

# Confidentiality & Proprietary Information Quiz



## **QUESTION**

What are the protections for forms of intellectual property like trade secrets and confidential information in Canada?

## **ANSWER**

In Canada, the sources of protection include the following:

- Contractual provisions between and among parties.
- Common law obligations of employees to not disclose confidential information and related actions for breach of confidence.
- Some provinces have their own legislation to regulate and protect employee's privacy rights. (ie) Ontario Through Occupational Health and Safety Act provides some protection.
- Federal legislation is Personal Information Protection and Electronic Documents Act (PIPEDA). It applies to all federally and provincially regulated employees in all provinces. It applies to all federally and provincially regulated employees in all provinces. It governs how personal information may be collected, used, and disclosed.

## **WORKPLACE PRIVACY – GENERAL**

Workplace privacy is a very complicated area of employment law specifically involving the collection, use and disclosure of private information. Areas of dispute include employee medical information, the extent to which employers may monitor employees' use of the internet or personal e-mail accounts at the workplace, and the appropriate degree of surveillance over employees at the workplace.

Employees wish to have their privacy rights respected and protected, employers want to ensure that activity in the workplace does not negatively impact their business interests. For instance, internet use could result in non-productive employees who use work computers to spend excessive amounts of working time on social networking sites. On the other hand, an employee who uses the internet during break periods may feel that the employer has no right to monitor the pages visited during non-work time.

## **WHY IS IT RIGHT**

## PRIVACY GOVERNANCE

Some provinces in Canada have their own statutory legislation to regulate and protect employee's privacy rights. However, no specific legislation currently exists in Ontario, although the *Occupational Health & Safety Act* does provide some protection. Where provincial legislation is lacking, federal legislation does exist, and applies to all federally and provincially regulated employers in all such provinces in varying degrees. The federal legislation is entitled *Personal Information Protection and Electronic Documents Act* and it governs how personal information may be collected, used and disclosed. Common law also governs privacy law in Ontario.

Various court cases have also resulted in common law decisions that may serve as a basis for evaluating workplace privacy disputes. Employers may also have developed their own internal policies outlining the right to collect, use and disclose private information. However, the legal enforceability of such policies depends upon many factors, such as the extent to which:

- the policy is consistently applied in the workplace;
- employers regularly inform employees about the policy;
- employees were involved in creating the policy;
- all employees have a copy of the most updated policy;
- employees are encouraged to read the policy on a regular basis.

## PROTECTING COMPANY CONFIDENTIAL INFORMATION AND TRADE SECRETS IN CANADA

**Whether based in Canada, or involved in cross-border Canadian transactions, the safekeeping of confidential information and trade secrets is always a concern. Therefore, it's important for businesses to understand how such intellectual property is treated under Canadian law and how it is best protected.**

### 1. Introduction

In Canada, corporate trade secrets and confidential information are recognized as valuable forms of intellectual property which provide an indefinite term of protection with no formal registration requirements. There are no major differences in the law on this topic across Canada. There is no statute which either defines or provides any remedy for the misappropriation of confidential information.

**Sources of protection in Canada include contractual provisions, the common law obligation of employees to not disclose confidential information and the related action for breach of confidence.**

### 2. Terminology

In Canada, trade secrets are considered to be a subset of confidential information and are typically reserved for more technical information such as formulae, recipes, patterns, processes and devices. Confidential information, on the other hand, tends to be used to refer to compilations of information such as customer and supplier lists, unknown concepts or business opportunities.

A further distinction is recognized in employment cases where trade secrets are distinguishable from **"know-how"**. Know-how is the **"subjective"** skill and knowledge which an employee learns as part of his or her trade and which, barring a reasonable contractual restrictive covenant, the employee may continue to use after his or her employment ends. Whatever term is used, it should be emphasized that in Canada there is no exhaustive list of what does or does not constitute a trade secret or confidential information.

### 3. Contractual Protections

In order for an employer to protect confidential information and trade secrets, employment contracts often include **confidentiality provisions**. If there are particularly important trade secrets, it may be advisable to obtain a separate non-disclosure agreement. Post-termination obligations should also be considered; however, it is important to ensure that all terms are reasonable and do not amount to an unreasonable restriction on trade or future employment. Non-competition agreements may also be employed.

### 4. Common Law Protections

All employees **owe a duty of good faith, loyalty and fidelity to their employers**. This means that all employees must maintain confidentiality of trade secrets and other confidential information. However, employees are free to use **“know how”** or general skills obtained in employment. Senior or other key employees have additional fiduciary duties to maintain confidentiality. These are duties that go beyond normal contractual obligations between employer and employee, and require that these individuals act with the utmost of good faith towards their employer. These obligations may continue after employment ends.

#### **BREACH OF CONFIDENCE**

While there is no statutory cause of action for the misappropriation of trade secrets or confidential information in Canada, the misuse of company confidential information can give rise to an action for breach of confidence.

#### **1. The information has a quality of confidence**

In determining whether information should be recognized as confidential information or a trade secret, a court will consider a number of factors including whether the information is:

- generally known to others;
- known to others in the industry;
- unique and novel; and
- subject to measures to ensure its secrecy.

In Canada, the ability to prevent the unauthorized use of a trade secret is dependent upon the owner's ability to demonstrate that it has been maintained as confidential through the use of physical or contractual means.

#### **2. The information was communicated in circumstances in which an obligation of confidence arises**

Obligations of confidence can arise through contract or relationships of confidence, whether they are fiduciary in nature or a more typical employer-employee situation. However, even in the absence of an express agreement regarding confidentiality, Canadian courts will still consider the conduct of the parties to determine whether an obligation of confidence arises. For example, parties working towards a joint venture or some other business arrangement will generally be found to have communicated in circumstances giving rise to an obligation of confidence.

#### **3. The information was misused or used without authorization to the detriment of its owner**

Where a party has autonomously developed certain information, similarities with the trade secrets that are alleged to have been stolen are usually not sufficient for an

action for misappropriation. However, striking similarities in content, or the timing of a party's use of the information in relation to the disclosure, may lead to an inference of misappropriation. Under the "spring board" doctrine, the use of another's confidential information to develop a competing system can also give rise to damages. As with the other aspects of the *Lac Minerals* test, the specific facts of each case are analyzed by Canadian courts in determining whether the information was misused.

#### **4. Remedies**

One of the most common forms of relief is an injunction prohibiting the use of confidential information by the offending party, usually a former employee. Often the company will want to obtain an injunction immediately, before the case is heard. Canadian courts will typically not grant such interlocutory injunctions unless the harm the applicant faces is "irreparable" in that it cannot be adequately compensated by monetary damages. However, in some cases injunctions have been granted in connection with the misappropriation of confidential information and the breach of a non-disclosure agreement.

Nevertheless, the Supreme Court of Canada has held that the remedial goal in a breach of confidence case is to restore the plaintiff to the position it would have been in if the breach did not occur, which often results in an award of monetary damages. Where the owner of the confidential information is in the business of selling the information, the market value of the confidential information is often considered the most appropriate measure of compensation.

Anton Piller Orders are also available in Canada. These orders, typically obtained without notice, permit the applicant to enter a specific premises of the defendant and search for and retain specified classes of documents or information in order to preserve evidence for trial. An Anton Piller Order is generally more difficult to obtain in Canada than an injunction, since there must be evidence that there is a threat of the destruction of evidence.

It is also important to note that criminal remedies are generally not available in Canada. The misappropriation of confidential information is not normally considered theft under the Criminal Code of Canada.

#### **Practical Advice**

There are a number of things a prudent company can do to better protect itself from the misuse of confidential information and trade secrets:

- Obtain contractual protections for all employees, not simply senior or key employees.
- Develop security and confidentiality policies and ensure all employees are aware of and follow them.
- Engender a culture of protection of company information with your entire team.
- Require passwords and follow security procedures that are routinely updated and monitored.
- Limit disclosure of confidential information to those who need to know.
- Clearly mark confidential materials. This removes all doubt that an employee was not aware that the information was confidential.
- Remind employees of post-termination obligations on termination or resignation and confirm this with them in writing.
- Take steps quickly if former employees misuse confidential information and be consistent with all employees.
- Consider whether the former employee's new employer has any liability for the

misuse of that confidential information and act quickly to seek protection of it.

## **WHY IS EVERYTHING ELSE WRONG**

### **CONFIDENTIAL INFORMATION AND CANADIAN LAW**

In Canada, the majority of laws governing confidential information have developed over time from judicial decisions (common law).

In practical terms, this means there is no legislation to look at for guidance on the subject.

#### **Examples of confidential information include:**

- Ideas
- Data
- Customer and supplier lists
- Business operations
- Recipes (such as food and chemical recipes)
- Blueprints and designs
- Internal business processes and methods
- Financial information
- [Business plans](#)

#### **Not confidential information**

To become confidential information, something must first have commercial value. Typically, if neither you nor anyone else can generate profits from the information, then it has no commercial value.

In the absence of a confidentiality agreement stating the contrary, information in the public domain is not confidential.

Note that the owner of any information that he or she wishes to protect must take reasonable steps to keep the information secret, otherwise it is not confidential. For example, a startup who explains their [business model](#) in front of a large audience cannot later claim it is confidential information.

#### **The Importance of Confidentiality**

1. For many startups, the only business advantage they have is a better way of doing something. In most cases the method cannot be patented and even if it could be, the time and expense required is outweighed by the need to immediately deliver their product or service to the market.
2. For other startups, typically biotechnology companies, a great deal of time and money is invested in developing a particular procedure or set of procedures to accomplish a specific goal. Since the process itself can not be copyrighted (and likely not be patented) it is usually kept secret until, and sometimes after, the product is on the market. This type of know-how is potentially [licensable](#).
3. Internet startups and professional service providers need to protect their customer list and other strategically significant business information. Identifying serious buyers for your services is not an easy task. Not surprisingly, there have been a number of lawsuits in Canada over the issue of contacting a previous employer's customers and suppliers.

### **PROTECTION OF PROPRIETY INFORMATION**

**The confidentiality agreement is signed.**

But then what?

**How else can propriety information be protected?**

A **Confidentiality Agreement** by itself may not be enough if you are careless with your proprietary information. Other actions you should consider that will help a court conclude that you are diligent in protecting your proprietary information include:

1. Confidential documents should be kept in a secure location with limited access.
2. Staff and work associates of the receiving party that have access to your confidential information should also sign confidentiality agreements.
3. Vendors that have access to your confidential information should also sign confidentiality agreements.
4. Documents should be marked "**CONFIDENTIAL**" or marked with other words that show the proprietary nature of the documents.

**What is confidential information?**

Confidential information, or know-how, can be broadly defined as a form of intellectual property (IP) that meets the following criteria:

- Has commercial value
- Is not in the public domain
- Is reasonably protected
- Is communicated to others in confidence

Unlike [patents](#), [trademarks](#) and copyright, confidential information has the potential to last indefinitely.