has become a widely discussed matter in recent years. This development has not spared trade marks and brands. First IP-backed securitisations and collateralisations took place as early as in the 1990s.[281]

2.3.3.1 Collateralisation for Financial Needs

As trade marks, that is in Europe, are freely transferable assets, they can be used as credit collateral, at least in theory. The same applies to trade mark licencing rights and the position obtained through application for registration. In case the trade mark is registered thereinafter, the security right continues with regard to the registered right.[282]

In order to assess the extent to which a trade mark can secure a certain claim, it needs to be valued. This should be carried out as comprehensively as possible in order to obtain a holistic understanding of risks and opportunities associated with the respective trade mark.

The difficulties specific to using trade marks as collateral are not very much on the legal but rather on the factual side. The fact that trade mark rights can only unfold their maximum benefit and potential in combination with the other brand elements as well as other supporting tangible and intangible assets and as owned by a business which is willing and able to act accordingly considerably aggravates the bank's possibility to sell or otherwise exploit it promptly and for an adequate sum in case of default.[283]

2.3.3.2 Credit Rating

Another important issue with respect to loans is that banks have to look more closely than ever at credit users' risk, as required by the new so-called 'Basel II' rules issued by the *Basel Committee on Banking Supervision* in June 2004. These rules have revised standards governing the capital adequacy of internationally active banks.[284]

281 It is said that the first IP-backed securitisation was carried out in 1997, when musician *David Bowie* raised US $ 55 million by securitising certain rights to future royalty payments arising from his music catalogue, cf. *Medansky/Dalinka*, Considering intellectual property securitisation. However, innovative IP-based financing began, at least in the US, as early as 1992, when *Dow Chemical* received a loan based on IP, cf. *Hillery*, Securitization of Intellectual Property: Recent Trends from the United States, p. 5.

282 *Klawitter/Hombrecher*, WM 2004, 1213, 1217/1218.

283 Q.v. 2.1.1.3.4 – nontradability.

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Prior to granting a loan, each bank passes through a rating process in which the debtor's solvency is being assessed. The debtor is being allocated to a certain probability of default. The worse the creditworthiness and the higher the probability of default, the more capital must be lodged by the credit institute. This means that cost of capital rises with falling solvency of the debtor.[285] Basel II rules aim, amongst others, at enabling a risk assessment which is more detailed than it had previously been.[286]

Banks' rating will depend to a substantial extent on quantitative figures as laid down on the balance sheet. The value of the respective company's (acquired) brands can play an important role in this regard. Furthermore, comprehensive IP (e)valuation can help assess the creditworthiness of IP-focussed debtors.[287] Debtor quality, in turn, is one of the factors to be considered during calculation of the lending bank's refinancing costs, which, in turn, is one of four elements making up the final cost of credit.[288]

2.3.3.3 Securitisation

Securitisation, or asset-backed securities, is a variety of corporate finance by means of which businesses turn receivables into cash. Hereby, the originator pools and sells certain assets (which presupposes their valuation) to a special purpose vehicle (SPV), a legal entity unconnected to the originator, which has been specially formed for this purpose. The SPV refinances itself by issuing securities. The cash flows generated by the sale are used by the originator to settle investors' receivables.[289]

Amongst others, securitisation can be based on revenues derived from intellectual property rights such as copyrights and trade marks. Securitisations utilising this type of asset are called 'operating-asset securitisations' as the originator is obliged to make these assets (contrary to fixed assets) work, i.e.

284 The full text has been issued by the *Bank for International Settlements* and is called "International Convergence of Capital Measurement and Capital Standards".
285 *Schmeisser/Schmeisser*, DStR 2005, 344, 344.
286 *Volkenner/Walter*, DStR 2004, 1399, 1399.
287 Quantitative factors such as operating cash flow influence the solvency assessment to a degree of approximately 60%. The remaining 40% comprise qualitative factors such as market position, cf. *Kudraß/Schäfer*, BC 2003, 35, 36. Such factors would be assessed in the course of a valuation methodology as proposed in this work.
288 *Schmeisser/Schmeisser*, DStR 2005, 344, 344/345.
289 For more detailed information, e.g. on the role of the service agent, cf. *Schmeisser/Leonhardt*, DStR 2007, 169, 169.

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to actively exploit them.[290] Even though the market for such securitisations is still small, a number of large IP-backed securitisations took place in the past indicating considerable market potential. In a 2003 landmark deal, *Guess Jeans* trade mark rights were securitised for US $ 75 million. The American *Dunkin'* brands were, in 2006, securitised in the course of a US $ 1.7 billion deal based on assets including royalty rights vis-à-vis franchisees.[291]

It is crucial for any IP-based securitisation to account for the fact that the respective rights have to be managed and exploited as easily as by the original proprietor. Therefore, the necessary valuation needs to include not only quantitative analyses but also qualitative ones, arriving at a comprehensive value statement taking not only purely financial risks and opportunities into account.

2.3.4 Brand Protection

Brand protection situations as reasons for brand valuation can be both future-related (protection strategy) and mainly historic (assessment of damages and of the amount in dispute).

2.3.4.1 Brand Protection Strategy

A brand protection strategy is a future-related management means which addresses the question how to best utilise trade mark law and other (legal and factual) regimes to protect the respective brand from infringement and genericide and from otherwise being watered down. As an issue of vital importance for survival and profitability of any business with brands, it should be part of overall brand management or at least closely intertwined with it.

A proper brand protection strategy has implications on various areas in the production and distribution cycles. For instance, secure packaging with barcodes, holographs, RFID tags[292] and other technical protection means as well as careful selection of distribution channels are frequently used measures to prevent product piracy. Product packaging has become an integral part of

290 *Sine autore (The Economist)*, Securitising Intellectual Property: Intangible Opportunities.

291 *Mahmud*, 17 Managing Intellectual Property, iss. 8, 22 (2006), 22 and 24.

292 Radio frequency identification (RFID) is the use of radio frequencies to read information at a distance on a small device, cf. *Finkenzeller*, RFID-Handbuch, p. 1.

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many businesses' brand protection strategy – not only since the packaging itself can be protected as a three-dimensional trade mark if the requirements are met[293] but also because the packaging, by means of the abovementioned technical protection features, increasingly serves as an instrument to guarantee authenticity of the product along the entire distribution chain.

Next to such factual measures, legal means are also crucial elements of any brand protection strategy. These mainly include online and offline search for trade mark infringers and trade mark surveillance in order to prevent genericide. These law-related elements of a brand protection strategy will be dealt with in more detail below at 5.13.

In the brand protection strategy context, forecasting brand valuation, if carried out comprehensively, can be helpful for early detection and monitoring of possible factual and legal challenges as well as for singling out those brands for which investment (amongst others in the form of monitoring for protection strategy purposes) is expected to be profitable.

2.3.4.2 Assessment of Damages and Amount in Dispute

In trade mark cases brought before the courts, particularly in infringement and contractual disputes, legal dispute related valuations are generally carried out on the basis of past circumstances, for instance in context of assessment of damages, in which the aggrieved party, as a general rule, has to be put in a position as if the hurtful event would not have taken place. Furthermore, a trade mark-based amount in dispute needs to be determined in each case in which the main object of conflict is one or several trade mark rights.

Establishing the amount of brand value to be used in litigation is not a question of law but one of fact. As a consequence, since there is no room for legal argumentation in the area of fact finding, a specific fixed legal rule or practice relating to determination of brand value in litigation contexts cannot exist. Judges are therefore not bound by a certain valuation method or rule.[294] Rather, trade mark or brand value, if needed, is established in the course of discovery or evidence stages of a legal proceeding.

293 As to three-dimensional marks cf. below at 5.2.3.2.

294 Cf., with respect to business valuation, BGH, judgment of 1 July 1982, Case IX ZR 34/81; *Großfeld*, Unternehmens- und Anteilsbewertung im Gesellschaftsrecht, p. 44. These business valuation statements are sometimes being adapted for IP valuation

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