



Franchise

in 29 jurisdictions worldwide

2015

Contributing editor: Philip F Zeidman



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Getting the Deal Through is delighted to publish the ninth edition of *Franchise*, a volume in our series of annual reports, which provide international analysis in key areas of law and policy for corporate counsel, cross-border legal practitioners and business people.

Following the format adopted throughout the series, the same key questions are answered by leading practitioners in each of the 29 jurisdictions featured. New jurisdictions this year include Brazil, China, Guatemala and Spain.

Every effort has been made to ensure that matters of concern to readers are covered. However, specific legal advice should always be sought from experienced local advisers. *Getting the Deal Through* publications are updated annually in print. Please ensure you are referring to the latest print edition or to the online version at www.gettingthedealthrough.com.

Getting the Deal Through gratefully acknowledges the efforts of all the contributors to this volume, who were chosen for their recognised expertise. *Getting the Deal Through* would also like to extend special thanks to contributing editor Philip F Zeidman of DLA Piper LLP (US) for his invaluable assistance with this volume.

Getting the Deal Through

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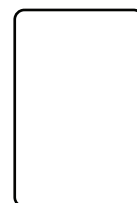
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Overview

- 1 What forms of business entities are relevant to the typical franchisor?

While there is no requirement for a foreign franchisor offering or selling franchises in Switzerland to form a Swiss corporate vehicle for this purpose, many do. Franchisors have a variety of legal forms from which to choose; however, the most common form is the public limited company (AG), followed by the limited liability company (GmbH). The latter has become more and more popular in the past few years. The minimum share capital of an AG amounts to 100,000 Swiss francs divided into shares with a nominal value of at least 0.01 Swiss francs. Upon incorporation, 20 per cent of the par value of each share must be paid in cash, by a contribution in kind or by a set-off; in all cases the contributions made must total at least 50,000 Swiss francs. For the establishment of a GmbH a minimum capital of 20,000 Swiss francs is required, which must be fully paid in either in cash, by a contribution in kind or by a set-off. The capital of the GmbH may be divided into shares with a par value of at least 100 Swiss francs each. Both the AG and the GmbH are companies with limited liability for its holders. Only the AG qualifies for a listing on a stock exchange in Switzerland, namely the SIX Swiss Exchange or the BX Berne Exchange.

- 2 What laws and agencies govern the formation of business entities?

The formation of business entities is governed by the Swiss Code of Obligations (CO). An AG or a GmbH must be registered with the commercial register in the canton of their registered office. The Commercial Register Ordinance governs the technicalities of the registration.

- 3 Provide an overview of the requirements for forming and maintaining a business entity.

An AG or a GmbH may be formed by one or more physical persons or legal entities. The founders have to declare formation in a formal act, the minutes of which must be notarised. In this act the founders have to adopt the articles of incorporation, appoint the company's officers, subscribe to the shares or contributions and record that the promised contributions have been made. The articles of incorporation contain, in particular, the name and the registered office of the company, its purpose and its share capital. The board of directors is responsible for the management and the representation of the company. Nevertheless, the day-to-day management and representation can also be delegated to some of its members if the articles so provide. In the case of a GmbH, all members also act as managers unless another rule is provided in the articles of incorporation. Foreign franchisors must be aware that for AG and GmbH it is mandatory that at least one person resident in Switzerland with individual signature power must be entitled to represent the company. This person may be a board member, a manager or another officer in the case of

an AG, or a managing officer or manager in the case of a GmbH. If joint signature power is granted, the above resident and function requirements must be met by two individuals.

- 4 What restrictions apply to foreign business entities and foreign investment?

See question 3 regarding the residency requirement, and question 8 regarding the restriction of the acquisition of real estate by persons abroad. There are no other requirements specific to foreign franchisors in Switzerland.

- 5 Briefly describe the aspects of the tax system relevant to franchisors. How are foreign businesses and individuals taxed?

Switzerland is a confederation of 26 cantons (states) with about 3,000 municipalities. Taxes are levied at the federal, cantonal and communal level. This system leads to a certain degree of tax competition between the cantons, and therefore, to relatively low tax rates compared to other countries in Europe or worldwide.

Resident individuals are subject to personal income and net wealth tax. Partnerships (and similar groups of persons without legal personality) are transparent for tax purposes, with the partners being taxed individually. Generally, non-residents deriving income from Swiss sources may be subject to certain withholding taxes, but admission fees and royalties payable to foreign franchisors are generally not subject to Swiss withholding taxes.

The corporate income tax rate in Switzerland depends on the location of the taxable entity and amounts from 11.5 to 24.5 per cent. Attractive tax planning opportunities are available for international groups of companies for activities such as (regional) headquarter or finance functions as well as intellectual property management or international trading. Tax rates for these types of activities may amount to significantly less than the statutory rates as indicated above.

Generally, pursuant to decision BGE 134 I 303 of the Federal Supreme Court, the business of a franchisee generally does not qualify as a permanent establishment of the franchisor even if premises owned by the franchisor are rented to the franchisee. Therefore, no tax duties arise for franchisors in the cantons in which their franchisees are domiciled.

In general, the Swiss VAT system is in line with the principles applicable in the European Union, in particular with those of the Sixth VAT Directive of the European Union on the common system for value added tax and the uniform basis of assessment. Deliveries and services rendered in Switzerland by a taxable person are in principle subject to VAT. Taxable persons are classified as entrepreneurs exercising a business activity in Switzerland if their turnover exceeds 100,000 Swiss francs per year. The legal form of the business has no influence on liability to VAT. All persons (also private individuals) must pay VAT if they import services exceeding 10,000 Swiss francs per year. In addition, persons (also private individuals) importing goods from abroad are subject to VAT if they are liable to customs

duties. The ordinary VAT rate is 8 per cent. Reduced rates apply for, among other things, lodging services and the personal consumption of food, pharmaceuticals and newspapers. Services related to franchise relationships are subject to ordinary VAT and do not benefit from special rates.

- 6** Are there any relevant labour and employment considerations for typical franchisors? What is the risk that a franchisee or employees of a franchisee could be deemed employees of the franchisor? What can be done to reduce this risk?

According to Swiss law, franchisees are considered to be 'independent contractors'. Nevertheless, where the terms of the franchise contract provide for specific dominance of the franchisor, thereby substantially limiting the entrepreneurial freedom of the franchisee, there is a certain risk that protective provisions of Swiss employment law may be applied by analogy to the franchise relationship. In a major case, BGE 118 II 157, the Federal Supreme Court confirmed that employment law provisions on abusive termination and the respective indemnifications must be applied by analogy to such relationships. This risk may be reduced in the franchise contract by limiting the level of control and influence that a franchisor may exercise on the franchisee and by extending the franchisee's entrepreneurial freedom. Nevertheless, even in cases where the subordination is less marked, there is still a risk that the protective provisions of Swiss agency law may be applied by analogy to a franchise relationship. In particular the claim of an agent for compensation for lost clientele could thereby be relevant (see BGE 134 III 497 regarding an exclusive distribution agreement). Unfortunately, no further decisions of the Federal Supreme Court have been rendered that might offer guidance regarding these issues. Where a non-compete agreement has been concluded, on termination of the contract the franchisee might also have an entitlement to adequate special remuneration. There is no decision of the Federal Supreme Court concerning this issue but the Swiss doctrine is to recognise such a claim on the part of the franchisee. Whether both of the above-mentioned claims can be requested at the same time is contested.

- 7** How are trademarks and know-how protected?

In Switzerland, trademarks may be protected in two ways: franchisors can register trademarks nationally with protection in Switzerland, or via an international trademark based upon a foreign trademark. The World Intellectual Property Organization in Geneva is responsible for registering and administering international trademarks, whereas the Swiss Federal Institute for Intellectual Property handles national applications. The scope of protection is the same whether the trademark is registered nationally or internationally. Well-known trademarks are an exception to the registration principle. The Swiss Trademark Act (MSchG) is based on a liberal concept of trademarks: basically, all graphically representable signs may be used as trademarks in the legal sense as long as they may serve as an indication of origin for the goods or services claimed by the trademark. Trademarks, except for well-known ones, are protected only for the goods and services for which they are registered. Infringement of a registered trademark occurs by the unauthorised use of either an identical or a similar trademark for identical or similar products, if such trademark is likely to cause confusion. Statutory remedies are (in particular) injunctive relief, claims for damages and, to a certain extent, claims for the defendants' profits and attorneys' fees and costs. Switzerland also provides an opposition system, open within a certain period, to request the removal of infringing trademarks from the registry.

Know-how as such is not protected as intellectual property by any specific act. Nevertheless, by qualifying know-how as confidential information, protection may be provided by the terms of the franchise contract. In cases of unfair competition through the use of know-how, a franchisor may obtain protection through the Swiss

Unfair Competition Act. Additionally to other remedies, such unfair competition may, upon petition, also be punished by imprisonment for up to three years or a monetary penalty pursuant to the Swiss Penal Code.

- 8** What are the relevant aspects of the real estate market and real estate law?

In Switzerland, no specific regulations apply for franchisors only. The Federal Act on the Acquisition of Real Estate by Persons Abroad (BewG) governs and, in certain areas, restricts the acquisition of real estate by foreigners. Nevertheless, real estate that is used for commercial purposes, such as manufacturing or retail premises or as offices, may be acquired without authorisation. There are no other requirements applying to foreigners that a franchisor conducting business in Switzerland must observe.

Besides the restrictions of the BewG, the general rules of the Swiss Civil Code (CC) with regard to the acquisition of real estate and the general rules of the CO are applicable. Among other things, these rules provide for notarisation of purchase contracts for real estate.

Under Swiss tenancy law, tenants and lessors are, in principle, free to arrange their tenancy agreement. Nevertheless, the CO and an ordinance specifying the provisions on tenancy contain various protective provisions in favour of tenants, such as compliance with specific formalities when giving a notice of termination or when increasing the rent.

Laws and agencies that regulate the offer and sale of franchises

- 9** What is the legal definition of a franchise?

Neither the CO nor other acts or regulations define or specifically regulate franchise contracts. According to Swiss legal doctrine and Swiss case law, a franchise contract is deemed to be an ongoing contractual relationship involving close cooperation between the parties. This relationship embraces the sale by the franchisor and the purchase as well as the resale by the franchisee of goods or services through the franchisee which is independent and self-employed and which acts on its own account and risk but under a uniform distribution concept provided by the franchisor. The franchisee, in exchange for a franchise fee or other forms of compensation, receives ongoing assistance, training and advice from the franchisor and may use the latter's labels, trademarks, know-how, equipment or other items or intellectual property rights. The franchisor usually reserves the right to issue directives and thus to maintain a certain degree of control over the business activities of the franchisee.

- 10** Which laws and government agencies regulate the offer and sale of franchises?

As already indicated, franchise contracts are not regulated by a special statute; nor are they monitored by a specific public agency. In particular, there are no pre-contractual disclosure provisions (see question 15). Therefore, the general provisions of the CO, the CC and, to some extent, the United Nations Convention on Contracts for the International Sale of Goods (CISG, which applies automatically under Swiss law unless it is explicitly excluded), intellectual property laws, the Swiss Unfair Competition Act and the Swiss Act on Cartels and other Restraints of Competition are applicable. The CISG, unless excluded, might be applicable to cross-border sales contracts between the franchisor and the franchisee which take place under the umbrella of the franchise agreement. The principle of good faith plays an important role with regard to contractual negotiations and the conduct of the parties under the franchise contract. Therefore contractual negotiations have to be serious and any disclosed information, particularly with respect to the basic elements of the franchise contract, has to be true. Furthermore, the disclosed

information shall also contain all information a franchisee may, in view of the disclosed information and under the principle of good faith, expect to be disclosed.

As regards general terms and conditions, which play an imminent role in franchise relationships, Switzerland does not have a specific legal act on general terms and conditions. Nevertheless, pursuant to the Swiss Federal Supreme Court, there exist certain rules with regard to the adoption and interpretation of general terms and conditions. These rules have recently been specified through a revision of the Swiss Unfair Competition Act, however, this only applies to the relationship between businesses and consumers, and not to relationships between businesses. Individual agreements differing from the general terms precede the provisions in the general terms and conditions.

11 Describe the relevant requirements of these laws and agencies.

Not applicable.

12 What are the exemptions and exclusions from any franchise laws and regulations?

Not applicable.

13 Does any law or regulation create a requirement that must be met before a franchisor may offer franchises?

No, under Swiss law no such requirements exist. Nevertheless, the Swiss Franchise Association (www.franchiseverband.ch), a private, self-regulating trade organisation with no official function, requires that potential members fulfil certain requirements in order to be admitted. For example, they must have been in business for a minimum of two years prior to offering franchises, and they must operate their franchise system with at least two franchisees in Switzerland.

14 Are there any laws, regulations or government policies that restrict the manner in which a franchisor recruits franchisees or selects its or its franchisees' suppliers?

No, there are no specific rules on this matter, and it is up to the parties to a franchise contract to decide by agreement whether they want to introduce certain restrictions, for example, by limiting the number of franchisees with which the franchisor can conclude a contract. It is worth noting that the Swiss Unfair Competition Act puts constraints of a more general nature on the way in which franchisors can recruit franchisees. If a franchisor were to aggressively entice away franchisees who are working for competitors, or even incite them to break the contract with the competitor, such actions could constitute unfair competition, which is a criminal offence. In general, however, franchisors benefit from a high freedom.

15 In the case of a sub-franchising structure, who must make pre-sale disclosures to sub-franchisees? If the sub-franchisor must provide disclosure, what must be disclosed concerning the franchisor and the contractual or other relationship between the franchisor and the sub-franchisor?

As already indicated, pre-contractual disclosure provisions are neither regulated by a special statute nor monitored by a specific agency, and this is the case for franchise as well as for sub-franchise contracts. The general provisions of the CO and CC and the respective rules apply (see question 10). Nevertheless, the ethics code of the Swiss Franchise Association (see question 13) contains certain provisions regarding disclosure and, in particular, pre-contractual disclosure with which members of the Swiss Franchise Association must comply. In summary, pre-contractual disclosure must contain information about the market relating to the franchise, the products or services to be the subject of the franchise relationship, the franchisors' organisation and its experience with regard to the respective franchise system, the franchise package, the contractual duties (in

particular the estimated financial commitment of the franchisee), the franchise contract and all related documents and all alternative distribution channels for the contractual products or services. Members of the Swiss Franchise Association must disclose such information in writing at least 20 days before signing the franchise contract. These rules apply for the relationship between the franchisor and its franchisees and between the master franchisees, as sub-franchisors, and sub-franchisees. Nevertheless, the rules of the ethics code of the Swiss Franchise Association do not apply to the relationship between (master) franchisors and master franchisees. Since disclosed information may contain business or industrial secrets, including know-how, conclusion of a confidentiality agreement before the disclosure is highly recommended.

16 What is the compliance procedure for making pre-contractual disclosure in your country? How often must the disclosures be updated?

No specific compliance procedure exists under Swiss law. Nevertheless, disclosure of all relevant information in writing is recommended for reasons of evidence. The ethics code of the Swiss Franchise Association can be used as a guideline in this respect (see question 15).

17 What information must the disclosure document contain?

Swiss law does not provide for any specific pre-sale disclosure provisions. Beyond the applicable general provisions of the CO and the CC, the ethics code of the Swiss Franchise Association can be used as a guideline (see questions 10 and 15).

18 Is there any obligation for continuing disclosure?

Swiss law does not provide for specific obligations relating to continuing disclosure. According to Swiss legal doctrine and Swiss case law, a franchise contract is deemed to be an ongoing contractual relationship involving close cooperation between the franchisor and the franchisee. In particular, the franchisee receives ongoing assistance, training and advice and the franchisor usually reserves the right to issue directives and, accordingly, to maintain a certain control over the business activities of the franchisee. Thus, the contracting parties have a general duty to act in good faith and assist each other in achieving contractually agreed objectives. Therefore, the franchisor is not only interested but also generally obliged to inform its franchisees about material developments, particularly the marketing concept, and about all other material aspects that the franchisee needs to know of in order to run its business successfully. Because Swiss law does not provide specific obligations in this regard and ongoing disclosure obligations may vary from case to case depending on the specific circumstances, it is advisable to include specific disclosure obligations in the franchise contract.

19 How do the relevant government agencies enforce the disclosure requirements?

Not applicable.

20 What actions can franchisees take to obtain relief for violations of disclosure requirements? What are the legal remedies for such violations? How are damages calculated? If the franchisee can cancel or rescind the franchise contract, is the franchisee also entitled to reimbursement or damages?

As the franchisee may not have entered into the franchise agreement if full disclosure had been made, it may rescind or terminate the franchise contract and claim damages. Nevertheless, the courts take into consideration the experience and knowledge of the franchisee. Pursuant to the culpa in contrahendo liability, a franchisee is generally entitled to claim that it should be placed in the position it would have been in had the franchise agreement never been concluded.

The franchisor may be ordered to reimburse the fees and expenses incurred in connection with the franchise relationship, with any income made being deducted.

- 21** In the case of sub-franchising, how is liability for disclosure violations shared between franchisor and sub-franchisor? Are individual officers, directors and employees of the franchisor or the sub-franchisor exposed to liability? If so, what liability?

In principle, sub-franchisors are liable for fulfilling their obligations (as outlined under questions 15 and 18) towards the sub-franchisees. Nevertheless, a sub-franchisor could take recourse against the franchisor if the latter violated its obligations towards the sub-franchisor. In principle, no individual officer, director or employee of the franchisor is liable to the franchisor's business partners as long as the franchisor is a corporation. However, in certain circumstances, members of the board of directors, directors or officers of a Swiss corporate franchisor may become liable, directly or indirectly, if they intentionally or negligently violate their duties of care and thus cause damage to either the franchisee as a creditor or to the corporation. Further, acts of officers, directors or employees that violate provisions of criminal law may lead to their direct liability.

- 22** In addition to any laws or government agencies that specifically regulate offering and selling franchises, what are the general principles of law that affect the offer and sale of franchises? What other regulations or government agencies or industry codes of conduct may affect the offer and sale of franchises?

See questions 10 and 15.

- 23** Other than franchise-specific rules on what disclosures a franchisor should make to a potential franchisee or a franchisee should make to a sub franchisee regarding predecessors, litigation, trademarks, fees etc, are there any general rules on pre-sale disclosure that might apply to such transactions?

See questions 10 and 15.

- 24** What actions may franchisees take if a franchisor engages in fraudulent or deceptive practices in connection with the offer and sale of franchises? How does this protection differ from the protection provided under the franchise sales disclosure laws?

Regarding civil claims, see question 20. Regarding criminal proceedings, the franchisee could file a complaint against the respective individuals. A criminal conviction for fraud pursuant to the Swiss Penal Code may lead to imprisonment for up to five years or a monetary penalty. A criminal conviction for deceptive acts under the Swiss Unfair Competition Act may lead to imprisonment for up to three years or a monetary penalty. Further, a corporate franchisor can be punished with a fine of up to 5 million Swiss francs if such fraudulent or deceptive act can not be attributed to a natural person due to the deficient organisation of the company.

Legal restrictions on the terms of franchise contracts and the relationship between parties in a franchise relationship

- 25** Are there specific laws regulating the ongoing relationship between franchisor and franchisee after the franchise contract comes into effect?

The ongoing relationship between the parties of a franchise contract is mainly regulated by the general provisions of the CO and the CC (see questions 10, 18 and 36).

- 26** Do other laws affect the franchise relationship?

Like the offer and sale of a franchise, the franchise relationship itself is mainly regulated by the general provisions of the CO. To some extent it is also regulated by the special provisions of the CO regarding the application of labour and agency law provisions by

analogy (see question 6); the CISG with regard to cross-border sales contracts between the franchisor and the franchisee that take place under the umbrella of the franchise agreement (see question 10); the CC; the Swiss Unfair Competition Act; the Swiss Cartel Act; and intellectual property laws (trademarks and patents).

- 27** Do other government or trade association policies affect the franchise relationship?

The Swiss Franchise Association provides for some standard business policies, but membership of the association is not compulsory. Nevertheless, many franchisors are members; as such membership may have a positive impact on the reputation of the franchisor.

- 28** In what circumstances may a franchisor terminate a franchise relationship? What are the specific legal restrictions on a franchisor's ability to terminate a franchise relationship?

Franchise relationships, like other continuing contractual relationships, end due to lapse of time, termination with notice as specified in the franchise contract or upon mutual agreement. In the case of regular termination or non-renewal of the franchise relationship the franchisee might claim recompense for investments. There is no case law concerning this issue and there are different doctrines regarding the existence of such a claim. Nevertheless the term of a franchise contract should be determined in such way that the franchisee can amortise its investments (see BGE 107 II 216 regarding an exclusive distribution agreement). Pursuant to the leading case of the Federal Supreme Court (BGE 118 II 157) regarding franchise contracts, claims for compensation are possible in the case of improper or abusive termination of a franchise relationship. Nevertheless, the Federal Supreme Court confirmed that continuing contractual relationships may be terminated without a notice period if there is good cause. Good cause is assumed whenever an ongoing contractual relationship becomes intolerable for the terminating party. Bear in mind that if the contract provides for a definition of the term 'good cause', or if it enumerates behaviours that constitute 'good cause', this serves only as an indication of what the contractual parties deem to be intolerable. It does not bind the court and, in particular, such contract clauses do not limit the possibility of immediate termination in case of other undefined or enumerated good causes (BGE 4A_148/2011). An immediate termination must be communicated to the other party within a reasonably short time after the occurrence of the event which gave rise to the intolerable situation. Unfortunately, in its leading case regarding franchise contracts, the Federal Supreme Court did not state what the effects of an immediate termination should be if there is no 'good cause' justifying such immediate termination. It might be possible that the provision for unjustified immediate termination of employment relationships applies to a franchise contract by analogy. In this case, the franchisee would be entitled to damages in the amount he would have earned if the franchise contract had ended after the required notice period or on expiry of its agreed duration.

- 29** In what circumstances may a franchisee terminate a franchise relationship?

The same legal restrictions apply as in the case of termination by the franchisor (see question 28).

- 30** May a franchisor refuse to renew the franchise agreement with a franchisee? If yes, in what circumstances may a franchisor refuse to renew?

Swiss contract law is dominated by the principle of freedom of contract. Therefore, the conclusion or renewal of a franchise contract is subject to the parties' mutual agreement. Nevertheless, if one party has started to make investments in good faith based on the other party's promises or declarations of its intention to renew the franchise contract, later refusal may entitle the other party to file a claim for compensation. Under certain circumstances a franchisor which

has a particular dominant position may be forced to enter into or renew a franchise contract with a franchisee according to the Swiss Cartel Act.

- 31** May a franchisor restrict a franchisee's ability to transfer its franchise or restrict transfers of ownership interests in a franchisee entity?

Yes, it is possible to introduce restrictions to that effect in the franchise contract. In practice, transfers are commonly made subject to the franchisor's prior written approval. Likewise, it is possible to make a transfer of ownership (including pledge) in an incorporated franchisee subject to the franchisor's prior written approval or to provide for a right of termination of the franchise contract in the event of such a transfer of ownership (change of control clause).

- 32** Are there laws or regulations affecting the nature, amount or payment of fees?

There are no specific laws or regulations affecting the nature, amount or payment of fees. They are solely a matter of negotiation between the parties. If the agreed fees constitute an obvious disparity to the franchisor's performance by exploiting the distress, inexperience or improvidence of the contractual partner, the franchise contract may, in general, be rescinded within one year, and restitution for the considerations already given may be claimed.

- 33** Are there restrictions on the amount of interest that can be charged on overdue payments?

Interest rates are subject to negotiation between the contracting partners. In the absence of an agreement, the CO provides for a standard rate of five per cent per annum for overdue payments. This rule applies even if the parties agree on lower interest rates. If a higher interest rate has been agreed in the contract, such higher interest may also be claimed during the period of default unless such interest reaches the limit of usury which, under case law, is around 18–20 per cent. Usury may lead to imprisonment for up to five years or a monetary penalty, and if the offender makes a trade or business of such act it may be penalised by imprisonment for a period of between one and 10 years.

- 34** Are there laws or regulations restricting a franchisee's ability to make payments to a foreign franchisor in the franchisor's domestic currency?

No, in fact, pursuant to the provisions of the CO, financial debts must be paid in the legal tender of the owed (foreign) currency. Nevertheless, the debtor is entitled to pay in the national currency based upon its value at the date of maturity unless, through the use of the term 'actual', 'actual currency' or another similar addition, literal performance of the contract has been agreed upon.

- 35** Are confidentiality covenants in franchise agreements enforceable?

Confidentiality covenants in franchise contracts are enforceable according to Swiss law. The franchisor may ask for an injunction and claim damages in case of a breach of confidentiality by the franchisee. In order to avoid difficulties regarding proof of damages, it is recommended to provide for a liquidated damages clause which is triggered by each breach. It is also recommended to specify that nothing contained in the covenant shall prevent the non-breaching party from seeking specific performance of the breaching party's obligations, and from seeking damages in excess of the liquidated damages.

- 36** Is there a general legal obligation on parties to deal with each other in good faith? If so, how does it affect franchise relationships?

Yes, such a general legal obligation exists under Swiss law (see questions 10 and 18).

- 37** Does any law treat franchisees as consumers for the purposes of consumer protection or other legislation?

In general, franchisees are not treated as consumers under Swiss statutory laws.

- 38** Must disclosure documents and franchise agreements be in the language of your country?

The language of documents and agreements is subject to the parties' discretion. Nevertheless, if a Swiss court is competent to decide on claims arising out of the franchise contract, generally the documents will have to be translated into the court's official language, which will be one of the country's four official languages (German, French, Italian and Romansh). The court's official language principally depends on the region in which it is located. However, the Swiss Federal Patent Court introduced in 2012 also provides for proceedings in English. The Swiss Franchise Association's code of ethics stipulates that all agreements and covenants in connection with the franchise relationship must be in the official language of the franchisee's location, or, if they are drafted in another language, must be translated by an accredited translator.

- 39** What restrictions are there on provisions in franchise contracts?

Swiss law is based on the principle of freedom of contract and therefore the parties may negotiate franchise contracts freely, even if a large number of restrictions need to be followed. Major restrictions are provided by the antitrust and competition regulations (see question 40) or regulations regarding the acquisition of real estate by foreigners (see question 8). There are also general restrictions stemming from the CO and the CC: for example, protective measures from labour and agency law applied by analogy (see question 6) or the principle of good faith (see question 36).

- 40** Describe the aspects of competition law in your country that are relevant to the typical franchisor. How are they enforced?

Protection of competition is, in principle, dealt with by the Swiss Cartel Act (the Cartel Act). The Cartel Act applies to private or public undertakings which are parties to cartels or to other agreements affecting competition, which exercise market power or which participate in concentrations of undertakings which must be notified. The Swiss Competition Commission (SCC) is responsible for the administration and the execution of the Cartel Act. Whenever a practice seems to hinder or prevent competition in an unlawful way through the concerted behaviour of market actors, in case of an abuse of a dominant position or when a merger must be reported, the SCC takes direct action against the originators. The SCC may act upon notification or on its own initiative: Therefore, in particular any practice set forth in a franchise contract, which is seen as a vertical agreement in the sense of the Swiss Cartel Act, that hinders or prevents competition in an unlawful way may be contested and investigated by the SCC. In principle, vertical agreements on fixed or minimum prices or on the allocation of territories, which have the effect that possible sales by other distributors into these territories are prohibited, are invalid. Such restrictions may be sanctioned by fines of up to 10 per cent of the Swiss turnover made by the violator in the preceding three financial years. Further guidance by the SCC regarding vertical agreements may be found in the general notice of the SCC on the application of these rules to different categories of vertical agreements. The general notice also deals with non-competition clauses and restrictions regarding cross-supplies. The stated general notice of the SCC is very similar to revised vertical agreements block exemption of the European Commission. There is a leniency programme applicable under the Cartel Act, for whistle-blowers who inform the SCC about a violation of the Cartel Act at a suitably early stage.

Update and trends**Partial revision of the Swiss Federal Law on Debt Enforcement and Bankruptcy**

Since January 2014 the partial revision of the Swiss Federal Law on Debt Enforcement and Bankruptcy entered into force. The new provisions facilitate the reorganisation of companies. As provided in article 297a of the Debt Enforcement and Bankruptcy Act, the debtor has the right to terminate continuous obligations at any time. The precondition for this to happen, though, is the solicitor's consent and the full compensation of the opposing party.

Popular initiative to stop mass immigration

As a consequence of this popular vote in February 2014 the quota system that currently applies to citizens from countries outside the EU and EFTA and which was formerly in place for individuals from the EU or EFTA member states will be reintroduced by February 2017 at the latest, and will also apply to individuals from EU and EFTA member states. However, the Agreement on Free Movement and other bilateral agreements will remain in force until a new law has been established.

- 41** Describe the court system. What types of dispute resolution procedures are available relevant to franchising?

Switzerland is a civil law jurisdiction. Because of the country's federal structure, the 26 cantons have a certain autonomy regarding the organisation of their courts. The Swiss court system traditionally distinguishes between civil, criminal and administrative courts. Civil courts are responsible for civil and commercial matters. The Swiss Code of Civil Procedure and the Swiss Code of Penal Procedure, which have both been unified on a federal level since January 2011, govern the civil and penal court procedures in Switzerland. The Swiss Federal Supreme Court is primarily a court of last resort. Usually the cantons provide for two instances of courts. Some Swiss cantons (St Gallen, Zurich, Aargau and Berne) have a commercial court which acts in commercial matters as the first and sole cantonal instance, the decisions of which may only be appealed to the Swiss Federal Supreme Court. Within the limitations of the applicable law (especially Swiss International Private Law and the Lugano Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters), franchisors and franchisees are free to agree on arbitration proceedings or choose their preferred jurisdictions and applicable laws.

- 42** Describe the principal advantages and disadvantages of arbitration for foreign franchisors considering doing business in your jurisdiction.

Arbitration can provide substantial benefits for the parties to a dispute. In principle, it may resolve disputes more efficiently than litigation, saving time and ensuring confidentiality. In addition, arbitration allows the parties to control the process, to obtain, in principle, an award which may be not appealed against, and to reduce translation costs in cases where the contractual parties' documents are not mainly in one of the official Swiss languages (see question 38).

But franchisors have to bear in mind that arbitration procedures do not always result in the expected benefits. It is crucial that franchisors assess their exact needs before deciding on arbitration, and in particular the appropriate form; namely, ad hoc or institutional arbitration. For example, in cases where a small sum is in dispute, arbitration may result in disproportionate costs. Furthermore, limited discovery and procedural safeguards may cut both ways. Considering these disadvantages and, in particular, the good reputation of the Swiss commercial courts mentioned in question 41, arbitration is in particular recommended in cases where large amounts are in dispute or where secrecy is of particular importance.

- 43** In what respects, if at all, are foreign franchisors treated differently from domestic franchisors?

In general, foreign franchisors are not treated differently from domestic franchisors. There are, however, areas where foreigners (especially if they are not domiciled in the EC/EFTA region) are subject to special restrictions. Such restrictions apply, for example, with regard to the acquisition of real estate (see question 4) and to residence and work permits regarding individuals. Obtaining a residence and work permit does not usually create any significant problems for citizens of EU and EFTA countries, as they benefit – for the time being (see 'Update and trends') – from the Agreement between the European Union and Switzerland on the Free Movement of Persons. Special restrictions already now apply to citizens of Bulgaria and Romania as well as the new EU member state Croatia. While it is at present quite simple for EU and EFTA citizens to work in Switzerland, the opposite is true for citizens of all other countries. It might be quite a challenge for them (and for their employers) to obtain a residence and work permit as the requirements are rather strict.

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