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NECESSITY AND IMPORTANCE OF CONFIDENTIALITY CLUBS



Confidentiality clubs have become the new norm in litigation/legal proceedings across the world, be it in the field of tech-licenses, trade secrets, data protection, arbitration involving business agreements, etc.

“ In today’s world of globalization, where competition is at its peak, the organizations may not be inclined to disclose trade secrets/confidential agreements or its details, it had entered with different parties lest may cause serious prejudice to such parties because of competition involved.

A trade secrets may make or break a company hence need to be protected. Once such disclosure is made or is misused by a competitor no order of the Court can save the company from loss or could retrieve it to its original position.”

The above stated observation¹ made by the Delhi High Court pithily describes the importance of protecting commercially sensitive information in today’s day and age. Disclosure of such



information to a competitor could cause a deleterious effect on the business of the disclosing party and thus, to ensure that none of the parties are in any manner prejudiced and no one can steal a march over the other, the courts have formulated the concept of confidentiality clubs to protect the commercially sensitive information of a business entity.



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In fact, with global expansion of businesses, such practices have been adopted by courts world over as breach of confidentiality will have adverse implications for a party and its operations in various jurisdictions. As a result, confidentiality clubs have become the new norm in litigation/legal proceedings across the world, be it in the field of tech-licenses, trade secrets, data protection, arbitration involving business agreements, etc.

While deciding matters which involve access to confidential information of a contesting party, courts in India have always endeavored to strike a balance between the principle of open justice and protection of commercial and business sensitive information of a party. The general rule of recording evidence is that each party should have access to evidence, documents and information presented to the court, however, courts have time and again held that where a party can demonstrate that there are good grounds for limiting the right of inspection on the grounds of confidentiality, then access to confidential documents can always be denied.

Confidentiality clubs – meaning and purpose

A confidentiality club, as the name suggests, consists of a group of people having access to confidential information and data



**Confidentiality clubs
are needed for the
hour, in view of high
stakes involving a
company's confidential
information, and this
fact is increasingly being
recognized by courts
world over.**

to the exclusion of others. It is a tool used by courts which sets up a club of usually advocates and external experts who have access to the confidential documents of a party which requests constitution of such a club. Upon establishment of a confidentiality club, the information and documents disclosed therein are accessible exclusively by the duly named and identified members of the club, upon their undertaking to maintain the confidentiality of the documents and/or information shared by the disclosing party. Constituting confidentiality clubs is vastly popular in patent and trade secret disputes globally, and has found recent footing in Indian litigation as well, especially in patent infringement cases.

The members of the club are specified external counsel and technical experts, along with advocates representing the parties. However, no person who is a party to the dispute or is in the employment of the parties or is its agent can be a member of the confidentiality club. Each member of the club is bound by the confidentiality orders passed by the court. The documents/information for which request has been made to set up the confidentiality club is exclusively available only to the members of the club and no third person. Further, the parties are not allowed to make copies or disclose the contents of the said confidential documents to anyone else. However, the lawyers and external experts based upon their analysis of the confidential documents provide guidance, advise and support to their clients, in order to ensure that the interest of the opposing party is not compromised in any manner whatsoever. Moreover, all such documents are accessed and analyzed by Courts, which further ensures that no prejudice is caused to either of the party and justice is served.

Provisions pertaining to confidentiality club

- **Patents Act, 1970:**

The Patents Act, 1970 does not contain any express provision which caters to the constitution of confidentiality clubs. However, the statutory recognition of maintaining confidentiality is provided under sub-section 3 of Section 103

of the Patent Act, which contemplates a situation where the disclosure of any document regarding the invention may be made confidentially only to an advocate or to an independent expert mutually agreed upon. Section 103 of the Patents Act states as under:

“Section 103. Reference to High Court of disputes as to use for purposes of Government. –

...

(3) If in such proceedings as aforesaid any question arises whether an invention has been recorded, tested or tried as is mentioned in section 100, and the disclosure of any document regarding the invention, or of any evidence of the test or trial thereof, would, in the opinion of the Central Government, be prejudicial to the public interest, the disclosure may be made confidentially to the advocate of the other party or to an independent expert mutually agreed upon.”

- **Delhi High Court (Original Side) Rules, 2018:**

In India, the Delhi High Court has been the flagbearer in developing jurisprudence on confidentiality clubs and propriety thereof. This can also be evidenced from the fact that in 2018, recognizing the legitimacy of the same, a provision² relating to confidentiality clubs was inserted in the Delhi High Court (Original Side) Rules, 2018, which govern the civil and commercial cases heard on the original side of the Court. As per Rule 17 of Chapter VII, during the course of litigation, if parties wish to rely on documents/information which is commercially or otherwise confidential, the Court has the discretion to set up a confidentiality club to allow limited access to such information. This ensures a balance between safekeeping of the confidential data of the parties and also allows the Court to meet the ends of justice, as it has access to all relevant facts of the case.

The protocol and procedure for setting up such confidentiality clubs, upon receipt of an application for the same, is provided under Annexure F of the Delhi High Court (Original Side) Rules, 2018, which has the following salient features:

- All confidential documents/information shall be filed in a sealed cover with the Registrar General of the Court;
- Not more than three advocates, who have not been in-house counsels for them, and not more than two external experts, may be nominated by each party to be part of the confidentiality club;
- Members alone have access to the information and/or documents disclosed in the confidentiality club;
- Members are allowed to inspect the documents in the presence of the Registrar General and are prohibited from making copies of the same. They are also precluded from disclosing the information and/or documents disclosed in the confidentiality club;
- During record of evidence in respect of the information and/or document disclosed in the confidentiality club, only members of the same are allowed to remain present;
- The Court may, at its discretion, allow making copies of the confidential document, after redacting the confidential information;
- Any evidence by way of affidavit relating to confidential information shared in the club would be kept in a sealed cover by the Registrar General of the Court. A copy of the

same, may still be provided to the opposite party after taking leave of the Court by redacting the confidential information contained in such affidavits.

The Rules also provide that such confidential documents would not be available for inspection after disposal of the matter, except to the party producing the same.

From the above, it is clear that the confidentiality club is constituted by a Court only upon an application being made for its constitution and only if it feels that information sought to be filed is actually confidential. Further by way of Annexure F to the Rules, 2018, it is clear that guidelines have been put in place to safeguard the confidential documents/information of the disclosing party. Such procedure has been specifically adopted to prevent the disclosure of information which, is deemed by the Court to be detrimental to the business and commercial interest of the parties. It is thus clear that constitution of a confidentiality club does not contemplate making concessions but is an exercise conducted merely for appreciating evidence and information that cannot be disclosed openly. In circumstances that warrant it, the Court also has the discretion to share the documents with the Defendant, after duly redacting the confidential information from the said documents.

Recently, the Hon'ble Delhi High Court, in *Transformative Learning Solutions Pvt. Ltd. & Anr. v. Pawajot Kaur Baweja & Ors.*³, keeping the above stated principles in mind, observed that in a list involving patent infringement or copyright infringement in the source code of a computer program, the need for the Defendant to see the confidential documents does not arise, as the opinion with respect thereto is to be given by an expert only. The Court further observed that depending on the facts and circumstances of a case, the Defendants/opposite parties can be permitted to be members of a confidentiality club, if the Court so deems fit. Such Defendants/opposite parties, then become bound by the terms of the club and cannot disclose any information shared with them as members of the club. However, in the event the Court is of the opinion that the information proposed to be confidential must be shared with the Defendant, it is still open to the Plaintiff to refuse sharing of the information with the Defendant, subject to any legal consequences thereof.

SEPs and Confidentiality Clubs

Historically, in India, the most common cases where courts have constituted confidentiality clubs are cases pertaining to infringement of Standard Essential Patents (SEPs). In a case for infringement of a SEP, in addition to the questions of infringement and validity of the patent, additional issues of essentiality of the patent (to the concerned standard) and whether the same was offered at FRAND rates to the defendant, also arise for adjudication. It is for the latter issue that the constitution of confidentiality clubs becomes important.

The most common way to determine whether the license offered by the patentee for its SEPs was FRAND or not is to analyze comparable licensing agreements entered into by the patentee with similarly placed parties. To determine the amount of royalty payable, the defendants often demand production of such comparable license agreements before Court.

A license agreement negotiated between two parties is peculiar to them and generally contains commercial and business sensitive information that each party generally does not wish to disclose to its business rivals/third parties. As an illustration, a license agreement may contain the following confidential particulars:

- i. Sales projections/details, which are not available in public domain;
- ii. Business expansion details;
- iii. Proprietary technology details, in cases of cross-licensing;
- iv. Often the licensee also offers its portfolio of patents in a cross license to the SEP holder to enable both parties to reap the maximum benefit from the agreement. Since this cross-licensing arrangement is dependent upon not only the concerned IP part of the portfolio of the licensee, but also upon the nature of business of the licensee, disclosure of the same in open court may put the party in breach of its obligations under the agreement;
- v. Technical know-how and trade secrets;
- vi. Tech-transfer details.



Thus, placing an onerous obligation to produce these licensing arrangements openly before a party, who is a competitor/business rival to both the licensor and licensee, may prove detrimental to the commercial interests of the parties involved. Since the object of producing the license agreements before Court is to determine the rate of reasonable royalty payable by a defendant to a patentee, there is no need to disclose all the above-mentioned particulars forming part of the said agreement in open court and more particularly to a defendant. Based on the aforesaid principles, the Hon'ble Delhi High Court has passed orders pertaining to constitution of confidentiality clubs in several SEP cases.

No adverse effect on the Defendant

As can be seen from the above, the purpose of setting up a confidentiality club is to ensure that the commercial secrets of a party and any other confidential information are not disclosed openly, more so to their competitors.

The argument, more often than not, set up by a defendant in

cases involving the constitution of Confidentiality Clubs is that prejudice would be caused to its interest if it is not able to verify the contents of the license agreements. The apprehension often quoted is that the defendant is coerced to agree to a rate of royalty payable without verifying on its own if that is actually the rate being paid by a similarly placed party. Discomfort is also expressed on the fact that its advocates, upon examining the documents, would bind the defendant to a particular rate of royalty, without due verification and obtaining instructions from the client. However, what is overlooked is the fact that the final rates are determined by a court after detailed analysis of facts and circumstances of a case, including comparable license agreements. Under no circumstances are defendants put to the disadvantage of making a concession before the court. The argument that the advocate is acting without instructions does not hold water, as the advocate, as a member of the club, looks at the agreements placed on record, and after consulting the external expert, advises a defendant to agree/disagree to a rate of royalty payable by it, comparable to that being received by

a patentee from similarly placed parties. The advocate need not disclose the confidential details of the license agreements. Thus, the factum of verification of royalty rates payable vis-à-vis similarly placed parties can get verified by the experts of a defendant and accordingly, a defendant is appropriately advised. At any rate, the evidence in this respect of whether a license is comparable or not is procured from an expert only and not a plaintiff or a defendant. Thus, there is no requirement to include the opposing party in the confidentiality club.

Further, what is also interesting is the fact that when such parties execute a license agreement themselves, they insist upon confidentiality clauses and refuse to produce their own existing license agreements for perusal before the courts. In the end, what needs to be understood is that the jurisprudence surrounding confidentiality clubs does not seek to favor a particular party and is simply guided by rules of discovery/production of documents and recording of evidence as also the commercial interests of the parties.

¹ *TLM Ericsson v. Xiaomi Technology*, CS(COMM) 434/2016, decision dated 24th October, 2017.

² Rule 17 in Chapter VII – inserted by way of Notification No.722/Rules/DHC dated 16.10.2018 amending the Delhi High Court (Original Side) Rules, 2018.

³ AIR 2019 Del 197

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