NOTE

The Death of Copyright Protection in Individual Price Valuations, a Flawed Merger Doctrine, and Financial Market Manipulation: *New York Mercantile Exchange v. IntercontinentalExchange*

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INTRODUCTION

William Blake once observed, "The difference between a bad artist and a good one is: The bad artist seems to copy a great deal; the good one really does copy a great deal."[1] Such rings true for the insurmountably successful IntercontinentalExchange (ICE).[2] ICE provided steep

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1. EDWIN JOHN ELLIS, THE REAL BLAKE: A PORTRAIT BIOGRAPHY 379 (1906).

2. Murray Coleman, *Electronic Trading Firms Set for Strong Earnings: ICE, ITG Expected to Report Double-Digit Growth, Capitalize on Tech Expansion*, MARKETWATCH, Apr. 26, 2007, at 1, http://www.marketwatch.com/news/story/electronic-trading-firms-set-report/story.aspx?guid={41F64161-4BF6-48D8-

competition to rival energy commodity trader, New York Mercantile Exchange (NYMEX) by using particular NYMEX settlement prices for its own futures contracts and hybrid commodity instruments.[3] Despite such allocation, making use of another exchange's price data is certainly not unusual amongst the financial markets. In fact, the sale of such price information to market data vendors accounts for a significant amount of revenue for many exchanges.[4] Furthermore, settlement prices for the various exchanges may only be kept private for a limited period of time. After all, pursuant to the Commodity Futures Modernization Act (CFMA), the Commodity Futures Trading Commission (CFTC) actually *requires* that such prices be publicly disclosed before the next business day.[5]

However, as an exchange that, until recently, had substantially less regulatory authority than that of NYMEX, ICE provides a more appealing market for clientele who prefer to have their activity escape CFTC oversight.[6] Moreover, traders potentially view ICE and NYMEX as "essentially one market for Henry Hub natural gas futures"—to the point where it is nearly "impossible to

9BA8-642F5FFE95CA} ("IntercontinentalExchange, Inc. (ICE) . . . last year was the New York Stock Exchange's big winner with total returns of 196.8%. This year, its stock continues to rise, though at a more sober 20% clip.").

3. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 497 F.3d 109, 112 (2d Cir. 2007), *cert. denied*, 128 S. Ct. 1669 (2008); *see also* Lynn Garner, *Senate Democrats Offer Bills to Boost CFTC Oversight of Commodity Trading*, 40 Sec. Reg. & L. Rep. (BNA), at 946 (June 16, 2008) (explaining that ICE has "grown into a direct competitor to NYMEX").

4. *See* INDEXING FOR MAXIMUM INVESTMENT RESULTS 354 (Albert S. Neubert et al. eds., 1998) (explaining that "licensing fees for real-time financial information are the second largest source of revenue for financial exchanges like the CME").

5. *See N.Y. Mercantile Exch., Inc.*, 497 F.3d at 112 ("[NYMEX] publicly discloses those prices by the next business day, as required by the CFTC."); ROBERT W. KOLB & JAMES A. OVERDAHL, UNDERSTANDING FUTURES MARKETS 531 (6th ed. 2005) (explaining that, under the CFMA, futures exchanges must "[p]ublish daily trading information on settlement prices, volume, open interest, and opening and closing ranges for actively traded contracts on the contract market").

6. *See* Garner, *supra* note 3, at 946 (explaining that "futures trading that is conducted on the InterContinental Exchange . . . escapes CFTC oversight"); NMX: NYMEX HOLDINGS, INC. 2006 ANNUAL REPORT 28 (2007), *available at* http://files.shareholder.com/downloads/NYM/0x0x85807/4BFFC03A-27B8-4E64-925C-317032133304/49582_NymexFinalPDF.pdf [hereinafter HOLDINGS].

split the two."[7] Specifically, ICE's use of NYMEX's settlement prices for its Henry Hub natural gas and West Texas intermediate crude oil future contracts has been harming NYMEX financially since ICE's formation in 2001, and, in addition, has progressively decreased the amount of revenue NYMEX receives from the clearing of such contracts.[8]

Not surprisingly, NYMEX brought suit against ICE for copyright infringement, service mark infringement, trademark dilution, and tortious interference with contract.[9] ICE counterclaimed that NYMEX violated Section 2 of the Sherman Act by maintaining a monopoly on its instruments.[10] Both parties made motions for summary judgment in the Southern District of New York on the issue of NYMEX's copyright and trademark claims—upon which ICE was successful.[11] Without any protection for its two most profitable futures contracts, a frustrated NYMEX appealed solely on the issue of copyright protection for its

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7. U.S. COMMODITY FUTURES TRADING COMM'N, PUBLIC HEARING ON EXEMPT COMMERCIAL MARKETS 41-42, (2007) [hereinafter HEARING], *available at* http://www.cftc.gov/stellent/groups/public/@newsroom/documents/file/event091807_transcript.pdf.

8. For example, the total revenue NYMEX received from clearing and transaction fees for crude oil futures decreased from 35.4% in 2004 to 26.2% in 2006. *See* HOLDINGS, *supra* note 6, at 17. Likewise, the clearing and transaction revenue for Henry Hub natural gas futures decreased from 17.1% in 2004 to 14.0% in 2006. *Id.* at 17. The West Texas Intermediate crude oil futures contract, traded on NYMEX, determines the delivery for West Texas crude in Cushing, Oklahoma. N.Y. Mercantile Exch., Inc. v. IntercontinentalExchange, 389 F. Supp. 2d 527, 530 (S.D.N.Y. 2005), *aff'd*, 497 F.3d 109 (2d Cir. 2007). Cushing is home to the primary trading hub for crude oil. *In re* Crude Oil Commodity Litigation, No. 06 Civ. 6677, 2007 WL 1946553, 1 (S.D.N.Y. June 28, 2007). This contract is significant in that West Texas Intermediate serves as the benchmark grade for crude oil in the United States. Jerry W. Markham, 13 Commodities Reg. (West) § 16:10 (2008).

9. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 323 F. Supp. 2d 559, 560 (S.D.N.Y. 2004), *aff'd*, 497 F.3d 109 (2d Cir. 2007).

10. ICE claimed that NYMEX was partaking in unfair monopoly practices by refusing to allow the exchange to use NYMEX's settlement prices in Henry Hub natural gas and West Texas Intermediate—that such prices are an essential facility, that ICE has a right to use such prices, and that NYMEX has an unlawful competitive advantage in the market by maintaining such a monopoly. *Id.* at 560.

11. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 389 F. Supp. 2d 527, 529-30 (S.D.N.Y. 2005), *aff'd*, 497 F.3d 109 (2d Cir. 2007).

settlement prices, which the Second Circuit examined in *New York Mercantile Exchange, Inc. v. Intercontinental-Exchange, Inc.* (*NYME*).[12] The decision that ensued had such a significant impact on the copyright protection in individual price values, and on U.S. consumers in light of limiting property rights in financial data, that any harm NYMEX may have suffered seemed almost insignificant. This Note examines the consequences of this decision in detail.

Part I of this Note will briefly examine the trading instruments used by both ICE and NYMEX and how settlement prices for future contracts are determined. In Part II, the Second Circuit's decision will be reviewed in detail. Part III will address the harm caused by the Second Circuit's decision to contradict prior precedent by heightening the originality requirement for copyright protection and determining that individual price valuations can no longer be protected by copyright. Part IV will explain how the Second Circuit has generated a grossly abusive form of the merger doctrine which departs from the analysis set out in *Kregos v. Associated Press*.[13] Part V will examine how both exchanges are regulated, the economic harms that arise in failing to protect against encroachment upon price discovery, and how copyright in settlement prices can put an end to the recent manipulation that has ravaged inconsistently regulated markets. Finally, Part VI will consider how NYMEX would have faired in bringing an unfair competition claim against ICE in the form of misappropriation.

I. THE FINANCIAL INSTRUMENTS OF NYMEX AND ICE

A. *Future Contracts Versus Over-the-Counter Contracts*

In order to fully comprehend the significance of the Second Circuit's decision, one must first understand how NYMEX and ICE operate as financial exchanges. NYMEX is a commodity exchange which provides for the trading of

12. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 497 F.3d 109, 110 (2d Cir. 2007), *cert. denied*, 128 S. Ct. 1669 (2008).

13. *See infra* Part IV for a discussion on *Kregos v. Associated Press*, 937 F.2d 700, 705 (2d Cir. 1991).

futures and options contracts for energy commodities.[14] Theoretically, futures contracts are based on the "delivery of a commodity at a specified price at a specified future time."[15] However, liquidation of the contract well before the date of delivery typically precludes any *actual* delivery of the commodity.[16] For NYMEX, the execution of futures contracts takes place on the floor of the exchange through the "matching of buyers and sellers wishing to transact in the same quantities and at the same prices."[17] The transaction is then filed through NYMEX's clearing house, which assumes the "credit risk" for the performance of each party to the transaction.[18]

Conversely, ICE is an "online Internet-based platform," which trades over-the-counter derivative contracts (OTCs) and futures.[19] Rather than operating on a trading floor, the execution of OTCs takes place through an internet-based locale—a process generally referred to as an "OTC swap." An OTC swap is an agreement in which a "floating price is exchanged for a fixed price over a specified period."[20] To simplify matters, OTCs are usually the same as NYMEX's future contracts.[21] In fact, ICE's OTC contracts are typically referred to as "NYMEX look-alikes" by those in the industry.[22] Likewise, ICE directly uses NYMEX's Henry Hub and West Texas settlement prices for its own OTCs and futures contracts—therefore enabling ICE to trade contracts that are very similar to those traded on NYMEX. The only difference is that such swaps are hybrid forms of the option contracts which enable parties to "directly

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14. 497 F.3d at 110.

15. *Id.* (Although, most futures contracts are "liquidated before physical delivery occurs.").

16. *Id.*

17. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 323 F. Supp. 2d 559, 562 (S.D.N.Y. 2004), *aff'd*, 497 F.3d 109 (2d Cir. 2007).

18. *N.Y. Mercantile Exch., Inc.*, 497 F.3d at 111 n.1.

19. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 389 F. Supp. 2d 527, 532-33 (S.D.N.Y. 2005), *aff'd*, 497 F.3d 109 (2d Cir. 2007).

20. *Id.* at 533.

21. *Id.*

22. *Id.* at 534.

negotiate the terms of their contracts."[23] Finally, ICE clears these transactions through a clearing house located abroad referred to as the London Clearing House.[24]

B. *NYMEX's Settlement Prices*

NYMEX is solely responsible for developing the settlement prices for Henry Hub and West Texas contracts. At the close of each trading day, NYMEX evaluates the price of each open contract—that is, each contract which has not yet been delivered or liquidated.[25] The value for every open contract changes based on what the market believes will be the delivery price of the commodity on a future date. On account of the changing value of the delivery price of the open contract, each party either "pays or receives additional variation margin" on his or her investment.[26] These changes in value are dictated by NYMEX's settlement prices, which NYMEX defines as "the value, at the end of trading each day, of a particular futures contract for a particular commodity for future delivery at a particular time."[27] Therefore, the price is speculatively based on what the price will be at some point in the future.

NYMEX's settlement prices are at the heart of the controversy in this case. Each settlement price is determined by the NYMEX Settlement Price Committee. The Committee meets after the trading for each day is completed.[28] Although NYMEX is required to disclose the settlement prices to the public before the next business

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23. HOLDINGS, *supra* note 6, at 9.

24. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 497 F.3d 109, 112 (2d Cir. 2007), *cert. denied*, 128 S. Ct. 1669 (2008).

25. *Id.* at 110.

26. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 323 F. Supp. 2d 559, 562 (S.D.N.Y. 2005), *aff'd*, 497 F.3d 109 (2d Cir. 2007).

27. *N.Y. Mercantile Exch., Inc.*, 497 F.3d at 111 ("For example, today's settlement price for an October 2007 crude oil contract is the fair market value, today, of a contract obliging the purchase or sale of a specified amount of crude oil in October 2007.").

28. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 389 F. Supp. 2d 527, 531 (S.D.N.Y. 2005), *aff'd*, 497 F.3d 109 (2d Cir. 2007).

day,[29] the exchange enables certain data vendors to receive this information on a real-time basis—"which is generally within thirty minutes of the data's release by NYMEX."[30] Such time sensitive, real–time information is licensed to market data vendors for a fee, who then provide such information to subscribers.[31] Furthermore, the subscribers who receive these quotes on a real-time basis must agree not to compete with NYMEX, while those who receive it on a delayed basis—beyond the thirty minute period—do not have to abide by any such agreement.[32] Despite this disclaimer (and although ICE claims that it receives such information from a data vendor called GlobalView on a delayed basis), NYMEX pointed out that ICE also receives this information from another vendor on a real-time basis[33]—regardless of the fact that ICE has been perceived as a direct competitor with NYMEX since 2001.[34] ICE then directly copies the settlement prices for NYMEX's Henry Hub natural gas and West Texas Intermediate crude oil

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29. *Id.* at 532 ("NYMEX also distributes settlement prices through its website and to certain national newspapers such as the *New York Times* and the *Wall Street Journal* for publication in the ensuing day's edition of these newspapers, although not all settlement prices are actually published.").

30. *N.Y. Mercantile Exch., Inc.*, 323 F. Supp. 2d at 563.

31. The selling of such "price and quote information [to market vendors] is a significant source of revenue for many exchanges, with the average proportion of total income arising from information sales at the surveyed exchanges being 21%." RUBEN LEE, WHAT IS AN EXCHANGE? 103 (1998). For NYMEX, such sales make up an even more substantial amount of their income; for example, sales of their exchange information accounted for 29% of NYMEX's total income in 1996. *Id.* at 104.

32. 323 F. Supp. 2d at 563. At the time of this dispute, ICE was provided with the prices from a licensed vendor named GlobalView. *N.Y. Mercantile Exch., Inc.*, 389 F. Supp. 2d at 529.

33. 389 F. Supp. 2d at 535-36 (explaining that "ICE received NYMEX prices from another vendor on a real-time basis").

34. 323 F. Supp. 2d at 566; *see also*, Vikas Bajaj, *The Future of Futures?: Intercontinental Exchange Brings Technology, and a Debate, to Energy Trading*, N.Y. TIMES, Oct. 13, 2006, at C5 (discussing how IntercontinentalExchange trades grew five times its size from 2003 to 2006 and now trades "about the same number of contracts as Nymex," therefore causing both companies to begin "competing very effectively for market share"); Heather Timmons, *India's Solution for Oil Prices: Ban Speculation by Banning Trading*, N.Y. TIMES, Nov. 8, 2007, at C6 (explaining how raising oil prices may cause the Commodity Futures Trading Commission to give "more oversight over Nymex's rival, the Intercontinental Exchange [sic]").

futures and uses them for its own financial instruments.[35] Such prices are the exact financial equivalents to those traded on the exchange.

II. THE SECOND CIRCUIT'S DECISION IN *NEW YORK MERCANTILE EXCHANGE, INC. V. INTERCONTINENTALEXCHANGE INC.*

The harm suffered by NYMEX, as well as the manipulation induced by a market that is regulated under inconsistent measures, was overlooked by the court, as it more closely assessed the scope of copyright in individual price valuation. While it is certain that the court disallowed copyright protection to NYMEX's settlement prices, little else in the majority opinion is as clear cut. The majority misinterpreted precedent concerning price valuation protection, broadly applied a merger doctrine, and overlooked the fundamentals of copyright law in failing to address aspects of creativity in an originality analysis—thus, providing a confused standard for copyright in the future.

A. *Summary of the Majority Opinion*

The court approached the issue of whether NYMEX could receive copyright protection in its settlement prices by considering two important questions. The first was whether settlement prices were figures that merely existed within the marketplace and, subsequently, discovered by NYMEX. The second question—upon which the court's determination not to provide copyright protection ultimately relied—was whether the settlement prices could only have been

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35. *See N.Y. Mercantile Exch., Inc.*, 323 F. Supp. 2d at 560. The court notes that "[o]ne small exception" to this direct copying occurs

> when there has been trading on an ICE contract and it is not the final day of trading for that particular contract. In that case, the ICE committee adjusts the NYMEX settlement price one 'tick' (one cent for crude oil and one tenth of a cent for natural gas) closer to the weighted average price of the ICE trades.

N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 497 F.3d 109, 112 (2d Cir. 2007), *cert. denied*, 128 S. Ct. 1669 (2008). Nevertheless, this exception rarely occurs and ICE misled its clearing house—the London Clearing House—by informing them that it would determine its settlement prices after consulting "many sources of price information." 389 F. Supp. 2d at 535.

expressed in such a limited number of ways so that copyright protection could not be granted—thus, revealing that the merger doctrine *must* be applied.

At the outset, Judges Katzmann and Wesley candidly admitted that they were unable to conclude, as a matter of law, whether NYMEX *created* its settlement prices.[36] Yet, for sidestepping any definitive conclusion on this matter, the court certainly devoted a considerable amount of space to analyzing how NYMEX's Settlement Price Committee determined the prices for its commodities. The court began by explaining that the settlement prices are not a reflection of the final trade for a commodity on a given day—thus, differentiating from a securities exchange—for two reasons:

> [f]irst, because of the nature of the trading, it is not always clear which trade was the closing trade. Traders handwrite their transactions on cards which are thrown into the center of trading rings, scooped up, time stamped, and sent for processing. Because the cards may be "scooped up" out of order, the card with the latest time stamp may not represent the final trade of the day. Second, on any given day, 32 or 33 months of crude oil futures contracts and 72 months of natural gas futures contracts are being traded. For the "outer" months, those further from the trading date, there is often little or no trading on a particular day.[37]

The amount of trading for each contract increases as the expiration date for each contract draws closer. For instance, those contracts which expire in a two month period exhibit a greater amount of trading activity than those which are set to expire in a seventy-two month period. As for the settlement prices during the "high-volume" months—those months which involve a great deal of trading activity—the court believed that the Committee applies more of a formulaic process based on "a weighted average of all trades done within the closing range."[38] Yet, since the high volume periods only make up a "small number" of the total amount of settlement prices, the court's discussion turned more toward the "low-volume"

36. *See N.Y. Mercantile Exch., Inc.*, 497 F.3d at 110 ("We hold that even if these prices are created by NYMEX—a question we do not resolve . . . .").

37. *Id.* at 111.

38. *Id.*

months, in which the amount of creativity used in determining settlement prices is in dispute.[39]

Both ICE and NYMEX dispute how much "creative judgment" is involved for those low-volume months—those contracts for which the majority of settlement prices are determined.[40] For such low-volume months, NYMEX asserted that the Committee "considers, sifts, weighs and extrapolates from a wealth of data" in determining the settlement prices since there is little trading activity involved for these periods.[41] In addition, NYMEX has the ability to "override" settlement prices for any given month—regardless of the volume—for any reason which it may deem fit for the market.[42] While this last factor enables the NYMEX Settlement Price Committee to generate any reasonable price for its contracts, how often NYMEX resorts to this practice is similarly contested.[43]

Contrary to NYMEX's claims, ICE countered that the Committee uses "little judgment" in determining its settlement prices.[44] Rather, ICE protested that NYMEX considers objective data, in correlation with the values for the already existing settlement prices, for the near month contracts.[45] It is only after this point, ICE claimed, that NYMEX proceeds to "extrapolate" such data in order to calculate the remainder of the settlement prices.[46]

The majority then turned to NYMEX's attempt to receive copyright protection in its settlement prices from the U.S. Copyright Office. Initially, in April 2002, the Copyright Office did not provide NYMEX with an "'explicit claim' of copyright" for its settlement prices alone, but did receive copyright for its database.[47] Strangely, the detailed

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39. *Id.*

40. *Id.*

41. *Id.*

42. *Id.*

43. *See id.* at 111-12.

44. *Id.* at 111. The amount of creativity used by the Committee in determining these settlement prices on varying months is in dispute.

45. *Id.*

46. *Id.*

47. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 389 F. Supp. 2d 527, 538 (S.D.N.Y. 2005), *aff'd*, 497 F.3d 109 (2d Cir. 2007) (citation omitted).

facts surrounding the application were included in the district court opinion, but were omitted by the Second Circuit. Importantly, when NYMEX received copyright for its database in April 2004—two years after its initial application—NYMEX filed a Descriptive Statement to the Copyright Office seeking copyright protection for its database as a form of "[o]riginal text and compilation."[48] Recognizing that the Office would not provide protection to the settlement prices individually, any discussion of "how settlement prices are determined" or the amount of "judgment" involved was omitted from the new statement.[49] Therefore, although NYMEX did not receive protection for its settlement prices individually, it did receive protection for its database, which the Office accepted as a compilation of the settlement prices.[50]

Nevertheless, once NYMEX filed suit, the Register of Copyrights filed a Statement of Interest opposing NYMEX's claim for copyright in its settlement prices.[51] In addition, the United States filed an amicus brief claiming that "settlement prices are facts, even if they are not facts the idea of the prices have merged with their expression, and even if merger did not apply, the prices are not copyrightable because they are short phrases."[52] In light of the Copyright Office's rejection for the price values, in addition to the brief filed on behalf of the United States, it is clear that there is strong outside objection to NYMEX receiving protection in such values.

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48. *Id.* at 537.

49. *Id.*

50. *See* Petition for Writ of Certiorari at 9-10, *N.Y. Mercantile Exch., Inc.*, 497 F.3d at 109 (No. 07-938), 2008 WL 177578 ("In March 2002, NYMEX filed an application with the U.S. Copyright Office to register its copyright in NYMEX Settlement Prices. The application was subsequently withdrawn and replaced with a new application on April 23, 2002, that sought registration of NYMEX's database, which is a compilation of NYMEX Settlement Prices. On April 24, 2002, the Copyright Office issued a copyright registration for the NYMEX database."); *see also N.Y. Mercantile Exch., Inc.*, 389 F. Supp. 2d at 539.

51. *N.Y. Mercantile Exch., Inc.*, 389 F. Supp. 2d at 539.

52. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 497 F.3d 109, 113 (2d Cir. 2007), *cert. denied*, 128 S. Ct. 1669 (2008).

1. *Created or Discovered Facts?* The court began its analysis by setting out the standards for determining whether a work is the result of original creation or discovery. One work which copyright protects, as set out in the Copyright Act, is that of "literary works"—defined as "works, other than audiovisual works, expressed in words, numbers, or other verbal or numerical symbols or indicia, regardless of the nature of the material objects."[53] Moreover, originality—the "*sine qua non*," "constitutional requisite" of copyright—requires that the work be independently created by the author and it possesses at least some minimal degree of creativity.[54] Conversely, one who merely discovers a fact has not created anything. Rather, discovered facts will never receive copyright protection and will remain in the public domain, for which all may access.[55] This distinction may be perceived through the U.S. Supreme Court's illustration in *Feist*, which explained that a census taker does not create a "population figure," but simply *discovers* this value based on the "figures [collected] from the world around them."[56] While the majority claimed that there is a "strong argument" that NYMEX does not create its settlement prices, it is also conceded that differentiating between discovery and creation is incredibly difficult to discern in the context of settlement prices.[57] Consequently, the majority side-stepped the issue by refusing to determine whether or not the prices are unoriginal, but—strangely enough—still proceeded to analyze the originality issue in detail.

The majority began its analysis by considering the basis of independent creation in NYMEX's prices. In determining the market value of each individual contract, the court reasoned that the "market is an empirical reality, an economic fact about the world, that Committee members are seeking to discover."[58] The court considered that the Committee does "not creat[e] predictions or estimates" or

53. *Id.* (quoting 17 U.S.C. § 102(a)(1) (2006)).

54. *Id.*; Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 345 (1991).

55. 497 F.3d at 114 (quoting *Feist Publ'ns, Inc.*, 499 U.S. at 348).

56. *Id.* (quoting *Feist Publ'ns, Inc.*, 499 U.S. at 347). *See infra* text accompanying notes 164-74.

57. *N.Y. Mercantile Exch., Inc.*, 497 F.3d at 114.

58. *Id.* at 115.

decide how the market "*should*" or "*will*" value each contract, but rather, merely discovers the "one proper settlement price."[59]

The majority's reasoning then turned on comparing NYMEX's settlement prices with similar cases in which prices were found to be copyrightable. The court rejected NYMEX's claim that "[t]he valuations themselves are original creations"[60]—as well as its reliance on *CCC Information Services, Inc. v. Maclean Hunter Market Reports* (*CCC*), which granted copyright protection to estimated prices for used cars.[61] Instead, at what appears to be the highlight of the decision, the court determined that "this statement," as it exists in *CCC*, cannot be accepted as precedent in the Second Circuit, for it "is arguably dicta."[62] The majority supported its claim by determining that the *CCC* court granted protection on the basis of "the selection and arrangement of data" in a compilation, thus, characterizing *CCC*'s holding that "individual estimates were copyrightable" as superfluous.[63] Turning back to the independent creation discussion, the majority further distinguished this case from *CCC* by claiming that *CCC*'s car values were based on "assumptions about 'average' cars" which were nothing more than "predictions . . . of expected values."[64] On the other hand, settlement prices "can be seen as 'pre-existing facts' about the outside world" that are merely discovered from "market activity."[65] For this reason, the court also distinguished NYMEX from the Ninth Circuit case of *CDN Inc. v. Kapes*[66] in which protection was

59. *Id.*

60. *Id.* at 115 n.5 (quoting CCC Info. Servs., Inc. v. Maclean Hunter Mkt. Reports, Inc., 44 F.3d 61, 67 (2d Cir. 1994)).

61. *CCC Info. Servs., Inc.*, 44 F.3d at 67-68; *see infra* text accompanying notes 124-31.

62. *N.Y. Mercantile Exch., Inc.*, 497 F.3d at 115 n.5 (citation omitted).

63. *Id.*

64. *Id.*

65. *Id.*

66. 197 F.3d 1256 (9th Cir. 1999).

provided to individual price valuations in the form of estimates for collectible coins.[67]

In a strange turn of events, the majority stepped back from concluding that the prices were discovered facts and argued how they could be perceived as the result of creation. It was noted that whether or not the Settlement Committee's actions were akin to that of discovery was "disputable" even "for high-volume months"—those months which the court earlier perceived were determined on a formulaic basis.[68] Rather, creating a "settlement price is a more abstract concept than the discovery of a population figure."[69] While a census taker has the ability to gather information necessary to establish a population figure, "it is not clear that we could ever precisely calculate the appropriate valuation of a particular futures contract."[70] As for the low-volume months, there is "so little trading that there is no real market," thus making the process "closer to creation" or "predictions . . . of expected values," like that of *CCC*.[71]

After determining that both the low-volume and high-volume months could be perceived as being created by a process closer to creation, the bewildered majority ultimately decided that since this was a "close question," they would not "decide whether settlement prices are unoriginal," and were "particularly reluctant to hold, as a matter of law, that the Committee . . . discover[ed] the settlement prices."[72] Moreover, the court refused to "consider the extent of NYMEX's creativity" in its settlement price determinations and concluded, alternatively, that the prices are precluded from protection on account of the merger doctrine.[73]

67. *Id.* at 1260; *see infra* text accompanying notes 132-38; *see also N.Y. Mercantile Exch., Inc.*, 497 F.3d at 115 (determining that "the prices for collectible coins in that case were estimates, not discovered market facts").

68. *N.Y. Mercantile Exch., Inc.*, 497 F.3d at 115.

69. *Id.* at 116.

70. *Id.*

71. *Id.*

72. *Id.* at 115-16.

73. *Id.* at 114 n.4, 115.

2. *The Merger Doctrine Analysis*. This leads to the court's second inquiry, which is whether the settlement prices can only be expressed in such a limited number of ways that the merger doctrine must apply. Yet, the court was immediately struck with the dilemma that, in the Second Circuit, the merger doctrine only applies to those items which are copyrightable. Therefore, in another unforeseeable determination, it was assumed that the "settlement prices are created and not discovered," and are therefore "copyrightable"—similar to that of the prices in *CCC* and *CDN*.[74] Since only the *expression* of an idea can be copyrighted, the rule of merger is that "expression is not protected 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."[75] As noted in the Copyright Act, protection will never be provided to "any idea, procedure, process, system, method of operation, concept, principle, or discovery."[76]

The majority first considered how to define the "idea" of NYMEX's prices, recognizing that the definition of that which constitutes an idea changes on a case by case basis.[77] The court conceded that NYMEX, the district court, and an amicus brief from the United States all had varying definitions of how to define the "idea" of a settlement price.[78] For argument's sake, the majority accepted NYMEX's approach that the idea may be defined as "a sound and reasonable opinion of fair market value for each NYMEX contract," which may be determined by "assessing

74. *Id.* at 116.

75. *Id.* at 116-17 (quoting Kregos v. Associated Press, 937 F.2d 700, 705 (2d Cir. 1991)). The majority continued to note that, "[w]e must exercise 'considerable care,' in analyzing merger: 'if the merger doctrine is applied too readily, arguably available alternative forms of expression will be precluded; if applied too sparingly, protection will be accorded to ideas.'" *Id.* at 117 (quoting *Kregos*, 937 F.2d at 705).

76. *Id.* at 116 (citing 17 U.S.C. § 102(b) (2006)).

77. *Id.* at 117.

78. *Id.*

trades, bids, and offers and . . . off exchange information."[79] Nevertheless, even if they were to accept NYMEX's definition of the settlement price's idea, the *range* of possible numbers which could serve as the settlement price was still not "broad enough" such that any further "possible expression [would] not 'necessarily be "substantially similar."'"[80] The majority reasoned that since all settlement prices are expressed in numerical form, and the number was determined by "the same underlying market facts," the range of possible variations for that number appeared to be "exceptionally narrow."[81] While the majority acknowledged that at times there may be disagreements amongst those on the Committee as to the settlement prices' numeric value, it reasoned that the range was not broad enough to restrain ICE or other competitors from using NYMEX's settlement prices.[82]

To supplement this argument, the majority explained that policy considerations "weigh heavily" in determining whether to apply the merger doctrine in the Second Circuit.[83] As such, the court reiterated that one of the objectives of copyright is to provide "economic incentives" to authors so they may continue to direct their energies toward the "advancement of knowledge and learning."[84] Fundamental aspects of copyright law also warn that if such protection were not offered, authors could possibly "direct their energies elsewhere, [thus] depriving the public of their creations."[85] The majority argued that such incentives, however, were not needed by NYMEX, for the law requires that the exchange report its prices. In

79. *Id.* (Specifically, NYMEX defined the "idea" as, "a sound and reasonable opinion of fair market value for each NYMEX contract as of the close of open outcry trading on the NYMEX floor each day may be achieved by assessing trades, bids, and offers and (in various instance) off exchange information, particularly developed late in the trading day.").

80. *Id.* (quoting Hart v. Dan Chase Taxidermy Supply Co., 86 F.3d 320, 322 (2d Cir. 1996)).

81. *Id.* at 118.

82. *Id.*

83. *Id.* (citing CCC Info. Servs., Inc. v. Maclean Hunter Mkt. Reports, Inc., 44 F.3d 61, 72 (1994)).

84. *Id.* (quoting *CCC*, 44 F.3d at 65).

85. *Id.* (quoting *CCC*, 44 F.3d at 66).

addition, the majority reasoned that NYMEX will not "direct its energies elsewhere" since "its exchange requires settlement prices to clear contracts."[86] In conclusion, the court determined that ICE merely took ideas for which the "copyright law affords no protection"—since the "expression is essential to the statement of the idea"—and that the merger doctrine should be applied.[87] Therefore, application of the merger doctrine for NYMEX's settlement prices precluded NYMEX from receiving any sort of copyright protection.

B. *Summary of Judge Hall's "Concurrence in Part"*

While Judge Hall ultimately agreed with the majority that the merger doctrine should preclude application of copyright protection for NYMEX's settlement prices, he disagreed with the majority's argument that the prices "lack the requisite originality" for copyright protection.[88] Moreover, he was leery of the dicta the majority now created by "heightening the standards by which we determine whether a work exhibits 'some minimal degree of creativity.'"[89]

The Supreme Court already indicated in *Feist Publications Inc. v. Rural Telephone Service Co.*[90] that the amount of creativity needed to meet the originality requirement is "extremely low," despite how "crude, humble or obvious."[91] Since this creates "a virtually non-existent bar to NYMEX's efforts to demonstrate the originality of its work," Judge Hall explained that he "cannot so easily accept that ICE has made such a 'strong argument' against the originality of NYMEX's settlement prices."[92] Moreover, Hall found that to alter the originality requirement as established by the U.S. Supreme Court is "contraindicated

86. *Id.*

87. *Id.* at 118 (quoting *CCC*, 44 F.3d at 68).

88. *Id.* at 119 (Hall, J., concurring in part).

89. *Id.* (quoting Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 345 (1991)).

90. *Feist*, 499 U.S. at 340.

91. *N.Y. Mercantile Exch., Inc.*, 497 F.3d at 119 (quoting *Feist*, 499 U.S. at 345).

92. *Id.* at 120.

both by our jurisprudence and by the procedural posture of this case."[93]

Finding it necessary to address the creativity issue which was "skirt[ed]" by the majority, Judge Hall listed three reasons as to why the majority's rationale is flawed.[94] First, he concluded that the majority "contradict[ed] prior precedent of this Circuit" by distinguishing the holding in *CCC*—which provided protection to individual price valuations—from *NYMEX*.[95] He reasoned that just as the creativity of the individual car price values in *CCC* "lay in the integration of 'a multitude of data sources'" and "professional judgment and expertise,"[96] NYMEX's settlement prices are generated through "the integration of data sources" and "professional judgment or expertise."[97] Therefore, Judge Hall determined that the majority should have found that creativity necessarily follows from the "creation of the settlement price."[98] On this point, he also cited to Judge O'Scannlain's Ninth Circuit opinion in *CDN*.[99] As such, he found the majority's reliance on the theory that NYMEX merely discovers a "price that may or may not exist at any given point in the trading day" misplaced.[100]

Secondly, Judge Hall characterized the majority's reasoning as "circular."[101] The majority's conclusion that the prices are unoriginal is based on the theory that they are "discoverable facts, not creations of NYMEX," but failed to explain *why* they are facts rather than creations.[102] Judge Hall interpreted this as a declaration that "settlement prices are facts, and therefore unoriginal; they

93. *Id.* at 119.

94. *Id.* at 120.

95. *Id.*

96. *Id.* (quoting CCC Info. Servs., Inc. v. Maclean Hunter Mkt. Reports, Inc., 44 F.3d 61, 67 (1994)).

97. *Id.*

98. *Id.*

99. *Id.* (citing CDN Inc. v. Kapes, 197 F.3d 1256 (9th Cir. 1999)).

100. *Id.* at 120.

101. *Id.*

102. *Id.*

are unoriginal because they are facts."[103] As such, he emphasized that he could not agree with such a rationale.

Finally, Judge Hall explained that while the settlement prices do "derive *in part* from facts" that exist in the world, it is difficult to characterize the prices as "facts" in their entirety.[104] Rather, "a settlement price is an '*arbitrary* price used as the basis for the settlement of contracts through a clearinghouse.'"[105] The price does "not replicate individual trades" or a "weighted average" of such trades, but is an amount "*treat[ed]* as the final value" of a particular contract.[106] This is evidenced further by the "override mechanism" which allows the Committee to use their judgment in adjusting the figures in order to match a "better 'arbitrary price.'"[107] Again, he seemed to echo the *CCC* holding by claiming that "many copyright-worthy creative works derive in part from facts."[108] Consequently, Judge Hall determined that "one could easily conclude that settlement prices are not preexisting facts about the world" but rather, "evaluative opinions *created* by NYMEX."[109] Nevertheless, he agreed with the majority's argument regarding the merger doctrine.

III. A DEPARTURE FROM THE PAST ORIGINALITY STANDARD IN PRICE VALUATIONS

As pointed out by Judge Hall, the Second Circuit's refusal to determinatively find that an individual price valuation can meet the originality threshold based on the integration of multiple data sources and educated judgment represents a departure from Second Circuit precedent.[110] After the majority's confusing discussion of independent creation and brief—albeit, unintentional—creativity

103. *Id.*

104. *Id.* at 121.

105. *Id.* (citing WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY 2079 (2002)).

106. *Id.* at 120-21 (emphasis added).

107. *Id.*

108. *Id.* at 121.

109. *Id.*

110. *Id.* at 120.

discussion, the majority warned that "[t]his is not to say that summary judgment is necessarily inappropriate in resolving whether the task is one of discovery or creation."[111] Therefore, it is confusing as to why the court decided not to take a definitive stance on the issues of independent creation or creativity. One theory is that the majority abandoned the originality issue and, alternatively, applied a harsh merger application in order to avoid a dissent from Judge Hall.[112] This sort of side-stepping behavior almost resembles that of a convoluted form of avoidance—similar to that in which the U.S. Supreme Court is occasionally guilty of partaking.[113] In addition, providing future courts with the authority to apply the merger doctrine to individual price estimates, without conducting a definitive creativity analysis, will encourage the application of a hasty merger doctrine. As such, it is not surprising that this decision has been characterized by at least one commentator as "somewhat strained."[114]

NYMEX's subsequent filing for a rehearing en banc was denied.[115] Shortly thereafter, a petition for a writ of certiorari was filed to the U.S. Supreme Court, urging that these issues be reconsidered in order to ensure the existence of a uniform copyright law.[116] The Court responded by issuing an order denying certiorari on March 17, 2008.[117] Since the decision will not be reconsidered, this case should be examined in light of its impact on copyright law's relation with individual price valuations and the merger doctrine in the Second Circuit.

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111. *Id.* at 116 n.7 (majority opinion).

112. *See* Stephen M. Kramarsky, *A Missed Opportunity on Creative Works*, 238 N.Y. L.J. 5-6 (2007).

113. *See* LISA A. KLOPPENBERG, PLAYING IT SAFE: HOW THE SUPREME COURT SIDESTEPS HARD CASES AND STUNTS THE DEVELOPMENT OF LAW 2-3 (2001) ("Avoidance is sometimes a necessary tool on multi-judge courts to reach consensus. It provides flexibility for judges who cannot completely control their docket or the presentation of issues in our litigant-driven system.").

114. Kramarsky, *supra* note 112, at 6.

115. Petition for Writ of Certiorari, *supra* note 50, at 11.

116. *Id.* at 2.

117. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 497 F.3d 109 (2d Cir. 2007), *cert. denied*, 128 S. Ct. 1669 (2008).

A. *A Closer Look at Compilation, the Creativity Standard, and Individual Price Values*

Protection for price values may be found through statutory authority as well as case law. Section 102(a) of the Copyright Act of 1976 has fundamentally required that copyright protection only be provided to works that are original.[118] The U.S. Supreme Court's decision in *Feist* indicated that originality exists when a work is "independently created by the author" and "possesses at least some minimal degree of creativity."[119] Section 102(a) also provides eight categories of authorship for which copyright provides protection—one such category titled, "literary works," includes works that are expressed in "numbers, or other verbal or numerical symbols or indicia."[120] Alternatively, section 103(a) entails that copyright protection can be provided to "compilations" which constitute works "formed by the collection and assembling of preexisting materials . . . that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship."[121] The 1976 House Report notes that a compilation includes "material of all kinds, regardless of whether the individual items in the material have been or ever could have been subject to copyright."[122] Just as the Ninth Circuit in *CDN* considered the issue of whether the "prices themselves are sufficiently original as compilations to sustain a copyright"[123] and held that the "prices were copyrightable,"[124] statutory authority in the form of compilation seems to provide protection for the original

118. Copyright Act of 1976, 17 U.S.C. § 102(a) (2006) ("Copyright protection subsists, in accordance with this title, in original works of authorship . . . .").

119. Feist Publ'ns v. Rural Tel. Serv. Co., 499 U.S. 340, 345 (1991) (citing 1 MELVILLE NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT §§ 2.01[A], [B] (1990)).

120. Copyright Act of 1976, 17 U.S.C. §§ 101, 102(a)(1) (2006).

121. 17 U.S.C. § 101; *see* 17 U.S.C. §103 (2006).

122. H.R. REP. NO. 94-1476, at 57 (1976).

123. CDN Inc. v. Kapes, 197 F.3d 1256, 1259-60 (9th Cir. 1999) ("The prices CDN creates are compilations of data that represent its best estimate of the value of the coins.").

124. *Id.* at 1260.

selection or arrangement of material facts which are subsequently expressed in numerical form—such as a price.

Case law indicates that courts have similarly granted copyright protection to individual price estimates as compilations—thus, satisfying the originality standard, avoiding the merger doctrine, and bypassing the "short phrases" exclusion developed by the U.S. Copyright Office.[125] Coincidentally, protection for such works originated with the very Second Circuit that has now generated the authority to preclude such works from protection. *CCC* dealt with Maclean Hunter's used car price estimates, which were published eight times a year in a publication referred to as the Red Book.[126] CCC Information Services was an online database which republished a large amount of these values for its own economic gain.[127] As previously noted, Judge Leval held that the "valuations themselves are original creations of Maclean" because the "predictions were based not only on a multitude of data sources, but also on professional judgment and expertise."[128] Specifically, the court found that Maclean weighed fifteen considerations in determining its car values.[129] Consequently, since "each valuation incorporated the Red Book editors' original judgment," the court found that "[o]riginal aspects of Red Book's ordination and arrangement were inextricably present whenever CCC copied and republished any Red Book valuation."[130]

Shortly thereafter, the Ninth Circuit provided copyright protection to individual coin prices in *CDN*.[131] The court even hung its hat on the Second Circuit's holding in *CCC*.[132] The defendant was an internet-based business which

125. 37 C.F.R. § 202.1 (2007) (The U.S. Copyright Office developed authority to refuse to grant protection to short phrases in the form of slogans, titles, or names.).

126. CCC Info. Servs., Inc. v. Maclean Hunter Mkt. Reports, 44 F.3d 61, 63 (2d Cir. 1994).

127. *Id.* at 64.

128. *Id.* at 67.

129. *Id.*

130. *Id.* at 68 n.8.

131. CDN Inc. v. Kapes, 197 F.3d 1256, 1262 (9th Cir. 1999).

132. *Id.* at 1260-61 (explaining that "[o]ur holding that the prices are copyrightable is consistent with that of the Second Circuit in [*CCC*]").

utilized the prices that the plaintiff published in a weekly newsletter, which were "used extensively by dealers" in collectable coins.[133] In determining the originality of such prices, the Ninth Circuit found that the coin prices were determined by the plaintiff's "'considerable expertise and judgment.'"[134] The *CDN* court found that the consideration of a "'multitude of variable factors'" enabled the plaintiff to provide a "'best guess' as to what the current 'bid' and 'ask' prices" for the coins.[135] Consequently, in addressing the spark of creativity required by *Feist*, the Ninth Circuit stated that the "spark glows in CDN's prices, which are compilations of data chosen and weighed with creativity and judgment."[136]

NYME is another addition to the line of cases assessing the extent of copyright protection of individual price values. However, the Second Circuit has now generated conflict with the Ninth Circuit by characterizing *CCC* precedent—upon which *CDN* relied—as dicta. Through an unnecessary and clearly confusing discussion, the *NYME* decision has now thrown into doubt whether integration of data sources in combination with professional judgment and expertise can ever be sufficient to satisfy the originality standard for copyright in price valuations. NYMEX's writ concisely indicated that: "[i]n *CDN*, the Ninth Circuit was presented with the question that NYMEX asked the Second Circuit to consider in the present case: Are numerical expressions of opinions of values copyrightable? In contradiction to the Second Circuit, the Ninth Circuit found that they were."[137]

Similar to the multitude of variable factors[138] considered in *CDN*, or the fifteen considerations weighed in

133. *Id.* at 1258.

134. *Id.* at 1260 (citation omitted).

135. *Id.* (citation omitted).

136. *Id.* at 1260.

137. *See* Petition for Writ of Certiorari, *supra* note 50, at 20.

138. *CDN Inc.*, 197 F.3d at 1260. This included "examining the major coin publications to find relevant retail price information," "review[ing] this data to retain only that information it consider[ed] to be the most accurate and important," "extrapolat[ing] from the reported prices to arrive at estimates for prices for unreported coin types and grades," "consider[ing] the impact of public auctions and private sales," and "analyz[ing] the effect of the economy and foreign policies on the price of coins." *Id.*

CCC,[139] it does not seem as if the Settlement Price Committee's measures of "consider[ing], sift[ing], weigh[ing], and extrapolat[ing] from a wealth of data" are significantly converse.[140] Yet, neither the district court nor the Second Circuit provided a definitive answer as to the creativity of settlement prices for purposes of establishing originality—despite the fact that the manner in which the values were determined was discussed in detail when preliminarily sorting out the facts of the case.[141] As noted by Judge Hall, since the extremely low creativity standard set out by *Feist* merely requires a "creative spark, no matter how crude, humble or obvious,"[142] it is difficult to argue that NYMEX would not have been able to reach this threshold.

B. *Prices and the Second Circuit's Authority for the Dicta Standard*

The court's characterization of *CCC*'s holding as "arguably dicta" has further dissipated the standard for determining originality in price values in copyright law. Thirteen years after *CCC* was decided, the *NYME* majority is the first court to characterize *CCC*'s protection for original price valuations in this manner. While it would be difficult to pinpoint the source, if any, which may have influenced the majority's opinion on this issue, there seem to be two recent authorities upon which the court most likely relied.

First, a copyright treatise written by William Patry, updated in 2008, raises an argument that is strikingly similar to that used by the majority to characterize *CCC*'s holding as dicta, while commenting on the district court

139. CCC Info. Servs., Inc. v. Maclean Hunter Mkt. Reports, 44 F.3d 61, 67 (2d Cir. 1994).

140. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 497 F.3d 109, 111 (2d Cir. 2007), *cert. denied*, 128 S. Ct. 1669 (2008) (quoting Brief for Plaintiff-Counter-Defendant-Appellant at 13, *N.Y. Mercantile Exch., Inc.*, 497 F.3d 109 (2007) (No. 05-5585-CV), 2006 WL 5432753). The data weighed included "the volume of trading that day, daily transaction prices, the amount of orders that remain unfulfilled at the end of that day, and market information outside of NYMEX." Petition for Writ of Certiorari, *supra* note 50, at 6.

141. *N.Y. Mercantile Exch., Inc.*, 497 F.3d at 114 n.4 ("[W]e—like the district court—do not consider the extent of NYMEX's creativity.").

142. *Id.* at 119-20 (Hall, J., concurring in part) (quoting Feist Publ'ns v. Rural Tel. Serv. Co., 499 U.S. 340, 345 (1991)).

opinion of this very case.[143] Patry begins by dismissing the credibility of *CCC*, arguing that the "court's discussion of valuations as individually protectible is dictum" since the decision also turned on the originality of the Red Book compilation.[144] Patry further notes that such "dictum is erroneous."[145] Similarly, the majority supported its "arguably dicta" statement by alleging that the Red Book in *CCC* received protection as a compilation, therefore making it unnecessary to also hold that the individual values were copyrightable.[146] In other words, although the majority and Patry acknowledged that the individual price protection discussed in *CCC* is part of that court's holding, it is interpreted to be superfluous.

Patry's discussion continues by discrediting the type of protection sought for price estimates in this line of cases as a whole—that is, *CDN*, *CCC*, and the *NYME* district court case. He claims that "the error made in *CDN*, as in *CCC*'s dictum, is confusing judgment with originality."[147] Referring to the *NYME* district court decision,[148] Patry concludes that "judgment about what a fair price is for a coin, a car, or a commodities futures contract" could never be protected under copyright.[149] Certainly Patry recognizes that "[o]riginality will always be the result of judgment," but argues that "not all exercises of judgment are copyrightable."[150] The type of judgment that Patry feels should be excluded regardless of its creativity is the, "what ought to be, not what is" principle upon which *CDN* and *CCC* rely.[151] In other words, he asserts that copyright

143. *See* 2 WILLIAM F. PATRY, PATRY ON COPYRIGHT § 4:50 (2008).

144. *See id.*

145. *Id.*

146. *N.Y. Mercantile Exch., Inc.*, 497 F.3d at 115 n.5.

147. *See* PATRY, *supra* note 143, § 4.50.

148. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 389 F. Supp. 2d 527 (S.D.N.Y. 2005), *aff'd*, 497 F.3d 109 (2d Cir. 2007).

149. *See* PATRY, *supra* note 143, § 4:50.

150. *Id.*

151. *Id.* As addressed previously in this Note, *supra* Part II, the problem that arises here is that protection could certainly never be provided to a "what is" price, now given this court's analysis, simply on the basis that it would inevitably lead to that price being categorized as a "discovered fact" or an economical reality of the world.

protection should never be provided to numerical estimation regardless of the degree of its creativity. Conversely, in *NYME*, the court implicated that if the prices were *estimated* rather than *discovered*, they might be able to receive protection.[152] Nevertheless, by characterizing *CCC*'s holding as dicta, it is questionable as to whether the Second Circuit will ever again find that a price is worthy of copyright protection—whether it be an estimate or discovery.

Secondly, a similar argument exists in the amicus curiae brief filed by the United States on behalf of ICE on March 27, 2006.[153] In their brief, the Justice Representative argued that *CCC* made "passing references to individual valuations in dicta" and "[t]o the extent these passages in *CCC* can be construed to recognize a copyright in individual valuations, they are erroneous."[154] To further discredit the *CCC* decision, the United States alleged that "copyright law does not support" *CCC*'s distinction between "price 'predictions' based on 'professional judgment and expertise' and 'mechanical derivations of historical prices.'"[155] Finally, in an effort to put an end to any such discussion of price protection, the United States concluded that "[n]o single price, *no matter how derived*, is copyrightable."[156] Although the Justice Representative did not cite to any authority for this final statement, it is a sure indication that any effort to grant copyright protection for price estimates in the future will not pass lightly under its watchful eye. Furthermore, while precluding prices from protection may have its own economic benefits, this blunt statement on behalf of the United States—that no price should ever receive protection—departs from the past precedent just discussed and fits more with Patry's ideologies.

152. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 497 F.3d 109, 115 n.5 (2d Cir. 2007), *cert. denied*, 128 S. Ct. 1669 (2008).

153. Brief Amicus Curiae of the United States of America in Support of Defendant-Appellee IntercontinentalExchange, Inc., *N.Y. Mercantile Exch., Inc.*, F.3d 109 (No. 05-5585), 2006 WL 5316201 [hereinafter Brief for United States of America].

154. *Id.* at 15.

155. *Id.* (quoting CCC Info. Servs, Inc. v. Maclean Hunter Mkt. Reports, Inc., 44 F.3d 61, 67 (2d Cir. 1994)).

156. *Id.* (emphasis added).

C. *The Independent Creation of a Price: Creation or Discovery*

The *NYME* court also implicitly raised the standard for satisfying the independent creation requirement in compilations. In weighing the independent creation prong, the Second Circuit first distinguished NYMEX's prices from those involved in *CCC* and *CDN*, finding that the settlement prices were merely the discovery of a price as opposed to a creation in the form of an assumption or estimate.[157] Immediately afterward, the court found itself conceding the exact opposite premise: that "discovery, even for high-volume months, is disputable"[158] and the low-volume months certainly appeared to be "closer to creation" or prediction like that of *CCC* and *CDN*.[159] While the court "skirt[ed] this issue"[160] on account of being reluctant to hold that the Committee discovered the settlement prices for such months,[161] Judge Hall's fears of the majority "contradict[ing] prior precedent"[162] through this language should not go unheeded.

The U.S. Supreme Court set out the standards for creation and discovery years ago in *Feist*.[163] Since discovered facts can never be protected,[164] *Feist* distinguished between discovery and creation for purposes of explaining how a compilation may be worthy of copyright protection.[165] The Court stated that the discoverer of a fact is worthy of no protection for merely "find[ing] and record[ing]."[166] On the other hand, creation exists for "choices as to selection and arrangement" if such selection

157. *N.Y. Mercantile Exch., Inc.*, 497 F.3d at 115 n.5, 120.

158. *Id.* at 115.

159. *Id.* at 116.

160. *Id.* at 120 (Hall, J., concurring in part).

161. *Id.* at 116 (majority opinion).

162. *Id.* at 120 (Hall, J. concurring in part).

163. *See generally* Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, (1991).

164. *See* Copyright Act of 1976, 17 U.S.C. § 102(b) (2006).

165. See *Feist*, 499 U.S. at 347.

166. *Id.*

or arrangement is creative.[167] Therefore, whether a compilation should receive copyright protection will inevitably turn on the compilation's *creativity*, thus revealing that a creativity analysis is vital to establishing the independent creation requirement in compilations—especially factual compilations.

Feist applied the creativity theory through Rural Telephone Service Company's attempt to seek copyright protection in the form of compilation for its phone book listings.[168] The preexisting facts used by Rural for its telephone book compilation consisted of names, towns, and telephone numbers.[169] *Feist* explained that "[a] factual compilation is eligible for copyright if it features an original selection *or* arrangement of facts."[170] However, after assessing the creativity involved in the selection and arrangement of the material used to generate the phone book, the Court found that the listings were not worthy of copyright protection. Specifically, as to selection, the Court found that selecting the "most basic information—name, town, and telephone number—[of] each person who applies to it for telephone service" lacked the "creativity necessary to transform mere selection into copyrightable expression."[171] More precisely, selecting information, standard to any phone book, "could not be more obvious."[172] Turning to arrangement, the facts were arranged in alphabetical order, which the court found to be "not only unoriginal" but "practically inevitable."[173] The discovered, low-level creative *Feist* telephone listings seem a far cry from the settlement prices at issue in *NYME*.

While a price would most likely not be able to satisfy compilation on the basis of arrangement,[174] the prices

167. *Id.* at 348.

168. *See id.* at 340.

169. *Id.* at 363.

170. *Id.* at 350 (emphasis added).

171. *Id.* at 362.

172. *Id.*

173. *Id.* at 363.

174. Trying to establish the creative arrangement for an individual price is complicated, although the *CCC* court seemed to provide authority on this issue by finding that "aspects of [the] Red Book's ordination and arrangement were

themselves could very well satisfy the requisites for compilation on the basis of selection alone. Each day the Committee determines a settlement price value for thirty-two or thirty-three months of crude-oil and seventy-two months for natural gas—either 104 or 105 settlement prices a day.[175] While the high-volume months only encompass a small number of all delivery months,[176] the majority of trades are based on these contracts, for "[t]here is generally less trading in contracts for the outer months."[177] As already indicated, for the low-volume months, NYMEX "considers, sifts, weighs and extrapolates from a wealth of data,"[178] which has certainly satisfied the creative threshold for selection in the past.[179] The problem mainly lies with determining how to characterize the high-volume months. At one point, the majority explained that the high-volume months are "based on a formula."[180] If true, the high-volume months would be unable to receive protection as a "procedure, process, system, [or] method of operation" under Section 102 of the Copyright Act.[181] Similarly, the Third Circuit, in *Southco, Inc. v. Kanebridge Corp.*, explained that a number's value generated by a *system* may not receive copyright protection since it lacks the requisite creativity.[182] Nevertheless, the majority also revealed that "it is not clear

inextricably present whenever CCC copied and republished *any Red Book valuation*." CCC Info. Servs., Inc. v. Maclean Hunter Mkt. Reports, Inc., 44 F.3d 61, 68 n.8 (2d Cir. 1994) (emphasis added). Similarly, *Feist* noted that although facts that make up a compilation may not be protected, "if the compilation author clothes facts with an original collocation of words, he or she may be able to claim a copyright in this written expression." *Feist*, 499 U.S. at 348. While this may be language which would enable the settlement price to be worthy of copyright protection based on arrangement alone—since the facts are clothed in a numerical value—the argument may not be well received.

175. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 497 F.3d 109, 111, 116 (2d Cir. 2007), *cert. denied*, 128 S. Ct. 1669 (2008).

176. *Id.* at 111.

177. *Id.* at 116.

178. *Id.*

179. *See id.* at 120 (Hall, J. concurring in part).

180. *Id.* at 111 (majority opinion).

181. Copyright Act of 1976, 17 U.S.C. § 102(b) (2006).

182. Southco, Inc. v. Kanebridge Corp., 390 F.3d 276, 282 (3d Cir. 2004). (explaining that numbers which were assigned to screw fasteners which are generated solely based on a mechanical system do not contain the "slightest element of creativity") (emphasis added).

that we could ever precisely calculate the appropriate valuation of a particular futures contract"[183] and Judge Hall emphasized that the settlement price does not replicate a weighted average, but involves the Committee's judgment or opinion in order to determine an "arbitrary price."[184] The factual dispute regarding this value therefore reveals that more than a precise *formula* or *system* dictates the settlement price calculations for either the high or low-volume months.

If the "judgment or opinion"[185] of the selection involved in determining a NYMEX settlement price value for a certain commodity was as "entirely typical," "garden variety," or "obvious"[186] as selecting phone numbers and additional personal information of citizens of a town, ICE—and any other commodity trader which has a licensing agreement with NYMEX—would have no reason to use NYMEX's values. Litigation such as this would never have even ensued. This reveals the degree of "judgment or opinion"[187] involved in the creation of NYMEX's settlement prices and quashes any issue of mere "sweat of the brow."[188]

Certainly, the problem that the court faced was that there were facts upon which NYMEX relied in creating its prices during the high-volume periods. Yet, even if NYMEX uses facts to generate its prices for high-volume months, there is no reason why the prices as a whole may not receive copyright protection. Specifically, it seems that the low-volume months are compilations, while the high-volume months are compilations of facts. The Court found that "even a directory that contains . . . only facts, meets the constitutional minimum for copyright protection if it features an original selection *or* arrangement [of such facts]."[189] The red flag here is that "[t]here remains a narrow category of works in which the creative spark is

183. *N.Y. Mercantile Exch., Inc.*, 497 F.3d at 116.

184. *Id.* at 121 (Hall, J., concurring in part).

185. *Id.*

186. Kregos v. Associated Press, 937 F.3d 700, 705 (2d Cir. 1991) (quoting Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340 (1991)).

187. *N.Y. Mercantile Exch., Inc.*, 497 F.3d at 121.

188. *Feist Publ'ns, Inc.*, 499 U.S. at 353.

189. *Id.* at 348 (emphasis added).

utterly lacking or so trivial as to be virtually nonexistent."[190]

Therefore, it is understood that for "compilations of facts, *independent creation* as to selection and arrangement will not assure copyright protection; the requirement of *minimal creativity* becomes an important ingredient of the test for copyright entitlement."[191] In other words, in assessing independent creation in a compilation of facts, creativity *has* to be weighed in order to determine whether the compilation was created or discovered. Whether that level of creativity was met here is uncertain, given the court's refusal to consider this analysis. However, to even hint at issues of creation or discovery without weighing creativity is an erroneous interpretation of the analysis as set out in *Feist*.[192]

Due to the inseparability of creativity and independent creation for compilations of fact, in assessing the originality of the high-volume months, the court made a grave error in failing to consider the degree of creativity used by the NYMEX Settlement Price Committee.[193] While the Second Circuit may be correct in indicating that settlement prices appear to be more in the way of factual discovery during high-volume months, such a determination should not even be alleged without a creativity analysis as to the given selection involved. For this reason, the Second Circuit's analysis was incomplete and could prove harmful for further cases relating to factual compilation.

IV. AN ABUSIVE MERGER DOCTRINE

The merger doctrine establishes that when there is "only one or so few ways of expressing an idea . . . protection of the expression would effectively accord protection to the

190. *Id.* at 359.

191. *Kregos*, 937 F.3d at 704 (emphasis added).

192. *See also id.*; s*ee generally Feist Publ'ns, Inc.*, 499 U.S. 340.

193. *See* N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 497 F.3d 109, 114 n.4 (2d Cir. 2007), *cert. denied*, 128 S. Ct. 1669 (2008).

idea itself."[194] Providing protection for an idea prevents others from further building upon that idea for purposes of innovation, consequently hindering the advancement of knowledge.[195] As scholar Melville Nimmer concisely stated, "[t]o grant property status to a mere idea would permit withdrawing the idea from the stock of materials that would otherwise be open to other authors, thereby narrowing the field of thought open for development and exploitation."[196] The doctrine is invoked when determining whether a work is precluded from copyright protection pursuant to 17 U.S.C § 102(b).[197]

Due to the ad hoc basis of the merger doctrine's use, its application is not always consistent.[198] Moreover, the merger doctrine has certainly received its fair share of criticism as "based on a faulty premise,"[199] "merely a judgment that there is a lack of originality,"[200] "worth little

194. *Kregos*, 937 F.2d at 705. For example, in *Morrissey v. Procter & Gamble Co.*, 379 F.2d 675, 678-79 (1st Cir. 1967), there was only a number of limited ways one could express "sweepstake game rules" such that to give the plaintiff copyright protection would provide for a potential monopoly over the work. Similarly, in *Veeck v. Southern Bldg. Code Congress International, Inc.,* 293 F.3d 791, 802 (5th Cir. 2002), it was found that since a city building code could only be expressed in one way, it would be unable to receive copyright protection.

195. *See* WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 97 (2003); *see also Morrissey*, 379 F.2d at 678-79 ("When the uncopyrightable subject matter is very narrow, so that "the topic necessarily requires". . . if not only one form of expression, at best only a limited number, to permit copyrighting would mean that a party or parties, by copyrighting a mere handful of forms, could exhaust all possibilities of future use of the substance . . . . [I]t is necessary to say that the subject matter would be appropriated by permitting the copyrighting of its expression.").

196. CCC Info. Servs., Inc. v. Maclean Hunter Mkt. Reports, Inc., 44 F.3d 61, 69 n.11 (2d Cir. 1994) (quoting 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 13.03[B] at 13-69 to 70 (2008)).

197. Copyright Act of 1976, 17 U.S.C. § 102(b) (2006) (explaining that copyright protection for original works does not extend to "any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied").

198. *CCC Info. Servs., Inc.*, 44 F.3d at 68-69.

199. *See* PATRY, *supra* note 143, §4:46 ("The [merger] doctrine is, however, based on a faulty premise: If an idea and its alleged expression are truly inseparable, there can be no selectivity sufficient to permit originality.").

200. *Id.*

as an analytical tool,"[201] "notoriously malleable,"[202] and a "harsh application of the idea-expression dichotomy."[203] Similarly, in *NYME*, the merger doctrine was bluntly applied in order to conclude that copyright protection should not be granted to settlement prices.[204] The court refused to grant copyright protection to NYMEX's prices on the basis of merger for two reasons: (1) since any futures contract could be determined based on the "same underlying market facts," the number of ways in which a settlement price may be expressed is "exceptionally narrow" and (2) that, as a matter of policy, NYMEX does not need the incentives provided by copyright in order to continue creating its settlement prices.[205] In addressing both of these arguments, this Section will examine the abuses which result from applying the merger doctrine to amorphous valuations and how NYMEX's financial incentives are not much different from that of other businesses in private industry.

A. *The Scope of Settlement Price Expression*

A leading case in the Second Circuit for guidance on applying the merger doctrine is *Kregos v. Associated*

201. Scott Abrahamson, *Seen One, Seen Them All? Making Sense of the Copyright Merger Doctrine*, 45 UCLA L. REV. 1125, 1127 (1998).

202. Justin Hughes, *Created Facts and the Flawed Ontology of Copyright Law*, 83 NOTRE DAME L. REV. 43, 91 (2007)

203. Edward Samuels, *The Idea-Expression Dichotomy in Copyright Law*, 56 TENN. L. REV. 321, 383 (1989).

204. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 497 F.3d 109, 116 n.8 (2d Cir. 2007), *cert. denied*, 128 S. Ct. 1669 (2008) ("In this circuit, consideration of the merger doctrine takes place in light of the alleged copying to determine if infringement has occurred, rather than in analyzing the copyrightability of the original work." (quoting CCC Info. Servs., Inc. v. Maclean Hunter Mkt. Reports, Inc., 44 F.3d 61, 72 n.26 (2d Cir. 1994)).

205. *Id.* at 118. The court itself seemed a bit confused on the basis of determining how to apply the merger doctrine. While the majority first explained that, in a merger analysis, this circuit looks to the range of possible ways in which settlement prices may be expressed, it is then noted that "[t]he appropriate inquiry focuses not on the exact quantity of possible expressions but on the effect of granting copyright protection." *Id.* at 117 n.9. Yet, the court seems to turn its decision on the quantity of that expression by basing its determination on the "possible range" in which settlement price numbers may be expressed. *Id.* at 118.

Press.[206] In *Kregos*, the Second Circuit began its merger analysis by considering the ideas selected for a "pitching form" compilation in an effort to determine whether these ideas could only be expressed in a narrow number of ways.[207] In determining the "narrowness" of an idea, the court distinguished between selections which "advance the understanding of phenomena or the solution of problems"—also referred to as "building-block ideas explaining processes or discoveries"—from those infused with "taste or opinion."[208] For those selections which involve opinion, there "is no serious risk that withholding the merger doctrine will extend protection to an idea."[209] On the other hand, for instances where the selection of data results in a "precise" or "better-than-average probability of some result," the merger doctrine should be applied.[210]

The problem with strictly applying the merger doctrine to NYMEX's settlement prices is that the prices themselves are amorphous. That is, the high-volume months certainly could produce a more accurate probability of the value of a particular contract and therefore be perceived as more of a fact based idea under the *Kregos* analysis. Yet, for the low-volume months during which there are no underlying market facts upon which to rely, settlement prices seem to be more the type of "soft ideas infused with taste or opinion" for which *Kregos* permits protection. This reveals that the measures developed by the Second Circuit in the past to help guide courts through a merger doctrine analysis do not easily graft on to both the low and high-volume settlement prices when considered as a whole. Even if the high-volume months are more factually based, the court would have been more thorough in applying the *Kregos* analysis, for it has been warned that "courts have been cautious in applying the merger doctrine to selections of factual information."[211] For close cases like the one at hand—in which the majority of materials incorporate opinion-infused ideas rather than

206. Kregos v. Associated Press, 937 F.2d 700, 705 (2d Cir. 1991).

207. *Id.*

208. *CCC Info. Servs., Inc.*, 44 F.3d at 71 & n.22.

209. *Kregos*, 937 F.2d at 707.

210. *Id.*

211. *Id.* at 705.

building-block facts of discovery—the consequences of applying the merger doctrine are abusively overreaching.

1. *The Court's Interpretation of an "Exceptionally Narrow" Range*. While *Kregos* provides a bright-line analysis for determining when a work's expression is too narrow, the limited guidance provided by the court on the issue of range was simply that "'one or so few ways of expressing an idea'"[212] is not enough, while "choices among *many possible means*" is sufficient.[213] Ultimately, the court determined that the expression of the settlement price was "exceptionally narrow" on the basis that "any settlement price for a particular futures contract would be determined based on the same underlying market facts."[214] The problem here is that the court just finished conceding that, as to the low-volume months—for which the majority of settlement price estimates are made—there "is so little trading that there is no real market to speak of."[215]

Without having facts upon which to rely, it would be difficult to argue that the material used to determine the prices would therefore be the same, such that the settlement price expression would be exceptionally narrow. A more glaring error here is that the majority inadvertently attempted to distinguish itself from the *CCC* court, which came to the exact opposite conclusion. This was criticized by scholar, Justin Hughes, as "an unsatisfactory way to distinguish the *NYMEX* ruling from *Maclean Hunter*; dissension from the *Red Book* used car values may also be 'exceptionally narrow,' particularly on insurance compensation."[216] Since insurance companies for certain states are required by statute to determine car values based

212. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 497 F.3d 109, 116-17 (2d Cir. 2007), *cert. denied*, 128 S. Ct. 1669 (2008) (quoting *Kregos*, 937 F.2d at 705).

213. *Id.* at 117 (quoting Merkos L'Inyonei Chinuch, Inc. v. Otsar Sifrei Lubavitch, Inc., 312 F.3d 94, 99 (2d Cir. 2002)).

214. *Id.* at 118.

215. *Id.* at 116.

216. Justin Hughes, *Created Facts and the Flawed Ontology of Copyright Law*, 83 NOTRE DAME L. REV. 43, 77 (2007).

on the *Red Book*, price estimates in this context do not vary from one another in the least.[217]

A closer look at the settlement prices further indicates that characterizing the price expression as narrow is nothing more than a meaningless, blanket statement. Every day, either 104 or 105 settlement prices are determined,[218] each of which are expressed as a numerical value to one-hundredth of a point.[219] With 105 prices, intricately valued to one-hundredth of a point on a daily basis, largely based on periods where there is "no real market to speak of,"[220] it would be difficult to argue that this results in an exceptionally narrow range of values. On the contrary, ICE's method of changing NYMEX's settlement price "one 'tick'" and NYMEX's ability to "override" such prices reveals that settlement prices are estimations that need not be an exact numeric value dictated by market facts.[221] Clearly the less factual material there is upon which to rely, the more creativity must be used in determining the value; the more creativity involved in determining that value clearly reveals the broader range in which that value may be expressed. In overlooking these factors, the view that the possible variations are too narrow is nothing more than a subjective statement without any factual support.

2. *Inconsistent Merger Doctrine Application Amongst the Circuits*. In *Kregos*, Judge Newman warned that "[i]f the compiler's idea is identified at that low level of abstraction, then the idea would always merge into the compiler's expression of it."[222] Therefore, depending on how abstract the court defines the idea, one could always claim that the

217. "The offer of this average of Red Book and Bluebook satisfies a market because the laws of certain states use that average figure as a minimum for insurance payments upon the 'total loss' of a vehicle." CCC Info. Servs., Inc. v. Maclean Hunter Mkt. Reports, Inc., 44 F.3d 61, 64 (2d Cir. 1994).

218. *See N.Y. Mercantile Exch., Inc.*, 497 F.3d at 111.

219. *See, e.g.*, KOLB & OVERDAHL, *supra* note 5, at 95 fig.3.1 (Futures Price Quotations); *see also* NYMEX.com: Light Sweet Crude Oil, http://www.nymex.com/lsco_fut_pso.aspx (last visited Oct. 24, 2008).

220. *N.Y. Mercantile Exch., Inc.*, 497 F.3d at 116.

221. *Id.* at 111-12.

222. Kregos v. Associated Press, 937 F.2d 700, 706 (2d Cir. 1991).

idea merges with the expression.[223] This provides a great deal of leeway to judges and can make for a subjective ruling as to when the merger doctrine application should keep copyright from granting protection.

The Second Circuit began its merger analysis by *assuming* that the settlement prices are "created and not discovered."[224] At that point in the analysis, the settlement prices are no different than those of the price values in *CCC* and *CDN*; the court assumed that the values are sufficiently original for copyright protection. However, whereas the court found in *CCC* and *CDN* that the idea of individual price values did not merge with the expression of their values, the Second Circuit here found that the merger doctrine did in fact apply. Consequently, as once again indicated in NYMEX's writ to the Supreme Court, the "Second Circuit's holding that the merger doctrine bars copyright protection of numerical expressions of opinions of values directly conflicts with the Ninth Circuit's decision in *CDN Inc. v. Kapes*."[225]

Moreover, while the Ninth Circuit in *CDN* defined the "idea" as that of "creating a wholesale price guide," it found that CDN could utilize copyright law to protect its expression of "what those prices are."[226] Conversely, the court in *NYME* claimed that regardless of how the idea may be defined, "[t]o grant NYMEX copyright protection here 'would effectively accord protection to the idea itself' . . . bar ICE or other competitors from valuing NYMEX's contracts."[227] However, if the idea were (to borrow slightly from Judge Hall's discussion of settlement prices, in which

223. *See* 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 13.03[B][3] (2007) ("Unfortunately, as with the idea/expression dichotomy that pervades this area, application of the merger doctrine depends on the level of abstraction at which one defines the 'idea' that merges with the subject expression." (citation omitted)).

224. *N.Y. Mercantile Exch., Inc.*, 497 F.3d at 116.

225. Petition for Writ of Certiorari, *supra* note 50, at 20; *see also* Reply Brief of Petitioner at 5, *N.Y. Mercantile Exch. Inc.*, 497 F.3d 109 (No. 07-938), 2008 WL 534804 (Heading: "A Circuit Court Split Exists Between the Second and Ninth Circuits").

226. CDN Inc. v. Kapes, 197 F.3d 1256, 1262 (9th Cir. 1999).

227. *N.Y. Mercantile Exch., Inc.*, 497 F.3d at 118 (quoting *Kregos*, 937 F.2d at 705).

he defined them as "arbitrary price[s]")[228] 'creating an arbitrary commodity value database,' it seems that the possibilities of expressing those values avoids the merger doctrine based on the *CDN* methodology. Therefore, NYMEX's writ accurately indicates that the *NYME* court generated a circuit court split due to the "doctrinal difference" amongst the circuits in their application of the merger doctrine in properly determining when to preclude individual price values from protection.[229]

B. *Merger and Policy: The Need for Incentives*

Finally, the Second Circuit noted that policy considerations have a significant influence on determining whether or not to apply the merger doctrine.[230] For example, in order to determine whether the Red Book should receive the incentives for protection of its creation, the court in *CCC* sought to "balance the conflicts and contradictions that pervade the law of copyright" in order to conclude "as a policy judgment, which of its commands prevails over the other."[231] The Second Circuit provided copyright protection to Maclean's estimated car prices on the basis that it needed the incentive of copyright protection in order to continue to partake in its business rather than "direct [its] energies elsewhere."[232] Similarly, copyright was provided to CDN's prices (and the merger doctrine was avoided) on the basis that this protection provides CDN with an "incentive to create such a guide" and "allows CDN's competitors to create their own price guides and thus furthers competition."[233]

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228. *Id.* at 120 (citing WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY 2079 (2002)).

229. Reply Brief of Petitioner, *supra* note 225, at 6.

230. *N.Y. Mercantile Exch., Inc.*, 497 F.3d at 118.

231. CCC Info. Servs., Inc. v. Maclean Hunter Mkt. Reports, Inc., 44 F.3d 61, 68 (2d Cir. 1994).

232. *Id.* at 66; *see also* 497 F.3d at 118; Hughes, *supra* note 202, at 100 ("Yet assuming that some economic incentive was needed for creation of the expressions (which created the facts), if the merger doctrine strips away the copyright protection, we will destroy the incentive for the creation of the next iteration of the *Red Book* or the *CDN Coin Dealer* . . . .").

233. CDN Inc. v. Kapes, 197 F.3d 1256, 1262 (9th Cir. 1999).

However, the majority in *NYME* felt that NYMEX did not need the "economic incentives" provided by copyright in order to continue to generate settlement prices.[234] The court reasoned that, first of all, NYMEX must have a price at which to settle open positions in order to function as a commodity exchange and, secondly, is required by law to record and report such prices publicly anyway.[235] The first argument seems too simplistic—just because NYMEX needs to have a price in order to function as a commodity exchange does not necessarily mean that it has to create the price itself. NYMEX could just as easily take ICE's position by waiting for another market to generate a price and copy that price for its own use.

Secondly, the fact that NYMEX has to report its prices to the public certainly does not mean that the exchange does not have a property interest in its settlement prices. On the contrary, NYMEX's contention is not that ICE uses its settlement prices after the information is reported to the public before the next trading day, but is "based on ICE's unlawful copying of NYMEX Settlement Prices *before* those settlement prices are required to be made available to the public."[236] Providing NYMEX with the ability to compel other exchanges to enter into licensing agreements in order to receive settlement price information is evidence that property rights in such prices have already been well recognized.[237] Moreover, it reveals that intellectual property protection for settlement prices will "not inflict injury on the opportunity for public debate"[238] or impede the advancement of knowledge.[239] Rather, selling the prices for economic gain through these agreements with other commodity exchanges—and the substantial economic benefit received from these agreements[240]—reveals that the

234. *See N.Y. Mercantile Exchange, Inc.*, 497 F.3d at 112.

235. *See id.* at 112.

236. Reply Brief of Petitioner, *supra* note 225, at 1.

237. LEE, *supra* note 31, at 103-04.

238. CCC Info. Servs., Inc. v. Maclean Hunter Mkt. Reports, Inc., 44 F.3d 61, 73 (2d Cir. 1994).

239. *N.Y. Mercantile Exchange, Inc.*, 497 F.3d at 118.

240. *See* KOLB & OVERDAHL, *supra* note 5, at 100 ("The sale of real-time transaction prices, quotations, and other market data is a huge source of

profitable business run by NYMEX is not much different from those private businesses in *CCC* or *CDN*. In fact, once the settlement prices are publicly reported, the prices are no longer of any economic value to NYMEX. Consequently, the fact that NYMEX is required to report its settlement prices has no bearing on its property interest in such prices.

Using this policy argument to keep NYMEX from receiving protection for its prices seems forced. Claiming that one should not receive protection for property simply because it has to be publicly reported overlooks the fact that there is actual value in settlement prices—even if such value only exists for a limited period of time. Moreover, due to the powerful nature of the merger doctrine, the next Section examines how courts should take into account policy arguments which incorporate the public welfare, rather than merely concentrating on the private incentives needed for a business to generate materials.

V. MANIPULATION AND EXCESSIVE SPECULATION IN THE MARKET: A DEGENERATIVE BREED OF COMPETITION

In the world of copyright, competition is good.[241] Rivalry in the marketplace keeps prices at marginal cost and generates economic efficiency for the benefit of consumers.[242] Therefore, courts are generally leery of providing too much protection to a product or devise which may directly confer a monopoly to a thriving entity. On the other hand, with the rise of new forms of trading technology in the futures markets, "exchanges have become increasingly attentive to possibilities for patenting, trade-

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revenue for financial exchanges such as the Chicago Mercantile Exchange (CME) and the CBOT.").

241. *See* LANDES & POSNER, *supra* note 195, at 23 ("A fundamental principle of American law is that competition is not a tort, that is, an invasion of a legally protected right. Freedom to imitate, to copy, is a cornerstone of competition and operates to minimize monopoly profits.").

242. *See id.* at 378-79; *see also* NIMMER & NIMMER, *supra* note 223, at app. 17-6 (Letter to Hon. Robert Kastenmeier, Chairman, Subcommittee on Courts, Civil Liberties and the Administration of Justice from the Assistant Attorney General (July 27, 1976) ("Copying very often supports and promotes competition—it spurs further invention and innovation, permits newcomers to enter markets, and . . . is a necessary condition for the competitive forces of the marketplace acting to lower prices, satisfy consumer demand, and allocate production optimally.")).

marking, or copyrighting their intellectual property."[243] Preserving incentives for creation and encouraging free competition are competing aspects of copyright. For this reason, it is only natural that very close cases turn on arguments of policy which revert back to fundamental aspects of intellectual property law.

As explained in the earlier merger doctrine discussion, policy measures in the form of "preserving incentives" took on a significant role for the *NYME* court in determining whether or not copyright protection should be granted.[244] Notwithstanding this argument, one additional policy measure that should have at least been considered by the Second Circuit is the economic benefit which could have been provided to the public if protection were provided to NYMEX's settlement prices. As is often times the case in intellectual property battles, disputes which appear to exist only between two parties will "almost invariably touch the public welfare."[245] In particular, copyright is a "public-minded law" which is ultimately "intended to inure to the public" rather than the contesting private parties."[246] In addition, protecting the public interest is a measure that courts have considered when assessing preliminary injunction and misappropriation claims for financial information in the past.[247] Grafting this policy onto a merger doctrine analysis would enable the courts to approach copyright issues from a broader economic perspective—rather than solely considering the incentives necessary for a private party to generate potentially copyrightable material.

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243. KOLB & OVERDAHL, *supra* note 5, at 68.

244. *See supra* Part IV.

245. Ralph S. Brown, Jr., *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 YALE L.J. 1165, 1167 (1948).

246. Note, *Rethinking Copyright for Advertisements*, 119 HARV. L. REV. 2486, 2492 (2006) ("Copyright is a public-minded law, the benefit of which is intended to inure to the public, not to the private party whose works are protected; the doctrine's conferral of a private benefit is merely a means to the public end.").

247. *See, e.g.*, Standard & Poor's Corp. v. Commodity Exchange, Inc., 683 F.2d 704, 712 (2d Cir. 1982) ("The need to protect the public from such an eventuality is a strong ground for the maintenance of a preliminary injunction.").

This Section examines how granting copyright protection to NYMEX's settlement prices could have provided U.S. consumers, as a whole, with vast economic benefits. First, the regulations of ICE and NYMEX are explained in detail. Second, this Section considers how ICE's use of NYMEX's settlement prices for its own "look-alike" instruments promotes market manipulation and speculation to the detriment of the economy. Third, it will examine how action is largely underway in remedying these harms and how granting copyright protection for settlement prices could have mitigated such harm. Finally, it will examine how utilizing another exchange's settlement prices hinders innovation in the market.

A. *Inconsistent Regulations Amongst the Markets*

To fully understand how manipulation takes place, one must first understand how NYMEX and ICE are regulated. ICE and NYMEX are both regulated under different entities due to an amendment to the Commodity Exchange Act (CEA) referred to as the "Enron Loophole."[248] This loophole was the result of the passage of the Commodity Futures Modernization Act (CFMA) in 2000.[249] In fact, ICE and Enron were both direct beneficiaries from this amendment.[250] While NYMEX is an open-outcry[251] exchange which maintains its trading floor in New York

248. *See* 7 U.S.C. § 2(h)(3) (2006); *see also* 153 CONG. REC. S11,596-97 (daily ed. Sept. 17, 2007) (statement of Sen. Levin) [hereinafter Statement of Sen. Levin], *available at* http://levin.senate.gov/newsroom/release.cfm?id=283461; Lynn Garner, *Sen. Levin Shopping Amendment To Farm Bill on Energy Market Oversight*, 39 Sec. Reg. & L. Rep. (BNA) 1754 (Nov. 12, 2007).

249. ANTONIA JUHASZ, THE TYRANNY OF OIL 147-48 (2008) ("Without any congressional hearings or debate, or any public notice, on December 12, 2000, Phil Gramm slipped what would forever be referred to as the 'Enron Loophole' into the 262-page Commodity Futures Modernization Act, of which he was a sponsor. The act was then belatedly but quite suddenly attached to the 11,000-page omnibus appropriations bill that was passed into law by Congress and signed by President Clinton.").

250. *See id.* at 148 ("There were two immediate beneficiaries of the loophole: the Intercontinental Exchange and Enron.").

251. JULIAN ROCHE, FORECASTING COMMODITY MARKETS 225 (1995) (open outcry is a "method of public auction for making verbal bids and offers for contracts in the trading pits or rings of commodity (and financial) exchanges.").

City and also offers electronic trading,[252] ICE is exclusively an electronic market which provides a trading platform for physical commodities and over-the-counter derivative contracts (OTC's).[253] While NYMEX maintains its own clearing house, ICE clears its transactions through the London Clearing House in Europe. In addition, although ICE is headquartered in Atlanta, it trades its energy futures overseas through a subsidiary, ICE Futures Europe.[254] Therefore, while NYMEX is "tied to the trading floors" in the United States,[255] ICE trades electronically and internationally.

ICE is an Exempt Commercial Market (ECM), which means that it is "not fully regulated"[256]—or is "regulated and monitored lightly"[257]—by the Commodity Futures Trading Commission (CFTC).[258] In contrast, NYMEX is a Designated Contract Market (DCM) and Self Regulatory Organization (SRO)[259] which is subject to full oversight by

252. KOLB & OVERDAHL, *supra* note 5, at 5.

253. *See* N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 497 F.3d 109, 110 (2d Cir. 2007), *cert. denied*, 128 S. Ct. 1669 (2008).

254. *See* Richard Hill, *CFTC Announces Initiatives to 'Bring Sunshine' to Energy Markets*, 40 Sec. Reg. & L. Rep. (BNA) 868 (June 2, 2008).

255. *See* Jerry W. Markham, 13A Commodities Reg. (West) § 28:3 (2007) ("The floor members . . . were loathe to give up the time and place advantage on the floor to an electronic forum where everyone has equal access. . . . [T]he exchanges and their members saw their volume being eroded by more nimble competitors . . . .").

256. Lynn Garner, *Futures Trading: Senate Democrats Express Frustration With CFTC in Regulating Energy Markets*, 40 Sec. Reg. & L. Rep. (BNA) 910 (June 9, 2008).

257. Richard Hill, *CFTC Sues Amaranth Funds Over Two Days of Nymex Trading in '06*, 39 Sec. Reg. & L. Rep. (BNA) 1186 (July 30, 2007).

258. *See also* HEARING, *supra* note 7, at 22 ("Exempt commercial markets are electronic trading facilities that restrict trading to principal-to-principal transactions between eligible commercial entities."); Richard Hill, *Lawmakers Pass CFTC Reauthorization; Senators Query Agency on MOU with London*, 40 Sec. Reg. & L. Rep. (BNA) 806 (May 19, 2008); HOLDINGS, *supra* note 6, at 9 ("For instance, the IntercontinentalExchange Inc. ('ICE'), an electronic trading system for, among other things, various OTC energy products, was created by several large merchant energy companies and currently operates as an 'exempt commercial market' under the CFMA.").

259. *See* HOLDINGS, *supra* note 6, at 2 ("Trading on the Exchange is regulated by the Commodity Futures Trading Commission ('CFTC'), which, in conjunction with the Company's clearinghouse, helps to ensure the integrity of its markets.")

the CFTC.[260] The CFMA has allowed ICE to trade "look-alike" OTC's and contracts—in the form of Henry Hub natural gas and West Texas Intermediate crude oil.[261] Once ICE relies on NYMEX's settlement prices for these two financial instruments, the contracts and OTC's are almost identical. Consequently, traders view ICE and NYMEX as a single market.[262]

The glaring problem with the two exchanges relying on the same settlement prices is that each is subject to varying degrees of transparency. In the futures market, transparency means the "degree to which a futures exchange publicly disseminates real-time information on transaction prices, quotations, order flow, and other market variables."[263] The biggest problem with the conflicting regulations is that ECMs like ICE provide an "end-run around" the transparency requirements to which DCMs are subject.[264] Since the success of NYMEX is based on "its ability to maintain and increase its trading volume," it is "adversely affected" by "los[ing] customers to low-cost competitors with fewer regulatory restrictions."[265] Concisely stated, NYMEX is closely monitored by the CFTC, while ICE—specifically, ICE Futures Europe—is subject to less U.S. regulation.[266]

260. *See* Garner, *supra* note 256, at 910.

261. *See* HOLDINGS, *supra* note 6, at 9 ("Moreover, the [Commodity Futures Modernization Act of 2000 (CFMA)] increased the ability of competitors to offer largely unregulated competing products that are economically or otherwise financially-equivalent to futures contracts.").

262. HEARING, *supra* note 7, at 39. It is also speculated that "when two markets are linked in this way, both markets may constitute a price discovery market for the commodity in question, as it is difficult if not impossible to split the two and assign the price discovery role to a single marketplace." *Id.* at 42. Consequently, it has been noted that "it may be appropriate for the Commission to reconsider its price discovery criteria to include an additional standard for linked markets." *Id.*

263. KOLB & OVERDAHL, *supra* note 5, at 56.

264. Hill, *supra* note 258, at 806.

265. HOLDINGS, *supra* note 6, at 29.

266. *See* Richard Hill, *Futures Trading: CFTC Amending No-Action Stance With London Market, Demanding More Data*, 40 Sec. Reg. & L. Rep. (BNA) 983 (June 23, 2008).

B. *Manipulation in the Market*

OTC look-alike swaps—like the natural gas and crude oil financial instruments at issue in *NYME*—can have a complimentary relationship with futures contracts by enabling those who trade swaps to "hedge the risk in their swap portfolios" by simultaneously trading on other futures markets.[267] On the other hand, since ICE is exempt from commission oversight authority under the CEA,[268] this can allow manipulative behavior to go "undetected."[269] Therefore, trades that take place on less transparent markets, like ICE, serve as a means to further manipulation and excessive speculation, which ultimately generates an unhealthy form of market volatility.[270]

In September of 2007, a CFTC conference in Washington, D.C. brought to light the fact that allowing unregulated entities like ICE to use "cash-settled, look-alike contracts" provided "an incentive to manipulate the settlement price of the underlying regulated contract market price in order to benefit from positions in the look-

267. KOLB & OVERDAHL, *supra* note 5, at 54.

268. *See* Markham, *supra* note 255, § 27:12.1 (discussing how the exempt commercial markets which trade electronically are not overseen by the CFTC); *see also* HEARING, *supra* note 7, at 36 ("[U]nder the Commodity Exchange Act, the Commission staff does not directly surveil or monitor trading activity on ECMs on an ongoing basis as it does for the regulated contract markets.").

269. HEARING, *supra* note 7, at 8-9. Since only "part of the natural gas futures market is regulated," this allows for trading abuses to "plague existing energy markets" through "price manipulation and excessive speculation." Statement of Sen. Levin, *supra* note 248, at S11,596.

270. *See* Hill, *supra* note 266, at 983 (explaining that "[o]bservers have warned that such overseas 'look-alike' contracts can encroach on price discovery, but that the markets on which they trade are opaque to U.S. regulators"). Volatility is the "degree of fluctuation in the price of the underlying futures contract" and the "greater the volatility of the futures, the higher the option premium." ROBERT D. EDWARDS ET AL., TECHNICAL ANALYSIS OF STOCK TRENDS 348 (9th ed. 2007). While volatility attracts investors who are willing to take risky market positions for a greater payout, in a volatile market, supplies "stand a good chance of being disrupted and unstable." JAKE BERNSTEIN, NEW FACTS ON FUTURES 3 (1992). Since the futures market was originally created in order to "protect the farmer from volatile prices moves" and keep supplies from becoming unstable, a volatile market no longer serves its purpose of "stabiliz[ing] prices" in the economy. *Id.*

alike ECM contract."[271] There are many forms of market manipulation and, at times, the term itself may be difficult to define.[272] However, for purposes here, price or market manipulation may be seen as a practice "calculated to cause or maintain a price at a level artificially high or low—a price not reflective of supply and demand conditions."[273] The type of manipulation which is more specifically the concern of this discussion is that which was examined in the D.C. Conference—that is, manipulation which results from allowing an ECM to use DCM's settlement prices for its own look-alike contracts. Generating artificial values through the placing of large orders on futures contract settlement prices which are linked to OTCs has been referred to as "micromanipulation."[274]

This type of manipulation may be illustrated through the actions of hedge fund, Amaranth Advisors, during February and April of 2006. Amaranth's scheme involved an attempt to manipulate the price of natural gas futures on ICE and NYMEX.[275] Amaranth held large short positions[276] on natural gas swaps on ICE and long positions[277] on natural gas futures contracts on NYMEX.[278]

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271. *See* HEARING, *supra* note 7, at 34-35. Furthermore, "[f]or both markets the same types of traders are active participants." *Id.* at 35.

272. *See generally* KOLB & OVERDAHL, *supra* note 5, at 56.

273. Markham, *supra* note 255, § 14:3. For example, "one purpose of price manipulation by floor brokers may be to distort prices just enough to trigger customers' protective stop order which the floor brokers know to be in hand; once the stop order price is touched, the stop orders become market orders that must be filled." *Id.*; *see also* 1 SECURITIES TRAINING CORPORATION, SERIES SEVEN 31 (2005) (defining manipulation as "[t]he illegal practice of buying or selling a security for the purpose of creating a false or misleading appearance of active trading or for the purpose of raising or depressing the price to induce the purchase or sale by others").

274. KOLB & OVERDAHL, *supra* note 5, at 85 ("A micromanipulation results from a momentary rigging of a futures contract's settlement price . . . [a] trader may find it profitable to conduct this type of manipulation if they have an OTC derivatives position that is valued using the futures price as a reference price.").

275. *See* U.S. Commodity Futures Trading Comm'n v. Amaranth Advisors, 554 F. Supp. 2d 523, 527-28, 533 (2008).

276. A "short position" is the position of the party selling the commodity, which is "the party obligated to deliver the commodity on the delivery date." *Id.* at 526.

277. A "long position" is the position held by the buyer who is "obligated to accept delivery of the commodity." *Id.*

Amaranth planned on selling a large amount of long positions during the final 30 minutes of the expiration date on NYMEX—a practice known as "marking the close"—which would consequently drive down the settlement prices for the months of certain NYMEX contracts.[279] Since ICE relied on NYMEX's settlement prices for its OTCs, a successful attempt to manipulate the settlement prices on NYMEX would consequently make Amaranth's short positions on ICE profitable.[280] Moreover, due to the fact that ICE was an unregulated ECM, the CFTC was unable to "prevent price distortions and excessive speculation" caused by Amaranth's positions on ICE at the time.[281] Ultimately, Amaranth was unsuccessful in its scheme as a result of its broker's failure in executing the entire order in time.[282] The hedge fund was charged with attempted market manipulation and has since dissolved.[283] Although Amaranth was caught for its manipulative endeavors, those who have gotten away with similar behavior to the detriment of the economy have yet to be named.[284] Nevertheless, if copyright protection were implemented to keep such prices from ICE's grasp—an issue which will be

278. *Id.* at 527.

279. Hill, *supra* note 257, at 1186.

280. *See id.* ("The move was an attempt to ensure that its selling drove down the price of natural gas contracts, thereby again makings its shorts on ICE profitable."); Lynn Garner, *CFTC Enforcement Court Rebuffs Bid by Amaranth Fund to Dismiss Natural Gas Trading Case*, 40 Sec. Reg. & L. Rep. (BNA) 870 (June 2, 2008) ("The defendants . . . were trying to take advantage of the fact that the settlement price of ICE swaps was based on NYMEX natural gas futures settlement price determined on the last day of trading for the monthly contracts. In essence, the defendants intended to push down the price of the NYMEX natural gas futures contracts to benefit their larger financial swap positions on ICE, which is an unregulated electronic trading platform, the complaint alleged.").

281. Lynn Garner, *Sen. Levin Introduces Bill to Regulate Exempt Markets, Close 'Enron Loophole'*, 39 Sec. Reg. & L. Rep. (BNA) 1466 (Sept. 24, 2007); Hill, *supra* note 257, at 1186.

282. *See* Hill, *supra* note 257, at 1186.

283. *See id.*

284. Garner, *supra* note 3, at 946 (quoting Sen. Maria Cantwell as claiming that, "It's time for ICE to name names . . . [t]he CFTC has the legal authority to find out who these large traders are and whether as few as three to four organizations are driving the market").

addressed in more detail later[285]—traders such as Amaranth would not have the ability to manipulate the markets in this manner.

1. *Modifications to the Regulatory Structure*. As a result of the Amaranth situation—in correlation with the consistently rising prices of oil and natural gas in the United States over the past two years—Congress began to blame manipulation and excessive speculation in the market as the reason for the rise in high energy prices.[286] Ongoing pressure has been placed on the CFTC to modify the disparity in regulation between the markets, in order to more thoroughly monitor the actions of those who trade between ECMs and DCMs.[287] Consequently, while our economy was faced with "'volatile markets and high energy prices,'"[288] there have been recent oversight initiatives which will most likely cause positions on ICE to become more transparent in the near future.[289]

On May 22, 2008, the Farm Bill (H.R. 2419) was enacted into law which included CFTC reauthorization provisions.[290] Such provisions enabled the CFTC to extend "principles-based oversight to exempt [U.S.-based] commercial markets that trade contracts with 'significant' price discovery roles."[291] As a result of the bill, ICE's natural gas swaps are now fully regulated.[292] Yet, ICE Futures Europe—upon which the Henry Hub crude oil look-

285. *See infra* Part V.B.2.

286. Garner, *supra* note 256, at 910.

287. *See* Garner, *supra* note 248, at 1754.

288. Richard Hill, *Durbin, Citing Oil Prices, Offers Bill To Boost CFTC Powers; June 17 Hearing Set*, 40 Sec. Reg. & L. Rep. (BNA) 947 (June 16, 2008) (quoting Sen. Tom Harkin, Sen. Agriculture Committee Chairman) [hereinafter Hill, *Durbin*]; *see also* Richard Hill, *OTC ICE Market Heeding CFTC Calls to Cooperate on Data-Sharing*, 39 Sec. Reg. & L. Rep. (BNA) 192 (Feb. 5, 2007).

289. Richard Hill, *Reid Anti-Speculation Bill Takes Aim at 'Look-Alike' Energy Trades*, 40 Sec. Reg. & L. Rep. (BNA) 1136 (July 21, 2008).

290. H.R. Con. Res. 2419, 110th Cong. (2008) (enacted).

291. Hill, *supra* note 258, at 806; *see also* MARK JICKLING, CONG. RESEARCH SERV., LIBRARY OF CONG., REP. NO. RS22028, CFTC REAUTHORIZATION (2008), *available at* http://www.nationalaglawcenter.org/assets/crs/RS22028.pdf.

292. *See* Diana B. Henriques, *Sunlight on a 'Dark Market,'* N.Y. TIMES, July 25, 2008, at C1 (explaining that the farm bill allows for "ICE's over-the-counter natural gas swaps [to be] as fully regulated as if they were traded on Nymex").

alike contracts trade—was still able to "escape[ ]CFTC oversight" on the basis that it deferred to the United Kingdom's Financial Service Authority.[293] To address this problem, on June 12, 2008, Senators Maria Cantwell and Olympia Snowe introduced a bill to increase the authority of the farm bill by "forc[ing] ICE to register as a designated contract market."[294] Specifically addressing such look-alike contracts such as West Texas Intermediate crude oil which rely on NYMEX settlement prices, the bill is intended to provide regulatory oversight to the foreign exchange in order to impose "position limits to prevent excessive speculation" and supplement regulations which are not "robust enough to prevent manipulation in American oil markets."[295] Five days later, the CFTC made an announcement to amend the no-action letter it provided ICE in 2006 in the hopes that the London futures market will "adopt U.S.-equivalent position limits and accountability levels on its West Texas Intermediary crude oil contract."[296] While this would increase market transparency,[297] the United Kingdom's Financial Services Authority has yet to review the agreement and could "overrule the deal."[298] Finally, on July 15, 2008, a bill entitled the "Stop Excessive Energy Speculation Act" would monitor and regulate investors who trade "U.S. 'look-alike' energy contracts on foreign exchanges."[299] If these bills pass—and they most likely will receive a great deal of support considering that, as of September 11, 2008, studies concluded that market speculation was the cause of rising oil prices[300]—ICE will be on the same footing as NYMEX in terms of operating in a transparent market. However, at

293. Garner, *supra* note 3, at 946.

294. *Id.*

295. Hill, *supra note* 258, at 806.

296. Hill, *supra* note 266, at 983.

297. *Id.*

298. Richard Hill, *U.K.'s FSA Still Can Reject No-Action Condition CFTC Put on London ICE*, 40 Sec. Reg. & L. Rep. (BNA) 1191 (July 28, 2008).

299. Richard Hill, *Futures Trading Reid Anti-Speculation Bill Takes Aim at 'Look-Alike' Energy Trades*, 40 Sec. Reg. & L. Rep. (BNA) 1136 (June 21, 2008).

300. *See* H. Josef Hebert, *Speculators Get the Blame for Oil Price Spike*, BUFFALO NEWS, Sept. 11, 2008, at A8.

the present time, this sort of fluid transparency has yet to be seen.

2. *Impact on the Economy and the Copyright Solution*. The Amaranth scheme precisely illustrates the problems which exist on account of ICE's use of NYMEX's settlement prices. Due to excessive price manipulation in both the natural gas and oil markets, the public has seen "how the futures prices affect the physical prices."[301] While more oversight has been provided to ECMs, the oil futures traded on ICE Futures Europe still provide a playing field for non-transparent trading.[302] This has left—and will continue to leave open—the possibility for experienced, unethical traders who are familiar with the regulations to trade on both exchanges to the detriment of the economy. To make matters worse, those banks which "lost billions of dollars in the sub-prime mortgage debacle" decided to focus their attention more closely on energy trading.[303] The consequences of such unmonitored, abusive trading have "creat[ed] a consumer crisis for average citizens."[304]

Quite simply, manipulation of the Henry Hub commodity has affected those parts of the economy which rely on natural gas.[305] Those harmed include the manufacturing sector in the United States, [306] as well as anyone who purchases—and relies on the use of—natural gas.[307] It has been noted that natural gas prices for the

301. Garner, *supra* note 256, at 910.

302. *See* Hill, *supra* note 266, at 983.

303. JUHASZ, *supra* note 249, at 161-62.

304. Hill, *supra* note 299, at 1136.

305. HEARING, *supra* note 7, at 162. (explaining that "price volatility in the U.S. market for natural gas is due to a failure of the current regulatory structure for the trading of futures on natural gas").

306. *Id.* at 159 ("Unfortunately, price volatility in the market for natural gas in the United States has made the U.S. [s]ignificantly less competitive for manufacturing operations that rely on natural gas as a commodity which has and . . . will continue to have[,] a significant impact on employment in the manufacturing sector of this country's economy.").

307. *See id.* at 176-77 ("Natural gas is the lifeblood of our economy, and millions of consumers depend on natural gas every day to meet their daily needs. It is critical that the prices those consumers are paying for natural gas comes out through the operation of a fair, orderly and transparent marketplace."); *see also* Statement of Sen. Levin, *supra* note 248, at 2 (discussing how abuse on ICE and NYMEX affects the price of natural gas

winter of 2006 were "clearly out of whack" on account of "price distortions" sparked by the inability to monitor abuse on unregulated markets such as ICE.[308] To further draw the link between the markets and the impact of manipulation on the economy, it was explained that when "the positions accumulated by Amaranth began to unwind, gas prices decreased."[309] In 2007, it was reported by the Municipal Gas Authority of Georgia that "Amaranth's excesses increased the cost of its winter gas purchases by $18 million."[310] Concisely stated, "'Amaranth's massive trades turned the natural gas market into a giant electronic casino.'"[311] While the price of natural gas has since dropped as of July 2008, by early August, the price was still eleven percent higher than it was during the winter of 2007.[312]

The manipulation of West Texas crude oil futures may have been even more rampant—and more harmful to the economy—than that of the natural gas contracts. Upon its creation, ICE was intended to serve as a "trading platform for crude oil."[313] Deregulation created a great opportunity for the "price manipulation of crude oil" and it is found that "[t]oday the price of a barrel of oil is largely determined by

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which "heats the majority of American homes" and "powers 20% of our electrical plants").

308. Statement of Sen. Levin, *supra* note 248, at 3. Senator Levin discusses how Amaranth, a hedge fund, used this discrepancy in regulation in order to dominate the natural gas market in the spring and summer of 2006. When Amaranth's positions on NYMEX's market became too large, the CFTC compelled NYMEX to direct Amaranth to reduce the size of such positions. Instead of reducing its size, Amaranth merely switched its extensive positions to ICE's Henry Hub OTCs—that is, beyond the reach of the CFTC's control. *Id.* As a result, the Municipal Gas Authority of Georgia complained that Amaranth's behavior alone "increased the cost of their winter gas purchases by $18 million." *Id.*

309. HEARING, *supra* note 7, at 173.

310. Garner, supra note 281, at 1466.

311. *Id.* (quoting Sen. Levin).

312. Jad Mouawad, *Baby, It's Going to Be Cold Inside*, N.Y. TIMES, Aug. 6, 2008, at C1 (projecting that the heating bills for the winter of 2008 will "far exceed" those of last year).

313. JUHASZ, *supra* note 249, at 149.

the actions of energy futures traders."[314] Between 2000 and 2006, the amount of crude oil contracts traded on ICE increased by 322 percent, which subsequently increased by an additional "140 percent from 2005 and 2006 alone."[315] By 2006, nearly 80 percent of all contracts traded on ICE were for crude oil.[316] Furthermore, in early June of 2008, NYMEX controlled 75 percent of the open interests of these futures contracts while ICE maintained the remaining 25 percent of the market share.[317]

The "deregulation of energy trading" is the "most overlooked factor driving the meteoric rise in oil prices today."[318] More "trades are now taking place off the regulated exchanges altogether, either at the ICE or as unregulated swaps between major traders."[319] Senator Richard Durbin explains that there is currently "very little visibility" for over-the-counter trades such as "those that take place on the IntercontinentalExchange in London."[320] The West Texas Crude oil look-alike contracts provided by ICE "can encroach on price discovery."[321] As a result, allowing ICE to trade these contracts outside of CFTC oversight opens the doors for hedge funds to "purposely driv[e] up prices on a foreign exchange [in order] to influence the price of futures contracts traded in the USA."[322] Consequently, the trading of the West Texas contract on ICE is blamed for the rise in oil futures prices.[323]

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314. *Id.* at 127. In addition, "[d]ata compiled by the CFTC demonstrates that from approximately 2000 to 2006, the amount of energy trading due to speculation nearly tripled. All of which opens the door to manipulation." *Id.* at 158.

315. *Id.* at 156.

316. *Id.* at 149.

317. Hill, *supra* note 254, at 868.

318. JUHASZ, *supra* note 249, at 127.

319. *Id.* at 158.

320. Hill, *Durbin, supra* note 288, at 947.

321. Hill, *supra* note 266, at 983.

322. Adam Shell, *Are Big Bets By Speculators Driving Up Oil?*, USA TODAY, July 1, 2008, at 1B.

323. Hill, *supra* note 298, at 1191.

Since January 2008 to mid-June, "oil prices have climbed about 40 percent" and "prices at the pump are directly linked" to oil prices.[324] Specifically, oil prices are "undoubtedly the largest factor determining the prices of gasoline," while lesser influences include "costs and profits associated with refining oil into gasoline, transporting and marketing it, and taxes."[325] Although gas prices "immediately shoot up with an increase in the price of crude," such prices may be slow in declining after the price of crude decreases.[326] Oil prices hit their peak in early July, at which point the price of oil was $147.27 a barrel during mid-day trading, finally settling at $145.08.[327] At about the same time, it was recorded that oil futures skyrocketed to $10.75 a barrel, which was the "largest single-day increase in history."[328] Only during the energy crisis of 1973 and 1979—both periods when market manipulation in crude oil ran rampant—have prices peaked this rapidly.[329] Consequently, such manipulation not only affects the airline industry, gasoline retailers,[330] and automobile companies,[331] but it also is a concern to the wide spectrum

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324. Press Release, Jeff Bingaman, Senator, CFTC Answers Raise More Questions (June 17, 2008), 2008 WLNR 11422361 (indicating that "prices at the pump are directly linked to the price or [sic] oil."); *see also* JUHASZ, *supra* note 249, at 169 ("The rising price of crude oil has helped push gasoline prices in the United States to the highest levels in modern history.").

325. JUHASZ, *supra* note 249, at 174.

326. *Id.* at 175.

327. *See* Craig Karmin, *Anxiety, $145 Oil Make for Another Red Week for Stocks*, WALL ST. J., July 12-13, 2008, at B1; Nelson D. Schwartz, *Asleep at the Spigot: A Thirst for Oil Comes Back to Haunt a Nation of Gas Guzzlers*, N.Y. TIMES, July 6, 2008, at B1.

328. Jad Mouawad & Diana B. Henriques, *Why is Oil So High? Pick a View*, N.Y. TIMES, June 21, 2008, at C1.

329. JUHASZ, *supra* note 249, at 128.

330. *See* Elizabeth Williamson, *Airline Oil Lobbying Alarms Financial Firms*, WALL ST. J., July 12-13, 2008, at A3 ("Strapped by rising fuel prices, the airline industry, gasoline retailers and an array of transportation interests are enlisting thousands of travelers to pressure Congress to reign in oil markets speculation.").

331. *See* Matthew Dolan & Jeff Bennett, *Ford Suffers Record Loss as Oil Shock Hits Industry*, WALL ST. J., July 25, 2008, at A1, A11 (explaining that "[i]n a fresh sign of the turmoil wrought upon the auto industry by high fuel prices and cratering demand for trucks, Ford Motor Co. reported an $8.7 billion

of U.S. citizens who rely on gasoline.[332] Overall, it has been estimated that the "speculative bubble in the oil market has cost the economy over a half trillion dollars over the past two years."[333]

The cause—and implicit solution to—these issues was concisely illustrated by Commissioner Bart Chilton during the 2007 *Public Hearing on Exempt Commercial Markets*:

> We're supposed to protect price discovery, we're supposed to guard against manipulation, fraud and abuse, and we're supposed to try to ensure that these markets for futures and options operate in a way that's viable, effective, and efficient not only for hedgers and speculators but for consumers . . . [a]nd it makes it really difficult for us to achieve those goals when we have these look-alike energy markets that are operating in the dark which aren't subject to the rules and regulations of the Commission.[334]

Chilton's pleas have been heard. ICE's natural gas swaps are now regulated and high-profile individuals have taken steps in addressing issues regarding ICE oil futures while bills calling for more market transparency have been presented to Congress.[335] Yet, there is still "very little

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for the second quarter" and that "[b]oth Ford and GM have been slammed by rising gasoline prices.").

332. Stephen Power, Sara Murray, & Siobhan Hughes, *Energy is Top Economic Issue for Voters*, WALL ST. J., July 25, 2008, at A3 (explaining that "gasoline and utility costs" rank "as the economic issue that voters say affects them the most personally").

333. Garner, *supra* note 256, at 910.

334. HEARING, *supra* note 7, at 14-15 (testimony of Comm'r Bart Chilton).

335. *See e.g.*, John Dunbar, *Obama Plans to Close 'Enron Loophole*,*'* BUFFALO NEWS, June 23, 2008, at A5 ("Sen. Barack Obama on Sunday said as president he would strengthen government oversight of energy traders he blames in large part for the skyrocketing price of oil."); Letter from Coalition to Congress, (June 11, 2008) ("Urging Congress to Take Serious Steps to Address the Distorted Energy Commodity Markets;" "[a]bsent an immediate reform in the widely-speculative energy commodity futures markets, oil prices worldwide will continue to surge, clamping down even harder on the U.S. economy."), *available at* http://www.airlines.org/NR/rdonlyres/B1484BF4-F199-4C7F-98FD-843F9FE95BD8/0/CoalitionFuelLettertoCongressonShortTermSolutions080611.pdf; *see also* CFTC Improvement Act of 2008, H.R. 5768, 110th Cong. (2008) (amending the CEA to revise the CFTC to cover foreign exchange dealers); Close the London Loophole Act of 2008, S. 3129, 110th Cong. (2008) (amending the CEA to "prevent price manipulation and excessive speculation" resulting from foreign exchanges); Increasing Transparency and Accountability in Oil Prices Act of 2008, S. 3130, 110th Cong. (2008) (providing "greater resources

visibility" for trades which take place outside of the United States—such as that of ICE's West Texas intermediate crude oil futures contract.[336] In addition, even those bills which offer solutions through the furtherance of universal market transparency have been criticized by the Futures Industry Association as a form of "regulatory overkill" that could ultimately "'drive energy market activity overseas and hopelessly complicate the regulatory mission of the [CFTC].'"[337] This reveals that, while transparency may be a solution, it may not necessarily be the best solution.

On the other hand, if the *NYME* court took into account how the public as a whole could potentially be affected by volatile energy costs on account of applying the merger doctrine to—and thus, refusing to grant copyright protection for—NYMEX's settlement prices, the court may have decided differently. Granting protection to the settlement prices would have served as an immediate action to hinder the excessive speculation or manipulation that took place between the Henry Hub and West Texas Intermediate contracts and OTCs. If ICE were forced to generate its own settlement prices, dishonest traders would have no reason to influence the NYMEX values in order to manipulate the prices upon which ICE relies. Furthermore, the excessive speculation between linked contracts—which sent the cost of energy products skyrocketing—could have been avoided. Consequently, "Amaranth style" manipulation or speculation would cease to exist on the linked NYMEX and ICE instruments. Although this would not have solved all of the disparity that existed between linked ECM and DCM markets, abuse between the ICE and NYMEX energy markets could have been avoided. After all, it was found that when "early ECM contracts were generally, not directly, linked to regulated futures

and authority" for the CFTC); H.R. 6130, 110th Cong. (2008) (providing for "a study of the effects of speculation in the futures markets for natural gas, crude oil, and gasoline"); Commodity Speculation Reform Act of 2008, S. 3248, 110th Cong. (2008) (amending the CEA to "clarify the treatment of purchases of certain commodity futures contracts and financial instruments with respect to limits established by the Commodity Futures Trading Commission relating to excessive speculation, and for other purposes").

336. Hill, *Durbin, supra* note 288, at 947.

337. Hill, *supra* note 299, at 1136 (quoting the Futures Industry Association).

markets," they "did not affect the Commission's oversight."[338]

In the future, taking the public interest into account prior to applying the merger doctrine could serve as a means of avoiding the harms suffered by those affected by an out of control economy. In other words, the court should have considered how the general population, outside of the two disputing parties, would have been affected by its decision. When courts merely consider the incentives needed for the private party to create, they largely overlook the broader picture of the citizens to whom they should protect. Shortly after the Second Circuit's decision in this case—during the first half of 2008—oil prices "surged" while the CFTC "had its head in the sand."[339] Consequently, copyright protection could have served as a quick and easy alternative to the long, drawn out attempts of Congress to compel the CFTC to hash out a solution. Therefore, due to the powerful nature of the merger doctrine, broader economic policy measures should be considered before it is applied.

C. *Trading Instruments and Competition*

A more glaring problem with allowing ICE to use NYMEX's settlement prices is that failing to provide protection to such values deadens the incentive to generate new commodities amongst the exchanges. Granting an exchange the right to exclusively trade its own unique futures contracts and rely on its own settlement prices will not generate the sort of anticompetitive monopoly that copyright is leery of endorsing. Rather, futures markets are unique in the sense that the trading of a contract on a single exchange—that is, "centralized trading"—is "not necessarily" perceived as non-competitive.[340] This type of trading is efficient in the sense that "it reduces the economy-wide costs of producing the service" which "lower[s] trading costs to everyone by increasing liquidity and reducing so-called transaction costs."[341] Competition

338. HEARING, *supra* note 7, at 33.

339. Hebert, *supra* note 300, at A8.

340. KOLB & OVERDAHL, *supra* note 5, at 55.

341. *Id.*

throughout futures markets may therefore be sparked through "innovation in the design of the contracts" offered by an exchange and by granting an exchange the "exclusive right to trade particular contracts" in order to benefit from its creation.[342] Specifically, "one of the most fertile areas of exchange competition" is through the innovation of contract design.[343] Consequently, there is nothing wrong with being the dominant exchange for trading a product as long as the position is achieved through open competition under the antitrust laws.[344]

Although the creation of new contracts certainly provides for a healthy competitive market, using another exchange's settlement price data swings the competition pendulum into a state of degenerative free-riding.[345] Property rights in settlement prices or quotes are a "central function of financial exchanges"[346] and it is well recognized that "price discovery is expensive."[347] The rights that

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342. *Id.*

343. *Id.*; *see also Bd. of Trade v. Dow Jones & Co.*, 456 N.E.2d 84, 89 (explaining that, in the context of using indexes for settlement prices on futures contracts, enforcing protection for such indexes "may stimulate the creation of new indexes perhaps better suited to the purpose of 'hedging' against the 'systematic' risk present in the stock market"); Jerry W. Markham, *The Commodity Exchange Monopoly—Reform is Needed*, 48 WASH. & LEE L. REV. 977, 1003 (1991) (explaining that "competition could assure that the [commodity] exchanges remain innovative by creating new, more attractive futures contracts and that their marketplaces remain free of fraud . . . ."). For example, in 2004 the Chicago Board of Trade (CBOT) generated an "additional" gold futures contract which was *specifically* "designed to compete with the [New York Mercantile] Exchange's gold futures contract." HOLDINGS, *supra* note 6, at 9. Once this commodity surfaced in the market, NYMEX conceded that this certainly did "represent a source of competition." *Id.*

344. *See* KOLB & OVERDAHL, *supra* note 5, at 55.

345. Ali Sartipzadeh, *Jurisdiction and Procedure: ICE's Counterclaims Against NYMEX Dismissed; CFTC Should Decide Matter*, 36 Sec. Reg. & L. Rep. (BNA) 1400 (2004) (explaining that "NYMEX has a legitimate business interest in preventing its competitor, ICE, from free-riding on NYMEX's settlement prices . . . a legitimate interest in preventing rivals from free-riding on this reputation").

346. J. Harold Mulherin et al., *Prices are Property: The Organization of Financial Exchanges from a Transaction Cost Perspective*, 34 J. L. & ECON. 591, 592 (1991).

347. LEE, *supra* note 31, at 261; *see also* J. Harold Mulherin et al., *supra* note 346, at 593 ("price discovery entails substantial costs; hence, we should not expect exchanges to be loosely run organizations that arise as if by magic").

NYMEX has in such prices have been implicitly recognized for years—for Congress and the CFTC have permitted "NYMEX to provide early access to its Settlement Prices in exchange for license fees."[348] Furthermore, allowing an ECM to use a DCM's settlement prices for a similar instrument decreases the incentives to generate new, unique financial products.[349] While an OTC swap is a different financial instrument from a futures contract, when it uses the exact settlement prices for the same contract, the two are virtually indistinguishable.

Finally, the inevitable question that therefore materializes is what motivation would one have in the generating of settlement prices if a competitor merely copies these prices for his own advantage? As noted by scholar, Richard Posner, "a firm is less likely to expend resources on developing a new product if competing firms that have not borne the expense of development can duplicate the product."[350] The free-riding behavior of ICE not only provides traders with the ability to manipulate the market, but this practice similarly harms the incentives for DCMs such as NYMEX who are required to generate these prices. Consequently, greater intellectual property protection should be considered for prices that are generated and subsequently used by different exchanges for linked contracts. Again, if copyright protection were granted for such prices, DCMs could largely preserve and protect those incentives necessary for settlement price creation.

VI. THE MISAPPROPRIATION ALTERNATIVE

A. *Misappropriation and Financial Exchanges*

There may have been an alternative form of Intellectual Property protection—other than copyright—which could have protected the settlement prices due to their time-

348. Petition for Writ of Certiorari, *supra* note 50, at 26; *see also* LEE, *supra* note 31, at 103-04 (Sales of NYMEX's exchange information accounted for 30% of NYMEX's total income in 1996.).

349. KOLB & OVERDAHL, *supra* note 5, at 55.

350. *See* LANDES & POSNER, *supra* note 195, at 13.

sensitive nature. NYMEX's settlement prices are only valuable to the exchange for the short period of time after they are created and before they are reported publicly. During this period, NYMEX distributes prices to those with whom it has entered into a licensing agreement. In fact, by the time the prices are reported before the next day of trading—when they grace the pages of the *Wall Street Journal* nationwide—they are fair game to everyone and of no value to the exchange. For this reason, NYMEX's contention stems from ICE's use of NYMEX's prices *before* settlement prices are publicly reported.[351] A limited form of protection could, therefore, suitably protect the intellectual property rights sought by NYMEX for its settlement prices.

While copyright law would serve as a reliable form of protection, [352] and Justice Holmes granted protection to the Chicago Board of Trades' quotations in 1905 on the basis of a quasi "trade secret,"[353] one other option that NYMEX may have at its disposal is the state-law action of misappropriation. Misappropriation claims may in fact be the best form of protection for the limitedly valuable prices, for the claim prevents unfair competition by offering "protection of property rights in time-sensitive information."[354]

On the premise of unfair competition, the Unites States Supreme Court established the tort of misappropriation in the landmark case of *International News Services v. Associated Press*. [355] The case dealt with two companies who competed in gathering and distributing news to various newspaper subscribers.[356] International News Services

351. *See* Reply Brief of the Petitioner, *supra* note 225, at 1.

352. *See* Peter K. Trzyna, *Legal Protections for Innovative Financial Products and Services*, *in* FINANCIAL ENGINEERING: A COMPLETE GUIDE TO FINANCIAL INNOVATION 687, 703 (John F. Marshall & Vipul K. Bansal eds., 1992) ("In some situations, this species of unfair competition law may be the only possibility for protecting a financial product. However, other forms of intellectual property protection may be more efficient and ultimately more reliable.").

353. KOLB & OVERDAHL, *supra* note 5, at 100 (quoting Bd. of Trade v. Christie Grain and Stock Co., 198 U.S. 236 (1905)).

354. Nat'l Basketball Ass'n v. Motorola, Inc., 105 F.3d 841, 853 (2d Cir. 1997).

355. 248 U.S. 215 (1918).

356. *See id.* at 229-30.

(INS) intercepted the news collected by the Associated Press (AP) and provided such information to its own clients for a fee.[357] Current events are "common property" and the AP could not establish a copyright claim in the news itself since INS merely took the basic news *idea* rather than the *verbatim expression* used by AP in the conveyance of this material.[358] However, the Court held that INS's appropriation—taking newsworthy material gathered by AP and distributing it to its own clients—was a type of unfair competition in the form of misappropriation.[359] Years later, the House of Representatives revisited the misappropriation issue and seemed to indicate that it could apply precisely to the type of financial material at issue in *NYME*:

> For example, state law should have the flexibility to afford a remedy . . . against a consistent pattern of unauthorized appropriation by a competitor of the facts (i.e., not the literary expression) constituting "hot" news, whether in the traditional mold of *International News Service* . . . or in the newer form of data updates from scientific, business, or financial data bases.[360]

Similarly, the data updates of NYMEX's settlement prices—the "newer form" of "hot" news—is precisely the material that the exchange would be seeking to protect. The Second Circuit almost implicitly alludes to this type of protection by stating that NYMEX "treats the prices as news of the day."[361]

In fact, shortly after such legislation, courts applied misappropriation claims to the unlawful acts of financial exchanges' use of stock market indexes for futures

357. *See id.* at 230.

358. *See id.* at 235.

359. *See id.*; 2 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 10:48 (4th ed. 2008) (explaining that the court understood that AP did not have a monopoly to hot news as "against the public at large" but a "'quasi-property right' to the law of trusts: 'that he who has fairly paid the price should have the beneficial use of the property'" (citation omitted)).

360. Nat'l Basketball Ass'n v. Motorola, Inc., 105 F.3d at 850 (quoting H.R. REP. NO. 94-1476, at 132 (1976)).

361. N. Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 497 F.3d 109, 115 n.6 (2d Cir. 2007), *cert. denied*, 128 S. Ct. 1669 (2008).

contracts. For example, *Standard & Poor's Co. v. Commodity Exchange, Inc.*[362] dealt with a futures exchange—Comex—which generated a "Comex 500 Stock Index" contract which relied on the numerical value of the Standard & Poor 500 Index for its settlement price.[363] One pertinent issue concerned whether Standard & Poor (S&P) could enforce an unfair competition claim of misappropriation against Comex for marketing a futures contract which relied on their index for its settlement price.[364] In assessing the harm to S&P, the Second Circuit found that "Comex' proposed use is no different than INS' condemned conduct in *International News Service*: Comex is taking S&P's Index, on which S&P expends substantial money, labor and expertise."[365] Comex subsequently used this information to compete directly with other financial exchanges that lawfully used the S&P 500 Index for their futures contracts—such as the Chicago Mercantile Exchange.[366] While the Second Circuit merely affirmed a preliminary injunction without addressing the merits of the case, the court concluded that "at a minimum S&P's claim of misappropriation presents sufficiently serious questions going to the merits to make them a fair ground for litigation."[367] Also, akin to that of the dispute addressed in *NYME*, Judge Newman speculated that:

> [W]hen Standard & Poor's makes its stock index known to the public, different, novel . . . close questions are presented when another company enters a business other than the publishing of stock indices—here, the marketing of futures contracts—and in its business uses the Standard & Poor's index as a reference point—here, the settlement price for the contracts.[368]

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362. 683 F.2d 704 (2d Cir. 1982).

363. *Id.* at 706.

364. *See generally id.* at 710-12.

365. *Id.* at 711.

366. *See id.*

367. *Id.*

368. *Id.* at 712 (Newman, J., concurring). *But see* Dow Jones & Co. v. Int'l Sec. Exch., Inc., 451 F.3d 295, 306 (2d Cir. 2006) (distinguishing *Comex* on the grounds that it dealt with the defendant's copying of a number generated by the plaintiff for a financial instrument rather than an attempt to receive rights in a

Board of Trade v. Dow Jones & Co. touched upon a similar issue.[369] In this case, the court concluded that the Board of Trade of the city of Chicago's use of the Dow Jones index and industrial average for their own futures contract constituted "commercial misappropriation" of the Dow Jones index and averages.[370] Relying on a policy argument similar to that used by the *NYME* court in assessing merger doctrine application, Dow Jones argued that "if its rights in the averages are not protected, there will be a diminished incentive for it to continue to provide the averages."[371] The Supreme Court of Illinois weighed the possibilities of allowing Dow Jones to "profit from [its] effort" against the fear of providing the company with a monopoly in its stock index.[372] Consequently, the court affirmed that Dow Jones should be entitled to protection from the Board of Trade's misappropriation, reasoning that any harm which will result from this determination will be "outweighed by the resultant encouragement to develop new indexes specifically designed for the purpose of hedging against the 'systematic' risk present in the stock market."[373] Therefore, not only did the court affirm the misappropriation application, but it appears as if the court also felt that the enforcement of this claim would encourage competition rather than hinder it.

B. *The Preemption Issue*

Since misappropriation is enforced under state law, and copyright is federally governed, one hurdle that NYMEX faces here is that of copyright preemption.[374] Copyright preemption is the theory that materials which "come within the subject matter of copyright as specified by sections 102

"basket of securities" which were sold on the secondary market—a right which plaintiffs were unable to protect).

369. 456 N.E.2d 84 (Ill. 1983).

370. *Id.* at 87.

371. *Id.* at 88.

372. *Id.* at 89.

373. *Id.* at 90.

374. *See* Copyright Act of 1976, 17 U.S.C. § 301 (2006) ("Preemption with respect to other laws"); *see also* MCCARTHY, *supra* note 359, § 10:51 ("The extent to which the state misappropriation doctrine can 'fill in the gaps' in federal copyright law is the subject of federal preemption analysis.").

and 103" may not seek protection under state law.[375] Although copyright and misappropriation "sometimes overlap,"[376] copyright law protects creativity while misappropriation protects the "sweat of the brow" effort which *Feist* explained would never be protected by copyright.[377] The preemption hurdle ensures that persons who fail on a copyright claim do not immediately pursue the route of misappropriation to keep a competitor from utilizing such property. To allow such practices would generate something similar to that of a "mutant copyright law" which Justice Scalia warned of in *Dastar Corp. v. Twentieth Century Fox Film Corp.*[378]

Due to the fact that the 1976 Copyright Act does not explain when misappropriation is preempted by federal law, courts have developed their own bright-line standards in addressing this issue.[379] The Second Circuit decided in *National Basketball Ass'n v. Motorola, Inc.* that "only a narrow 'hot-news' misappropriation claim survives preemption for actions concerning material within the realm of copyright."[380] The court found that in order to establish a state misappropriation claim in "hot-news," the following factors must be met:

> (i) the plaintiff generates or collects information at some cost or expense . . . (ii) the value of the information is highly time-sensitive . . . (iii) the defendant's use of the information constitutes free-riding on the plaintiff's costly efforts to generate or collect it . . . (iv) the defendant's use of the information is in direct competition with a product or service offered by the plaintiff . . . (v) the ability of other parties to free-ride on the efforts of the plaintiff would so

375. 17 U.S.C. § 301 (explaining that all of the material within the scope of sections 106, 102, and 103 of the Copyright Act are "governed exclusively" by the laws of copyright).

376. MCCARTHY, *supra* note 359, § 10:47.

377. Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 354 (1991).

378. Dastar Corp. v. Twentieth Century Fox Film Corp., 539 U.S. 23, 34 (2003).

379. *See* INDEXING FOR MAXIMUM INVESTMENT RESULTS, *supra* note 4, at 355 (explaining that "the 1976 Copyright Act contains broad language that does not explicitly explain when misappropriation protections should be exempted from federal preemption").

380. 105 F.3d 841, 852 (2d Cir. 1997).

> reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.[381]

Also, material which may otherwise be protected under copyright will survive preemption if the "extra element" test is met.[382] In other words, as indicated by the Second Circuit, the second, third, and fifth prongs of the test listed above are the "extra elements" which are essential in establishing a hot news misappropriation claim.[383] Consequently, if NYMEX were able to establish that all of the prongs listed above were satisfied in regard to its relationship with ICE, then NYMEX's claim would not be preempted and a misappropriation claim would be successful.

The first four "hot news" conditions could probably be satisfied with ease. As for the first condition, it is clear that NYMEX "generates or collects information at some cost or expense." NYMEX has a Settlement Price Committee solely dedicated to the task of "determining the settlement price of each open futures contract for each commodity" on a daily basis.[384] As previously discussed, it is generally accepted that price discovery is costly.[385] Secondly, the value of the information is certainly time-sensitive. A settlement price is created daily and only valuable to NYMEX during the period when they are able to sell such material to various venders through licensing agreements.[386] As for the third prong, "free riding" on the plaintiff's efforts (an "indispensable element"), it is clear that ICE does *not* have to "expend their own resources" or "bear[ ] their own costs"

381. *Id.*

382. *Id.* at 850 (quoting Computer Assocs. Int'l, Inc. v. Altai, Inc., 982 F.2d 693, 716 (2d Cir. 1992)).

383. *Id.* at 853.

384. N.Y. Mercantile Exch., Inc. v. IntercontinentalExch., Inc., 497 F.3d 109, 111 (2d Cir. 2007), *cert. denied*, 128 S. Ct. 1669 (2008).

385. *See* Mulherin et al., *supra* note 346, at 593.

386. *See N.Y. Mercantile Exch., Inc.*, 497 F.3d at 112 (explaining that "between the time of creating the prices and the required public disclosure the following day, NYMEX supplies them to market data vendors such as Reuters pursuant to license agreements").

in retrieving settlement price values.[387] They merely copy the prices which NYMEX generates.[388] Therefore, ICE is certainly guilty of free riding on the efforts of NYMEX. This seems to be the most glaring wrong committed by ICE.

As for the fourth prong, ICE's use of the information is certainly "in direct competition with a product or service offered by the plaintiff." In fact, ICE's contracts are almost identical to that of NYMEX and both are linked to the exact same commodity in the same discrete futures market within the financial community. It is no secret that ICE has "grown into a direct competitor to NYMEX."[389] While open outcry trading markets like NYMEX accounted for 95 percent of all futures trading in 1998, due to the rise of electronic exchanges, by 2003, they accounted for "barely more than half."[390] In fact, it is speculated that "the role of open outcry trading [will] continue its decline in coming years as open outcry markets are challenged directly by all-electronic competitors."[391] Since both ICE and NYMEX market the exact same products to the general population of financial customers, it is clear the two are in direct competition.

Finally, the last prong reverts back to the fundamental principle of whether misappropriation enforcement is necessary in order to preserve the "incentive to generate" the product. The harm that this prong addresses is whether ICE's use of the prices reduces NYMEX's incentive to produce the product or service such that the existence or quality of NYMEX's contracts would be substantially threatened. The total revenue NYMEX received from clearing and transaction fees for crude oil futures decreased

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387. Nat'l Basketball Ass'n v. Motorola, Inc., 105 F.3d 841, 854 (2d Cir. 1997).

388. *See* Ali Sartipzadeh, *ICE's Counterclaims Against NYMEX Dismissed; CFTC Should Decide Matter*, 36 Sec. Reg. & L. Rep. (BNA) 1400 (Aug. 2, 2004) (explaining that ICE's actions constitute as evidence of free-riding); *see also* KOLB & OVERDAHL, *supra* note 5, at 100 (explaining that even in the late nineteenth century, upon the development of the telegraph, the "rapid transmission of up-to-the-minute quotations made it easier for off-exchange traders to 'free-ride' off the exchange-generated quotations").

389. Garner, *supra* note 3, at 946.

390. KOLB & OVERDAHL, *supra* note 5, at 66.

391. *Id.*

from 35.4% to 26.2% from 2004 to 2006.[392] Likewise, the clearing and transaction revenue for Henry Hub natural gas futures decreased from 17.1% to 14.0% from 2004 to 2006.[393] A direct competitor's use of these prices and the resulting loss of revenue to NYMEX certainly have an impact on incentive to produce the product.[394] The contrary argument, as addressed by the *NYME* court, is that NYMEX has to produce the prices anyway in order to operate as an exchange. However, ICE is a relatively new entity, and electronic exchanges are largely taking the business away from exchanges tied to the trading floor.[395] As noted in *INS*, "[t]he ability of [AP's] competitors to appropriate their product at only nominal cost and thereby to disseminate a competing product at a lower price would destroy the incentive to collect news in the first place."[396] This largely turns on the basis of granting protection to a private entity in order that it provides a service to the public for an economic incentive. Therefore, potentially, if all of the other exchanges took part in the same activity as that of ICE, NYMEX could reach a point where it would no longer have the incentives to generate these settlement prices.

Moreover, the "quality of the contracts" are threatened due to the present price manipulation that exists on account of ICE using the exact same contracts as NYMEX in an exchange with less regulation. Market manipulation "impairs" the marketplace in that traders "flee markets in which prices do not correspond to the true economic value of the good being traded."[397] For example, it has been noted

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392. *See* HOLDINGS, *supra* note 6, at 17.

393. *Id.*

394. *See* INDEXING FOR MAXIMUM INVESTMENT RESULTS, *supra* note 4, at 352 (illustrating the connection between incentive and competition by explaining that "Dow Jones, which had sufficient incentive to produce the average before, still has that incentive because there is no direct competition; there is, therefore, nothing about the creation of this novel futures contract that diminishes the gains that Dow Jones gets from producing its index").

395. KOLB & OVERDAHL, *supra* note 5, at 66 (explaining that "observers expect the role of open outcry trading to continue its decline in coming years as open outcry markets are challenged directly by all-electronic competitors").

396. Nat'l Basketball Ass'n v. Motorola, Inc., 105 F.3d. 841, 853 (2d Cir. 1997).

397. KOLB & OVERDAHL, *supra* note 5, at 78.

that the "manipulation by Amaranth in the natural gas markets, the alleged manipulation of propane markets by BP, [and] the proven manipulations of Enron have led the public to question the integrity of the derivatives market."[398] Similarly, due to the current manipulation between NYMEX and ICE, the quality of the contracts—specifically those of Henry Hub natural gas and West Texas Intermediate crude oil—have certainly been threatened. Based on the perpetually waning economic incentives NYMEX has in generating these prices and the loss of trader confidence in the market as a result of ICE's free-riding, there is certainly an argument here which could have allowed for a misappropriation claim to be used to keep the prices from ICE's grasp.

CONCLUSION

Given the legal landscape at the time this case was brought, it was certainly plausible for NYMEX's counsel to rely on *CCC* and *CDN* as authority for providing protection to its settlement prices. However, based on the court's judgment, it now appears as if NYMEX's counsel took Second and Ninth Circuit precedent too far. Between the court's characterization of the *CCC* authority for individual prices as *dictum*, and claims from the U. S. Copyright Office that protection should never be provided to a price—despite any discussion of creation or discovery—it seems that copyright protection for individual price values has reached its end. Moreover, based on this decision's authority, it is unlikely that a price will ever again be able to by-pass the harsh ramifications of the merger doctrine in this circuit. The Second Circuit has put its foot down on copyright protection in prices and, given the U.S. Supreme Court's denial of certiorari, it is only a matter of time until the Ninth Circuit follows suit.

From a broader perspective, NYMEX's claim for copyright protection in settlement prices for financial data may have been doomed from the beginning. In endlessly attempting to characterize the prices as creatures of works of authorship, NYMEX's counsel may have overlooked the more reasonable means of protecting the prices as time-

398. HEARING, *supra* note 7, at 8.

sensitive material. The fundamental dilemma in NYMEX's argument is that copyright provides protection for an extended period of time. Consequently, granting copyright for a financial value which becomes universally accessible shortly after its creation could prove to be problematic. The underlying issue most probably was not one of creation or discovery—as the court leads us to believe—but rather, whether it would have been plausible to grant copyright protection for an exchange's prices prior to the period when they slip into the public domain.

In addition, an unfair competition claim would have respected the boundaries between that of the court's authority and financial regulatory entities. Alleging that ICE misappropriated the settlement prices would have ensured that the values were kept out of the clutches of just one exchange. On the other hand, copyright protection would have given NYMEX the exclusive authority to determine who may receive access to their prices for an extended period of time—information which the court may have implicitly felt the CFTC would be better off regulating. For this reason, the court may have been more receptive to NYMEX's claims if its counsel had fashioned arguments aimed at the heart of the public interest. Were the court to more closely consider the disparate regulatory measures of the exchanges, the CFTC's lax attitude toward taking steps in addressing the problems which derive from allowing linked financial instruments to be traded on exempt markets, and the turmoil suffered by consumers as energy prices rapidly escalated nationwide, it may have been more lenient in providing NYMEX with some form of protection in its prices. Yet, in approaching this case as one of litigation between two private parties, the court was blind to the broader economic harms associated with granting ICE access to these prices.

NYMEX had its day in court. While it is certain that copyright law in the Second Circuit has changed, the harm suffered by the economy as a result of ICE's use of NYMEX's intellectual property has yet to be fully resolved. Now it is up to the CFTC to pick up the slack.