NON-DISCLOSURE AGREEMENTS: AN ARTICLE ON CONFIDENTIALITY AGREEMENTS- CLAUSES, LIMITATIONS, & RELATED LEGISLATIVE ACTION

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INTRODUCTION TO CONFIDENTIALITY AGREEMENTS

The nature of confidentiality agreements has become pervasive. The "high-tech" life that we lead has paved the way for technology with shorter life spans, along with an immediate insufficiency of protection on patents and copyrights, resulting in an unprecedented elevation in the use of principles of trade secrets to further the agenda of protecting confidential information and technology. Understandably, practically each employee of tech-based companies, consultants, contractors of an independent nature, partners, licensees, and even joint ventures, all sign confidentiality agreements of some sort.

Agreements of this sort have widened their scope of application, outside of high-tech utility, by being of use in protecting and safeguarding confidential business information, such as financial data and marketing plans. Formerly, this area was the playing ground exclusively for intellectual property lawyers; currently having entered the mainstream legal practice arena. Admittedly, inadequate information on the risks and convolutions mars the use of confidentiality agreements by legal practitioners and non-professionals.

Confidentiality agreements may have various names, such as "non-disclosure agreements", or "technology protection agreements" or "trade secret agreements". Additionally, agreements with a broader purpose may consist of confidentiality covenants, such as in licensing or technology transfer agreements, among a multitude of others.

PREFACING NON-DISCLOSURE AGREEMENTS

Private contracts safeguarding valuable information are non-disclosure agreements (NDAs); otherwise deemed confidentiality agreements. For organisations as well as researchers working on

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research and development (R&D) projects, NDAs are inherently useful. It is paramount to comprehend the applicable scope of NDAs along with its commonly used agreement provisions. An important aspect of comprehending NDAs is not only being sure on when and how such an agreement is vital, but also what your ensuing obligations are, once you have signed an NDA.

This study aims at elucidating when and why there should be a requirement for non-disclosure agreements, and developing a deeper understanding of the chief provisions involved.

WHAT ARE NON-DISCLOSURE AGREEMENTS?

Non-disclosure agreements are contracts of legally binding nature. NDAs institute conditions and provisions under which the disclosing party reveals information in confidence to the receiving party. NDAs may be of two basic types, "one-way" or "two-way". One-way NDAs are also known as unilateral NDAs, and deal with one party disclosing information. Two-way NDAs are also known as bilateral NDAs and entail bilateral disclosure. It is possible for two parties to sign two separate unilateral NDAs, instead of a two-way agreement, when the said parties seek to disclose information. When involved with more than two parties, there exist multilateral NDAs.

Multiple kinds of information are transmittable through these agreements, for instance technical expertise, ideas, research information and chemical formulas, among others. The foremost understanding subsequent to studying these diverse forms of disclosed information is that it is especially precious for the disclosing party. The disclosing party may even attempt to keep such valuable information away from the general populace.

Various kinds of intellectual property rights (IPR), such as industrial designs, insist on novelty as an obligation for the acquirement of protection. This is a particular practice in the European Union (EU). Here, a creation is only conferrable as new if it never before been accessible to anyone, except for in circumstances when under confidence. Furthermore, a few of these IP assets are not patentable in various jurisdictions under EU's domain. These assets include business processes, and are protectable if hidden from the general populace. For the most part, establishments do believe that keeping information undisclosed and under confidence is the best way to guard your business. Regardless of the reason, in the majority of situations, an NDA is the perfect instrument for information safeguarding, when transferred under confidence.

It is always advisable to enter into an NDA prior to going into negotiations regarding licensing agreements, or in the instance of presenting fresh and innovative proposals to prospective business associates. Larger agreements, such as a license agreement or an employment contract, may consist of confidentiality agreements.

COMMON NDA CLAUSES

An NDA consists of multiple vital clauses. It is always the best practice to approach a lawyer, before committing; as these types of agreements need to be adapted to the unique conditions of the case and appropriate law.

1.1 Defining "Confidential Information"

Understandably, it is a pertinent practice to inject definitions in any type of agreement. One of the most important definitions in an NDA is that of "confidential information".[27] This confidential information consists of all documents and info recognized formerly by the concerned parties. Yet, it is impossible to define such confidential information in every circumstance, especially in the case of research and development projects, as well as similar enduring partnerships.

The next step is to arrive at a consensus regarding the conditions to meet, while recording such information. For instance, safeguard all information, in spite of the nature of the recording. It could be oral, written or even on an electronic medium. Alternatively, you could opt to define confidential information as only information segregated as strictly confidential. Post disclosure, recording of such oral information ought to be in a written manner.

Selecting the right mix is completely dependent on the risks the parties face. Non-requirement of information documentation is an easy way out. It is easy as generally, while handling such information in the long-term, researchers tend to forget marking such information. In a scenario such as this, the aforementioned information would go unprotected. Conversely, the necessity of recording such information results in a situation where the party is less likely to lose focus on the secrecy of the information, along with evidentiary proof of confidential information. It is relevant

[27] Confidentiality Agreements: A Basis for Partnerships, by Kowalski SP and A Krattiger, available online at www.ipHandbook.org

to note that all the employees handling such sensitive information should be conscious regarding the necessity to segregate and mark confidential information.

Concisely, the purpose of defining confidential information is establishing boundaries pertaining to the disclosure without disclosing any of those secrets in actuality.

1.2 Permitted Purpose

The next constituent clause in NDAs deals with the permitted purpose. This essentially underlines how a receiving party may make use of the information that is of a confidential nature. There is unequivocal prohibition of any kind of usage outside of the purview of permitted purpose, such as the conduction of specific research.

Some instances of permitted purpose:

- Technology Evaluation;
- Evaluation of parties' interest for the purpose of the development of research partnerships;
- Discussion pertaining consortium agreements;
- Undergo information evaluation in order to assess scenario while entering into a joint venture.

1.3 Limitations on Disclosure

An important facet of NDAs is fulfilling obligations regarding keeping confidential information private and not permitting its disclosure to any other party. Yet, there are some exceptions to this condition. For instance, during information disclosure with Universities, and similar organisations, it is integral to understand the importance of the information shared with students and employees, and sometimes even external advisers.[28] In practice, there information sharing is a reality in such organisations.

Nevertheless, a few limitations are enforceable in order to do away with any sort of disclosure on a discriminatory basis. The "Need-to-know" basis clause is a popular provision in NDAs, for in cases when there are students and external advisors involved. Such individuals must be aware of the confidential and sensitive nature of the information and understand the obligatory nature of its

[28] Disclosing Confidential Information, by Vivien Irish, available online at www.wipo.int

confidentiality. For instance, the clause would read, *"The sum of Confidential Information to be disclosed is fully contained in the discloser's discretion."*

1.4 Listing Information Excluded from Confidentiality – The Exclusions Clause

Each NDA does exclude some information from safeguarding; this means that the receiving party is under zero obligations to protect it. Some information in NDAs does not have to be confidential For instance, at a court proceeding, unless an unambiguous exception is inserted in an NDA, there is a fair possibility of the receiving party to violate the contractual arrangements while disclosing information that is legally enforceable. The exceptions are born out of apt principles of law. For instance, when the information is made or found by the receiving party before connecting to the disclosing party, is not in any way under protection. Similarly, if a company was to create an inventive device with a comparable trade secret before any exposition to the secrets of the disclosing party, the company may still go ahead and create the invention in a free manner. Such disclosures are impermissible to third parties, without specific permission.[29]

In order to circumvent such a scenario, it is advisable to leave out the following information:

- Information in the public domain during the disclosure period;
- Information in the public domain post disclosure, not resulting from an NDA violation;
- Information with the receiving party during disclosure;
- Information was developed independently or discovered by receiving party with no use of any confidential information;
- Information needed to be disclosed because of the law and under apt legal authority.

1.5 Defining Non-Disclosure Term

NDAs should point out at the length of time of keeping contractual confidence. It can be an indefinite amount of time, alternatively, for instance it could be for a set amount of time, post which the receiving party may disclose previously confidential information, without the risk of contract violation. The length of time could be anything, such as three years or even ten years at a

[29] Exchanging value – Negotiating Technology Licensing Agreements: a training manual, published jointly by the World Intellectual Property Organization (WIPO) and the International Trade Centre (ITC), available online at www.wipo.int

stretch. The parties negotiate this time period, and the period agreed by both parties is largely dependent on the particular facts of the case at hand. For instance, if it is a case of know-how and expertise, of a non-patentable nature; or even a customer list, it is possible to keep such information confidential for an indefinite amount of time, till which time the confidential nature of such information ceases to be.[30] Conclusively, the length is entirely dependent on the relative bargaining prowess of the parties to the NDA.

An instance of the language used in this clause is, *"The receiving party shall not disclose or use this secret and confidential information for a period of ten years from the date of this agreement's execution."*

In the case of European NDAs, the period of confidence in an NDA may be around ten years. In American NDAs, five years is the common length of time. Yet, many companies persevere for a period of only two or three years.

1.6 Choice of Legal Jurisdiction & Laws Involved

It is good practice to define the particular applicable law along with the legal jurisdiction in NDAs. This is important particularly in agreements between cross-border partnerships, especially in a dispute-settlement scenario. Parties should decide on which state's law would be applicable on the violation of an NDA.

Including an exclusive venue clause, is a practice for owners who seek to extort the utmost strategic advantage while facing litigation. This clause is particularly useful when there is a risk that the other party might file a suit, especially in cases of conclusive agreements such as employment agreements or joint venture agreements. If the venue clause is absent then any of the parties may litigate in their home states. As it is quite a disadvantage and an expensive affair to cover distances in order to face litigation, it is better to insert a venue clause and enjoy the benefit of having your opponent visit your neighbourhood instead, for the purpose of litigation. This can be a great strategic advantage.

Another important facet whether arbitration is the method of choice during dispute settlement. Provisions mentioning alternate dispute mechanisms, such as alternate dispute resolution (ADR)

[30] Non-Disclosure Agreements, United Kingdom Intellectual Property office, available online at www.ipo.gov.uk

processes are advantageous.[31] The benefit that comes out of inserting such a clause in the NDA is the avoidance of heavy litigation costs as well as imminent controversy. Additionally, the whole dispute is resolved in a confidential manner.

Choice-of-law clauses are enforceable in the cases when the selected law is in connection with the transaction, and a logical relationship is in order. This depends on the limitations by specific clauses of the selected law may not be abided by, if in contravention of a strong public of the jurisdictional forum.[32] NDAs do consist of a choice of law clause, choosing the owner's state law. The only way you may convince the other party to choose your home state's law is if there are inherent good reasons or with an extraordinarily strong negotiating advantage. The point of this clause is to seek the benefits or avoid the pitfalls of a particular and specific law. On forgetting this exacting clause, the parties would be busy with common law whims, as many jurisdictions follow the "most significant relationship" test as opposed to the older *lex locus contractus* (law of place of contract) rule.[33]

1.7 Miscellaneous Clauses

Miscellaneous terms are included at the conclusion of every non-disclosure agreement. Additionally, you may also call such a clause as "boilerplate". Instances of miscellaneous clauses include:

- An instance for such a clause is inserting a provision discussing whether the Attorney's Fees goes to the prevailing party, in a dispute. This is an **Attorney Fee** Clause In most jurisdictions, a party that has to visit the court to implement an NDA is not entitled to recover attorney's fees, except when the agreement specifically and categorically says so.[34] An NDA lacking the attorney fees clause may be incomplete, in a fashion. Some jurisdictions, such as America, have reciprocal clauses for the same, regardless of the drafting.[35]

[31] For overview on ADR mechanisms, see Schallnau, J., 'Efficient Resolution of Disputes in Research & Development Collaborations and Related Commercial Agreements', European IPR Helpdesk Bulletin N°4, January - March 2012, available at www.iprhelpdesk.eu
[32] For an example of a court's refusal to enforce such a clause to a post-employment restrictive covenant, see Frame v. Merrill, Lynch, Pierce, Fenner & Smith, Inc., 20 Cal. App. 3d 668, 97 Cal Rptr. 811 (1971)
[33] See, e.g., Consolidated Data Terminals v. Applied Digital Data Sys., Inc., 708 F.2d 385 (9th Cir. 1983)
[34] See, however Unif. Trade Secrets Act § 4. 14 U.L.A. 541 (1980)
[35] See, e.g., Ore. Rev. Stat. § 20.096; Cal. Civ. Code § 1717

- **Representation** is yet another such clause, where a receiving party may insist on representation. For instance, the clause would read, *"Disclosure of Confidential Information signifies that the information disclosure in not in contravention with any commitments to any employer, present or former, or any other such party and that discloser has the right to make such a disclosure."*
- With no standards defining if documentation of confidential information is necessary, sometimes it becomes important to insert a **Requirement for Documentation** clause. For instance, the clause would read such, *"To the practical extent, Confidential Information shall be disclosed only in documentary manner, marked as "Confidential"."*
- **Limitation on Using Information** is another clause, for instance, the clause reading, *"Receiving Party may not make use of Confidential Information for any research, commercial or non-commercial without former written approval from the disclosing party.*

1.8 Extra Strong Clauses

Sometimes, a disclosing party may seek to receive as much protection from an NDA as possible. This usually happens when the confidential information is of paramount importance to the discloser. In situations like these, inserting insert extra strong clauses and provisions is the safest bet. The purpose of these clauses is not to amend any basic commitments expressed in the NDA. They actually spell out and accentuate on the importance of the aforementioned commitments.[36] Instances of such extra strong provisions include:

Receiving party forbidden from using disclosed confidential information to create inventions or alternate valuable creations. If in contravention then rights to such assigned back to the discloser.

- Receiving party to not replicate disclosed confidential information.
- Receiving party to not run a comprehensive research to inspect details of disclosed confidential information.
- Receiving party to not use disclosed confidential information in a way that confers commercial benefit to receiver or disadvantages the discloser.

[36] Non-Disclosure Agreements, United Kingdom Intellectual Property office, available online at www.ipo.gov.uk

LIMITATIONS & RISKS WITH NON-DISCLOSURE AGREEMENTS

Despite NDAs being a superior way to safeguard confidential information, still these agreements have a few limitations and risks involved. For instance:

1.9 Best Confidential Information Protection is Zero Disclosure

An NDA does not act in a similar fashion to a lock and key apparatus. The sole purpose of a non-disclosure agreement is to formulate and institute contract-based commitments, which when violated can provide for damage recovery. However, the next step is to initiate expensive and lengthy litigation procedures, putting at risk the very same sensitive information that is under contention.

Hence, it is best practice to treat NDAs not purely as a conditional requirement, but as an exclusive method for use only when dealing with extremely confidential and sensitive information. It is imperative to assess the need of disclosing such confidential information and to assess the risks involved with doing the same. The trick is in capitalizing on your objectives while at the same time reducing your risks. A proper and accurate risk assessment for information disclosure is a calculated deliberation.

1.10 Use of NDAs in Tandem with Supplementary Implements

Many consider the conclusion of an NDA as the final step in the complete protection and safeguarding of confidential and sensitive information. Yet, this is not so as there is a significant requirement to take auxiliary measures. Instances of security steps consist of physical constraints such as barring entry to documents, proper preservation of the logbook; and digital restraints such as creating passwords and obstructing access to USB storage devices.[37]

Security[38] is one of the major components of an NDA. Common clauses in NDAs discuss that the receiving party is to treat the disclosed confidential information like is its own confidential

[37] For further information on examples of measures other than NDAs, we suggest you to consult the Roadmap for Intellectual Property Protection in Europe – Trade Secrets Protection in Europe, by IPR2 available online at www.ipr2.org

[38] This section is based on UNICO. 2006. UNICO Guides: Confidentiality Agreements. UNICO; Cambridge, U.K. http://www.unico.org.uk/. The UNICO Guide provides additional and valuable discussions on confidentiality agreements, including a range of template agreements

information and should afford it a similar level of security. Additionally, if the disclosing party wants to ascertain that a specific level of, the insertion of the following clauses in the NDA is essential:

- Disclosed confidential information is to be stored in specified and locked storage compartments.
- Only specified personnel are to have permission to access any disclosed confidential information.
- There is to be no copying of disclosed confidential information.
- There should be no transfer of disclosed confidential information from the premise.
- Record very viewing and screening of disclosed confidential information in a dedicated log.
- Documents of disclosed confidential information are to have specific identifying numbers, to be marked red and as "CONFIDENTIAL" or "CONFIDENTIAL INFORMATION".

LEGISLATIVE ACTION ON NDA RELATED DISPUTES

A business organisation is akin to a mighty supercar, where the body of the car comprises of the employer, and the contractors as well as employees make up its wheels. The relationship between the different parts of this mighty supercar have to forever work with minimal effort, if not completely perfectly. For a good working environment to increase production and customer satisfaction, it is integral to demarcate commitments, duties and restrictions of both the employee and the employer. India falls short on a lucid and practical jurisdictional structure to address the disputes related for the preservation of confidentiality, particularly NDAs.

1.11 Indian Legislative Action on NDA-Related Disputes

Bargaining power: The Indian Supreme Court in *Superintendence Company v Sh Krishnan Murgai (*1981)[39] held that there ought to be careful inspection of employee covenants. The fact being that there is immense inequality of bargaining power between parties, as bargaining will not occur as employees are mostly offered with *fait accompli* with the usual type of contract. This

[39] 1980 AIR 1717, 1980 SCR (3)1278

judgment points out at the uncertainty of the meaning and objective of definitions, terms and conditions in most one-sided arrangements.

Trade Secrets: The High Court of Delhi in the case of *American Express Bank v Priya Puri* (2005)[40] held that the guise of confidentiality could not restrict competition. The case dealt with a breach of confidentiality by former employee Priya Puri of American Express Bank.

In *VFS Global Services Private Ltd v Suprit Roy* (2007)[41], employer sought damages on enforcement of a negative covenant, restraining defendant from interacting with a rival company during employment and additionally for two years more. The Bombay High Court held that the relief required was exceedingly vague, and not a case of non-disclosure of any confidential information. Interestingly, the defendant did claim that the alleged "confidential information" was not really a secret. Yet, he still agreed to keep it confidential if it was not a part of the public domain.

The Bombay High Court, in *Bombay Dyeing and Manufacturing v Mehar Karan Singh* (2010)[42], held that information in public domain is not relatable to confidentiality. Granting limited relief, the court used tangible information. The Defendant allegedly divulged confidential information but the court ruled that not everything falls under the umbrella of secrecy.

1.12 Alternate Legal Avenues

Intellectual property related legislation, for instance the Designs Act and the Copyright Act, have been used in the past, in order to avert the use of alleged confidential information. The courts have additionally understood the importance of recognizing common law concerning confidential information. As proposed in *BLB Institute of Financial Markets v Ramakar Jha* (2008)[43], right to prevent the usage of confidential information is broader than the current copyright law.

In Indian criminal jurisprudence, there is no mention of confidentiality, apart from corresponding clauses such as offences of fraud and theft, to fill the void and result in imprisonment, and or fines under Sections such as 379 and 420 of the Indian Penal Code. Additionally, the Indian Technology Act, in Section 72A illustrates that on disclosure of personal information by service providers

[40] (2006) IIILLJ 540 Del
[41] 2008 (2) BomCR 446, 2007 (2) CTLJ 423 Bom
[42] 2010 (112) BomLR 3759
[43] MANU/DE/1359/2008 : 154 (2008) DLT 121

without explicit consent of concerned person, a punishable act on the hand of the service provider is committed.

The draft for the National Innovation Act, 2008 has been introduced and we are still waiting for an update on the same. With a heavy emphasis on confidentiality, the definition of confidentiality in the draft is seemingly inspired by from Article 39 of The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

1.13 The International Scenario

America enacted the Uniform Trade Secrets Act (USTA) in order to define the term "trade secrets" as information unknown generally, conferring economic value, enjoying secrecy maintenance.

Countries such as Australia, France, Russia, Germany and Mexico have enacted specific legalisations covering trade secrets as well as confidentiality.

CONCLUSION

There are only two basic canons to fall back on when dealing with NDAs: firstly, if there is a lack of trust between the concerned parties, the right decision if to not go ahead with the NDA. Yet, often an NDA is the logical first step to nurturing and growing trust, leading to further collaborations. Secondly, when forming an NDA with another party, it is integral to make sure that the entirety of organisational workers with access to confidential information are completely informed, regarding their confidentiality commitments.

Jurisprudence regarding confidentially obligations is in its early stages in India. Without a moment of doubt, Indian courts have striven to accept and uphold an unbiased perspective, endorsing a case-by-case approach. With the world becoming a smaller place every passing day due to the advent of globalisation, the importance of well-defined principles of commerce is significant. A clear definition of confidential information and related terms and commitments are inherently required for a rapidly growing economy like India. An apt and fresh enactment will aid the active laws. Paying no heed to these essential requirements will result in the dampening of the spark of innovation and impeding progress.