Index Licensing – The Battles Continue

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What's happened?

On 8 July 2010 an Illinois state court[i] granted the Chicago Board Options Exchange, Inc. ("CBOE") (and others) summary judgment against International Securities Exchange, LLC ("ISE"), prohibiting ISE from listing or providing an exchange market for the trading of Dow Jones Industrial Average and/or S&P 500 index options. The decision provides further guidance on attitudes in the USA to index licensing and the ability of index providers to regulate the subsequent use of their index data in derivative products.

Background

This US decision will be keenly followed by the $1bn index provision industry. It is the latest in the line of US index cases from the 1980s onwards[ii] and comes after, most recently, the German Federal Supreme Court decision regarding Commerzbank's use of Deutsche Borse's DAX and DivDAX trade marks (the first reported index trade mark case in Europe, as detailed in our November 2009 note).

Facts

Dow Jones & Company, Inc.[iii] and the McGraw-Hill Companies, through its wholly owned subsidiary, Standard & Poor's Financial Services LLC ("the Index Providers") operated the Dow Jones Industrial Average ("DJIA") and S&P 500 Composite Stock Price Index ("S&P 500"). The DJIA reflects the average of the stock market values of the shares of thirty leading companies in the USA, while the S&P 500 reflects that of 500 leading companies actively traded in the USA. The S&P 500 is computed at 15 second intervals while the DJIA is calculated in real time and distributed every 2 seconds.

The leading plaintiff in this case was the CBOE, a US exchange that specialises in the trading of standardised securities options. Critically, CBOE holds the exclusive licence from the Index Providers to offer options based on the S&P 500 and DJIA. The Index Providers were also named as plaintiffs. The principal defendant was ISE, part of the Deutsche Borse group, which offers trading in index options and is also the creator and provider of its own indexes and index option products. In addition, Options Clearing Corp ("OCC") was brought in as a co-defendant, given its essential role as the sole clearing agency from standardised index option products.

ISE was looking to offer options based on the DJIA and S&P 500, which would be cleared by OCC, without a licence from the Index Providers. CBOE and the Index Providers commenced proceedings seeking an order from the court restraining ISE.

The Index Providers alleged that due to their substantial investments of "resources, skill, judgment, creativity and efforts required to develop and maintain their indexes", they possessed proprietary interests in the DJAI and S&P 500 which gave them the exclusive right to authorise the "creation, issuance, listing, trading, clearing, and settlement of financial products, including index options, that are based on the underlying indexes". The plaintiffs sought summary judgment on two bases, namely:

i. ISE's proposed actions would misappropriate the proprietary interests of the Index Providers in their indexes, as well as CBOE's exclusive rights under its licences; and

ii. ISE's proposed actions constituted unfair competition under Illinois common law.

The Court's analysis and decision

In its analysis the court reiterated its view that the plaintiffs' claims were not based upon copying of the published index values from websites and other sources. Rather it was the connection of ISE's proposed financial product to, and association with, the DJIA and S&P 500 that would allow ISE to exploit the Plaintiffs' "research efforts, skills, expertise, reputation and goodwill" embodied in the indexes. This was not, therefore, a matter of copyright infringement; the misappropriated proprietary interests were intangible assets incapable of being fixed in a tangible medium.

The plaintiffs were not complaining of any copying or dissemination of the index values themselves. In fact, the plaintiffs appeared to concede that they might have no rights in the published index values themselves. The court clearly agreed with this

analysis, such index values being "a matter of basic market fact," as concluded in the *NY Mercantile Exch,, Inc. v Intercontinental (S.D.N.Y. 2005)* decision[iv].

The court considered a number of previous cases, highlighting two in particular. First, the court distinguished *Dow Jones v Int'l Sec. Exch, Inc., (2d Cir. 2006)*, where a federal court, applying New York law, found that ISE, in creating and hosting the trading of options on shares of ETFs, would not infringe upon the Index Providers' rights in their indexes and that the Index Providers had "failed to specify any use of the indexes likely to be made by the defendants that could constitute misappropriation." The court noted that the *Dow Jones* decision expressly stated that "its holding does not address the situation where a proprietary index is employed in the creation of a financial instrument" – precisely the issue presented in this case.

Second, the court considered *Board of Trade of the City Of Chicago v Dow Jones (98 Ill.2d 109 (1983))*, where the financial product that the Chicago Board of Trade wished to offer was a futures contract based on the DJIA. Here, the Illinois Supreme Court held that the index provider's consent was required as "the publication of the indexes involves valuable assets of defendant, its goodwill and its reputation for integrity and accuracy."

The court determined that the *Board of Trade* decision was "on all fours" with this case, and therefore held that the plaintiffs were entitled to protection of their rights in the indexes from ISE's proposed use and granted summary judgment in the plaintiffs' favour.

Comment

This case reiterates the now apparently clear view of US courts that index providers have the exclusive right to license (and therefore prohibit) the use of their indexes for the creation of index options. They may not have that right in relation to ETFs. It also highlights the territorial nature of index providers' rights. The legal position may not be so clear cut in other jurisdictions outside the USA. In the UK for example, which has no "unfair competition" regime, the index providers would most likely need to rely on a more cumbersome cocktail of passing off, trade mark and possibly copyright and database right infringement as well as breach of confidence and contract. Elsewhere in Europe, where unfair competition claims are possible, the situation may be different again (as seen in the German DAX case).

No doubt, as the value of the data licensing business continues to grow, these issues will continue to be tested across the financial centres.

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[i] Judgment given by Hon. William O. Maki, Circuit Court of Cook County, Illinois.

[ii] Including, for example, *S&P v Commodity Exchange* ("COMEX"), 1982; *Board of Trade v Dow Jones*, 1983; *Golden Nugget v ASE* 1987; *NASDAQ v Archipelago*, 2004; and *Dow Jones v ISE*, 2006.

[iii] In March 2010, CME Group, Inc. acquired 90% of the Dow Jones index business, including the Dow Jones Industrial Average. CME Group Index Services, LLC was substituted as a party-plaintiff for Dow Jones on 3 May 2010.

[iv] This decision held that published settlement values of oil future contracts are not protected by copyright and available for a competitor exchange to copy and use for settlement of its own futures contracts.

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