

Breach of Confidence: Limiting Disclosure of information to public and business competitors and the consequences of revealing it by improper means.

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Abstract

A trade secret is very essential in modern business competition. The trade secret need to be protected as it covers information and has very high demands in terms of commercial value. The method and technique used by businessman in protecting trade secret from being revealed to public domain and especially to competitors, is to be look into seriously. The present and establishment of the law of confidential information or trade secret is material to discourage industrial espionage by punishing the efforts of competing businesses to learn one another's proprietary information by improper means. Improper means of acquiring a trade secret might include infiltrating a competitor's production facility, stealing a competitor's documents and bribing a competitor's employees. However, trade secrecy law doesn't stop a competitor from "reverse engineering" a product sold on the open market, or from independently developing the secret. These are considered legitimate means of acquiring a competitor's business information or actual and anticipated unauthorized disclosure of information. Despite the prohibition of disclosure of trade secret, public interest can be raised as a defence. Although the principle is quite clear but there are some points need to be considered especially when it involves publication in media. Thus, this paper will examine the importance of the law of confidential information, how far employees and competitors can develop the information that is categorized under trade secret or highly confidential in the context of equitable and contractual obligations, the extent of which the defence of public interest is applicable and the sufficiency of remedies awarded by the Court to uphold justice to the proprietor of the information.

Keywords: confidential information, infringement, trade secret, disclosure of confidential information, defence, public interest.

Introduction

Malaysian business growth has come to an extraordinary standard and the world has seen that our economic growth has beaten its own target¹. With the growth of this economic era, the business information demand is continuously increasing. Thus, the need to have most current, accurate, integrated information to support their business activities becoming a challenge and competitive among the entrepreneurs. Data management and policy is kept with high security to ensure confidentiality of information to protect the development of their business. However, there were certain information needs to be revealed to meet the business demand and to make sure good business relationship's reputation. Nevertheless some information may be considered as secret where the proprietor or owner of the business must preserve the secrecy of this information.

The major challenges are in term of management of the business, use and procurement of information. Confidentiality of information of business organization is vital to be safeguarded for protection of the trade. Those who acted dishonestly by revealing information in hands without proprietor's permission is regarded as breaching the confidentiality. Breach of confidentiality is one of the serious matter that been discussed recently and the solutions to it is much blurred or unclear. The proprietors who spend times and effort to develop the secret commonly have no choice but to disclose the secret to their staff in managing the business. Once this information is on the third party's hands the protection of it from being further revealed to business competitors is ambiguous.

Consider this scenario for example; Mr.H has set up a business on selling *nasi lemak kukus*, originally recipe taken from his family generations. The business expanded, currently he has 10 cooks who had used the secret ingredients and one of them or maybe two has quit from his restaurant. They (the former cooks) now setting up also a food chain business with selling not only *nasi lemak kukus* with modifications of the ingredients but other food as well. Could this be a breach of confidential information?

¹Yoolim Lee and Shamim, "Malaysia Booms as Najib Beats Growth Goal With Investment" (Bloomberg, 13 August, 2014) <<http://www.bloomberg.com/news/2014-08-12/malaysia-boom> > accessed 13 August, 2014.

Definition of confidential information

Confidential information has not being defined in any statutes in Malaysia. However, information alone was defined in the Securities Industry (Central Depositories) Act 1991 (SICD) under section 2 which reads that 'information' includes data recorded in a form which can be processed by equipment operating automatically in response to instructions given for a particular purpose. The definition however is very brief. In the Oxford Dictionary confidential information can be defined as knowledge that was privileged and confidential. In the legal dictionary by International Law Book Services (ILBS) the close to the meaning of the term is *confidence*, *breach of* i.e breach of confidence as a doctrine of equity whereby whomever received any confidential information on, for example a business trade or information which carries the amount to protect, it is the responsibility of such person not to used such information as to prejudice the informer.

Now looking at the closest definition that one could get, confidential information can be said as knowledge that was privileged and confidential in which one when knew on such confidentiality has the responsibility to protect such knowledge.

Breach of confidential information

In the case of *Repco (M) Sdn Bhd v Tan Toh Fatt & Ors (Repco)*², which were beautifully illustrated, referred to the case of *Medic AC International Management Pte Ltd v John Walter Moore*³, which says that,

“In order to determine whether the information was a trade secret the following factors would have to be considered:

(a) the nature of employment;

(b) the nature of information received;

(c) whether the employer had stressed the confidentiality of the information to the plaintiff; and

² (2013) 7 MLJ 408

³ (1988) 1 MLJ 5

(d) whether such information could be isolated from other non-confidential information within the same package of information.”

In Repco, Judicial Commissioner Asmabi Mohamad, dismissed Plaintiff’s claim to all the Defendants (there were ninth Defendants in this case) as the Plaintiff fail to prove that the “information” in in the case was a trade secret and thus, there were no breached to it. In another word, one has to determine that the information disclosed is confidential enough as to sue for breach of confidence, a plaintiff must establish that the information in question was confidential in nature, that it was imparted on the understanding that it would be treated as confidential, and that it has been disclosed inconsistently with that obligation and to the detriment of the plaintiff⁴. Here, the burden to prove is on the Plaintiff i.e claimant who claimed that the disclose information is confidential.

Applying this in the example provided, Mr.H with his *nasi lemak kukus* secret recipe, unless he alone can manage the business, he has to disclose the secret recipe to other cooks as to assist and as well to expand his business trade.

This brings to the next point of the discussion, confidentiality agreements. The confidentiality agreement is entered between the entrepreneurs with the employees to maintain the confidentiality of the information. By doing this, the information will be established as confidential in nature and such any breach of it would condone to punishment.

However, the court still has to interpret the nature as to ensure that a breach has occurred. In the case of *China Road & Bridge Corporation & Anor v Dcx Technologies Sdn Bhd*⁵,

“On the issue of 'confidential information' we have perused the pleadings and we are not able to identify what was handed over by the plaintiff to the 1st defendant under the cover of 'information' or 'confidential information'. To trigger clause 7 of the 'memorandum' it is essential to disclose by way of pleadings what 'information' which was disclosed was breached. We have perused the pleadings several times but we were not able to identify the precise 'information' which was said to be breached. The word 'information' has a specific meaning and jurisprudence. All statements or correspondence made by the plaintiff will not qualify as 'information'. Neither will a

⁴ *Coco v AN Clark (Engineers) Ltd* (1968) 1A IPR 587; [1968] FSR 415; [1969] RPC 41.

⁵ [2014] MLJU 406

part of the proposal per se will qualify as information. In addition, 'information' per se will not be entitled to 'confidential' status in relation to the memorandum. The statement of claim should define with some precision the information or communication which is alleged to be confidential. [See Diamond Tylus Co. Ltd v Bauden Precision Diamonds Ltd [1972] F.S.R. 177]. The usual form of relief in an action for breach of confidential information includes a declaration as to the confidentiality. [See Industrial Furnaces v Reeves [1970] R.P.C. 605]. In essence, the trial court must first identify the 'information' which has the characteristic of confidentiality and then proceed to consider whether the exception stated in clause 7 will apply and then proceed to consider whether there was a breach. We have perused the judgment of the learned trial judge several times but we were not able to identify the finding on the 'information', whether it had the characteristic of confidentiality and whether it was breached. Failure to do so will necessarily compromise the integrity of the decision making process and the judgment will stand as perverse. All subsequent findings resulting from the failure will have no value to the decision making process itself.”

In another case of *AV Asia Sdn Bhd v Measat Broadcast Network Systems Sdn Bhd*⁶, where the appellant is in the business of providing television support equipment. The respondent sought the appellant's expertise to reduce interruptions in its satellite transmission during inclement weather, a phenomenon called rain fade which was a defect inherent in the respondent's satellite dishes. Towards this end the appellant and the respondent entered into an agreement dated 1st August 2008 which they referred to as a Mutual Non-Disclosure Agreement ["the MNDA"]. Under clause 4 of the MNDA the respondent is prohibited from disclosing confidential information disclosed to it by the appellant in the course of the dealings between the parties. The appellant subsequently contended that the respondent had breached the confidentiality provision and had divulged the confidential information disclosed to it by the appellant for its own commercial gain. The respondent denied this, resulting in the appellant instituting proceedings against the respondent in the High Court. The appellant sought an interim injunction to restrain the respondent from relying or using the confidential information forming the subject matter of the dispute. Although the matter in dispute between the parties is in arbitration, the High Court

⁶ [2014] MLJU 14

action having been stayed, section 11 of the Act entitles the appellant to seek injunctive relief pending the determination of the arbitration. With this, the Federal Court findings are as follows:-

“We also noted that the said clause 15 of the MNDA does not provide that the parties have agreed or consented to the fact that the granting of an injunction is automatic and as of right. We further find that the alleged breach of the confidential information as contended by the appellant had not yet been established. This is an issue to be tried by the learned Judge of the High Court as the respondent had disputed receiving the confidential information. The discretion, whether to grant the injunctive relief, is therefore still vested with the Court. It is the inalienable duty and power of the Court to exercise such a discretion and it will not be exercised lightly.”

As such, an agreement may not protect the confidential information even if it has been stipulated in an agreement as at the end of the day, the court has to established as to whether it has been breached or not.

The Defence of Public Interest.

The defence of public interest requires the courts to balance the public interest in maintaining the confidence against a countervailing public interest in disclosure:

“... although the basis of the law's protection of confidence is that there is a public interest that confidences should be protected by the law, nevertheless the public interest may be outweighed by some other countervailing public interest which favours disclosure”.⁷

⁷ *Attorney-General v Guardian Newspapers Ltd. And Others* [1988] 3 All ER 545 at 659 (per Lord Goff).

Shaw LJ in *Schering Chemicals Ltd v Falkman Ltd and Others*⁸ said that the public interest defence only applied where the subject matter is something which is "inimical to the public interest or threatens individual safety".

“The basis of the public interest defence is the recognition of the competing interests of the public in having confidences protected on the one hand and in being informed of matters of legitimate public concern on the other. The advantage of this approach is twofold. First, the defence provides that the public interest is the paramount consideration in determining whether confidential information should be disclosed. This enables the courts to weigh up the competing interests in maintaining or disclosing the information according to how the bench considers that the public interest will be best served in each particular case. The defence therefore offers a high degree of flexibility. The emphasis is on the gravity of the consequences for the public of disclosure or non-disclosure, rather than the gravity of conduct of the plaintiff.”

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⁸ [1981] 2 All ER 321.

Conclusion

The above discussion establishes that for typical transactions, existing legal principles in Malaysia does not really protect the confidentiality of information. The seriousness damages done by the leaking of it would just have to be borne by the entrepreneur. The only solution that one can see is that the lesser the public interest has on the business, the higher the privacy of such information. However, this can be another discussion to ponder from the economic point of view as to the successfulness of the business when only few interested in such information.