Reed Smith Richards Butler
禮德齊伯禮律師行

Employment Law Alert - July 2011

Welcome to our July 2011 edition of the Employment Law Alert, in which we consider several recent employment law developments in Hong Kong covering a wide range of regular issues for human resources practitioners and in-house lawyers.

Springboard Injunction - Protecting your Business

During an employee's course of employment, an employee often has access to confidential information and trade secrets belonging to the employer, such as customer lists and data bases, product lists and other confidential know-how.

There have been cases where a former employee has taken away and used his/her former employer's confidential information or trade secrets after he/she has left the employment for future exploits such as setting up and replicating the business or for the purposes of using such confidential information or trade secrets upon joining a competitor.

This leaves the former employer in a vulnerable position and it is therefore important for the former employer to take effective steps to protect its business. In order to protect the business, an employer should enter into a contract of employment with each of its employees containing both:-

i. a valid and enforceable confidentiality clause clearly defining the confidential information it seeks to protect; and

ii. valid and enforceable restrictive covenants to restrict an employee from competing against his/her employer and soliciting its employees and customers.

A discussion regarding the enforceability of restrictive covenants will be covered in our next seminar series (see page 5 for seminar details). However, it should be noted that restrictive covenants should go no further than necessary to protect the legitimate interests of the business of the employer and should be reasonable in all the circumstances of the business of the employer.

In the event that a former employee breaches his/her confidentiality obligations or his/her post-termination restrictions, a former employer may commence legal proceedings against the former employee for breach of contract and claim damages. However, this may not be an adequate remedy if a former employer wants to stop the former employee from continuing to use the confidential information or trade secrets to further his/her own endeavours. A classic example would be a former employee taking away the client list belonging to the former employer and successfully soliciting and engaging in business with those clients. The former employer's objective would be to stop the former employee from carrying on business with those clients. However, the commencement of legal proceedings in the usual way would not meet this objective as it may take a considerable amount of time before the case

proceeds to trial and a claim for damages may only entitle the employer to monetary compensation. In such a scenario, what may be more important to the employer is to prevent that employee from dealing with those clients and to stop the employee from using the employer's confidential information and trade secrets.

Springboard Relief

An alternative remedy is what is known as a springboard injunction. The policy underpinning this principle is to put the possessor of the confidential information under a special disability and thereby create some form of level playing field.

Traditionally, springboard injunction relief is an order granted by the Court which prevents a former employee from gaining an unfair advantage or a "*head start*" by using his/her former employer's confidential information or trade secrets in his/her new business. The Court is prepared to take away the unfair advantage or "*head start*" gained by the former employee by the misuse of confidential information or trade secrets, but no more. The Court will not put the former employer in a better position than if there had been no wrongdoing.

The relief granted depends on the facts of each case and the Court will exercise its discretion flexibly in order to provide the necessary relief. Where a former employee solicits and engages in business with clients belonging to the former employer by using the former employer's confidential information or trade secrets, the Court may make an order restraining the former employee from dealing with those clients for a certain period of time it thinks reasonable and should direct the former employee to return the misappropriated confidential information.

UBS Wealth Management (UK) Ltd and another v. Vestra Wealth LLP **[2008] EWHC 1974 (QB)**

In Hong Kong, springboard injunctive relief is probably confined to cases in relation to misuse of confidential information and trade secrets. However, the springboard doctrine has evolved and was expanded in the UK case of UBS Wealth Management (UK) Ltd ("***UBS***") against Vestra Wealth LLP ("***Vestra***")

Facts

UBS, a wealth management business giving advice to clients on their investments of their assets had employed Mr. Scott after buying out a stockbroking firm which was managed by him. Some time after the takeover, Mr. Scott resigned from UBS and founded a new company, Vestra and took with him 75 UBS employees.

UBS claimed that that Mr. Scott had acted unlawfully by soliciting both its employees and clients. UBS sought an interim springboard injunction to prevent Vestra and other defendants from taking unfair advantage of alleged breaches of contract of former UBS staff.

The Court had to consider whether the remedy of a springboard injunction was confined to the misuse of confidential information and trade secrets, or whether it could also be used in cases where there was no such issue, but instead, simply a breach of contract.

Decision

The Court granted interim springboard relief to UBS until the trial preventing the former employees from further defecting staff or clients of UBS with whom they had recent dealings. The Court found that such relief did not only apply to cases in relation to misuse of confidential information or trade secrets by employees, but that it also applied to prevent any future, or serious economic loss to a former employer caused by former employees taking an unfair advantage of any serious breaches of their contracts of employment. It remains to be seen as to whether Hong Kong will adopt similar principles.

Employers should:

- regularly review their employment contracts and policies to ensure that the employment contracts contain sufficient protection;

- review the restrictive covenants in their employment contracts to ensure that such clauses are reasonable and go no further than protecting the legitimate interests of the business (otherwise they are unlikely to be enforceable);

- review the confidentiality clause in their employment contracts to ensure that "*confidential information*" is clearly defined and regularly updated as the business evolves; and

- remind employees of the seriousness consequences of misuse of confidential information and trade secrets.

Employers' duty of care when referring to former employees in communications with third parties

The recent English case of *McRobert McKie v Swindon College* [2011] EWHC 469 demonstrates that an employer owes a duty of care to a former employee when referring to him/her in communications with a third party. Damages will be awarded to the former employee if negligent misstatement is made by the employer.

Facts

The University of Bath hired Mr. Robert McKie **("McKie")** and as part of his job duties, he was required to work closely with a number of further education colleges, one of which included Swindon College, McKie's former employer nearly six years beforehand.

Shortly after McKie started his employment at the University of Bath, he was summarily dismissed as a result of an email sent to the University of Bath from Swindon College. The email states:

"Further to our telephone conversation I can confirm to you that we would be unable to accept Rob McKie on our premises or delivering to our students. The reason for this is that we had very real safeguarding concerns for our students and there were serious staff relationship problems during his employment at this College. No formal action was taken against Mr McKie because he had left our employment before this was instigated. I understand that similar issues arose at the City of Bath College."

The Law

In *Spring v Guardian Assurance* [1994] 2 A.C. 296, the House of Lords held that an employer owes an employee a duty of care when providing a personal reference to a third party. However, since the present case was not a reference situation, the Court could not apply the decision in *Spring v Guardian Assurance* [1994] 2 A.C. 296.

In determining whether a duty of care is owed, the Court acknowledged that the law should develop novel categories of negligence incrementally and by analogy with established categories. The Court applied the three stage test in *Caparo Industries Plc v Dickman & Ors* [1990] 2 AC 605 which provides that:-

"*in addition to the foreseeability of damage, necessary ingredients in any situation giving rise to a duty of care are that there should exist between the party owing the duty and the party to whom it is owed a relationship characterised by the law as one of "proximity" or "neighbourhood" and that the situation should be one in which the court considers it fair, just and reasonable that the law should impose a duty of a given scope upon the one party for the benefit of the other.*"

Decision

The Court held that the damage suffered by McKie was eminently foreseeable and that there was a proximate relationship between the parties. In particular, the Court held that although one could not imply continuing contractual duties from nearly six years ago, the fact that Swindon College knew with whom they were dealing, purported to rely upon historic evidence as to their dealings with McKie and chose to communicate that information to a third party brought about the necessary degree of proximity. The Court also held that it was fair, just and reasonable to impose a duty of care on Swindon College. The Court therefore held in favour of McKie on the question of liability.

Practical Implications

Employers should be aware of their communications with third parties when referring to former employees, in particular, employers should ensure that:-

1. proper employment records are kept and that the facts stated in those employment records are true and accurate, and are carefully documented;

2. staff members are aware of the risk of referring to former employees when communicating with third parties and that if they make any references to former employees, they should make it clear that they do not represent the views of the employer; and

3. a system is put in place whereby all communications with third parties with references to former employees are checked to ensure that they are true and accurate.

SEMINARS

In addition to our Alert, we will be holding two complimentary lunchtime seminars. The contents of the two seminars will be the same and the following issues will be covered:-

1) Termination of Employment in Hong Kong; and
2) Restrictive Covenants

DATES

19 August 2011

26 August 2011

TIME

12:45 p.m. – 1:00 p.m.	Registration / Light Lunch
1:00 p.m. – 2:00 p.m.	Presentation

LOCATION

20th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong

CPD

1 CPD point will be accredited for attendance.

For further information or to register to attend one of our seminars, please e-mail Catherine Leung at ckyleung@rsrbhk.com. We look forward to meeting you. Due to limited space, the seminars will be restricted to 2 representatives per company.

REEDSMITH RICHARDS BUTLER

Disclaimer: The information contained in this article is intended to be a general guide only and is not intended to provide legal advice

Kevin Bowers

Partner

T: +852 2507 9803

E: kbowers@rsrbhk.com

Catherine Leung

Associate

T: +852 2507 9833

E: ckyleung@rsrbhk.com

Joanne Mok

Associate

T: +852 2507 9819

E: jmok@rsrbhk.com