The Franchise Law Review

Seventh Edition

Editor
Mark Abell

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THE FRANCHISE LAW REVIEW

SEVENTH EDITION

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PREFACE

Since the publication of the sixth edition of *The Franchise Law Review*, there has been little let-up in major economic and geopolitical developments and these continue to have a significant impact on world trade; the ongoing Sino-American trade war, sanctions on Iran and Brexit being only three of these. Through all this, however, the apparently inexorable march towards the globalisation of commerce has continued unabated. While there have been some economic bright spots, the global economy is still not performing as well as it might, and there remain concerns that the US economy may yet crash.

As a consequence, businesses are often presented with little choice but to look to more vibrant markets in Asia, the Middle East and Africa for their future growth. At the same time, South–South trade is on the increase, perhaps at the expense of its North–South counterpart. All of this, coupled with the unstable wider geopolitical landscape, presents business with only one near certainty: there will be continued deleveraging of businesses in the coming years and, thus, growing barriers to international growth for many of them. All but the most substantial and well-structured of such businesses may find themselves facing not only significant difficulties through reduced access to funding for investment in their foreign ventures, but also challenges arising from their lack of managerial experience and bandwidth.

Franchising, in its various forms, continues to present businesses with one way of achieving profitable and successful international growth without the need for either substantial capital investment or a broad managerial infrastructure. In sectors as diverse as food and beverages, retail, hospitality, education, healthcare and financial services, franchising continues to be a popular catalyst for international commerce and makes a strong and effective contribution to world trade. We are even seeing governments turning to it as an effective strategy for the future of the welfare state as social franchising gains still more traction as a way of achieving key social objectives.

Given the positive role that franchising can play in the world economy, it is important that legal practitioners have an appropriate understanding of how it is regulated around the globe. This book provides an introduction to the basic elements of international franchising and an overview of the way that it is regulated in 28 jurisdictions.

As will be apparent from the chapters of this book, there continues to be no homogenous approach to the regulation of franchising around the world. Some countries specifically regulate particular aspects of the franchising relationship. Of these, a number try to ensure an appropriate level of pre-contractual hygiene, while others focus instead on imposing mandatory terms upon the franchise relationship. Some do both. In certain countries, there is a requirement to register certain documents in a public register. Others restrict the manner in which third parties can be involved in helping franchisors meet potential franchisees. No two countries regulate franchising in the same way. Even those countries that have a well-developed regulatory environment seem unable to resist the temptation to continually develop and change their approaches – as was well illustrated by changes to the Australian regulations in the recent past. The unstoppable march towards franchise regulation continues, with countries such as Argentina, which previously had not specifically regulated franchising, adopting franchise-specific laws in the past year or so.

Many countries do not have franchise-specific legislation but nevertheless strictly regulate certain aspects of the franchise relationship through the complex interplay of more general legal concepts such as antitrust law, intellectual property rights and the doctrine of good faith. This heterogeneous approach to the regulation of franchising presents yet another barrier to the use of franchising as a catalyst for international growth.

While this book certainly does not present readers with the complete answer to all the questions they may have about franchising in all the countries covered – that would require far more pages than it is possible to include in this one volume – it does seek to provide the reader with a high-level understanding of the challenges involved in international franchising in the first section, and then, in the second section, explains how these basic themes are reflected in the regulatory environment within each of the countries covered. I should extend my thanks to all of those who have helped with the preparation of this book, in particular Caroline Flambard and Nick Green, who have invested a great deal of time and effort in making it a work of which all those involved can be proud. It is hoped that this publication will prove to be a useful and often-consulted guide to all those involved in international franchising, but needless to say it is not a substitute for taking expert advice from practitioners qualified in the relevant jurisdiction.

Mark Abell
Bird & Bird LLP
London
January 2019

Chapter 30

MALAYSIA

Lee Lin Li and Chong Kah Yee[1]

I INTRODUCTION

The Malaysian government has been an active proponent of franchising as a business model. As at April 2019, there were 877 registered franchises in Malaysia, which contributed 30.03 billion ringgit to the Malaysian gross domestic product (GDP),[2] compared to 27 billion ringgit in 2017.[3] On the basis of the positive performance by the top three franchise companies in 2018, namely 99 Speedmart, McDonald's and Seng Heng, which registered sales of 3.4 billion ringgit, 2.2 billion ringgit and 998 million ringgit respectively, the government is confident that Malaysia is on track to contribute 35 billion ringgit to GDP with sustained strong growth and to achieve its aim to become a regional franchise hub for South East Asia by 2020.[4]

The Ministry of Domestic Trade and Consumer Affairs (MDTCA) has been charged with monitoring the continued growth of the franchising sector in Malaysia. These efforts have culminated in the enactment of the Franchise Act 1998 (amended in 2012) (the Act) and the establishment of the Franchise Registry.

Foreign franchisors, particularly those with unique franchise models and concepts, are actively encouraged to enter into the Malaysian market. Between January 2000 and June 2019, the number of registered franchise businesses from various sectors in Malaysia increased to 1,003, up from 975 last year, and of which 602 are local brands and 401 are foreign brands.[5] This represents an increase of approximately 2.79 per cent of registered franchise businesses in Malaysia.

The Malaysian government, in recognition of the revenue streams that franchising models offer, has actively promoted the growth of domestic franchises. This support has been in the form of state grants, soft loans and business education programmes organised by the MDTCA and Perbadanan Nasional Berhad (PNS). PNS falls within the joint purview of the Ministry of Finance and the MDTCA. PNS is charged with spearheading the growth of the local franchise industry and assisting its expansion abroad, allocating and managing

1 Lee Lin Li is a partner and Chong Kah Yee is an associate at Tay & Partners.
2 See https://malaymail.com/news/money/2019/04/05/saifuddin-franchise-industry-to-contribute-rm35b-to-gdp-in-2020/1740246.
3 See https://www.nst.com.my/business/2018/04/359944/malaysias-franchise-industry-expected-grow-five-cent-year.
4 ibid. at 2.
5 See https://www.kpdnhep.gov.my/kpdnkk/wp-content/uploads/2019/10/STATISTIK-UTAMA-KPDNHEP-JUN-2019.pdf.

grants and offering business support in the form of franchise consultation and other advisory services. These efforts have led to significant growth in the number of local franchisors in the past decade.

The government has introduced various schemes and incentives to assist and support franchisors and franchisees in developing their brands and expanding their franchise businesses, such as the Franchise Financing Scheme, Franchise Development Assistance Fund, Small Franchise Financing Scheme, Franchise Development Programme, and Local Franchise Product Development Programme.

The Malaysian Franchise Association (MFA) was formed in 1994. It has a wide membership base that includes representatives from the franchising industry, service providers such as accountants, franchise consultants and bankers, and government bodies. All members are required to abide by the MFA's Code of Ethics of a Professional Conduct of Franchise Practitioners.[6] The MFA maintains professional and ethical standards by enforcing this code of practice among its members.

The MFA serves as a resource centre for franchisors and franchisees, the media and the public. It also acts as a networking and discussion forum between the private sector, franchise industry and government agencies.

II MARKET ENTRY

i Restrictions

Prior to the introduction of the Act, parties were free to negotiate their own terms and were governed by contract and common law. This allowed for a higher degree of flexibility. The franchising industry is now regulated by the Act, which places greater restrictions on foreign franchisors and introduces criminal liability for certain acts.

Section 54 of the Act requires that all foreign franchisors intending to set up franchises or enter into franchise agreements with any Malaysian citizen obtain prior approval from the Franchise Registry. Applications for registration are required to be supported by documents that include:[7]

a a sample franchise agreement;
b a certified true copy of the applicant's certificate of incorporation;
c document evidencing changes in shareholding of the company, if applicable;
d details of the franchise concept, including the uniqueness of the brand's franchise system and franchise experience;
e official declaration from the Insolvency Department that the board of directors are free from bankruptcy;
f a certified true copy of the registration certificate of the franchise's trademarks issued by the intellectual property office of the brand's country of origin and the Intellectual Property Corporation of Malaysia (MyIPO) (or proof of an application for such a registration);
g the company's brochure or profile;
h pictures of a prototype outlet; and

6 See http://www.mfa.org.my/newmfa/background/.
7 See https://myfex.kpdnhep.gov.my/.

i a certified true copy of the latest three years' audited accounts that have been notarised by a notary public.

Decisions are communicated by the Franchise Registrar in writing and the approval remain in place until the Registrar issues an order suspending, terminating, prohibiting or refusing the sale and registration of the franchise as permitted under the Act or where an applicant or franchisor seeks a cancellation of the approval.

Apart from Section 54 of the Act, there are no restrictions placed on foreign franchisors with regard to granting a master franchise or development rights to a local franchisee. The appointed master franchisee or a franchisee of the foreign franchisor is required to register its franchise with the Franchise Registry before making an offer to sell the franchise to any person or commencing the franchise business, respectively.[8]

Foreign franchisors are permitted to acquire equity in local businesses and real property subject to certain conditions.

Franchises with foreign equity must be incorporated locally, either as a subsidiary, a representative or branch office to carry on business in Malaysia.

All distributive trades, which includes retailers, wholesalers, franchise practitioners and direct-selling businesses, are required to obtain approval from the MDTCA before they are able to operate in Malaysia and are required to comply with the MDTCA's Guidelines on Foreign Participation in the Distributive Trade Services (the MDTCA Guidelines).[9]

These Guidelines are extensive and cover the following:

a acquisitions, mergers or takeovers by foreign participation;
b the opening, relocation, expansion of branches or outlets or chain stores;
c buying over or taking over of outlets of other operators; and
d real property transactions relating to distributive trade activities (prior to obtaining other necessary approvals or licences from local authorities and other government agencies).

In addition, all distributive trades with foreign equity are required to:

a appoint a *bumiputra* director or directors (*bumiputra* is a local term that refers to the indigenous peoples of Malaysia encompassing ethnic Malaysia and other minority indigenous ethnic groups);
b hire personnel at all levels, including management, to reflect the racial composition of the Malaysian population;
c formulate clear policies and plans to assist *bumiputra* participation in the distributive trade sector;
d utilise local airports and ports in the export and import of goods;
e utilise local companies for legal and other professional services;
f submit annual financial reports to the MDTCA;
g comply with all local authority by-laws and regulations; and

8 A master franchisee is required to obtain approval under Section 6 of the Franchise Act 1998, whereas a franchisee of a foreign franchisor is required to obtain approval under Section 6A of the Franchise Act 1998.

9 Guidelines on Foreign Participation in the Distributive Trade Services Malaysia, by the MDTCA; see http://www.kpdnhep.gov.my/kpdnkk/wp-content/uploads/2017/05/guidelines-on-foreign-participation-in-the-distributive-trade-services-malaysia.pdf.

h ensure that persons with disabilities make up at least 1 per cent of their total hypermarket workforce (in relation to franchises operating in the hypermarket sector).

The MDTCA Guidelines also impose specific conditions on franchises operating in certain industry sectors. These include:

a for businesses operating in the hypermarket sector, a minimum capital requirement of 50 million ringgit and a requirement for a minimum 30 per cent of equity to be held by *bumiputras*;

b in the department store sector, a minimum capital requirement of 20 million ringgit;

c for superstores operating as self-service distribution stores retailing mainly consumer goods that comprise of a mix of food and non-food products, a minimum capital requirement of 25 million ringgit; and

d for specialty stores serving an exclusive brand name, product or line of goods, a minimum capital requirement of 1 million ringgit.

Generally, in an effort to promote local participation, government agencies are actively tasked with encouraging the formation of joint ventures between Malaysians and foreign investors instead of allowing wholly foreign-owned corporations to operate independently.

Pursuant to the National Land Code, a foreigner is required to obtain prior approval from the relevant state authority for transactions regarding real property. Any property transactions without this formal approval are rendered void.[10] In addition to the requirements of the National Land Code, there are further restrictions in place and these are, broadly, as follows:[11]

a foreigners are generally prohibited from purchasing properties valued at below 1 million ringgit; and

b where the property is valued at or above 1 million ringgit, there are generally no restrictions, but where a property is valued at over 20 million ringgit and the purchase results in the dilution in the ownership of property held by *bumiputra* interest or government agency, prior approval will be required from the Economic Planning Unit.

i Foreign exchange and tax

Foreign exchange

Foreign exchange issues are governed by the Foreign Exchange Administrative Rules issued by the Central Bank of Malaysia (BNM) and the Financial Services Act 2013 (FSA).

Residents[12] and non-residents[13] are defined within Section 213 of the FSA. The Malaysian market is generally accessible by foreign investors. Payment for investments can be made in a foreign currency or in Malaysian ringgit. Non-residents are free to remit

10 Sections 433A, 433B and 433C of the National Land Code 1965.

11 Guidelines on the Acquisition of Properties (2014), by the Malaysian Economic Planning Unit; see http://103.8.145.121/en/en/sites/default/files/GP%2520EPUJPM%2520-%2520English%25202014.pdf.

12 Section 213 of the Financial Services Act 2013. Residents include Malaysian citizens, foreign citizens who have been accorded permanent residence status and who reside in Malaysia and companies incorporated in Malaysia.

13 Section 213 of the Financial Services Act 2013. Non-residents include foreign citizens, foreign embassies or high commissions, supranational Malaysian citizens who have acquired permanent residence status abroad and who reside abroad and foreign corporate entities.

divestment proceeds, profits, dividends or any income arising from investments in Malaysia abroad. Any repatriation of funds must, however, be made in foreign currency. Non-residents are also free to:

a open ringgit or foreign currency accounts in Malaysia;
b obtain credit facilities in Malaysia in ringgit or foreign currency;
c obtain loans of any amount from Malaysian residents to finance the purchase of immovable properties in Malaysia; and
d enter into foreign exchange contracts on a spot or forward basis with onshore licensed banks to hedge investments in Malaysia.[14]

Non-resident travellers may:

a bring in or take with them, Malaysian currency up to the value of US$10,000; and
b bring in any amount of foreign currency, including traveller's cheques.[15]

Tax

The imposition of tax is governed by the Income Tax Act 1976. Non-resident companies are subject to withholding tax on royalty payments derived from within Malaysia. This imposes a legal obligation on the party or franchisee making the payment to a non-resident to withhold tax at source and remit it to the Inland Revenue Board of Malaysia within a specified period (usually within a month of the date of the payment or royalties).[16]

III INTELLECTUAL PROPERTY

i Brand search

Registration of intellectual property rights (IPRs) such as, trademarks, patents, industrial designs and geographical indications is administered by MyIPO. Prior to filing an application to register marks, it is prudent for franchisors seeking to enter into the Malaysian market to undertake trademark searches against the databases maintained by MyIPO to ascertain whether there are any conflicts, potential or otherwise. Similar searches may be conducted with regard to other IPRs, such as industrial designs and patents.

Following the launch of an online search portal by MyIPO in 2010, all trademark searches are now conducted online.[17] However, as the online search portal is limited in its field of searches, the search results may not be comprehensive. It is, therefore, advisable to conduct searches using the online facilities provided at the Registry of Trade Marks. Such searches will be subject to official fees but will provide more comprehensive search results.

MyIPO also maintains databases for granted patents and registered industrial designs, which are open to public search and inspection and which may similarly be searched using

14 Foreign Exchange Administration Rules, by the BNM; see http://www.bnm.gov.my/files/doc/fea/archive/FEA_rules_Part_2_Non-residents%202019.pdf.
15 ibid.
16 Section 109(1) of the Income Tax Act 1967.
17 See https://iponlineext.myipo.gov.my/SPHI/Extra/IP/TM/Qbe.aspx?sid=637102816544748876.

the MyIPO online search portal.[18] As with trademarks, however, it is advisable to conduct searches at the Registry of Patents and the Industrial Designs Registration Office to obtain more comprehensive search results.

Franchisors should also perform further searches against the database for registered companies and businesses maintained by the Companies Commission of Malaysia (CCM).[19] The CCM is charged with approving applications for, and maintaining the registration of, companies and businesses in Malaysia. As the CCM does not, as a matter of practice, conduct any cross-reference searches with MyIPO, a registered trademark may well be registered by a third party as a company name. In such an instance, and in the absence of any direct settlement with the company or business concerned, the only recourse available to a trademark owner is to commence court proceedings for the alteration of the registered company or business name.

ii Brand protection

Section 24 of the Act requires a franchisor to register any trademarks relevant to his or her franchise prior to applying for registration with the Franchise Registry. Trademark applications take time to mature to registration. Hence, it is important to file the applications for registration of the marks early, before the franchise commences operation and, wherever possible, as soon as practicable after the franchisor has made a decision to expand its franchise in Malaysia. The Franchise Registry usually accepts proof of filing for registration in place of a certificate of registration of the marks.

The trademark filing process involves two main stages. After the trademark application is filed, it will be examined for compliance with formalities and substantive requirements. If the requirements were met, the Registrar would issue a request for publication of the application, which essentially means that the application is accepted for registration, subject to third-party oppositions. The application would then be published in the Government Gazette for opposition purposes by third parties. If there are no oppositions, the certificate of registration will be issued. The entire process takes between nine and twelve months from the filing date to registration. If the requirements were not met, the Registrar would issue an office action containing the objection to the application. The applicant would be required to submit a response to the objection by filing written submissions and evidence of use. Thereafter, if the application is accepted, a request for advertisement is issued. If the application were not accepted, the applicant would be given an opportunity to submit oral arguments at an *ex parte* hearing. If the applicant is successful at the *ex parte* hearing, a request for advertisement would be issued and the steps indicated above are followed until the certificate of registration is issued. If the applicant is unsuccessful at the *ex parte* hearing, the application will be refused registration. An applicant may appeal to the High Court against a decision by the Registrar refusing an application and, thereafter, there is a final recourse by way of an appeal to the Court of Appeal.

The initial period of registration is 10 years from the date of application, which is deemed to be the date of registration.[20] The trademark may be renewed every 10 years before

18 See database of the Registry of Patents at https://iponlineext.myipo.gov.my/SPHI/Extra/IP/PT/Qbe.aspx?sid=637102817725493492 and database of the Industrial Design Registration Office at http://onlineip.myipo.gov.my/index.cfm/search/id/index.

19 See https://www.ssm-einfo.my/page.php.

20 Section 32(1) of the Trade Marks Act 1976.

the expiry date. If it is not renewed before the expiry date, late renewal may be filed within one month of the expiry date. If late renewal is not filed, an application to restore and renew the registration may be filed within one year of the expiry date. Failure to do either of these will result in the registration being removed from the Register.

A registered trademark is also vulnerable to cancellation on the grounds that: (1) the trademark was registered without an intention in good faith to use the trademark in relation to the goods or services and, in fact, there has been no use in good faith of the trademark up to one month prior to the date of the application seeking the cancellation of the registration; or (2) there has been no continuous use of the trademark, in good faith, for a period of three years up to one month prior to the date of the application seeking the cancellation of the registration.[21]

See Section VII.i(a), (b), (c), (d) and (e) on the amendments to be introduced under the new Trademarks Act 2019 (the new TMA).

iii Enforcement

The main IPRs applicable to a franchise are trademarks, confidential information or trade secrets, know-how and copyright. In certain businesses, other IPRs such as industrial designs and patents may also be applicable.

A registered proprietor has recourse under the relevant legislation or common law to seek relief for the infringement of any of its IPRs. Infringement actions in respect of trademarks, copyright, industrial designs and patents are generally initiated in the High Court. Other rights such as breach of confidentiality or trade secrets or passing off may also be initiated in the Sessions Court (a subordinate court) if the claim for damages does not exceed 1 million ringgit.[22] Both the High Court and the Sessions Court have jurisdiction to grant interim or permanent injunctive and specific reliefs.[23] The reliefs ordinarily sought in civil actions for infringement are permanent injunctive orders prohibiting further infringing acts, orders for the delivery of the infringing articles, damages or an account of profits and legal costs.

Where a trademark is infringed, a registered proprietor or an exclusive licensee of the trademark may commence a civil action pursuant to the Trade Marks Act 1976 (TMA),[24] and where the mark has been used in Malaysia such that there is goodwill and reputation associated with it, there is additional recourse under common law for passing off. The standard reliefs are usually available in such actions. (See Section VII.i(f) on the amendments to be introduced under the new TMA.)

A registered proprietor may also have recourse to administrative relief, in the form of border protection measures to prevent the importation of counterfeit goods under the TMA, and criminal remedies pursuant to the Trade Descriptions Act 2011[25] whereby the Enforcement Division of the MDTCA may be moved to initiate a raid, seize infringing or counterfeit goods and prosecute the persons responsible. (See Section VII.i(g) on the amendments to be introduced under the new TMA.)

21 Section 46(1) of the Trade Marks Act 1976.

22 Section 65(1)(b) of the Subordinate Courts Act 1948.

23 Sections 65(1)(c) and (5)(a) of the Subordinate Courts Act 1948 and Section 25(2) of the Courts of Judicature Act 1964.

24 Section 38 of the Trade Marks Act 1976.

25 Section 8 of the Trade Descriptions Act 2011.

Know-how, trade secrets and confidential information are protected through contract law and under the common law tort of breach of confidential information. In the case of a franchise business model, Section 26 of the Act provides that a franchisee is required to provide the franchisor with a guarantee that the franchisee, including its directors, their spouses and immediate family, and its employees, may not disclose any information contained in the training or operation manual or information obtained from the franchisor during the term of the franchise agreement. Failure to provide such a guarantee is tantamount to an offence under the Act.

Where these obligations of confidence are set out in the franchise agreement or a confidentiality agreement or undertaking, a franchisor will also have recourse to a civil action for breach of confidentiality under contract and common law.

While there is no compulsory registration system for copyright in Malaysia, it is possible to provide voluntary notification of copyright ownership to the MyIPO. A work is eligible for copyright protection upon the fulfilment of certain conditions, which include labour, skill and judgement to make the work original, where the work is reduced in material form, written down or recorded and the author is a Malaysian or the work is produced or made in Malaysia. Works that are protected under copyright include literary, musical artistic or dramatic works.[26]

When a copyright work is infringed, the proprietor of the copyrighted work may initiate a civil action and seek injunctive reliefs similar to the standard reliefs and, in addition, may seek statutory damages of not less than 25,000 ringgit for each work and not more than 500,000 ringgit on aggregate.[27] The copyright owner may also have recourse to criminal remedies provided under the Copyright Act 1987[28] by lodging a complaint with the Enforcement Division of the MDTCA to request that a seizure action be carried out in respect of the infringing activities.

Similarly, if other IPRs, such as patents[29] or industrial designs,[30] registered in Malaysia are concerned, the registered proprietor will have similar recourse to the civil remedies discussed above for such infringements.

iv Data protection, cybercrime, social media and e-commerce

The Personal Data Protection Act 2010 (PDPA) and regulations made thereunder, including the Personal Data Protection Regulations 2013, regulate personal data that is processed and maintained in relation to commercial transactions.

Personal data encompasses information in relation to commercial transactions that relates directly or indirectly to a data subject who is identified or identifiable from that information or other information in the possession of the data user, and includes any expressions of opinion relating to the data subject. 'Data subject' refers to an individual who is the subject of the personal data.

Commercial transactions are defined as any transaction of a commercial nature, whether contractual or otherwise, which includes any matter relating to the supply or exchange of goods or services, agency, investments, financing, banking and insurance. The

26 Section 7 of the Copyright Act 1987.
27 Section 37 of the Copyright Act 1987.
28 Section 41 and Part VII of the Copyright Act 1987.
29 Section 60 of the Patents Act 1983.
30 Section 35 of the Industrial Designs Act 1996.

PDPA applies to the operation of a franchise, as personal information of the franchisors' employees, customers, clients, suppliers and contractors that is collected will be in relation to a commercial transaction.

'Processing', in relation to personal data, means collecting, recording, holding or storing personal data or carrying out any operation or set of operations on personal data, including organisation, adaptation or alteration; retrieval, consultation or use; disclosure by transmission, transfer, dissemination, or otherwise making available; and alignment, combination, correction, erasure or destruction of personal data.

Although the personal data may be processed outside Malaysia, the PDPA will apply to such processing if the personal data is intended to be further processed in Malaysia.[31] Accordingly, the PDPA may also apply to the foreign franchisor as a joint data user if it is involved in and has some form of control over the processing of such data by its Malaysian franchisee.

A data user who belongs to any of the following class of data users as specified in the Schedule to the Personal Data Protection (Class of Data Users) Order 2013 is required to be registered under the PDPA:[32]

a communications;
b banking and financial institutions;
c insurance;
d health;
e tourism and hospitality;
f transportation;
g education;
h direct selling;
i services;
j real estate;
k utilities;
l pawnbroker; and
m moneylender.

To process personal data, a data user must comply with the following Personal Data Protection Principles (collectively, the PDP Principles):[33]

a General Principle;
b Notice and Choice Principle;
c Disclosure Principle;
d Security Principle;
e Retention Principle;
f Data Integrity Principle; and
g Access Principle.

The General Principle requires a data user to obtain the consent of its data subjects, which in this case would include the franchisor's employees, customers, clients, suppliers and

31 Section 3(2) of the Personal Data Protection Act 2010.
32 Section 14(1) of the Personal Data Protection Act 2010.
33 Section 5(1) of the Personal Data Protection Act 2010.

contractors, prior to processing their personal data.[34] There is no specific form in which the consent must be obtained as long as the consent is capable of being recorded and maintained properly by the franchisor.[35]

Under the Notice and Choice Principle, franchisors must give written notice in Malay and english to the data subjects with the following information when they first collect, or before they use, personal data:[36]

a a statement that personal data of the data subject are being processed by or on behalf of the franchisor and a description of the personal data;
b the purposes for which the personal data are being or is to be collected and further processed;
c the sources of the personal data;
d the data subject's right to request access to and correction of the personal data, and how to contact the franchisor with any enquiries or complaints in respect of the personal data (i.e., by providing the designation of the contact person, phone number, fax number (if any), email address (if any) and such other related information);[37]
e the class of third parties to whom the franchisor discloses or may disclose the personal data;
f the choices and means the franchisor offers the data subject for limiting the processing of personal data;
g whether it is obligatory or voluntary for the data subject to supply the personal data; and
h where it is obligatory for the data subject to supply the personal data, the consequences for the data subject if he or she fails to supply the personal data.

Under the Disclosure Principle, franchisors are prohibited from disclosing the personal data of their employees, customers, clients, suppliers and contractors for any purpose or to any party other than for the purposes that were made known to the data subjects at the time the personal data were collected, unless further consent is obtained.[38]

The Security Principle requires franchisors to take practical steps to protect personal data from any loss, misuse, modification, unauthorised or accidental access or disclosure, alteration or destruction.[39] Franchisors must develop and implement a security policy that complies with the security standard set out in the Personal Data Protection Standard 2015 (the Standard). If the franchisor engages a third party (data processor) to process the personal data on its behalf, it must ensure that the data processor provides sufficient guarantees in respect of the technical and organisational security measures governing the processing to be carried out, and takes reasonable steps to ensure compliance with those measures.[40]

Under the Retention Principle, franchisors must not keep personal data longer than is necessary for the fulfilment of the purposes for which they were collected. If the personal data are no longer required, the franchisor must take reasonable steps to ensure that the personal data are permanently deleted.[41] There is no specific retention period or destruction timeline

34 Section 6(1) of the Personal Data Protection Act 2010.
35 Regulation 3(1) of the Personal Data Protection Regulations 2013.
36 Section 7 of the Personal Data Protection Act 2010.
37 Regulation 4 of the Personal Data Protection Regulations 2013.
38 Section 8 of the Personal Data Protection Act 2010.
39 Section 9(1) of the Personal Data Protection Act 2010.
40 Section 9(2) of the Personal Data Protection Act 2010.
41 Section 10 of the Personal Data Protection Act 2010.

under the PDPA for the storage of personal data and this may be subject to requirements of other legislation, such as employment laws, company laws and tax laws, which may require personal data to be retained for a specific period. The data retention must comply with the Standard.

The Data Integrity Principle requires franchisors to take reasonable steps to ensure that the personal data of their employees, customers, clients, suppliers and contractors are accurate, complete, not misleading and kept up to date, and this must be carried out in accordance with the Standard.

The Access Principle gives data subjects the right to access and correct their personal data where the personal data are inaccurate, incomplete, misleading or not up to date.[42] Franchisors should implement a system that allows their employees, customers, clients, suppliers and contractors controlled access to their personal data for purposes of updating the personal data.

The PDPA allows a data subject to withdraw his or her consent to the processing of personal data by written notice to the data user. Accordingly, data users must, upon receiving such notice, cease processing the personal data. Failure to comply is an offence and, on conviction, the data user is liable to a fine of up to 100,000 ringgit or imprisonment for a term not exceeding one year, or both.[43] In view of the fact that processing includes storage, a request to delete arguably amounts to a withdrawal of consent to process personal data. Therefore, a request to delete must be complied with.

Franchisors are prohibited from transferring any personal data to places outside Malaysia except to places specified by the Minister of Communications and Multimedia and notified in the Gazette or unless it meets one of the conditions set out below:[44]

a the data subject has given consent;

b the transfer is necessary for the performance of a contract between the data subject and the franchisor;

c the transfer is necessary for the conclusion or performance of a contract between the franchisor and a third party that:
- is entered into at the request of the data subject; or
- is in the interests of the data subject;

d the transfer is for the purpose of any legal proceedings, for obtaining legal advice, or exercising or defending legal rights;

e the franchisor has reasonable grounds to believe that in all circumstances of the case:
- the transfer is for the avoidance or mitigation of adverse action against the data subject;
- it is not practicable to obtain the consent in writing of the data subject to that transfer; and
- if it were practicable to obtain that consent, the data subject would have given his or her consent;

f the franchisor has taken all reasonable precautions and exercised due diligence to ensure that the personal data will not, in that place, be processed in any manner that, if that place is Malaysia, would be a contravention of the PDPA;

42 Section 12 of the Personal Data Protection Act 2010.

43 Sections 38(1), 38(2) and 38(4) of the Personal Data Protection Act 2010.

44 Sections 129(1) and 129(3) of the Personal Data Protection Act 2010.

g the transfer is necessary to protect the vital interests of the data subject; and
h the transfer is necessary in the public interest.

In addition to obtaining the general consent for the processing of personal data, franchisors should also obtain consent from their employees, customers, clients, suppliers and contractors to transfer the personal data to places outside Malaysia. Alternatively, franchisors may transfer the personal data if they are able to show that they have taken all reasonable precautions and exercised all due diligence to ensure that the personal data of the data subjects will not, in that place outside Malaysia, be processed in any manner that, if that place were Malaysia, would contravene the PDPA. In this connection, data users may consider entering into an agreement with the recipient of the personal data outside Malaysia and conducting regular audits to ensure that the recipient complies with the PDPA.

A data user who transfers personal data outside Malaysia in breach of the PDPA commits an offence that carries a fine of up to 300,000 ringgit or imprisonment of up to two years, or both.[45]

The Malaysian Personal Data Protection Commissioner has issued a public consultation setting out jurisdictions that it is considering recommending to be approved under the PDPA as places to which personal data may be transferred outside Malaysia.[46] If the proposed jurisdictions are specified by the Minister under the PDPA, franchisors may transfer personal data to the following places: the European Economic Area (EEA) member countries; the United Kingdom; the United States; Canada; Switzerland; New Zealand; Argentina; Uruguay; Andorra; Faeroe Islands; Guernsey; Israel; Isle of Man; Jersey; Australia; Japan; Korea; China; Hong Kong; Taiwan; Singapore; Philippines; and Dubai International Financial Centre (DIFC).

There is no requirement under the PDPA to appoint a designated data protection officer to oversee compliance and administration of the PDPA within the organisation. However, under the Notice and Choice Principle, the written notice must specify how the data subject can contact the data user with any inquiries or complaints in respect of the personal data. For this purpose, franchisors must provide in the written notice at least the designation of the contact person, with phone number and fax number, if any; email address, if any; and such other related information.

In addition to the PDPA, franchisors should generally be aware of other Malaysian legislation that regulates matters relating to cybercrime, e-commerce and social media. In brief:

a the Computer Crimes Act 1997 sets out offences relating to the misuse of computers, including unauthorised access to a computer, unauthorised access with intent to commit other crime and also the communication of information, such as passwords, to unauthorised persons;
b the Electronic Commerce Act 2006 provides a legal framework for and recognises the use of electronic messages in commercial transactions and the use of such messages to fulfil legal requirements and to enable and facilitate legal transactions; and

45 Section 129(5) of the Personal Data Protection Act 2010.

46 Public Consultation Paper No. 1/2017 entitled Personal Data Protection (Transfer of Personal Data to Places Outside Malaysia) Order 2017, by the Personal Data Protection Commission; see http://www.pdp.gov.my/images/pdf_folder/PUBLIC_CONSULTATION_PAPER_1-2017_.pdf.

c the Communications and Multimedia Act 1998 and the Malaysian Content Code regulate the provision of content, including online content, and apply to persons within and outside Malaysia if the content is made available in Malaysia. Compliance with the Content Code is generally voluntary unless the Communications and Multimedia Commission issues mandatory compliance directions.

IV FRANCHISE LAW

i Legislation

The Act provides a dedicated legislative framework relating to the franchising industry. It provides for the registration of franchises and regulates franchises, including setting out mandatory terms and conditions that have to be contained within a franchise agreement. Contravention of the Act may render a franchise agreement void or expose a franchisor or franchisee to criminal penalties.

Apart from complying with the Act, franchisors and franchisees should also be aware of other relevant legislation such as the Contracts Act 1950, the TMA (and legislation relating to the protection of other IPRs as set out above), the Employment Act 1955 and the Competition Act 2010.

ii Pre-contractual disclosure

Specific pre-contractual disclosure is covered within the Act and it may also generally fall within the scope of the Contracts Act 1950 and common law.

The Act requires a franchisor to provide disclosure documents to a prospective franchisee at least 10 days before the franchisee signs the franchise agreement.[47] The information required to be disclosed to the franchisee includes:

a description of the franchise business;
b details of intellectual property rights, fees and payments required from the franchisee;
c financial obligations;
d whether the franchisee is required to purchase or obtain supplies or materials from a designated source;
e territorial rights;
f franchise terms, including terms for renewal and termination, obligations upon termination; and
g audited accounts of the franchisor's business (at present, the Franchise Registry requires a minimum of the latest three years' audited accounts).

In the event that the information within the disclosure documents is false or misleading, the franchisor may be liable to both criminal and civil action under the Act. It is a criminal offence under the Act to make false statements or omissions that render the information within the disclosure documents misleading.[48]

47 Section 15(1) of the Franchise Act 1998.
48 Section 37 of the Franchise Act 1998.

Section 39 of the Act sets out the applicable penalties if a person is found guilty of an offence under the Act where no express penalties have been specified. Upon conviction, a person will be liable:[49]

a for the first offence under the Act, to pay a fine of not less than 5,000 ringgit and no more than 25,000 ringgit or to imprisonment of no more than six months; and

b for the second or any subsequent offences, a fine of not less than 10,000 ringgit and no more than 50,000 ringgit or imprisonment of no more than one year.

If the alleged offender is a body corporate, it will, upon conviction, attract:[50]

a for the first offence under the Act, a fine of not less than 10,000 ringgit and no more than 50,000 ringgit; and

b for the second or any subsequent offence, a fine of not less than 20,000 ringgit and no more than 100,000 ringgit.

Further, the court has the power to declare the franchise agreement null and void and may order the franchisor to refund any payments made by the franchisee, and the court may further prohibit the franchisor from entering into any new franchise agreements or from appointing any new franchisees.[51]

In addition to the Act, an aggrieved party may also bring an action for damages for misrepresentation under tort law and, if proven, the court may rescind the franchise agreement. The Contracts Act 1950 also expressly provides for misrepresentation, which potentially renders the contract or agreement voidable at the option of the franchisee.[52]

The franchisor should therefore seek to expressly protect its position within the franchise agreement by ensuring that all projections of profits and revenue and pre-contractual information, where provided to the franchisee pursuant to the disclosure documents under the Act or during the course of negotiations leading to the franchise agreement, do not amount to legally binding representations, guarantees or warranties, to avoid any potential action for misrepresentation or a criminal prosecution under the Act.

iii Registration

There are four categories of registration under the Act, namely registration by:

a a local franchisor or master franchisee of a foreign franchisor before offering to sell its franchise to any party;

b a foreign franchisor intending to sell its franchise in Malaysia or to Malaysian citizens;

c the franchisee of a local franchisor; and

d the franchisee of a foreign franchisor.

49 Section 39(1)(b) of the Franchise Act 1998.

50 Section 39(1)(a) of the Franchise Act 1998.

51 Section 39(2) of the Franchise Act 1998.

52 Section 19(1) of the Contracts Act 1950.

Local franchisor or master franchisee

Section 6 of the Act requires a local franchisor or a master franchisee of a foreign franchisor to register its franchise with the Franchise Registry before operating a franchise business or offering to sell its franchise to any party. A breach of this Section is an offence under the Act and a person will upon conviction, be liable:[53]

a for the first offence under the Act, to pay a fine not exceeding 100,000 ringgit or to imprisonment of no more than one year; and

b for the second or any subsequent offence, to pay a fine not exceeding 250,000 ringgit or to imprisonment of no more than three years.

If the alleged offender is a body corporate, it will, upon conviction, attract:[54]

a for the first offence under the Act, a fine not exceeding 250,000 ringgit; and

b for the second or any subsequent offence, a fine not exceeding 500,000 ringgit.

The local franchisor is required to submit its application for registration together with all supporting documents, which include the disclosure documents, a sample of the franchise agreement, operation manual, the training manual, its latest audited accounts,[55] financial statements and the auditors' or directors' reports and any other information required by the Registrar.[56]

The Registrar may approve, impose conditions or reject the application, and all such decisions are communicated in writing to the applicant. In the case of an adverse decision, the applicant may submit an appeal to the Minister within one month of the date of communication of the decision. The Minister's decision is final.[57]

Foreign franchisor

Section 54 (read together with Section 6) of the Act requires a foreign franchisor to apply for prior approval before making an offer to sell its franchise in Malaysia or to any Malaysian citizen. The Registrar may approve, impose conditions on or refuse such an application, and the rights of appeal are set out above.[58]

Franchisee of a local franchisor

Pursuant to Section 6B of the Act, a franchisee who is granted a franchise by a local franchisor is required to register the franchise with the Registrar within 14 days of the date of signing of the franchise agreement between the franchisor and the franchisee.

53 Section 6(2)(b) of the Franchise Act 1998.

54 Section 6(2)(a) of the Franchise Act 1998.

55 The Franchise Registry presently requires a minimum of the latest three years' audited accounts to be submitted in support of such applications.

56 Section 7 of the Franchise Act 1998.

57 Section 17 of the Franchise Act 1998.

58 ibid.

Franchisee of a foreign franchisor

Upon entering into a franchise agreement with a local franchisee and prior to the commencement of operations, the franchisee of a foreign franchisor is required to make an application to register its franchise with the Registrar pursuant to Section 6A of the Act.

iv Mandatory clauses

The Act provides for the inclusion of certain mandatory clauses in a franchise agreement pursuant to Section 18 of the Act, failing which a franchise agreement will be void. Section 18 provides that a franchise agreement will include:

a the name and description of the product and business of the franchise;
b the territorial rights granted to the franchise;
c the franchise fee, promotion fee, royalties, or any other related payment that may be imposed on the franchisee;
d the obligations of both the franchisor and franchisee;
e the franchisee's right to use the intellectual properties belonging to the franchisor;
f the conditions under which the franchisee may assign the rights given under the franchise;
g a statement confirming a cooling-off period of at least seven working days during which the franchisee may terminate the agreement and seek the refund of any franchise fee paid to the franchisor subject to reasonable expenses incurred in the preparation of the franchise agreement that may not be refundable;
h a description pertaining to the mark or any other intellectual property owned or related to the franchisor that is used in the franchise;
i if the agreement is related to a master franchisee, the franchisor's identity and the rights obtained by the master franchisee from the franchisor;
j the type of assistance to be provided by the franchisor to the franchisee;
k the duration of the franchise (minimum five years) and the terms of renewal; and
l the effect of termination or expiration of the franchise agreement.

Further, the franchisor is required to set up a promotion fund, managed under a separate account, if the franchisee is required to make any payment for the promotion of the franchise.[59]

v Guarantees and protection

The Act provides for the following written guarantees to be provided by a franchisee:

a the franchisee, including its directors, their spouses and immediate family, and its employees must not disclose any information contained in the operation manual or any information obtained while undergoing training organised by the franchisor during the whole of the franchise term and for a period of two years after the expiration of the agreement;[60] and

59 Section 22 of the Franchise Act 1998.
60 Section 26 of the Franchise Act 1998.

b the franchisee, including its directors, their spouses and immediate family, and its employees must not carry out any other business similar to the franchised business for the whole of the franchise term and for a period of two years after the expiration of the agreement.[61]

Failure to provide the above guarantees amounts to an offence under the Act and the penalties are set out above (see Section IV.ii).

In addition, any written guarantees given by a party will also be enforceable under contract and common law. In the event of failure to provide the guarantees, the franchisor or the aggrieved party may have the option of terminating the agreement and suing for damages for breach of the guarantees given. Alternatively, depending on the nature and extent of the guarantees, the aggrieved party may choose instead to continue with the contractual relationship and claim for damages to put them in such a position as if the guarantees had been performed and fulfilled.

V TAX

i Franchisor tax liabilities

Tax liabilities generally arise in relation to any income derived within Malaysia. For a franchisor, this would include income arising from royalties, financial gains arising from dividends or profits paid. Capital payments, such as lump-sum payments for the grant or acquisition of a franchise, are normally not taxable. 'Capital payment' represents a payment made for the purchase of a capital asset for the enduring benefit of the business of the franchisee. Taxable income is defined within Section 4 of the Income Tax Act 1967.[62]

Different tax rates will apply depending on whether the franchise business is managed and owned through a company (thus attracting corporate tax rates) or if it is being managed as a sole proprietorship (which attracts rates payable by individuals).

Royalty payments and interest arising from within Malaysia and payable to non-residents will be subjected to withholding tax at the rate of 10 per cent and 15 per cent, respectively, and must be paid within one month of paying or crediting the royalty.[63]

Apart from income taxes, the franchisor may also be subject to other general tax liabilities such as stamp duties arising from the execution of the franchise agreement, real property gains tax, excise duty and sales and services tax (SST).

SST was introduced by the Sales Tax Act 2018 and the Services Tax Act 2018, which came into force on 1 September 2018, replacing the current goods and services tax. SST is charged and levied at the rate of between 5 and 10 per cent on taxable goods[64] manufactured in Malaysia by a taxable person and sold, used or disposed of by that taxable person, and on

61 Section 27 of the Franchise Act 1998.

62 Classes of income on which tax is chargeable pursuant to Section 4 of the Income Tax Act 1976 are gains or profits from a business; gains or profits from an employment; dividends, interest or discounts; rents, royalties or premiums; pensions, annuities or other periodical payment not mentioned and other gains and profits not mentioned under Section 4.

63 Section 109 of the Income Tax Act 1976.

64 'Taxable goods' is defined under Section 2(1) of the Sales Tax Act 2018 as 'goods of a class or kind not exempted from sales tax'.

taxable goods imported into Malaysia.[65] Any person who manufactures taxable goods must be registered if the annual turnover has exceeded the 500,000-ringgit threshold.[66] SST is charged and levied at the rate of 6 per cent of the price and value of the taxable services on any taxable services[67] provided in Malaysia by a registered person in carrying on his or her business.[68] Any person specified in the First Schedule of the Service Tax Regulations 2018 providing any taxable service that exceeds the specified threshold for the total value of the taxable service must be registered under the Services Tax Act 2018.[69]

ii Franchisee tax liabilities

Franchisees are similarly required to pay tax on taxable income;[70] apart from income tax, the franchisee may also be subject to other general tax liabilities, such as SST as explained above (see Section V.i).

The expenses incurred by a franchisee in undertaking the franchise business – royalty payments, promotion fees, advertising costs, training fees and services fees – are tax deductible. Any franchise fee paid to a foreign franchisor is, however, not tax deductible. Franchise fees paid to a local franchisor, on the other hand, are tax deductible pursuant to the Income Tax (Deduction for Expenditure on Franchise Fee) Rules 2012.

VI IMPACT OF GENERAL LAW

i Good faith and guarantees

Section 29(1) of the Act requires both franchisor and franchisee to act in an honest and lawful manner and requires them to endeavour to pursue the best franchise practice of the time and place. However, the Act does not expressly stipulate any penalties for non-compliance. For the aggrieved party to bring an action for the breach of this statutory provision or duty, they must prove that the alleged breach has resulted in actual damage and that the damage was a type contemplated as a foreseeable consequence of the breach.

The Malaysian courts do not recognise any duty of honesty or good faith in a contract where both parties are free to negotiate terms at arm's length. The courts will recognise the principle of freedom of contract and uphold the terms in an agreement unless there are vitiating factors such as coercion, undue influence, misrepresentation or mistake. This was recently confirmed in *Aseambankers Malaysia Berhad & Ors v. Shencourt Sdn Bhd & Anor*[71] and was subsequently adopted in *SCOMI Transit Projects Sdn Bhd v. Prasarana Malaysia Berhad*.[72] In *Aseambankers*, the court held that if it were to allow the defendant's counterclaim on the grounds that there is a general duty of good faith, the court would effectively be creating new law.

65 Section 8(1) of the Sales Tax Act 2018 and Order 2 of the Sales Tax (Rates of Tax) Order 2018.

66 Sections 12 and 13 of the Sales Tax Act 2018 and Order 2 of the Sales Tax (Total Sale Value of Taxable Goods) Order 2018.

67 'Taxable services' refer to the services specified in the First Schedule of the Service Tax Regulations 2018.

68 Section 7 of the Service Tax Act 2018 and Order 3 of the Service Tax (Rate of Tax) Order 2018.

69 Sections 12 and 13 of the Service Tax Act 2018.

70 ibid. at 48.

71 [2014] 4 MLJ 619.

72 [2016] MLJU 622.

ii Agency distributor model

Section 29(3) of the Act requires the franchisee to operate its business separately from the franchisor and specifies that the relationship between the franchisee and the franchisor will not at any time be regarded as a partnership, service contract or agency. Thus, the agency model has no role to play in a franchise system in Malaysia. A franchisee may, however, distribute a franchisor's products as this is not prohibited under the Act, and such an arrangement may be subject to a separate distribution agreement.

iii Employment law

The Employment Act 1955 applies to employees whose wages do not exceed 2,000 ringgit a month and to all manual labourers (irrespective of wages).[73] All other employees are governed by their employment contracts and common law principles developed through case law. Given the express provision within the Act that franchises are not regarded as service contracts, there will be no presumption of an employer–employee relationship between a franchisor and a franchisee.

iv Consumer protection

Franchisees are not treated as consumers under existing laws in Malaysia or pursuant to the Consumer Protection Act 1999, which principally governs consumer rights and protection.

v Competition law

Franchise agreements commonly incorporate provisions that restrict or prevent competition; for instance, selective or exclusive distribution provisions and restrictions on the use of IPRs licensed under the franchise agreement. These provisions are permissible if they can be justified as proportionate and can be shown to be necessary to safeguard the goodwill that has been built up into a brand by the franchisor.

The Competition Act 2010 expressly prohibits anticompetitive agreements, which include horizontal and vertical agreements, between enterprises that have the object or effect of significantly preventing, restricting or distorting competition in any market for goods or services.[74] The franchise agreement, being a form of vertical agreement, is prohibited if it has an anticompetitive object or effect that is significant in the relevant market unless:

a the parties to the agreement are competitors who are in the same market and their combined market share does not amount to more than 20 per cent; or

b the parties to the agreement are not competitors and, individually, each party has less than 25 per cent of shares in any relevant market.[75]

The Competition Commission of Malaysia (MyCC) will generally take a strong stance against resale price maintenance and will deem any form of maximum pricing or recommended retail pricing that serves as a focal point for price determination to be anticompetitive.[76]

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73 Section 2(1) of the Employment Act 1955.

74 Section 4 of the Competition Act 2010.

75 Guidelines on Chapter 1 Prohibition: Anti-competitive Agreements (2012) by the MyCC; see https://www.mycc.gov.my/sites/default/files/pdf/newsroom/MYCC-4-Guidelines-Booklet-BOOK1-10-FA-copy_chapter-1-prohibition001_1.pdf.

76 ibid.

As the Competition Act 2010 has only come into force relatively recently, MyCC has, as yet, not issued any guidelines to address the competing tensions between the IPRs or franchise agreements on the one hand and free competition on the other. Resale price maintenance is one area of potential conflict. If a recommended price sought to be provided in a franchise agreement is a genuine recommendation and does not become a focal point for price determination, it is likely that it will be permitted.

vi Restrictive covenants

Non-compete clauses and restrictive covenants are generally upheld as contractual terms and enforceable for the duration of the agreement. Breach of these covenants entitles the aggrieved party to sue for damages and specific reliefs and may also form the grounds of a complaint to the Franchise Registry. Breach of restrictive covenants set out in the Act is tantamount to an offence under the Act.[77]

vii Termination

When introduced in 1998, the Act prohibited only the franchisee from terminating a franchise agreement before expiration of the franchise term. Following amendments made in 2012, a similar a similar prohibition now applies to franchisors.[78]

In any event, either party may not terminate a franchise agreement before the expiration date except for good cause as stipulated in the Act. 'Good cause' is defined to include failure of the franchisee or franchisor to comply with the terms of the franchise agreement or any other relevant agreement between the parties and their failure to remedy the breach within a specified period, which may not be less than 14 days.[79]

Termination without the requirement of notice and the opportunity to remedy the breach is also permissible in certain specified circumstances such as bankruptcy or insolvency, voluntary abandonment of franchised business, assignment of franchise rights for the benefit of creditors or a similar disposition of the assets to any other persons, conviction of a criminal offence that substantially impairs the goodwill associated with the franchisor's mark or other IPRs, and repeated failure to comply with the terms of the agreement.[80]

Non-compete clauses are expressly permitted under the Act for a period of two years post-termination of the franchise[81] and they form an exception to contract law principles, which generally hold a restraint of trade clause post-contract as void.[82]

Apart from pursuing a civil action for a breach, the covenant may also be enforced by the franchisor by lodging a complaint with the Franchise Registrar, and this may potentially lead to a criminal prosecution.[83]

Nothing in the Act prevents the franchisor from taking over the franchise business granted to the franchisee upon termination of the franchise term; however, in a non-renewal of the franchise agreement, the franchisor is under an obligation to compensate the franchisee

77 Section 27 of the Franchise Act 1998.
78 Section 19 of the Franchise (Amendment) Act 2012 and Section 31 of the Franchise Act 1998.
79 Section 31(2) of the Franchise Act 1998.
80 Section 31(3) of the Franchise Act 1998.
81 Section 27 of the Franchise Act 1998.
82 Section 28 of the Contracts Act 1950.
83 Section 27(3) of the Franchise Act 1998.

either by a repurchase or other means of compensation at a price agreed between the franchisor and franchisee in consideration of the diminution in value of the franchised business caused by the expiration of the franchise where:

a the franchisee is barred by the franchise agreement or by the refusal of the franchisor to waive any portion of the franchise agreement that prohibits the franchisee from continuing with the business; or

b the franchisee has not been given written notice of the franchisor's intent not to renew the agreement at least six months prior to the expiration date.[84]

viii Anti-corruption and anti-terrorism regulation

The Anti-Money Laundering and Anti-Terrorism Financing Act 2001 (AMLA) is the primary legislative framework combating money laundering and terrorist financing. The AMLA not only criminalises money laundering and financing of terrorism, but also imposes various obligations on reporting institutions. Any person who engages in, or attempts to engage in or abets the commission of money laundering, commits an offence under the AMLA.

Anti-corruption is governed by the Malaysian Anti-Corruption Commission Act 2009, which was enacted to provide for the establishment of the Malaysian Anti-Corruption Commission and to make further and better provision for the prevention of corruption.

In addition, in the absence of any specific legislation, regard must also be had to the Malaysian Penal Code, which covers fraudulent and dishonest acts such as criminal breach of trust,[85] cheating[86] and criminal misappropriation of property.[87]

ix Dispute resolution

Litigation can be an expensive, lengthy and complex process especially where foreign law is applied within a franchise agreement. Civil proceedings may be initiated in the Sessions or High Court depending on the proposed cause of action and quantum of damages sought.

It is a usual practice for parties, particularly where a foreign party is involved, to include a law and jurisdiction clause within their franchise agreement. Generally, the local courts will recognise and uphold a choice of foreign law or jurisdiction clause; however, the choice of foreign law may only cover the interpretation of the terms and conditions of the franchise agreement and may not exclude compliance with other Malaysian laws, such as the Act, which may still continue to apply and which may, in some instances take precedence over the terms of the franchise agreement.

Parties may also opt for arbitration or mediation as the preferred method of resolving disputes. Arbitration is governed by the Arbitration Act 2005 and mediation is governed by the Mediation Act 2012. Mediation is, however, not a mandatory form of alternate dispute resolution and there are no costs or other penalties that can or may be imposed if a party refuses to pursue mediation and decides instead to initiate a court action.

Parties are generally encouraged by the Franchise Registry to resolve disputes informally, through good faith negotiations or mediation. The Franchise Registry may, at the request of the parties, act as a mediator. Mediation is, however, not a mandatory form of dispute resolution.

84 Section 32 of the Franchise Act 1998.
85 Sections 405-409 of the Malaysian Penal Code.
86 Sections 415-424 of the Malaysian Penal Code.
87 Sections 403-404 of the Malaysian Penal Code.

Where informal dispute resolution mechanisms fail, the court process remains the primary means of enforcement.

Injunctive relief, both interim and permanent, is available to restrain the infringement of any IPRs or a breach of a restraint of trade covenant.

Where a contract is breached, the injured party is entitled to initiate a civil action for damages. Calculation of damages in a breach of contract action (including misrepresentation) depends on whether the injured party is claiming for expectation loss or reliance loss. Expectation loss aims to put the injured party in such a position as if the contract had been fully performed and where the injured party would have made certain profits or earnings; any such losses will have to be proven on a standard of balance of probabilities. If the injured party is claiming for reliance loss, the injured party must prove the expenses incurred arising from his or her reliance on the contract. In any event, the loss must not be too remote such that it must arise as a natural consequence of the breach or the parties must be aware of the loss.[88]

Under the Contracts Act 1950, the parties must also restore or compensate for any advantage received where the injured party rescinds a contract that is void or has become voidable as a consequence of the breach.[89] The Contracts Act 1950 also requires that an injured party takes all reasonable steps to mitigate the loss and must not incur unreasonable expenses in the act of doing so.[90]

An injured party may also seek to pursue a claim under tort. Damages under tort are calculated to place the claimant in such a position as if the breach or tort had not taken place. They are generally quantified under two headings, namely general and special damages.

To successfully recover any damages, a claimant must prove on a balance of probabilities that the losses were caused by the defendant's actions or breach and there has been no break in the chain of causation leading to the losses suffered. Losses that are too remote are not recoverable.

Litigation costs usually follow the event and are awarded to the successful party. There are no capped costs and in the absence of agreement between parties, the quantum of costs will be determined by the court through taxation proceedings.

The registration and enforcement of foreign court judgments is governed by the Reciprocal Enforcement of Judgments Act 1958 (REJA). REJA is limited to final judgments[91] awarded by a superior court from a country listed in its First Schedule, and they are Brunei, Hong Kong, India, New Zealand, Singapore, Sri Lanka and the United Kingdom. If the foreign judgment is from another jurisdiction, the only method of enforcement would be to initiate fresh proceedings and secure a Malaysian court judgment.

Malaysia is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention) and therefore Malaysian courts will recognise foreign arbitral awards made in a New York Convention contracting state unless any of the grounds for refusal of recognition stated under Section 39(1) of the Arbitration Act 2005 are successfully established.

88 Section 74 of the Contracts Act 1950.

89 Section 66 of the Contracts Act 1950.

90 Explanation to Section 74 of the Contracts Act 1950.

91 Section 2 of the Reciprocal Enforcement of Judgments Act 1958. Judgments capable of registration are judgments or orders given or made by a court in any civil or criminal proceedings for the payment of a sum of money in respect of compensation or damages.

VII CURRENT DEVELOPMENTS

i The new TMA

On 27 September 2019, Malaysia deposited its instrument of accession to the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (also known as the Madrid Protocol) with the World Intellectual Property Organisation, which allows the filing of a single application to register a trademark in up to 120 countries.[92] In preparation for accession to the Madrid Protocol, Malaysia has introduced the Trademarks Bill 2019 (the Bill), which is a complete revamp and overhaul of the current TMA. The Bill is presently pending being gazetted, having been passed by the House of Representatives and the Senate of the Malaysian Parliament on 2 July 2019 and 23 July 2019 respectively. To implement the Bill, MyIPO issued a consultation paper setting out proposed changes and new provisions concerning trademark regulations under the Bill.[93] It is anticipated that the resultant new TMA will come into force on 27 December 2019, bringing about, inter alia, the following changes:

a The new TMA will expand the scope of registrable marks to include non-traditional marks such as sound, scent, holograms, positioning and motion marks, and allow multiple classes within the same application.

b While trademark applications will be subject to formal and substantive examinations that largely resemble the existing regime, the substantive examination will specifically consider absolute and relative grounds of refusal for registration, with the former applying in relation to the inherent distinctiveness of marks and the latter being based on the existence of earlier marks, including well-known marks. If the requirements are not met, an applicant may only avail itself of one round of argument in response to the provisional refusal issued by the Registry of Trademarks, as opposed to the present two rounds of arguments.

c If the refusal is maintained following the applicant's single challenge, a total provisional refusal will be issued, whereupon the next course of action available to the applicant would be an appeal to the High Court. If a mark is acceptable for registration, it will be published in the official Intellectual Property Online Journal for public inspection. Upon successful registration, a sealed notification of registration will be issued in place of a certificate of registration unless otherwise requested.

d While the validity period of registration remains 10 years, a request for renewal must be made not later than six months after the expiry date, failing which the mark will be deemed removed and if the mark is not restored within six months of removal, the registration will cease.

e The grounds for revocation for non-use of mark have been expanded to include (1) the trademark has become a common name in the trade because of the registered proprietor's inactivity; and (2) the use of the trademark by the registered proprietor would mislead the public. Any use by the registered proprietor within the three-month period (as

92 See http://www.myipo.gov.my/en/malaysia-accedes-to-madrid-protocol/.

93 Consultation Paper No. 1/2019/CP/REGTM entitled Proposed Changes & New Provisions Concerning Trademark Regulations under the New Trademarks Bill 2019, by the Intellectual Property Corporation of Malaysia; see http://www.myipo.gov.my/wp-content/uploads/2019/09/Consultation-Paper-Trademarks-Regulations.pdf.

opposed to the present one-month period) before the application for revocation is filed will be disregarded unless preparations for this use began before the proprietor became aware that application for revocation might be made.

f The standard reliefs awarded to the successful party in infringement proceedings are codified in the new TMA, including: (1) injunctions; (2) damages; (3) account of profits; and (4) mandatory orders (including making an order for the erasure of the offending sign, destruction of goods bearing the offending sign or delivery up or disposal of infringing goods, material or articles).

g The new TMA introduces criminal enforcement procedures by transferring the relevant provisions on anti-counterfeiting from the current TDA to criminalise acts of (1) counterfeiting a trademark; (2) falsely applying a registered trademark; (3) making or possessing articles for committing an offence; and (4) importing or selling goods with falsely applied trademarks.

ii Kah Z & Z Sag (TG) Sdn Bhd v. Syarikat Abdul Ghaffar Trading Sdn Bhd

The Franchise (Amendment) Bill 2019 was passed by the House of Representatives after its second reading on 3 December 2019 and will be tabled in the Senate of the Malaysian Parliament for approval. While there have been no significant franchise law cases over the past year, it may be relevant to note the case of *Kah Z & Z Sag (TG) Sdn Bhd v. Syarikat Abdul Ghaffar Trading Sdn Bhd*[94] concerning discrimination between franchisees by the franchisor in offering different prices for the same goods, which is prohibited under the Act. In this case, the plaintiff (the franchisee) applied for an order under Order 43 Rule 1 of the Rules of Court 2012 for (1) an account to be taken of the sum received by the defendant (the franchisor) from the plaintiff; (2) a forensic account to be taken of the price of each delivery of goods and product delivered by the defendant to the plaintiff and of the defendant's account of profits and losses, including the submission of documents relating to the price of each product supplied to the plaintiff and a comparison of prices of products supplied to other franchisees; and (3) an inquiry to be conducted to ascertain the correct sum payable by the plaintiff to the defendant.

In making this application, the plaintiff claimed that the defendant had imposed an excessively higher price on the plaintiff than on other franchisees for the same product, thereby breaching the franchise agreement and contravening Section 20 of the Act by discriminating against the plaintiff in the charges offered or made for goods. In support of its allegation, the plaintiff relied on the prices at which products were supplied by the defendant to one LKK Supplier and one Yaacob and Sons Enterprise, showing that they had been charged lower prices. However, the defendant argued that LKK Supplier and Yaacob and Sons Enterprise were wholesalers and not the defendant's franchisees, and the plaintiff was unable to adduce evidence to show otherwise.

In dismissing the plaintiff's application, the High Court held that it was not appropriate for the court to grant the remedy sought by the plaintiff as there were preliminary issues to be tried as to whether the defendant had in fact supplied products to other franchisees at lower prices and hence practised discriminatory pricing. The non-discrimination provision therefore has yet to be tested and it remains to be seen how the courts will apply this provision in future cases.

94 [2019] 1 LNS 1284.

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