GO EAST YOUNG FRANCHISOR: FRANCHISING IN THE ASIA-PACIFIC REGION

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GO EAST YOUNG FRANCHISOR:
FRANCHISING IN THE ASIA-PACIFIC REGION

I. INTRODUCTION

In the 19th Century, Americans were urged to “Go West, Young Man” to make their fame and fortune, with California and other Western States the intended destination. One hundred years later Elvis Presley’s famous lyrics urged:

Go east young man, go east young man, you’ll feel like a sheik so rich and grand, with dancing girls at your command, go eat and drink and feast, go east young man.²

This paper takes its cue from Elvis’ sage advice. It provides an overview of the franchise regulatory framework that will impact US franchisors expanding into the Asia-Pacific region. It focuses on regulatory issues specifically affecting franchise systems, and does so by identifying five different models for franchising. The paper also discusses trademark issues, which are critical in any franchise system.

We cover a selective list of the principal countries in the Asia-Pacific region – Australia, Hong Kong, Indonesia, Japan, Kazakhstan, Macau, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. Although China and India have recently become huge Asian markets for franchising, those countries are outside the scope of this paper.³

This introduction provides, first, a market overview of franchising in the Asia-Pacific region; second, a summary of the different models for franchise regulation used in the Asia-Pacific region – and indeed around the world – which provide the structure for this paper; and, finally, an overview of trademark protection in the Asia-Pacific region.⁴

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¹ The authors would like to thank the following individuals who assisted in preparation of portions of this paper: Christopher Wallace and Tammy Mitchell of Nixon Peabody LLP, and Ryan Konsdorf, Jennifer Moody and Trent Woods, law students at Arizona State University.

² Elvis Presley, Go East Young Man, on Harum Scarum (MGM 1965).

³ There is considerable regulation of franchising in China. See e.g., China in INTERNATIONAL FRANCHISE SALES LAWS (Andrew P. Loewinger and Michael K. Lindsey, eds., ABA Press 2010) (hereinafter INTERNATIONAL FRANCHISE SALES LAWS). See also Mark Abell, Daniela C. Brito, and Paul Jones, “Franchising in the BRIC Markets (Brazil, Russia, India, and China),” 31st Annual ABA Forum on Franchising (2008). The paper does not attempt to address cultural, language or other challenges except to broadly observe that franchising in parts of Asia is not without significant pitfalls. There are political and business challenges, cultural and religious differences and a raft of legislation and bureaucratic processes that require navigation. Each country is quite different, and it is not possible to take a homogenous approach to the region. Market entry needs to be considered on a country-by-country basis.

⁴ There are a variety of laws other than franchise-specific laws that affect franchise arrangements in the Asia-Pacific region. Aside from trademark laws, these include technology transfer laws, investment restrictions, laws affecting currency repatriation, tax laws, and dispute resolution laws. And there is a host of bilateral treaties and multilateral conventions that apply. They are outside the scope of this paper. For more information on them, see FUNDAMENTALS OF INTERNATIONAL FRANCHISING (Richard M. Asbill and Steven M. Goldman eds., ABA Press 2001).
A. An Overview of Franchising in the Asia-Pacific Region

In 2011 there are a number of fundamental reasons for U.S. franchise systems to consider expansion into the Asia-Pacific region. Asian markets have been a destination for U.S. franchisors for several decades due to their large, emerging middle classes. Most markets in Asia are in the early or middle stages of development, with only Australia and New Zealand approaching a level of maturity comparable with North America. The US franchising market is not only mature, but is also currently constrained by the after effects of the global financial crisis, including increased challenges in obtaining financing for new franchisees. South America, Europe and the Middle East are possible destinations, but each has its own challenges. So, increasingly, US systems are looking to the East as a region of opportunity.

The Asia-Pacific region has always been recognized for its potential, as it is the most populous region in the world. However, the ascension of several Asian countries to the World Trade Organization after they have implemented structural reforms and established an effective regime for the protection of intellectual property gives the Asian region a more realistic appeal. As a collateral benefit, the US dollar has depreciated significantly against many Asian currencies, making US master franchise fees and royalties more affordable and helping to dim memories of the Asian currency meltdown that impacted Asian franchising in the early 1990s. Governments in the region are seen as largely pro-franchising, with countries such as Singapore and Malaysia having specific programs aimed at encouraging franchising. For example, Singapore provides a double tax deduction for Singapore based companies involved in international master franchising, and Malaysia offers financing assistance to entrepreneurs starting a franchise business and assistance in developing a franchise program. Specific regulatory frameworks have been established in many Asian countries to give franchising credibility, as franchising is seen as an excellent mechanism to educate, train and empower local people.

The following statistics sourced mainly from the World Franchise Council illustrate the strong penetration of franchising in the region, and the potential for further growth and development. Economic expansion, globalization and urbanization have created a demand for different goods and services and helped feed the development of franchising. Consumers have become much more brand conscious, and although in most countries the majority of franchising systems remain home grown a significant number of US systems have successfully established operations in the region. For franchisors seeking to go East, the Asia-Pacific region provides a world of opportunity. Franchise systems can establish an early foothold in markets predicted to continue to expand and develop over the next century.

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6 The Ministry of Domestic Trade, Cooperatives and Consumerism has a specific franchising division, and the Perbadanan Nasional Berhad and the Ministry of Entrepreneur and Cooperatives development have several programs aimed at franchising.

7 Figures for Macau are not available. All figures should be treated as approximates. Other sources including the internet have been used where the WFC information did not exists or was incomplete. As the table is intended only to be indicative, no further verification was undertaken.

8 For example in Australia over 90% of franchise systems are home grown, according to the Franchising Australia Survey 2010. According to the Philippines Franchise Association the figure is 64% in the Philippines, whilst in Indonesia the figure is 75%, according to the Indonesian Franchise Association.
<table>
<thead>
<tr>
<th>Country</th>
<th>Number of franchise systems</th>
<th>Sector turnover</th>
<th>Number of units</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia (2011)</td>
<td>1,100</td>
<td>$184.3 Billion</td>
<td>92,300</td>
<td>775,000</td>
</tr>
<tr>
<td>China</td>
<td>4,000</td>
<td>$US 29.6 Billion</td>
<td>330,000</td>
<td>2,400,000</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>92</td>
<td>N/A</td>
<td>3,000</td>
<td>N/A</td>
</tr>
<tr>
<td>India</td>
<td>850</td>
<td>$US 3.8 Billion</td>
<td>48,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1475</td>
<td>$US 5 Billion</td>
<td>42,900</td>
<td>820,000</td>
</tr>
<tr>
<td>Japan (2010,2004)</td>
<td>1,206</td>
<td>$US 257 Billion</td>
<td>231,666</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>300</td>
<td>$US 1 Billion</td>
<td>2,000</td>
<td>N/A</td>
</tr>
<tr>
<td>Malaysia (2009)</td>
<td>408</td>
<td>N/A</td>
<td>500,000</td>
<td>N/A</td>
</tr>
<tr>
<td>New Zealand (2010)</td>
<td>423</td>
<td>nz$29 Billion</td>
<td>23,600</td>
<td>80,400</td>
</tr>
<tr>
<td>Philippines</td>
<td>1000</td>
<td>P$ 150 Billion</td>
<td>108,000</td>
<td>N/A</td>
</tr>
<tr>
<td>Singapore (2009)</td>
<td>420</td>
<td>$US 3.8 Billion</td>
<td>30,000</td>
<td>N/A</td>
</tr>
<tr>
<td>South Korea (2008)</td>
<td>2,400</td>
<td>$US 70 Billion</td>
<td>260,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Taiwan (2005)</td>
<td>300</td>
<td>$US 46 Billion</td>
<td>10,000</td>
<td>N/A</td>
</tr>
<tr>
<td>Thailand (2008)</td>
<td>400</td>
<td>$US 2.5 Billion</td>
<td>30,000</td>
<td>N/A</td>
</tr>
<tr>
<td>Vietnam (2010, 2008)</td>
<td>70</td>
<td>$US 36 Million</td>
<td>890</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Although China and India are expressly excluded from the coverage of this paper, as they are the subject of previous papers, they cannot be ignored in the context of Asian expansion. Any franchisor going East will need to consider seriously these markets. Economically, China and India remain driving forces in the region, with other countries enjoying the benefit of their thirst for goods and services.

B. Different Models for Franchise Regulation

As in other parts of the world, there are a variety of models for franchise regulation in the Asia-Pacific region. The regulatory environment runs the gamut from no regulation to franchise-specific regulation (with relationship laws, but no pre-sale disclosure), to requiring pre-sale disclosure, governmental filings, with franchise-specific relationship provisions. Although these models for franchise regulation exist in all parts of the world, it is noteworthy that there is more regulation of franchising in the Asia-Pacific region than in any other part of the world outside North America.

We identified five models, two of which essentially do not legally regulate franchising and three of which do. The first is the *laissez-faire model* where there is essentially no regulation *per se* of the franchise relationship as a distinct commercial relationship. The principal countries with this model are Hong Kong, Singapore, and Thailand. The second model – a variation on the first – is the *normative model*, where there is no formal or legal regulation of franchising as a distinct commercial relationship. Under this model (which exists in New Zealand and the Philippines), the national franchise associations recommend that franchisors adopt a norm of providing pre-sale franchise disclosure, but there are no franchise-specific legal requirements.

The third, fourth and fifth models are all *regulatory models*, which regulate franchising significantly, but in different ways. Under the third model, which we call the *franchise relationship model* (which exists in Kazakhstan), there are franchise relationship provisions but no pre-sale disclosure requirements. Under the fourth model, which we call the *franchise disclosure model*, there are pre-sale disclosure requirements only, but no filing requirements with any governmental agency. This model exists in Australia, Japan, Macau, and Taiwan. In the fifth model, which we call the *full regulatory model*, there is a requirement for both governmental filings and pre-sale disclosure. This model exists in Indonesia, Malaysia, South Korea, and Vietnam.

C. Intellectual Property

Exploitation of intellectual property is the essence of franchising. Accordingly, the protection of intellectual property is critical to successful international expansion.

Although a proper analysis of intellectual property law in the context of international expansion is well beyond the scope of this paper, the table below provides some basic information concerning trademarks for those considering international expansion. One of the reasons it has been included is to demonstrate that many countries in the Asia-Pacific region operate different trademark registration regimes from that used in the United States.

As in the US, enforcement is still technically possible without registration, typically on the basis of the common law, unfair competition or some analogous concept. However, in much of the Asia-Pacific region protection under such laws is much less predictable and normally more costly. There are also not the same cultural aversions to copying that might exist elsewhere. However, most Asian countries have worked hard to improve their formal trade mark recognition
and enforcement processes. Accordingly, trademark registration is probably even more important in the Asia-Pacific region than in the West. Indeed, in some countries, registration can provide access to criminal remedies against counterfeiters that would not be available without registration.

One fundamental and important distinction is between “first to use” and “first to file.” Under the “first to use” system, trademark protection is granted to the party that first uses the trademark in the country. However, under the “first to file” system, trademark protection is granted to the party that first files for registration of the trademark in the country. The potential problems for the owner of a US brand are fairly obvious. In those markets that operate on a first to file basis, prior use of a mark affords little or no protection, and failure to file exposes a foreign brand owner to the exclusion of products or services from entry to the market due to a pre-existing registration.

Trademark registration should be undertaken as soon as possible, and well before any intended entry into the local market. With the extent of international travel, and the reach of the internet, international trademark protection ought to be an early priority for any business with international aspirations. It is often appropriate to create a local version of the trademark to provide proper protection and avoid someone registering the translated name as a trademark.

Although most countries’ intellectual property regimes are conceptually similar and there are several international agreements and conventions that create some consistency, there are numerous differences and it is prudent to obtain specific advice on a country-by-country basis.

The registration process can occur on a country-by-country basis. However, arrangements such as the Madrid Protocol assist. The Madrid Protocol is a trademark filing treaty between countries that are parties to the agreement. It is intended to provide a cost-effective and efficient way for trademark holders to file to protect their marks in multiple countries through the filing of one application. The application is lodged with a single office, in one language, with one set of fees, and in one currency. Moreover, no local agent is needed to file the application. While an International Registration may be issued, it remains the right of each country to determine whether or not protection for a mark may be granted. Once the trademark office in a designated country grants protection, the mark is protected in that country just as if it had been registered in that country. The Madrid Protocol also simplifies the subsequent management of the mark, since a simple, single procedural step serves to record subsequent changes in ownership or in the name or address of the holder with the World Intellectual Property Organization’s International Bureau. The International Bureau administers the Madrid System and coordinates the transmittal of requests for protection, renewals and other relevant documentation to all members.

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9 The Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks.
The table below summarizes the intellectual property regimes of the countries in the region.

<table>
<thead>
<tr>
<th>Country</th>
<th>Trademark protection</th>
<th>Madrid protocol (as of 4/15/2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>First to use *</td>
<td>July 11, 2001</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>First to use *</td>
<td>-</td>
</tr>
<tr>
<td>Indonesia</td>
<td>First to file</td>
<td>-</td>
</tr>
<tr>
<td>Japan</td>
<td>First to file</td>
<td>March 14, 2000</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>First to file</td>
<td>December 8, 2010</td>
</tr>
<tr>
<td>Macau</td>
<td>First to file</td>
<td>-</td>
</tr>
<tr>
<td>Malaysia</td>
<td>First to use *</td>
<td>-</td>
</tr>
<tr>
<td>New Zealand</td>
<td>First to use</td>
<td>-</td>
</tr>
<tr>
<td>Philippines</td>
<td>First to file *</td>
<td>-</td>
</tr>
<tr>
<td>Singapore</td>
<td>First to use *</td>
<td>Oct. 31, 2000</td>
</tr>
<tr>
<td>South Korea</td>
<td>First to file</td>
<td>April 10, 2003</td>
</tr>
<tr>
<td>Taiwan</td>
<td>First to file</td>
<td>-</td>
</tr>
<tr>
<td>Thailand</td>
<td>First to file</td>
<td>-</td>
</tr>
<tr>
<td>Vietnam</td>
<td>First to file</td>
<td>July 11, 2006</td>
</tr>
</tbody>
</table>

* Indicates countries in which proposed use or intent to use by the applicant is sufficient to allow at least the filing of an application for registration.

II. MODELS FOR FRANCHISE REGULATION IN THE ASIA–PACIFIC REGION

Some countries in the Asia-Pacific region, such as Hong Kong, Singapore and Thailand, have no specific franchising regulation, and take a minimalist approach to legislative intervention in franchising matters. The Philippines and New Zealand have voluntary regimes conditional upon optional membership of the franchise association, whereas Australia, Indonesia, Kazakhstan, Macau, Malaysia, South Korea, Taiwan and Vietnam have more comprehensive regulatory frameworks. Japan sits in between, with some regulatory requirements as well as having a code of ethics specified by the Japan Franchise Association.
In this part of the paper we group the countries according to:

- Voluntary only, no governmental filing;
- Recommended pre-sale disclosure;
- Relationship requirements only;
- Pre-sale disclosure only, no government filing; and
- Pre-sale disclosure and filing.

There are conceptual similarities among the regulatory regimes, but it is quite striking how each country has taken a different approach to the regulation of the franchise sector. The various regulatory regimes are distinguished by their differences rather than their similarities.

A. **Laissez-Faire Model — No Regulation: Hong Kong, Singapore and Thailand**

Hong Kong, Singapore and Thailand are relatively easy entry points into the Asia-Pacific region for franchisors, as there is essentially no formal regulation of franchising in those countries

1. **Pre-Sale Disclosure Requirements**

   a. **Hong Kong**

   There are no laws or regulations that specifically govern pre-sale disclosure, though an industry trade group, the Hong Kong Franchising Association (“HKFA”) has developed a code of ethics which requires members to make a full and frank disclosure before any binding contract is executed with a franchisee. Membership in the HKFA is optional.\(^{10}\)

   b. **Singapore**

   There are no laws or regulations that specifically govern franchise disclosure documents. The industry is primarily regulated through the principles of contract law, with some involvement from the national franchise industry group, the Franchising Licensing Authority (“FLA”).\(^{11}\) Membership in the FLA is not mandatory.\(^{12}\)

   The FLA has developed a Code of Ethics (the “Code of Ethics”) as guidance for its members. The Code of Ethics contains provisions on misleading promotion, full information on investment requirements, disclosure, legal advice, contracts regarding existing franchisees, trademarks, training, termination with good cause, and dispute resolution. It further states that pre-sale disclosure should be made at least seven days prior to execution of the franchise

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\(^{11}\) Franchising and Licensing Association (Singapore), [http://www.flasingapore.org](http://www.flasingapore.org) (last visited July 14, 2011).

\(^{12}\) Max Ng, *Singapore*, in *GETTING THE DEAL THROUGH: FRANCHISE IN 33 JURISDICTIONS WORLDWIDE* (Law Business Research Ltd. 2009).
agreement. The disclosure should include details of the current operations, investments, performance records (balance sheets and P/L statements) and any other information reasonably required by the franchisee that are material to the franchise relationship. The fee to join the FLA is S$1000 ($813 USD) per year. There is no requirement to update the disclosure document after disclosure to a franchisee.\textsuperscript{13}

\begin{enumerate}[c.]
\item \textbf{Thailand}

There are currently no disclosure requirements. However, Thai franchise law and particularly Thai disclosure law may change considerably if the new Franchising Business Act (also known as the Retail and Franchise Act) is passed. If this Act is passed, franchisors must reveal all ‘necessary’ information within sixty days of signing the franchise agreement, (‘necessary’ is yet to be defined). However, even under the most recent draft of the Franchise Business Act, which requires disclosure, there is no explicit requirement that the disclosure must be made before the signing of a contract. The current draft of the bill remains fairly vague.\textsuperscript{14}

\end{enumerate}

\section{Governmental Filing Requirements}

\begin{enumerate}[a.]
\item \textbf{Hong Kong}

There are no governmental filing requirements or registrations related to pre-sale disclosure. Franchisors will have to register the business with the Companies Registry or the Inland Revenue Department prior to conducting business if they establish a physical place of business in Hong Kong. If a master franchisee is used they would presumably have a physical office and would need to register, but the franchisor should not have to.\textsuperscript{15}

\item \textbf{Singapore}

Technology transfer agreements are no longer required to be registered with the Documentation, Information, and Technology Transfer Bureau if they comply with the provisions of, and/or include the stipulations/ conditions required by Sections 87 and 88 of the Intellectual Property Code.\textsuperscript{16}

\item \textbf{Thailand}

Thailand currently has no governmental filing requirements. However, if the new Retail and Franchise Act is passed, it is possible that a foreign-owned company (or a company where the majority ownership belongs to foreigners) would only be permitted to conduct a franchising business if it had obtained approval from the Thai Ministry of Commerce. Under the proposed Franchising Business Act, a franchisor will have to overcome various conditions before any offer of a franchise in Thailand will be permitted. For example, the franchisor will be required to have

\begin{enumerate}[\textsuperscript{13} \textit{Id.}]
\item Chanvitaya Suvarnapunya and Athistha Chitranukroh, \textit{Thailand, in Getting the Deal Through: Franchise in 33 Jurisdictions Worldwide} (Law Business Research Ltd. 2010).
\end{enumerate}
conducted its business for at least two years and must have been earning a profit from a minimum of two existing branches for at least two accounting years. Once this requirement is satisfied, a potential franchisor will also have to apply for a license to operate a franchise business.\(^\text{17}\)

3. Franchise Relationship Requirements

a. **Hong Kong**

There are no laws or regulations which directly regulate the franchisor-franchisee relationship.\(^\text{18}\)

b. **Singapore**

There are no laws or regulations which directly regulate the franchisor-franchisee relationship. The general principles of contract law and the Code of Ethics, if the franchisor has joined the FLA, will apply.\(^\text{19}\)

c. **Thailand**

There is currently no specific law that regulates franchise agreements or the franchising industry in Thailand. While there has been a draft Franchising Business Act, it has yet to be finalized and enacted into law.\(^\text{20}\)

The general principles of contract law and bargaining in good faith are applicable to the offer and sale of franchises.

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\(^{18}\) Disputes arising from the franchise agreement will be subject to the common law, specifically the principles of contract law, and to the legislation relating to the registration, licensing and protection of intellectual property rights, such as the Trademarks Ordinance, the Trade Descriptions Ordinance, the Copyright Ordinance, the Registered Designs Ordinance, and the Patents Ordinance.

\(^{19}\) If a franchisor engages in fraudulent or deceptive practices, the franchisee may bring a civil action against the franchisor for fraudulent misrepresentation. The burden of proof is on the franchisee to show that the franchisor knew or believed that the statement made was wrong and that the franchisee entered into the agreement based on the franchisor’s false statement and as a result of the false statement the franchisee suffered loss.

The franchise agreement may be renewed if there is a provision allowing such in the agreement. However, if there is no provision in the agreement, the franchisor may choose not to renew the agreement.

The agreement may be drafted to control how and when it may be terminated, by both the franchisor and franchisee. Also, the agreement may be drafted to limit the franchisee’s ability to transfer the franchised business. Confidentiality covenants are enforceable. There is no general legal obligation to deal with each other in good faith and there are no restrictions on contractual provisions, except that they cannot be anti-competitive, such as provisions that price-fix, bid-rig or abuse market power. See generally Max Ng, *Singapore, Getting the Deal Through: Franchise in 33 Jurisdictions Worldwide* (Law Business Research Ltd. 2010).

\(^{20}\) There are, however, a number of regulations that impact upon the regulation of franchising in Thailand; for example, the Civil & Commercial Code (CCC), Thai Trademark Act 1991, Trade Secrets Act 2002, the Foreign Business Act, the Trade Competition Act and the Thai Revenue Code. (In accordance with the draft Retail and Franchise Acts, two central commissions will be established to control the retail and franchising industries respectively.) There are also the Price Fixing Anti-Monopoly and Consumer Protection Acts which may have implications on franchise operation, although these acts do not specifically regulate franchises.
To avoid misrepresentation of the franchisor-franchisee relationship to be an agent-principal relationship, an explicit statement must be made in the franchise agreement that the relationship arising from the agreement could not by any means be interpreted as an agent-principal relationship.

For the period following the expiry of the contract, the interpretation of the Thai courts is that the confidentiality clause and the competition clause may last, after termination of the agreement, for a period of up to five years with limited jurisdiction (e.g. within Thailand). Otherwise, it will be deemed as unfair and unenforceable.

Under the terms of a franchise agreement, a franchisor may restrict a franchisee’s ability to transfer its franchise or ownership interests, as long as the restriction was initially agreed upon in the contract.\(^\text{21}\)

4. **Trademark Laws**

   a. **Hong Kong**

   Hong Kong is a member of the World Intellectual Property Organization (“WIPO”) and was a signatory to the Madrid Protocol, but is no longer a party as of April 4, 2003. Trademarks must be registered in Hong Kong to receive legal protection. License agreements should also be registered. A copy of the use agreement, a statement of case from the registered owner and a statutory declaration from the registered owner are required to be submitted with the license agreement registration application. If the proposed licensee is a wholly owned subsidiary of the owner of the mark, the filing requirements may be dispensed with.

   Trademarks must be registered with the Trademarks Registry of the Government to receive legal protection. An application for registration of a trademark may be made for a particular kind of goods either in the same class or a different class, but each particular kind of goods for which application for protection is made should be clearly declared. Hong Kong has created four (4) additional classifications in addition to the 42 classifications in the Nice Classification of Goods and Services (the “Nice Classification”).\(^\text{22}\) The four new classes replace the previous Class 42 “other services” and created Classes 42-45.

   A trademark is valid for ten years from the date of registration and a renewal for ten years may be made. Registration may be cancelled where there was no bona fide use or intent to use the mark for a continuous period of three years. Trademark registration may take longer than six months.\(^\text{23}\)

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\(^{22}\) The Nice Classification is the short name for the International Classification of Goods and Services for the Purposes of the Registration of Marks established under the Agreement on Classifications (the “Nice Agreement”), 9th Edition.

b. **Singapore**

Singapore is a member of the World Intellectual Property Organization and has acceded to the Madrid Protocol, effective July 31, 2000. Trademarks must be registered in Singapore to receive legal protection according to the Trademarks Act (Ch. 332, 1999 ed.) and the Trademark Rules of 1998, as amended by Trademark Rules 2000. License agreements may be registered.

An application for registration of a trademark may be made for a particular kind of goods or services either in the same class or a different class. Each particular kind of goods and services for which an application for protection is made must be clearly declared. A separate application must be made for each class of goods or services.

A trademark is valid for ten years from the date of registration, and a renewal for ten years may be obtained. There is a seven-year statute of limitations on actions challenging the registration of a trademark from the initial date of registration. A company that can file a Priority Benefit Application could save as much as six months of time in the application process.  

**c. Thailand**

Registration of a trademark license is mandatory and must be registered with the Trademark Office Registrar according to the Ministerial Regulations. The trademark license agreement must be made in writing. Non-compliance with this registration requirement will render the licensing void and not enforceable. Trademark or service mark license agreements are governed by the provisions of the Trademark Act (Sections 68 to 79), the Ministerial Regulations, and the general laws of contract under the Civil and Commercial Code.

The Thai Trademark Act imposes civil and criminal penalties on those who infringe rights of the trademark owner. An application for registration of a trademark may be made for a particular kind of goods or services in the relevant class. Each particular kind of goods for which application for protection is made must be clearly declared and a separate application must be made for each class of goods or services. The classes of goods are prescribed by the Minister in charge of the Trademark Act.

A trademark is valid for ten years from the date of registration and a renewal may be made for a further period of ten years. The validity term does not include the period of time during which legal proceedings are taken in court with regards to opposition procedures. Renewal applications should be submitted to the Registrar within ninety days before expiration.

**B. Normative Model -- Recommended Pre-Sale Disclosure Only: New Zealand and the Philippines**

New Zealand and the Philippines do not have specific franchising legislation. In both countries the national franchising associations have developed what they term “codes of ethics” which bind their members and provide a form of self-regulation of the sector. Membership in the

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24 *Singapore*, **TRADEMARKS THROUGHOUT THE WORLD**.

25 *Thailand*, **TRADEMARKS THROUGHOUT THE WORLD**.
association is voluntary and only franchisors that belong to an association are bound by its guidelines.

In the Philippines, the Philippine Franchising Association ("PFA") requires its members to abide by a Code of Ethics comprising a number of Fair Franchising Standards. In New Zealand, the Franchise Association of New Zealand ("FANZ") has established a Code of Ethics and Code of Practice. In 2008 the New Zealand government considered whether to introduce franchising legislation, but decided against the idea after the majority of submissions it received supported maintaining the system of self-regulation.

1. Pre-Sale Disclosure Requirements

   a. New Zealand

      i. What is a franchise?

          The Rules of the FANZ\(^{26}\) define a franchise as the method of conducting business under which the right to engage in the offering, selling or distributing of goods or services in New Zealand includes or is subject to at least the following features: First, the agreement must grant the use of a "mark" connected to or controlled by the franchisor by which the business of the franchisee is, or is capable of being identified by the public as being, substantially associated with the franchisor itself or with an identifying mark. Secondly, the franchisee must conduct the business in accordance with the business, marketing or technical plan or system specified by the franchisor. Thirdly, the franchisor must provide ongoing business, marketing or technical assistance during the term of the agreement. An agreement that lacks any or all of these three features, but that purports to be a franchise agreement, is also included in the FANZ definition of a franchise agreement.\(^{27}\) The New Zealand definition is quite broad, and extends beyond business format franchise arrangements.

      ii. Disclosure Timing Requirements

          In New Zealand, the disclosure timing requirements are set out in the FANZ Code of Practice. Before the sale of any franchise can proceed, the franchisor must obtain from the prospective franchisee certification that they have read the FANZ Code of Practice and Code of Ethics, as well as the particular franchisor’s disclosure document.\(^{28}\) The Codes must be supplied to the prospective franchisee at least seven days before sale.\(^{29}\)

      iii. Disclosure Document

          A list of information to be contained in the disclosure document and the preferred (though not compulsory) order for its layout can be found in the appendices to the FANZ Code of Practice. The list is much more prescriptive in terms of the details to be disclosed, but substantially covers the same information as the Philippines. Some of the information that the franchisor is expected to disclose includes information relating to the main features of the franchise, a tabulated list of items making up the franchise purchase and estimated costs,

\(^{26}\) The Rules of the Franchise Association of New Zealand Incorporated, Clause 3.1.7.

\(^{27}\) See Id., Clauses 3.1.8 and 3.1.9; see also Code of Practice, Franchise Association of New Zealand, Clause 2.1.

\(^{28}\) Code of Practice, Franchise Association of New Zealand, Clause 11.

\(^{29}\) Id., Clause 5.
financial requirements of the franchisor, details of existing franchises including the contact
details of existing franchisees, and financial projections of potential profit, among other things.

The franchisor must sign a certificate declaring its belief in the company’s solvency. Certain key financial data must be supplied and presented in the specific format of a franchisor Financial Data Certificate, which must also be signed by the franchisor.30

b. **The Philippines**

i. **What is a franchise?**

In the Philippines, the Fair Franchising Standards define a franchise as a business relationship in which consideration is given in return for the grant of a licensed right, subject to agreed-upon requirements and restrictions, to conduct business utilizing the franchisor’s business format and trade/service marks.31 This definition is somewhat narrower than in most other jurisdictions, and limits the application of the Fair Franchising Standards to business format franchising.

ii. **Disclosure Timing Requirements**

In the Philippines, the PFA’s Code of Ethics imposes pre-sale disclosure duties on the franchisor. At least thirty days prior to sale, the franchisor is obliged to disclose the franchisee’s investment requirements. The level of disclosure required is “as much detail as necessary to avoid being misleading.” The franchisor must specify whether the stated investment requirement is the total or partial cost of the franchise and the items included in the stated amount.32

Within a reasonable time before the sale, disclosure must be made about the franchisee’s current operations, performance records and potential profits. The prospective franchisee is further entitled to any information which is “material” to the franchising relationship during this period. The material information must be disclosed to them at least fifteen days before sale.33

At least fourteen days in advance of the agreement being signed, the agreement must be disclosed to the franchisee and its significant provisions must be accompanied by a written explanation of their meaning. In addition, the Fair Franchising Standards expressly require the franchisor to encourage the prospective franchisee to seek adequate legal and financial advice. The gathering of information about the franchisor and franchise business from existing franchisees must also be encouraged.

The Fair Franchising Standards provide that the franchisor must supply a Franchise Offering Circular (“FOC”) at least thirty days before signing a franchise agreement.

30 Id., Appendix B.
32 Section IV, Code of Ethics, Philippine Franchise Association.
33 Id.
iii. Disclosure Document

The following information is listed in the Fair Franchising Standards as required for inclusion in the FOC:34

- A five year history of the franchise, including the number of outlets opened, in operation, company-owned and franchisee-operated, and franchised outlets closed.

- The business concept and what makes it unique from its competitors.

- The franchise agreement’s key terms.

- The franchise business’s financial requirements.

- Key officials of the franchise and a brief description of their background and qualifications.

- A five year summary of past and present litigation in which the franchise has been involved.

- A clause requiring the prospective franchisee to seek adequate legal and financial advice prior to signing the franchise agreement.

The disclosure document must include a clause encouraging the prospective franchisee to seek legal and financial advice. The wording for this statement is set out in the Code of Conduct. A franchise agreement cannot be signed until the franchisee has certified that the franchise agreement has been explained to the franchisee by a solicitor.

2. Governmental Filing Requirements

a. New Zealand

There is no filing requirement in New Zealand in relation to franchising.

b. The Philippines

In the Philippines, there is no franchisor registration system or filing requirement concerning franchise agreements. However, many franchise agreements and master franchise agreements will be considered to be technology transfer arrangements, and therefore will be subject to certain restrictions on non-competition, transfer or non-renewal.35 The main focus or purpose of the provisions is to protect the local Philippine trade and business from anti-competition and anti-trade practices. Typically, franchise agreements and the master franchise agreement are submitted to the Intellectual Property Office’s Bureau of Documentation, Information and Technology Transfer for conformity clearance and/or for an exemption request from the provisions of Section 87 and 88 of the Intellectual Property Code. (See section II.B.3, below.)


In the Philippines, the general law that applies to all retail traders, the Retail Trade Act, contains rules about foreign equity participation. Section 5 states that a foreign retail store must secure a certification from two government authorities, to confirm it has remitted the minimum required capital investment, before it can commence trade. Section 8 prohibits a foreign retailer from trading unless it has met specified conditions. Its parent corporation must have the prescribed minimum amount of net worth, it must have a minimum of five franchises already in operation, or one store capitalized at a minimum of twenty-five million US dollars, and a five year track record in retailing. The Philippine Department of Trade and Industry keeps a list of retailers that qualify in meeting the specific conditions and monitors the parent company to ensure it meets the capitalization requirements.

3. Franchise Relationship Requirements

a. New Zealand

There is no specific legislation to impose franchise relationship requirements in New Zealand, but the franchising guidelines provide that members must act in good faith and honestly.

In New Zealand the Fair Trading Act 1986 regulates various aspects of trade and applies to all businesses. However, certain provisions can have particular application to franchising. The most important provisions are sections 9 and 22. Section 9 contains a general prohibition on misleading or deceptive conduct in trade or commerce, and section 22 provides that it is an offense to make a false or misleading statement with respect to the profitability, risk or any other material aspect of a franchise during the course of inviting persons to engage or participate in the franchise.

The FANZ ethical guidelines also can apply to conduct. The guidelines provide that the parties must act in an honest manner. Further, franchisors and franchisees must avoid behaving in a way that would cause detriment to each other’s business. Conduct that is detrimental includes conduct that is unnecessary and unreasonable in respect of the risks it poses to one party, conduct that is not reasonably necessary to protect the parties’ legitimate business interests, and conduct that breaches the franchising guidelines.

Although these ethical guidelines do not have the force of law, breach may lead to brand damage, and it is possible that a claim could be made that behavior that flagrantly breached the guidelines could constitute misleading or deceptive conduct. For this to occur a franchisor would probably have to make an express or implied representation that it would comply with the FANZ guidelines. Mere membership in the FANZ would probably not be sufficient.

b. The Philippines

In the Philippines, the guidelines provide that members must act in good faith, but qualify the requirement by stating that it is not intended to alter the franchise agreement. The franchisor and the franchisee must act fairly in their contractual dealings with one another and, where reasonable, the franchisor must inform the franchisee when the franchisee is in breach of

36 Code of Practice, Franchise Association of New Zealand, Clause 3.

37 Id.

38 Code of Ethics, Philippine Franchise Association, Section 3.
the franchise agreement and allow the franchisee a reasonable time to remedy the breach. The
Philippine regulations have a clause relating to communication, which states that a franchisor
must be conveniently accessible and responsive to franchisees.

There are no specific franchise relationship laws in the Philippines.

However, as noted, many franchise agreements and master franchise agreements will
be technology transfer contracts for the purposes of the Intellectual Property Code (“Intellectual
Property Code”). The Intellectual Property Code provides that technology transfer contracts
should not have adverse effects on competition and trade, must provide for effective quality
control by the licensor over the product or service covered by the contract, and must allow
continued access to improvements in the transferred technology. The Intellectual Property
Code provides that certain clauses will prima facie be considered to have an adverse effect on
competition and trade. Section 88 also contains mandatory provisions that must be included
in voluntary license contracts. Finally, there are various other provisions in the Intellectual
Property Code that may be relevant to a master franchise agreement.

The main focus or purpose of the provisions is to protect the local Philippine trade and
business from anti-competition and anti-trade practices. Most master franchise agreements will


40 The provisions which will have an adverse effect on competition and trade are contained in clauses 87.1 – 87.15
of the Intellectual Property Code. They include clauses which tie supply, fix prices, restrict production volume
and structure, prohibit the use of competitive technologies, establish a purchase option in favor of the licensor,
oblige the licensee to transfer inventions and improvements for free to the licensor, require payment for unused
patents or for use after patent expiry, prohibit export, restrain technology use on expiry, prohibit contesting
validity, restrict certain licensee research and development, prevent adaptation to local conditions or exempt the
licensor from certain liability. See also Sec. 33-C (2), R.A. 165a.

41 These mandatory provisions include that the laws and courts of the Philippines apply; that the licensor provide
the licensee with continued access to improvements during the technology transfer arrangement; mandate rules
for any arbitration and require that Philippine taxes on all payments relating to the technology transfer
arrangement be borne by the licensor.

42 The relevant provisions of the Intellectual Property Code are:

   Section 89. Rights of Licensor. - In the absence of any provision to the contrary in the technology transfer
arrangement, the grant of a license shall not prevent the licensor from granting further licenses to third
persons nor from exploiting the subject matter of the technology transfer arrangement himself.

   Section 90. Rights of Licensee. - The licensee shall be entitled to exploit the subject matter of the technology
transfer arrangement during the whole term of the technology transfer arrangement.

   Section 91. Exceptional Cases. - In exceptional or meritorious cases where substantial benefits will accrue
to the economy, such as high technology content, increase in foreign exchange earnings, employment
generation, regional dispersal of industries and/or substitution with or use of local raw materials, or in the
case of Board of Investments, registered companies with pioneer status, exemption from any of the above
requirements may be allowed by the Documentation, Information and Technology Transfer Bureau after
evaluation thereof on a case by case basis.

   Section 92. Non-Registration with the Documentation, Information and Technology Transfer Bureau. -
Technology transfer arrangements that conform to the provisions of Sections 86 and 87 need not be
registered with the Documentation, Information and Technology Transfer Bureau. Non-conformance with
any of the provisions of Sections 87 and 88, however, shall automatically render the technology transfer
arrangement unenforceable, unless said technology transfer arrangement is approved and registered with
the Documentation, Information and Technology Transfer Bureau under the provisions of Section 91 on
exceptional cases.
not be of great concern, but it is prudent to submit a master franchise agreement to the Intellectual Property Office’s Bureau of Documentation, Information and Technology Transfer for conformity clearance and/or for an exemption request from the provisions of Section 87 and 88 of the Intellectual Property Code.

Section 92 of the Intellectual Property Code provides that if a technology transfer contract fails to conform to the provisions of Section 87 and 88, the whole agreement is automatically rendered unenforceable, unless an exemption clearance is obtained pursuant to the provisions of Section 91.

4. **Trademark Laws**

a. **New Zealand**

The Trademarks Act 2002 is the relevant statute that protects trademarks in New Zealand. The relevant body to deal with is the Intellectual Property Office of New Zealand (“IPONZ”).

Any person using or proposing to use a mark in New Zealand may apply for registration. Any person who applied in a country that is a party to the Paris Convention 43 (“Paris Convention Country”) for protection of a trademark is entitled to the priority of the first filed application for registration of the trademark in a Paris Convention Country, provided the New Zealand application is filed within six months from the date of that application.

Multi-class applications are permissible. It is also possible to add an additional class to an application within one month of the filing date so long as the scope of the original application is not broadened. Defensive marks no longer exist in New Zealand.

Trademark registrations last for ten years counting from the date of application and then can be renewed for additional ten-year periods.

There is no provision prohibiting abandoned or cancelled marks from being registered straight away so long as the applicant can claim an intention to use the mark and that it can also meet all the other requirements of filing/registering a mark in New Zealand.

Use must be “in trade.” It is not necessary to provide a declaration of evidence of use unless needed to prove factual distinctiveness during examination or unless the registration is later challenged by a third party on basis of non-use. In that case, it is necessary to show use on or in relation to all the goods and/or services for which trademark protection is desired. Recording of licenses is not mandatory in New Zealand but it is desirable.

No person may bring proceedings to prevent, or to recover damages for, the infringement of an unregistered trademark. Hence, while trademark owners or users are not legally required to register their trademarks to use them, they stand to lose out on the legal protection and other benefits if they fail to do so. An unregistered mark is harder to protect because one must rely on the law of passing off or take proceedings under the Fair Trading Act. Such actions can be more difficult to prove and can involve lengthy and costly litigation. 44

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44 *New Zealand, Trademarks Throughout the World.*
b. Philippines

The Nice Classification\textsuperscript{45} is used in the Philippines. One application may relate to several goods and/or services, whether they belong to one class or to several classes of the Nice Classification. The application for the registration of the mark shall be in Filipino or in English. The applicant is required to file a declaration of actual use of a mark, with evidence to that effect, within three years from the filing date of the application.

A certificate of registration shall remain in force for ten years if the registrant files a declaration of actual use and evidence of use to that effect within one year from the fifth anniversary of the date of registration of the mark, or shows valid reasons based on the existence of the obstacles to such use, as prescribed by the regulations. Otherwise, the Office will remove the mark from the register.

A certificate may be renewed for periods of ten years at its expiration upon payment of the prescribed fee and upon filing of a request. Such request shall be in Filipino or English and may be made at any time within six months before the expiration of the period for which the registration was issued or renewed, or it may be made within six months after such expiration on payment of the additional fee.\textsuperscript{46}

C. Franchise Relationship Model: Kazakhstan

1. Pre-Sale Disclosure Requirements

There are no specific pre-sale disclosure requirements in Kazakhstan.

2. Governmental Filing Requirements

There are no specific government filing requirements in Kazakhstan.

3. Franchise Relationship Requirements

The Republic of Kazakhstan’s Law on Complex Business License (Franchising) (the “Kazakhstan Law”) is a franchise relationship law that was adopted on June 24, 2002. The Law defines a franchise agreement (which it refers to as a “complex business license contract”) as an agreement whereby the franchisor grants the franchisee the right to use the franchisor’s trade name, protected commercial information, and intellectual property, such as trademarks, service marks, and patents, for use in the business activity of the franchisee in return for compensation paid to the franchisor.\textsuperscript{47}

A franchise agreement must provide for the use of the franchisor’s intellectual property, business reputation and commercial experience with or without indicating a territory.\textsuperscript{48} A franchise agreement may also provide for the following: (a) transfer of commercial secrets or other official and/or commercial information and rendering of administrative, technical, and

\textsuperscript{45} 9\textsuperscript{th} Edition of the Nice Classification, which entered into force on January 1, 2007.

\textsuperscript{46} Philippines, TRADEMARKS THROUGHOUT THE WORLD.

\textsuperscript{47} Bus. Franchise Guide (CCH) ¶7161.

\textsuperscript{48} Id.
information assistance to the franchisee; and (b) description of the franchisor’s control over the franchisee’s use of the intellectual property rights. The franchise agreement must be in writing and be signed by the parties, and it must identify whether the agreement is for a definite or indefinite term.

A franchisor will have the following rights under a franchise agreement: (a) to control the quality of goods produced and services rendered by the franchisee; (b) to purchase preemptively any interest in the business that the franchisee seeks to transfer; (c) to act as the franchisee’s guarantor or surety for the benefit of third parties; (d) to enter into other contracts with the franchisee, such as a lease; (e) to terminate the franchise agreement unilaterally and claim damages caused by the franchisee’s failure to fulfill his obligations under the agreement; and (f) to execute other rights under the laws of Kazakhstan.

A franchisor will be obligated to: (a) transfer to the franchisee the technical and commercial documentation and other information required by the franchisee to exercise its rights under the franchise agreement; (b) provide training and consulting to the franchisee on issues regarding the rights granted to the franchisee; and (c) not disclose confidential commercial information obtained from the franchisee.

According to the Kazakhstan Law, a franchisee will have the following rights under the franchise agreement: (a) to enter into a franchise agreement with third parties (i.e., sub-franchise), unless the franchise agreement provides otherwise; (b) to enter into other agreements with the franchisor, such as a lease, rental agreement, sale and purchase agreement, warranty, or guarantee agreement; and (c) to execute other rights under the laws of Kazakhstan.

Unless the franchise agreement provides otherwise, the franchisee will be obligated to: (a) use the franchisor’s intellectual property rights in accordance with the terms of the franchise agreement while carrying out the activities of the franchised business; (b) provide the franchisor with access to the franchisee’s production territory, provide the franchisor with required documentation, and assist the franchisor with obtaining the information required for the franchisor to exercise control over the franchisee’s use of its intellectual property rights; (c) comply with all instructions and orders of the franchisor regarding the nature, ways, and conditions of using the franchisor’s intellectual property rights; (d) not disclose commercial secrets and confidential information obtained from the franchisor; and (e) inform customers in the most apparent manner available that the franchisee is using the trade name, trademark, service mark, and other marks pursuant to a franchise agreement.

To the extent agreed to by the franchisor and franchisee in the franchise agreement, the franchisee may be further obligated to: (a) not participate in the activities of the franchisor’s competitors; (b) upon termination of the franchise agreement, not disclose the official and commercial secrets and confidential information, including know-how, without the franchisor’s written consent; (c) make payments to the franchisor for the use of the intellectual property

49 Id.
50 Id.
51 Id.
52 Id.
53 Id.
rights in a timely manner; (d) take necessary measures to eliminate deficiencies upon the receipt of notice from the franchisor; (e) not perform any actions aimed at transferring the intellectual property rights granted under the franchise agreement; and (f) ensure that the quality of goods and services produced and provided under the franchise agreement is in conformity with the quality of similar goods, works, and services produced or provided by the franchisor.\textsuperscript{54}

The franchisor has a right to compensation for its damages if the franchisee discloses any of the franchisor’s confidential information without its consent.\textsuperscript{55} If either the franchisor or the franchisee violates the Kazakhstan Law, they will be held responsible in accordance with the law of Kazakhstan.\textsuperscript{56} Disputes between the franchisor and the franchisee must be settled in accordance with the laws of Kazakhstan.\textsuperscript{57}

4. Trademark Law

Trademarks must be registered in Kazakhstan to receive legal protection. A few laws govern trademarks, chief of which is the Law on Trademarks, Service Marks, and Appellations which came into force in 1993. The Unfair Competition Act, enacted in 1998, also has some bearing on trademark law. Marks are registered in classes using the Nice Classification\textsuperscript{58}. All applications documents must be filed in the Kazakh or Russian language. Kazakhstan deposited its instrument of accession to the Madrid Agreement, and its instrument of accession to the Madrid Protocol, with the World Intellectual Property Organisation (WIPO).

The registration of a trademark will be valid for ten years from the date of filing and a renewal for ten years may be made. There is no intention to use requirement at the time of filing, though the mark may be cancelled if it has not been used for a period of five years.

After approval of a mark, there is no requirement to indicate that the trademark has been registered, however, it is encouraged to use the registered symbol (®) when the mark is used. Assignments of marks to third parties must be recorded with the Kazakhstan Patent Office. The license agreement must include quality control criteria indicating that the licensee’s goods will not be of lower quality than licensor’s goods.\textsuperscript{59}

D. Franchise Disclosure Model: Australia, Japan, Macau and Taiwan

Australia has specific franchising legislation in the Franchising Code of Conduct, and general business conduct laws such as the Competition and Consumer Act that have particular application to the franchise relationship. Of note are the prohibitions on misleading or deceptive conduct and unconscionable conduct.

\textsuperscript{54} Id.
\textsuperscript{55} Id.
\textsuperscript{56} Id.
\textsuperscript{57} Id.
\textsuperscript{58} The Nice Classification of trademarks, 9\textsuperscript{th} Edition.
\textsuperscript{59} Kazakhstan National Institute of Intellectual Property, \url{http://www.kazpatent.kz/information} (last visited July 14, 2011).
Japan is relatively laissez faire, with guidelines on franchising focused essentially on pre-contractual disclosure and the competition law aspects of the franchise relationship. There are no relationship implications.

Macau has specific franchising requirements contained in the Macau Commercial Code which extend beyond disclosure to the franchise relationship by explicitly recognizing a good faith obligation and expectation.

Taiwan has specific franchise legislation contained in the Rules on Disclosure of Information by franchisors promulgated by Taiwan’s Fair Trade Commission. The Taiwan Civil Code and the Fair Trade Law will apply to franchise agreements.

Australia, Japan, Macau and Taiwan share a common conceptual framework for pre-contractual disclosure that does not involve any registration element. The nature of items to be disclosed is also conceptually similar to those required in the United States. Franchisors must make disclosure concerning business history, business experience, any litigation or bankruptcy, establishment costs, operating costs and key agreement provisions.

1. Pre-Sale Disclosure Requirements
   
a. Australia
      
i. What is a franchise?

The Australian Franchising Code of Conduct (the “Australian Code”) is a prescribed mandatory industry code enacted as the Trade Practices (Industry Code – Franchising) Regulations 1998 pursuant to section 51AE of the Trade Practices Act (now called the Competition and Consumer Act 2010). The Australian Code contains a statutory definition of a franchise agreement that extends to all agreements involving the grant of a right to carry on the business of offering, supplying or distributing goods or services in Australia under a system or marketing plan substantially determined, controlled or suggested by the franchisor or an associate. The agreement can be written, oral or implied, or a combination. The operation of the business is to be substantially or materially associated with a trademark, advertising or a commercial symbol of the franchisor or an associate, or specified by them. “An amount” must be payable by the franchisee to the franchisor or an associate under the agreement before starting or continuing the business. There is no requirement for the amount to be material, with payments for initial capital investment, goods or services, royalty, franchise fees or training fees given as examples. Payment for goods and services at or below usual wholesale price, loan repayments, consignment stock payments and payment of market value for purchase or lease of real property, fixtures, equipment or supplies are excluded.

The Australian definition is similar to the US definition, but there are fewer exemptions. Importantly, the exemption from the Australian Code for a franchise agreement whereby a foreign franchisor granted only a single franchise was removed with effect from March 1, 2008.

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60 Franchising Code of Conduct, Clause 4.
61 Id.
62 Clauses 5(3) and 5(4) of the Australian Franchising Code of Conduct exclude from the definition of a franchise agreement to which the Code applies a franchise agreement to which another code applies, and fractional franchises where sales under the franchise represent less than twenty% of the franchisee’s turnover.
Australia is the only country of the four in this section that specifically addresses master franchising, although in Taiwan the laws will apply to master franchise arrangements where the master franchisee or the units are located in Taiwan. In Australia a foreign franchisor entering into a master franchise agreement with a master franchisee that has the right to grant unit franchises/sub-franchises in Australia will also need to give a disclosure document relating to the terms of the master franchise agreement to the master franchisee. In addition, an Australian franchisor (who has been granted a master franchise by a foreign franchisor) will need to give to prospective local unit franchisees/sub-franchisees either a joint disclosure document that addresses the obligations of the Australian franchisor (master franchisee) and the foreign franchisor or separate disclosure documents in relation to the master franchise and the unit franchise/sub-franchise agreement.

ii. Disclosure Timing Requirement

In Australia a franchisor must give a disclosure document and a copy of the Australian Code to a prospective franchisee or a franchisee proposing to renew or extend a franchise at least fourteen days before the prospective franchisee enters into a franchise agreement or an agreement to enter into a franchise agreement or pays non-refundable money to the franchisor or an associate of the franchisor in connection with the proposed franchise agreement. The franchisor must also provide at this time a copy of the franchise agreement “in the form in which it is to be executed,” which means that the document has to contain all commercial terms and be essentially ready to be signed. Failure to comply with this requirement can invalidate disclosure, and is a trap for foreign franchisors used to providing more of a template franchise agreement with the disclosure material.

In addition, a franchisor must give to a franchisee a current disclosure document within fourteen days after a written request by the franchisee. Such a request can only be made once in any twelve month period.\(^{63}\)

The Australian regulatory environment is unique in other respects. It seeks to set up a quite comprehensive regulatory framework to enhance the disclosure process, and contains a continuous disclosure obligation. Disclosure is supplemented by a framework intended to ensure that a franchisee seeks advice, and has an opportunity to reconsider the decision:

- A franchisor must not enter into, renew or extend a franchise agreement unless the franchisor has received from the franchisee a written statement that the franchisee has received, read and had a reasonable opportunity to understand the disclosure document and the Australian Code.

- Before a franchise agreement is made, the franchisor must have received from the prospective franchisee signed statements that the prospective franchisee has been given advice about the proposed franchised business from an independent legal adviser, business adviser or accountant or has been told that that kind of advice should be sought but has decided not seek it.

- A franchisee may terminate an agreement within seven days after the earlier of entering into the agreement or paying any money under the agreement. If the

\(^{63}\) See Franchising Code of Conduct, Clause 19.
franchisee terminates such an agreement the franchisor must, within fourteen days, repay all money paid by the franchisee to the franchisor under the agreement less reasonable expenses provided those expenses have been disclosed in the disclosure document provided to the franchisee.

In Australia the disclosure document is to be updated annually within four months of the end of the financial year, even if the franchisor is no longer franchising. This ongoing compliance requirement can be a particular burden on a foreign franchisor that has granted a single master franchise for Australia.

There is also a continuous disclosure obligation. A franchisor is required to disclose any change in materially relevant facts to a franchisee within a reasonable time, but not more than fourteen days after the franchisor becomes aware of the change. Materially relevant facts include any change in majority ownership or control of the franchisor; any proceedings by a public agency such as the ACCC, or a judgment or arbitration award in criminal or civil proceedings in Australia against the franchisor alleging breach of a franchise agreement, contravention of trade practices law or the Corporations Act 2001, unconscionable conduct, misconduct or an offence of dishonesty; a judgment against the franchisor under certain workplace relations and industrial relations laws; or civil proceedings in Australia against the franchisor or an associate of the franchisor by 10% or 10 of the franchisees in Australia of the franchisor (whichever is the lower).

Since July 2010 the Australian law requires additional information in the disclosure document in relation to the end of the term arrangements. The disclosure document must also contain detailed information about the end of the term arrangements, and any typical requirements the franchisor may have in relation to matters such as capital expenditure. In addition, there is a new requirement to provide specific notification in relation to the franchisor’s intentions at the end of the term. If the term of a franchise agreement is six months or longer a franchisor must notify the franchisee at least six months prior to the end of the term of the franchisor’s decision to renew or not renew the franchise agreement, or enter into a new franchise agreement. A one-month notice period applies if the term is less than six months.

iii. Disclosure Document

The Australian model is highly prescriptive both in terms of the amount of disclosure and the form of disclosure. In Australia, franchisors are required to produce a disclosure document containing over 250 separate pieces of information. Information in the disclosure document must be set out in the form and order, and under the numbering and titles set out in the schedules to the Australian Code and must have a detailed and prescribed form of table of contents. Accordingly, although some of the information contained in existing US disclosure materials will assist in the preparation of the Australian document, foreign systems will need to instruct local counsel to undertake a comprehensive re-draft to meet the format requirements of the Australian Code.

The disclosure document must contain:

- A front page with prescribed warnings and other details;

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64 See Franchising Code of Conduct, Clause 7.
• Details of the franchisor and the franchisor's business and certain information concerning associates and officers of the franchisor;

• Business experience of the franchisor, the associates and the officers;

• Litigation details;

• Any payments to agents;

• Details of existing franchisees and former franchisees, and prescribed information concerning franchise transfers, terminations and non-renewals;

• Information concerning ownership and rights granted in connection with intellectual property;

• Whether there are territorial restrictions, and what restrictions apply to territories;

• Quite detailed information concerning the franchisor’s requirements for the supply of goods or services to a franchisee;

• Details of any restrictions on the franchisee’s ability to supply goods or services;

• Details concerning the franchisee’s territory, including whether the specific territory has previously been subject to a franchised business. If so, details must be provided of the business, including the circumstances in which the previous franchisee ceased to operate;

• Information concerning the operation of all marketing or cooperative funds;

• Details of all pre-payments, establishment costs and other payments including any future recurring payments, capital expenditures and whether dispute resolution costs will be attributed to the franchisee;

• The material conditions of any financing arrangement;

• Reference to the clauses in the franchise agreement containing the franchisor's obligations, or a summary;

• Reference to the clauses dealing with the franchisee’s obligations;

• Information on the circumstances in which the franchisor can unilaterally vary the franchise agreement and how confidentiality obligations will apply;

• Arrangements to apply at the end of the franchise agreement, and whether the franchisor will require amendment of the franchise agreement on or before transfer of the franchise agreement;

• Details of any obligations to sign any other agreements in addition to the franchise agreement. The franchisor must also provide a copy of such agreements at least fourteen days prior to signing the franchise agreement, or when they become available if they are not available;
- Any earnings information, or a statement that earnings information is not given;
- Financial details including a copy of the financial reports for the last two completed financial years; and
- Any updated information given under the continuous disclosure obligations of the Australian Code not included in the disclosure document.

b. Japan

i. What is a franchise?

Japanese franchise law is derived from the Medium-Small Business Retail Promotion Act and associated Ministerial Order (which applies to a “chain store”), and the Guidelines on Franchising (“the Guidelines”) under the Anti-Monopoly Act (which applies to a franchise).

Not all franchises will be chain stores, although the definition in section 11 of the Medium Small Business Retail Promotion Act will catch many retail franchises. Under this Act a chain store is a business in which, according to a standard contract, goods are continually sold, directly or by a designated third party, and assistance over the operation is continually given, principally to medium or small-sized retailers. There are related definitions of “medium or small-sized,” and there is an official commentary published by the Small Business Agency. There is a definition of a franchise agreement in the Guidelines that is somewhat imprecise, as it refers to a franchise agreement “generally” including certain clauses licensing a trademark or trade name, controlling or guiding the franchisee to ensure uniform image toward third parties, payment of fees and termination provisions.

The legislation does not apply to franchises in the service sector, or where half or more of the franchisees do not come within the definition of “medium or small sized.” The application of the legislation to foreign franchise systems is also unclear. The law is disclosure based, but the guidelines prohibit an abuse of a dominant position if the term of the agreement is more restricted than reasonably needed for the operation of the franchised business and the franchisor holds a dominant position against the franchisee.

The apparent intent of the definition is that the guidelines apply where there is an imbalance of power, as opposed to a situation where two corporations are contracting. The disclosure guidelines are somewhat imprecise, with the Anti-Monopoly Act sanctions essentially concerned with competition and consumer law breaches rather than franchising breaches as

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66 Japan, INTERNATIONAL FRANCHISE SALES LAWS.
67 This term “dominant position” is quite broadly defined in the Guidelines and extends beyond the normal concept of market dominance to a situation where a franchisee would be faced by difficulties if the transaction with the franchisor were to be terminated. In such circumstances there is a general requirement for any vertical restraints imposed by a franchisor upon its franchisees to go no further than is needed to operate the franchised business, and restraints on the sources of supply, quotas on the amount to be purchased by a franchisee, requirements to offer services that are not prescribed in the franchise agreement and a prohibition to engage in a competing business after the termination of the franchise agreement to a greater extent than is necessary for the protection of the know-how provided by the franchisor, can be consider to be an “abuse of a dominant position”, which is listed as an unfair trade practice. See Guidelines on Franchising under the Anti-Monopoly Act.
such. Essentially, the guidelines indicate what might breach the general prohibition on making a deceptive customer inducement.

ii. Disclosure Timing Requirement

In Japan there is a general duty of disclosure, and the guidelines on franchising contain provisions for the disclosure of necessary information at the time of the offer of a franchise and address competition law issues associated with vertical restraints between a franchisor and its franchisees.

In Japan there is no specified time limit for disclosure to be provided other than it should be made before concluding a contract with a franchisee. The Guidelines provide that a disclosure document must be delivered sufficiently in advance to enable a franchisee to make an informed decision, with the Japan Franchise Association in its voluntary rules specifying the period as at least seven days.

iii. Disclosure Document

The Japanese franchising Guidelines provide a list of examples of the items to be disclosed, and the Japan Franchise Association produces a sample form disclosure document that is commonly used\(^{68}\). A disclosure document will typically include:

- details of the franchisor’s name, and any affiliates, and the franchisor’s business;
- the franchisor’s equity capital, and the names of principal shareholders;
- the intellectual property to be licensed;
- litigation history (although not criminal history or bankruptcy);
- the conditions regarding the supply of goods to the franchisee (e.g. recommendation of the supplier);
- the details of the assistance to be offered the franchisee, such as a description of the assistance to be offered, its manner, frequency and costs;
- the nature, amount and conditions of repayment, if any, of the fee to be paid at the time of entering into a franchise agreement;
- the amount, method of calculation, as well as the timing and manner of payment of royalties;
- the description of any settlement arrangement between the franchisor and the franchisee, as well as the interest rate of any loan to a franchisee offered by the franchisor;

\(^{68}\) These can be contrasted with the more extensive and more prescriptive requirements of the Australian Franchising Code of Conduct in section II.D.1.a of this paper, above.
whether or not the franchisor is prepared to indemnify the franchisee for its losses or to render assistance to the operation of a franchised unit that is not doing well;

the terms of the franchise agreement and the conditions of its renewal, resolution as well as termination; and

whether or not the franchisor in the franchise agreement reserves a right to operate a unit on its own or to grant another franchise close to the franchisee and whether or not the franchisor plans to do so.

The Guidelines also require that if the franchisor provides the franchisee with the projected sales or profits, such projection shall be made in a reasonable manner, on the basis of reliable data. The underlying data as well as the way in which the projected sales or profits are worked out must be disclosed to the franchisee.

c. **Macau**

i. **What is a franchise?**

In Macau a franchising contract is that by which one of the parties, against a direct or indirect payment, grants to the other, in a certain zone and in a stable manner, the right to produce and or to sell certain goods or services under his entrepreneurial image, according to his know-how, with his technical assistance, and subject to his control.\(^{70}\)

ii. **Disclosure Timing Requirement**

In Macau there is no specified time limit for disclosure to be provided, but the prospective franchisee must receive “adequate advance disclosure.” Some commentators consider the Chinese thirty day period may provide useful guidance on this issue because the Macau legislation has considerable similarity to the more comprehensive Chinese franchise legislation.\(^{71}\)

iii. **Disclosure Document**

The legislation provides a list of topics that need to be covered in the disclosure document:

- the identification of the franchisor;
- the franchisor’s annual accounts of the last two accounting periods;
- any judicial proceedings in which the franchisor, the holders of trademarks, patents and other industrial or intellectual property rights related to the franchise are or have been

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69 Commentary and analysis on Macau’s franchise regulation is difficult to obtain. The authors would like to acknowledge the useful information contained in www.chinabusinesslaw.com.blogspot from which much of this portion of the paper has been derived.

70 *See* Article 679, Macau Commercial Code.

71 *See, e.g.*, www.chinabusinesslaw.com.blogspot.
involved, as well as their sub-franchisors, which may directly or indirectly come to affect or render impossible the functioning of the franchise;

- a detailed description of the franchise;
- the profile of the ideal franchisee regarding previous experience, level of education and other characteristics that compulsorily or preferably he must have;
- the necessity and extent of the franchisee’s personal and direct participation in the exercise of the franchise;
- the specifications as to the estimated sum of the initial investment needed for acquisition, installation and entry into functioning of the franchise;
- the value of the periodic payments and other amounts to be paid by the franchisee to the franchisor or to third parties indicated by him, specifying the respective bases of calculation and what these remunerate, or the purpose for which they are destined;
- the composition of the franchise network, lists of franchisees, sub-franchisees and sub-franchisors of the network, as well as of those who have left the network in the last twelve months;
- the profitability of the franchisor’s enterprises and the incidence of bankruptcies;
- the professional experience of the franchisor, and information concerning the know-how and entrepreneurial methods of the franchise;
- any services that the franchisor obliges himself to render to the franchisee for the duration of the contract.  

**d. Taiwan**

i. **What is a franchise?**

In Taiwan, the Rules on Disclosure of Information by franchisors promulgated by Taiwan’s Fair Trade Commission Executive Yuan on June 2, 1999 and amended November 20, 2003 (“the Disclosure Rules”) define franchising as a continuing relationship in which “a business, pursuant to an agreement, grants another business the right to use its trademarks or management techniques and provides operational assistance or guidance to the other business, while the other business pays consideration for such rights and services.” There are no specified exemptions.

Although the law does not specifically address master franchising, in Taiwan the laws will apply to master franchise arrangements where the master franchisee or the units are located in Taiwan.

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72 See Macau Commercial Code, Article 680(1).
73 See Disclosure Rules, Article 2.
ii. Disclosure Timing Requirement

In Taiwan disclosure must be provided ten days prior to signing the franchise agreement. The franchisor must provide the franchisee with a copy of the franchise agreement for review at least five days before the parties are to enter into any agreement relating to the franchise.

iii. Disclosure Document

The regulatory requirements in Taiwan focus on compliance with the substance of disclosure, and do not have specific requirements as to the form of the disclosure document. The content to be included is not as comprehensive or prescriptive as in the US and other countries, but still requires:

- Historical information on the franchisor;
- Information regarding management personnel;
- Information on intellectual property rights;
- Contents and methods of management assistance, training, etc. provided to the franchisee;
- The franchisor’s management program;
- Lists of franchisees and statistical information;
- Restrictions on the business relationship between the franchisor and franchisee in their business operations; and
- Information regarding “means to modify, terminate and/or rescind the franchise agreement.

However, Taiwan extends the typical disclosure requirements by requiring franchisors to describe in relation to the franchise territory any territorial exclusivity or rights, circumstances under which exclusivity might be lost, any non-competition policy between franchisees and any restrictions on the franchisee’s ability to use the internet or other means to promote goods and services.

2. Governmental Filing Requirements

There are no governmental filing requirements in Australia, Japan, Macau or Taiwan. Franchisors are not required to register, and there is no state or provincial regulation of franchising in any of these countries. Franchisors are also able to conduct meetings and generally undertake preliminary marketing and prospecting in these countries, but in Australia a

74 Id., Article 4.
75 Id., Article 5.
76 At the time of writing this paper there are proposals for State based franchising legislation in Western Australia and South Australia. It is difficult to predict whether such legislation will be enacted.
franchisor may not enter into a binding agreement or take any non-refundable amount from a prospective franchisee or master franchisee without complying with the Australian franchising legislation.

3. **Franchise Relationship Requirements**

   a. **Australia**

   Australia has relationship requirements in its franchising legislation, and general business conduct laws such as the Competition and Consumer Act that have particular application to franchise relationships.

   In Australia, if the franchise agreement provides that a franchisee must pay money to a marketing or other cooperative fund, the franchisor must prepare an annual financial statement of the fund’s receipts and expenses for the last financial year, including the percentage spent on production, advertising, administration and other stated expenses; and have the statement audited by a registered company auditor within four months after the end of the financial year to which it relates. The franchisor must give the franchisee a copy of the statement, within thirty days of preparing the statement, and a copy of the audit report (if applicable) within thirty days after preparing the report. The requirement for the franchise statement to be audited does not apply for a financial year if seventy-five per cent of the franchisees in Australia that contribute to the fund agree and such agreement is made within the period prescribed by the Australian Code.

   The Australian legislation also restricts transfer and termination. The Australian Code provides that a franchisor cannot unreasonably withhold consent to a franchisee’s request to assign a franchise agreement, and curtails somewhat a franchisor’s ability to terminate a franchise agreement. Immediate termination is available in very limited circumstances, with most cases requiring a franchisee to be given written notice of default and an opportunity (of not more than thirty days) to cure the default. The Australian Code also contains a mediation based dispute resolution process which, if activated by a party, is mandatory. The Australian Competition and Consumer Act, which contains the Australian Consumer Law, prohibits misleading or deceptive representations, contains prohibitions on unconscionable conduct and misleading or deceptive conduct that apply generally but by their broad nature have specific application to franchising.

   In Japan, Macau and Taiwan these matters are not dealt with by legislation, although misrepresentations and extreme conduct may be actionable under contract law, negligence or tort. In each country a duty of good faith and fair dealing will be implied into most franchise agreements. Contravention of Australian law can result in severe penalties, and the Australian industry regulator is well resourced and active in enforcement. Action by the regulator is common in addition to private action in Australia, whereas in Japan, Macau and Taiwan private action is the predominant enforcement mechanism.

   b. **Japan**

   In Japan there are no relationship provisions in the franchising guidelines, with matters left to be addressed by the general law applying to business contracts. However, the guidelines contain some competition law requirements that apply in the context of a “dominant position”. This term is quite broadly defined and extends beyond the normal concept of market dominance to a situation where a franchisee would be faced with difficulties if the transaction with the
franchisor were to be terminated. In such circumstances there is a general requirement for any vertical restraints imposed by a franchisor upon its franchisees to go no further than is needed to operate the franchised business, and restraints on the sources of supply, quotas on the amount to be purchased by a franchisee, requirements to offer services that are not prescribed in the franchise agreement and a prohibition to engage in a competing business after the termination of the franchise agreement to a greater extent than is necessary for the protection of the know-how provided by the franchisor, can be considered to be an “abuse of a dominant position”, which is listed as an unfair trade practice. Price fixing is also illegal in Japan, as it is in Australia.

c. **Macau**

In Macau, the Macau Commercial Code (“MCC”) recognizes a contractual duty of good faith and fair dealing. It would be expected that in the franchise relationship the franchisor allow the franchisee quiet enjoyment of the franchisor’s intellectual property and provide adequate training, conduct advertising and supply the necessary goods or services required by the franchisee. There would be an expectation that the franchisor inform the franchisee of any system changes, update the franchise system to ensure its competitiveness, not compete with the franchisee without agreement and provide consideration to the franchisee for any post-term non-compete or non-disclosure obligations. Any tying arrangements would be limited to goods and equipment core to the franchise system, and implied warranties would apply to such goods and equipment.

Similarly, a franchisee would also be expected to perform its duties in good faith, by paying royalties to the franchisor, using the intellectual property in accordance with the terms of the franchise grant, maintaining uniformity and quality, providing requested business information, allowing franchisor inspection and so forth.

The MCC requires that a franchise contract must be in writing, and its term should be no shorter than three years if a term is fixed. Absent an agreed term, the contract is presumed to last for an indeterminate period of time.

d. **Taiwan**

Taiwan has no explicit franchise relationship obligations in its franchising regulations. Article 24 of the franchising guidelines contains a general prohibition that will have application to franchising. A party must not engage in any deceptive or obviously unfair conduct that is likely to affect fair trading order, being the orderly unrestricted and competitive operation of the market. Such conduct would include abuse of market power, price fixing, collusion and general deceptive or obviously unfair conduct.  

4. **Trademark Laws**

a. **Australia**

Trademarks must be registered with the Registrar of Trademarks in Australia to receive legal protection under the Trademarks Act of 1995. Marks may be registered in multiple classifications on the same application using the Nice Classification.

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77 Obviously unfair conduct is analogous to the concept of unconscionable conduct.
Australia is a member of the World Intellectual Property Organization, Madrid Protocol and the Paris Convention. As such, Paris Convention Countries can benefit from a Priority Application.

The registration of a trademark is valid for ten years from the date of registration and the renewal period is also ten years. There must be a good faith intention to use the mark at the time of filing, and the mark is subject to cancelation if it has not been used in good faith within three years. There is no statute of limitations on actions to cancel a trademark registration.

Assignments of marks to third parties must be registered. Licensing agreements need not be registered, but they may be. Use of a mark by a licensed user qualifies as use with regard to opposition or cancellation claims.78

b. Japan

Trademarks must be registered in Japan to receive legal protection. A few laws govern trademarks, chief of which is the Trademark Law of 1959, which was been revised and amended more than two dozen times, most recently in 2008.79 Also, the Unfair Competition Prevention Law of 1993, which has also been amended repeatedly and as recently as 2006, also has some bearing on trademark law. Marks are registered in classes using the Nice Classification and multi-class registrations are accepted. Japan is a member of the World Intellectual Property Organization, Hague Convention, International Convention (Stockholm Test), the Arrangement of Madrid, the Nice Agreement, the Madrid Protocol and the Paris Convention. Paris Convention Countries can benefit from a Priority Benefit Application.

The registration of a trademark shall be valid for ten years from the date of registration and the renewal for a period of ten years thereafter may be made. There is no intention to use requirement at the time of filing, but the mark may be cancelled if it has not been used within three years.

International applicants must appoint a local representative domiciled in Japan to register a trademark. After approval of a mark, there is no requirement to indicate that the trademark has been registered; however, it is encouraged to use the registration symbol (®) followed by the assigned registration numbers when the mark is used.

Assignments of marks to third parties must be registered to take effect. Although registration of nonexclusive licenses is not required, an exclusive licensing agreement must be registered to take effect. Use of a mark by a licensed user qualifies as use with regard to opposition or cancellation claims.

c. Macau

To apply for a trademark in Macau a proprietor or user must be a resident of Macau, or a citizen of a country or territory that is a member of both the World Trade Organization and the International Union for the Protection of Industrial Property in accordance with the terms of the

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79 Trademark information taken from TRADEMARKS THROUGHOUT THE WORLD.
Citizens of any other country may apply to register a mark if international agreements or reciprocal arrangements exist between Macau and their country of citizenship. An applicant may claim a priority date for registration pursuant to the Paris Convention. Macau recognizes registration priority for applicants that have filed for protection of a mark in a country that has signed the Paris Convention, provided the Macau application is made within six months from the date an application is filed in the country where the protection is sought. Applications should be filed with the Macau Economic Department. Multi-class applications are not allowed.

Registration is granted for a period of seven years from the date of the application. Renewals are also granted in seven-year periods, and applications for renewal should be filed within six months before expiration. If an unregistered mark is used in Macau for up to six months, during that period the owner of the mark has the right to file a registration application or to oppose any application submitted by a third party.

In Macau, a trademark is required to remain unchanged. Any alteration in its features requires a new registration and publication. Likewise, changes of address of the head office and trade name or company name of the trademark owner shall be registered and published in order to be effective for third parties.

d. **Taiwan**

Taiwan has no common-law system of Trademark protection that grants exclusive rights based on prior use of the mark. In general, an owner or user of a trademark gains the exclusive right to use of a Trademark in Taiwan only through registration.

An application filed by a foreign national may be rejected if that country has no reciprocal arrangements with Taiwan or does not accept applications filed by nationals of Taiwan. Appointment of a local agent by non-domiciliaries is mandatory.

Currently, full company names may not be registered. The registrant will often be asked to delete the portion of the trademark describing the kind of incorporation or business of the company from the representation of the trademark.

Trademarks must be used. If there is no use at the time of registration, a bona fide intention to use a trademark is a prerequisite for registration. A trademark registration is valid for a period of ten years from the date of registration. The renewal period is also ten years. A trademark may be licensed in whole or to cover a part of the designated goods as registered.

A draft Amendment to the Taiwan Trademark Law was passed after three readings by the Legislative Yuan on May 31, 2011 and was promulgated by the Presidential Office on June 29, 2011. It is expected that the new Act will come into effect in 2012. This Amendment includes a number of substantive changes, but does not affect the fundamental trademark registration process.
E. Full Regulatory Model -- Governmental Filing and Pre-Sale Disclosures: Indonesia, Malaysia, South Korea and Vietnam

There are a handful of countries that require both pre-sale disclosure and governmental filings in connection with the offer and sale of franchises. The countries with such requirements are Indonesia, Malaysia, South Korea and Vietnam. Three of the four countries – Malaysia, South Korea and Vietnam – require a filing before a franchise sale is made. The fourth – Indonesia – requires a filing of the Franchise Agreement after the sale is made. Each of these countries also has differing relationship requirements.

1. Pre-Sale Disclosure Requirements

a. Indonesia.

Government Regulation No. 42 of 2007 (“GR 42”) governs franchising in Indonesia. Regulation 31, issued in 2008, is the implementing regulation issued by the Minister of Trade.

i. What is a Franchise?

Regulation 31 defines a “franchise” as “an exclusive right owned by individuals or business entities of a business system with unique business characteristics in the framework of marketing goods and/or services which have been proven successful and can be utilized and/or used by other parties on the basis of franchise agreements.”

Regulation 31 requires that a “franchise”:

- Have unique business characteristics or distinctiveness;
- Already be proven profitable;
- Have a written standard (or manual) for the offered service and for the goods/services;
- Be easy to teach and apply;
- Have continuous support from the franchisor;
- Have registered intellectual property rights.

A “franchise agreement” is defined as “a written agreement between a franchisor and a franchisee.” The terms “franchisor” and “franchisee” are also defined.

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83 See Regulation 31, Article 1(1). See also Indonesia, INTERNATIONAL FRANCHISE SALES LAWS.

84 See Regulation 31, Article 1(1).

85 In addition, Regulation 31 defines “subsequent franchisor” and “subsequent franchisee” which are analogous to a “master franchisee” and “subfranchisee,” respectively. See Regulation 31, Article 1(4) and Regulation 12, Article 1(5). See also Indonesia, INTERNATIONAL FRANCHISE SALES LAWS.

Under Regulation 31, a disclosure document must be given to prospective franchisee two weeks prior to the execution of franchise agreement.\(^{86}\) It is worth noting that the triggering event for disclosure in Indonesia is the execution of the franchise agreement and not the payment of money. The regulations are not specific as to whether a disclosure document is required to be given prior to signing a letter of intent.\(^{87}\)


Attachment I of Regulation 31 requires franchisors to provide a prospective franchisee with disclosure, which includes at least the following items:

- Data of the franchisor, namely a copy of the identity card or passport of the business owner in case of an individual, and a copy of the identity or passport of the Shareholders, Board of Commissioners and Board of Directors in the case of a business entity.

- Legality of the franchise business, namely the technical business permit, such as Trading Business License (Surat Izin Usaha Perdagangan or “SIUP”), permanent tourism business license, license to establish an education unit or business license which is applicable in the country of origin of the franchisor.

- History of business activity, namely a description which covers among others the establishment of the business, business activity and business development.

- Organizational structure of the franchisor, starting from the commissioners, shareholders and directors of the franchisor through the operational level including the franchisees.

- Financial statements for the last two years – i.e., the balance sheet of the franchisor for the most recent two years preceding the date of the application of the franchise disclosure document.

- Number of business places, namely franchise outlets in accordance with the provinces or cities of domicile for a domestic franchisor and according to the country of domicile of outlets in the case of a foreign franchisor.

- List of franchisees, including names and addresses of companies and/or individuals as franchisees.

- Rights and obligations of the franchisor and franchisee – namely rights owned by the franchisor or franchisee, such as:
  - The franchisor has the right to receive a fee or royalty from franchisees, and subsequently the franchisor is obligated to provide supervision to franchisees in a sustainable manner.

\(^{86}\) *Indonesia, International Franchise Sales Laws.*

\(^{87}\) *Id.*
The franchisee is entitled to use the intellectual property rights or the unique business characteristics owned by the franchisor, and subsequently the franchisee is obliged to comply with the code of conduct/confidentiality of the intellectual property right or the unique business characteristics granted by the franchisor.  

Regulation 31 requires disclosure of the franchisor’s name, the name(s) under which it does business, its principal business address, and a description of its business activities. A description of the franchised business must also be disclosed. There is a requirement under Regulation 31 to provide disclosure of the names of the shareholders, officers, directors and operational employees relevant to the franchise being offered. In Attachment I of Regulation 31 a franchisor is required to disclose all relevant information regarding the rights and obligations of franchisor and franchisee, which includes initial franchise fees or payments that a franchisee is obligated to make.

Under Regulation 31, a franchisor must disclose the intellectual property connected to the franchise. Accordingly, the trademarks and service marks involved in the franchise must be described. The trademarks or service marks to be used in the franchised business must be registered with the Indonesian Trademark Office.

GR 42 and Regulation 31 require a disclosure document to include information on numbers of business places (namely franchised outlets) in accordance with provinces/cities of domicile (in the case of a domestic franchisor) and according to country of domicile (in the case of a foreign franchisor). Regulation 31 also requires a list of franchisees to be included in the disclosure document – namely, the names and addresses of companies and/or individuals as franchisees.

In an unusual requirement, Article 6 (1) of Regulation 31 provides that on termination, the franchisor may not appoint a new franchisee before the franchisor and franchisee have reached agreement settling the matter by a “clean break” statement certifying that neither has any outstanding obligations or liabilities to the other, or at least six months have elapsed since termination of the franchise agreement.

b. Malaysia

i. What is a Franchise?

Under the Malaysia Franchise Act 1998, a “franchise” is defined as follows:

A contract or an agreement (either expressed or implied) whether oral or written, between two or more persons by which (a) the franchisor grants to the franchisee the right to operate a business according to the franchise system as determined by the franchisor during a term to be determined by the franchisor; (b) the franchisor grants to the franchisee the right to use a mark, or a trade secret, or any confidential information or intellectual property, owned by the franchisor or relating to the

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88 Attachment 1 to Regulation 31; see generally Indonesia, INTERNATIONAL FRANCHISE SALES LAWS at 9-10.
89 Id. at 13.
90 Id. at 15.
franchisor, who is the registered user of, or is licensed by another person to use, any intellectual property, grants such right that the franchisor possesses to permit the franchisee to use the intellectual property; (c) the franchisor possesses the right to administer continuous control during the franchise term over the franchisee’s business operations in accordance with the franchise system; (d) the franchisor has the responsibility to provide assistance to the franchisee to operate the franchisee’s business including such assistance as the provision or supply of materials and services, training, marketing, and business or technical assistance; (e) in return for the grant of rights, the franchisee may be required to pay a fee or other form of consideration; and (f) the franchisee operates the business separately from the franchisor, and the relationship of the franchisee with the franchisor shall not at any time be regarded as a partnership, service contract or agency.\(^91\)


A franchisor must provide a franchise agreement and disclosure document at least ten days before execution of the franchise agreement.\(^92\) Local counsel advises there is no requirement to provide disclosure prior to signing a letter of intent or option unless that document itself meets the definition of a franchise agreement.\(^93\)


The format of the disclosure document is provided in Form 1 of the Regulations, and is required to contain the following information:

- the name of the franchisor, the principal address of the franchisor, the date of incorporation of the franchisor, and the name under which the franchisor does business must be disclosed. Disclosure of background information, such as a description of the franchised business to be operated, is required if the franchisor was in operation prior to 8 October 1999.

- the franchisor’s organizational chart and the names and designation of senior executives and directors relevant to the franchise, including the work experience of these individuals. A franchisor must disclose particulars about a management company that handles the franchise for the franchisor, if any.

- information on any pending legal action in court (either criminal or civil in nature) against the franchisor or any member of its board of directors.

- whether there is a pending bankruptcy proceeding against the franchisor, any member of its board of directors or any of the franchisor’s personnel, and whether the franchisor or any member of its board of directors has previously been declared a bankrupt, is discharged as a bankrupt, or is an undischarged bankrupt.

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\(^91\) Franchise Act 1998, Section 4.

\(^92\) Id., Section 15.

\(^93\) *Malaysia, International Franchise Sales Laws* at 8.
• if a payment is made by the franchisee to the franchisor before signing a franchise agreement (including a payment which is part of a franchise fee), a statement disclosing such initial payment, including the purpose for the payment and the conditions for the use and refund of the monies.

• the types and amounts of fees imposed on the franchisee.

• the amount of money to be invested by the franchisee, including fees paid to third parties unaffiliated with the franchisor, such as those relating to real property, equipment, fittings and fixtures, fixed assets, cost of construction/remodeling, initial inventory, security deposit, other prepaid expenses (payment to landlord) and bank collateral. The law does not provide guidance to a foreign franchisor that has no previous operational or franchise experience in Malaysia.

• requirements that obligate the franchisee to purchase products, equipment, or services only from the franchisor or its affiliates, and requirements that a franchisee buy products or services only according to the franchisor’s standards or specifications. The franchisor must disclose the franchisee’s obligations with regard to required purchases, leases of equipment, and the procurement of services. A franchisor is also required to state whether the franchisor provides financing and the type of financing provided.

• a description of the franchisor’s pre-opening and post-opening obligations. Section 12 of Form 1 requires that a franchisor’s disclosure document contain a description of any particular territorial rights granted to the franchisee.

• the trademarks to be used in the franchised business and the fact that the franchisee has the right to use the trademarks and the details of its rights registered under any law relating to the registration of the trademarks. Local counsel advises the trademarks or service marks to be used in the franchised business need not be registered, but the franchisor must apply for registration of the trademarks before its application for registration of the franchise can be considered.

• whether the franchisee is required to participate in the franchised business on a full-time basis, and information regarding restrictions placed on the goods or services that the franchisee can sell.

• information on the term, renewal, termination of the agreement by the franchisor or the franchisee, obligations of the franchisee or franchisor upon termination, modification of the agreement by franchisor or franchisee and transfer by the franchisor or the franchisee upon termination, death, or disablement of the franchisor or franchisee.

• the number and location of franchised outlets and the number of franchisees terminated in the last financial year, the address of operating franchisees, and the total number of franchisees operating at the last financial year. The Act does not specify whether such information is restricted to Malaysia or is worldwide.

• audited financial statements for the last three financial years. The financial statements do not need to be audited by an independent certified public accountant. It appears that there is no restriction in the Act or the regulations on the use of
financial statements prepared outside of Malaysia, consolidated financial statements or financial statements of the franchisor’s parent company.

- the proposed form of franchise agreement must be included in the disclosure document.94

In an unusual requirement, which presents potential risks to franchisors, the franchisor is required to provide in Section 18 of Form 1 the financial forecast for three years. “Financial forecast” is not defined, but the common view is that it refers to the projected profits and losses of the franchise business. Local counsel advises that the franchisor can safeguard its interest by stating that the forecast is made based on various assumptions and that it is not intended to be a sales performance guarantee in any way.

c. South Korea

The South Korean franchise law is unusually detailed and complex, both due to its specific requirements and also due to the overlay of antitrust and fair trade requirements which existed prior to the law’s enactment.

i. What is a Franchise

Article 2 of the “Act on Fairness in Franchise Transactions” (“AFFT”) a “franchise” is defined as:

a continuous business relationship wherein the franchisor allows the franchisee to sell goods (including raw and auxiliary materials) or services under certain quality standards or operating methods using its trademarks, service marks, trade name, signs and other business marks (“Business Marks”), and supports, educates and controls the franchisee in regard to relevant management and operating activities, and in which the franchisee pays the franchise fees to the franchisor as a consideration for the use of Business Marks and the support and education concerning the management and operating activities.95


A franchisor must provide a registered disclosure document at least fourteen days (seven days, if the franchisee has consulted either an attorney, or a licensed franchise dealer) prior to the execution of a franchise agreement or payment of a franchise fee.96


The Enforcement Decree of the Monopoly Regulation and Fair Trade Act (“Enforcement Decree”) provides that the KFTC may determine and announce a standard form for the presentation of information in the disclosure documents, based on the type of industry, business

94 Form 1; see also Malaysia, INTERNATIONAL FRANCHISE SALES LAWS at 8-15.
95 AFFT, Article 2(1).
96 AFFT, Article 7(1).
or use of such information disclosed. The KFTC published a standard format for the disclosure document in July 2008.\textsuperscript{97}

The disclosure document must include:

- the name of the franchisor and those who have a special relationship with the franchisor.\textsuperscript{98}

- a list of the names of officers, directors, partners, and other personnel managing the franchisor and their “business experiences” over the previous three years.

- information about past or concluded administrative, civil or criminal matters against the franchisor, its affiliates or parent.

- a description of initial franchise fees and any other payments such as the money required to be paid to the franchisor or related persons for the franchisee to commence the franchised business and information regarding royalty fees and other fees charged by the franchisor, such as trademark license fees, rental fees, advertising fees, and instruction and training fees, charged in connection with the franchised business.

- the amount of money to be invested by the franchisee, including monies payable to third parties unaffiliated with the franchisor.

- if a franchisor requests or solicits a franchisee to contract with a specified person or entity (whether affiliated with the franchisor or not) to purchase or lease any products or services, a list of the affected items

- the financing arrangements a franchisor offers or arranges and details concerning its training program(s).

- a description of the franchisee’s territorial rights.

- a description of the following information for the 3-year period preceding the disclosure document:
  
  - The total number of franchise outlets of the subject franchise business and outlets under direct management of the franchisor in operation at the end of each fiscal years; and
  
  - The number of outlets that have newly opened, its agreement expired, its agreement terminated, or transferred for the preceding three year period.

The AFFT specifically provides that if a franchisor provides information related to its franchisees’ past performance or projected financial performance, such as total sales amount,

\textsuperscript{97} South Korea, \textit{International Franchise Sales Laws} at 9 –18.

\textsuperscript{98} The Enforcement Decree of the Monopoly Regulation and Fair Trade Act defines someone with a “special relationship” with the franchisor as including a person who owns, by himself, or in accumulation with another person, 30% or more of the total number of voting shares of the subject company. Other affiliated companies may need to be disclosed as well. \textit{Id.}
sales, profit, net profit and the like, for the purposes of promoting of its franchises, the franchisor must maintain, at its office, audited reports prepared by certified public accountants substantiating its claims.  

The AFFT requires that financial statements, including the balance sheet and profit/loss statements of the franchisor for the prior three fiscal years be included in the disclosure document. There is no requirement that the financial statements be audited by an independent certified public accountant. Although neither the actual franchise agreement nor any related agreement is expressly required to be included in the disclosure document, local counsel advises that the KFTC, in practice, generally requires that the franchise agreement be submitted for purposes of its review.

d. Vietnam

The Vietnamese franchise law has a regulatory model with pre-sale disclosure and registration requirements supplemented with relationship requirements. Vietnam’s franchise requirements are contained in the Commercial Law, adopted June 14, 2005 (“Commercial Law”). They are further described in Decree No. 35/2006/ND-CP of the Government dated March 31, 2006 (“Decree 35”), and Circular No. 09/2006/TT-BTM of the Ministry of Industry and Trade (“MOIT”) (MOIT was formerly known as the Ministry of Trade), dated May 25, 2006 (“Circular 09”).

i. What is a Franchise?

The Commercial Law defines franchising as:

a commercial activity under which the franchisor grants the franchisee the right to conduct on its own behalf the purchase and sale of goods or supplying services under the following conditions: (1) the purchase and sale of goods by the franchisee must be carried in a format determined by the franchisor and be associated with the trademarks, trade names, business logos, slogans, and advertisements of the franchisor at the franchisee’s business premises; and (2) the franchisor has the right to control and offer assistance to the franchisee in the conduct of the franchised business.

The definition is quite broad and it is important to note that the definition does not incorporate any “fee” or “payment” requirement.

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99 South Korea, INTERNATIONAL FRANCHISE SALES LAWS at 15.
100 See Bus. Franchise Guide (CCH) ¶7171 (2009), and see generally South Korea, INTERNATIONAL FRANCHISE SALES LAWS at 9-18.
101 Vietnam Law, Article 284. Decree 35 further elaborates on the definition of “franchise” to include: (1) rights received by the franchisee from the franchisor to carry out the business of selling goods and supplying services under a system determined by the franchisor and to affix trademarks, trade names, business logos, slogans, and advertisements of the franchisor at the franchisee’s business premises; (2) rights received by a primary franchisee from a franchisor under which the primary franchisee may sub-franchise to other sub-franchisees; (3) rights received by a sub-franchisee from a sub-franchisor (i.e., the primary franchisee) under a master franchise agreement; and/or (4) rights received by a franchisee from a franchisor under a franchise contract, which allows a franchisee to carry out the franchised business at more than one location within a territory. Decree 35; see also Vietnam, INTERNATIONAL FRANCHISE SALES LAWS at 5-6.
Franchisors must register “franchising activities” prior to the offer and sale of franchise agreements. In addition, Decree 35 also requires that: (1) the business system to be franchised must have been operating for at least one year and (2) the goods and services sold in the franchise must not be on the list of prohibited goods and services.102

ii. Disclosure Timing Requirements

Decree 35 states that disclosure be made at least fifteen working days before a franchise agreement is executed, “if the parties do not have some other agreement.” The last phrase is ambiguous as to whether it permits a shorter time period, but the more conservative view is that fifteen days is the minimum and the franchisor and franchisee may only agree on a longer time.103 A complete draft franchise contract must be delivered together with the franchise disclosure document at least fifteen working days before the date the agreement is to be signed.

The applicability of the law to letters of intent is unclear. Some local counsel in Vietnam take the position that, if the effect of a letter of intent is to bind the parties to sign a definite franchise agreement, upon the occurrence of certain events, then disclosure must be made to a prospective franchisee before it signs a letter of intent.104

iii. Disclosure Document

Circular 09 describes the information in the disclosure document. It includes the following:

- the franchisor’s name, head office address, incorporation date, scope of business, and type of business to be franchised;

- whether it is a primary franchisor or a sub-franchisor and whether it has registered the franchising activities with the appropriate agencies;

- a description of the franchisor’s organizational structure, including the department in charge of the franchising activities of the franchisor;

- a description of the general market and the Vietnamese market for the products and services being franchised, including the geographic market where the franchise business will operate;

- information on the business and management experience of the franchisor; on pending lawsuits in which it is involved and which relate to its franchising activities, as well as all lawsuits that occurred during the preceding year; and to specify the types and amount of initial fees that the franchisee must pay the franchisor;

- information on the money that a prospective franchisee must initially invest in the business. It includes costs for the business premises, facilities and equipment, decoration, and the security system of the franchise. Vietnamese franchise law does

102 Vietnam, INTERNATIONAL FRANCHISE SALES LAWS at 6.
103 Id.
104 Id. at 10.
not provide guidance for a foreign franchisor that has neither operational nor franchising experience, nor an understanding of the cost of establishing a business in Vietnam;

• a description of goods, services and equipment that the franchisee must purchase or lease in order to ensure the consistency of the franchise system;

• information on its trademarks, service marks and any other intellectual property rights that will be used in association with the franchised business. It must indicate whether trademarks are registered. If so, details of registration must be provided.

• information on the following must be provided:
  o the number of business establishments that the franchisor itself operates as well as the number that have ceased operation:
  o the number of franchised outlets as well as the number of contracts that franchisees have assigned (to third parties or the franchisor);
  o the number of contracts that have been terminated (by franchisor or franchisee); and
  o the number of contracts which have and have not been renewed or extended;

• a copy of the franchisor’s audited financial statements for the preceding year;

• a summary of the franchise contract, but not the contract itself; and

• information on awards or industry recognition that the franchisor may have received.

The disclosure document must also advise a prospective franchisee to do research on franchise legislation and related regulations, and must include a summary of clauses in the franchise contract that provide the conditions and obligations of the franchisor and the franchisee in connection with unilateral termination of the franchise contract. The preamble of the disclosure document must advise a prospective franchisee to: (1) look carefully at the Commercial Law, Decree 35, and Circular 09; (2) consult with existing franchisees; and (3) seek advice from independent legal, accounting, and business advisors. The Vietnamese franchise law has no provision stating whether financial performance representations are permitted or prohibited.

2. Governmental Filing Requirements

a. Indonesia

A franchisor must obtain a STPW prior to furnishing the disclosure document to a prospective franchisee. Under Regulation 31, the application to obtain a STPW for a foreign

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105 Vietnam, INTERNATIONAL FRANCHISE SALES LAWS at 11.
106 Surat Tanda Pendaftaran Waralaba, which is a form of Government consent.
107 Indonesia, INTERNATIONAL FRANCHISE SALES LAWS at 17.
franchisor, subsequent franchisor and franchisee from foreign franchisor, along with the required documents, must be filed with the Department of Trade ("DOT").

The disclosure document submitted by foreign franchisor for registration at the DOT must be legalized by a Public Notary in the franchisee’s home country and the franchisor must include a certificate from a governmental authority.

Under Articles 18 (1) of Regulation 31, if the DOT determines that the application for an STPW is complete and in order, it must issue an STPW within three business days. If the application is not complete and not in order, the DOT will reject it within three business days, and must provide the reasons for the rejection. In practice, local counsel advises the DOT normally takes longer than three business days to issue the STPW.

Under Article (2) of GR 42, if a franchise agreement is written in foreign language, a translation in Indonesian must be provided.\footnote{\textit{Id.}} As a practical matter, an English disclosure document must be completed with an Indonesian translation prepared, preferably by a sworn translator.

In the case of a termination, Article 6 of Regulation 31 requires a franchisor to obtain a “clean break” statement from the prior franchisee or the lapse of six months after termination of the franchise agreements before a new franchisee may be appointed at the location in question. The DOT will not issue an STPW to the new franchisee until the clean break statement is obtained from the terminated franchisee or the period of six months has elapsed. The clean break statement should indicate that the franchisor and the terminated franchisee have settled all problems arising as a result of the termination. Local counsel advises that a clean break statement is also required if an existing franchisee transfers its business to a new franchisee.\footnote{Regulation 31, Art. 6. \textit{See also Indonesia, \textsc{International Franchise Sales Laws} at 15.}}

### b. Malaysia

Under Section 6(1) of the Act, a foreign and local franchisor must register its franchise offering with the Registrar of Franchises ("Registrar") before making any offer for sale of the intended franchise.\footnote{\textit{Malaysia, \textsc{International Franchise Sales Laws} at 15.}} According to local counsel, a foreign franchisor applies for franchise registration by submitting a request in written form, usually in the form of a letter of request for registration of the franchise. Section 7 of the Act requires a franchisor, when making application to the Registrar, to submit the prescribed form together with a completed disclosure document, a sample franchise agreement, the operations manual, the training manual, a copy of the latest financial statements and such other information as the Registrar may require. Notwithstanding section 7’s stated requirement, local counsel advises that the disclosure document need not accompany the application, and the manuals may be able to be provided for inspection but not filed.

The letter should contain background information on the franchisor and the franchised business, such as:

- the name, date of incorporation, and business address of the franchisor;
• a description of the franchised business, the trademarks used in franchise and the business experience of franchisor

• a list of franchisees in operation; and

• information concerning the potential master franchisee or franchisee.

The letter should enclose brochures of the franchised business, the certificate of incorporation of the franchisor and attached the prescribed processing fee. A local franchisor must also file the disclosure document with the Registrar.\footnote{111}

Under Section 8 of the Act, the Registrar will provide written notice of its approval or refusal of the registration application. After receiving the application and prior to approval, the Registrar may request additional documents or information. Registration typically takes four to five months for the Registrar to approve an application.\footnote{112}

Upon obtaining approval, the foreign franchisor can offer the franchise for sale, provide the necessary disclosure document to the prospective franchisee and sign the franchise agreement.

If a registration application is refused, the Registrar will provide reasons for the refusal. A franchisor has the right to appeal to the Minister within one month of the date of receipt of the notice of refusal. The Minister’s decision is final.\footnote{113} The Registrar may refuse a registration application under Section 54(2) of the Act without giving any reason for refusal.

Section 10 of the Act states that the franchise registration remains effective unless the Registrar issues a written order notifying the applicant or franchisor of suspension or termination of the sale or registration of the franchise.

English is typically acceptable, as the Act and Regulations do not stipulate any particular language requirements for the disclosure document or franchise agreement.

Under Section 16 of the Act, a registered franchisor must file with the Registrar an annual report containing an updated disclosure document, if any, and a completed Form 6 as required by the Regulations, accompanied by a copy of the franchisor’s most recent audited financial statements.

c. South Korea

Franchisors must file the disclosure document with the Korea Fair Trade Commission (“KFTC”) for registration. The KFTC generally requires franchisors to submit all documents submitted to the KFTC for registration in the Korean language.

\footnote{111}{Id.}
\footnote{112}{Id. at 17.}
\footnote{113}{Section 17 of the Act.}
The following documents also need to be filed/submitted along with the disclosure document:

- an application for registration;
- the disclosure document;
- the franchisor’s certificate of incorporation;
- the Business Registration Certificate of the franchisor (if applicable);
- the franchise agreement and any other relevant franchise documents.114

**Vietnam**

A franchisor must register its “franchising activity” with the DOT before entering into a franchise agreement.

The registration application must include:

- A standard registration form;
- The disclosure document;
- A certified copy of the franchisor’s business registration; and
- A certified copy of any patents and certificates of intellectual property rights of the franchisor.

A Vietnamese translation, certified by a Vietnamese notary public, is required for most documents in a foreign language.

The DOT has a discretion to determine whether the documentation submitted for registration meets the disclosure and filing requirements, and it has the right to reject the documents or require that the franchisor make appropriate amendments or supplements to the disclosure document.

The time period within which the DOT must register the franchising activity is five working days from the date on which the franchisor submits its registration application, as long as no amendments or supplements to the registration dossier are required. However, in practice, this timing is rarely met.

A franchise agreement must be made in the Vietnamese language.115 The franchise disclosure document must also be made in Vietnamese for filing with the DOT.

Decree 35 and Circular 09 require that franchisors report to the DOT, within thirty days from the date of the change, any change in information described and registered in the disclosure document and in other specified information. Circular 09 also requires that, before

114 *South Korea, International Franchise Sales Laws* at 17-19.
115 *See Decree 35.*
January 15th of each year, the franchisor make an annual report to the DOT on the specified matters described in the disclosure document.\textsuperscript{116}

3. Franchise Relationship Requirements

a. Indonesia

GR 42 and Regulation 31 require that a franchise agreement contain the following:

- the name and address of each party (including the full name and addresses of the owner/personnel in charge of the franchisor and franchisee signing the agreement);

- details of the franchisor’s intellectual property rights (e.g., its corporate mark/brand and logo, management/marketing system);

- the type of business activity for the franchise – e.g., retail, education, restaurant, drug store, etc.;

- the rights and obligations of the parties under the franchise agreement;

- the assistance, facility, operational counseling, training and marketing granted by a franchisor to a franchisee, such as facility assistance in the form of provision and maintenance of computer and IT program of business activity management;

- the business area granted by the franchisor to the franchisee to develop the franchise;

- the term of the franchise agreement;

- the procedures for paying compensation (e.g., liquidated damages), including the time and method of calculation of such compensation, such as a fee or royalty if it is a franchisee requirement;

- the ownership, change in ownership, and rights of heirs;

- the dispute resolution provisions, including the place/location for settlement of disputes, such as through the District Court in the domicile of the franchisor company or through court or arbitration proceedings with due observance of Indonesian law; and

- the procedures for extension, termination and discontinuance of the franchise agreement, such as the agreement may not be terminated unilaterally.\textsuperscript{117}

GR 42 requires Indonesia law to be applicable to franchise agreements.\textsuperscript{118}

\textsuperscript{116} \textit{Vietnam, International Franchise Sales Laws} at 17-19.

\textsuperscript{117} GR 42, Regulation 31. \textit{See also Indonesia, International Franchise Sales Laws} at 19-20.

\textsuperscript{118} \textit{Indonesia, International Franchise Sales Laws} at 19-20.
b. **Malaysia**

Section 18 of the Act requires a franchise agreement contain certain minimum requirements or provisions, the failure of which renders a franchise agreement null and void. Section 18 requires that a franchise agreement must contain the name and description of the product and business of the franchise, territorial rights, required payments, franchisor and franchisee obligations, intellectual property rights, assignment conditions, a cooling-off period, a description of the intellectual property, the type of assistance provided, the term, renewal rights and the consequences of termination or expiration.\(^{119}\)

Section 31 of the Act stipulates that a franchise agreement cannot be terminated by the franchisor without “good cause.” “Good cause” is defined. In the event the franchisee fails to comply with the terms of the franchise agreement, the franchisor can terminate by giving written notice and not less than fourteen days to remedy the breach. The franchisor can also terminate without giving notice to remedy if the franchisee assigns the franchise rights for the benefit of creditors, voluntarily abandons the franchised business, is convicted of a criminal offense which substantially impairs the goodwill associated with the franchisor’s mark or other intellectual property, or the franchisee repeatedly failed to comply with the terms of the franchise agreement.\(^{120}\)

A franchisor that refuses to renew or extend a franchise at the end of its term must compensate the franchisee. Under Section 32 of the Act, under specified circumstances, the franchisor must repurchase the franchised business or provide compensation at a price to be agreed upon by the franchisor and franchisee after having taken into consideration the diminution in value of the franchised business caused by the expiration of the franchise.\(^{121}\)

Section 29 of the Act provides that the franchisor and franchisee must act in an honest and lawful manner and must endeavor to pursue the best franchise business practices under the circumstances. They must avoid substantial and unreasonable overvaluation of fees and prices, conduct that is unnecessary and unreasonable in relation to the risks to be incurred by one party and conduct that is not reasonably necessary for the protection of the legitimate business interests of the franchisor, franchisee or franchise system.\(^{122}\)

Section 20 of the Act provides that it is an unfair franchise practice and a violation of the Act for a franchisor unreasonably and materially to discriminate between franchisees operating a franchise in the charges offered or made for franchise fees, royalties, goods, services, equipment, rentals or advertising services if the discrimination causes damage to a franchisee and the affected franchisee is a competitor of the advantaged franchisee, unless and to the extent that any classification of or discrimination between franchisees falls into specified categories.\(^{123}\)

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\(^{119}\) The Franchise Act 1998 ("Malaysia Act"), Section 18.

\(^{120}\) *Id.* at Section 31(3).

\(^{121}\) *Id.* at Section 32.

\(^{122}\) *Id.* at Section 29. *See also* *Malaysia, INTERNATIONAL FRANCHISE SALES LAWS* at 19.

\(^{123}\) *Malaysia Act*, Section 31(3).
c. **South Korea**

If a franchisor wishes to terminate a franchise agreement, the franchisor must give a cure period of not less than two months prior to the date of termination, and must notify the franchisee in writing not less than twice of the details of the breach by the franchisee.

The AFFT also provides that, if a franchisee requests a renewal between one hundred and eighty days and ninety days prior to the expiration of the franchise agreement, the franchisor may not refuse to renew the franchise agreement without "justifiable reasons." The only conditions of refusing renewal are where:

- the franchisee has failed to perform its payment obligations of franchise fees, etc. under the Franchise Agreement;
- the franchisee has not accepted the terms the franchise agreement or business policy normally applied to other franchisees; or
- the franchisee has failed to follow the following important business policies of the franchisor that are deemed necessary for maintaining the franchise:
  - matters pertaining to the procurement of a store or facility that is necessary for the operation of a franchised store, or acquisition of license, permit or approval as required by law;
  - matters pertaining to observance of non-factoring methods or service techniques that are necessary for maintenance of the quality of goods or services for sale; or
  - other matters deemed necessary to maintain normal operation of the franchise as determined by the Presidential Decree.\(^{124}\)

The franchisee’s right to request a renewal may only be exercised for a total duration of ten years, including the term of the original franchise agreement. If ten years have elapsed since the execution of the initial franchise agreement, the franchisor may refuse to renew the franchise agreement without cause, provided a written notice of non-renewal has been provided by the franchisor to the franchisee within fifteen days from receipt of franchisee’s request for renewal.\(^ {125}\)

The AFFT is the primary statute applicable to the franchisor-franchisee relationship. Additionally, the Monopoly Regulation and Fair Trade Act ("MRFTA"), and regulations promulgated by the KFTC thereunder, are generally applicable to the relationship.\(^ {126}\)

Local counsel advises that Article 12 of the AFFT places certain restrictions on franchisors’ behavior, which are adapted from principles articulated in the MRFTA. According to

\(^{124}\) A Decree by the President of South Korea.

\(^{125}\) AFFT, Article 13; see also South Korea, INTERNATIONAL FRANCHISE SALES LAWS at 20-23.

\(^{126}\) Notable among them, the KFTC’s 1997 "Guidelines on International Contracts ("the Guidelines") remain in effect and could potentially impact the franchisor-franchisee relationship where one of the parties is not a Korean resident. However, local counsel has been advised by the KFTC that the Guidelines have not been enforced since 1999.
the AFFT, a franchisor shall not commit any act falling under any of the following categories which may obstruct fair trade in the franchise business:

- “Unfair” refusal to deal;
- “Unfair” restraint or restriction;
- Restriction on sale of products or services handled by a franchisee;
- Abuse of bargaining power;
- Establishment or amendment of contract provisions placing the franchisee at an “unfair” disadvantage;
- Infringement of a franchisee’s business territory; or
- Any other activity which may seem to obstruct fair trade, such as unfairly inducing a franchisee of a competitor franchisor to transact business in the franchisee’s market (e.g., “poaching”).

Because the standard to be used in analysis of the foregoing practices is “unfairness,” local counsel advises franchisors to have a clear written statement of business objectives and rationales for a potentially unfair practice, in order that the parties and any court can have a comprehensive understanding of all relevant circumstances.

**d. Vietnam**

The Commercial Law requires a franchise agreement “be made in writing or in another form with equivalent legal validity.” The parties may apply foreign law, provided that the foreign law does not conflict with the laws of Vietnam. In a peculiar provision, Decree 35 provides that the franchise contract may contain certain basic specified terms, if the parties choose to apply Vietnamese law, such as the subject of the franchise, rights and obligations of the franchisor and the franchisee, and payment method, term of the contract, and dispute resolution.

A franchisor may terminate a franchise agreements unilaterally if the franchisee: (a) no longer holds a business license to carry on the franchised business; (b) is liquidated; (c) becomes bankrupt; (d) commits a serious breach of the law which breach may cause substantial damage to the goodwill of the franchise system; or (e) fails to rectify a material breach of the franchise agreement within a reasonable period of time after receipt of a written request from the franchisor.

A franchisee may terminate a franchise agreement unilaterally if the franchisor breaches any of its obligations enumerated in Article 287 of the Commercial Law. These obligations include: (a) to provide the franchisee with the disclosure document; (b) to provide initial training.

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127 In addition, local counsel advises the AFFT also promulgates a “code of best practices.” Under Article 4 of the AFFT, both parties to a franchise relationship must exercise good faith in performance of each of their respective duties in connection with management and operation of the franchise. The franchisor’s duties are defined in Article 5 of the AFFT and the franchisee’s duties are defined in Article 6 of the AFFT. The AFFT provides neither criminal penalties nor sanctions for either party’s failure to adhere to the standards established in Articles 4, 5, and 6. Therefore, local counsel interprets these provisions as normative or best practices standards, rather than mandatory rules. However, to the extent that a franchise agreement incorporates or restates these provisions, parties to the agreement would have the right to enforce the terms of such agreement and an aggrieved party would have rights of redress, including petition to the KFTC or civil courts. See generally South Korea, INTERNATIONAL FRANCHISE SALES LAWS at 20-23.
and regular technical assistance; (c) to design and arrange business outlets; (d) to grant intellectual property rights under the agreement; and (e) to treat all franchisees equally.

The franchisee may transfer the franchised business only with approval of the franchisor. The franchisor may refuse under certain specified circumstances. Finally, the Commercial Law generally provides that a franchisee has certain obligations to the franchisor, which include paying the franchise fees and other expenses stipulated in the franchise agreement; complying with the franchisor’s design and layout requirements; keeping the franchised business information confidential during and after termination of the franchise agreement; and operating in conformity with the franchise system.\textsuperscript{128}

4. Trademark Laws

a. Indonesia

Trademarks must be registered with the Indonesia Trademark Office of the Directorate General of Intellectual Property Rights to receive legal protection. The applicable law is No. 15/2001 of August 1, 2001. Marks are registered in classes using the Nice Classification. A separate application is required for each class. Paris Convention Countries can benefit from a Priority Benefit Application.

International applicants must appoint an agent, with power of attorney, in Indonesia to register a trademark. Applicants must complete the application form, pay applicable fees, submit a copy of the power of attorney for the local third party agent, and supply 24 representations of the mark. In addition, applicants must submit a declaration of ownership stating that the mark belongs to them. If the application is completed in a foreign language, including words within the mark, a translation into Indonesian is required. After approval, registration numbers are required to be shown on goods bearing the mark.

A trademark is valid for ten years from the date of registration and renewal also for ten years. There is no intention to use requirement at the time of filing, though the mark may be cancelled if it has not been used within three years.

Assignments of marks to third parties are to be recorded at the Trademark Office. The law states that unless a license agreement has been recorded at the Trademark Office it will have no effect on third parties. However, as of 2008, the regulations for licenses have not been implemented and it is not yet possible for licenses to be recorded. Use of a mark by a licensed user qualifies as use with regard to opposition or cancellation claims.\textsuperscript{129}

b. Malaysia

Trademarks must be registered in Malaysia to receive legal protection. A few laws govern trademarks, chief of which is the Trademarks Act of 1976 which was revised and amended in 1994 and 2000. Marks are registered in classes using the Nice Classification, even though Malaysia is not a signatory to the Nice Agreement. Malaysia is a member of the World

\textsuperscript{128} See generally Decree 35, Commercial Law, Article 287 and Vietnam, INTERNATIONAL FRANCHISE SALES LAWS at 20-21.

Intellectual Property Organization, the Paris Convention, the Berne Convention, and the TRIPS Agreement. Paris Convention Countries can benefit from a Priority Benefit Application.

A trademark is valid for ten years from the date of registration and the renewal is also for a period of ten years. Applicants must have a bona fide intention to use the mark at the time of filing. A mark may be cancelled if it has not been used within three years. The statute of limitations for trademark challenges is seven years from the date of registration.

Assignment of marks to third parties should be registered, with or without goodwill. Assignments without goodwill are not valid in Malaysia if the mark has not been used in good faith by the assignor prior to the assignment. Non-goodwill assignments also must be advertised in prominent publications. There is no requirement to register a trademark license agreement, although it is recommended, especially for exclusive licenses.130

c. South Korea

The principal source of law relating to trademarks in Korea is the Trademark Act which was first enacted in 1949. Well-known marks, even if not registered, may be protected under the Unfair Competition Prevention and Trade Secret Protection Act. The first applicant for registration of a trademark is entitled to its registration.

The Korean Intellectual Property Office (“KIPO”) combines the former Korean Classification with the International Classification of Goods and Services. Like the International Classification, goods are divided into 34 classes, and services into 100 classes. However, goods included in the International Classification that are considered too broad when compared to the former Korean Classification, or that are duplicative, are excluded from the new classification.

An applicant may designate goods and/or services which cover multiple classes in a single application. Alternatively, an applicant may file separate applications to cover each individual class.

“Use” and even “intent to use” do not need to be proved for trademark registration. Thus, many trademarks are filed for defensive purposes, although their registrations may be cancelled after three consecutive years of nonuse.

A trademark registration is valid for a term of ten years from the date of registration and may be renewed for ten year periods. Renewal must be sought within the year preceding expiration or a six-month grace period after expiration.

Licensing of a trademark is allowed, and the recordation of the license is not mandatory. However, failure to record a license could cause the registration to be cancelled for unauthorized use. A trademark license may be granted with respect to only certain territories in Korea or for the entire territory of the Republic of Korea.

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d. Vietnam

All trademark applications should be filed through a Vietnamese qualified IP agent for registration with the National Office of Intellectual Property (“NOIP”) under the Ministry of Science and Technology.

Trademark applications can be filed under the Paris Convention, which provides for the claim of a priority right within six months after the first filing date in another member country. Vietnam applies the first-to-file principle.

Although Vietnam is still not a member of the Nice Agreement, it uses the International Classification of Goods and Services. Multi-class applications are acceptable in Vietnam.

The actual use of a trademark is not a precondition to filing an application for registration in Vietnam. However, a mark will become vulnerable to deletion/cancellation for nonuse if it has not been used for five consecutive years during the protection period starting from the registration date, absent a justifiable reason for the nonuse.

The initial term of protection of a trademark registration is ten years and is renewable indefinitely for ten-year terms. Until recently, Vietnamese legislation provided for the protection of unregistered well-known marks against applications for confusingly similar or identical marks even for dissimilar goods. Decree No. 06/2001/ND-CP now provides that the rights over well-known trademarks are protected for an indefinite term from the date of the NOIP’s decision recognizing the trademark as being well known. The protection will continue indefinitely so long as the mark continues to satisfy the requirements for being a well-known trademark. Additionally, licenses must be registered with the NOIP to be effective. However, rights in a pending trademark cannot be licensed.

In general, as a pre-requisite to franchising in Vietnam, the foreign franchisor should have a registered trademark in Vietnam, for otherwise it will not have enforceable trademark rights in Vietnam. As a best practice, the foreign franchisor should have the registration for its trademarks in its own name as the registrant. If the local franchisee is the registrant of the trademark, complications may arise if a dispute occurs between the foreign franchisor and the franchisee.

III. CONCLUSION

Although franchising was developed in the West, the future opportunities for franchising lie significantly in the emerging markets of the East. Already many countries in the Asia-Pacific region are beginning to see the exponential growth in the number and diversity of franchised businesses experienced in North America in the 1980’s and 1990’s.

Going East is not without its legal challenges, as regulators have been quick to impose legislative requirements that regulate or affect franchising in many of the countries in the region. What is surprising is the diversity of approach. Some countries in the region – Hong Kong, Singapore, New Zealand and Japan – have adopted a laissez faire approach, but they are in the minority. And even in some of these markets, although there is no specific franchising legislation, industry codes of conduct have become a form of de facto regulation. Other countries have been very prescriptive, with Australia, Indonesia, Malaysia, South Korea and Vietnam moving well beyond basic prior disclosure to including relationship and other elements.
in their regulatory framework. Ironically, franchising appears to be flourishing ubiquitously, and irrespective of the regulatory framework.

Unlike in the West, where legislative intervention is often seen as a negative, there are many countries in the Asia-Pacific region that have introduced franchising legislation to enhance the credibility of the sector. Although Australia, Indonesia and Malaysia have quite prescriptive franchising legislation, they have nonetheless been strongly supportive of the franchise model.

There are conceptual similarities between most of the regulated markets, with prior disclosure a common element, but the detail as to the nature of the disclosure and the other elements of the regulatory framework is remarkably different. No two countries are sufficiently alike to provide any real efficiencies for a franchisor going East, and few of the laws are sufficiently straightforward to obviate the need to obtain specific advice from local counsel on the practical application of the law. Indeed, in some countries in the Asia-Pacific region there can be a material divergence between franchising law and franchising practice.

The authors trust that this paper may have helped shed some light on the journey East for a young franchisor. In the Elvis Presley song the East was portrayed as a place of freedom and opportunity. There is no doubt that opportunity awaits, as may fame and fortune. But the regulatory environment for franchising requires some skillful navigation, and a franchisor’s fortunes will perforce be net of some legal compliance costs.
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