

Creating Tomorrow's Commercial Lawyers Toolkits

Disclaimer: This toolkit describes the law in general terms. It is not intended to provide legal advice on specific situations and should not be relied upon as a source of legal advice.

This toolkit provides a general understanding of what confidential information is and its legal importance. It outlines the requirements for a duty of confidentiality to arise and discusses the nature of confidentiality under English law. Finally, the toolkit discusses non-disclosure agreements and cases of breach of confidence.

TYPES OF CONFIDENTIALITY AGREEMENTS

A Confidentiality Agreement (also known as a NDA) is a legal contract between an individual and a recipient who is restricted from disclosing information that the individual has shared for a specific purpose. However, exclusions can be made when certain information is considered to be common knowledge or if it was otherwise in the possession of the recipient before the confidentiality agreement was signed. Agreements can also be tailored to the specific needs of all parties involved. There are three standard types of confidentiality agreements that you can choose from.

A mutual confidentiality agreement

Is commonly referred to as a two-way NDA.¹ These agreements are used where each of the parties are disclosing confidential information to each other. In the interest of fairness, each of the parties will agree to the same terms.

A one way; pro-discloser agreement

This type of confidentiality agreement is useful where only one of the parties is disclosing confidential information to the other parties involved. These agreements are drafted with the discloser in mind, and, therefore tip in their favour.

A one way; pro-recipient agreement

This is similar to the pro-disclosure agreement; the pro-recipient agreement is ideal in situations where only one of the parties involved is disclosing confidential information. However, this agreement is drafted with the recipient in mind, and will favour their interests.

TIP

If you do not know exactly what information you will need to disclose during a commercial relationship, you can still use a Non-Disclosure Agreement. It is a good idea to classify as confidential any information that will be disclosed later so that the NDA still applies and to ensure to sign the NDA before disclosing the relevant confidential information.

PURPOSE OF CONFIDENTIALITY AGREEMENTS

The purpose of a confidentiality agreement, also known as a Non-Disclosure Agreement, is to restrict or limit the recipient's use of the confidential information or ideas to only the specific permitted purpose of the agreement. The permitted purpose will be set out in the non-disclosure agreement between the parties that are involved, for how and when such information will be used for its intended purpose. To ensure no ambiguity in the agreement, the purpose should be properly and accurately drafted so that the parties to the agreement are not unjustifiably restricted in using the confidential information.

Practical ways to establish and preserve confidential information:

1. The recipient signs a non-disclosure agreement before any confidential information is divulged;
2. Restrict access to the confidential information, and only disclosed when necessary;
3. Keep a written record of any developments that have been made;
4. Keep all important and vital information, at a minimum, until the agreements and relationship are well advanced;
5. Audit security procedures regularly.

ESTABLISHING BREACH OF CONFIDENCE

The obligation of confidence may arise from a contract, be it express or implied, i.e. where the document is marked 'confidential', or through the relationship between the parties involved, such as fiduciary duties. Nonetheless, not all confidential information will be protected in all circumstances; and not all information which parties wish to keep secret will be considered confidential.

WHAT IS A BREACH OF CONFIDENCE?

1. The legal nature of breach of confidence in England & Wales is uncertain, and there are debates that have continued as to its scope and legality. However, case-law has provided some clear guidance as to the nature of the general obligation of confidence.
2. In the case of *Coco v AN Clark Engineers Ltd*, the plaintiff designed a moped engine and then negotiated with the defendant about its manufacture. These discussions broke down and the defendant designed a similar engine as to the plaintiff. In the proceedings on breach of confidence, it was held that for an action in breach of confidence to succeed, there must be i) a contract imposing an obligation of confidence or information received in circumstances where the reasonable person would think they were under the obligation of confidence, and ii) use of the information. The court was willing to hold that an obligation of confidence existed, but were not satisfied that there was use of confidential information.
3. Therefore, for breach of confidence to arise, a three-step test established in the *Coco v Clark* case must be satisfied.
 - i. the information must be confidential in nature

- ii. the information that is to be communicated in circumstances of confidence such that a reasonable man in the position of the recipient would realise that the information was given to him in confidence
- iii. Unauthorized use of the information – which could be to the detriment of the discloser.

KEY CLAUSES IN CONFIDENTIALITY AGREEMENTS

At a general level, confidentiality agreements should contain the following standard clauses:

- Identification of the parties to the agreement
- A definition/description of the confidential information that it protects
- The core obligation of keeping the information secret and only using it for the intended and permitted commercial purposes
- Disclosure of information of the receiving party: when it can be properly done and to whom it may be disclosed to
- How information and records are handled if the deal/project/transaction does not go ahead
- The life/duration of the agreement
- Governing law and jurisdiction; the courts and jurisdiction where the agreement is enforceable
- Additional miscellaneous terms; restricting the number of copies of the confidential information, remedies for a breach, provisions on how to change the terms of the agreement and a clause that ensures the rest of the agreement is valid if a clause within is found to be invalid (severability clause)

KEY TERMS OF CONFIDENTIALITY AGREEMENTS – EXPANDED

The following contains key terms to include in a confidentiality agreement including an explanation of the terms, its importance and purpose in relation to same.

- Identification of the parties involved - There should be a clear definition of who is obliged by the confidentiality clauses. If the NDA is such that only one party is revealing confidential information, the disclosing and receiving parties should be defined. Additionally, any third party who may receive said confidential information without breaching the contract should be clarified.
- Define what information is confidential – The disclosing party may wish for this definition to be as broad as possible in order to deter the receiving party from finding ways of disclosing information around the definition. You must define if only the information in writing is deemed confidential or both parties may deem that oral information is also included.
- The agreement's purpose – Identifying the purpose of the agreement is essential. Non-disclosures restrict the use of confidential information to a set purpose such as how the information can be used. This adds both clarity and limits burdensome restrictions.
- The confidentiality agreement's scope – The agreement will be focused upon keeping the information secret, taking reasonable steps to ensure its protection and to ensure the information is only to be used for

the allocated purposes. This should not only state that the information cannot be passed on but it is a breach of the terms of the confidentiality agreement if this information was used by the recipient themselves for gain at the detriment of the disclosure.

- Exclusions of the agreement – This is included to ensure the agreement is not overly burdensome on the recipient. It should expressly state the select conditions of when the receiving party may disclose the confidential information, such examples being an employee, consultant or subcontractor. A balancing act

should be implemented to allow commercial activities whilst ensuring the information is not at risk of becoming public knowledge. Additionally it should include the possibility of disclosing the information in a court of law without causing a breach of obligation.

- Duration of the agreement – The agreement should identify the period of which the information remains confidential. Non-disclosures may be permanent but the majority last 2 to 5 years. This is due to the fact that many forms of information lose their value after time or upon the occurrence of certain events and the cost of securing this information indefinitely may become expensive for the recipient.
- Governing law - The law which governs the contract and in which courts this is enforceable should be defined within the contract.
- Returning information – In the instance of the disclosing party wishing to have confidential information returned or the termination of the non-disclosure agreement a clause may be inserted into the contract. This may require a signed guarantee of all returned copies of the classified information.
- Remedies – If one party breaches the contract the options of financial payment or forfeiting of rights of the breaching party may be included.

As noted above, these provisions can all be found in most non-disclosure agreements but you will also need to consider any possible additional terms that should be added in the context of the specific NDA that you are drafting and negotiating.

Additional Terms

- Employee solicitation - Preventing the recipient who may have access to your employees from soliciting or hiring them in the near future.
- Injunction – Ensure you have a clause guaranteeing your right to file an injunction in instances of a possible contractual breach.
- No rights given to the receiving party. Just because you are sharing information does not mean you need to share the rights attached to your classified knowledge.
- A restriction of the number of copies of the secured information to be made available to the recipient.
- Severability of clauses in the instance of a clause being later viewed as invalid or unenforceable. This is so as to not affect the remainder of the contract.

LIMITATIONS TO CONFIDENTIALITY AGREEMENTS

There are several limitations to the law of confidentiality;

- Merely labelling material as confidential is not, on its own, legally binding
- The subject of confidentiality agreements has to be information that is clear and identifiable
- Information cannot be confidential if it is common knowledge or generally accessible and in the public domain
- A claimant cannot use an injunction as a remedy where a negative obligation not to disclose confidential information has been breached
- Confidentiality agreements may be unenforceable due to public interest considerations especially when they are used to portray a false public image. In these scenarios, the publication/disclosure of the information trumps the subject's right to privacy
- In English courts, if a document, bound by a confidentiality agreement, is read in open court, disclosure will not be prevented solely on this basis
- Foreign laws could limit confidentiality agreements if one of the parties or the subject matter of the agreement are not fully based in England & Wales.
- It can be difficult to prove a breach of a confidentiality agreement in court

ENFORCEMENT AND REMEDIES

1. Damages – This is the most common form of remedy available. The purpose is to put the claimant back in the position he would have been in had the infringement not occurred. It may be possible to obtain an award of damages against an 'innocent infringer', however, the fact that the words accompanying an article say 'confidential', doesn't thereby mean that the Defendant has knowledge. If the claimant would have used the information himself to earn profits, then the correct measure of damages is that the claimant should receive fair compensation for what he has lost -*Universal Thermosensors Ltd v Hibben*. Likewise, if the claimant would have licensed or sold the information to others, then measuring the market value of the confidential information between the seller and purchaser is the sufficient route. -*Seager v Copydex*.

Exemplary damages can be sought if the breach is so flagrant that an additional level of punishment is required

2. Injunctions – The courts have been willing to grant injunctions to stop the misuse of confidential information from entering the public domain and to stop the destruction of confidential information. In *Arthur J Gallagher (UK) and others v Skriptchenko*, the High Court made an injunction for the defendant to destroy the plaintiff's confidential information, which was held on the defendant's devices. The injunction is notable for ordering the destruction of the confidential information as the defendant admitted to misusing the information and that the D couldn't be trusted to seek out and delete the relevant information themselves.
3. Delivery Up – A court, in certain circumstances, can also order a delivery up or destruction of confidential information. The purpose of such an order is to ensure that the information doesn't enter the public domain.

4. Account of Profits – This is available for infringements of intellectual property rights. The remedy is based on the principles that the infringer has disclosed confidential information to the detriment of the discloser. The discloser is therefore entitled to the profits made from the infringement, if the receiving party has made any profit. Once liability has been established, the discloser can either opt for either damages or an account for profits, but not both.
5. The Norwich Pharmacal Order – A breach of confidence may also happen when the confidential information is posted on a website. It may not be possible to determine who posted the information, and thus who is accountable. The court may use the Norwich order, which will obligate the owner of the website to reveal the identity of the person who breached such confidentiality (G and G v Wikimedia Foundation Inc.)