



European IPR Helpdesk

Fact Sheet

Non-Disclosure Agreement: a business tool

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Introduction.....	1
1. What are NDAs and when should they be used?.....	2
2. Which are the commonly used provisions in NDAs?.....	3
2.1. Defining what is meant by “confidential information”	3
2.2. Restricting the use of the information to a specific purpose	4
2.3. Limiting the disclosure of information	4
2.4. Listing the information not covered by confidentiality obligations	4
2.5. Defining the length of the obligation to keep confidence	5
2.6. Determining the choice of law and jurisdiction	5
3. Limitations and risks.....	6
4. What should you keep in mind?.....	7
Useful Resources	8

Introduction

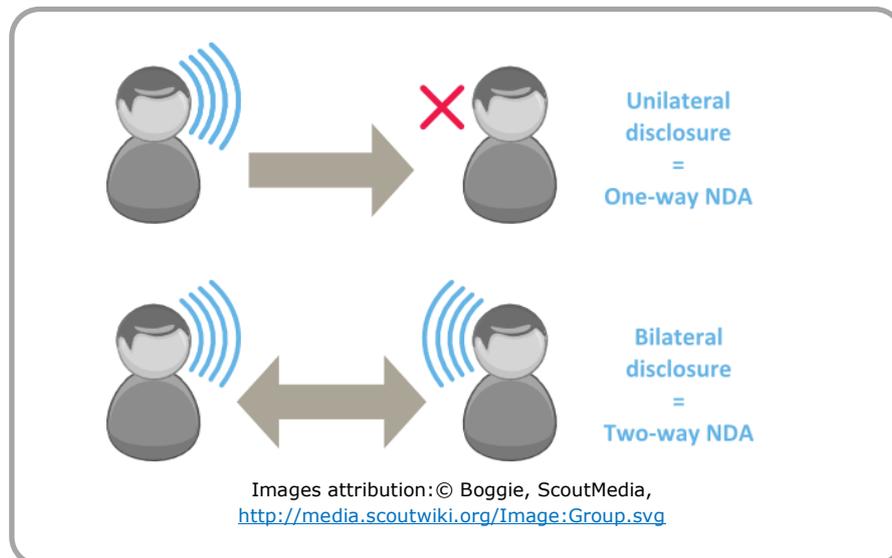
Non-disclosure agreements (NDAs), otherwise called confidentiality agreements, are private contracts whereby valuable information is kept safe. These agreements can be very useful for researchers and organisations involved in R&D projects, such as the ones under the Seventh Framework Programme (FP7). However, it is important to understand their scope of application, as well as the provisions commonly seen in these agreements. In this way, you can be sure when and how to use such an agreement, but also understand your obligations when signing it.

¹ This fact sheet was first published in March 2012 and updated in June 2015.

The aim of this fact sheet is therefore to clarify when and why to use NDAs, as well as the meaning of the key provisions commonly used. Examples of NDAs will be given at the end of this fact sheet.

1. What are NDAs and when should they be used?

NDAs are legally binding contracts establishing the conditions under which one party (the disclosing party) discloses information in confidence to another party (the receiving party). Depending on the number of parties disclosing information, NDAs may be “one-way” (also known as unilateral) with one party disclosing information and one party receiving information or “two-way” (also known as bilateral or mutual) when there is a bilateral disclosure. Whenever the two parties wish to disclose information instead of relying on a “two-way” agreement, it is also possible to sign two unilateral NDAs, which may sometimes facilitate negotiations on the drafting of such an agreement. Sometimes you may also see multilateral NDAs, with more than two parties involved.



All types of information can be transmitted in these agreements, such as ideas, know-how, description of inventions, chemical formulas, research or business information and negotiations, among other. The common characteristic though is that the disclosed information is valuable for the disclosing party to the extent that it must be kept away from the public domain.

In fact, in the European Union (EU) several types of Intellectual Property Rights (IPR), in particular patents and industrial designs, demand **novelty** as a requirement for acquiring protection. In most of the EU countries, a creation is considered new if it has not been previously made available to anyone anywhere, unless under confidence obligations. Moreover, some intellectual assets are generally not patentable in many EU jurisdictions, such as methods for doing

business, and therefore can be protected if kept out of the public domain. On the other hand, organisations can strategically decide that keeping information confidential is the most appropriate way of protection. Independently of the reason, in all these scenarios, NDAs are a tool you should use to protect information when you need to transmit it in confidence.

Thus, it is best practice to conclude an NDA before engaging in negotiations for license agreements and R&D projects or whenever you need to show your innovative ideas, products or technologies to potential business partners or other persons. Confidentiality obligations may also be part of a larger agreement, such as license agreements, consortium agreements and employment contracts

2. Which are the commonly used provisions in NDAs?

There are many clauses that typically make part of any NDA. However, when drafting your NDA it is advisable to consult a lawyer or solicitor, since such agreements should be adapted to the concrete circumstances of the case and the applicable law.

2.1. Defining what is meant by “confidential information”

Generally, it is important to consider the need to introduce definitions in any agreement. In NDAs, you typically can find at least the definition of “confidential information”, which often covers determined information and documents that the parties have identified beforehand. However, it is not always possible to define in concrete such information, in particular during R&D projects and other long-term partnerships.

At this point it is thus particularly relevant to consider any **requirement for recording the information**. This means that you may, for example, protect all the information regardless of whether it is in written, oral or electronic format. On the contrary, you may find it more appropriate to limit the confidential information to that information which has been marked as having a confidential nature and consequently requiring oral information to be recorded in writing after the disclosure.

The selection of the best option will depend on the balance of the risks involved. On the one hand, it would generally be easier not to require documentation of the information when it is to be handled by researchers in long-term projects, because they may be more likely to forget the marking of information, which would then be unprotected. On the other hand, the obligation to record information makes it more unlikely to ignore the secret nature of determined information and to show evidence of what is confidential. The important part is to remember that when requiring recording, all people handling the information (including employees, researchers, students) must be aware of the obligation to mark the information as “confidential”.

2.2. Restricting the use of the information to a specific purpose

A further restriction in NDAs concerns how the receiving party can use the confidential information (the so-called “permitted purpose”). For example, if you are using an NDA to protect the information you will disclose during the negotiations for the conclusion of a license agreement or a consortium agreement, it is natural that you impose the receiving party to use the information for the sole purpose of evaluating entering into that agreement.

Uses other than for the permitted purpose (e.g. performing research) should therefore be explicitly prohibited.

Examples of “permitted purpose”

... to evaluate the technology ...

... to evaluate the parties interest in developing research collaborations concerning ...

... to discuss the possibility of the parties entering into a consortium agreement ...

... to evaluate the information to assess entering into a joint venture ...

2.3. Limiting the disclosure of information

One of the main obligations that must be established in a NDA concerns the need to keep information in confidence and not to disclose it (or permit its disclosure) to any third party.

However, when disclosing information to companies and other organisations such as Universities, it is important to remember that in practice these entities will need to share the information with their **employees**, students (in the case of Universities) and even external consultants. You should therefore accommodate this possibility.

Yet, some limitations are often imposed to avoid an indiscriminate disclosure to all these individuals. Hence, it is common to see in NDAs a clause requiring the information to be **disclosed in a “need-to-know”** basis to employees, students (in the case of Universities) and sometimes external consultants, as long as the individuals are aware of the confidential nature of the information and are also under equivalent obligations to keep it in confidence.

2.4. Listing the information not covered by confidentiality obligations

There is information that - in most NDAs - is excluded from confidentiality. For example, without the inclusion of a clear exception in the NDA, the receiving party could breach the contract even when disclosing the information under a

legal obligation, for example at a court proceeding. To avoid these situations, the following information is typically excluded:

- Information that is part of the public domain at the time of disclosure;
- Information that becomes part of the public domain after the disclosure, provided that it does not result from a breach of the NDA;
- Information already known by the receiving party at the time of disclosure;
- Information required to be disclosed by law or a competent authority.

2.5. Defining the length of the obligation to keep confidence

Non-disclosure agreements usually indicate for how long the obligations of confidence must be kept. The term can be established indefinitely or, for example, by defining a number of years (e.g. 3, 5, 7 or 10), after which the receiving party is allowed to disclose the information without breaching the contract.

The option agreed on should depend on the type of information and the circumstances of the case. For example, *"if the information is something like non-patentable know-how, or lists of customers [...], it may be appropriate that it be kept confidential indefinitely, i.e. until the information ceases to be confidential"*².

2.6. Determining the choice of law and jurisdiction

Defining the applicable law and jurisdiction is extremely useful in agreements in case a dispute arises, particularly in those agreements within cross-border partnerships. Parties can also consider including clauses providing mechanisms alternative to court proceedings, namely the alternative dispute resolution (ADR) procedures³. Such mechanisms have the advantage to avoid the heavy costs of litigation as well as to settle the controversy faster and in confidential fashion.

² Non-Disclosure Agreements, United Kingdom Intellectual Property office, available online at: <https://www.gov.uk/government/publications/non-disclosure-agreements>.

³ For an overview on ADR mechanisms, see Schallnau, J., 'Efficient Resolution of Disputes in Research & Development Collaborations and Related Commercial Agreements', European IPR Helpdesk Bulletin N°4, January - March 2012, available at www.iprhelpdesk.eu.

Keep in mind:

- ✓ **Definition of confidential information**
- ✓ **Permitted purpose**
- ✓ **Limitation of disclosure**
- ✓ **Information excluded from confidentiality**
- ✓ **Term**
- ✓ **Choice of law and jurisdiction**

3. Limitations and risks

Even though NDAs are very useful to protect your information, it is important to understand that these agreements also have some limitations you should consider before using them.

- **The best way to protect confidential information is not to disclose it at all**

NDAs are not locks. Indeed, these documents merely establish contractual obligations that if breached can certainly entitle you to recover the damages. Yet, that means you would require to initiate litigation proceedings, which may be costly, take time and even put at risk the confidential nature of the information.

It is therefore advisable to keep in mind not to use NDAs as a mere formality. In fact, you should make use of these agreements only when disclosing truly confidential information and always consider whether you really need to share the information to reach your goal. In order to understand whether you need a NDA you should ask yourself how it can help to maximise your aims while minimising the risks. This is a strategic consideration.

- **NDAs should be used in connection with other tools**

Concluding NDAs will certainly be essential to properly protect confidential information, but you will need to take further steps. Security measures including physical (e.g. locking documents, maintaining logbook) and digital (e.g. using passwords, blocking the use of USB drives) restrictions are some examples of the steps organisations should take to make sure confidential information is well protected and managed⁴.

⁴ For further information on examples of measures other than NDAs, we suggest you to consult the [Roadmap for Intellectual Property Protection in Europe – Trade Secrets Protection in Europe](#), by IPR2 available online at www.ipr2.org.

4. What should you keep in mind?

SME

Establish a good internal management!

Whether you are the disclosing party or the receiving party, NDAs will require you to take some steps to ensure the information remains confidential:

- Include confidentiality provisions in employment contracts;
- Raise awareness among employees of the importance of maintaining confidentiality;
- Inform those employees who need-to-know the terms of the NDA signed with another organisation;
- Restrict access to documents and implement measures to secure information in digital form;
- Keep track of the NDAs the company has concluded.

UNIVERSITY

Negotiate exclusions!

Universities are often organised by departments that work independently and without contact between the researchers. Thus, it is important to bear in mind that it is likely that a researcher may develop or discover the same information received by another researcher under a NDA, without any use of the confidential information. This exclusion should therefore be negotiated.

Review the status of your collaborators!

Academic organisations usually involve in many of their projects non-employees such as students. It is important that these individuals are also covered under confidential obligations not only to keep information safe, but also to make sure there is not a breach of any NDA.

RESEARCHER

Know your obligations!

Researchers are usually the ones handling confidential information. It is therefore essential that you review carefully the confidential obligations you have (under your employment contract or an independent NDA for example) and be sure whether and when you must mark information as "confidential".

Failing to comply with confidentiality obligations of a NDA you have signed generally results in the breach of such contract. Consequently, the other party in the contract may take you to court and request a compensation for damages.

Useful Resources

For the preparation of this fact sheet, the European IPR Helpdesk had in consideration the articles mentioned below.

For further information on the topic and templates of NDAs, please see:

- Confidentiality Agreements: A Basis for Partnerships, by Kowalski SP and A Krattiger, available online at: <http://www.iphandbook.org/handbook/ch07/p02/>
- Disclosing Confidential Information, by Vivien Irish, available online at: http://www.wipo.int/sme/en/documents/disclosing_inf_fulltext.html
- Exchanging value – Negotiating Technology Licensing Agreements: a training manual, published jointly by the World Intellectual Property Organization (WIPO) and the International Trade Centre (ITC), available online at: http://www.wipo.int/sme/en/documents/guides/technology_licensing.html
- Non-Disclosure Agreements, United Kingdom Intellectual Property office, available online at: <https://www.gov.uk/government/publications/non-disclosure-agreements>

The European IPR Helpdesk also prepared **templates of NDAs**, which are available online in our [library](#).

GET IN TOUCH

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ABOUT THE EUROPEAN IPR HELPDESK

The European IPR Helpdesk aims at raising awareness of Intellectual Property (IP) and Intellectual Property Rights (IPR) by providing information, direct advice and training on IP and IPR matters to current and potential participants of EU funded projects. In addition, the European IPR Helpdesk provides IP support to EU SMEs negotiating or concluding transnational partnership agreements, especially through the Enterprise Europe Network. All services provided are free of charge.

Helpline: The Helpline service answers your IP queries within three working days. Please contact us via registration on our website – www.iprhelpdesk.eu – phone or fax.

Website: On our website you can find extensive information and helpful documents on different aspects of IPR and IP management, especially with regard to specific IP questions in the context of EU funded programmes.

Newsletter and Bulletin: Keep track of the latest news on IP and read expert articles and case studies by subscribing to our email newsletter and Bulletin.

Training: We have designed a training catalogue consisting of nine different modules. If you are interested in planning a session with us, simply send us an email at training@iprhelpdesk.eu.

DISCLAIMER

This Fact Sheet has been initially developed under a previous edition of the European IPR Helpdesk (2011-2014). At that time the European IPR Helpdesk operated under a service contract with the European Commission.

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