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VOLUME 10 ISSUE 5 | The Lawyers Newsletter for Business Professionals | NOVEMBER 2018

THE SECRET OF CONFIDENTIAL INFORMATION

A Snapshot of Confidentiality Issues that Can Affect Your Business

Fanta Punch & Jeanelle Pran

The law of confidence protects secret information from unauthorised disclosure and can be one of the most valuable and vulnerable intangible rights of a company.

For many companies, information and knowledge such as secret formulas, lists of key clients, business information and specialised IT systems can be integral to its business. There is real commercial benefit in keeping certain valuable information a secret indefinitely, instead of relying on limited protection. For example, where it is important to keep an invention confidential before filing a patent application, the law of confidence can be important to preserving the future intellectual property right.

Relying only on the law of confidence to protect key business assets can bring substantial risks to a company. The unauthorised disclosure of key commercial information or theft of a trade secret can significantly impact on the ability of a business to operate and can negatively affect its business relationships and competitiveness in the market.

Protecting confidential information should therefore be at the heart of any commercial business transaction. Practically speaking, it is much more effective if used pre-emptively as the fear of liability can dissuade parties from disclosing confidential information.

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What are the elements of confidentiality?

In Trinidad & Tobago, the law of confidence is protected under the common law. To establish a cause of action, the elements as set out in the case of Coco v A.N. Clark (Engineers) Ltd. [1969] must be satisfied:

- The information must have the necessary quality of confidence;
- There must have been an obligation to maintain confidence; and
- There must have been a breach of this obligation to maintain confidence.

Does the information have the necessary quality of confidence?

Firstly, it is important to recognise that *"information"* has no limitation in form. It can consist of technical devices, plans, photographs, customer lists or personal secrets. Notwithstanding the foregoing, the information must be sufficiently developed and have certainty.

In considering whether the information has the necessary quality of confidence, the idea must:

- Contain some element of confidentiality;
- Be clearly identifiable;
- Be of potential commercial attractiveness; and
- Be sufficiently well developed to be capable of actual realisation.

If the information is already in the public domain, it cannot be protected by the law of confidence.

Is there an obligation to maintain confidence?

The information must have been imparted in circumstances requiring an obligation of confidence. In satisfying this requirement, it should be clear that the information was conveyed in a business context or it must be shown that the information was obtained in circumstances where the recipient

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knew, or had reason to believe, that they should not have the information.
In this way, there may be an express obligation to maintain confidence such as in the form of a contractual relationship or an implied obligation in the absence of a contract. Creating an express obligation of confidentiality by using a confidentiality agreement or clause within a contract makes greater commercial sense than relying on an implied obligation.

Is there a breach of this obligation to maintain confidence?

To satisfy all the elements for a cause of action, there must be a clear breach of confidentiality. This is easier to prove in a situation where there is an express obligation of confidence than where there is an implied duty.

Issues Which Impact on Confidentiality

Challenges often arise where there is a lack of clarity surrounding the obligation of confidence. This can be seen particularly during employment and after termination. There are certain types of professions where employees are required to handle highly confidential information and so the need for suitable safeguards to protect against a breach must be seriously considered.

Another issue is the type of information used and whether it is likely to be deemed by the courts to be a trade secret, in which case a higher level of responsibility is placed on employees to keep it confidential. Broadly speaking, a trade secret can be any confidential information which provides the company with a competitive edge such as manufacturing, industrial or commercial secrets. For instance, it can include sales and distribution methods, advertising strategies and manufacturing processes.

Furthermore, where information is to be treated by an employee as being confidential, this ought to be made as clear as possible to ensure that the employee understands that the information "has" a confidential status. This may be achieved by incorporating express obligations for the treatment of trade secrets by the employee in their employment contract; the attitude of the employer towards information which clearly demonstrates that it is to be treated as confidential; and the marking of sensitive documents as private and confidential.

Alongside the treatment of the confidential information, it will be important to demonstrate that the information is the property of the employer and not based on the skill and knowledge of the employee. This can be a difficult distinction since if the information is not the property of the employer, it will belong to the employee and as such cannot be the basis for an action for a breach of confidence by the employer.

In addition to the foregoing, employers should be aware that employment contracts have an implied duty of confidentiality on the employee during the employment. This includes a duty to act honestly, to disclose all relevant information to the employer and to respect the employer's confidentiality in relation to its commercial and business information.

Notwithstanding the foregoing, an employer would be well advised to avoid relying solely on this implied duty in respect of any trade secrets or confidential information integral to its business. It would be prudent to expressly state in the employment contract that the information is confidential to the point of being a trade secret; that disclosure is not allowed; and that the employer is entitled to and will seek damages for any breaches. This approach does not necessarily prevent any dispute over whether the information has been created due to an employee's skill or knowledge, but it will certainly be a deciding factor for a court in determining the parties' understanding of confidential information.

What are the remedies for a breach of confidence?

The most important remedy for a breach of confidence will be an injunction to prevent the disclosure of the confidential information. However, if the confidential information is disseminated into the public domain, it is no longer confidential in nature and so an injunction may be futile. Nonetheless, there may be instances, where injunctive relief is useful to stop further publication or disclosure of the confidential material. In such circumstances, compensatory damages can also be available for the breach.

How else is confidential information protected?

Other than the law of confidence, trade secrets are afforded additional protection under the Protection Against Unfair Competition Act Chap. 82:36 ('PUCA'). Section 9 states that:
"Any act or practice, in the course of industrial or commercial activities, that results in the disclosure, acquisition or use by others of secret information without the consent of the person lawfully in control of that information (hereinafter referred to as "the rightful holder") and in a manner contrary to honest commercial practices shall constitute an act of unfair competition."

Information is considered to have commercial value because it is secret. The PUCA states that any act or practice in the course of commercial activities will be considered unfair competition if it consists or results in the disclosure of such data except where it is necessary to protect the public and where steps have been taken to ensure that the data is protected against unfair commercial use. In this way, trade secrets are afforded statutory protection against unauthorised disclosure.

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THE ESSENCE OF TIME IN CONTRACTS FOR THE SALE OF LAND

Candice Jones-Simmons

Parties to an agreement for the sale of land are often surprised to discover that the failure of a party to meet the contractual deadline does not automatically result in a fundamental breach of the agreement, entitling the other to withdraw from same. Consideration of the essence of time occurs where there is a delay in completion of the sale and one party either wants to escape from (rescind) or enforce the agreement (by way of the remedy of specific performance). The phrase *"time is of the essence"* has been included in such agreements since time immemorial to ensure that the completion date is deemed an essential term of the contract. However, the adoption of this phrase as a formality should be avoided, unless the parties fully apprehend the rules associated with the phrase.

The Rules of Equity

Under the principles of equity, the time for completion of an agreement for the sale of land is not regarded as a fundamental contractual term. These principles were designed to protect a vendor or purchaser of land from being in fundamental breach of the agreement due to the usual challenges with such transactions, such as the difficulty of confirming title. However, there are exceptions to the rules of equity where time is regarded as an essential term:

- where the agreement expressly so stipulates;
- where the circumstances of the case or the subject matter of the contract indicates that the time for completion is of significance; and
- where a valid notice to complete has been given.

a) Express Term

The phrase *"time is of the essence"* is a term of art which, when expressly incorporated, allows the innocent party to immediately rescind the agreement, or pursue specific performance where the completion date is missed.

b) Implied Term

If the nature of the contract, or its subject matter, requires precise compliance with the date fixed for completion, time will be considered of the essence although the agreement does not include any stipulations regarding time.

By way of illustration:

- the completion date in a sale of property together with assets of a business as a going concern was found to be essential. The rationale for this exception is that the nature of this type of asset is 'exposed to daily variation' and time must therefore be an important ingredient in the contract;
- in the sale of leasehold property, the completion date may be deemed important where the term of the lease is close to expiration and delays with completion may result in a reduction in the term of years obtained by the purchaser; and
- in a sale of an ordinary private dwelling-house an exception to the rule has been made where the Purchaser expressly indicated to the Vendor that he had sold his property and was obliged to find another house with a view to immediate occupation.

In the case of the latter, it may be argued that this is not a special circumstance, as properties are usually required for immediate occupation, or the Vendor may require the funds from the sale to complete the acquisition of another property. However, where the Vendor (being aware of the Purchaser's urgency) assures that a prompt completion will be pursued as an inducement to the contract, the rule of equity may not be applied.

It is also noteworthy that in the absence of a written stipulation in the contract, any time outlined for the delivery of requisitions by a Vendor to a Purchaser will be of the essence.

Waiver

In instances where time is expressly made of the essence, courtesy may prove to be costly if a grace period is permitted after the deadline elapses, as time then loses its essence. This grace period amounts to a waiver of the right to insist on the completion date as a fundamental term. It should be noted that a waiver occurs even where the grace period is brief. Therefore, parties are advised to expressly vary the agreement by setting a new date for completion to circumvent this consequence and preserve the essence of time.

However, where a waiver occurs all may not be lost, as the parties may 're-make the essence' and turn back the hands of time.

c) (Re) making the Essence by notice

If time was not specified as a vital term or the provision was waived by the conduct of the parties, the party seeking to enforce the completion date cannot unilaterally (re) make time to be of the essence. At this stage, a notice fixing a new date for completion may be served on the party in breach. However, this notice is not valid unless it is established that the defaulting party is guilty of '*gross, vexatious and unreasonable delay'.*

To avoid a claim that the notice is premature, or that the revised date is unreasonable, the innocent party must consider what constitutes a reasonable notice. The circumstances of reasonableness vary according to the facts of each case.

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STOP HOLDING ME BACK!

Exposure to Withholding Tax in Cross-Border Contracts

Jonathan Walker & Miguel Vasquez

The incidence of cross-border services and contracts has increased exponentially over the past century due to advances in technology and the breakdown of trade barriers. Businesses and individuals who are resident within Trinidad and Tobago (T&T) commonly transact business with entities who are located outside of the jurisdiction. Appreciating the withholding tax risk to which T&T based entities may be exposed when remitting payments for these services to foreign entities or recipients and the ways that these risks can be managed is therefore important.

What is Withholding Tax?

Withholding tax is a type of tax that is levied on various income payments made to non-residents. Section 50(1) of the Income Tax Act, Chap. 75:01 of T&T imposes the tax on payments and distributions made to any non-resident individual or company outside T&T, where the individual or company is not engaged in business in T&T, and the transaction is effected by a company or individual within T&T.

The type of payment upon which withholding tax is levied is defined in Section 51 of the Income Tax Act as being:

i. interest payments, discounts, annuities or other annual or periodic sums;
ii. rentals;
iii. royalties;
iv. management charges or charges for personal services, technical skills, and managerial skills; and
v. premiums (other than premiums paid to insurance companies and contributions to pension fund schemes), commissions, fees, and licences.

By way of illustration, in the personal context, whereas withholding tax will not arise in respect of an Amazon purchase, questions may be raised with respect to subscription payments (such as a Netflix subscription), which may be "*periodic sums*" within the context of a "*payment*". In the business context, two commonplace examples of transactions where the payment will attract withholding tax are:

a) A transaction in which a resident of T&T ("A") (i) enters into a lease agreement with a foreign counterparty ("B") for the leasing of certain machinery to be used by A's business; (ii) the machinery is delivered to A and used in T&T; and (iii) A makes rental payments to B.
b) A licensing agreement scenario where B grants a license to A to use software that B owns, in A's business in T&T, and A pays B for the right to use this software.

Practical Considerations for Withholding Tax

Understanding the circumstances when withholding tax is to be remitted is important since the obligation to account for and pay the tax will be on the T&T resident, who is required to do so within 30 days of the payment being made. Thus a party may find itself in a situation where, having paid full price to its foreign counterparty, it is now required to account to the Board of Inland Revenue ("BIR") for up to an additional 15%, depending on the country in which the foreign counterparty is resident and any applicable double taxation treaties, plus penalties of 25% and interest at the rate of 20% per annum. Given that the BIR has up to 6 years to raise an assessment for outstanding tax, then not only may the local entity be ill-prepared for such an assessment but it may find itself saddled with an exorbitant tax bill with little prospect of recovering same from its counterparty *(especially where the business relationship was limited to a one off transaction or otherwise has ceased to exist).* Conversely, the T&T resident who deducts withholding tax from the contracted price could find itself in a dispute with the counterparty as to whether the contract has been honoured or not.

To mitigate these risks, local entities who are contracting with foreign counterparties should:

i. get professional advice as to whether the payments to be made under the contract are likely to be subject to withholding tax;
ii. ensure that the contract addresses the issue such as by identifying the party who will be responsible for remitting the withholding tax and confirming the impact, if any, that such tax will have on the contract sum; and
iii. consider any practical implications *(such as the use of escrow accounts)* where appropriate.

Parties to a cross-border transaction are therefore required to consider several factors in concluding their contracts, some of which include addressing their minds to the liability, if any, to withholding tax, and making express provision for how payment for the services is computed in circumstances where withholding tax applies. Failure to do so may result in disputes and/or future liability for outstanding taxes.

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The Secret to Confidential Information
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Fanta Punch & Jeanelle Pran (cont'd)

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What should your business be doing?

Commercial enterprises should be proactive in respect of their confidential information. If it adds significant value to your company or strengthens your commercial position, explicit protection should be afforded in the form of a well drafted confidentiality agreement or clause in the business or employment contract.

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The Essence of Time in Contracts for the Sale of Land
Candice Jones-Simmons (cont'd)

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In this regard, the innocent party should consider what remains outstanding to bring the agreement to completion and give notice with sufficient time to

achieve same. Other factors which may impact on the question of reasonableness include:

- whether the innocent party has been pressing for completion;
- whether previous notices or extensions of time have been given; or whether there are special circumstances warranting a prompt completion.

Final Words of Caution

Notwithstanding the fact that a valid notice is served, caution is still advised, as the notice may become a double-edged sword against the party seeking to enforce. This is so, as the tables may be turned if the party issuing notice is not also ready, willing and able to complete the agreement on the revised date and essentially falls into their own trap with time.

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The Lawyers Newsletter for Business Professionals

Published by M. Hamel-Smith & Co.
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