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LEGAL ANALYSIS NOW STANDARD

**VALEA**

**Jesper Sellin** from **Valea** discusses methods of brand valuation and the impact of the recent ISO standard calling for essential legal analysis

## Legal analysis now standard

**W**ith the purpose of raising the quality of brand valuations and making them more uniform, expert groups from over 20 countries worked from 2007 until the autumn of 2010 to bring forward an international ISO standard for brand valuation. The standard was published on September 15 2010 (ISO 10668:2010).

One of the main contributions of the standard is that it introduces the requirement that a proper brand valuation must contain not only analysis of behavioural and financial aspects, but also analysis of legal factors.

### Methods of valuation

The value given to intellectual assets continues to increase, and not least the value of brands. Consequently, the valuation of brands becomes much more important and is used for many purposes, such as corporate transactions, marketing strategy, funding, litigation and licensing. There are a number of valuation methods in use today that value brands primarily from a financial or behavioural (marketing) perspective. Among the three main valuation approaches, market (which compares the valued asset to the market price), income (which bases the value on future income streams) and cost (which establishes the costs for recreating the asset), the income approach is the most commonly used for the valuation of intangible assets like brands. This is because there is rarely any comparable market data available, and because the cost method is too unrealistic and difficult to apply. Within the income approach, there are different methods for calculating the value, for example the relief of royalty method, the income split method and the price/volume premium methods. Applying any of these methods alone for a valuation is usually insufficient, since important factors that affect brand value are left out. This diminishes the reliability of the valuations and gives ground for considerable variations in valuation results.

### Legal protection

In order to create a long-term connection between a certain brand and its owner, legal protection is very helpful, and most often necessary. The essence of a brand is a trade mark, which is usually registered to the brand owner to create a legal right. However, since the standard is aimed at brands, which encompass many other expressions than the legally protectable trade mark, it is necessary for the standard to deal also with other forms of protection.

A brand entails several signs of which many are eligible for separate protection. This is the case for trade marks like names and logotypes, but also trade names, designs and various forms of expressions that fall under the copyright protected scope.

When conducting a brand valuation it is necessary to identify the scope of rights protecting the brand and the strength of those rights. Determining the property rights being valued is one of the most common valuation errors. Are there even any rights to value? A striking example where the lack of rights played a fundamental role was Volkswagen's acquisition of Rolls Royce. VW won the tough bid for Rolls Royce against BMW, but missed the fact that the single most valuable asset – the trade mark – was already owned by BMW.

Besides rights ownership issues, the rights may also be out-licensed, subject to disputes or contain other liabilities, which may have a great effect on the value for its owner. Therefore, it is surprising that diligent efforts are usually put into brand valuations when it comes to the financial analysis while the legal status of the brands is often overlooked.

### Jesper Sellin



Jesper Sellin manages Valea's legal teams in Stockholm and Linköping. He has excellent knowledge within all fields of intellectual property where he advises clients from all sectors and deals with various legal issues related to patents, trade marks, copyright, design rights and trade secrets. Jesper's background includes positions at the Swedish Patents and Registration Office and Pharmacia/Pfizer Global IP as well as own legal practice.

### Legal analysis is “essential”

The new ISO standard highlights the importance of legal analysis in brand valuation in a way that has not been seen before. Among other things, the standard states that a legal analysis under national legislation “shall be an essential element of brand valuation” (Article 6.3.2.1), and also that the valuation “shall take into account all legal parameters” affecting positively and negatively the value of the brand” (Article 6.3.3). This is very different to how brand valuations are usually performed and to other standardisation approaches dealing with intellectual property (such as the draft standard from IVSC, International Valuation Standards Council, which only mentions that legal factors must sometimes be considered).

Even though it is clear that the standard shall not give preference to any particular valuation method, it may still give some support for a reassessment of an established valuation method. For example, a respected and often quoted brand valuation company uses a 100 point system to determine brand strength. Within that model, only five points (or 5%) are dedicated to the assessment of legal strength, and only based on the level of protection. Such a model seems far too limited in cases where the legal strengths or weaknesses are considerable.

### National three-step assessment

The section of the standard dealing with the legal analysis should not come as a surprise to anyone who has been involved in a trade mark due diligence. According to the standard, Article 6.3.1, the valuation shall include: each of the legal rights that protect the brand; the legal owner of each of those legal rights; and, the legal parameters influencing negatively or positively the value of the brand.

The standard also emphasises that the assessment shall be carried out for each relevant jurisdiction, that is, most often on a national level. These paragraphs were arrived at by the international committee without much controversy.

### Debates issues within the ISO Committee

The legal section of the standard mainly contains basic requirements, which will most probably be accepted by valuation experts and stakeholders. Still, some phrasings are more likely than others to give rise to disputes and different interpretations. One such example is the clause concerning ownership, which states that the value finally determined shall only be attributable to the owner of the legal rights (Article 6.3.2.2). There were divided opinions among the ISO delegates on whether the term owner, for the purpose of the standard, shall designate the legal owner only or if the term shall also include exclusive licensees. The Swedish guidelines to the standard, which are not binding but are likely to affect the interpretation, uses a translation of the term owner which is closer to the word holder (*innehavare*). This indicates that, at least in Sweden, the value determined in a standardised brand valuation may be attributed to an exclusive licensee. It can be argued, though, that a valuation for a licensee is not a valuation of the brand but of the right to use it. Nevertheless, a licensee should in some cases be attributed the value, provided that it is clearly indicated in the valuation report that the brand is licensed, and also that the valuation is limited to the license term.

A substantial part of the discussions also concerned the

definitions of various terms, not least the definitions of brand and trade mark. These terms are fundamental for the standard; brand, since it is the subject of the standard, and trade mark because it is, in general, “the most important form of legal protection” for a brand (Article 6.3.2.1). Drafting the definitions proved more difficult than expected, mainly due to nuances in the various meanings of the words when translated. Delegates from some countries regarded the word brand as being a purely legal concept, very similar to a trade mark. Others concluded that brand is a much wider concept, which

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encompasses not only clearly defined expressions, but anything that carries a message that affects the decisions of various stakeholders. This can be a smell, a rumor or simply a feeling.

The international committee finally agreed upon the definitions. The standard’s definition of trade mark is clearly influenced by the one used in the TRIPS agreement:

TRIPS, Part II, Section 2, Article 15.1, first sentence:

“*Any sign*, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings, *shall be capable of constituting a trademark.*”

to be compared with Article 2.8 in ISO 10668:2010:

“*legally protectable sign*, capable of distinguishing the goods or services of one undertaking from those of other undertakings”.

The purpose of the additional requirement compared to TRIPS, that the sign shall be legally protectable, is to give a clear definition, instead of just indicating what may constitute a trade mark (and so limiting the scope for questioning the valuation on the basis of legal rights). However, since it is finally up to the registration authorities and the courts to decide what is protectable and what is not, the result of the valuation may in some cases be put in question at a later stage due to legal matters. Such a claim may have substance in some cases, for example where the trade marks protecting the valued brand are invalidated, or where the valuing party is contractually restricted from filing for protection.

Another issue which is not entirely clarified in the standard is for what subjects a standardised valuation can be performed. As in TRIPS, the expression undertakings is used in the standard, which is supposed to indicate a wider range of subjects than just companies. However, compared to TRIPS, the subject definition needs more consideration for the purpose of the standard, since the TRIPS’ member states are free to adopt more liberal rules for the protection of trade marks. The term undertakings is not unknown to trade mark law, though, and is used in the Community Trademark Directive 89/104 EEC. This should be sufficient to establish that a valuation under the standard, including the legal assessment, can be performed for all subjects that can also be the legal owner of a trade mark, including individuals, for example a famous person.

**Valuation scope**

What must apply to every standardised valuation is a clear declaration of purpose, and also that it is based on valid and relevant inputs and assumptions. Such inputs and assumptions should be sufficient to give a reliable result; however, the predominant view within the international committee was that the sufficiency requirement must be seen in relation to the defined purpose. The standard is also explicit on the need for transparency, which is notable as it limits the importance of many current black box methods.

uations on various ambition levels depending on purpose and circumstance. Several national expert groups argued throughout the committee work that smaller entities and organisations must be able to use the standard. Therefore, it will not be necessary to always conduct a complete investigation, which includes legal parameters that may be very hard to assess, such as the rights of third parties and the risk of revocation. This applies in particular to valuations for internal purposes, where it may be more important to produce a valuation that is comparable over time, than to offer one that is exact to the decimal.

**Applying any of these methods alone for a valuation is usually insufficient**

With regard to the legal assessment, the standard states that it shall include all legal parameters that affect the value of the brand. However, it will be possible to use the standard for val-

Although the ISO standard neither defines, nor recommends, any specific valuation methods, it seems clear that whatever method is used, it must be sufficiently flexible to give the legal analysis the breadth and effect on the valuation that is required in each individual case. This has particular bearing on income-based valuation methods such as relief of royalty, where a degree of legal uncertainty exists whenever one is dealing with presumptions about the future.

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