

Trade Secrets in the Financial Services Industry

Who else would you trust your trade secrets to?





In today's age of global competition and mobile workforces, movement of key employees between financial institutions is commonplace. Indeed, announcements and tombstones trumpeting the switch of high-level financial brokers and teams to a new financial institution can be found every day in mainstream financial media publications.

Unfortunately, it is not uncommon for financial specialists and their teams to take confidential and proprietary information (client lists and preferences, portfolio plans and information, marketing plans, rate and pricing information, etc.) when leaving their former firm, particularly given today's technological advances that make theft easier, faster, and more difficult to detect. Consequently, mainstream financial media publications are also replete with stories of financial specialists and their teams stealing confidential and proprietary information for their former firm in order to illegally transfer business and clients.

As one of the leading labor and employment law firms in the United States, Seyfarth Shaw LLP understands the risks and challenges financial institutions face with respect to protecting confidential information and client relationships. Consequently, Seyfarth has spent the last 60 years working with financial institutions on ways to protect their intellectual capital and client relationships. In doing so, Seyfarth's breadth, depth, and knowledge of the labor and employment issues facing financial institutions has resulted in:

- *Chambers USA: America's Leading Lawyers for Business* identifying Seyfarth as one of the leading law groups in the country with legal talent "that ensures clients have access to experts in all areas of employment and employment benefits advice."
- *The International Who's Who* of business lawyers honoring Seyfarth as the global labor and employment department of the year based upon Seyfarth's "management, labor and employment expertise."
- *The American Lawyer* naming Seyfarth one of two finalists for Labor and Employment Litigation Law practice of the year.
- Recognition in *The BTI Litigation Outlook: Changes, Trends and Opportunities for Law Firms as a Complex Employment Litigation and Everyday Employment Litigation "Honor Roll" Standout*.
- *Best Lawyers in America* ranking Seyfarth as having the "Best Lawyers in America" for Banking, Finance and Securities Law, in addition to Labor & Employment and Trade Secrets law.
- *The Legal 500* awarding a "Top Tier Ranking" to Seyfarth's Trade Secrets and Labor & Employment Groups.

Given its strong commitment to the financial services industry, Seyfarth monitors the trends, cases and legal actions concerning the theft of confidential and proprietary information, and violations of restrictive covenants. As a result, Seyfarth understands that the theft of key client lists; the disclosure of confidential client information; the illegal solicitation of brokers and key employees; the misappropriation of strategic services, product offerings, relationships, and plans; and the violation of restrictive covenants can cripple a financial institution's ability to meet client expectations. Understanding these complex issues and a financial institution's needs, Seyfarth created the Trade Secrets, Computer Fraud, and Non-Competes Group to work with financial institutions in protecting their trade secrets, client relationships, and competitive advantage.

The Trade Secrets, Computer Fraud, and Non-Competes Group

Seyfarth Shaw's national Trade Secrets, Computer Fraud, and Non-Competes Group consists of deeply experienced attorneys whose practice focuses on protecting and preventing the loss of trade secrets and confidential information. Its members, some of whom are former prosecutors, provide unique insight and experience in investigation and litigation, and are well versed in trade secrets law, computer forensic tactics, and eDiscovery issues. This Group understands that a financial institution's vitality is often dependent on its ability to develop and retain trade secrets and confidential information and to protect the disclosure of this information to its competitors. Our technical and legal knowledge allows us to assist financial institutions with protecting their trade secrets through both the design and implementation of trade secret protection programs, as well as the prosecution and defense of trade secrets when necessary.

Trade Secrets Protection

By understanding the risks today's financial institutions face, the Trade Secrets, Computer Fraud, and Non-Competes Group works closely with financial institutions to understand their business needs, customize an appropriate protection plan for trade secrets and confidential information, and implement mechanisms and procedures designed to keep coveted secrets safe. These programs and procedures can be structured for regular day-to-day operations or for special circumstances, such as a merger or acquisition.

Audit, Documentation and Protection Programs

The first step in protecting assets is to know what they are and to understand how they are used. Our Group makes a point of thoroughly understanding a financial institution's business structure and is careful and thorough when pinpointing trade secrets and their appropriate protection. Seyfarth attorneys from across the nation have worked together to conduct audits, design modules, and implement programs designed to protect confidential and proprietary information. Such audits, modules, and programs include:

- Identifying confidential and proprietary information customarily considered trade secrets under the law, as well as proprietary information that may constitute trade secrets in the future.

- Analyzing the effectiveness of existing restrictive covenants, covenants not to compete, intellectual property assignments, and confidentiality agreements.
- Assessing employee access to trade secrets and designing modules that ensure trade secrets are accessible only to the employees who need access to the trade secrets.
- Reviewing methods for preserving the secrecy and security of confidential and proprietary information, which can include assessing computer access and information retrieval capability.
- Drafting standards and procedures related to prohibitions on disclosing trade secrets and incorporating these standards into pre-existing company policies.
- Drafting valid and enforceable restrictive covenants, covenants not to compete, intellectual property assignments, and confidentiality agreements.
- Designing and implementing training programs for high-level executives who are responsible for overseeing trade secret compliance.
- Educating employees through seminars and other programs about the importance of protecting trade secrets and the ramifications that may result from improper disclosure.
- Establishing channels and processes through which employees can report violations of trade secret policies and designing mechanisms that investigate alleged trade secret theft.
- Instituting new security measures, including policies and workforce training, to prevent wrongful appropriation or disclosure.

Employment Issues

The theft of key client information, pricing information, and financial strategies by an employee leaving to join a competitor is perhaps the greatest challenge a financial institution faces with respect to the retention of trade secrets and confidential information. Since new hires and terminations in the financial services industry are everyday occurrences, and these terminations can potentially jeopardize valuable trade secrets, we assist our financial institution clients not only with conducting due diligence on potential hires, but also with the design and, when necessary, enforcement of appropriate restrictive covenants, non-compete agreements, intellectual property assignment agreements, and/or

confidentiality agreements. We work closely with in-house counsel and human resource professionals to design and implement procedures that:

- Act as due diligence checks on prospective employees to determine whether they are bound by agreements from other financial institutions that would prevent or hinder the potential hire from performing his new job.
- Determine whether a new hire possesses trade secrets of the former employer that would preclude hiring the potential employee and/or limit the hire's ability to perform his new job.
- Ensure new hires sign appropriate post-employment restrictions.
- Educate new employees about protecting confidential information and trade secrets.
- Create uniform exit procedures for departing employees that remind the departing employees of their post-employment obligations and give assurances that all confidential company information is returned and kept confidential.

AGGRESSIVE PROTECTION OF CONFIDENTIAL CLIENT LISTS

A group of investment bankers left their firm and went to work for a competing financial institution. In doing so, the bankers took confidential client lists and information that included some of their former employer's most sophisticated and important clients.

- ▶ Following our thorough investigation of the theft, which included gathering and assessing all relevant information and documentation, we prosecuted the former employees before FINRA.

Result: We successfully represented our client's interest at the Arbitration, and the Arbitration panel awarded full damages to our client.

Trade Secrets Prosecution

When a financial institution's trade secrets and/or confidential information are stolen or placed in jeopardy or if its relationships or workforce are at risk, the Trade Secrets, Computer Fraud, and Non-Competes Group acts quickly to protect the institution's interests. We understand that in today's fast-paced environment, proprietary information can be copied and electronically disseminated within minutes and relationships and a workforce can be lost in mere hours.

Thus, we help our clients respond quickly and decisively in matters involving the potential theft of trade secrets, disclosure of confidential information, customer or employee raiding, and violations of non-compete covenants. Our experience in this area allows us to thoroughly and efficiently assess the situation and to respond swiftly and appropriately. This experience, combined with our technical and legal knowledge, can save clients precious time and money when responding to a trade secrets issue. Our experience and knowledge also allow us to, when necessary, aggressively prosecute individuals and companies who improperly acquire our clients' trade secrets or confidential

information, as well as former employees who violate their employment agreements. To help our clients in these difficult situations, we:

- Investigate breaches of confidentiality agreements, breaches of restrictive covenants, violations of the Defend Trade Secrets Act and Uniform Trade Secrets Act, violations of the Computer Fraud and Abuse Act, violations of the Economic Espionage Act, and other improper actions that threaten intellectual capital.
- Evaluate your options, and, when necessary, obtain temporary restraining orders, preliminary injunctions, and permanent injunctions so that confidential information, such as a client list or strategic plan, is not disclosed to a competitor.
- Implement forensic detection and discovery mechanisms to control and preserve damage resulting from the theft of confidential information.

NON-COMPETE LITIGATION

A large financial services firm wanted to hire an FX trader from a competitor. The trader had a six-month worldwide non-compete agreement in place.

- ▶ After careful review of the non-compete agreement, we determined that the agreement was likely invalid. We therefore commenced a declaratory judgment action on behalf of the trader seeking to declare the non-compete invalid while the trader worked for the competing company. This unusual offensive maneuver was designed to insulate our client from a tortious interference claim.

Result: The presiding judge indicated that the provision "looked" unenforceable, and the case settled in a manner that was favorable to our client and the trader.

ALLEGATIONS OF LOAN FLIPPING

A large mortgage banker was accused of trade secret misappropriation by a competitor. The company was accused of hiring a competitor's loan agent and having that loan agent flip loans to his new employer.

- ▶ We leveraged plaintiff's pleading deficiencies regarding its trade secret claim and asserted a cross-complaint against plaintiff for the same alleged wrongful conduct.

Result: We helped our client obtain a favorable settlement of the dispute through a successful mediation.

Using SeyfarthLean to Analyze and Improve the Process for Prosecuting a Trade Secrets Claim

SeyfarthLean is the use of Lean Six Sigma processes and a myriad of tools to plan, organize and manage resources. The goal of SeyfarthLean is to reduce certain inefficiencies that can push legal costs higher, while integrating knowledge management and technology to develop best practices for delivering legal services. Applying SeyfarthLean to our Trade Secrets practice, as well as every practice throughout the firm, helps drive down the costs of legal services by identifying and eliminating inefficiencies and delivering quality work that decreases client costs.

Using SeyfarthLean, the Trade Secrets Group analyzed the process for handling trade secrets and non-compete litigation matters from their inception, either through a civil action or a Financial Industry Regulatory Authority (“FINRA”) or National Futures Association (“NFA”) claim, to resolution through arbitration. The goal of this process was to create an efficient delivery of services, lower costs, budget predictability, and high-quality legal work.

Part of this analysis consisted of developing a process map to create a best practices model for trade secrets and non-compete litigation matters. The process map lays out, step by step, the process for handling these types of cases, and each stage is broken down into individual tasks. Using historical

DEVELOPMENT OF CLIENT PROTECTION PROGRAM

A multibillion dollar financial services company’s confidentiality and client protection agreements were outdated. The agreements did not comply with changes in various state laws concerning the enforcement of restrictive covenants and protection of confidential information or with changes in industry association guidelines. As a result, the company’s trade secrets, client information, relationships, and marketing strategies were at significant risk.

- ▶ We met with senior management and key company personnel to identify all pertinent trade secrets and confidential information, and then we implemented appropriate safeguards and protocols (including new restrictive covenants that would be enforced by both courts and industry organizations) to protect the trade secrets and confidential information from being disclosed to a competitor. We also conducted training sessions with key employees that covered how to handle and protect trade secrets and confidential information.

Result: The company now has the necessary programs, procedures, and protocols in place to protect its trade secrets and confidential information from inappropriate and/or illegal disclosure.

PROSECUTION OF MISAPPROPRIATION OF CONFIDENTIAL INFORMATION

A hedge fund client learned its clearing broker was improperly using its confidential information.

- ▶ Upon identifying the specific individuals at the clearing firm that misappropriated the information, we prosecuted the claim before the NFA.

Result: We successfully settled the matter for a seven-figure sum prior to hearing.

case data for trade secrets and non-compete cases, we examined timekeeper entries and estimated the time taken to perform the tasks identified in the process map. We then critiqued that process and identified ways we could be more efficient and cost effective. Areas that were driving the wrong results—inefficiencies and higher costs—were re-engineered, and a new process was created.

Moreover, the process map is a dynamic, electronic document that can evolve with any client's strategy. Embedded in the maps are samples of motions, checklists, commonly used case reference numbers, and case handling protocols—tools that will help make our Trade Secrets team more knowledgeable about your business and more efficient in handling your cases.

The process map also includes points for discussions with you regarding key milestones throughout the various stages of the process, as well as status updates. Based upon Seyfarth's industry experience and its SeyfarthLean analysis, Seyfarth's Trade Secrets Group can tailor the prosecution or defense of a trade secrets claim to a client's specific needs and in a manner that delivers efficiency and value. ■

PURSUIT OF IMPROPER SOLICITATION

A group of investment bankers used confidential client lists, client information, and rates to solicit clients of their former employer.

- ▶ After interviewing key employees, speaking with crucial clients, and using forensic evidence techniques to obtain all necessary information and documents, we filed suit in Federal court against the former employees. We also filed a simultaneous action with FINRA and prosecuted the case in FINRA after obtaining expedited discovery.

Result: The matter was successfully settled after we presented our client's case to the Arbitration panel.

CLIENT BASE SOLICITATION

A large national commercial bank had a group of employees leave to form a competing company. The formation of a competing company was a direct violation of an existing non-compete agreement. In addition, the former employees were actively soliciting a significant volume of customers from the bank's client base.

- ▶ Our team quickly stepped in to assess all aspects of the contract breach and immediately filed a motion for preliminary injunction and temporary restraining order. We were granted a motion for expedited discovery and promptly commenced the depositions of key employees in order to establish competitive behavior.

Result: We helped our client avoid protracted litigation by negotiating a settlement, the terms of which were very favorable to our client and included a seven-figure payment and a number of other considerations.

About Seyfarth Shaw

Seyfarth Shaw was founded in 1945 by three lawyers and has grown to more than 850 attorneys across fourteen offices. We handle issues for our clients in all key areas including commercial litigation, construction, corporate and finance, employee benefits, environmental, government contracts, intellectual property, labor and employment, litigation, real estate, securities litigation, trade secrets, trusts and estates, and workouts and bankruptcy, among others.

Our success is the result of a constant, unrelenting focus on the needs of our clients. Our commitment to excellence and our belief in the strength of a team-based approach to the delivery of our services offers an atmosphere of creative and innovative thinking.

Our clients are our partners in business and we are committed to listening to their needs and to aligning the skills and abilities of our people to respond to those needs. Our clients range from *Fortune* 100 to midsize companies, and include publicly traded and privately held companies. We represent clients of all sizes across all industries and we are diligent in providing the same level of commitment to each client.



- | | | |
|------------------|--------------------|-------------------------|
| Atlanta | London | San Francisco |
| Boston | Los Angeles | Shanghai |
| Chicago | Melbourne | Sydney |
| Hong Kong | New York | Washington, D.C. |
| Houston | Sacramento | |

"Seyfarth Shaw" refers to Seyfarth Shaw LLP. Our London office operates as Seyfarth Shaw (UK) LLP, an affiliate of Seyfarth Shaw LLP. Seyfarth Shaw (UK) LLP is a limited liability partnership established under the laws of the State of Delaware, USA and is authorised and regulated by the Solicitors Regulation Authority with registered number 556927. Legal services provided by our Australian practice are provided by the Australian legal practitioner partners and employees of Seyfarth Shaw Australia, an Australian partnership. Our Hong Kong office "Seyfarth Shaw," a registered foreign law firm, is a Hong Kong sole proprietorship and is legally distinct and independent from Seyfarth Shaw LLP, an Illinois limited liability partnership, and its other offices.