

# Index licensing: German Supreme Court ruling in the 'DAX' case between DB AG and Commerzbank

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## What's happened?

Earlier this year the German Federal Supreme Court ruled on a case between Deutsche Börse (the operator of the Frankfurt Stock Exchange) and Commerzbank in relation to the latter's use of two Deutsche Börse registered trade marks, "DAX" and "DivDAX". The Supreme Court has now published the full text of its decision and this briefing summarises that decision. A full English translation is attached.

## Background

In the world of index intellectual property, trade mark law questions around brand use and licensability questions around index data – the web of contract, copyright, database right and confidentiality – have long been issues of debate. With index provision now at least a \$1bn business globally, the 'DAX' case is of interest to both index providers operating in Europe and their customers. As the first reported index trade mark case in Europe, it will also provide context for North American and APAC indexers and users.

## Trade mark protection

All trade mark systems recognise the need to limit the protection a registered trade mark gives its proprietor. The ownership of a trade mark does not grant an absolute monopoly in relation to that mark, but a right to prevent unauthorised use in certain circumstances. A trade mark owner will generally not be able to prevent a third party using its marks in a "descriptive sense". This principle is enshrined in the EU Trademark Directive (enacted into all EU Member States), which states that "*a trade mark shall not entitle the proprietor to prohibit a third party from using in the course of trade...indications concerning the kind, quality, quantity, intended purpose, value...or other characteristics of goods or services*". However this restriction comes with a significant proviso, namely: "*provided he uses them in accordance with honest practices in industrial or commercial matters.*" It was this proviso (or, more accurately its equivalent under German trade mark law<sup>2</sup>) that was considered by the Federal Supreme Court in the DAX case.

## Facts

Deutsche Börse AG ("DB") calculates and publishes the German share index DAX which is based on the market prices of the 30 largest and fastest-selling German public companies. In addition, since 2005, DB has also published a share index referred to as DivDAX that contains the 15 companies listed on the DAX with the highest dividend yield. DB owns registered trade marks for both DAX and DivDAX in relation to the relevant index services.

Commerzbank ("CB") issues and deals in securities, including option warrants that were linked to the DAX value. Material issued by CB relating to these instruments contained the phrase "related to DAX®"<sup>3</sup> and stated that "DAX® is a registered trademark of [DB]". In addition, CB separately issued option warrants linked to the DivDAX value. CB described those warrants as "Unlimited DivDAX® Index Certificate"<sup>4</sup>.

In 2006 CB terminated its licence agreement with DB following a price rise and applied to the German court for a declaration that it could use DB AG's indices as 'underlyings'<sup>5</sup> and refer to the index names without the need for DB's consent. DB opposed that application, seeking a ruling that the use of its marks constituted an infringement.

At first instance, the Frankfurt District Court (26.07.06) found in favour of DB, stating that CB 'imitated' and unfairly exploited DB's reputation in both the indices where it linked the value of warrants to the index's value. CB appealed and the Frankfurt Appeal Court (13.02.07) dismissed the appeal in relation to "DivDAX" but allowed it for "DAX". Both parties appealed to the Supreme Court.

## Decision of the Supreme Court

The Federal Supreme Court considered CB's use of DAX and DivDAX separately, concluding:

**In relation to "DAX":** The Court of Appeal had ruled correctly that there has been no infringement in using the mark "DAX" in relation to the securities issued by CB. The court commented that the Trademark Directive (Article 6) and German Trademark Law

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<sup>3</sup>"bezogen auf den DAX®"

<sup>4</sup>"Unlimited DivDAX® Indexzertifikat"

<sup>5</sup> 'underlying' means that CB's financial instruments (warrants, option, certificates, etc) are linked to the rate of the DAX or DivDAX

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<sup>1</sup> Article 6(1)(b), Council Directive 89/104/EEC

<sup>2</sup> Section 23 Trademark Law

(section 23) serve to “reconcile the interests of trade mark protection and free movement of goods/services in such a way that the trademark right can play its role as an essential element of a system where there is genuine competition”. What was critical to the Supreme Court was that the use by CB of the DAX mark was “restricted to the extent that is required to use the reference value” and “the Court of Appeal has established that the reference to the share index DAX is factual and informative in the form appertaining to the case without giving the impression that the security is issued by [DB] of that trade relations exist between the parties”. Based on these principles, the use remained within the limits of “common decency”.

**In relation to “DivDAX”:** The Court of Appeal was also correct in finding that the way CB was using the DivDAX mark was an infringement as it “offends against common decency within the meaning of Section 23 No. 2 Trademark Law. [CB] unfairly violates the legitimate interests of [DB] as the registered trademark owner if it uses the logo protected by trademark law as a designation of origin for its security.”

#### Comparable U.S. Decisions

The Supreme Court decision follows a line of cases in the United States beginning in the 1980s. In Standard & Poor’s Corp. v. Commodity Exch., Inc. (“COMEX”), (538 F. Supp. 1063 (S.D.N.Y. 1982), a federal court enjoined COMEX from selling futures contracts based on S&P’s name and its S&P 500 index because selling such contracts would “improperly . . . misappropriate the property of [S&P].”<sup>6</sup> However, in Golden Nugget, Inc. v. American Stock Exchange, Inc., 828 F.2d 586 (9<sup>th</sup> Cir. 1987), the Ninth Circuit rejected a corporation’s misappropriation claim against the American Stock Exchange for trading options on its stock without permission, reasoning that, once the corporation sold its shares to the public, it had given up “any proprietary rights in the shares that would allow it to control the manner or means of resale.”<sup>7</sup> In a more recent ruling, Dow Jones & Co. v. Int’l Sec. Exch., Inc., 451 S.3d 295 (2d Cir. 2006), the Second Circuit rejected an index provider’s intellectual property claim with respect to its ability to restrict others from listing options based upon index tracking ETFs.

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<sup>6</sup> See also Board of Trade v. Dow Jones & Co., 456 N.E.2d 84 (Ill.1983) (finding misappropriation would result from proposed offering of commodities futures contract utilizing Dow Jones Industrial Average).

<sup>7</sup> See also NASDAQ Stock Market, Inc. v. Archipelago Holdings, LLC, (336 F. Supp. 2d 294 (S.D.N.Y. 2004) (“Once an index creator or its licensee has created a fund of securities tracking the index and has sold shares in the fund to the public, those who engage in secondary trading of the fund’s shares, or provide a market place for such trading do not infringe a property interest of the creator of the index and the fund.”).

#### Points to note

Although decided principally by reference to German trade mark legislation<sup>8</sup>, this decision follows the same reasoning that would be applied by other European courts (based on the TM Directive) and broadly follows the principles applied in comparable US decisions as described above. Users of Index trade marks need to be careful that any use, without licence, is in a legitimate, descriptive sense and in accordance with that country’s version of “honest practices”. As this decision highlights, using an Index’s marks within a third party’s product name is more likely to be something the mark owner can restrain.

The Supreme Court has drawn a fine line as to uses of index trade marks tolerated under trade mark law. It is also worth noting that the Court applied the principles used to established “honest practice” (or “gute Sitten” in German legal terminology) also in relation to deciding whether the use constituted an unfair business practice under Unfair Competition Law.



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<sup>8</sup> German Law on Unfair Competition was held not to limit the scope of section 23 Trademark Law, while Copyright Law was not considered at all for procedural reasons.