AIPPI

SUMMARY REPORT

Question 241

IP Licensing and Insolvency

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This question relates to the treatment of IP license agreements during bankruptcy or insolvency proceedings. In particular, this question addresses whether, and under what circumstances, an administrator of such a proceeding may adopt, modify, or terminate such an agreement. In addition, this question addresses under what circumstances, if any, an administrator may liquidate the IP rights underlying a license agreement or sell or transfer the license agreement itself.

The Reporter General has received Reports from the following 39 National and Regional Groups (in alphabetical order): Argentina, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, Caribbean Regional Group, China, Denmark, Egypt, Estonia, Finland, France, Germany, Hungary, Italy, Japan, Latvia, Malaysia, Mexico, the Netherlands, Norway, Paraguay, Peru, the Philippines, Portugal, Rep. of Korea, Romania, Singapore, Spain, Sweden, Switzerland, Turkey, Ukraine, the United Kingdom, the United States, Uruguay, and Venezuela. The Report from the Caribbean Regional Group includes separate responses based upon the laws of the Dominican Republic and El Salvador.

The Reports provide a comprehensive review of national and regional laws and policies relating to IP and insolvency. This Summary Report cannot attempt to reproduce the detailed responses given by each National Group. If any question arises as to the exact position in a particular jurisdiction, reference should be made to the original Group Reports.

I. Analysis of current law

1) **Does your country have a registration system for IP licenses? If yes, please describe this system.**

A strong majority of responding Groups (24) indicate that a voluntary registration system is available for IP licenses. However, implementation of the system and the rights covered vary widely among the groups. In most cases, the voluntary registration systems are not necessary for validity of the license, but may be desirable for public notice purposes and for enforcement of rights against third parties. Eight Groups indicate that registration is mandatory in at least some cases. For example, in Argentina, a license granted by a foreign company to a company with an Argentine address must be filed with the Argentine authorities for information purposes. In China, patent and trademark licenses should be registered within three months of validity of the contract. In Egypt, the beneficiary of a license is under obligation to submit an original copy of its license for registration in order to be able to exercise its rights. Similarly, the Italian Group reports that any deed establishing, modifying, or transferring IP rights must be made public through registration at the Italian PTO. The Japanese Group explains that registration is mandatory for certain types of licenses including, for example, *senyo* exclusive licenses (including exclusive use rights or exclusive exploitation rights). In Peru, registration of trademark licenses is voluntary, whereas registration of licenses relating to patents, utility models, industrial designs, and layout designs is mandatory. In the Philippines, registration of patent licenses is mandatory for enforceability unless the agreement conforms to particular provisions of the law. The Korean Group reports that exclusive licenses for patents and trademarks, and any transfer of copyright, must be registered to be enforceable (although an unregistered, exclusive license may still have the effect of a proper, non-exclusive license). Registration of non-exclusive licenses, other than copyright, is possible but not mandatory. The Turkish Group notes that there is no separate registry for IP licenses, but the rights owner may request recordal of a license on the specific IP right itself.

2) Describe the type or types of bankruptcy and insolvency proceedings that are available in your country.

The Group Reports reflect a wide variety of approaches to bankruptcy and insolvency proceedings. These approaches include one single procedure for all situations, different approaches for individuals versus corporate entities, different approaches for reorganization versus dissolution, voluntary versus compulsory procedures, as well as other variations. A majority of Groups differentiate in some way between systems intended for rehabilitation or restructuring versus systems for liquidation. The Brazilian Groups notes that different, specific bankruptcy and liquidation laws apply to state-owned companies, banks, and other financial institutions. The Caribbean Regional Group notes that in El Salvador, bankruptcy and insolvency proceedings are not used, but a person or company can request that all assets be sold to pay creditors. In China, three distinct proceedings exist: rehabilitation, settlement, and declaration of bankruptcy. In Finland, two types of proceedings exist: bankruptcy, which is compulsory liquidation, and company administration for restructuring/rehabilitation. The Mexican Group reports that there is only one proceeding for insolvency cases: Commercial tender. Similarly, the Portuguese and Spanish Groups indicate that one insolvency mechanism exists that applies to both natural and legal persons. The Ukraine Group notes that only legal entities and private entrepreneurs can be recognized as bankrupt.

The Egyptian Group notes that under national law the term “bankruptcy” applies to commercial transactions while the term “insolvency” applies to civil transactions. Conversely, in Malaysia and Singapore, the term “bankruptcy” is used in relation to individuals and the terms “insolvency” or “liquidation” relate only to companies subject to winding-up proceedings. Hence, it is clear not only do the Group Reports reflect a wide variety of approaches, they also reflect significant differences in the use of terminology.

3) Does the law that governs bankruptcy and insolvency proceedings in your country address IP rights or IP licenses as distinct from other types of contracts, assets, and property rights? If yes, is the law statutory, regulatory, or based on precedent? Please identify any relevant statutes or regulations.

A strong majority (30) of responding Groups answered this question in the negative, *i.e.*, that the bankruptcy law does not treat IP rights or licenses differently from other types of rights and contracts. Exceptions to this are Canada, Estonia, Norway, Republic of Korea, Sweden, and the United States. In Canada, both the Bankruptcy and Insolvency Act (used to liquidate companies or reorganize by compromise with creditors) and the Companies' Creditors Arrangement Act (used for restructuring of corporate entities or income trusts with debts of more than $5 million Canadian) were amended in 2009 to specifically address the treatment of IP licenses. The amendments added exceptions for IP licenses to both statutes.

Article 19 of the Estonian Trade Mark Act provides that a trademark cannot be surrendered if it is included in a bankruptcy estate. Norwegian law governing bankruptcy and insolvency proceedings does not generally address IP rights or licenses as distinct from other types of contracts, assets and property rights. However, section 7-12 of the Norwegian Creditors Recovery Act does provide that a license fee claim against a debtor who has initiated the production of a batch of the licensed product may only be presented as a dividend claim, provided that the debtor has made significant production investments prior to the initiation of the bankruptcy proceedings. In Korea, Article 492(2) of the Debtor Rehabilitation and Bankruptcy Act addresses sale of IP rights, requiring that a trustee shall obtain permission of the court if he or she intends to perform the voluntary sale of patent rights, utility model rights, design rights, trademark rights and service mark. The Group Report from Sweden notes that IP rights are mentioned "only sparsely", and that in general it is more likely that laws governing IP will be combined with more general bankruptcy laws.

In the United States, by statute, IP rights or licenses are treated as distinct from other types of contracts, assets and property rights. In general, the Bankruptcy Code at 11 U.S.C. § 365(a) gives the trustee or the debtor-in-possession the discretion to assume or reject a debtor's executory contracts. However, section 365(c) limits this authority. Depending on the applicable non-bankruptcy law or the particular contract, the courts may prevent the trustee or debtor from assigning the contract. Where the applicable law or contract prohibits such assignment, the courts may even prohibit the trustee or debtor from assuming the contract. For example, software licenses are copyright licenses that may only be assigned by permission of the copyright owner-Licensor. Furthermore, the Intellectual Property Bankruptcy Protection Act, enacted in 1988 and codified at 11 U.S.C. § 365(n), proscribes the effect of bankruptcies on contracts concerning IP rights. This section applies only to licenses of "intellectual property," defined in the Code to include patents, copyrights, trade secrets and semi-conductor chip mask works. It addresses the rejection of an IP contract by a debtor-Licensor. Under section 365(n), the Licensee may elect to treat the rejection as a breach of contract giving rise to an unsecured claim for damages. When the executory contract is rejected, the whole contract is rejected, including the damage provisions. The Licensee may alternatively elect to retain the IP rights granted under the licensing agreement. The Licensee must then continue to pay any royalties due and to enforce any exclusivity provision under the agreement. The debtor-Licensor also retains obligations, but no longer has any warranty, indemnification, or support obligations. It must deliver the IP to the Licensee as provided under the contract and must not interfere with the rights of the Licensee. Because the definition of "intellectual property" does not encompass trademarks, the courts are split on whether the Licensee of a trademark may retain such rights.

4) **Please answer the following sub-questions based upon the law and jurisprudence in your country that governs bankruptcy and insolvency proceedings:**
    a. **Describe the law and its effects on a bankruptcy administrator's ability to adopt, assign, modify, or terminate an IP license.**

A strong majority of Groups (27) indicate that the administrator has the ability to adopt or terminate an IP license. However, many jurisdictions limit this ability or the effects thereof in various ways. For example, in Canada, if the debtor is subject to Proposal proceedings or to proceedings under the Companies' Creditors Arrangement Act and disclaims an IP license agreement, the licensee retains its rights to use the IP, so long as it continues to perform its obligations under the agreement that relate to use of the licensed IP. Sections 65.11(7) in the BIA and s. 32(6) in the CCAA both contain identical text:

If the company has granted a right to use intellectual property to a party to an agreement, the disclaimer or resiliation does not affect the party's right to use the intellectual property — including the party's right to enforce an exclusive use — during the term of the agreement, including any period for which the party extends the agreement as of right, as long as the party continues to perform its obligations under the agreement in relation to the use of the intellectual property.

In the United States, the administrator's ability to assume, assign, or reject an IP license is regulated by statute. Generally speaking, 11 U.S.C. § 365 controls the rights of parties to an executory contract involved in a bankruptcy. An IP license is considered one type of executory contract falling within this statute. Section 365(n) defines the rights of the bankruptcy administrator specifically with regard to an IP license. The law permits the bankruptcy administrator, acting on behalf of the debtor, three options with regard to executory contracts of the bankrupt party. Subject to the approval of court, the trustee in bankruptcy appointed by the court may: assume (i.e., continue) performance under the contract (if assumable); assume and then assign the contract (if assignable), or reject (i.e., terminate) the executory contract.

Although in the United States a debtor has the right to terminate a license in bankruptcy, section 365(n) provides an option to the Licensee to retain certain rights under the license in the event the court approves rejection of a license by a debtor-Licensor. In the case of rejection, the Licensee can either treat the rejection as a breach giving rise to money damages under section 365(g), as with other rejected contracts, or retain the IP rights granted under the license. The debtor's ability to assign its rights under an executory contract is not unconditional. Under federal common law, IP licenses are treated in a manner similar to contracts for personal services. In the case where the Licensee is the bankrupt party, it may not assign its rights under a non–exclusive patent, copyright or trademark license without the Licensor's consent. If the Licensor is the bankrupt party, it can assign only if it assumes the license and provides adequate assurance of Assignee's future performance under the contract. With regard to assignment of a license, under section 365(f) most contracts can be assumed and assigned irrespective of whether the contract itself restricts assignment. The main exception to this rule is set forth in section 365(c). Under this section, even if the contract does not contain a clause restricting assignment, the debtor cannot assign the contract if the other party to the contract would not be required to accept performance from an entity other than the debtor.

Illustrating another approach, in Denmark the general rule is the debtor under restructuring as well as a bankruptcy estate are bound by the agreements that the debtor has entered into prior to commencement of the insolvency proceedings. However, three important exceptions exist to this general rule:

• The debtor under restructuring (with the consent of the supervisor) and the trustee have the right to choose whether to adopt or reject any reciprocal agreements that have not been fulfilled by both contractual parties at the commencement of the insolvency proceedings, cf. s. 12 o. and s. 55 of the Bankruptcy Act

• The debtor under restructuring (with the consent of the supervisor) and the trustee have the right to terminate ongoing contracts that have been adopted with a notice period of 1 month. Contracts that have not been adopted can be terminated with a "reasonable" notice irrespective of any longer notice periods that may have been agreed upon or any interminability, provided that the agreed notice period or interminability has not been officially registered as a restriction on the debtor (e.g. in the Registry of Persons)

• In the event the agreement can be considered as a preferential treatment of one creditor to the detriment of the others, as a gift to connected individuals or entities or in general as fraudulently detrimental to the general body of creditors the agreement can be set aside if certain conditions are fulfilled, hereunder that the agreement has been made three to six months before the onset of insolvency.

Of the Groups reporting an ability of the administrator to adopt or reject an IP license, almost all indicate that this is a “yes or no” decision, without the ability to modify the contract. In Norway, the administrator may have some ability to modify a license, but the administrator must respect the terms of the debtor's existing contracts and may not modify the terms of the debtor's contracts in a way that would extend the contractual rights of the debtor vis-à-vis the counterparties, unless the contract itself allows this. For instance, if a license is exclusive and not subject to sublicensing, the administrator must respect this and will not able to split up the license into several sub-licenses.

The Group Reports from Argentina, the Caribbean Regional Group (Dominican Republic Law), and the Philippines indicate that in bankruptcy or liquidation, IP licenses would be terminated. For example, the Philippines Group explains that during Rehabilitation Proceedings the Administrator’s ability to adopt, assign, modify, or terminate an IP license will depend on an approved Rehabilitation plan. On the other hand, during liquidation, all contracts of the debtor shall be deemed terminated and/or breached, unless the liquidator, within 90 days from the date of his assumption of office, declares otherwise and the contracting party agrees. A similar situation is reported by the Argentine Group: in the case of a voluntary reorganization proceeding, the debtor keeps the management of the company with the supervision of a trustee. In the case of bankruptcy, the contracts are terminated since the company has become insolvent.

The Group Reports from Egypt and Mexico indicate that IP licenses would be enforced in bankruptcy or insolvency proceedings. In Egypt, for example, a declaration of bankruptcy does not terminate IP agreements, and the Administrator shall continue to implement the license as part of the duty to administrate and preserve all assets of the debtor. The Mexican Group explains, in general, insolvency proceedings will not affect validity of the agreements that are not “patrimonial or relative to assets or rights under the control or administration of the company”. This means that IP licenses may be affected depending on the use that the IP is given at the moment of the proceeding and depending on whether the insolvent company is licensor or licensee, although this is not expressly stated in the law but only for cases related to leasing of physical assets. Furthermore, those assets that have not been assigned to the insolvent party but are in possession or use of the insolvent party can be separated and returned to the owner, which could be interpreted in the sense that in the case of insolvency of licensees, the agreements may be terminated and the rights “returned” to the owner.

The Group Report from Paraguay explains that the trustee, acting as administrator, does not have authority on its own to terminate any bilateral contract. Licenses fall into that category. Additionally, article 93 of the Bankruptcy law stipulates that: i) declaration of bankruptcy does not terminate by itself the bilateral contracts; ii) bilateral contracts can be carried on by the trustee with the judge's approval; iii) the party that has contracted with the debtor declared in bankruptcy can require from the trustee if it will comply or terminate the contract; iv) in case of silence of the trustee, within the deadline stipulated by the judge (no more than 30 days), the contract will be deemed terminated. Therefore, as a general rule respecting these provisions, the trustee or administrator could decide anything subject to the judge's approval.

b. Are equitable or public policy considerations relevant to how an IP license is treated?

The responding Groups were almost evenly split in the answers to this question. 18 Groups (Belgium, Bulgaria, Canada, the Caribbean Regional Group, Denmark, Egypt, Estonia, Finland, Germany, Hungary, Mexico, Peru, Spain, Sweden, Turkey, Ukraine, the U.K., and Uruguay) reported that equitable and public policy considerations play no role in how an IP license is treated in bankruptcy or insolvency. 16 Groups (Argentina, Austria, China, France, Malaysia, Netherlands, Norway, Paraguay, Philippines, Portugal, Republic of Korea, Romania, Singapore, Switzerland, and the U.S.) reported that these considerations may be relevant, at least in limited circumstances. The Italian and Japanese Groups noted that public policy considerations underlie their bankruptcy laws.

c. Is the law different for different types of bankruptcy and insolvency proceedings in your country?

A majority of 20 Groups (Argentina, Austria, Bulgaria, Canada, the Caribbean Regional Group (El Salvador law) China, Germany, Hungary, Malaysia, Mexico, the Netherlands, Paraguay, Portugal, Korea, Romania, Singapore, Spain, Turkey, Ukraine, and Uruguay) reported that the law controlling an Administrator's treatment of IP licenses does not depend on the type of bankruptcy or insolvency proceeding. 12 Groups (Belgium, Brazil, Egypt, Finland, France, Italy, Japan, Peru, Philippines, Sweden, Switzerland, and the U.K.) reported that the Administrator's treatment of IP licenses would, in at least some instances, depend on the type of proceedings. For example, the Belgian Group explained that in bankruptcy proceedings it is in principle the choice of the Administrator to perform or terminate an ongoing IP license (subject to several exceptions). However, the Belgian law regulating judicial reorganization does not contain a provision similar to the Bankruptcy Act allowing the Administrator to terminate. The Swiss Group notes that while there is no different treatment for IP license agreements in bankruptcy or composition proceedings under Swiss law, within composition proceedings the debtor has the right to immediately terminate the license agreements if this is necessary in order to achieve the debtor's reorganization.

The Report from the Danish Group notes that although the rules in the Bankruptcy Act distinguish between restructuring and bankruptcy, to a wide extent the rules applicable to bankruptcy proceedings in respect to the avoidance provisions and treatment of reciprocal and ongoing contracts are also applicable to restructuring. The U.S. Group reports that while the law is the same regardless of the type of bankruptcy proceeding, such as Chapter 7 liquidation or Chapter 11 reorganization, the timelines for determining whether to assume or reject an IP license are different and the outcomes may be different depending on whether the insolvent company is being reorganized or liquidated.

d. Does the law require, or give preference to, IP licenses that have been registered according to a registration scheme?

A strong majority (24) of responding Groups indicate that their law does not require, or give preference to, IP licenses that have been registered under a registration scheme (Argentina, Austria, Brazil (unless so provided in the agreement itself), Bulgaria, Canada, Caribbean Regional Group, China, Denmark, Estonia, France, Germany, Hungary, Italy, Malaysia, the Netherlands, Paraguay, Peru, Romania, Spain, Sweden, Ukraine, the U.K., Uruguay, and the U.S.). 12 Groups reported that registration is required, or that preference would be given to registered IP licenses in at least some situations (Belgium, Egypt, Finland, Japan, Mexico, Norway, Philippines, Portugal, Republic of Korea, Singapore, Switzerland, and Turkey).

e. Would the existence of a pledge of or security interest in the IP rights for the benefit of the licensee affect application of the law in the case of an insolvent licensor?

Nine Groups report that the existence of a pledge or security interest in the IP rights for the benefit of the licensee is either not possible, or has no effect on application of the law if the licensor is insolvent (Argentina, Denmark, Japan, Malaysia, Norway, Portugal, Romania, the U.K., and Uruguay). 25 Groups indicate that such a pledge or security interest would have an effect in at least some situations (Austria, Belgium, Brazil, Bulgaria, Canada, Caribbean Regional Group, China, Egypt, Estonia, Finland, Germany, Hungary, Italy, Mexico, the Netherlands, Paraguay, Peru, Philippines, Singapore, Spain, Sweden, Switzerland, Turkey, Ukraine, and the U.S.). The most common effect noted is the existence of a preferential claim during the bankruptcy. The Groups from Egypt, Finland, Hungary, and Mexico note that this effect is realized only if the pledge or security interest is registered. The French Group notes that it is not clear whether a licensee can benefit from a pledge over an IP right. The Report from the Republic of Korea similarly notes that it is not clear if a benefit would be obtained from a pledge: it may affect the priority of claims but in general would not affect the application of the law *per se*.

f. Is the law limited to or applied differently among certain types of IP rights (e.g., patents versus trademarks or copyrights)? If yes, please explain.

The responses to this sub-questions were divided between those Groups where there is no difference in application of the law depending on the type of IP right (21 Groups: Argentina, Brazil, Bulgaria, Canada, China, Egypt, Estonia, France, Malaysia, Paraguay, Peru, Philippines, Portugal, Republic of Korea, Romania, Singapore, Spain, Ukraine, the U.K., Uruguay, and Venezuela) and those where there is at least some difference (15 Groups: Austria, Belgium, Caribbean Regional Group, Denmark, Finland, Germany, Hungary, Italy, Japan, Mexico, Netherlands, Sweden, Switzerland, Turkey, and the U.S.). Of the Groups where there is some difference in application of the law depending on the type of IP right, in almost all cases this is limited to copyrights, publishing contracts, or other personal rights that are not subject to seizure in those jurisdictions. The Caribbean Regional Group notes that in El Salvador, treatment for trademarks is different from the treatment for patents.

The Japanese Group explains the situation as follows:

The bankruptcy administrator may not cancel a license agreement on a patent, utility model, or design because of the provision for registration-free license assertion that was introduced by the amendments in 2011. Since the Trademark Act did not undergo such amendments, the administrator may cancel a license agreement on a trademark right unless such license is registered (this is a requirement for duly asserting a license against a third party). In the case of a copyright, a license registration system does not exist and there is no means to meet a requirement for license assertion against a third party (therefore, a license agreement may be cancelled by the administrator). However, as to a publication right based on copyright, there is a system for registration. The administrator may not cancel an agreement on a publication right when the requirement for license assertion is met by registration.

The U.S. Group reports different treatment for trademarks, foreign patents, and foreign copyrights:

The Intellectual Property Bankruptcy Protection Act at 11 U.S.C. § 365(n) specifically addresses the effect of bankruptcies on contracts concerning IP rights. However, it should be noted that this section applies only to licenses of "intellectual property" as that term is defined in the Bankruptcy Code. "Intellectual Property" is defined in 11 U.S.C. § 101 as including patents, copyrights, trade secrets and semi–conductor chip mask works. It does not include trademarks, foreign patents or foreign copyrights.

g. Does the law apply differently to sub-licenses versus "main" licenses?

All of the responding Groups replied to this sub-question in the negative, with the exception of China, Sweden, and the U.S. The Chinese Group notes that in the case of an insolvent licensor, a sub-license should be a separate independent contract that should not be involved directly into the bankruptcy proceedings, though the existing practicability of the sub-license depends on the validity of the master license. Thus, the existence of a sub-license may be used as the excuse for the application of equitable principles in the determination of whether the master license should be terminated.

The Swedish Group explains as follows:

Even if not established in statutory or case law, an IP license will presumable be handled in the same way if the licensee or sub-licensee goes bankrupt. If the sub-licensor (i.e. "main" licensee) goes bankrupt there exists uncertainty as to whether the sub-licensee's license rights will be protected in relation to third parties, such as the licensor, through the license agreement alone. (A "main" licensee's license rights are generally considered to obtain protection in relation to third parties through the license agreement, see the answer to Question 4 a) above.) For the sub-licensee to get protection in relation to third parties for its license rights denunciation of the "main" licensor is likely required, but even then it is not certain that the sub-licensee's license rights will be protected in relation to third parties.

The U.S. Group explains:

The law does not apply to sub-licenses directly. The sub-Licensee and the IP owner do not have a direct contractual relationship, except to the extent that the IP license specifically references the sub-Licensee or the sub-Licensee is a third-party beneficiary of the IP license. Therefore, the sub-Licensee cannot directly participate in the IP owner's bankruptcy. The Licensee/sub-Licensor must assert its own licensed rights vigorously under the "main" license to protect the sub-license.

h. Does the law apply differently to sole or exclusive licenses versus non-exclusive licenses?

All responding Groups except the Caribbean Regional Group (Dominican Republic law), Malaysia, and the U.S. answered this sub-question in the negative, *i.e*., there is no difference in how the law applies to sole or exclusive licenses versus non-exclusive licenses. However, the Belgian Group noted that while the law does not distinguish between these cases, it is clear that depending on the sole, exclusive or non-exclusive character of the license, the license agreement will be of a different value to the administrator from an economic point of view. This in turn will influence the way in which the administrator will deal with the contract, taking into account the choice given to him by Article 46 of the Bankruptcy Act. The Brazilian Group explained that although the law does not differentiate, there are certain arguments that may be stronger in the context of an exclusive license. For example, an exclusive licensee or the exclusive licensor may have better chances to demand the termination of the exclusive license agreement due to the bankruptcy of the other party, because it would be possible to allege that the maintenance of the exclusive licensing relationship may cause greater damages than the maintenance of a non-exclusive relationship. The Danish Group notes that the exclusive or non-exclusive nature of the license may be of relevance when assessing the estate's general right to adopt the license agreement.

The Caribbean Regional Group reports that, under the law of the Dominican Republic, in the case of a properly registered exclusive license, the agreement may only be terminated for a just cause, *i.e.,* defiance to an essential obligation or for action or omission that affects or may affect the concessionaire; prohibition to unilateral termination of the agreement; prohibition to unilateral rejection to renew the contract; the person receiving the license has an indemnity right when the agreement is terminated without just cause; the person receiving the license has the right to prevent the importation of the products covered in the agreement; among others.

The Malaysian Group explains that there is a difference between exclusive and non-exclusive licenses in the case of copyrights:

The law applies similarly to both with the exception for copyright licenses. For sole or exclusive licenses, the exclusive licensee has the same rights of action and is entitled to the same remedies as her would have if the license had been an assignment, and the exclusive licensee's rights and remedies are concurrent with the rights and remedies of the owner of the copyright. For non-exclusive licenses, the non-exclusive licensee has a right of action provided that he joins the owner of the copyright.

The U.S. Group answers this question in the affirmative, explaining as follows:

The U.S. courts hold that a bankrupt Licensee cannot transfer its rights in a non-exclusive IP license without the Licensor's consent. The law is less settled on exclusive IP licenses in bankruptcy. The U.S. courts have noted that exclusive licensees have quasi- ownership *rights in the licensed property because they can prevent the Licensor itself from using it. Some courts hold that these rights are sufficient to allow the Licensee to transfer the license without obtaining consent. The majority view, however, is that an exclusive Licensee is still not the IP owner and, therefore, needs the IP owner's consent to transfer its license in bankruptcy.*

i. Does the law apply differently if the bankrupt party is the licensee versus the licensor?

A strong majority of responding Groups (30) reported that the law does not distinguish between the licensee and the licensor, although among these Groups both China and Germany noted that there may be practical implications on the outcome depending on which party to a license is in bankruptcy.

The Group Reports from Austria, Brazil, Denmark, Mexico, Portugal, Turkey, and the U.S. indicated that there is a different application of the law depending on which party is in bankruptcy, at least in certain situations. For example, the Report from Denmark explains that a licensor under restructuring or the bankruptcy estate of the licensor is bound by pledges on or security interests given in the IP rights provided that the pledge and/or security has been duly perfected by way of registration in the Registry of Persons. Such pledge or security would not affect the right of the debtor under restructuring or the bankruptcy estate to adopt or reject the IP license. However, the licensee would have the right to terminate the license agreement if the license agreement is rejected.

The Mexican Group explains that, on a case-by-case basis, the law might apply differently due to the fact that the insolvency proceedings will not affect validity of the agreements that are not "patrimonial or relative to assets or rights under the control or administration of the company". The Portuguese Group explains, by analogy to lease contracts:

[I]t is foreseen that if the bankrupt party is the licensee, the declaration of insolvency of the licensee does not suspend the license agreement of IP rights, but the bankruptcy administrator may terminate it with a 60-day notice, if the law or the agreement does not provide a shorter deadline (article 108/1 of the CIRE). In fact, the maintenance of the license agreement may turn out essential for the continuity of the business activity of the insolvent (in case there is agreement from the creditors and recovery measures are adopted). The termination implies the payment of the royalties corresponding to the period of time between the effective date of the termination and the expiry date of the license agreement (article 108 of the CIRE). When the insolvent party is the licensor, the declaration of insolvency does not suspend the license agreement and none of the parties can terminate it before the expiry of the duration of the agreement (article 109/1).

The Turkish Group reports that differences exist for both patent licenses and for licenses of literary and artistic works:

In terms of literary and artistic works as discussed in section (a) of this question there are cases where the license agreement will automatically terminate if the bankrupt party is the licensee. However the license agreement will remain valid if the bankrupt party is the licensor.

On the other hand, regarding patents and in the case of the bankrupt party is the licensee; the licensor may require a security interest in the amount of the licensing royalties to be given to his benefit provided that the patent has not yet been disclosed to the licensee. In *the event that a security interest has not been provided in due course the licensor may refrain from disclosing the patent and/or terminate the license agreement. Within this period either the licensee or the bankruptcy administrator may provide a security interest and become party to the agreement. In the case that the patent has already been disclosed to the licensee, the licensor may request a security interest in the amount of possible current and future royalties. The licensor may terminate the agreement in the case that such security interest is not provided by the licensee or the administrator.*

Whereas in the case of the bankrupt party is the licensor, the licensee may not request that the patent to be disclosed from the bankruptcy administrator provided that the patent has not yet been disclosed to the licensee. Said right of the licensee will be transformed into fiscal credit and will be recorded by the administrator as a credit to the licensee. However it is possible that the bankruptcy administrator decides to continue with the agreement. In the case that the patent has already been disclosed to the licensee, the responsibilities and the debt of the licensee will continue to the bankruptcy administrator.

The U.S. Group also reports differences in application of the law to licensors versus licensees:

A bankrupt Licensor may be given the option to assume (i.e., continue) the license or reject (i.e., terminate) the license. In order to assume the license, the bankrupt Licensor must have cured defaults and be able to show the trustee/court that it will be able to perform under the terms of the license (assurances). If the bankrupt Licensor rejects the license, the license may be treated as terminated. However, under 11 U.S.C. § 365(n), even if the bankrupt Licensor rejects the license, a Licensee can choose to retain its rights including exclusivity provisions, provided they continue making royalty payments. A bankrupt Licensee may unilaterally reject (i.e., terminate) a license. The Licensor cannot prevent the termination, but can then retrieve the IP and seek damages for the termination.

j. Please explain any other pertinent aspects of this law that have not been addressed in the sub-questions above.

The Report from the Netherlands provides the following observations on paid-up licenses and licenses containing milestone payments:

Bankruptcy in the case of fully paid-up license: in some business fields fully paid-up license deals are not unusual. In the case of bankruptcy of the licensor, the licensee's situation under Dutch law is particularly uncertain, as pursuant to the Nebula decision (details of which are set out above), it is not obvious that the liquidator will continue to perform its obligations under the license agreement. As a consequence, licensee's upfront investment may leave it empty-handed upon bankruptcy. Where possible licensees are recommended to structure payment of royalties such that the liquidator, for the benefit of the creditors, has an interest to continue to perform the license.

Bankruptcy after completed milestones by licensee: IP license agreements, for instance in the field of biotechnology and or life sciences, quite often contain financial commitments for the licensee when certain milestones have been met. If such milestones were met shortly before the bankruptcy of the licensee, it will often be difficult for the licensor to collect such milestones, as his claim does not have any precedence over claims from other creditors.

The Portuguese Group notes that the decision of the bankruptcy administrator to maintain or terminate the license agreement should follow the criteria of promoting the conservation and the enhancement of the insolvent's rights, and well as to pursue the economic exploitation, if possible, avoiding deterioration and worsening of the financial situation as much as possible.

According to the Ukraine Group Report, there is a provision for piercing the corporate veil: this law establishes a concept according to which the shareholders along with directors of the debtor may be found secondarily liable before third party creditors of the insolvent party if the assets of the debtor are insufficient to satisfy the creditors' claim in full; and the actions of such director, shareholder or any other person resulted in the debtor's bankruptcy.

The U.K. Group Report makes note of what happens to property that a company still owns when it is liquidated:

Any property that a company still owns when it is liquidated transfers to the Crown under the principle of bona vacantia. As such, if a company still holds an IP right or license when it is liquidated it is possible that the right or license will go to the Crown as bona vacantia. It is possible to restore the company with the consent of the Treasury Solicitor (acting on behalf of the Crown) for the purposes of transferring property still owned by that company at the point of liquidation to a third party. It may also be possible to purchase property from the Crown that has been acquired bona vacantia, again by making an application to the Treasury Solicitor.

5) **Would a choice of law provision in an IP license agreement be considered during a bankruptcy or insolvency proceeding in your country? Is this affected by the nationalities of the parties to the IP license or by the physical location of the assets involved?**

A majority of responding Groups indicate that a choice of law provision in an IP license agreement would either not be considered at all, or would be considered only to the extent it does not conflict with national bankruptcy laws (22 Groups: Austria, Bulgaria, Canada, China, Denmark, Egypt, Estonia, France, Germany, Hungary, Japan, Malaysia, the Netherlands, Norway, Paraguay, Portugal, Romania Singapore, Switzerland, Ukraine, the U.K. (for administrative powers), and the U.S.). However, a significant minority of the Groups indicate that a choice of law provision could be considered, at least to a limited extent (10 Groups: Argentina, Belgium, Finland, Italy, Mexico, Philippines, Republic of Korea, Spain, Sweden (depends on whether the Administrator adopts the contract), and Turkey). Physical location of assets would be considered important according to the Group Reports from Argentina, China, and Uruguay. The Group Reports from Brazil, Latvia, Peru, and Venezuela indicate that there is no current guidance on this issue in their laws.

6) **Would a clause providing the solvent party in an IP license agreement the right to terminate or alter an IP license be considered enforceable during a bankruptcy or insolvency proceeding in your country? Would the answer be different if the clause provides for automatic termination as opposed to an optional right to terminate?**

The responding Groups indicate a nearly even division in approaches to this question. 18 Groups report that clauses that purport to give the solvent party the right to terminate or alter an IP license after a bankruptcy or insolvency proceeding has commenced would, in general, not be enforceable (Austria, Brazil, Bulgaria, Canada, the Caribbean Regional Group, China, Finland, France, Germany, Hungary, Italy, Paraguay, Portugal, Romania, Spain, Sweden, Uruguay, and the U.S.). 15 Groups report that such clauses would be respected, or at least could have some limited effect (Argentina, Belgium, Denmark, Egypt, Estonia, Latvia, Malaysia, Mexico, the Netherlands, Norway, Singapore, Switzerland, Turkey, Ukraine, and the U.K.). The Japanese Group notes that, although it is currently unclear, such clauses would likely be enforced during liquidation but not during reconstruction. The Group Reports from Peru and Republic of Korea indicate that the law is not currently clear in this area.

7) **Would a clause in an IP license agreement that restricts or prohibits transfer or assignment of the IP license be considered enforceable during a bankruptcy or insolvency proceeding in your country?**

A strong majority of 25 Groups report that a clause that restricts or prohibits transfer or assignment of the IP license would, absent conflict with relevant statutes, be enforceable during a bankruptcy or insolvency proceeding. The Reports from Austria, Italy, the Philippines, and Spain indicate it would depend on whether the license contract was adopted by the Administrator. The Canadian Group reports that it would be a question for the discretion of the court. The Group Reports from Brazil, Bulgaria, France, Switzerland, and the U.S. indicate that such clauses would not be enforceable.

8) **In the event of a transfer or assignment of an IP license resulting from a bankruptcy or insolvency proceeding, what are the rights and obligations between the transferee and the remaining, original party or parties to the IP license? Does it matter if the insolvent party is a licensor, a licensee, or a sub-licensee?**

As noted previously, there are significant differences among the Groups as to when and under what conditions an IP license may be transferred or assigned as the result of a bankruptcy or insolvency proceeding. However, if such an assignment or transfer occurs, those Groups that report having guidance in their laws on this subject are unanimous in stating that the rights and obligations between the transferee and the remaining, original party or parties to the IP license would be those rights and obligations set forth in the license contract.

9) **In the event an IP license is terminated during a bankruptcy or insolvency proceeding in your country, would the licensee be able to continue using the underlying IP rights (and if so, are there any limitations on such use)? Does the (former) licensee have a claim to obtaining a new license?**

A strong majority of Reports (31 Groups) indicate that upon termination of an IP license during a bankruptcy or insolvency proceeding, the licensee would not be able to continue using the underlying IP rights. Only the Group Report from Bulgaria indicates that the former licensee would have a claim to obtaining a new license. The Group Reports from Bulgaria, Canada, Sweden, and the U.S. explain that the former licensee would be able to continue using the underlying IP rights in at least some situations. The Canadian Group explains:

Section 65.11(7) of the BIA and s. 32(6) of the CCAA allow a licensee to retain its rights under the license during the term of the license, so long as it continues to perform its obligations under that license in relation to use of the intellectual property. This includes rights of renewal found in the license and rights to exclusive use found in the license. The licensee would not have a special claim to obtain a new license, if the original license expired.

In a similar fashion, according to the Swedish Group Report:

Irrespective of whether the licensor's administrator enters into the IP license agreement or not, the licensor's bankruptcy does not create any right for the licensor's administrator to terminate the IP license. If the administrator enters into the IP license agreement and terminates the IP license without cause, the licensee would be entitled to continue using the underlying IP rights without any other limitations than the ones set out in the (terminated) IP license agreement.

The U.S. Group Report explains as follows:

Yes, the Licensee can continue using the underlying IP rights, provided they keep to the terms of the license. However, the Licensor is relieved of its warranty, indemnification, and support obligations. An automatic stay arises when a party to a license files for bankruptcy. The stay is in effect until lifted by the court or until the debtor is out of bankruptcy. The other party(ies) to the license cannot terminate the license during the period when the stay is in effect. In fact, terminating a license during a stay may result in being held in contempt. The former Licensee has no right to file a claim for a new license.

The Group Reports from Ukraine and Venezuela indicate there is no guidance on this issue in their national law or that the result would depend on the particular settlement reached in the proceeding.

10) If IP rights that are jointly owned by two parties have been licensed to a licensee by one or both of the joint owners, and one of the joint owners becomes insolvent, how would the IP license be treated in a bankruptcy or insolvency proceeding in your country? Could the IP license be terminated even if this would result in termination of an agreement between the solvent, joint rights owner and the solvent licensee?

Almost all reporting Groups indicate that this situation is not expressly provided for in their national laws, and that general rules of co-ownership of property would apply. In essence, this means, according to most Group Reports, that the IP license would remain in force as between the solvent joint owner and the licensee. The Group Reports from Estonia, Republic of Korea, and Uruguay, however, indicate that the license could be terminated by the bankruptcy Administrator even if this results in termination of a license between two solvent parties. The Korean Group Report explains as follows:

If an IP right is owned jointly, each joint owner of the IP right may not grant an exclusive license or a non-exclusive license of the IP right without the consent of the other joint owners. There is no specific statutory provision that governs how the IP license would be treated in a bankruptcy or insolvency proceedings. In the event that the trustee of the *insolvent licensor exercise its option to cancel the IP license under the Article 335 of DRBA, then the IP license could be terminated since both co-owners' consent is required for grant of IP license of jointly owned IP.*

11) Are there non-statutory based steps that licensors and licensees should consider in your country to protect themselves in insolvency scenarios, e.g., the creation of a dedicated IP holding company, creation of a pledge or security interest in the licensed IP for the benefit of the licensee, registration of the license, and/or inclusion of certain transfer or license clauses?

The Group Reports reflect a wide variety of approaches to this issue. The Reports from Argentina, Bulgaria, Egypt, Malaysia, Peru, and Portugal indicate that non-statutory based steps are likely not useful. Registration is considered useful according to the Reports from Austria, Belgium, Estonia, Hungary, Romania, Spain, Brazil, Finland, and Switzerland. A pledge or security interest in the underlying IP is suggested by the Reports from Canada, the Caribbean Regional Group, China, France, Italy, Philippines, Singapore, Sweden, and Turkey. Termination upon bankruptcy clauses are suggested by Italy, Hungary, and the Netherlands. Escrow of source code, and possibly release upon bankruptcy, are suggested by Belgium, Korea, and the U.S. IP holding companies are considered useful by Denmark, Finland, France, Germany, Switzerland, and Turkey. The Japanese Group Report suggests a prohibition of assignment clause (also suggested by Norway) and a first right of refusal on the IP. The Group Reports from Norway and Sweden recommend pre-bankruptcy termination and/or acquisition of IP clauses in the license.

II. Policy considerations and proposals for improvements to your current system

12) If your country has a registration system for IP licenses, is it considered useful? Is it considered burdensome? Are there aspects of the system that could be improved?

A majority of reporting Groups indicate that their registration systems, whether compulsory or voluntary, are considered useful and not burdensome (26 Groups: Argentina, Austria, Bulgaria, the Caribbean Regional Group, China, Egypt, Estonia, Hungary, Italy, Latvia, Malaysia, Mexico, the Netherlands, Norway, Paraguay, Pery, Philippines, Portugal, Romania, Singapore, Spain, Switzerland, the U.K., the U.S., Uruguay, and Venezuela). The Group Reports from Belgium, Brazil, and the Republic of Korea indicate that their registration systems may be considered burdensome. The Korean Group explains as follows:

The registration system for IP license under the current Korean law may hinder the flexibility of the parties involved especially for licensee as discussed above. In terms of procedural aspect, exclusive licensee are perfected only through registration at the KIPO and for non-exclusive licensee, he or she must register such IP license with the KIPO in order to have a claim against a third party. In terms of substantive aspect of such registration, the parties would be required to disclose the content of the IP license at issue on the registration application and that there would be a need to hold the content thereof confidential. It would be burdensome and counterproductive.

The reports from Sweden and Denmark note that the registration system is neither burdensome nor useful. The Belgian and Italian Groups suggest that the registration process and visibility could be improved. On the other hand, the Group Report from Japan suggests abolishing the registration system.

13) If the law that governs bankruptcy and insolvency proceedings in your country does not address IP rights or IP licenses as distinct from other types of contracts, assets, and property rights, should it do so? If yes, should the law be statutory?

A majority (21) of responding Groups whose law governing bankruptcy and insolvency proceedings does not specifically address IP rights and licenses as distinct from other types of contracts, assets and property rights believe it would be preferable to do so (Belgium, the Caribbean Regional Group, Denmark, Finland, France, Germany, Hungary, Italy, Latvia, Mexico, the Netherlands, Norway, Paraguay, Peru, Republic of Korea, Romania, Singapore, Sweden, Turkey, Ukraine, and Venezuela). Of these, almost all indicate that this should be statutory. The Group Reports from Argentina, Austria, Bulgaria, Japan, Malaysia, Philippines, Portugal, Spain, Switzerland, the U.K., and Uruguay indicate that this is not necessary or desirable.

14) With regard to a bankruptcy administrator's ability to adopt, assign, modify, or terminate an IP license under the current law of your country, are there aspects of this law that could or should be improved to limit this ability? Should equitable or public policy considerations be taken into account?

The Belgian Group notes that in the case of a "chain" of licenses, it would be good to provide a solution for the case where one link of the chain is broken. The Caribbean Regional Group notes that the ability of the Judge to adopt, assign, modify or terminate an IP license must be improved. The Danish group suggests that the powers of the bankruptcy administrator be limited to the effect that a licensee (excluding sub-licensees) – regardless of a decision on part of the bankruptcy estate not to adopt the IP licence agreement or to terminate an IP license – is entitled to continue the license agreement provided that the licensee continues to pay royalty to the estate. The French Group notes that it may be desirable to limit the power of administrator in certain cases in order to take account of considerations pertaining to the nature of the parties, the interests of other parties, and possibly of provisions of competition law or of public policy.

The Hungarian Group would support introduction of equitable legal instruments in favor of licensees, to reduce the risk from the Administrator's ability to terminate the license. The Italian Group similarly would support limitations on the ability of the Receiver. The Report from the Netherlands suggests that the Liquidator should not be able to immediately terminate a license, but rather should be required to observe a period of time during which a licensee would be able to take necessary steps to continue its business. The Report from Paraguay notes that an improvement would be creation of special legislation in the area of bankruptcy, balancing the various interests.

The Peruvian Group suggests that their law should indicate specific topics regarding administrator's ability to adopt, assign, modify or terminate an IP license. These specifications should be based on equitable considerations to keep the balance and guarantee the normal exploitations of IP assets and the payment to those creditors involved in bankruptcy and insolvency proceedings. The Korean Group believes that the Bankruptcy Code should have an explicit provision that governs a bankruptcy administrator's ability to exercise its option on treatment of an IP license during an insolvency or bankruptcy proceeding, such as the ability to adopt, assign, modify or terminate. The Singapore Group Report suggests there could be more guidance provided by the courts or Parliament as to the extent of the liquidator's power to disclaim the unprofitable contracts or onerous property. This would help liquidators when they exercise their discretion in dealing with such issues, and also enable parties to better predict what could happen in the event of licensor insolvency. The Report from Sweden suggests the need for clear rules to allow predictability in negotiating license agreements. The Turkish Group suggests that the Administrator's power should be reconsidered taking into consideration the interest of the creditors and general equity principles and rights of licensees.

15) Are there other changes to the law in your country that you believe would be advisable to protect IP licenses in bankruptcy? If yes, please explain.

The Canadian Group notes that it would be desirable to close the gap between federal and provincial legislation, *i.e.*, to include in provisional legislation language that parallels the provisions relating to IP licenses that exist in the federal bankruptcy laws. The French Group suggests that rights of pre-emption, of preferential allocation or of court-ordered IP licenses in favor of the licensee should be strengthened. The Hungarian Group also suggests a statutory pre-emption right for registered IP license holders in case of the insolvency of the IP owner. The Report notes that if there are several registered licensees (non-exclusive licence), and they are exercising the pre-emption right simultaneously, they will become joint holders of the IP right in equal ratio, and all of them could exploit the IP right, without payment of any remuneration to the other right-holder(s) who acquired the interest in the IP right as former licensee.

The Latvian Group recommends as follows:

In addition to necessity to introduce a mandatory registration system for all IP licence contracts and a special statutory regulation in the Insolvency Act, there should be adopted also a specific regulation of other insolvency aspects of IP licences as well. First, it should be provided a right of a solvent party to a licence contract unilaterally withdraw from that contract if other party is declared insolvent (which usually ends with bankruptcy and liquidation in Latvia). Second, it should be provided a regulation for protection of rights of other parties to a licence contract if a licence contract is continued by an administrator during insolvency proceedings.

The Spanish Group suggests that an option should be expressly granted to the licensee to acquire the IP rights (if possible) or, alternatively, to continue as a licensee, at least until the regular termination of the contract. In this sense the licensee would not be forced to lose the investments made for the exploitation of the licensed IP rights. The Turkish Group suggests that the Administrator should be allowed to modify and adapt the contracts in bankruptcy proceedings while considering equitable principles.

III. Proposals for substantive harmonization

The Groups were invited to put forward proposals for the adoption of harmonised laws in relation to treatment of IP licenses in bankruptcy and insolvency proceedings. More specifically, the Groups were invited to answer the following questions *without* regard to their existing national laws.

16) Is harmonization of laws relating to treatment of IP licensing in bankruptcy and insolvency proceedings desirable?

All responding Groups answered this question in the affirmative except Portugal and Uruguay. The Portuguese Group noted that the insolvency proceedings in Portugal have been recently object of amendment which made them considerably faster and effective and, in that sense, it does not seem to be necessary or desirable to take measures for harmonization purposes.

17) Please provide a standard that you consider to be best in each of the following areas:

a. What restrictions, if any, should be placed on a bankruptcy administrator's ability to adopt, assign, modify, or terminate an IP license in the event of bankruptcy of a party to that license? Should these restrictions be statutory?

The Group Reports from Argentina, China, Egypt, Germany, Hungary, Japan, Mexico, the Netherlands, and Republic of Korea support generally strict limitations on the Administrator's power to modify or terminate an IP license, emphasizing the importance of the language of the license contract itself. The Chinese Group suggests five restrictions:

Suggested restriction 1:

In case of insolvent licensor, the law should restrict or even prohibit the Administrator to terminate the license, but allow the Debtor to assign the licensed IP, and make it clear that the relevant licensee shall honour its contractual obligations with the assignee of the IP rights of the insolvent licensor.

Suggested restriction 2:

In case of lump-sum-royalty license, the ability of the Administrator of the insolvent licensor to terminate the license should be restricted to the condition that the relevant licensee fails to pay the full amount of contractual royalty.

Suggested restriction 3:

In case of running-royalty arrangement with sub-licensee(s), the Administrator of the insolvent licensor should be restricted to terminate the master license, provided that the sub-licensee(s) would and could continue to honour the sub-license.

Suggested restriction 4:

In case of paid-up lump-sum-royalty license, if the licensee gets bankrupted, the Administrator is banned to terminate the license to the detriment to the Creditors' interests. If the Administrator decides to adopt the license, the law may restrict the licensor who has got the full consideration under the license to terminate the license, and make it clear its obligation to guarantee the continued use of the licensed IPR by either the insolvent licensee or its assignee.

Suggested restriction 5:

In case of running-royalty-bearing IP license, the insolvent licensor should be restricted from terminating the license, especially, when the licensee has put into lots of money for the exploit of the licensed IP rights.

The Group Reports from Canada, Finland, France, Latvia, Norway, Philippines, Portugal, Turkey and the U.S. in general are in support of allowing the Administrator to elect to adopt or terminate an IP license, subject to reasonable restrictions. The Reports from Sweden, Switzerland, Ukraine, and Uruguay suggest that a case-by-case determination is best and restrictions should not be put in place that would impede the discretion of the Administrator.

b. With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon pre-bankruptcy registration of the IP license?

A strong majority of responding Groups (20 Groups: Argentina, the Caribbean Regional Group, China, Denmark, Egypt, Finland, France, Germany, Japan, Mexico, the Netherlands, Norway, Republic of Korea, Romania, Singapore, Spain, Sweden, Turkey, the U.K., and the U.S.) indicate that any such restrictions should not depend upon pre-bankruptcy registration of the IP license. The Group Reports from Hungary, Italy, Paraguay, Peru, and Portugal suggest that such restrictions should indeed depend upon registration.

c. With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the bankrupt party is the licensor or a licensee?

A majority of responding Groups believe the restrictions should depend upon which party is insolvent (13 Groups: Canada, China, Denmark, France, Germany, Hungary, Italy, the Netherlands, Norway, Paraguay, Republic of Korea, Singapore, and the U.S.). The commonly expressed desire is to provide reasonable protection to an innocent licensee from an insolvent licensor. For example, the Canadian Group notes, if the bankruptcy party is a licensor, then the bankruptcy administrator's power over the bankrupt licensor's contracts could imperil the rights of an innocent licensee, and potentially many other sub-licensees. Arguably, restrictions on a bankruptcy administrator's powers to end or alter contracts should consider the interests of the innocent licensee. Nine Groups suggest that it should make no difference to the restrictions which party to the license is insolvent (Argentina, the Caribbean Regional Group, Egypt, Finland, Peru, Portugal, Romania, Sweden, and the U.K.).

d. With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the licensee has a security interest in the underlying IP rights?

A majority (16) of the responding Groups indicate that such restrictions should not depend on the existence of a security interest (Argentina, Denmark, Egypt, Finland, France, Hungary, Malaysia, the Netherlands, Norway, Paraguay, Republic of Korea, Romania, Singapore, Spain, Sweden, and the U.K.). Ten of the responding Groups believe that the restrictions should, at least to some degree, be affected by the existence of a security interest (Canada, the Caribbean Regional Group, China, Germany, Italy, Japan (affecting the ability to assign or modify *only*), Peru, Portugal, Turkey, and the U.S.).

e. With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the license is a sub-license or a "main" license?

All responding Groups other than the U.S. indicate that it should make no difference to the restrictions whether the license is a sub-license or a "main" license. The U.S. Group notes:

Similar to rejection of a sublease under 11 U.S.C. § 365(h), the rejection of a license and sublicense by a debtor-sub-Licensor should not necessarily extinguish the rights of a non-debtor sub-Licensee in the license. Instead, the various rights and obligations of the non-debtor Licensor and the non-debtor sub-Licensee should be adjudicated according to applicable non-bankruptcy law. Regarding a debtor-Licensor, only the sub-Licensor should be able to assert rights under section 11 U.S.C. § 365(n). The sub-Licensee should be obligated to rely upon the efforts of the sub-Licensor.

f. With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the license is sole, exclusive or non-exclusive?

All responding Groups other than China and Italy indicate that such restrictions should not depend on whether a license is exclusive or non-exclusive. The Italian Group explains that restrictions should be proportionate to the fact that the license is exclusive, sole or non-exclusive in the sense that, for example, if the license is exclusive and the bankrupt party is the licensor, restrictions should be higher. The exclusive licensee should have greater protection. The Chinese Group provided detailed comments on this sub-question:

Insolvent licensor in an exclusive or sole license:
If the licensee has paid up the full amount of lump-sum royalties, the license should not be terminated; and the licensee should have the right to continue the exploitation of the licensed IP rights which may be assigned to certain Creditor or others.
Nevertheless, in a sole license, the assignee of the licensed IP rights is entitled to make use of the licensed subject matter instead of the insolvent licensor. If the assignee has no capability to exploit the licensed subject matter, it may give license to a third party, based upon certain limitations, e.g. the potential third party licensee should be in a production scale equal or similar to that of the insolvent licensor, or at least not bigger than the insolvent licensor. The law is better to say something on the situation if the insolvent licensor has never exploited the licensed IP rights.

Insolvent licensee in an exclusive or sole license:
In case of lump-sum royalty arrangement, if the insolvent licensee has fully paid up the license fees, it should be entitled to assign the right to use the licensed IP to a creditor in an equivalent credit, or to a third party who would like to pay certain monetary consideration to the Administrator. If the insolvent licensee fails to find a contractual assignee to continue the license, it may terminate the license and claim the possible return of part of the paid-up royalty, based upon equitable principle. It is advisable to regulate something on the situation.

Insolvent licensor in a non-exclusive license:

If the licensee has paid up full amount of lump-sum royalties, the law should restrict the Administrator's ability to terminate the license, unless the licensee agrees to the termination and claim damages.
In case of running-royalty payment, it is better for the insolvent licensor not to terminate the license and the Administrator decides to transfer the entitlement to the licensed IP rights to a Creditor or somebody else who would like to pay consideration that is acceptable to the Administrator.

Insolvent licensee in a non-exclusive license:
In case of lump-sum payment, the law should allow the insolvent licensee to assign the license and restrict the licensor's right to terminate, provided that the licensor may require sort of performance guarantee by the assignee licensee. In case of running-royalty arrangement, the administrator may terminate the license, which will do not much harm to the licensor who may claim against the insolvent licensee based upon the breach of contract, if it prefers to do that.

g. With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon the type or types of IP rights that are licensed in the IP license?

A strong majority (22) of responding Groups indicate that such restrictions should not depend on the type of IP rights that are licensed. Of these, the French and Swedish Groups note that the restrictions should be the same but more important in the case of copyright or personal works. The Reports from the Caribbean Regional Group (El Salvador law), China, Italy, and Paraguay suggest that the restrictions should be different depending upon the type of right involved.

h. With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon equitable or public policy considerations?

A slight majority of responding Groups indicate that such restrictions should not depend on equitable or public policy considerations (13 Groups: Argentina, the Caribbean Regional Group, Denmark, Finland, Germany, Hungary, Norway, Republic of Korea, Romania, Sweden, Turkey, Ukraine, and the U.K.). The U.K. Group notes that insolvency law is largely statute-based and is therefore influenced by equitable and public policy considerations at the legislative stage. To the extent that any such restrictions exist, the application of them should not be dependent on the individual proceedings administrator's discretion to enforce the need for certainty in insolvency law.

12 Groups (Canada, China, Egypt, France, Italy, Japan, Mexico, the Netherlands, Paraguay, Peru, Singapore, and the U.S.) indicate that equitable or public policy considerations should indeed be taken into account to properly balance the rights of the solvent and insolvent parties.

i. **With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon the language of the license itself, e.g., a right to terminate upon insolvency or a prohibition against assignment?**

12 Groups suggest that such restrictions should not depend on the language of the license itself (Argentina, Denmark, France, Germany, Hungary, the Netherlands, Norway, Republic of Korea, Romania, Singapore, Spain, and Sweden). The Reports from Finland, Japan, Italy, and the U.S. suggest that clauses attempting to terminate upon insolvency should not be enforceable, but clauses prohibiting assignment (or modification, in the case of the Japanese Group) should be enforced. The Group Reports from Canada, the Caribbean Regional Group, China, Malaysia, Paraguay, Portugal, Turkey, and the U.K. suggest that contractual provisions are one factor to be considered (in the case of the U.K. Report, to be considered as much as possible). The Reports from Egypt and Mexico indicate that the contractual language should be paramount.

j. **In the event a bankruptcy or insolvency proceeding in your country involves treatment of an IP license between a domestic entity and a foreign entity, which national bankruptcy laws should be applied? Should this depend on the choice of law clause in the IP license? Should this depend on the physical location of the entities or the assets involved?**

Almost all responding Groups indicate that the bankruptcy law where the process is commenced – the domicile of the insolvent party – should be applied. However, in the event that an IP license includes a choice of law clause, the Group Reports from Canada, Finland, the U.K. and the U.S. indicate that foreign law could be applied during such a proceeding, for example to construction of contract terms, so long as it does not contradict domestic bankruptcy law. The Group Reports from Egypt and Uruguay indicate that the location of the assets in question would be determinative. The Reports from Argentina, the Caribbean Regional Group, and Mexico indicate that a choice of law clause would control.

18) **To the extent not already stated above, please propose any other standards that you believe would be appropriate for harmonization of laws relating to treatment of IP licenses in bankruptcy and insolvency proceedings.**

The Report from the Caribbean Regional Group suggests:

Mainly treating IP rights differently than other assets, considering the economic value of the affected IP rights, protecting the bankrupt owner and licensor against the licensee that would like to profit from the IP right once the agreement is terminated, freedom to decide (either by the owner itself or via the administrator) what to do with the IP right especially *when the liquidation is imminent, mandatory public record of liquidated companies that used to hold IP rights (establishing if the right ceased or continues through another owner).*

The French Group provides the following suggestions:

1. In the case of a jointly owned IP right, the question arises of what would be the effect of a bankruptcy or insolvency proceeding opened against a joint owner on the licenses granted by the latter. The Working Group considers that the existence of joint ownership should not alter the way in which the licenses are dealt with. The administrator or the liquidator should be able to continue or terminate the licenses under the normal conditions. In the event of a court-ordered assignment of the share of the IP right licensed, the licenses should be dealt with in the same way as for a right held by one single proprietor.

2. In the event of termination of the IP license by the administrator or liquidator, the question arises of whether the licensee must be compensated and, if so, subject to what conditions. It would seem equitable to the Working Group for the licensee whose license is unilaterally terminated in a bankruptcy or insolvency proceeding to be compensated by the awarding of damages. Given that, in principle, the licensor is insolvent, the question arises of how highly this debt of damages owed should rank in terms of priority. The Working Group considers that it should rank higher than debts that came into being before the opening of the bankruptcy or insolvency proceeding and should benefit of an equal ranking with the debts that come into being during the proceeding for operating purposes.

3. In the event of IP licenses being granted, or even IP rights being assigned, during a period prior to the opening of a bankruptcy or insolvency proceeding, the Working Group considers that they should be able to be challenged in accordance with the principle of agreements being null and void during the "hardening period" recognized in French law (see question 11).

The German Group Report notes,

A balanced rule for license contracts should take heed of three requirements:

1. A rule on licenses in insolvency has to reflect the purpose of the rule, namely to protect the full contractual relationship as the basis of considerable investments and future business plans.

2. The administrator's right to terminate the license contract based on the right holder's / licensor's insolvency should be abolished. The interest of the estate is sufficiently protected by the fact that a license contract is no impediment for transfer of the IPR.

3. The financial interest of the estate can (and should) be protected according to the general rules on termination of contract and / or change of circumstances, allowing for a modification of the license contract if its conditions are grossly undue.

The Spanish Group suggests the following:

We consider that it would be interesting for the protection of the productive network and a better balance in the positions of the parties, to understand that, in the event of bankruptcy insolvency of one of the parties, IP licenses should be considered intuitu personae contracts. Therefore, it can be solved once the declaration of insolvency occurs, although not before that. A special provision in the special laws of trademarks, patents and design would clear the hurdle of the forecast against the Law on Insolvency, as in Spain happens.

The Swedish Group notes that a licensee should be granted the same protection under a licensor's bankruptcy as in the situation that a pledge of an IP right is made after the license is granted. A license should be deemed to have effect in rem from the date of which the relevant license agreement was concluded. The Swiss Group suggests in particular that decisions in bankruptcy and insolvency proceedings in one country should be recognized in other countries.

The Groups were invited to comment on any additional issues concerning any aspect of IP law and insolvency that they deem relevant.

IV. Conclusions

The Group Reports reflect a wide variety of approaches to bankruptcy and insolvency proceedings. The Group Reports also reflect a wide range of opinions as to whether, how, and the degree to which an Administrator’s abilities to adopt, assign, modify, or terminate an IP license should be restricted. Areas of at least some consensus include such restrictions not being dependent upon: registration of the license; the type of license; the type of IP rights involved, or the existence of a security interest.

Given the above, issues to be debated in the Working Committee should include, *inter alia*:

1) Whether a general statement in support of harmonization of laws governing treatment of IP licenses during bankruptcy and insolvency proceedings can be reached;
2) Under what conditions an Administrator in a bankruptcy or insolvency proceeding may terminate an IP license agreement;
3) Under what conditions an Administrator in a bankruptcy or insolvency proceeding may assign an IP license agreement, the effect of contractual provisions relating to assignment, and the impact of the type of IP involved (*e.g.,* copyright);
4) Under what conditions an Administrator in a bankruptcy or insolvency proceeding may modify an IP license agreement in the interest of the bankrupt estate; and
5) The degree, if any, to which a pledge or security interest affects the ability of the Administrator to adopt or terminate a license.