Non Disclosure Agreements

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18th October 2019

Agenda

- What is an NDA
- Where are they used?
- What are the legal precedences?
- Examples

What is an NDA?

- NDA means a “Non Disclosure Agreement”
  – As the name suggests it tries to bind a person by contract not to disclose certain information.
  – Often used in employment scenario
  – Also used when an external consultant is entrusted with some work that requires sharing of confidential information
  – Can also be used in internal projects where an employee is entrusted to a new highly confidential project

NDA is an agreement

- Needs to meet the general requirements of the Indian Contract Act
  - Competency to contract
  - Could be unilateral, bilateral mutual) or Multilateral
  - Free Consent (No misrepresentation, fraud, Coercion, threat, undue influence, mistake of fact)
  - Valid consideration (legal)
  - Need for authentication recognized in law to be considered as a written, documentary contract not to be limited by the principle of “Unconcsionable contracts”
  - NDA should be stamped like an agreement

Usage contexts

- NDA with new employees, Interns, Job Interview
- NDA with contractors, Web designers, Ethical hackers, Auditors
- NDA with potential investors, and During mergers and acquisitions
- Copyright document sharing (eg; Film script)
- For sale of information on restricted conditions (one time use, or prohibition of reselling)
- Mutual NDA/Unilateral NDA
- Trade Secret or Patent NDA
- Software development
- Visitor NDA, Volunteer worker NDA

Contents

- The parties to the contract, their contact details
- Background and the context
- Applicability..the information to which it refers to
- What information is likely to be shared and how?
- Period of the obligation…beyond the basic contractual period
- Date of contract, commencement and Termination
- Indemnity, Waiver etc
- Jurisdiction, Dispute resolution, severability, public information, legal impediments, God’s hand

Applicability

- 1. Definition of Confidential Information.
  - For purposes of this Agreement, “Confidential Information” shall include all information or material that has or could have commercial value or other utility in the business in which Disclosing Party is engaged.
  - If Confidential Information is in written form, the Disclosing Party shall label or stamp the materials with the word “Confidential” or some similar warning.
  - If Confidential Information is transmitted orally, the Disclosing Party shall promptly provide a writing indicating that such oral communication constituted Confidential Information.

Applicability

- 2. Exclusions from Confidential Information.
  - Receiving Party's obligations under this Agreement do not extend to information that is:
    - (a) publicly known at the time of disclosure or subsequently becomes publicly known through no fault of the Receiving Party;
    - (b) discovered or created by the Receiving Party before disclosure by Disclosing Party;
    - (c) learned by the Receiving Party through legitimate means other than from the Disclosing Party or Disclosing Party's representatives; or
    - (d) is disclosed by Receiving Party with Disclosing Party's prior written approval.

Obligations

- 3. **Obligations of Receiving Party.**
  - Receiving Party shall hold and maintain the Confidential Information in strictest confidence for the sole and exclusive benefit of the Disclosing Party.
  - Receiving Party shall carefully restrict access to Confidential Information to employees, contractors and third parties as is reasonably required and shall require those persons to sign nondisclosure restrictions at least as protective as those in this Agreement.

Obligations

- Receiving Party shall not, without the prior written approval of Disclosing Party, use for Receiving Party's own benefit, publish, copy, or otherwise disclose to others, or permit the use by others for their benefit or to the detriment of Disclosing Party, any Confidential Information.
- Receiving Party shall return to Disclosing Party any and all records, notes, and other written, printed, or tangible materials in its possession pertaining to Confidential Information immediately if Disclosing Party requests it in writing.

Period

- Could extend beyond the termination of the Contract
  - Should be for a reasonable period
  - Perpetual Contract may be invalidated by Courts as unconscionable
- NDAs cannot lawfully prohibit employees from officially reporting illegal conduct.

Special care to be exercised

- Confidentiality definition should not be too broad
- Correct description of the name of the party and the company
- Unreasonable and onerous clauses to be avoided (eg: Indefinite period of confidentiality)
- Information provided by third party not to be included
- Information already known or in public domain to be exempted
- Receiving party developing the information independently
- Disclosures made prior to NDA
- Signed by a person with proper authority
- Correct jurisdiction
- Adequate due diligence to be exercised by the Company
- Compelled disclosure

Context

- In case of consultancy related NDAs
  - Consultant may bring in his IPR and conflicts may arise later about its re-use in a different context
  - Narration of the background of the consultant could be helpful to determine what information he is likely to have before hand and
  - Limit conflicts arising out of the IPR issues

Remedial Action

- Cease and Desist letter
- Ombudsman
- Mediation
- Arbitration
- Jurisdiction of Courts
- Limitations to damage

Negative covenant enforceable during the term of employment

- In the case of ***Niranjan Shankar Golikari*** [3]
  - the Apex Court held Negative covenants operative during the period of the contract of employment when the employee is bound to serve his employer exclusively are generally not regarded as restraint of trade and therefore do not fall under Section 27 of the Contract Act.

Negative covenant enforceable during the term of employment

- Meanwhile, in ***Wipro Ltd. v. Beckman Coulter International S**. A[4]*
- the court held that negative covenants between employer and employee contracts pertaining to **the period post termination** and restricting an employee's right to seek employment and/or to do business in the same field as the employer would be a restraint of trade and therefore, a stipulation to this effect in the contract would be void.

Is an NDA in restraint of trade?

- The Bombay High Court in ***VFS Global Services Pvt Ltd*** held that a clause prohibiting an employee from disclosing commercial or trade secrets is not in restraint of trade.
  - The effect of such a clause is not to restrain the employee from exercising a lawful profession, trade or business within the meaning of Section 27 of the Contract Act.

Is an NDA in restraint of trade?

- The Delhi High Court in
  - *Mr.* ***Diljeet Titus, Advocate v. Alfred A Adebare and Ors***
    - restrained the Defendant from misappropriating the information including the lists of clients and other information forming the database of the firm,

Key principles

- **Inevitable Disclosure Doctrine** –
  - Under this court-made rule, adopted by only a few courts, a court can stop an ex-employee from working for a competitor if the former employer shows that the employee will “inevitably disclose” trade secrets of the former employer.
- **Non-Solicitation Provision** (also known as a “diversion provision)
  - An agreement that restricts an ex-employee’s ability to solicit clients or employees of the ex-employer.
- **Option Agreement** –
  - An agreement in which one party pays the other for the opportunity to later exploit an innovation, idea or product.

Advent of Data Protection Act

- Data Protection Act imposes a higher level of diligence on the “Data Controller/Data Fiduciary”
  - To ensure that “Personal data is held confidential”
  - To hold the required “Consent” before it is disclosed.
  - Consent should be specific and explicit in case of Sensitive Personal information
    - Eg: PWC case

Hellenic DPA-PWC-Penalties

- Administrative fine of Euro 150,000 fine based on the published net annual turnover of EUR 41,936,426 (0.35%)
- Processed the personal data of its employees in an unfair and non transparent manner
  - contrary to the provisions of the GDPR giving them the false impression that it was processing their data under the legal basis of consent while in reality it was processing their data under a different legal basis about which the employees had never been informed.

Hellenic DPA-PWC..Complaint

- Complaint against PWC BS (PWC Business Solutions)
  - From an employee … that “Employees were required to provide consent to the processing of their personal data”
  - Conducted an ex-officio investigation of the lawfulness of the processing of personal data

Know How and Trade Secrets

- Trade secret law tries to balance companies’ need to keep certain things secret with employees’ desire to transfer skills between employers.
- Technical Knowhow may not all be “Trade Secrets”
- The problem is that NDAs are often written broadly, and once an employee signs one, the case against them is stronger should they take their know-how to a competitor.
- Not all courts are diligent in policing the lines between general knowledge and confidential information.
  - Therefore, signing a broad NDA opens employees up to legal risk beyond what trade secret law otherwise would protect.

Non Disparagement Clause

- A new common extension of NDAs is the inclusion of a non-disparagement clause, which beyond the protection of concrete corporate information
- requires employees to never speak negatively about their employer or former employer.
  - A boilerplate non-disparagement clause reads “you shall not at any time, directly or indirectly, disparage the Company, including making or publishing any statement, written, oral, electronic or digital, truthful or otherwise, which may adversely affect the business, public image, reputation or goodwill of the company, including its operations, employees, directors and its past, present or future products or services.”

BSNL Tender (BSNL Vs Vhader Shekar, 23rd March 2012)

- BSNL invited a tender signing NDA with the bidders
- Bids were opened but subsequently Tender wscancelled
- One of the bidders filed for information on the bidding process settlement but CPIO refused.
- The first appeal was against the CPIO.
  - Another appeal was made to the Delhi High Court by the CPIO

BSNL Tender (BSNL Vs Chander Shekar, 23rd March 2012)

- i) that the evaluation process stood completed and thus the commercial position of any of the bidders could not be adversely affected by such disclosure;
- ii) the exemption under Section 8(1)(d) of the Act is not available since the information was already in public domain owing to the finalization and completion of the bidding process and evaluation and cannot pose a threat to the competitive position of any of the bidders;
- iii) it was in the larger public interest to disclose such information;

BSNL Tender (BSNL Vs Chander Shekar, 23rd March 2012)

- iv) that the Non Disclosure Agreements were valid only for the "Confidentiality Period" i.e. till the opening of the bids;
- v) even otherwise such Non Disclosure Agreements debarring access to information and thereby disrupting the transparency and accountability of the public authority were in violation of the very spirit of the Act and therefore illegal to the extent they prevented disclosure beyond what was exempted under the Act;
- vi) that thus the Non Disclosure Agreements if prevented disclosure beyond the confidentiality period also, were illegal; vii) that the public interest "far outweighs the weak contentions put up by the appellant to protect the so called private interests"; viii) that even though the tender process had been challenged in some of the High Courts but the same also did not entitle the appellant to exemption. Accordingly, directions for disclosing the information were issued.

BSNL Tender (BSNL Vs Chander Shekar, 23rd March 2012)

- Though the Non Disclosure Agreement extended the obligation of confidentiality beyond the date of opening of the tenders also but only for a period of two years from the date of disclosure or to the completion of business purpose whichever is later. The business purpose stands abandoned with the scrapping of the tenders.
- However, we are of the opinion that disclosure of such information which would be part of the evaluation process would still require a notice to be given to the third party.
- Appeal partly allowed and remanded back to CIC

Thank You