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## Contract Corner

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### Protecting Trade Secrets and Confidential Information in Canada

Businesses can prevent third parties from misusing their valuable and commercially sensitive business information and trade secrets through contracts and the common law in Canada.

This type of legal protection is critically important when the company has intellectual property (IP) assets that are not protectable through traditional forms of registrable intellectual property (such as patents), or when the business has a commercial strategy that does not favor the limited 20-year monopoly offered by the patent regime.

This article explains how trade secrets and confidential business information are understood and protected in Canada, and offers businesses operating in Canada a selection of best practice insights for safeguarding this category of IP asset.

### What Are Trade Secrets?

Trade secrets (or confidential business information) is not an easily definable category but generally includes information that provides a business with independent economic or commercial value and is the subject of business efforts to maintain its secrecy.

Confidential business information may include, for example, a formula, recipe, source code, program, method or technique that is not the subject of a patent or patent application and is maintained as confidential by the company. There are certain reasons why a business may elect to maintain secrecy over such information rather than pursue a patent application in Canada. For example, a patent provides a limited term monopoly for 20 years from the filing date of the application in exchange for disclosure of the invention to the public. On the other hand, a trade secret can, in theory, be maintained indefinitely and therefore may provide a commercial advantage over competitors for much longer than a patent in the appropriate circumstances.

Confidential business information also typically includes information that cannot be the subject of a patent such as customer lists or future research and development ideas.

Businesses should take various steps to maintain confidentiality over all such information, including:

- limiting the disclosure of such information to designated employees within the company and to external partners on a need-to-know basis;
- prohibiting the further disclosure of such information by the recipients;
- limiting the use of such information by employees or

- business partners to the fulfillment of specified mandates;
- storing physical and/or electronic confidential information in a secure and restricted access area;
- marking designated information as confidential, or designating certain categories of information as confidential; and
- putting in place appropriate non-disclosure (or confidentiality) agreements.

### Non-Disclosure Agreements

Non-disclosure agreements (or confidentiality agreements) are contracts that protect the confidentiality of valuable information. In the context of a business protecting its trade secrets, confidentiality agreements may be required in various circumstances such as between an employer and an employee who will receive confidential business information as part of their duties, or between a company and its external business partner before engaging in a joint research and development project or some other joint venture. Alternatively, appropriate confidentiality provisions may be incorporated into a broader contract between parties.

A typical confidentiality agreement will set out the scope of the engagement between the two parties and the terms and conditions under which limited disclosure of valuable confidential business information may be made to each other. In addition to the measures described above, examples of terms and conditions that are commonly included in confidentiality agreements include:

- if the receiving party is a business, requiring that the receiving party protect confidential information with the same degree of care as applied to its own confidential information;
- requiring that the receiving party take immediate action to mitigate any potential unauthorized disclosures of confidential information;
- prohibiting the receiving party from copying, making a derivative, or reverse engineering confidential information; and
- requiring that the receiving party return or destroy confidential information on request or upon termination of the relationship.

If a party misuses confidential information disclosed under a confidentiality agreement, the owner of the confidential information will usually have recourse to bring an action against the other party for breaching the contract seeking legal remedies such as damages and/or an injunction.

## Common Law Breach of Confidence

In Canada, a party may also be liable for the misuse of confidential information under the common law tort of breach of confidence.

To be successful in an action for breach of confidence in Canada, the plaintiff must prove the following:

1. the information must have the necessary character of confidentiality;
2. communication of the information must have occurred in circumstances giving rise to an obligation of confidence and
3. there must be a misuse or unauthorized use of the information.

A party may be liable for breach of confidence even in circumstances where there was no confidentiality agreement between the parties. In those cases, the Court will consider whether the receiving party should have been aware that the information was being communicated confidentially.

While a confidentiality agreement is not strictly required to succeed in a breach of confidence action in Canada, it remains best practice to prepare and execute such an agreement to protect any valuable confidential information.

## Conclusion

While evaluating their overall IP strategy, business owners should be aware of the benefits and downsides to protecting their valuable business information and trade secrets using confidentiality agreements in

Canada (and the enforcement options against misuse of their confidential information under the common law).

An IP lawyer should be consulted early in the process to assist with weighing the pros and cons of various IP strategies, and where applicable, to ensure that trade secrets are properly protected using best practices in Canada.

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