

Prior to granting a franchise, the IPL requires that certain information (i.e., a disclosure document) must be provided to the prospective franchisee with at least 30 business days before the date of execution of the franchise agreement. In terms of the IPL and its Regulations, this is the only requirement that must be met before a franchisor may offer a franchise in Mexico. [Said 30 business day period must be calculated in terms of the calendar of non-business days published by the Mexican Institute of Industrial Property \(“IMPI”\).](#)

In accordance with the provisions of the Regulations of the IPL, the following technical, economic, and financial information **must be provided through the submission of the disclosure document**:

- Name, corporate name or business name, domicile, and nationality of the franchisor;
- Description of the franchise;
- Seniority of the original main franchisor and, if applicable, of the master franchisee of the business subject matter of the franchise;
- Intellectual property rights involved in the franchise;
- amounts and concepts of payments that the franchisee must make to the franchisor;
- Types of technical assistance and services that the franchisor must provide to the franchisee;
- Definition of the geographical area in which the business exploiting the franchise operates;
- Rights or restrictions to grant sub-franchises to third parties and, if applicable, the requisites the franchisee must fulfil to grant sub-franchises;
- Obligations of the franchisee with respect to the confidential information provided by the franchisor; and
- In general, the obligations and rights of the franchisee arising from the execution of the franchise agreement.

Failure by a franchisor to provide the disclosure document at least 30 business days prior to the date of execution of a franchise agreement may result in the **imposition of an administrative sanction by the IMPI** (e.g., economic fine, closure of premises or administrative arrest). This will only occur, however, if the franchisor fails to provide such information after a written request for the same has been made by the prospective franchisee to the franchisor.

## Other aspects to consider

### a. Trademarks and know-how

#### I. Trademarks

Trademarks in Mexico are protected through their registration at the IMPI. Any holder of a trademark registration must prove their use, or a cancellation action may be exercised by any third-party claiming lack of use by the holder. **The IPL allows for proving the use of a trademark through a licensee (franchisee) provided that the corresponding license is recorded in the IMPI.** In those cases where the franchisor or licensor is not the owner of the trademarks to be sub-licensed in Mexico, then an intercompany trademark license agreement (or a summary version thereof) between the owner of the trademarks and the franchisor or licensor in Mexico must be registered with the IMPI.

In order to protect their trademarks, **Franchisors should record their license** or franchise agreements with the IMPI to for the purpose of being able to prove the use of their trademarks and to enhance the protection of their industrial property rights against third parties.

It is important to mention that any type of trademark is eligible of being licensed, and according to our current IPL, the following variation of trademarks are subject of protection:

1. Names, letters, numbers, figurative elements and color combinations, as well as holograms.
2. Three-dimensional shapes
3. Names and denominations or business names
4. Name of person
5. Sounds
6. Odors
7. Trade Dress

## II. Know-how

Know-how may be protected through two alternatives; **one alternative is through copyrights based on the Federal Copyright Law** (Ley Federal de Derechos de Autor) and **the other is through patents or trade (industrial) secrets based on the IPL**. Executing a confidentiality agreement with the individuals who will have access to information containing know-how is also recommended to efficiently safeguard franchisors' intellectual property rights.

Trade secrets are known under Mexican law as **"industrial secrets"** and are specifically protected under the IPL. In some cases, disclosure of industrial secrets may be considered a felony. The breach of a confidentiality obligation may result in the payment of damages and losses caused, or of a conventional penalty (i.e., liquidated damages) if agreed in the corresponding franchise or confidentiality agreement.



### b. Tax

Mexico's Income Tax Law (Ley de Impuesto sobre la Renta) establishes that the benefits of international tax conventions shall be applicable when a taxpayer evidences residency in the corresponding foreign country. Mexico's Supreme Court of Justice (Suprema Corte de Justicia de la Nación) has determined that **the application of tax conventions holds precedence over the federal tax laws** (such as the Income Tax Law). This means that a foreign franchisor, as a resident for tax purposes of its country of origin, has the right to be submitted to taxation under the terms of the corresponding tax treaty or convention, if any, instead of being submitted to the provisions of the Income Tax Law. Normally, the applicable withholding tax rates included in international tax conventions to which Mexico is a party are lower than the income tax rate provided for in the Income Tax Law. Upon any withholding of income tax made by the franchisee to the franchisor, **the franchisee must deliver to the franchisor a copy of the relevant withholding certificate**, in order for the franchisor to be able to evidence the same to the tax authorities of its country of origin, which will allow the franchisor to obtain the corresponding tax credit.



### c. Data protection

A franchise operation requires, in most cases, that the franchisee undertakes a role of data controller of, at least, the personal data it collects from the franchise's customers or its employees. **Franchisees usually disclose such personal data to the franchisors**. This disclosure is usually considered as a transfer under the applicable laws, i.e. a disclosure of personal data between controllers.

If this is the case, the franchise agreement must expressly require the franchisee to consider such transfer within the privacy notice it provides to the applicable data subjects (e.g., the franchise's clients) per the terms of law and obtain any consent required by law in connection thereof. **The Mexican data protection legislation may require the signature of a data transfer agreement by the franchisee and franchisor**, and the implementation of other related procedures; therefore, the franchisee must commit to sign any such documents and implement any such actions upon request of franchisor. Before it receives any personal data from franchisee, franchisor must analyze which actions are required by law and make sure that all necessary documents, agreements and/or procedures to comply with law are properly implemented.

## Other aspects to consider

### d. Labor

A franchisee could try to **claim the existence of labor relation between such franchisee and the franchisor**, if it can evidence that the “recommendations or guidance” provided by the franchisor are in fact considered “imperative instructions” for the franchisee, thus creating a subordination relationship between the parties.

To reduce the risk of a franchisor being considered an employer of its franchisee under Mexican law, it is suggested that **the franchisor should require its prospective franchisee to create a Mexican company to enter into the franchise agreement**, which in no way limits the right of the franchisor to request the individual with whom it has been dealing to also sign a franchise agreement as personal guarantor or joint obligor.

Likewise, the franchise agreement must contain a provision called **“absence of labor relations and non-representation”** (ausencia de relación laboral y no representación), in which both parties state that they enter into the franchise agreement in their capacity as independent contractors and establish the distinction and independence between franchisor, franchisee and the franchisee’s employees, among other stipulations.



### e. Social Media

Regarding social media, and before executing any franchise agreement, we suggest creating an **official business profile** for all the social media platforms.

As to social media, and in general, regarding any other marketing and advertising matter, the IPL, provides that franchisee and franchisor must expressly establish on the franchise agreement, **the policies that must be followed for marketing and advertising**. Even though the law does not distinguish which party should have control over social media, marketing, and are advertising, we highly suggest that the franchisor has 100% control over social media **and supervise all contents**.

We also recommend establishing **strict guidelines regarding the use and management of social media**, as well as to impose severe penalties in case of any improper use of the trademark, copyright, image, trade dress and any other intellectual property right involved in the franchise system in any social media conducted by the franchisee.

