ while administrative review was still pending, employees of a state workers' compensation corporation sued their employer and several of its officers alleging political discrimination and due process violations stemming from adverse employment actions. Applying *Younger*, the circuit court reversed the district court's order of dismissal and remanded the case with instructions to stay¹⁴⁸ further proceedings until a related case awaiting decision before the Puerto Rico Supreme Court was solved.¹⁴⁹

The *Younger* abstention is appropriate only when the requested relief would interfere (1) with an ongoing state judicial proceeding; (2) that implicates an important state interest; and (3) that provides an adequate opportunity for a federal plaintiff to advance his federal constitutional challenge. To satisfy the first prong of the *Younger* test in the context of a state administrative proceeding, it must be coercive and in most-cases, state-initiated, in order to warrant abstention. In this case, since Plaintiffs voluntarily initiated the administrative proceedings and those proceedings are remedial in nature, not of the type to which deference under *Younger* applies, the court stated that pendency of an action in state court is not a *per se* bar to related federal court proceedings.

On the other hand, the *Pullman* abstention doctrine¹⁵⁰ serves to avoid federal-court error in deciding state-law questions antecedent to federal constitutional issues. Under *Pullman*, federal courts should restrain when (1) substantial uncertainty exists over the meaning of the state law in question and (2) settling the question of state law will or may well obviate the need to resolve a significant federal constitutional question.¹⁵¹ The fact that a state proceeding is actually pending strengthens the case for *Pullman* abstention and not the *Younger* abstention.¹⁵² These abstention doctrines have the purpose of balancing state and federal sovereignty.¹⁵³

The circuit court emphasized that "from the standpoint of federalism and comity, there is something particularly offensive about hijacking a case that is pending on the docket of a state's highest tribunal."¹⁵⁴ Otherwise, the district court would be forced to rule on a due process claim intertwined with a complex state-law controversy not yet solved by the state's highest court. The court stated that: "[a] contrary ruling from the Commonwealth court

¹⁴⁷ *Casiano Montañez v. State Ins. Fund Corp.*, 707 F.3d 124 (1st Cir. 2013).

¹⁴⁸ Stay is the act of temporarily halting a judicial proceeding through the order of a court.

¹⁴⁹ *González Segarra v. State Ins. Fund Corp.*, 2013 SCPR 77.

¹⁵⁰ *R.R. Comm'n of Tex. v. Pullman Co.*, 312 U.S. 496, 501 (1941).

¹⁵¹ *Casiano Montañez*, 707 F.3d at 129; *Batterman v. Leahy*, 544 F.3d 370, 373 (1st Cir. 2008).

¹⁵² *Casiano Montañez*, 707 F.3d at 129; *Rivera-Feliciano v. Acevedo-Vilá*, 438 F.3d 50, 61 (1st Cir. 2006).

¹⁵³ See Mathew D. Staver, *The Abstention Doctrines: Balancing Comity with Federal Court Intervention*, 28 SETON HALL L. REV. 1102, 1102 (1998).

¹⁵⁴ *Cruz v. Melecio*, 204 F.3d 14, 24 (1st Cir. 2000).

would render the federal court's opinion merely advisory; an outcome that the Court seeks to avoid in any case."

In *Verizon New England, Inc. v. Rhode Island Dept. of Labor & Training*,¹⁵⁵ the director of a state unemployment office denied benefits to members of a union who went on strike after a new CBA could not be reached. The director's determination was reversed on appeal to the Board of Review. The employer challenged the Board's ruling in the district court, while seeking declaratory and injunctive relief. The employer's main argument was that the Board's ruling was unenforceable as preempted by the National Labor Relations Act (NLRA).

The district court discarded the employer's preemption argument, dismissing the claim under the *Younger* abstention doctrine.¹⁵⁶ Under *Younger*, federal courts restrain themselves from intervening on issues that may interfere with a state's good faith effort to enforce its own laws in its own courts.¹⁵⁷ The issue in this case was whether the district court should interfere with ongoing state court litigation, or, as in some other cases, with state administrative proceedings,¹⁵⁸ giving due deference to the proceedings before a state board.

The Court made clear that in the absence of extraordinary circumstances, abstention would be appropriate when the doctrine elements are met,¹⁵⁹ but it would otherwise not be so if it is 'facially conclusive' or 'readily apparent' that the state proceedings are preempted by federal law.

XXI. AFTERWORD

This was a very active term in the Labor and Employment Law area. In cases as *University of Texas* and *Vance*, we see a Supreme Court making it harder for employees to present their claims successfully. On the other hand, in *USERRA*, we saw a court protecting soldiers' rights when returning to work and placing them in a comparable position with employees that do not serve to the country. From the six cases that treated issues related to benefits, in five of them the courts protected employees' benefits. Along the years, courts have emphasized the need to protect employees' benefits and have decided in repeated occasions that employees have an expectation over the

¹⁵⁵ *Verizon New Eng., Inc. v. R.I. Dept. of Labor & Training*, 723 F.3d 113 (1st Cir. 2013).

¹⁵⁶ See *Younger v. Harris*, 401 U.S. 36 (1971).

¹⁵⁷ See R. Gary Winger, *Younger Abstention Doctrine: A Morass of Confusion*, 1991 BYU L. REV. 1445–74.

¹⁵⁸ *Casiano Montañez*, 707 F.3d at 128.

¹⁵⁹ "[W]hen the requested relief would interfere (1) with an ongoing state judicial proceeding; (2) that implicates an important state interest; and (3) that provides an adequate opportunity for the federal plaintiff to advance his federal constitutional challenge." *Verizon New Eng.*, 723 F.3d at 116.

benefits their employers promised, and only under certain circumstances, employees can be left without their benefits. It has been allowed when in advance, an employer announces that due to business necessity, a benefit has to be terminated, reduced or modified. This shows that employees' benefits receive a great attention from courts.

We can also appreciate that a well-documented motion for summary judgment well document continues to be a vehicle frequently used the by district court and the First Circuit to dismiss cases, a resource that is not used frequently by the courts of Puerto Rico.