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Employment **adviser** newsletter

Protecting intangible assets - A Ukrainian perspective



The difficulties of protecting intangible assets are a growing concern for many businesses. Threats vary widely and include the leaking of confidential information (trade secrets) and the illegal use of intellectual property (trade marks), including the registration of site domain names containing the company's trademarks and the copying of elements of the appearance of websites.

A unifying feature of these threats is that frequently it is current or former employees who are responsible for these acts. The question then arises as to the mechanisms available to the employer to protect its intangible assets, and what liability, if any, attaches to the employee?

Some businesses (especially those with foreign capital) seek to prevent information leaks and illegal use of intellectual property by including post termination restrictions on an employee's right to work, referred to as '*non-competition reservations*', in their employment contracts. These clauses, which seek to prevent the employee from being involved with clients or competitors for a period of time following the end of their employment, conflict with the right to work and freedom of entrepreneurial activity guaranteed by Ukrainian legislation and so are generally unenforceable. Consequently, whilst they may have a deterrent effect, they are not a wholly effective mechanism.

Alternative options available to an employer include the following:

i. Disciplinary action

Clearly where the individual remains employed, disciplinary action can be taken if theft or abuse of intangible assets is discovered. However, in order to take action (which would be on the basis of a failure to comply with an employee's role responsibilities) the acts must be prohibited by the business' policies or the employment contract.

ii. Legal action based on Administrative Liability

Some acts may amount to unfair competition under the Ukrainian Administrative Offences Code, including for example:

- illegal copying or imitation of the form, packaging or appearance of a product including direct reconstruction or unauthorised use of a name;
- deliberate distribution of false or incorrect information that may damage business reputation or property interests;
- receiving, using or disclosing a trade secret or confidential information with the aim of damaging business reputation or property interests.

In order to be able to impose liability on an employee it is necessary to prove violation and deliberate intent on the part of the employee. The timeframe for imposing administrative liability for the aforementioned violations is 3 months after the violations are discovered.

iii. Legal action based on Criminal Liability

The collection, use and disclosure of a commercial secret without the approval of the owner is a criminal offence under the Ukrainian Criminal Code. An employer could therefore take the step of reporting the act to the local militia office where there offence occurred.

The necessary elements of an action of this type are:

- the collection or disclosure of a 'trade secret' (which has a specific legal definition);
- mercenary reasons for collecting the information; and
- direct financial loss to the employer as a result of the collection/disclosure.

The Ukrainian Criminal Code also stipulates that illegal use of a trademark or brand name for goods and services will, if it causes significant material damage, attract criminal liability.

iv. Legal action based on Civil Material Liability.

Ukrainian legislation sets out specifications which attract 'material liability'.

Where a current employee engages in actions which cause damage to the employer, the employer can require the reimbursement of the direct damage. This claim must be brought within 1 year of discovery of the damage caused by the employee, and penalties are limited to a monthly average earning.

Where damage is discovered after the employee has left employment, the former employee can be required to pay damages in full.

Unfortunately for businesses, pursuing reimbursement of damage is problematic due to the complexity of obtaining evidence and the difficulties of quantifying the damage caused.

Conclusion

Currently, the Ukrainian law does not have effective mechanisms for protecting intangible assets. The most effective protection in relation to employee actions remain a competent HR policy, a reliable confidential information protection system requiring entity approval and careful management of the conclusion of employment contracts.

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