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NYMEX May Not Prevent Use of Its Settlement Prices Under Copyright Laws According to Second Circuit Court of Appeals

On August 1, 2007, the Court of Appeals for the Second Circuit issued its opinion in the closely watched copyright case *New York Mercantile Exchange, Inc. v. IntercontinentalExchange, Inc.*, ___ F.3d ___ (2nd Cir. Aug. 1, 2007), in which the New York Mercantile Exchange (NYMEX) accused IntercontinentalExchange (ICE) of violating NYMEX's copyrights in the settlement prices for futures contracts for Henry Hub natural gas and West Texas Intermediate crude oil. In affirming the district court's grant of summary judgment to ICE, the Second Circuit held that the merger doctrine precluded copyright protection of NYMEX's settlement prices, stating that to hold otherwise would "bar ICE or other competitors from valuing NYMEX's contracts."

District Court Held Settlement Price Facts Are Not Protectable

NYMEX's claims against ICE stemmed from ICE's offering of over-the-counter swap contracts for Henry Hub natural gas and West Texas Intermediate crude oil that are valued on the basis of NYMEX settlement prices. As part of ICE's clearing operation, ICE copied the NYMEX settlement prices. NYMEX brought suit against ICE in November 2002 alleging copyright infringement, federal and state trademark infringement, and tortious interference. On September 29, 2005, the district court granted ICE's motion for summary judgment on all claims brought by NYMEX against ICE, holding that: (1) the settlement prices are facts unprotectable by copyright; (2) the idea and expression of the settlement prices are not sufficiently distinct, and the merger doctrine applies to defeat copyrightability of the settlement prices; (3) the settlement prices are not copyrightable as short phrases; (4) ICE's use of the NYMEX trademarks is descriptive, and therefore constitutes fair use; and (5) the court would decline to exercise supplemental jurisdiction over NYMEX's state law claims. *New York Mercantile Exchange, Inc. v. IntercontinentalExchange, Inc.*, 389 F. Supp. 2d 527 (S.D.N.Y. 2005). On appeal to the Second Circuit, NYMEX contested the summary judgment on the copyright claims and the refusal of the district court to exercise supplemental jurisdiction over NYMEX's state law claims.

The Second Circuit Opinion

The Second Circuit opined that the "line between creation and discovery ... is a difficult line to draw in this case," and so declined to resolve the issue of whether the settlement prices were discovered facts similar to census data (and therefore not copyrightable) or creative expression similar to judgments about the value of rare coins (and therefore copyrightable).

For other reasons, however, the court held that NYMEX's claims failed. In particular, the court held that "because any settlement price for a particular futures contract would be determined based on the same underlying market facts," allowing NYMEX to protect its settlement prices through copyright would run afoul of the merger doctrine, which prevents protection of creative expression "in those instances where there is only one or so few ways of expressing an idea that protection of the expression would effectively accord protection to the idea itself."

Conclusion

The decision is an important one in the context of disputes between financial institutions regarding the use of third-party market data in the creation of derivative products. While the Second Circuit's decision did not address potential state law misappropriation claims (which NYMEX did not bring), the decision does suggest that the courts will give close scrutiny to attempts to protect through copyright what are deemed market facts.

The intellectual property team at Mayer, Brown, Rowe & Maw LLP is prepared to answer your questions regarding the implications of this decision on the protection of financial market data. For inquiries related to this alert, please contact one of the authors, **A. John P. Mancini**, at jmancini@mayerbrownrowe.com, **Richard M. Assmus**, at rassmus@mayerbrownrowe.com, or **Gregory A. Frantz**, at gfrantz@mayerbrownrowe.com.

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