



Intellectual Property

How Hedge Funds Can Protect Their Brands and IP: Pepper Hamilton Attorneys Discuss Trademarks and Copyrights (Part One of Two)

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An adviser's name and proprietary trading methods can be among its most valuable assets. A panel of intellectual property (IP) attorneys at Pepper Hamilton's recent symposium offered a thorough overview of the fundamental elements of trademark, copyright, trade secret and patent law, as well as practical examples of how IP law intersects with fund management. The panel, entitled "The Importance of Intellectual Property," was moderated by Pepper Hamilton partner Gregory J. Nowak and featured Evan H. Katz, a managing director of alternative asset investment firm Crawford Ventures, Inc.; Pepper Hamilton partners Michael K. Jones and Peter T. Wakiyama; and associates Lori E. Harrison and Joseph J. Holovachuk.

This article, the first in a two-part series, discusses how investment managers can safeguard their brands through trademarks and protect their copyrightable materials. The [second article](#) will explore the panelists' insights with respect to trade secrets and patents in the investment management context.

For more on IP protection, see ["Trending Issues in Employment Law for Private Fund Managers: Non-Compete Agreements, Intellectual Property, Whistleblowers and Cybersecurity"](#) (Nov. 17, 2016). For additional insight from Pepper Hamilton, see ["Marketing and Reporting Considerations for Emerging Hedge Fund Managers"](#) (Jun. 16, 2016). For more from Nowak, see ["Tax Proposals and Tax Reforms May Affect Rates and Impose Liabilities on Hedge Fund Managers"](#) (Apr. 16, 2015).

Trademarks, Trade Names and Service Marks

A trademark is a sound, word, symbol or design that identifies and distinguishes a company's products or services, said Harrison. A trademark applies to goods; a service mark, to services. Trademark and service mark rights derive from "using a mark in commerce in connection with goods or services," rather than registration, Wakiyama added. A firm that desires to claim rights in a mark should use the TM or SM symbol, he added, although because rights arise out of use rather than registration, using these symbols is not required as a technical matter.

When a firm does register its mark with the U.S. Patent and Trademark Office (PTO), it may use ®, but it is not necessary to use that symbol to protect a registered mark. Trademarks are not

that expensive and provide protection from the time they are first used, said Nowak.

Registration of trademarks is beneficial, but not required. A typical registration can take three to six months, Wakiyama said. Registration is presumptive evidence of validity and ownership of the mark; it provides nationwide protection and will preclude others from registering a confusingly similar mark.

An adviser marketing its services would use the SM symbol. A software product would use TM because software is considered a “good,” Wakiyama said. When a fund manager uses its firm name in the name of a fund it creates, that usage would be considered a trade name, rather than a trademark. For example, “‘T. Rowe Price’ is both a trademark and . . . the name of the company,” he said. When the full corporate name, “T. Rowe Price, Inc.” is used, there would be no designator, but when “T. Rowe Price” is used to refer to the brand, the company would use the ® symbol.

See also “[Hedge Fund Names: What a Hedge Fund Manager Should Do Before It Starts Using a Name](#)” (Mar. 16, 2012).

Fair Use

Under trademark law, there is a doctrine called “fair use.” The holder of an established mark can exclude others from using that mark, but factual fair use of another party’s trademark is permissible, said Wakiyama.

Use crosses the line when it suggests some sort of sponsorship, endorsement or affiliation, or when it otherwise creates confusion. For example, listing the names of the companies with which a firm does business, without more, should be fair use. However, many companies would be concerned about the use of their logos for that purpose.

Types of Trademarks

There are five different types of trademarks:

1. generic;
2. descriptive;
3. suggestive;
4. arbitrary; and
5. fanciful.

A fanciful mark, said Harrison, is one that does not have a separate dictionary meaning, such as “Accenture” or “Ameriprise.” It is the strongest and easiest type of mark to protect.

At the other end of the spectrum, if an adviser named a fund “The Money Fund,” that mark would be harder to protect, as there could be a wide range of fair uses of the name. A generic mark, such as “tissue” – as compared to “Kleenex” – cannot be registered, said Katz.

A descriptive or suggestive mark would be something like “Speedy Messenger” and is also hard to register. If used exclusively for a long enough period of time, however, a descriptive mark can be protected, said Wakiyama. One panelist noted that it took Microsoft a long time to register the mark “Windows” because it was considered generic.

Clearance of a Trademark or Service Mark

It is very hard to create a truly distinctive mark that has not been used in commerce, Wakiyama said. Since rights arise out of use, clearing a mark before putting it into use or trying to register it is critical.

Many businesses have to try a number of different marks before they find one that is available. It is imperative to do a thorough search to determine if someone else is already using the mark. A preliminary search by a trademark attorney would usually include the PTO database and a Google search. Based on that search, the attorney would characterize the risk of rejection as high, moderate or low. "You never know who is out there, no matter how much searching you are doing," Wakiyama cautioned.

Domain name availability is another important consideration. A firm that believes that a third party has created a confusingly similar domain name may bring an action under 15 U.S.C. § 1125(d), commonly known as the Anticybersquatting Consumer Protection Act. Alternatively, the owner of a domain name may challenge a cybersquatter under the Uniform Domain Name Dispute Resolution Policy of the Internet Corporation for Assigned Names and Numbers.

A company should think globally when planning to use a mark, Wakiyama said. If a company finds a match for a proposed mark in a remote nation and seeks to register that mark in the U.S., it should still investigate the foreign use of that mark. There are companies that specialize in searching for graphic marks and designs. When a design is registered, the PTO assigns the mark a numeric code that facilitates searching, Harrison added. It is more difficult to search for unregistered marks.

Trademarks are not always limited to specific industries, Harrison explained; a "famous" mark is entitled to added protection. For example, a hedge fund that incorporated in its logo a lightning bolt similar to that used by pro football's San Diego Chargers might be challenged on the theory that its use was diluting the value of the Charger's mark, even though there is little risk of confusion between the manager and the team. The lesson, said Katz, is that a company should never do its own trademark search; getting it wrong can result in a "parade of horrors."

It is much cheaper to search before using a mark, said Harrison, rather than to find out later that a mark infringes a pre-existing mark. An audience member cautioned that many state corporate registries are limited to corporations; thus, even a search of the registries of all 50 states would not be sufficient because it may not include limited liability companies or partnerships. It is also important to recognize that corporate name availability does not ensure trademark availability.

Infringement

Trademark owners have "an obligation to police and enforce" their marks, Wakiyama said, lest they lose rights over time. Policing can be done through Google searches and third-party "watch reports."

The key test in determining whether one mark infringes another is the "likelihood of confusion," he said. "Actual confusion in the marketplace," such as misdirected calls or emails, is much stronger evidence than the mere possibility of confusion.

When a firm believes that its trademark has been infringed, the first step is typically to send a cease-and-desist letter. If its only goal is to get the infringer to stop using the mark, the letter may suffice.

A firm that waits too long to police a mark may be precluded from enforcing it under the legal theories of laches and estoppel, Katz cautioned. Worse, a hedge fund manager that fails to police its name might one day be confused with an investment manager with a similar name that has been cited by the press as being a bad actor.

A firm faced with a claim of infringement or a cease-and-desist letter should always check to see if it has coverage under one of its insurance policies, Wakiyama said. An audience member noted that “media” insurance products may provide defense costs and indemnification for damages from using an infringing mark; conventional commercial liability policies may exclude such coverage.

Oriental Financial Group, Inc., one of Puerto Rico’s largest financial services companies, recently won an infringement case against credit union Cooperativa de Ahorro y Crédito Oriental over the latter’s use of the word “oriental,” Harrison explained. The U.S. Court of Appeals for the First Circuit ruled that, although it is a common term, the credit union’s use could cause confusion because a consumer might think that the goods and services of the two entities were related. See also [“U.K. Chancery Court Holds That, Under European Union Intellectual Property Law, Financial Services Company ‘OCH Capital’ Infringed the Trademarks of European Hedge Fund Manager Och-Ziff Capital Management”](#) (Nov. 19, 2010).

Copyright

Basics of Copyright Protection

Unlike trademarks, which arise under common law, copyright protection has its roots in the U.S. Constitution and the U.S. Copyright Act, said Wakiyama. Whereas trademarks protect “branding,” copyright provides broad protection to the creative works of authors and artists. There is a very low threshold for protection, and works are protected immediately upon their creation.

It is beneficial, but not necessary to use the © notice. If the notice is conspicuous, an infringer cannot claim that the infringement was inadvertent. It is a good idea to put a copyright notice on each web page that can be viewed separately, Harrison added.

Ownership of a Copyright – Employees Versus Independent Contractors

Ownership of a copyright is determined through factual and legal analysis, Wakiyama explained. Under the Copyright Act, a work created by a true employee within the scope of his or her duties is deemed to be owned by the employer. Gray areas surrounding copyright ownership do occasionally arise, Wakiyama said, such as when employees create something in their spare time or something that is beyond the scope of their employment. Employers can protect themselves from this risk by insisting on a written assignment by the employee of intellectual property rights.

On the other hand, a work created by an independent contractor, such as an algorithm or software program, is owned by the contractor, unless the contractor agrees that his or her work is a “work for hire” for the employer, Wakiyama noted. Companies have risen and fallen on the issue of ownership of software created by independent contractors.

A firm’s desire to treat someone as a consultant to avoid withholding taxes and social security contributions has “incredible consequences for tax, for compliance [and] for IP” said Nowak. To address these risks, a firm should include a work-for-hire provision in a consultant’s engagement

letter, specify who is paying taxes and specify why the consultant is not being treated as an “access person” subject to the firm’s code of ethics. See [“Independent Contractors vs. Employees: What Hedge Fund Managers Must Know About Classifying Staff and Protecting Proprietary Secrets”](#) (Jun. 2, 2016).

Critically, any copyright assignments in such agreements should be self-executing, Wakiyama added. “I hereby assign . . .” is a self-executing assignment, while “I agree to assign . . .” is not self-executing. With the latter, the consultant must take that additional step to complete the assignment, in which case the employer would not own the right and may have to sue to enforce the agreement. An agreement should also include a grant of power of attorney to the employer to execute all requisite documents to confirm any assignment of IP, said Katz.

See [“U.K. High Court of Justice Rules on Whether Software Written by Co-Founder of a Hedge Fund Manager Belongs to the Co-Founder or the Firm”](#) (May 30, 2013); and [“Key Legal Considerations in Connection With the Movement of Talent From Proprietary Trading Desks to Start-Up or Existing Hedge Fund Managers: The Bank Perspective \(Part Two of Three\)”](#) (Jan. 14, 2011).

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