

THE NATURE OF THE TEST OF CONFIDENTIAL OBLIGATIONS AND ITS IMPLICATIONS FOR THE LAW OF CONFIDENCE

A key element of the tort of breach of confidence is the nature of the relationship between the plaintiff and defendant. Recent English cases suggest that the test to be applied to determine this relationship may not be entirely clear. This article examines these cases and attempts to consider the appropriateness and consequences of the tests suggested on the law of confidence.

CASES alleging a breach of confidence tend to be fewer in number than copyright, patent,¹ passing off or trademark cases. It is therefore somewhat unusual to find two English cases decided within four months of each other, between November 1995 and March 1996, which deal with virtually the same issue in the law of breach of confidence. These are the cases of *De Maudsley v Palumbo*² and *Carflow Products (UK) Limited v Linwood Securities (Birmingham) Limited*.³ Although the facts as well as several issues in both cases were dissimilar, an important and identical issue concerned the test to determine whether or not the factual circumstances sufficed to import an obligation of confidence. Specifically, the common problem was whether or not such a test was a subjective or objective one.

The elements necessary to succeed in an action for breach of confidence are well-known from the judgment of Megarry J in *Coco v Clark*.⁴ Essentially, these are:

¹ Interestingly, there have been recent patent cases where the issue of confidentiality arose, in the context of the novelty of an invention: see, *eg*, *Lux Traffic Controls Limited v Pike Signals Ltd* [1993] RPC 107, *Milliken Denmark AS v Walk Off Mats Ltd* [1996] FSR 292 and *Strix v Otter Controls* [1995] RPC 607.

² [1996] FSR 447.

³ [1996] FSR 424.

⁴ [1969] RPC 41.

- (a) The information must possess the necessary quality of confidence;⁵
- (b) It must be communicated to the defendant in circumstances imparting an obligation of confidence;⁶ and
- (c) The defendant must have made unauthorised use or disclosure of the information.⁷

The two recent cases of *De Maudsley v Palumbo* and *Carflow Products v Linwood* therefore deal with element (b). In this respect, the starting point for a discussion on the implications of these cases must be Megarry J's oft-quoted remarks in *Coco v Clark*:

“It seems to me that if the circumstances are such that any reasonable man standing in the shoes of the recipient of the information would have realised that upon reasonable grounds the information was being given to him in confidence, then this should suffice to impose on him the equitable obligation of confidence.”⁸

These statements have since been applied in numerous cases on breach of confidence.⁹ It would thus appear that the standard applicable to determining whether or not an obligation of confidence could be imposed

⁵ For a discussion on the action in breach of confidence, see generally Bainbridge, *Intellectual Property* (2nd ed, 1994) ch 11 & 12. On the first element specifically, see 224-231. See also Cornish, *Intellectual Property*, (3rd ed, 1996), ch 8.

⁶ See generally Bainbridge, *ibid*, at 231-240. For a brief overview of the problems which can arise when the information is communicated indirectly, see Cornish, *ibid*, at 8-32. For a more detailed treatment of a specific major problem that can arise when information is not even communicated in the literal sense, *ie*, it is acquired by the defendant “taking” the information without the plaintiff’s knowledge such as by surreptitious means, see G Wei, “Surreptitious Takings of Confidential Information” [1992] LS 302 and the cases cited therein.

⁷ See generally Bainbridge, *ibid*, at 241-242. An oft-cited problem which besets this last element of the action is whether or not the unauthorised use or disclosure must entail detriment suffered on the part of the plaintiff. The argument that this must be the case is based primarily on the premise that the action in confidence is an action which arises in equity; as such, equity will not permit a remedy where no detriment has been suffered: see the discussion by the House of Lords on this point in *Attorney-General v Guardian Newspapers (No 2)* [1988] 3 All ER 545 (the “Spycatcher” case) and SK Ng, “The *Spycatcher* Saga: Its Implications and Effect on the Law of Confidence” (1990) 32 Mal LR 1.

⁸ *Supra*, note 4, at 48.

⁹ In Singapore, see the cases of *X v CDE* [1992] 2 SLR 996 and *Haw Par v Jack Chiarupark* [1991] 2 MLJ 428, [1993] 3 SLR 285. In *Tang Siew Choy v Certact* [1993] 3 SLR 44, it was emphasised that equity would intervene to prevent a person who has received information in confidence from taking unfair advantage of it.

on the defendant has been accepted to be an objective one. How then do these two recent cases re-open the discussion on this issue?

I. THE TWO DECISIONS COMPARED

It should be noted that of the two, the judge in the *De Maudsley* case did not entertain any doubt as to the applicable test; the case would therefore be largely unremarkable but for the fact that it occurred only several months prior to the *Carflow* case, where Jacob J did in fact consider the nature of the test, and also because counsel in *De Maudsley* attempted to argue the case for a subjective test. However, it is curious that Jacob J made no reference to the earlier *De Maudsley* decision in his judgment. The two cases should perhaps be summarised briefly and compared.

In *De Maudsley v Palumbo*, the plaintiff alleged that he had imparted confidential information regarding an original idea for a certain type of nightclub to the defendants. The defendants had then opened their own nightclub which had features very similar to the plaintiff's ideas, without informing or obtaining the permission of the plaintiff. He therefore sued the defendants alleging that such an act constituted a breach of confidence; alternatively, that it was a breach of a contract which had been made between the plaintiff and defendants at the time the information was imparted.

Knox J dismissed the action on both counts. No contract had been formed between the parties, nor had any of the elements of an action in breach of confidence been made out. As such, the information was not confidential information; in any event, the circumstances were not such as to impose any confidential obligations on the defendants; finally, any use made by the defendants of the plaintiff's idea was too limited to constitute unauthorised use for purposes of the action in confidence.

It may be useful to explore the reasons for Knox J's decision. In relation to confidentiality, the plaintiff had alleged that his idea had five novel features: namely, that the club would operate legally all night, that it would be large and have novel "high-tech" industrial style decor, that it would have separate areas for various activities, that the dancing area would be ambient and have excellent acoustics, and that top disc jockeys from around the world would be invited to play at the club. In support of his contention that these features conferred the necessary quality of confidence in his idea, the plaintiff relied on the cases of *Talbot v General Television Corporation Pty Ltd*¹⁰ (an Australian decision) and *Fraser v Thames Television Ltd*¹¹ (an English case).

¹⁰ [1981] RPC 1.

¹¹ [1984] QB 44.

Knox J dealt with both these cases at some length. Applying them to the facts before him, he found that each feature of the plaintiff's idea, as well as the idea as a whole (being the combination of all five features), could not be considered confidential information. He noted that the two prior cases underlined "the relevance of the extent to which a creative idea has been developed so as to constitute something capable of being realised as an actuality"¹² which he took to mean being capable of realisation "as a finished product in the relevant medium".¹³ He considered that this meant the use of

"a mental process and a product of the mental process which can properly be described as a result. There is a significant difference between that concept and an aspiration ... which [is more akin to] the phrase "Wouldn't it be great if ...".¹⁴

He then accepted the formulation of defendants' counsel that a protectable idea must

- (a) contain some significant element of originality;
- (b) be clearly identifiable;
- (c) be potentially attractive in a commercial sense; and
- (d) be sufficiently well-developed (in the sense described above).¹⁵

Applying the formulation to the plaintiff's idea and its features, he found them each either too vague, or unoriginal,¹⁶ or both, to be protectable.

¹² *Supra*, note 2, at 454.

¹³ *Supra*, note 2, at 456.

¹⁴ *Supra*, note 2, at 456.

¹⁵ He also considered that the *Fraser* case indicated the relevance of a trade or industry practice regarding whether or not any particular type of information would be treated as confidential.

¹⁶ It is interesting that His Honour chose to use the word "novel" to (apparently) mean original, particularly as he had used only "original" or "distinctive" previously in the judgment. While it can be pointed out that each of these words can connote other types of intellectual property rights (namely, novelty for patents, originality for copyright and distinctiveness for trademarks), the use of "novel" outside the patent arena may create the expectation that the standard required for confidential quality is somewhat high. However, it is clear that such is not the case: see Megarry J's remarks on "trivial tittle-tattle" in *Coco v Clark*, *supra*, note 4, at 48 and G Jones, "Restitution of Benefits Obtained in Breach of Another's Confidence" (1970) 86 LQR 463 at 470-471.

He also thought that, in relation to the combination of all five features, the claim of confidentiality would fail for two reasons: that much of the claims were not in fact part of the plaintiff's idea, and novelty cannot be conferred simply by adding several non-novel features together. However, His Honour did not further elaborate on this point; it may be that if there is a novel twist in combining several non-novel features together, the situation may well be more similar to the Talbot case.

In relation to the obligation of confidence, Knox J considered that several factors would be relevant in determining the imposition of the obligation. Specifically, he stated that the parties' own beliefs as to whether such an obligation would exist, as well as factors such as trade or industry practice, would be relevant. On the parties' own beliefs, however, he went on to say that "while ... the absence of such belief is quite capable of being significant I do not accept that it follows that a person who forms no belief on the question is thereby absolved ...".¹⁷ This was in response to an argument by defendants' counsel to the effect that the obligation should be imposed only where such was the parties' common intention. Knox J clearly felt that this would unduly limit the scope for imposing confidence as a person could then avoid the obligation by simply not addressing the question. Knox J stated firmly that the test for imposing confidence is an objective one.

Notwithstanding the rejection of their proposed test, the defendants managed to escape the confidential obligation even on application of the objective test. Knox J found that on the facts, the occasion on which information was disclosed by the plaintiff was clearly and purely a social (as opposed to a business) occasion, and the plaintiff's own evidence showed that he had carefully avoided mentioning confidentiality at the time. Further, no evidence of trade practice was proffered to bolster the plaintiff's arguments. As such, the circumstances could not be said to be such as to impose an obligation of confidence on the defendants.

The findings in the *De Maudsley* case seem to indicate that, for commercial-type secrets (not even necessarily amounting to trade secrets), evidence of trade and industry practice can be helpful to show both confidential quality as well as to support the imposition of an obligation of confidence. Further, it emphasises the necessity, already demonstrated by cases such as *Talbot* and *Fraser*, for such ideas to be more than vague suggestions – to be sufficiently well-developed, even if not in writing. Thirdly, while the test for imposing confidence is objective, the parties' own subjective beliefs (where such evidence is available) can be significant in finding such an

¹⁷ *Supra*, note 2, at 457.

obligation to exist. Finally, the case also demonstrates the dangers of disclosing sensitive information in pre-contractual commercial negotiations. In such situations, a claim in breach of contract is seldom available, and there is no assurance that an alternative action for breach of confidence will succeed, given the uncertainty of establishing both confidentiality and the existence of a confidential obligation. Indeed, Knox J expressed sympathy for the plaintiff in the case, who had been “shabbily treated” and yet had “got very little out of it”.¹⁸

In the case of *Carflow Products v Linwood Securities*, the plaintiff’s claims were for infringement of a registered design, copyright and unregistered design right in a steering wheel lock. The defendants challenged the registration of the design on the ground that the defendants’ prototype had been disclosed prior to the design registration and as no obligation of confidence attached to the disclosure, the plaintiff’s later design was not novel for registration purposes. The question of confidence therefore arose in a rather unusual manner.

Regarding copyright and unregistered design right, the defendants claimed that their product (also a steering wheel lock) had been independently created and thus did not fall within the scope of the plaintiff’s rights in these fields. This argument depended on whether or not the defendants could show they had in fact disclosed their prototype when they said they had (namely, in June 1992). If so, the plaintiff’s claims for these two actions would fail as they only registered their design in August 1992, thus affording no opportunity for any copying prior to that date. The case therefore proceeded on two points:

- (a) whether or not there had been such disclosure in June 1992, and
- (b) if so, whether or not this was done in circumstances of confidence.

Jacob J found that disclosure had taken place at the relevant time, by the defendants’ showing a prototype of their design to a third party. It was also found that the third party, a buyer for a retail chain, was accustomed to leaving various prototypes and samples around his premises, in such manner that would enable other people to view them. Further, at the meeting between the defendants’ representative and the third party buyer, no mention had been made of confidentiality.

¹⁸ *Supra*, note 2, at 459.

In proceeding to consider whether or not the disclosure was confidential, Jacob J did not discuss the first *Coco* element, *viz*, quality of confidence. It appears, although it is unclear, that this point was either accepted by both parties, or was not disputed by the plaintiff. Whatever the reason, the focus of the case was, instead, on the second *Coco* element, the obligation of confidence.

Jacob J recognised that the two possible approaches to this were either subjective or objective. Distinguishing the action in confidence from one in contract on the basis that the confidential obligation is an equitable one, the learned judge proceeded to adopt the subjective view, stating that “equity looks to the conscience of the individual”.¹⁹ As such, he then relied on the evidence given by the defendants’ representative and the third party buyer as to their beliefs and concerns during the meeting when the prototype was shown. Both witnesses testified that they knew of the possibility of having written statements of confidentiality, which was not imposed in this case. The defendants had imposed this on other parties before, while the third party buyer would not have agreed to such imposition in any case. On the facts, Jacob J felt it was clear that neither party had any intention or belief that the meeting would be confidential. Subjectively, therefore, both parties did not regard the circumstances as imposing an obligation of confidence.

Turning to the objective test, Jacob J considered that even on this basis, there would be no obligation of confidence. The bystander, even without knowing the actual minds of the parties, would have known or considered these factors:

- the fact that the product shown was a prototype and not a finished product;
- that the law “provides a variety of ways in which the design of a product may be protected” (here, Jacob J listed registered and unregistered design rights and patent law);²⁰
- that the defendants were there to promote their products.²¹

Jacob J considered that these factors would show a reasonable man that no obligation of confidence was being imposed.

¹⁹ *Supra*, note 3, at 428. See also the *Certact* case in Singapore, *supra*, note 9.

²⁰ As to the standard to which Jacob J here appears to be holding the reasonable man, see discussion *infra*, note 25, and the accompanying main text.

²¹ *Supra*, note 3, at 429.

At this point, it would appear that the learned judge was employing both the “officious bystander” as well as the “reasonable man” in his determination of the objective test. Similarly, the notion of the reasonable man was not the only common law concept “borrowed” by Megarry J in *Coco v Clark* in determining whether or not an obligation of confidence arose. Megarry J also relied on the concept of the “officious bystander”, a familiar creature from the common law of contracts. Leaving aside the implications of using these common law concepts in equity (a point to be addressed in a later part of this article), it can be said that the objective test need not, or possibly even should not, rely on both hypothetical persons as they deal with different perspectives. For example, the perspective of the reasonable man is generally adopted where it is desirable to have an objective standard to measure the effects of a person’s behaviour, such as his/her reaction to an offer made by another person. Since “the devil himself knows not the thought of men”,²² using the subjective beliefs of such a person in these cases could lead to uncertainty and injustice for the other party. Thus, standards and duties of care, durations of contractual offers and myriad other legal issues are generally resolved by measurement to this hypothetical but arguably fair standard. On the other hand, the officious bystander is most often employed in the context of determining implied terms in contracts. In such cases, the concern is that the court is not to interfere with the contracting parties’ freedom to agree, nor can it re-write an agreement, even if it considers that agreement one-sided or unfair. Where parties do not therefore express their wishes in negotiations but later unilaterally attempt to impose unwritten implied terms, the court is generally slow to interfere. It will do so only where it is clear that that particular term, whether reasonable, fair or not, was actually intended to be binding by both parties to the contract. Generally, this will be the case only where the term sought to be enforced is one where the parties, if asked whether or not they intend it to be part of their bargain by an officious bystander, would immediately say “But of course”. In employing the officious bystander, the court is in fact attempting to ascertain the *actual* (subjective) intentions of the parties, whether such intentions be that of reasonable men or not.

It is therefore curious that in both *Coco v Clark* and *Carflow*, both concepts were utilised for the same purpose. However, despite the theoretical difficulties such fusion may create, an examination of Jacob J’s attribution of knowledge to the bystander will likely show that a reasonable man in the parties’ shoes would also have possessed similar knowledge and hence there may be little practical difference in using the two concepts interchange-

²² *Anon* (1497) YB Pasch 17 Edw IV f1 pl 2.

ably.

In addition to the facts of the case before him, Jacob J relied on broader policy justifications for his decision that the circumstances disclosed no confidential obligation. He felt that to hold otherwise would create a great deal of difficulty, particularly for manufacturers who can be expected to receive a lot of unsolicited confidential material.

It is certainly true that the reasonable man test, if applied to all cases of confidential information, may lead to an unjust or unexpected result. For example, applying the objective standard to a recipient of unsolicited information would likely lead to exactly the situation the judge feared.²³ However, there are precedents in the case law which indicate that, in cases where the facts differ from the “classic” *Coco* situation (where the plaintiff directly communicates the information to the defendant), a different test may be more appropriate. One notable example is the case where the defendant takes the information surreptitiously from the plaintiff without the latter’s knowledge.²⁴ In the *Carflow* case, the facts did differ from the “classic” direct situation in that there was no relationship between the plaintiff and defendants; any such relationship would have been between the defendants and the third party buyer. Further, the question of confidence arose, as has already been mentioned, in the context of other intellectual property rights. Would such differences suffice as justification for applying a standard other than the objective test? Unfortunately, Jacob J did not explore this line of reasoning. It is submitted that the answer should be no, on the facts of the case. Although there was no question of a confidential relationship between the two parties to the litigation, it was clear that the issue of confidence concerned two parties who were in direct communication with each other: as between the defendant and the third party buyer, the situation closely resembles a *Coco v Clark* scenario.

Another reason given by Jacob J was that in any event, the material under discussion in the instant case was capable of being protected by other legal means. In this sense, the prototype would be different from other material such as more finalised or detailed drawings and plans.

It is difficult to see the distinction that was being drawn by the learned

²³ See Cornish, *supra*, note 5, at 8-21, where the recipient of unsolicited information is acknowledged as facing “a practical problem of some importance”. While Professor Cornish opines that “it is unlikely that one person could oblige another to respect confidence by sending him unsolicited material in a letter marked ‘Confidential’”, he goes on to note that the recipient should return the material at once, stating he regards himself as not being bound to confidence, unless he wishes to risk being so bound under the objective test generally applied.

²⁴ See Wei, *supra*, note 6.

judge. In making this point, he relied on the earlier case of *Saltman Engineering Co Ltd v Campbell Engineering Co Ltd*,²⁵ where very detailed tool drawings were disclosed in circumstances held to be confidential. However, such drawings would also surely have been protectable in copyright: ironically, it may well be the prototypes that fall short of copyright protection.²⁶ Jacob J may have had in mind the fact that the Saltman drawings, unlike many prototypes, would not qualify for design protection, being functional designs only. However, since intellectual property rights comprise far more than design rights and copyright, the distinction would not be applicable in all cases, such as where patent rights may be available for both a prototype and a drawing (for example, where both disclose a patentable invention).²⁷

A commentator²⁸ has also suggested that the reasonable man may not possess as much knowledge as Jacob J appears to have ascribed to him. Specifically, Jacob J considered that such a person would know that “our law provides a variety of ways in which a design of a product may be protected (unregistered design right, registered design, or even patent for an invention)”.²⁹ It is not at all clear that this would, in fact, be within the scope of the knowledge of an ordinary man in the street.

On the facts of the case before him, Jacob J found there would be little difference in result whether he applied the subjective or objective test. As such, the precedent value of that part of the decision pertaining to the subjective test may not be very high. Further, Jacob J did state that the determination of the existence of an obligation of confidence will always depend on the circumstances.³⁰ However, the case does serve as an op-

²⁵ (1948) 65 RPC 20.

²⁶ Although “artistic works” in copyright include both 2-dimensional creations such as drawings as well as 3-dimensional works such as sculptures, there may be problems with 3-dimensional works such as prototypes. Such works, by the definition of “artistic work” in the Copyright Act (Cap 163, 1988 Rev Ed) can only be protected as sculptures or works of artistic craftsmanship. A question then arises as to whether prototypes qualify as sculptures or not, and/or as to whether works of artistic craftsmanship require some element of artistic intent: see section 7, Copyright Act. See also *Hensher v Restawile* (1976) AC 64 and *Merlet v Mothercare* (1986) RPC 115, for the test for works of artistic craftsmanship, and *Wham-O Manufacturing Co v Lincoln Industries Ltd* [1985] RPC 127 and *Breville Europe plc v Thorn EMI Domestic Appliances Ltd* [1995] FSR 77, for industrial creations which qualify to be sculptures.

²⁷ For a comment on Jacob J’s decision, see S Clark, “Circumstances Importing an Obligation of Confidence: A Subjective or Objective Test?” [1996] 11 EIPR 632.

²⁸ *Ibid.*

²⁹ *Supra*, note 3, at 429.

³⁰ *Supra*, note 3, at 430.

portunity to re-examine the nature of the obligation of confidence.

In this respect, several points can be made about the objective test, as expounded by Megarry J in *Coco v Clark*:

- (a) First, it would seem clear that the objective standard cannot apply universally to all situations of confidence.
- (b) Second, there is the question of whether or not it is necessary to use common law concepts such as the reasonable man, in situations which arise in equity. These two points have already been mentioned, but they merit further discussion.
- (c) Third, either test would require an examination as to what type or extent of knowledge would be required of the defendant.
- (d) Finally, the question arises as to whether the remedies available to one accused of breach of confidence are affected by the application of an objective test.

On whether or not it is appropriate to utilise common law concepts in equitable situations, the specific roles of the reasonable man and the officious bystander in the common law have already been examined. Yet Megarry J found little difficulty in employing these hypothetical creatures to ascertain the equitable nature of the confidential obligation in *Coco v Clark*. An enquiry as to the reasons for and appropriate nature of such employment would necessitate an examination of the juridical basis of the law of confidence.

II. AN ANALYSIS OF THE OBJECTIVE/SUBJECTIVE TESTS

A. *The Juridical Basis of the Action in Breach of Confidence*

Many commentators have already made in-depth studies of this issue,³¹ and this writer would venture to suggest that it seems clear that there is general acceptance that the action for breach of confidence arises in equity,³² but even so, possessing such qualities that might actually render it “truly *sui generis* and represent[ing] a peculiar and unique outgrowth of equitable

³¹ See, eg, SK Ng, *supra*, note 7, at 33-40, F Gurry, *Breach of Confidence* (Oxford, 1984), JE Stuckey, “Equitable Action for Breach of Confidence: Is Information Property?” (1981) 9 Syd L Rev 402, G Jones, “Restitution of Benefits Obtained in Breach of Another’s Confidence” (1970) 86 LQR 463, S Ricketson, “Confidential Information—A New Proprietary Interest?” (1977) 11 MULR 225 and (1978) 11 MULR 289.

³² See, eg, *Coco v Clark*, *supra*, note 4 and *Fraser v Evans*, *supra*, note 11.

³³ Ricketson, *The Law of Intellectual Property* (1984) at 856.

jurisdiction”.³³ As such, it would have characteristics reminiscent of various juridical schools, such as property, tort, contract and equity. Given that there is now a sufficient body of case law which recognises such an action, and which, broadly speaking, apply the same elements, the fact that in developing the action, the courts have found it necessary to “borrow” principles and concepts from various branches of the law may not be important. However, the unwieldy and uncertain results of such development has led to calls for the abolition of the action in its current form and its replacement by a statutory action, calling for legislation.³⁴

Be that as it may, there has been little movement up to now in this rather drastic direction. Instead, as most recently seen in the *Carflow* decision, the courts have not hesitated to re-open questions relating to the very basis of the action. The issue of whether or not the test for imposing a confidential obligation is subjective or objective has implications for the juridical foundation of the action. For instance, if the action is seen to be based on confidential information as property (whether legal or equitable), the focus is on the ownership and nature of the information itself and not on the parties’ conduct or relationship. In contrast, the notion of contract or of equitable good faith places the emphasis squarely on the parties’ relationship and very little on the information proper (short of the *de minimis* level of “trivial tittle tattle” and the requirement that the information in question possesses the necessary quality of confidence).

B. *The Level of Knowledge Required of the Defendant*

In imposing an obligation of confidence through an equitable duty of good faith, cases and commentators have generally looked to the extent of the defendant’s knowledge by asking the question whether or not, and from which point in time, he knew that the information was being imparted in confidence. This question is particularly important when the information is passed on to an indirect third party recipient; in such cases, the obligation of confidence generally does not attach unless and until the recipient realised the confidential nature of the information.

The test that is applied to determine this question of knowledge in equity is not necessarily subjective. In such instances, the enquiry often involves asking whether it is “actual” or “constructive” knowledge that will suffice for the obligation to attach. As developed by the law of constructive trusts, it would appear that there are five possible levels of knowledge:

³⁴ See, eg, Report of the Law Commission of the United Kingdom on Breach of Confidence (Law Com No 110), Cmnd 8388, HMSO London (1981).

- “(i) actual knowledge;
- (ii) wilfully shutting one’s eyes to the obvious;
- (iii) wilfully and recklessly failing to make such inquiries as an honest and reasonable man would make;
- (iv) knowledge of circumstances which would indicate the facts to an honest and reasonable man;
- (v) knowledge of circumstances which would put an honest and reasonable man on inquiry.”³⁵

Francis Gurry opines that the obligation should attach

“from the time of acquiring information if, at that time, he knew or ought to have known ... [The] constructive notice [should be] on the basis of an objective test – that is, if the circumstances were such that a reasonable person in his position would have made inquiries about the origin of confidential information ...”³⁶

Similarly, Gareth Jones submitted that

“where the plaintiff is not suing for damages but is seeking to recover the defendant’s unjust enrichment, knowledge and good faith should be interpreted to embrace constructive and imputed knowledge as well as actual knowledge. A defendant who acts unreasonably in thinking that he is not breaching the plaintiff’s confidence has surely taken unfair advantage of the plaintiff.”³⁷

In the case law on breach of confidence, the prevailing view as to when an obligation of confidence arises seems clear: this cannot be earlier than the date upon which the defendant acquires the requisite knowledge that the information received is confidential.³⁸ However, the question as to the extent or level of knowledge so required is less settled. In *Union Carbide*

³⁵ *Per Alliot J in Lipkin Gorman v Karpnale Ltd* [1986] FLR 271, adopting the categorisation of Peter Gibson J in *Baden v Societe Generale du Commerce SA* [1983] BCLC 325.

³⁶ Gurry, *Breach of Confidence* (Oxford, 1984), at 274.

³⁷ See Jones, *supra*, note 16, at 476.

³⁸ See, eg, *Talbot v GTV*, *supra*, note 10, *Fraser v Evans*, *supra*, note 11.

Corp v Naturin Ltd, Slade LJ commented that this was “a difficult question to which the answer is far from clear on the existing authorities.”³⁹ And in the “*Spycatcher*” case, Lord Goff commented that on the question of notice, he understood it to “include circumstances where the confidant has deliberately closed his eyes to the obvious”.⁴⁰ This statement seems to suggest that while the level of knowledge would clearly include level (ii) in the *Baden* classification, it is unclear whether or not Lord Goff would have accepted that constructive notice, or level (iv), would itself suffice.

A commentator offers the opinion that the “answer would depend on the degree of notice or the level of knowledge required such that it would be unconscionable for the recipient ... to make use of the confidential information.”⁴¹ It is further suggested that this should include constructive knowledge as to do so would be consistent with the general basis of liability in breach of confidence cases.⁴²

If this is indeed the position that will be adopted by future case law in this area, it will show that elements of objectivity are at work in the law of confidence. As such, while it might seem strange, at first sight, to encounter the reasonable man in this context, given the juridical basis for the action as well as the applicability of objective standards in its elements, there seems to be no objection in principle to using an objective test to measure the obligation of confidence. In many cases, there is likely to be too fine a distinction between the question “What would a reasonable man in the defendant’s shoes have thought?” and “Did the defendant possess the knowledge of the circumstances that would have indicated the real facts to an honest and reasonable man?” On the other hand, applying a subjective test to the question of confidential obligation would restrict the enquiry on knowledge to simply the defendant’s actual knowledge, or, at most, his reckless and wilful disregard of the true facts.

C. *Problems with Employing a Universal Objective Test in the Law of Confidence*

The discussion above has dealt with a few of the points noted earlier about the applicability of an objective test in the law of confidence. In relation to the point that the objective test cannot be the universal test, mention has already been made of the problem of unsolicited information, indirect

³⁹ [1987] FSR 538.

⁴⁰ *A-G v Guardian Newspapers (no 2)*, *supra*, note 6, at 658.

⁴¹ See SK Ng, *supra*, note 6, at 75.

⁴² *Ibid*, at 76.

⁴³ *Supra*, note 23 and accompanying main text.

recipients and confidential information.⁴³

There is a lack of case law on the problem of unsolicited information, so a recipient of such information may well be subject to the objective test. Under this test, it may well be easy to subject him to an obligation of confidence, but it is not at all clear whether it would be appropriate to do so. The prime objection to imposing a confidential obligation in this instance must be that the information is unsolicited; hence it means the obligation can be unilaterally imposed by the sender. Given the fact that the obligation, once imposed, creates an equitable obligation (although not amounting to a fiduciary relationship) for the recipient to respect the others' confidence, this may lead to difficulties where the recipient's own research or efforts may lead him down the same path as the sender's information. Such a problem may be particularly acute in industry, such as where would-be inventors send unsolicited test results to large companies or laboratories. The advice given to the recipients in such instances is to return the information as soon as possible, without looking at the contents, making it clear the recipient does not regard himself as being under an obligation of confidence.⁴⁴ In addition, many companies separate their research arm from the commercial branches, so as to minimise any danger of the same personnel handling both research and unsolicited contributions. However, the objective test may still result in an obligation of confidence being imposed, at least in certain factual situations, and the lack of clear law in this area is unhelpful.

One possibility is to examine the development of the case law in relation to surreptitious takers of confidential information. In such cases, the facts are also "one-sided" in that the plaintiff is usually not aware that the defendant has acquired his secret, whereas in the "classic" confidence scenario, the secret is communicated by the plaintiff to a recipient he knows. There are certain difficulties with singling out surreptitious takings for differential treatment, as there have been cases where, after the "direct" communication, there is then a further communication by the recipient to a third party which the plaintiff knows nothing about.

Dealing with this difficulty first, the case law tends to suggest that a confidential obligation will attach to the indirect recipient once he possesses the requisite knowledge that the information is confidential, and not before.⁴⁵ It is possible to argue that the relationship between the plaintiff and the indirect recipient/defendant is created from the moment of, and by, the possession of knowledge. As such, it may then be possible to see a real distinction between the case of an indirect recipient and a recipient of

⁴⁴ *Ibid.* However, this may not necessarily be practical or satisfactory.

⁴⁵ See *supra*, note 38 and accompanying main text.

unsolicited material.

In the former situation, the recipient usually has an opportunity to reject the information being offered to him and to examine the situation in which the information is being offered. It is only after deciding to accept the information that the question whether, and when, he came by the requisite knowledge (that it was confidential information) becomes relevant,⁴⁶ and hence a confidential relationship created (or not). In contrast, the recipient of unsolicited information rarely has the same opportunity; the plaintiff unilaterally gives him the information. The causal connection between the information and the recipient, and the establishing of a relationship between the recipient and the plaintiff, is therefore practically instantaneous.

It is therefore submitted that there is some justification for not applying an objective test to the recipient of unsolicited information, or, at least, not applying an objective test *formulated in the same manner* as that for direct and indirect recipients. How, then, can the law on surreptitious takers assist?

In the case of *Malone v Commissioner of Police*,⁴⁷ Megarry VC accepted that application of the objective *Coco* test to surreptitious takers of confidential information would result in too wide a principle of liability. He therefore introduced the concept of “inherent risks” into the second element of the law of confidence. Essentially, this can be explained thus: when a person chooses a particular mode of communication, he takes upon himself certain risks of leaks or other forms of divulgence that are inherent in the mode chosen. If the confidential information that person is imparting is therefore “leaked” by one such inherent risk, there can be no obligation of confidence attached to the person receiving the information by these means. On the facts of the case, Megarry VC held that lawful tapping of a telephone (by the authorities or the police) was an inherent risk of using the telephone as a means of communication, and hence no obligation of confidence could attach to the police who received the information through tapping. This point was used to distinguish the later case of *Francome v Mirror Group*,⁴⁸ where the tapping was illegal and hence carried no such inherent risk.

The concept of inherent risks, and the question of the relevance of illegal

⁴⁶ In this sense, the indirect recipient can be seen to come by the information in circumstances often very similar to a direct recipient, save only the the direct recipient is given the information by the plaintiff himself. As such, there is some justification for applying a test with objective elements to the indirect recipient as well.

⁴⁷ [1979] 2 All ER 620.

⁴⁸ [1984] 2 All ER 408.

⁴⁹ See, G Wei, *supra*, note 6.

means, has created some difficulty and debate.⁴⁹ However, for present purposes, it suffices to note that the courts have been willing to depart from the objective *Coco* test, where it was felt that it was inappropriate, or created an overly broad principle of liability. As such, it may be that other situations which differ materially from the “classic” scenario, such as unsolicited information, may also justify application of a different type of test.

D. *The Impact of an Objective Test on Defences and Remedies*

Finally, a question may arise as to whether or not applying an objective test to the obligation of confidence also has implications on the defences and remedies to the action for breach of confidence. For defences, the most problematic issues have been the possibility of excusing a *bona fide* purchaser of the information (for value and without notice of the confidential nature of the information) as well as the relevance of a detrimental change of position by the defendant. It is submitted, however, that in the context of the present discussion, the question whether an objective or subjective test should be imposed may be of little significance. This is because the question of a purchaser’s *bona fides* usually only arises when that purchaser is a third party or indirect acquirer of the information. If a subjective test is to be applied to the direct recipient, it ought to follow that the same test would apply to the third party. As such, for the limited purpose of completeness in the current discussion, a very brief summary of the current problems relating to defences to actions in breach of confidence will suffice.

If the test for confidential obligations is an objective one, the problems of defences may be traceable to the debate on the juridical bases for the action. Briefly, the applicability of the *bona fide* purchaser defence to breach of confidence can be listed, depending on the juridical school, as:

- (a) If the basis is legal property in the information, property law concepts will operate to bar a defence of *bona fide* purchaser;
- (b) If the basis is equitable property, it follows that there ought to be a defence for the *bona fide* purchaser;
- (c) If the basis is equitable good faith, a simple expenditure of money ought not to excuse any breach of confidence after the defendant has acquired the requisite knowledge of the true facts;⁵⁰
- (d) If *bona fide* purchaser alone is not sufficient ground to excuse

⁵⁰ See, *eg*, Jones, *supra*, note 16 and *Wheatley v Bell* [1984] FSR 16.

a defendant, the fact of *bona fide* purchase, coupled with a detrimental change of position, ought to suffice as a defence to a breach of confidence.⁵¹

On the question of remedies available to the plaintiff, it is generally accepted that some form of proprietary relief (such as an account of profits) or monetary compensation (in the form of damages or a *quantum meruit* claim) can be obtained, possibly in combination with injunctive relief⁵² (although the two forms of money claim cannot be combined). If the test for a confidential obligation is a subjective one, this has implications primarily on the award of discretionary equitable relief, such as injunctions and account of profits.

Several factors which may be relevant to the award of an injunction are:⁵³

- (a) whether or not the defendant was using the information innocently;
- (b) whether or not the plaintiff's communication was gratuitous;⁵⁴
- (c) whether or not the idea was being developed collaboratively;
- (d) how much the defendant contributed to the successful design;
- (e) the type of information (*ie*, economic or personal secrets);
- (f) the character of what was used (*eg*, if it was mundane);

⁵¹ See Jones, *ibid*. The equitable defence of change of position has been accepted as a valid defence: see *Lipkin Gorman v Karpnale* (*supra*, note 35) it is unclear whether or not, and to what extent, this will be followed in breach of confidence cases.

⁵² Since the 1993 amendments to the Supreme Court of Judicature Act (Cap 332, 1985 Rev Ed) ("SCJA"), it is clear that the Singapore High Court has jurisdiction to award damages either in lieu of or in addition to an injunction: see para 14 of the First Schedule to the SCJA. The remedies available to a plaintiff in a Singapore court are thus substantially similar to those available in England, in equity, under Lord Cairns' Act (1858).

⁵³ See Cornish, *supra*, note 5, where he lists these as factors militating against the grant of an injunction.

⁵⁴ This factor would certainly be relevant to cases where recipients of unsolicited information are placed under an obligation of confidence: see *supra*, note 23 and accompanying main text.

⁵⁵ This is a tricky issue as such information would no longer possess the necessary quality of confidence: see Lord Goff in the "*Spycatcher*" case, *supra*, note 6, at 666. However, in that case, a major reason given for not granting the injunction was not the public nature of the information, but the fact that no further detriment to the public interest could accrue. An interesting question is therefore whether the House of Lords would have been prepared to grant the injunction, notwithstanding the public domain point, had there been such further detriment: see SK Ng, *supra*, note 6, at 48-51. Another interesting issue raised by the public

- (g) whether or not the information had become public;⁵⁵ and
- (h) whether or not the information was patentable and hence protectable by another intellectual property right.

In relation to the innocence of the defendant, the importance of applying a subjective or objective test can be clearly seen. Where a defendant possesses actual knowledge of a breach of confidence, it is likely that he will be enjoined, even if the circumstances would not have revealed the true facts to a reasonable man in the same position (*ie*, actual but no “constructive” knowledge). However, this should not be surprising. It must be that even where the test in law is an objective one, surely the courts would not hesitate to find liability, and thereby grant relief, if the evidence showed that the actual defendant subjectively knew the true facts. The existence of an objective test, based on the reasonable man’s perspective (or perhaps, in the equitable context, on the extent of constructive knowledge of the defendant), serves merely as a general standard, to avoid overly narrow or difficult applications of liability principles.

On the other hand, the imposition of an objective test (again, whether that be based on the benchmark of a reasonable man or the equitable levels of knowledge) must mean that a defendant could be liable for breach of confidence even where he is subjectively innocent. If so, it ought to follow that such subjective innocence should be relevant at the point of determining remedies, for instance, whether or not an injunction and/or an award of damages, would be appropriate.

Another question that arises in respect of the extent of the confidential obligation (however imposed) is whether the obligation is absolute (in the sense that the defendant cannot use the information without the plaintiff’s consent) or whether it is a lesser duty not to use the information without paying the plaintiff a reasonable sum for its use. This point was considered by Megarry J in *Coco v Clark*, where he expressed some discomfort at holding the defendant to an absolute duty, at least for commercial secrets, where the defendant, although knowing the usefulness of the plaintiff’s idea, is prevented from making use of it until it is put into the public domain (and his supposed headstart no longer exists):

“Communication thus imposes on him a unique disability. He alone of all men must for an uncertain time abjure this field of endeavour

domain problem is whether or not equitable obligations still exist to continue to bind the defendant, and whether or not the question of who is responsible for publicising the information is relevant: see SK Ng, *supra*, note 6, at 58-68 and Jones, *supra*, note 16, at 485-586.

... I do feel considerable hesitation in expressing a doctrine of equity in terms that include a duty which law-abiding citizens cannot reasonably be expected to perform ... the essence of the duty seems more likely to be that of not using without paying, rather than of not using at all.”⁵⁶

This practical reasoning may explain the decision in *Seager v Copydex (no 2)*,⁵⁷ where Lord Denning opined that in a case of damages, the defendant should not get a head start without at least paying for it. This implies that damages can be calculated on the basis of conversion, at least where the plaintiff would have been willing to sell to a willing buyer. Where, however, the plaintiff intends to exploit the information himself, the more appropriate measure might be the royalty or licence fee he would have charged the defendant, had his permission for use been sought beforehand.⁵⁸

These alternative bases of calculation raise the question whether or not breach of confidence is a tort (similar to other common law torts) or is more akin to an equitable wrong.⁵⁹ The general basis for tortious damages is that it is compensatory, *ie*, it should put the plaintiff in the position he would have been in, had the tort not occurred and as a tort, damages would be available as of right to a plaintiff.⁶⁰ However, since damages in equity may also be compensatory, even the classification of breach of confidence as either one or the other may not fully explain the possibility of damages awarded on the basis of conversion. One immediate criticism of calculation on such a basis must be that confidential information is therefore treated as if it were a form of property; as such, this has implications for the juridical basis of the action. The general acceptance that the action is based on equitable good faith (*ie*, the parties’ relationship rather than the nature of the information in question) does not sit well with conversion damages, at least on theoretical grounds. On the other hand, Megarry J’s concerns and the

⁵⁶ *Coco v Clark*, *supra*, note 4, at 49-50.

⁵⁷ [1969] 1 WLR 809.

⁵⁸ See the discussion on calculation of damages in the *Seager* case, *ibid*, and the comments in Cornish, *supra*, note 5, at 8-47 and Bainbridge, *supra*, note 5, at 243.

⁵⁹ See Bainbridge, *supra*, note 5, at 243, where breach of confidence is said to be an “equitable tort”.

⁶⁰ These considerations would naturally be more relevant to cases of commercial secrets: for personal secrets, generally, the more appropriate remedy is likely to be an injunction. Questions can arise as to whether or not damages can then be awarded for injury to feelings and personal reputation, and in personal secret cases, a plaintiff should not hesitate to press for an injunction, lest the secret be published into the public domain, and hence lose the necessary quality of confidence. In relation to damages for injury to feelings and reputation, see Cornish, *supra*, note 5, at 8-48 and the relatively broad interpretation of detriment by the House of Lords in the “*Spycatcher*” case, *supra*, note 6.

reasoning of Lord Denning reflect very practical considerations.

Professor Gareth Jones wrote that in cases of injunctive relief, an award may well be appropriate, despite Megarry J's comments,

“if the defendant was dishonest and had always intended to take advantage of the plaintiff. If the defendant has acted in good faith, however, Megarry J's observations ... are welcome as a flexible reconciliation of the interests of the business man ... and those of the confider ...”⁶¹

Where it can be shown that the defendant, by the subjective test, has acted in such a manner as described, an injunction may therefore still lie.

Accounting for profits is another equitable remedy which is necessarily discretionary in nature, but which may be of more benefit to the plaintiff if the defendant has exploited the secret commercially, with some success. As with injunctions, the court will consider the whole case and all its circumstances before granting an account of profits: *Seager v Copydex* (no 1)⁶² illustrates a situation where an innocent (in the sense of an honest but foolish) defendant need not be enjoined or account for his profits. In such situations, the remedy against such a defendant may well sound only in damages.

The question of the subjective innocence (or not) of a defendant is therefore relevant to the award of remedies. As such, it can be seen that the issue of subjectivity can arise on two levels: first, the imposition of a duty of confidence, and second, when awarding remedies (even where the first level is held to be an objective test). For instance, where the defendant in question possesses actual knowledge that his information is subject to a confidential obligation, there is little room to plead that his subsequent use of the information is innocent, honest and foolish. As such, the court may grant the plaintiff an injunction as well as an account of profits (subject to any other circumstances in the case).

III. CONCLUSION

Given the few cases in Singapore on breach of confidence, the opportunity afforded by the *Carflow* and *De Maudsley* cases to re-examine some of the principles and theories in this area of the law is to be welcomed. In particular, the question whether or not the obligation of confidence is tested

⁶¹ *Supra*, note 16, at 485.

⁶² [1967] 2 All ER 415.

objectively or subjectively, can have an impact on the other elements of the action.

As mentioned in the discussion on remedies, the question of measuring the defendant's innocence, whether that be through an objective or subjective test, arises at two levels: first in relation to *liability*, *ie*, whether there is a confidential obligation owed by the defendant to the plaintiff, and second, in relation to *remedies*, *ie*, if the test for the first level is objective, subjective innocence may be relevant as one factor in considering the appropriateness of particular remedies, especially in relation to granting an injunction or an account of profits. However, it does not necessarily follow that acceptance of subjectivity at the level of remedies means subjectivity ought also to be used as the test for the question of liability (or a duty of confidence). First, it is obvious that both levels deal with very different issues. Second, it can be argued that once subjectivity is relevant to liability, there must correspondingly be less room for discretion on that basis, in relation to remedies.

On the question whether or not the test for imposing a duty of confidence ought to be subjective or objective, it is submitted that to put the issue so plainly may be somewhat simplistic. It seems reasonably clear that much of the case law in this area utilises concepts which involve elements of objectivity; what is not quite so clear is whether objectivity is viewed entirely through a common law eye, or whether more equitable notions can assist. In this area of the law, it would appear that a relatively broad and flexible approach to objectivity has been taken, as shown by Megarry J in *Coco v Clark*, in relying on the common law creatures such as the reasonable man and the officious bystander in determining a duty in what he acknowledged to be equity. Similarly, the reliance on the different levels of knowledge (as developed by the law on constructive trusts) in imposing a duty of confidence on an indirect recipient seems to indicate an approach that is not overly constricted by restricting the concept of objectivity to only the common law or equity.

As such, this writer would submit that in general, the test for imposing a duty of confidence is an objective one, in so far as objectivity is understood to mean simply that the courts do not require the defendant to know subjectively he is receiving confidential information. Instead, in applying this objective test, and on the assumption that confidence is an equitable obligation, the defendant's duty (if any) is dependent on whether or not he had actual or constructive knowledge of the true facts; an objective approach familiar to constructive trust and equity lawyers. The subjective/objective question might thus be best answered by putting the test as "Did the defendant know he was receiving confidential information (in the sense of either actual or constructive knowledge)?"

Thus, even though equity acts against the conscience of the defendant,

the case law examined in this article shows that this does not necessarily mean a subjective approach is taken. However, where a defendant clearly passes the subjective test (in the sense of possessing actual knowledge of the true facts), a duty of confidence will attach; but constructive knowledge – a more objective standard – will generally apply and suffice, even in the absence of actual knowledge.

It should be noted, however, that even with an objective standard, a question can arise as to whether this ought to be a universal test; problems in this regard in relation to unsolicited information and surreptitious takings of information have been raised in this article, and some of these fact situations may warrant application of a subjective test.

In addition, as already noted, elements of subjectivity can be relevant at the level of determining the appropriate remedies to be awarded. Thus, a defendant who subjectively knew the true facts ought not to be able to rely on a subsequent honest use to prevent an injunction or an account of profits from being awarded; in contrast, a subjectively innocent defendant may not necessarily be enjoined but may still have to pay damages.

From the discussion above, it should be apparent that despite the hitherto accepted belief that the objective test is the appropriate measure of a duty of confidence, several issues remained with its scope and implications for the action in general as well as the specific elements. The growth of the law of confidence demonstrates the adaptability and flexibility of the common law & equity in developing a coherent body of law to deal with various situations, and the two recent cases which sparked this article illustrate some of the undoubtedly many interesting facts and issues that can still arise. For example, in the *Carflow* case, there was no confidential relationship of any kind between the plaintiff and the defendant. The issue of confidence arose solely because of the challenge to the novelty of the plaintiff's design under a different intellectual property right. This type of adaptability in the law of confidence perhaps explains why many of the underlying issues in this area, such as the juridical basis, the nature of the obligation and the question of remedies, remain live issues. It is hoped that the points raised in this article have served to highlight some of the questions that remain in this area of the law, re-opened a few potential areas of enquiry, and hopefully, suggested some possible resolutions.

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