

# Non Disclosure Agreements

**9.30 – 11.00**

20th December 2022

# Agenda

- What is NDA?
- Where are they used?
- Examples
- Contents of NDA
- Some Cases

# Confidentiality of Information

## Information is a valuable asset

- But needs to be shared in some circumstances
  - For mutual benefit
- Sharing may open some risks of the shared information being misused to the detriment of the person who shared
- NDA tries to protect against such risk through an enforceable contractual agreement

# Confidentiality of Information

## If Information is “Personal”

- It is governed by the Personal Data Protection Regulation
  - Sharing is subject to “Consent” of the data subject
  - Or for identified legitimate interest
  - Or under compulsion of law
  - Or under other exemptions if any
  - A “Consent” focuses on what can be shared and for what purpose

# If information is “Non Personal”

## Disclosure is covered by Cyber Security regulation

- Need to protect the interest of the organization
- And the shareholders
- ITA 2008 provides powers to the Government agencies to seek information refusal of which could lead to punishable consequences.

# Information may be given or Discovered

In all cases information shared is not restricted to what the parties are aware of or intend to share at the time of contract

New Information may be shared during the course of an engagement

NDA has  to cover known and likely to be discovered  information

# Instrument of disclosure/Non Disclosure

## In case of personal data,

- Notice and consent is the instrument of right of processing including right of disclosure.
- Is it a negative NDA?

## In case of non personal data

- The NDA serves the purpose of how the shared data (shared by the data owner) can be used by the recipient
- Is it a negative Consent?

# What is NDA?

## An agreement

- To Bind a person by contract not to disclose certain Information

## Where Used?

- Employees
- External parties

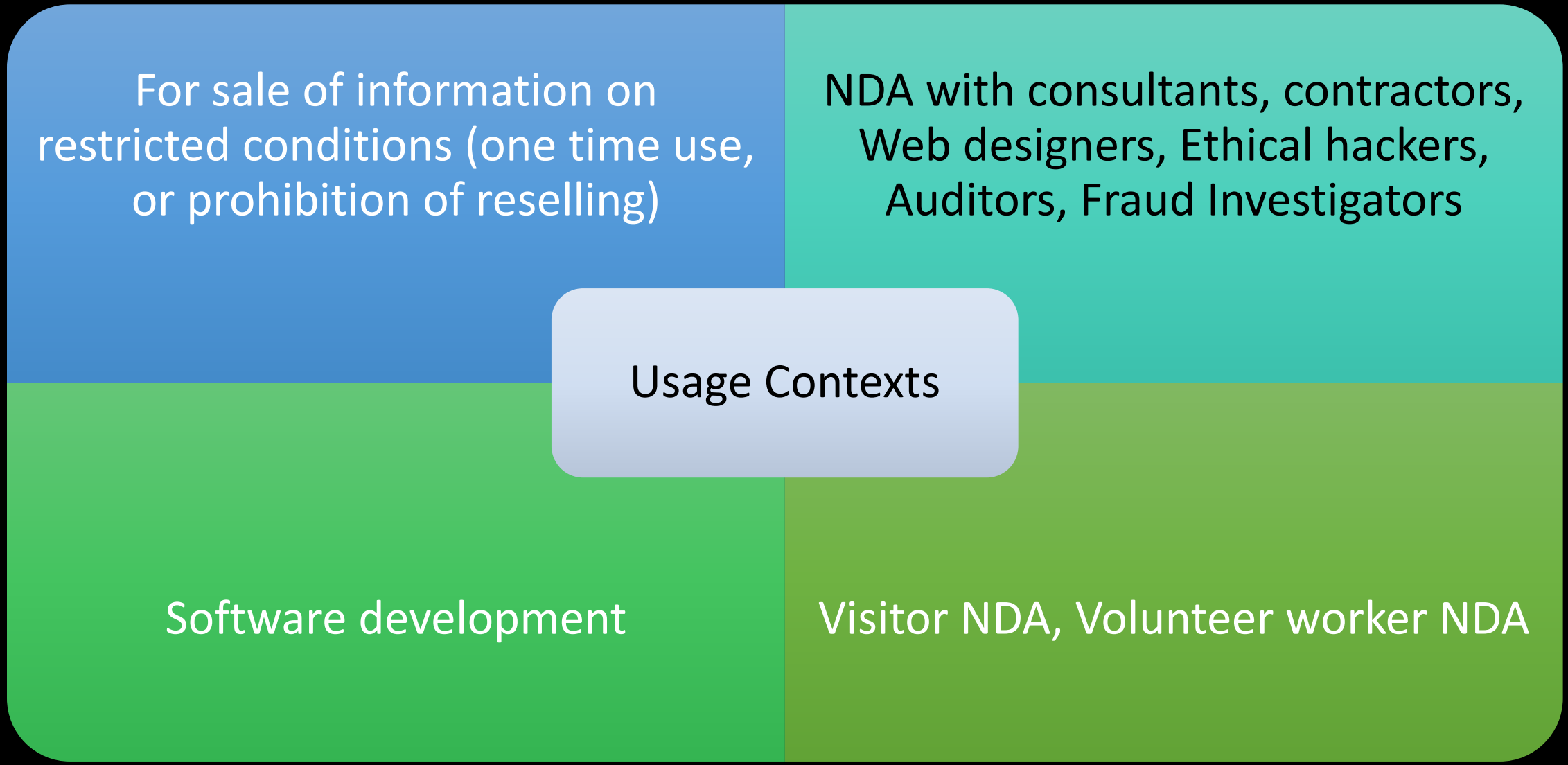
NDA with employees, at the time of recruitment, special assignments and termination

Interns, Job Interview

Usage Contexts

NDA with potential investors, and During mergers and acquisitions

Sharing of Copyright document/Trade Secret/Patent sharing


For sale of information on restricted conditions (one time use, or prohibition of reselling)
NDA with consultants, contractors, Web designers, Ethical hackers, Auditors, Fraud Investigators
Usage Contexts
Software development
Visitor NDA, Volunteer worker NDA

# Types of NDA



- **Unilateral**
  - Where the responsibilities are cast only on the recipient of the information
    - Eg: Employee agreement
- **Mutual**
  - Where a reciprocal obligation is created on both parties to the agreement to protect and prevent the breach of the confidential information

# Contents of an NDA

- Parties to Contract with Contact Details
- Background and Context
- Applicability… To what information it refers to
  - and Exclusions if any in public interest or legal requirements
- What information is likely to be shared and how?

# Contents of an NDA

- Period of the obligation…During the principal contract term and beyond the basic contractual period
- Date of Contract, Commencement and Termination
- Consequences of wrongful disclosure, Indemnity, Waiver etc
- Jurisdiction, Dispute resolution, Severability, Public information, Legal impediments, God’s hand

# Requirements of an NDA

- NDA needs to meet the general requirements of a Contract under Indian Contract Act
- Free will- No threat or coercion, undue influence, fraud or misrepresentation or mistake of fact
- Not an Unconscionable Contract
- Need for authentication recognized in law
- Should be stamped in physical form

# 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

In contracts for investigation, confidential information is “Discovered” by the party with the obligation to retain confidentiality

# Definition of confidential information shall be well described….

- the term “Confidential Information” shall mean
  - such information
    - relating to the Disclosing Party
    - as the Disclosing Party may from time to time provide to the Receiving Party
    - under or relating to this Agreement
    - including all information communicated in writing or orally relating to business affairs, any technical data, or know-how, **and information discovered during and as part of the engagement by the Receiving party** including but not limited to, that which is or relates to:
    - Inventions, ideas ….product plans, products, services, …

# Exclusions: Receiving Party Obligations does not extend to information which is …

1. publicly known at the time of disclosure or subsequently becomes publicly known through no fault of the Receiving Party;
2. discovered or created by the Receiving Party before disclosure by Disclosing Party; .
3. learned by the Receiving Party through legitimate means other than from the Disclosing Party or Disclosing Party's representatives; or as part of its engagement
4. disclosed by Receiving Party with Disclosing Party's prior written approval.

# 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 of Receiving party

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.

# Obligations of Receiving party

## In case of Personal Information

- Receiving Party assumes the role of a “Data Processor”

## Will have all the obligations as per the data protection law

- Presently in India “Reasonable Security Practice” under Section 43A is applicable

# Period

## Could Extend beyond the Termination of the Contract



Should be for a reasonable period



Perpetual Contract may be invalidated by Courts as unconscionable



# 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)
- NDAs cannot lawfully prohibit employees from officially reporting illegal conduct.
- Information provided by third party not to be included
- Information already known or in public domain to be exempted

# Special Care to be exercised

- 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

# Consultancy Related Contracts



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
- Penalties
- Ombudsman
- Mediation
- Arbitration
- Jurisdiction of Courts
- Limitations to damage

# 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.

# Negative covenant enforceable during the term of employment

- In the case of ***Niranjan Shankar Golikari***
  - 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.

Sec 27: Every agreement by which anyone is restrained from exercising a lawful profession or trade or business of any kind, is to that extent void”

# Negative covenant Not enforceable post termination of employee

In ***Wipro Ltd. v. Beckman Coulter International S. A***

the court held that

- restricting an employee's right to seek employment and/or to do business in the same field as the employer in the period post termination would be a restraint of trade and
  - therefore, a stipulation to this effect in the contract would be void.

# NDA as restraint of trade?

- The Delhi High Court in
  - *Mr.* ***Diljeet Titus, Advocate v. Alfred A Adebare and Ors***
  - **Dispute between an advocate and associates**
    - **Were the parties working for Titus under employment? or were they partners of a law firm?**
    - **When defendants left the firm, they allegedly took away privileged information**
  - Court restrained the Defendant from misappropriating the information including the lists of clients and other information forming the database of the firm,

# Key principles in NDA

- **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

# 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.

Should Employee NDAs considered as “Mutual NDAs instead of “Unilateral NDAs”?

# 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 Chander Shekar, 23rd March 2012)

- BSNL invited a tender signing NDA with the bidders
- Bids were opened but subsequently Tender was cancelled
- 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 RTI 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.

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

- Accordingly, directions for disclosing the information were issued.
- 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

# American Express Bank Ltd. v. Ms Priya Puri

- The plaintiff is a banking company, and the defendant was in employment …quit her job and had taken up work with the competitor bank
  - And was using plaintiff's client data to solicit their client/ customer from the plaintiff and induced them to shift to the competitor bank
- plaintiff alleged that defendant's action constitutes a breach of confidentiality terms as mentioned in her letter of appointment,
- asserted by the defendant that the names of customers, their phone numbers and addresses are well known and can easily be ascertained by anybody and such information cannot be characterised as trade secrets or confidential information
- The court held that the plaintiff had not produced anything which would show that they have done something with the material which is available in the public domain to claim exclusive rights in that.
- Moreover, whether the restraint is total or partial, unqualified or qualified, the agreement is void if it is in control of trade.
- The perpetual injunction demanded by the plaintiff was denied.

# Sandhya Organic Chemicals Pvt Ltd & Ors v. United Phosphorus Ltd & Anr
Gujarat High Court
(AIR 1997 Guj177)

- Dispute related to a production process claimed as **"Knowhow" acquired during the employment** which was sought to be held confidential by the employee even after termination.
  - Trial court granted an interim injunction against its use by defendants.
- Defendant averred…. The plaintiff has no proprietary interest in the nature of a registered trademark, which would enable it to sue and obtain an injunction in the terms in which it has been granted by the trial Court.
- The court held that a service covenant extending beyond the termination of service is void.
- While doing so, the High Court was fortified by the judgement of the Apex court in Superintendence Company of India Vs Krishan Murgai.
- Accordingly, the ad-interim injunction grant by the trial court was vacated.

# Homag India Private Ltd v. Mr Ulfath Ali Khan & Other

- The plaintiff discovered that the defendant had sent several e-mails from an official e-mail address containing confidential information to the second defendant.
- These e-mails contained customer details including added updated commissioned reports, the status of pending offers and other technical details of plaintiff's products.
  - The defendant subsequently confessed this in an affidavit.
- The court held that the defendant colluded with another and had the intention to set up a  rival private limited company in India.
- The injunction was accordingly granted, preventing the use of the plaintiff data.

# Burlington Homes Shopping Pvt Ltd v. Ajnish Chibber

- It was avered by the plaintiff that
- on severing its relationship with the plaintiff, the defendant had established himself as a competitor by entering into similar mail-order shopping business.
- The defendant has managed to get a copy of the database, and otherwise guarded the secret of the plaintiff and has started making use of the same for the purpose of establishing a relationship with the plaintiff's customers.
- Against this, the plaintiff sought a permanent injunction against the defendant.
- The defendant has denied on the ground that the said database was neither developed by the plaintiff nor does he have any copyright therein

# Burlington Homes Shopping Pvt Ltd v. Ajnish Chibber

- THE learned Judge laid down a few principles…
- (1)A compilation which may be derived from a common source falls within the ambit of literary work.
- (2)A work of compilation of a nature similar to that of another will not by itself constitute an infringement of the copyright of another person's work written on the same pattern.
- (3)The question whether an impugned work is a colourable imitation of another persons' work is always a question of fact and has to be determined from the circumstances in each case.
- (4)The determining factor in finding whether another person's copyright has been infringed is to see whether the impugned work is a slavish imitation and copy of another person's work or it bears the impress of the author's own labours and exertions.
- The aforesaid principles are by no means exhaustive.
- the application filed by the plaintiff is allowed

# Mr X vs. Hospital Z

- The plaintiff was found to be HIV(+) after conducting several tests in the other hospitals.
- The marriage of the plaintiff was called off as the doctors of the Hospital disclosed the HIV(+) status of the Plaintiff to the other party to the marriage, i.e. to his fiancée.
- The plaintiff moved the court for damages against the hospital on the ground that the information was required to be kept secret under the **medical ethics** and it was disclosed illegally leading to calling off of the marriage.
- The Supreme Court held that the woman with whom the marriage of the plaintiff was settled, was saved in time by the disclosure of the vital information that the petitioner was HIV(+).
- It was held by the Supreme court, that when there is a clash of two fundamental rights Viz Plaintiff's right to privacy and his fiancee's right to lead a healthy life, the court would enforce the right which would advance the public morality or public interest.
- The law laid down by the Supreme Court is, the disclosure of HIV(+)status of the plaintiff is not violative of either the rule of confidentiality or the Plaintiff's claim of right to privacy.

# Thank You

- Discussions
- Naavi
- www.naavi.org
- naavi@naavi.org
- 9343554943
- www.fdppi.in