INSOL International

The Protection of Intellectual Property Rights in Insolvency Proceedings

November 2017

The Protection of Intellectual Property Rights in Insolvency Proceedings

INSOL International
6-7 Queen Street, London, EC4N 1SP
Tel: +44 (0) 20 7248 3333 Fax: +44 (0) 20 7248 3384

Acknowledgement

INSOL International is very pleased to publish a Special Report titled "The Protection of Intellectual Property Rights in Insolvency Proceedings" by Rick Chesley and Oksana Koltko Rosaluk, DLA Piper LLP (US) and Joe Riches, DLA Piper (UK) LLP, with contributions from various colleagues in the DLA Piper offices globally.

Considering the important role intellectual property plays in the current global economy, it is surprising to find, as this Report demonstrates, that the treatment of intellectual property rights in insolvency proceedings is so underdeveloped in insolvency laws around the world. With the exception of the US, Canada and Japan, none of the countries covered in this report have detailed insolvency provisions dealing specifically with the effect of insolvency proceedings on intellectual property rights.

This excellent report analyses the manner in which 12 different jurisdictions around the world approach the issue of protection of intellectual property rights in insolvency proceedings. It draws on this analysis to recommend that more should be done to address the protection of intellectual property rights in insolvency proceedings. There is no doubt that this report will achieve its objective of stimulating discussion and debate with a view to developing better approaches to the protection of intellectual property rights in insolvency proceedings in future.

INSOL International sincerely thanks the DLA Piper team for this Special Report and Rick Chesley specifically for leading this technical project and bringing it to a conclusion by providing this excellent Special Report.

November 2017

The Protection of Intellectual Property Rights in Insolvency Proceedings

By
Richard (Rick) Chesley, DLA Piper LLP (US), Chicago, United States of America[*]
Oksana Koltko Rosaluk, DLA Piper LLP (US), Chicago, United States of America[**]
Joe Riches, DLA Piper (UK) LLP, London, United Kingdom[***]

Introduction[1]

While legal constructs of patent, trademark, copyright, and other intellectual property rights are widely recognized throughout both the developed and developing economies, rapid expansion regarding the use and marketing of these rights, in particular through the licensing of intellectual property, has had an increasingly significant impact upon the global economy. In fact, today, countless billions of dollars are invested in intellectual property rights, including the purchase, sale and, perhaps most critically, licensing of intellectual property rights. The significant codependency between intellectual property licensors and licensees prompts a greater need for a heightened level of legal protection of this burgeoning economy. Moreover, with mounting economic challenges in a number of market sectors that are increasingly reliant on intellectual property, including retail, technology and media, as well as significant political changes – such as Brexit, border security and tensions in foreign trade (including the world's largest trading relationship, United States–China) – the treatment of intellectual property rights in insolvency proceedings is becoming increasingly critical in both working to restructure and recapitalize struggling businesses and maximizing the value of these assets in the distressed sale environment.

With no global substantive legal framework dealing with intellectual property rights, participants in the global intellectual property industry are relegated to relying upon local laws. Based on the review of the national laws of the jurisdictions discussed in this Report, a number of legal regimes have attempted (with varying degrees of success) to formulate approaches to deal with the complex issues surrounding intellectual property rights in insolvency proceedings. Indeed, a review of a number of the insolvency regimes reveals a wide variety of (and often radically different) approaches with respect to the treatment of intellectual property rights and, in particular, the licensing of those rights; while some countries afford considerable protections to intellectual property stakeholders, such as licensors and licensees, of their intellectual property rights in the event of insolvency, other jurisdictions are not so protective of these rights. The varied treatment of intellectual property rights across the globe results in inconsistent treatment of intellectual property issues in cross-border insolvencies. While there has been a considerable increase in efforts to streamline cross-border insolvencies, the lack of legislative and regulatory schemes to meaningfully address challenges posed by cross-border intellectual property rights poses

---

[*] Richard Chesley is a Partner and Global Co-Chair of the Restructuring Practice at DLA Piper LLP (US) and a Co-Managing Partner of the Chicago office.

[**] Oksana Koltko Rosaluk is an associate in the Restructuring Group at DLA Piper LLP (US)'s Chicago office.

[***] Joe Riches is an associate in the London office of DLA Piper (UK) LLP.

[1] The authors would like to thank Monica Milkint, an undergraduate student at University of Illinois at Urbana-Champaign, Champaign, Illinois and summer intern at DLA Piper LLP (US)'s Chicago office, for her meaningful assistance with each aspect of this Report. Additionally, a number of DLA Piper lawyers across the globe contributed to the discussions in this report, and the authors wish to thank each of them for their significant contributions: Ilse Van de Mierop (Partner) and Charlotte Sas (Associate), DLA Piper UK LLP – Brussels Office; Chris Parker (Partner) and Jo Lloyd-Jones (Senior Professional Support Lawyer - New Zealand Qualified), DLA Piper UK LLP – London Office; Bruce Darlington (Partner), DLA Piper (Canada) LLP; Florian Bruder (Counsel), DLA Piper UK LLP – Munich Office; Grzegorz Godlewski (Counsel) and Anna Krzanicka (Associate), DLA Piper Wiater sp.k. – Warsaw Office; Sandro Lamay-Cubeddu (Doctorant) and Marta de Franciscis (Avocat à la Cour, Senior Associate) – DLA Piper France LLP; Alberto Angeloni, DLA Piper UK LLP – Rome Office; Petter Bjerke (Partner) and Kaja Sæland Sandvig (Associate), DLA Piper Norway DA; Tomomi Fujikouge (Senior Associate), DLA Piper Tokyo Partnership; Ting Xiao (Legal Manager), DLA Piper UK LLP – Shanghai Office; Oscar Franklin Tan (Senior Associate), Soham Panchamiya (Trainee Solicitor) and Charlotte Westbrook (Trainee Solicitor), DLA Piper Singapore Pte. Ltd.

significant risks to all stakeholders of intellectual property and, consequently, to the global economy.

A few existing supranational legislations and guiding principles – namely, European Council Insolvency Regulation No. 1346/2000 (the “Original EU Regulation”) and Regulation (EU) 2015/848 of the European Parliament and of the Council on Insolvency Proceedings (recast) (the “EU Regulation” and together with the EC Regulation, the “EU Regulations”) as well as the UNCITRAL Model Law on Cross-Border Insolvency (the “Model Law”) – endeavor to encourage cooperation between courts and legal regimes of stakeholders in cross-border insolvencies and to provide for the fair and efficient administration of such cases, ultimately ensuring greater legal certainty for trade and investment. These do not, however, comprehensively address the issues posed by intellectual property rights in cross-border insolvency situations. First, the Model Law is not binding until enacted into a country’s domestic laws and such enactment is generally accompanied by significant modifications to that law. Second, the EU Regulations are only binding on the participating EU Member States, which is inadequate when there is an insolvency aspect involving a country outside the EU. Third and most importantly, the Model Law and EU Regulations themselves do not currently harmonize the substantive insolvency laws of enacting States (although a significant body of work is now being undertaken in Europe to bring greater harmony to the substantive laws of the EU Member States); rather, they facilitate the administration of cross-border insolvencies and seek to provide a level of certainty to the recognition and enforcement of national insolvency proceedings of the distressed company’s center of main interest (or “COMI”) or an establishment as well as the applicable law (the so-called “*lex concursus*”).

1. Increasing role of intellectual property in the US and global economy

There has been a remarkable commercialization of intellectual property in recent years. Market studies reveal that close to 80% of a company’s market capitalization comes in the form of intangible assets, including intellectual property assets such as patents, trademarks, copyrights and other business knowledge and know-how.[2] The following supporting statistical points are illustrative and provide a useful context for the subsequent legal discussion. In 2015 alone, around 2.9 million patent applications and 5.98 million trademark applications were filed worldwide, an increase of 7.8% and 15.3% respectively (from the prior year).[3] In the same time period, patent applications increased by 1.8% in the United States and by 4.8% at the European Patent Office.[4] The United States also recorded a strong growth of 9.6% in trademark filings, as did the European Union Intellectual Property Office with growth of 9% and Japan with growth rates of 43%.[5] China remains the leader in global intellectual property growth with patent applications increasing by 18.7% and trademark applications by 27.4%.[6] The growth of intellectual property is also demonstrated by the increasing number of patents registered. The estimated number of patents in force worldwide rose from 7.2 million in 2008 to 10.6 million in 2015, with 1.2 million patent applications granted in 2015 alone.[7] In the United States, IBM is at the forefront of all inventors, leading with staggering 19,007 patent families, followed by General Electric with 9,725 patent families and

---

2 Joseph G. Hadzima, Jr., *How to Tell What the Patents Are Worth*, FORBS (JUNE 25, 2013).
3 World Intellectual Property Organization (“WIPO”), *World Intellectual Property Indicators 2016,* ECONOMICS & STATISTICS SERIES, at 5, 21 & 75 (2017).
4 *Id*. at 5.
5 *Id.*
6 *Id*. at 5 & 28.
7 *Id*. at 28. An interesting subset of patents is a utility model that it is an exclusive right granted for an invention, which allows the right holder to prevent others from commercially using the protected invention, without proper authorization, for a limited period of time. This right is available in a number of national statutes but may vary from country to country. It is very similar to the patent, but usually has a shorter term (often 7 to 10 years), shorter grant lag and less stringent patentability requirements. Utility models are sometimes referred to as “petty patents” or “innovation patents.” The utility model applications worldwide increased by 27% in 2015. *Id.* at 29. China Hong Kong (SAR) is an intense user of utility models. *Id.*

Microsoft Corporation with 7,035 patent families.[8] The trademark applications growth rate has been the highest since 2000 – there are now twice as many applications being filed across the globe than in 2000.

Commensurate with its tremendous commercialization, the ever-increasing influence of intellectual property on local and regional economies, as well as on global commerce, cannot be overstated. Although intellectual property is not considered an industry in itself,[9] its reach is felt in almost every industry as it is used virtually in every segment of the global economy. In the United States, for example, there are 81 (out of 313 total) so-called intellectual-property-intensive industries.[10] According to the United States Department of Commerce's most recent report on the effect of intellectual property on the US economy (the "US Report"), intellectual-property-intensive industries *directly* supported approximately 27.9 million US jobs, representing almost an 0.8 million increase in the number of jobs since 2010 and at least 45.5 million US jobs both directly and indirectly (which represents about 30% of all the jobs in the country, up from 40 million jobs in 2012).[11] Intellectual-property-intensive industries also constitute 50% of US export and contribute over $6.6 trillion to the US GDP (3.4% up from 2012).[12] The total merchandise exports and service-providing exports of intellectual-property-intensive industries increased to $842 billion in 2014 (from $775 billion in 2010) and $81 billion in 2012, respectively.[13] According to a similar study of the importance of intellectual property to the economies within the European Union, carried out in 2013 by the Office for Harmonization in the Internal Market in partnership with the European Patent Office (the "EU Report"), intellectual-property-intensive industries support directly or indirectly 35% of all EU jobs, almost 39% of the EU's GDP and 90% of exports.[14]

Because *no* enterprise that owns intellectual property outright can fully exploit every aspect of such ownership, the use of licenses, as well as sublicenses and cross-licenses, often provides for an opportunity to derive the greatest value from intellectual property. A "license" is simply a legally binding permission that the owner of specific intellectual property grants to another to use the owner's intellectual property without transferring ownership outright. Accordingly, a license agreement is a partnership, most often memorialized in writing, between a licensor (an intellectual property owner) and a licensee (a party authorized to use such intellectual property) on certain terms and conditions in exchange for, among other things, royalty payments. Licensing rights enable both parties to the license to increase their revenue streams without the need to engage in costly innovative or marketing activities. Licensing is one of the principal ways to commercialize and monetize intellectual property. A cross-licensing agreement is a contractual arrangement between two or more parties, in which each party grants rights to a piece of technology, product or other subject and, frequently, in future improvements, known-how and related products that is developed during the term of the agreement. Cross-licenses are generally used between companies that hold patents over different aspects of the same product, and by entering into an agreement, each company essentially avoids potential litigation over infringement.

As the global economy continues to recover from the most recent financial crisis, the popularity of licensing rights' has grown, both in growing mature businesses, as well as distressed ones. Thus, licensing rights are at the core of the international dialog over the treatment of intellectual property rights. According to the US Report, revenue

8 *Id*. at 44 (reflecting total numbers of patent families from 2010 through 2013).
9 A. Ciccatelli, *The Importance of Intellectual Property to the U.S. Economy,* Inside Counsel (Oct. 27, 2016).
10 J. Antonipillai & M. Lee, *Intellectual Property and the U.S. Economy: 2016 Update,* at ii (2016).
11 *Id*.
12 *Id*.
13 *Id*. at 27-28.
14 Office for Harmonization in the Internal Market ("OHIM"), *Intellectual Property Rights and Firm Performance in Europe: An Economic Analysis* (June 2015).

specific to the licensing of intellectual property rights totaled $115.2 billion in 2012, with a total of 28 industries deriving revenues from licensing.[15] Nearly 78% of all reported direct revenues of the reported intellectual property licensing is attributed to the following three industries: motion picture and video industry ($41.6 billion), cable and subscription industry ($29.3 billion) and lessors of nonfinancial intangible assets ($18.6 million).[16] Scientific research and development accounts for $5.3 billion in intellectual property licensing revenue, whereas software publishers account for $1.92 billion.[17]

According to the annual study of the Licensing Industry Merchandisers' Association (the "Lima Study"), the global retail of licensed merchandise for 2015 reached $251.7 billion, representing a 4.2% increase from the prior year, with fashion properties being one of the largest segments accounting for $29.8 billion in retail sales.[18] The continued expansion of e-commerce (at a rate of about 15% per year) contributes, in a significant way, to this growth.[19] The Lima Study demonstrates that the United States and Canada, on a cumulative basis, house $145.36 billion in intellectual property licensing revenues, thus dominating the globe.[20] The Walt Disney Company is ranked the number one global licensor with $52.5 billion in retail sales of its most significant properties – Disney Princess, Mickey and Minnie Mouse, Frozen and The Good Dinosaur to name a few, followed by Meredith for its Better Homes and Gardens, Family Circle, Parents and Eating Well, among others, with $20.1 billion and PVH Corp. for Calvin Klein, Tommy Hilfiger and Heritage with $18 billion.[21]

Significantly for this Report, even distressed companies can find value in their intellectual property portfolio. Indeed, in recent years, many companies that sought bankruptcy protection had sizeable intellectual property portfolios that were monetized through a court-supervised asset sale. For example, Nortel sold its patents to, among others, Apple and Google for a staggering $4.5 billion.[22] Google acquired Motorola Mobility and its 17,000 patents for $12.5 billion; Kodak sold its portfolio of 1,100 patents to several of its licensees, including Apple, Microsoft and Google, for $525 million; Microsoft acquired 800 patents of AOL for close to $1 billion and then almost immediately sold the majority of them to Facebook for about $550 million.[23] The intellectual property rights of many well-known retailers were sold in bankruptcy, such as American Apparel ($86 million for intellectual property),[24] Sports Authority ($15 million),[25] Aeropostale (as part of $243 million going concern sale), The Limited Stores Co. ($26.8 million),[26] Wet Seal ($3 million),[27] RadioShack ($26.2 million) and Polaroid (as part of $88 million all-asset sale).[28]

The above statistics demonstrate that intellectual property and its use permeate across most aspects of the global economy. In fact, changes in the global socio-economic and

---

15 Antonipillai & Lee, *supra* note 10, at ii.
16 *Id*. at 26.
17 *Id*. at 26-27. Unlike the US Report, however, the EU Report did not include in its study the impact of use of intellectual property (i.e., IP licensing rights) on the EU economy because there is no sufficient information to perform such an analysis and, thus, the numbers for the EU above are limited to the benefits of intellectual property ownership; nevertheless, the EU Report unequivocally acknowledged that licensing rights bring significant additional revenue. OHIM, *supra* note 14, at 11, 20 & 69.
18 G. Battersby & C. Grimes, LICENSING UPDATE, at 12 (Apr. 2017).
19 *Id*. at 13.
20 *Id.* at 12.
21 The full list of the top 150 global licensors can be obtained from http://www.licensemag.com/license-global/top-150-global-licensors-3.
22 P. Brickley, *Nortel $4.5-Billion Patent Sale to Apple, Microsoft, Others Approved*, THE WALL STREET JOURNAL (July 11, 2011).
23 Hadzima, *supra* note 2, at 1.
24 V. Sullivan, *American Apparel Sells IP, Wholesale Inventory for $103M*, LAW360 (Jan. 12, 2017).
25 J. DiNapoli, *Dick's Wins Auction for Sports Authority Brand,* REUTERS (June 30, 2016).
26 M. Lindner, *Sycamore Partners Buys The Limited for $26.75 Million,* INTERNET RETAILER (Feb. 24, 2017).
27 M. DiMartino, *Boston Firm Buys Wet Seal Name, IP*, ORANGE COUNTY BUSINESS JOURNAL (Mar. 6, 2017).
28 M. Kosoff, *The RadioShack Band Just Sold for $26.2 Million,* TECH INSIDER (MAY 13, 2015); S. Apicelli & E. Crothall, *Acquiring Intellectual Property from a Bankrupt Licensor*, THE LEGAL INTELLIGENCER (May 11, 2010).

political environment have provoked the development of business models where intellectual property is a central element in establishing value and ensuring growth for a company on a micro-level and the global economy on a macro-level. Within this environment, intellectual property protections positively affect commerce throughout the economies by supporting licensing-based technology businesses and creating a more efficient market for investing in technology, know-how and brand recognition.[29] Indeed, an increased number of cross-border initial public offerings, big-scale mergers and acquisitions, and complex, cross-border reorganizations have highlighted the importance of intellectual property and, at the same time, the gaps in its protections. Recognizing the key role of intellectual property in today's global economy, policy-makers and law-makers in several jurisdictions across the globe have engaged in legislating aimed at strengthening the intellectual property protections in insolvency scenarios, providing consistency and predictability to stimulate economic activity, incentivize the creation of new goods and services, create "intellectual property liquidity" and facilitate local and cross-border financial investments.

2. Regional and global efforts to procedurally standardize cross-border insolvencies

The increasing number of cross-border insolvencies is a further indicator of the continuing expansion of global trade and foreign investments. National insolvency laws, however, remain domesticized and have not been substantively progressed to account for the impact of economic globalization. The fact that national laws are "ill-equipped to deal with cases of cross-border nature . . . frequently results in inadequate and inharmonious legal approaches, which hamper the rescue of financially troubled business, are not conducive to a fair and efficient administration of cross-border insolvencies, impede the protection of the assets of the insolvent debtor against dissipation and hinder maximization of the value of those assets."[30] The inadequacy of national laws to address these issues appears to be more profound within highly technical or novel areas, such as intellectual property. As discussed in more detail below, although certain cross-border legislation, such as the Model Law and the EU Regulations, attempt to preserve the value of the insolvent company's assets, this is currently done so primarily through driving procedural efficiencies as opposed to through the introduction of uniform, substantive law across European jurisdictions. With regard to intellectual property rights, the structures contained in these schemes provide little guidance.

By way of example, consider a distressed Chinese-based global company that heavily leverages its intellectual property rights of both ownership and use with a varying degree of business activities, assets, creditors and contract counterparties, including under numerous inbound licenses, in various jurisdictions, including the United States, Germany, Poland, China and Singapore. As this company teeters toward insolvency, it will face considerable uncertainty, as will its stakeholders (including its licensees). In the past, each country where the company had its assets would claim jurisdiction over such assets in order to address creditor claims in that specific country, regardless of the company's lack of any other meaningful connection to that jurisdiction. This approach led to confusion and contradictory outcomes due to conflicts in the domestic laws and encouraged businesses to offshore their assets to shield them from creditor claims in case of insolvency.[31] Now, however, a question of whether a particular intellectual property right is subject to a national insolvency law in a particular

[29] In addition, US and international accounting principles pressure companies to recognize and value all identifiable intangible assets, including intellectual property, as part of any given transaction. The difficulties in attributing value to intellectual property persists in every economy to varying degrees and is even more acute in a bankruptcy proceeding and at its worst when such a bankruptcy proceeding crosses borders.

[30] *See* UNCITRAL, UNCITRAL Model Law on Cross-Border Insolvency with Guide to Enactment and Interpretation 20 (2014).

[31] S. Kim, *Global Overview of Insolvency and IP*, 49 LES NOUVELLES: J. OF THE LICENSING EXECUTIVES SOCIETY INT'L 228 (Dec. 2014).

jurisdiction would likely not be determined by a country's attempt to assert its jurisdiction (or by a choice of law clause in an intellectual property contract, as frequently but mistakenly believed by contract counterparties). Instead, the insolvency laws of the country where the debtor-company has its COMI would likely govern the effect of the insolvency on substantive intellectual property rights, at least within the EU Member States (except for Denmark) and those jurisdictions that have adopted the Model Law.

While the use of COMI to allocate insolvency jurisdiction is helpful in creating a level of certainty, the location of a company's COMI can be changed over time. Indeed, a company's COMI may be shifted from one jurisdiction to another as part of the preparation for an insolvency in order to take advantage of a more favorable regime in a particular jurisdiction. As a result, parties seeking to protect against the effects of insolvency at the outset of a transaction, such as parties entering into an intellectual property license, do not have certainty that the COMI of the contract-counterparty at the date of the transaction will remain the same at the time that party enters an insolvency process.

2.1 The UNCITRAL Model Law on Cross-Border Insolvency and its treatment of intellectual property rights

In response to the increasing number of cross-border insolvencies and inadequacies identified above, one of the first supranational efforts to address the conflicts of law in cross-border insolvencies was the UNCITRAL Model Law on Cross-Border Insolvency. The United Nations Commission on International Trade Law ("UNCITRAL"), is a legal body established in 1966 with universal membership specializing in commercial law reform worldwide, commissioned to modernize, harmonize, and unify the national laws concerning international trade.[32] The Model Law was adopted on May 30, 1997, and approved by the United Nations General Assembly on December 15, 1997.[33]

The Model Law establishes a "modern, harmonized and fair" legislative framework aimed at more effective, consistent and efficient cross-border insolvency proceedings.[34] As UNCITRAL explains, the Model Law focuses on authorizing and encouraging cooperation and coordination between jurisdictions, rather than attempting the unification of substantive insolvency law. It therefore respects the differences between national procedural laws.[35] At its core, the Model Law provides for a plenary insolvency proceeding recognition process as well as for cooperation between foreign courts after such recognition. Under the Model Law, the plenary proceedings in a foreign jurisdiction are called "foreign main proceedings" and the nonmain proceedings are called "foreign nonmain proceedings".

One of the Model Law's limitations, however, is that it is a legislative text that is merely "recommended to States for incorporation into their national law".[36] Thus, in order to have any binding effect, it needs to be enacted into national law by a particular jurisdiction. As of August 2017, legislation based on the Model Law has been enacted in 45 jurisdictions.[37] The first countries[38] to adopt the Model Law were Japan, South Africa and Mexico in 2000; the United States adopted the Model Law in 2005 which is

---

32 *See* United Nations Commission on International Trade Law, A Guide to UNCITRAL: Basic Facts About the United Nations Commission (2013).

33 UNCITRAL Model Law, *supra* note 30, at 19.

34 *Id*.

35 *Id*.

36 *Id.* at 24.

37 The full list of the jurisdictions can be found at the following e-address: http://www.uncitral.org/uncitral/en/uncitral_texts/insolvency/1997Model_status.html.

38 Eritrea was recognized as the first adopter of the Model Law in 1998, but it was later removed from the list of jurisdictions which have adopted the Model Law as it appears not to have adopted the Model Law as initially thought.

codified in Chapter 15 of the US Bankruptcy Code (discussed below); thus far, the last country to adopt the Model Law was Singapore this year (2017).[39] Another limitation of the Model Law stems from its nonbinding nature – since it needs to be enacted by a State in order to be effective, each State is able to modify the Model Law before it becomes national law, potentially resulting in differences between the statutory provisions across the enacting States, which could inhibit the functioning of a cohesive cross-border insolvency regime and defeat the very purpose of the Model Law. Importantly, the Model Law is solely procedural in nature and, thus, does not provide for substantive unification of national laws across the adopting States but, instead, expressly defers to the national laws of the adopting States.

With respect to intellectual property rights, the Model Law does not expressly address their treatment. Although it is a general principle of the Model Law that, on court application, foreign main proceedings will be recognized, the scope of the assistance, which the recognizing jurisdiction will afford the foreign office holder following such recognition, is an area of uncertainty. For example, there has been recent English case law to the effect that the English courts will not assist a foreign office holder to do in England what an English insolvency office holder could not. In the context of the enforceability of an *ipso facto* clause (one that triggers default and / or termination upon the mere filing for bankruptcy), this meant that the English courts would not prevent a counterparty from terminating a contract, even where the law of the country in which the foreign main proceedings were opened would have prevented it.[40] It therefore remains uncertain whether the recognition of proceedings under the Model Law will mean that the law of the country where main proceedings have been opened would be applied, in the recognizing State, to issues relating to the effect of the insolvency on the treatment of intellectual property rights.

Accordingly, even with the substantial progress of the international community to effectuate an efficient cross-border insolvency regime through the Model Law, there remains no clarity for a US licensor of intellectual property to the China-based company in the illustration above.

2.2 EU Regulations

Similarly lacking in the introduction of substantive laws are the EU Regulations. The Original EU Regulation originated under the initiative of the European Commission in 2000 and went into force in May 2002.[41] The Original EU Regulation's primary focus was to determine the jurisdiction in which an insolvent company may commence insolvency proceedings, a requirement for all other participating Member States automatically to recognize those proceedings and tools to facilitate the subsequent coordination of main and secondary proceedings taking place in different Member States. Although the Original EU Regulation postdates the Model Law, the studies performed and the principles permeating the Original EU Regulation served as an inspiration and a foundation for the Model Law.

Ten years after the Original EU Regulation came into force, the European Commission launched an undertaking to modernize the law on cross-border insolvencies even further with an intent to shift focus away from liquidation and develop a new approach to helping businesses overcome financial difficulties, ultimately protecting creditors' rights of recovery.[42] As a result, the Original EU Regulation has been recast by the EU Regulation, which was adopted on May 20, 2015, and came into force on June 26,

[39] *Id.*
[40] *Fibria Celulose S/A v Pan Ocean Co. Ltd* [2014] EWHC 2124 (Ch). *See also Seawolf Tankers Inc v Pan Ocean Co Ltd* [2015] EWHC 1500 (Ch).
[41] Council Regulation (EC) No. 1346/2000, Art 47 (May 29, 2000).
[42] European Commission, Proposal for a Regulation of the European Parliament and of the Counsel Amending Council Regulation (EC) No. 1346/2000 on Insolvency Proceedings (Dec. 12, 2012).

2017. Insolvency proceedings commenced before June 26, 2017, remain subject to the Original EU Regulation.[43] The amendments to the Original EU Regulation aim to better reflect the EU's priorities and national practices in insolvency law, specifically (i) promoting the "rescue" of enterprises in difficulties by including in the regulatory scope pre-insolvency proceedings and hybrid proceedings (in which the company's management remains in place) – proceedings similar to chapter 11 reorganization in the United States; (ii) clarifying the jurisdictional rules and improving the procedural framework for determining jurisdiction (in light of the fact that, under the Original EU Regulation, interpretation of the term COMI caused practical problems which had to be determined by case law and there was evidence of abusive relocation of COMI, particularly by natural persons seeking more lenient insolvency jurisdictions than available in their home state); (iii) providing for better coordination of insolvency proceedings concerning different members of the same group of companies by obligating insolvency practitioners and courts involved in related proceedings to cooperate and communicate with each other; and, (iv) providing for the appointment of an independent insolvency practitioner to act as group coordinator, along with a procedural tool to request a stay of proceedings affecting members of the group in order to formulate a rescue plan affecting some or all of the members of the group subject to insolvency proceedings.[44]

One of the benefits of the EU Regulation in ensuring a level of predictability and consistency, is that, unlike the Model Law, the EU Regulation is binding in its entirety upon EU Member States (except for Denmark) in accordance with the Treaty on the Functioning of the European Union.[45] The EU Regulation applies whenever a debtor has its COMI within an EU Member State, regardless of whether it is incorporated within or outside of the EU. The EU Regulation determines which court has jurisdiction to open insolvency proceedings in respect of a debtor as there can only be one set of "main proceedings" that are opened in the Member State in which the debtor has its COMI. The law applicable to those proceedings will be the law of that particular Member State.[46] The effects of the main insolvency proceedings are required to be automatically recognised throughout participating EU Member States. Subject to certain express exceptions (including the rights of employees under their contracts of employment that remain governed by the Member State in which they perform their services), those proceedings have universal scope and encompass all of the debtor's assets. Where a debtor has a branch or more accurately, an "establishment" in another Member State, the EU Regulation permits secondary insolvency proceedings to be opened in light of such establishment that will run in parallel with the main insolvency proceedings. An establishment is defined as a place where the debtor carries out "non-transitory economic activity with human means and assets".[47] The effect of these secondary or nonmain proceedings is limited to the assets located in the Member State where the secondary proceedings have been commenced and the effect of the insolvency on such assets is governed by the laws of that Member State. Generally, all judgments given in respect of the main proceedings (including proceedings to determine which assets form part of the bankruptcy estate) will be recognized and enforced in other participating Member States.[48] Mandatory rules requiring cooperation with the main insolvency proceedings satisfy the need for unity in the EU.

43 In light of the timing of the publication of this Report, any discussions and analysis of the EU insolvency law or cases decided thereunder were under the Original EU Regulation.

44 *See id.*

45 *Id.*

46 EU Regulation, Art. 3(1). COMI is where "the debtor conducts the administration of its interests on a regular basis and which is ascertainable by third parties" – *Id.* There is a rebuttable presumption that COMI is the place where the debtor has its registered office.

47 EU Regulation, Art. 2(10).

48 The opening of secondary proceedings may restrain the powers of an insolvency practitioner handling the main proceedings. For example, authority given to the insolvency practitioner through the main proceedings to exercise his powers to deal with assets in another Member State is only applicable in the absence of secondary proceedings there. It may be commercially disadvantageous for a company to open up costly

The EU Regulation contains "localisation rules" that help determine where certain classes of debtor's assets are deemed to be located and, thus, which law should apply to determine their treatment. The EU Regulation is decisive in respect of: (i) whether assets belong to the main insolvency proceedings; (ii) whether they fall within one of the exceptions in the EU Regulation (for example the law of the State in which main proceedings are opened will not apply to rights *in rem* affecting assets belonging to the debtor which are situated within the territory of another Member State at the time of the opening of proceedings); and (iii) the question of whether assets fall within the scope of territorial proceedings, as such proceedings can only affect the assets located in the State in which the proceedings are opened.

The EU Regulation seeks to provide predictability, uniformity and efficiency in EU-based cross-border insolvencies but without harmonizing the substantive insolvency laws of each member-state. Indeed, Article 7 (*Applicable Law*) of the EU Regulation makes clear that the law of the member-state within which an insolvency proceeding was opened will provide the conditions for commencing such an insolvency proceeding, conduct of the proceeding and, in particular but among other things, will determine what constitutes assets of the estate as well as the effects of the insolvency on the assets of the estate and contracts to which the debtor is a party.[49] One of the exceptions to this is found in Article 15 (*European Patents with Unitary Effect and Community Trade Marks*), which provides that a European patent with unitary effect, or Unitary Patents, a Community trade mark or any other similar right established by Union law may only be included in main insolvency proceedings.[50] Article 15 refers only to those intellectual property rights that are "classic" European intellectual property rights registered in the EU and does not apply to the US Intellectual property rights that are registered in the US and also in the EU. It follows that this narrow strand of intellectual property must be included in the main proceedings of a debtor and it cannot fall within the jurisdiction of secondary proceedings, whereas foreign intellectual property rights outside of this definition can be included in either main proceedings or secondary proceedings, depending on their location.

Importantly, it appears that Article 15 does not apply to intellectual property license agreements.[51] Article 15 should be interpreted in light of the "localisation rules" contained in the EU Regulation. Article 2(9) of the EU Regulation contains localisation rules for eight categories of assets. For example, a European patent is deemed to be located in the member-state for which the patent is granted. This rule relates to European patents that are granted on the basis of the 1973 Convention on the Grant of European Patents. It should be noted that these patents do not have a "unitary" effect, but they are granted in the form of separate patents for each member state. As a consequence, it is possible to refer to the member state for which the patent is granted and, thus, to include those in territorial proceedings. For intellectual property rights having a unitary effect, however, such as European patents with unitary effect, Union trademarks, Community designs and Community plant variety rights, it is not possible

secondary proceedings in a jurisdiction in which it has limited assets. In these circumstances, an undertaking may be given by the insolvency practitioner in the main proceedings under Art. 36 of the EU Regulation to circumvent secondary proceedings. The undertaking is given to creditors in a foreign jurisdiction to treat their claims as they would have been had insolvency proceedings been opened in their foreign jurisdiction.

49 EU Regulation, Art. 7(2)(e).

50 The Unitary Patents system does not replace the existing routes to patent protection in Europe but is an additional option alongside national patents and "classic" European patents. The main advantage of the system is that patent proprietors will no longer have to validate a European patent in several countries but can, instead, choose to file a request for unitary effect and obtain, in a single and straightforward procedure carried out centrally by the European Patent Office ("EPO"), a Unitary Patent providing uniform protection in up to 26 participating member states. Similarly, the Community trademark (now called the EU trade mark), is a single trade mark that offers protection in the entire EU, registration of which is done by the European Union Intellectual Property Office ("EUIPO"). Similar rights established by Union include Community plant variety rights and Community designs.

51 *See* B. Wessels, *Localisation of Assets under the European Insolvency Regulation (Recast)*, 5 J. INT'L. BANKING L.R. 11 (2017).

to refer to the member state for which these rights are granted as they are granted for the entire territory of the European Union. It follows that these assets would not fall within the scope of territorial proceedings as Article 3(2) of the EU Regulation clearly states that "the effects of those proceedings shall be restricted to the assets of the debtor situated in the territory of that Member State", whereas the unitary character of the mentioned rights means that they cannot be transferred, surrendered, revoked, invalidated or their use prohibited, except in respect of the whole EU. For this reason, Article 15 provides that these rights (assets) may be included only in the main insolvency proceedings.

Based on the above, the law of the debtor's COMI (that is, where the main proceedings are pending) will likely govern whether intellectual property rights are part of the insolvent company's estate, whether the insolvency impacts the ability to assign or terminate intellectual property licenses, what happens after a debtor discontinues its obligations under an intellectual property license, and what remedies are available in the event of a breach of an intellectual property license by a debtor. Thus, although the Model Law and EU Regulation attempt to provide a cohesive regime for cross-border insolvencies and streamline the process, there is still not a uniform set of international insolvency laws to determine the specific issues of how intellectual property rights should be dealt with in such proceedings. The treatment of assets – including intellectual property ownership and use – during the relevant insolvency process is left open to the national laws of the particular jurisdictions, with varying, if any at all, levels of protections.

3. Treatment of intellectual property rights under national insolvency laws

As alluded to above, there remains no substantive supranational law on insolvency and, therefore, no consistent treatment of intellectual property rights in insolvency proceedings. As a result, in an international insolvency situation such as the one illustrated by the authors in this Report, there will be no consensus on the treatment of intellectual property rights across most jurisdictions, leading to diverging dispositions on the issue and exposing the involved licensors and licensees to unanticipated outcomes. The study of national insolvency laws of the below jurisdictions reveals that the inconsistencies in intellectual property treatment is further complicated by the fact that many economies simply do not address intellectual property rights in their domestic laws. This is surprisingly even the case in nations that drive technological progress or heavily leverage intellectual property rights on a global scale. It is unclear whether such omissions are intentional, perhaps providing the particular country's courts and insolvency practitioners with more control, discretion and purposeful isolation. Or it may simply be – and likely is – the result of a slow and inefficient legal response and adjustment to socio-economical shifts in the global and national marketplace. Moreover, even countries that unequivocally provide the most protections to the intellectual property users – like the United States – have room to clarify and strengthen such protections to further boost the trading in intellectual property rights.

3.1 Intellectual property rights under the United States Bankruptcy Code

For the past 100 years, the United States has been one of the world leaders in innovation, relying heavily on intellectual property as a tool to advance and promote economic well-being and quality of life of its population, as well as to have a competitive advantage in the global marketplace. Yet, even in the United States, lawmakers did not account for intellectual property rights specifically in the US Bankruptcy Code until 1988, years after experiencing an explosive growth in intellectual property, the rise in "IP trading" in 1970s and an uproar of intellectual property-intense industries in response to the inadequate treatment of intellectual property rights, specifically dealing with licenses.[52] The report of the Senate Judiciary Committee that accompanied the legislation explained that:

> The purpose of the bill is to amend Section 365 of the Bankruptcy Code to make clear that the rights of an intellectual property licensee to use the licensed property cannot be unilaterally cut off as a result of the rejection of the license pursuant to Section 365 in the event of the licensor's bankruptcy. Certain recent court decisions interpreting Section 365 have imposed a burden on American technological development that was never intended by Congress in enacting Section 365. The adoption of this bill will immediately remove that burden and its attendant threat to the development of American Technology and will further clarify that Congress never intended for Section 365 to be so applied.[53]

Intellectual property rights as assets of the estate, generally

Upon the filing of a bankruptcy petition, a bankruptcy estate is created and all of the debtor’s assets as of the petition date are considered property of the estate. The debtor’s assets that are part of the bankruptcy estate include intangible assets, such as intellectual property and executory contracts; all intellectual property license agreements in full force and effect on the petition date become part of the debtor’s estate. In a chapter 11 reorganization proceeding, a debtor-in-possession can enforce the license agreement against the nondebtor-licensee, for example, for the payment of royalties. The nondebtor-party to a license agreement, on the other hand, may only enforce it with respect to the post-petition obligations (and, in most instances, only after seeking authority from the court) because any pre-petition amounts are subject to a broad reach of the automatic stay imposed by the operation of section 362 of the US Bankruptcy Code, which goes into effect simultaneous with the filing of a bankruptcy petition and prevents any initiation or continuation of any action to collect prepetition debts. Also, the automatic stay does not prevent the expiration of the license agreement by its terms. Similarly, if a license agreement provides for a one-step termination for breach with a right to cure, a prepetition notice of breach and termination will likely be effective even if the cure period does not expire until after the petition date.

Further, under section 541(c) of the US Bankruptcy Code, an interest of the debtor in property becomes property of the estate despite any provision in an agreement, transfer instrument, or applicable nonbankruptcy law that “restricts or conditions transfer of such interest by the debtor.” Thus, any nondebtor-party’s attempt to protect a license agreement contractually from becoming a part of the debtor’s estate in the event of insolvency, is unenforceable.

---

[52] Initially, intellectual property licenses were not expressly covered by the prior version of the US Bankruptcy Code, and, therefore, US bankruptcy courts treated them simply as executory contracts, subjecting them to section 365 of the US Bankruptcy Code (discussed in detail below) and without any special protections. Thus, a debtor-in-possession could reject a license agreement, if one was found to be executory. As a result, a nondebtor-licensee, whose business could have been, as is often the case, significantly relying in its viability on such licensing rights, had only one recourse – to assert a general unsecured claim against the bankrupt estate. Despite the rapid growth of intellectual property in 1970s, the reforms of the bankruptcy legislation in late 1970s and mid-1980s failed to provide for a special treatment of license agreement in bankruptcy. It is not until the 1985 decision of the US Court of Appeals for the Fourth Circuit, in which the appellate panel recognized the adverse economic impact and chilling effect on the parties’ willingness to enter into such licenses, ultimately leading to the codification of section 365(n), which is discussed below. *See Lubrizol Enterprises., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985), *rev’d* Intellectual Property Licenses in Bankruptcy Act of 1987, Pub. L. No. 100–506, 102 Stat. 2538 (Oct. 18, 1988); *see also In re Bluberi Gaming Tech., Inc.,* 554 B.R. 841, 855 (Bankr. N.D. Ill. 2016) (discussing the history of section 365(n) of the US Bankruptcy Code).

[53] S. Rep. No. 100–505, 1988 U.S.C.C.A.N. 3200.

Treatment of patent and copyright licenses

If a license agreement is an executory contract, section 365 of the US Bankruptcy Code allows a debtor-in-possession to either assume, assume and assign to a third party, or reject its license agreements. A contract is executory if each party owes an unperformed obligation to the other party and nonperformance of which would be a material breach of the contract terms; a contract that has been substantially performed by one or both parties is not executory.[54] A question of whether a contract counterparty's material obligations remain unperformed is subject to an applicable state law.[55] Thus, there is no uniform rule as to whether a contract is executory. In practice, patent assignment agreements are frequently held to be nonexecutive by virtue of the transaction form (ie, usually, both counterparties' material obligations are performed shortly after the execution date because the title to the patent is transferred to the assignee immediately after the lump sum payment is received by the patent assignor), whereas license agreements (including a patent license agreement) tend to have material unperformed obligations for the term of the license are deemed executory.

If a debtor is reorganizing its business, intending to emerge from bankruptcy as a viable, going concern, the debtor may want to assume its license agreements, in which case it must cure any prepetition and postpetition default(s). Frequently, if a debtor is selling or otherwise liquidating its business, in whole or in part, it may attempt to monetize its intellectual property rights by choosing to assign its licensing agreements, often as part of a sale of substantially all of the debtor's assets under section 363 of the US Bankruptcy Code. Before an agreement can be assigned to a third party, however, the debtor must assume it and cure any existing default, and the buyer must provide to a nondebtor-counterparty an adequate assurance of its future performance.

Section 365(c) provides that certain executory contracts may not be assumed and assigned if applicable nonbankruptcy law bars such assumption or assignment without the nondebtor-counterparty's consent, regardless of whether a contract prohibits or restricts assignment of rights or delegation of duties. With respect to an assumption alone, in such circumstances the courts are split as to whether a consent is required for purposes of a mere assumption. Intellectual property license agreements fall within the scope of section 365(c) of the US Bankruptcy Code because applicable nonbankruptcy law prevents assignment of patent and license agreements without permission of the nondebtor-counterparty, because a nondebtor-counterparty is not required to accept performance form anyone other than its counterparty. In practice, it may be less of an issue when the debtor is the licensor that is assigning the license because the licensee is primarily concerned with having access to and, thus, benefit of the particular license, rather than its owner. Nevertheless, the identity of the licensor is critical to the licensee in instances in which the underlying intellectual property requires significant maintenance, continued development and update, or other particularized services that can only be provided by that licensor on the basis of its know-how.

A debtor-in-possession may also reject any burdensome agreement under section 365(a) of the US Bankruptcy Code, giving rise to a prepetition breach resulting in a general unsecured claim, as provided in section 365(g). In other words, in the event of a rejection, the debtor's estate no longer has any obligations to perform under the agreement, but the agreement is not terminated and still exists. The consequences of a rejection of a license agreement vary depending on the identity of the debtor that is rejecting the agreement – that is, whether the debtor is licensor or licensee. If a licensor rejects a license agreement, section 365(n)(1) of the US Bankruptcy Code meaningfully protects the licensee from automatically losing its licensing rights by allowing the licensee to choose either to (a) treat the license agreement as terminated, or (b) retain

[54] *In re Exide Techs.,* 607 F.3d 957, 962-63 (3d Cir. 2010).
[55] *Id.*

its rights to intellectual property under the licensing agreement (including a right to enforce any exclusivity and confidentiality provisions, but excluding any right to specific performance) to the extent such rights existed immediately before the bankruptcy filing, for the duration of the agreement and any period for which it may be extended by the licensee as of right under applicable nonbankruptcy law. If the licensee elects to retain its rights under the licensing agreement, the trustee or debtor-in-possession must provide to the licensee any intellectual property (including such embodiment) held and cannot interfere with the rights of the licensee as provided in the agreement. In turn, the licensee must pay all royalties that become due under the license agreement and automatically relinquishes any right of setoff it may have with respect to the agreement and any administrative claim allowable under section 503(b), arising from the performance of the license agreement. The US legislators appear to have struck a balance between protecting the licensee's business and the debtor's right to free itself of burdensome contracts by allowing the licensee to retain the intellectual property rights, but practically eliminating the licensee's right to enforce the continued receipt of any additional services from the licensor as the trustee or the debtor-in-possession has no obligation to the licensee after rejection other than to turn over existing technology and permit the licensee to use the technology (such obligations as to provide the licensee with continued training in the use of the technology or with updates of the technology will be terminated by rejection[56]).

Alternatively, if the licensee to a rejected license agreement chooses to treat the rejection as a breach (provided the rejection amounts to such a breach that entitles the licensee to treat the agreement as terminated by virtue of its own terms, applicable nonbankruptcy law or an agreement made by the licensee with another entity), the licensee may terminate the license agreement and assert a general unsecured claim for monetary damages. In such a case, a liquidated damages provision will be instructive as to the amount of damages available to the licensee.

Section 365(n)(4) also protects a nondebtor-licensee during the interim period, prior to the debtor-licensor's rejection or assumption of a license. Specifically, until the debtor-licensor properly rejects an intellectual property contract (and if requested in writing by the nondebtor-licensee) the debtor-licensor must (a) to the extent provided in the relevant contract or any supplementary agreement, perform such contract or provide to the licensee such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law) held by the debtor-licensor; *and* (b) not interfere with the rights of the nondebtor-licensee as provided in the contract.[57] Section 365(n)(4), however, "requires a contractual provision upon which to rest".[58]

It is important to note that the grant of protections to the licensees in the United States is almost unprecedented and appears to exist only in Canada and Japan. US-based licensors and licensees contracting with a foreign company should, therefore, be cautious not to expect that the foreign jurisdictions will provide the same level of protections as are provided in the US to its intellectual property rights in the event of such company's insolvency. Crucially, the section 365(n) protections, however, do not apply in reverse – section 365 does not protect a licensor in the event of a licensee's rejection of an intellectual property license in bankruptcy. A debtor-licensee may reject a burdensome intellectual property license as any other burdensome executory contract and the nondebtor-licensor's only remedy is to file a claim, asserting monetary damages against the licensee's estate.

56 *See, e.g., In re Quad Sys. Corp.*, No. 00-35667, 2001 WL 1843379, at *13 (E.D. Pa. Mar. 20, 2001) (citing H.R .Rep. No. 1012, 100th Cong., 2d Sess. (1988)); 3 COLLIER ON BANKRUPTCY ¶ 365.15[1][b] (16th ed. 2017) ("[A licensee] does not have the right to seek specific performance of the other obligations of the licensor, since continued affirmative performance of the contract by the trustee may be impractical.").

57 11 U.S.C. § 365(n)(4).

58 *In re Bluberi, 554 B.R.855-60* (discussing the protections afforded by section 365(n)(4)).

Treatment of trademark licenses

The US Bankruptcy Code does not expressly contemplate for section 365(n) to be available to a trademark licensee, as the statutory definition of "intellectual property" does not include trademarks.[59] The different treatment of trademark licenses may be attributable to their unique nature as they require continuous supervision and control by the licensor, which would simply be logistically impossible after the debtor-licensor rejects the trademark license. In fact, the affirmative duty of the licensor to approve the quality of products bearing the licensed trademark directly conflicts with section 365(n) of the US Bankruptcy Code, which allows a licensee to use the license post-rejection without the licensor's involvement.[60] Indeed, trademark licenses are equated to personal agreements based on the identity of the licensees because the licensor relies upon the good standing of the licensee as it can significantly affect the value of the brand and expects the quality of the licensee to be of a certain caliber.[61]

Accordingly, under section 365(a) of the US Bankruptcy Code, a trademark license is generally treated as an executory contract that may be rejected by the debtor-licensor or debtor-licensee. In the event of a trademark license rejection, the nondebtor-counterparty is left with a prepetition unsecured claim for monetary damages. Often, the resulting damages claim, considering the typical low return on account of prepetition claims to general unsecured creditors, is trivial in comparison to the actual long-lasting economic damage to the nondebtor-business; a nondebtor-licensee, for example, may be forced to shut down its business due to the loss of goodwill that resides solely with the brand licensing rights to which the nondebtor-licensee just lost, whereas a nondebtor-licensor may experience significant loss of income due to the loss of royalties revenue-sharing profits from the bankrupt licensee as well as any potential loss of revenue due to the reputational damage to the brand.

The Seventh Circuit in *Sunbeam Products, Inc. v. Chicago American Manufacturing*[62] opined on the effects of the US Bankruptcy Code on trademark licenses, holding that trademarks are not affected by the US Bankruptcy Code and, thus, a trademark licensee does not enjoy the protections afforded by section 365(n). The Seventh Circuit reasoned that it could not allow the judiciary's equitable considerations to override the express declaration of Congress's intent.[63] The United States Supreme Court denied a Petition for Writ of Certiorari in the *Sunbeam* case, leaving the issue for Congress to resolve. In 2013, a bill entitled "The Innovation Act" (H.R. 3309) was introduced, which sought to include trademarks into the definition of "intellectual property" of the US Bankruptcy Code and would result in application of the section 365(n) protections in the context of trademarks. The bill passed in the US House of Representatives by a landslide vote of 325-91 but was removed from the agenda of the Senate Judiciary Committee in mid-2014. In early 2015, "The Innovation Act" was reintroduced to the House of Representatives and was immediately referred to the House Committee on the Judiciary and, about 40 days later, to the Subcommittee on Courts, Intellectual Property, and the Internet. After several hearings, the bill was ordered to be amended, which amended form retained the section 365(n)-related provisions. The bill was finally heard in February 2016 by the Committee on Small Business and Entrepreneurship but does not appear to have moved forward.[64]

---

59 11 U.S.C. § 101(35). The term "Intellectual Property" includes "(A) trade secret; (B) invention, process, design, or plant protected under title 35; (C) patent application; (D) plant variety; (E) work of authorship protected under title 17; or (F) mask work protected under chapter 9 of title 17. *Id*.

60 *See* LICENSING UPDATE, *supra* note 18, at 114.

61 Innovation Act of 2013, H.R. 3309, 113th Cong. (2013).

62 686 F.3d 372 (7th Cir. 2012).

63 *Id.* at 375 ("What the Bankruptcy Code provides, a judge cannot override by declaring that enforcement would be 'inequitable.'") (internal citations omitted); *see In re Exide*, 607 F.3d at 966-67 (holding that section 365(n) neither codified nor disapproves *Lurbrizol* as applied to trademarks).

64 Innovation Act of 2015, H.R.9, 114th Cong., Report No. 114-235 (July 29, 2016).

In November 2016, the court in *Mission Product Holdings, Inc. v. Tempnology LLC*[65] held that, although trademarks are not included within the definition of "intellectual property" and, thus, do not invoke the section 365(n) protections, rejection of the trademark license agreement does not terminate the agreement but rather constitutes a breach of the agreement; accordingly, a licensor's rejection of the license agreement does "not vaporize" the licensee's trademark rights under the agreement. Whatever post-rejection / post-breach rights the licensee retained to the trademark are governed by the terms of the licensing agreement and applicable nonbankruptcy law.

United States' adoption of the Model Law

In 2005, the US Congress adopted chapter 15 of the US Bankruptcy Code, which went into effect on October 17, 2005. Chapter 15 is the United States' adoption of the Model Law.[66] As expressly provided in section 1501 of the US Bankruptcy Code, the purpose of chapter 15 is fully aligned with the purposes of the Model Law: (i) to promote the cooperation between courts of the United States, US trustees, examiners, and debtors and the courts of foreign countries and their respective authorities in cross-border insolvency cases; (ii) to provide greater legal certainty for trade and investments; (iii) to ensure fair and efficient administration of cross-border insolvencies that protects the interests of all creditors and other parties in interest; (iv) to protect and maximize the value of the debtor's assets; and, (v) to facilitate the rescue of financially troubled businesses, thereby protecting investment and preserving employment.

By commencing a chapter 15 case in the United States, a foreign representative may seek recognition of a foreign main or foreign nonmain proceeding commenced abroad.[67] Section 101(23) of the US Bankruptcy Code defines "foreign proceeding" practically verbatim from the Model Law's definition, as "a collective judicial or administrative proceeding in a foreign country, including an interim proceeding, under a law relating to insolvency or adjustment of debt in which proceeding the assets and affairs of the debtor are subject to control or supervision by a foreign court, for the purpose of reorganization or liquidation." US courts take a case-by-case approach to determining whether a foreign insolvency proceeding falls within the US Bankruptcy Code's definition of the "foreign proceeding." The determination of whether the foreign proceeding is "main" or "nonmain" will dictate the extent of relief available to a foreign debtor in the US. As does the Model Law, section 1502(4) of the US Bankruptcy Code defines a "foreign main proceeding" as a foreign proceeding "pending in the country where the debtor has the center of its main interest" (section 1516 provides a rebuttable presumption that the location of the debtor's registered office is the center of its main interest) and section 1502(5) defines "foreign nonmain proceeding" as a foreign proceeding "pending in a country where the debtor has an establishment" ("establishment" being defined in section 1502(2) as "any place of operations where the debtor carries out nontransitory economic activity").

Upon recognition, the foreign representative in a chapter 15 case is conferred with some of the powers, rights and privileges given to a bankruptcy trustee under the US Bankruptcy Code (including the power to intervene in any court proceedings in the US in which the debtor is a party and the power to sue and be sued in the US on the debtor's behalf). Upon recognition of a foreign *main* proceeding, certain relief is available automatically, such as, among other relief, the automatic stay of section 362. US bankruptcy courts may also grant any additional relief not prohibited under section 1521 of the US Bankruptcy Code, but such additional relief may be granted "only if the

[65] 559 B.R. 809 (BAP 1st Cir. 2016).

[66] Prior to the its adoption, s. 304 of the US Bankruptcy Code governed the cross-border insolvencies in the United States. Although s. 304 was expressly repealed when ch. 15 was enacted, the cases decided under it are frequently consulted.

[67] For a detailed discussion of the ch. 15 process, see R.C. Martin & C. Speckhart, CHAPTER 15 FOR FOREIGN DEBTORS (1st ed. 2015).

interests of the creditors and other interested parties, including the debtor, are sufficiently protected."[68] Nothing in chapter 15 of the US Bankruptcy Code bars the US court "from refusing to take an action governed by [chapter 15] if the action would be manifestly contrary to the public policy of the United States."[69]

Utilization of section 365(n) in chapter 15 cross-border insolvency cases

Section 365, and specifically subsection 365(n), is not automatically available to a foreign debtor in a chapter 15 case. Relevant jurisprudence, however, shows that foreign licensees may benefit from section 365(n), although not without the potential for a legal battle. The seminal case on the issue is *Jaffé v. Samsung Electronics Co.*, in which the court applied section 365(n) because "potential harm to the [l]icensees would . . . threaten to 'slow the pace of innovation' in the United States, to the detriment of the U.S. economy."[70] In that case, Qimonda AG ("Qimonda"), a German manufacturer of semiconductor memory devices, cross-licensed 4,000 US patents (out of the total 10,000 of its patents world-wide) to many companies across the world, including Samsung, Infineon (a spin-off of Siemens), Micron, Nanya, IBM, Hynix and Intel. Qimonda, with its headquarters in Munich, filed for insolvency in Germany in order to liquidate its operations and a petition for recognition in the US. The US bankruptcy court recognized the German proceeding as the foreign main proceeding.

In order to cut costs, Qimonda's insolvency administrator identified executory contracts (those mutual contracts with respect to which the obligations of the debtor and the counterparty have not been completely performed), which, under German insolvency law, are automatically unenforceable unless the insolvency administrator elects to perform such contracts. In practice, to avoid any "implied election of performance", an insolvency administrator usually sends a letter of nonperformance to a counterparty. Although not court-determined, it was generally understood that cross-licensing agreements fall within the definition of executory contracts. Because Qimonda was liquidating, it had no need for the cross-licenses; Qimonda, however, wanted to monetize its patent portfolio by terminating the cross-licenses and then renegotiating them with the same licensees for royalties. The licensees objected. In its opinion, the Qimonda court focused on the testimony of one of the licensees' experts, highlighting that:

> [P]atent cross-licensing . . . promotes not only investment and innovation . . . , but also competition and lower prices, to the great benefit of consumers. And joint development agreements ("JDAs"), because they provide opportunities for companies with different areas of expertise to work together, also foster innovation. Patent cross-licenses are a key component of JDAs because they guarantee that each party will have the opportunity to use any technology resulting from the joint development efforts. They also promote the efficient exchange and transfer of technology and innovation, because the parties to the agreement need not worry about being exposed to or using the other's patented technology. . . . [E]liminating the protection § 365(n) provides licensees in the event the licensor goes into bankruptcy would harm innovation by creating uncertainty, which in turn affects investment decisions. . . . [T]he decision to make the large investments in

68 11 U.S.C. § 1521.

69 *Id.* § 1506. The fact that application of foreign law leads to a different result than application of US law is, without more, insufficient to support s. 1506. *See, e.g., In re Qimonda AG*, 462 B.R. 165, 167 (Bankr. E.D. Va. 2011), *aff'd Jaffé v. Samsung Elecs. Co.*, 737 F.3d 14, 32 (4th Cir. 2013). Rather, it must be shown that (i) "the foreign proceeding was procedurally unfair" and (ii) the application of foreign law or the recognition of a foreign main proceeding under chapter 15 would "severely impinge the value and import" of a US statutory or constitutional right, such that granting comity would severely hinder United States bankruptcy courts' abilities to carry out the most fundamental policies and purposes of these rights. *Id*.

70 *In re Qimonda AG*, 462 B.R. 165, 167 (Bankr. E.D. Va. 2011), *aff'd Jaffé v. Samsung Elecs. Co.*, 737 F.3d 14, 32 (4th Cir. 2013).

> research and development and in construction of fabrication facilities required in the semiconductor industry is heavily influenced by the level of uncertainty—the expected reward versus the risk of the investment. The required rate of return for any given investment—the "hurdle rate"—increases dramatically with even small increases in uncertainty. . . . . [I]ncreased uncertainty regarding the enforceability of patent licenses would necessarily lead to decreased investments, at least at the margin, as well as less spending on research and development, and less innovation. And innovation . . . is key to the continued health of the United States economy.

In considering the question of whether section 365(n) should be applicable, the bankruptcy court asked two questions: one, whether limiting the applicability of section 365(n) "appropriately balanced" the interests of the debtor and the licensees as required by section 1522(a) and, two, whether granting comity to German insolvency law would be "manifestly contrary to the public policy of the United States" proscribed by section 1506. In concluding that section 365(n) should apply, with respect to the first question, the US bankruptcy court reasoned that application of section 365(n) does not impose any additional burdens on Qimonda nor does it prevent it from monetizing its patent portfolio further by licensing it to third parties (since licenses were not exclusive), but found the risk to the very substantial investments of licensees in the United States to be very real. With respect to the second question, the US bankruptcy court examined whether giving effect to the German insolvency law would severely impinge the value and import of US statutory or constitutional rights, such that granting comity would severely hinder US bankruptcy courts' ability to carry out the most fundamental polices and purposes of those rights, ultimately concluding that:

Although innovation would obviously not come to a grinding halt if licenses to U.S. patents could be cancelled in a foreign insolvency proceeding, the court is persuaded . . . that the resulting uncertainty would nevertheless slow the pace of innovation, to the detriment of the U.S. economy. Thus, the court determines that failure to apply § 365(n) under the circumstances of this case and this industry would 'severely impinge' an important statutory protection accorded licensees of U.S. patents and thereby undermine a fundamental U.S. public policy promoting technological innovation. For that reason, the court holds that deferring to German law, to the extent it allows cancellation of the U.S. patent licenses, would be manifestly contrary to U.S. public policy.

The Fourth Circuit affirmed the bankruptcy court's ruling, and the US Supreme Court denied the foreign representative's petition for a writ of certiorari.[71]

Needless to say, *Qimonda* has triggered a lively dialogue in the legal and legislative communities over the section 365(n) protections in chapter 15 cases. Certain legislators argue that US law fails to clearly protect intellectual property licenses in chapter 15 cases because the applicability of section 365(n) is on a case-by-case basis and not automatic, creating disincentives for manufacturers to invest in the United States. If the right to practice a technology under a US patent, they contend, remains uncertain, a manufacturer contemplating building a fabrication plant would face powerful incentives to invest its resources elsewhere rather than in the US, ultimately arguing that US bankruptcy law must not be permitted to deter investment in plants, equipment and manufacturing jobs in the United States.[72] Indeed, the Innovation Act, discussed above, proposed to amend chapter 15 of the US Bankruptcy Code by making section 365(n)'s applicability in chapter 15 cases automatic in order to provide unquestionable protection to licensees. The legislative developments in that respect are yet to be seen.

[71] *Jaffe v. Samsung Elecs. Co.*, 135 S. Ct. 66 (2014).
[72] Innovation Act of 2015, H.R.9, 114th Cong., Report No. 114-235, at 11 (July 29, 2016).

3.2 Treatment of intellectual property rights in Canada

Canada is one of forty-five jurisdictions that adopted the Model Law, amending its principal insolvency statutes – Part IV of the Companies' Creditors Arrangement Act (the "CCAA") and Part XIII of Bankruptcy and Insolvency Act (the "BIA") – with some modifications. One such modification is a broader definition of foreign nonmain proceeding; specifically, Part IV of the CCAA does not contain a requirement of "establishment". In other words, the Canadian statute is written in a way that any proceeding qualifying as a foreign proceeding must necessarily be either a foreign *main* proceeding or foreign *nonmain* proceeding. Consequently, Canadian courts may recognize a foreign proceeding as a foreign nonmain proceeding in circumstances under which US courts, for example, would deny such recognition. Another key distinction, which seems to counterbalance the Canadian courts' broader recognition power, is the ability to deny the relief requested on the ground of a public policy exception. Section 61(2) of the CCAA empowers a Canadian Court to refuse the requested relief if such relief would simply be "contrary to public policy", not "*manifestly* contrary to public policy", as provided in chapter 15 of the US Bankruptcy Code.[73]

In Canada, there are four types of insolvency proceedings a company facing financial problems may initiate: (i) reorganization proceeding under the CCAA; (ii) reorganization proposal under the BIA; (iii) assignment into bankruptcy; and, (iv) private or court-ordered receivership. Broadly speaking, the former two are reorganization proceedings and the latter two are liquidation proceedings. Generally, a debtor may "disclaim" or "resiliate" any agreement (regardless of whether executory or not) to which it is a party upon the commencement of an insolvency proceeding. In considering a motion to disclaim an agreement, the court must consider whether the disclaimer would enhance the prospects of a viable restructuring and whether it would likely cause a significant financial hardship to a contract counterparty. Certain agreements (among other types, collective agreements and certain financial contracts and financing agreement) cannot be disclaimed.

In 2009, the CCAA and BIA were amended to provide protections for nondebtor intellectual property licensees, similar to those provided by section 365(n) of the US Bankruptcy Code. Under Canadian law, section 32(6) of the CCAA and section 65.11(7) of the BIA, if the debtor is an intellectual property licensor that "granted a right to use intellectual property", such disclaimer or resiliation of the intellectual property license does not affect the nondebtor-licensee's right to use the underlying intellectual property (including the right to enforce an exclusive use of such license) during the remaining term of the license (including any extension period as of right) "as long as the licensee continues to perform its obligations under the license agreement in relation to the use of the intellectual property." Unlike the US Bankruptcy Code, however, neither the CCAA nor BIA defines the terms "intellectual property" and "use", which may result in these protections being applicable to all types of intellectual property, including trademarks. To that end, it is not completely clear whether related obligations surrounding the license, such as maintaining trademarks and other intellectual property, enforcement, updates and technology support can be disclaimed or are included in the term "intellectual property" for the purposes of these provisions, although it is believed that the debtor-licensor should not have such further obligations; corollary to that, the question remains whether the royalties would have to be paid in full despite the discontinuation of the auxiliary services by the debtor-licensor.[74] Additionally, under Canadian law, because the disclaimer does not affect the nondebtor-licensee's right to

---

[73] *See generally* S. Bomhof Y P. Huff, *Cross-Border Insolvencies: Comparison Between Chapter 15 of U.S. Bankruptcy Code and Part IV of Companies' Creditors Arrangement Act*, AM. INST.: CANADIAN-AMERICAN INSOLVENCY SYMPOSIUM (Nov. 7, 2011), *also available at* www.torys.com.

[74] *See generally* F. Painchaud & J. Freedin, *The Fate of Licenses in Bankruptcy: A Canadian Perspective*, J. OF THE LICENSING EXECUTIVES SOCIETY INT'L (Dec. 2014) (suggesting that a license agreement should contain a clause providing for a reduced royalties upon licensor's bankruptcy filing).

use the underlying intellectual property, a licensee does not have an option to treat the disclaimer as termination and, therefore, the disclaimer does not give rise to a claim against the estate. Moreover, in liquidation cases and receivership cases, the treatment of intellectual property rights of licensors and licensees is devoid of statutory guidance and, thus, are subject to common law, which recognizes the general power to disclaim an agreement but does not provide for any protection to licensees. This result appears to derive from the courts' treatment of license agreements as a contractual right, not a protectable right.

It is important to note that, under the Canadian insolvency regime, it is not clear whether it is possible to transfer intellectual property to a third party, with court approval, and extinguish the licensee's protections conferred by sections 32(6) and 65.11(7) of the CCAA and BIA.[75] The *Nortel* case dealt with the pre-2009 CCAA. In 2009, a large number of companies representing the global business operations of the Nortel Group filed for protection in Canada under the CCAA, in the US under chapter 11 of the US Bankruptcy Code, and in the UK under the Insolvency Act of 1986. Nortel Networks Limited, a Canadian subsidiary and legal owner of the Nortel Group's worldwide patent portfolio, also filed for bankruptcy. Although Nortel originally made a proposal under the CCAA, a decision was made shortly thereafter to liquidate the assets of all Nortel companies, including approximately 10,000 patents, many of which were subject to licensing agreements. Nortel, however, could not identify all of the licenses that it granted in the ordinary course of its business. Because the proposed sales had to comply with Canadian and US law, Nortel could not proceed only under the Canadian sale-related law, which would have permitted the sale of the intellectual property free and clear of unknown licenses. To deal with the situation, Nortel widely publicized the proposed sale notices, giving unknown licensees an option available under section 365(n) of the US Bankruptcy Code; namely, the licensees that responded in time could treat the contract as terminated or elect to retain the licensing right; and those licensees who failed to respond by the deadline, had their contracts terminated. Thus, the licensee protections in Nortel were shaped largely by US law. Whether or not the licensee's protections conferred by sections 32(6) and 65.11(7) of the CCAA and BIA will prevent a restructuring debtor from completing a sale of its intellectual property free and clear of the licenses granted by the debtor in all circumstances, remains to be seen in Canada.

With respect to assignment of intellectual property rights to a third party, both the CCAA and BIA mandate that the debtor apply to court for permission to assign an agreement, with notice to counterparties. Under section 11.3(3) of the CCAA and 84.1(4) and (5) of the BIA, courts consider, among other factors, whether: the trustee or monitor, as applicable, approved the proposed assignment, the assignee is able to perform the obligations, it is appropriate to assign the rights and obligations to the assignee, and the court is satisfied that all monetary defaults in relation to the agreement (other than those arising by reason only of the insolvent person's bankruptcy, insolvency or failure to perform a nonmonetary obligation) will be remedied. Regardless of whether an assignment is attempted by a licensee or licensor, the courts have held it was appropriate to grant an assignment where the earlier breaches of the agreement would be remedied through its assignment and that the rights and remedies of the licensee under the agreement would carry on unchanged. Courts have also held that it would not be appropriate to authorize an assignment in a circumstance where the co-contracting party has objected and the assignment would not further the debtor's restructuring process. In granting the assignment, the counterparty's rights should not be affected beyond what is absolutely required.

[75] Duggan & N. Siebrasse, *The Protection of Intellectual Property Licenses in Insolvency: Lessons from the Nortel Case,* 4 PENN STATE J. OF LAW & INT'L AFFAIRS (Dec. 2015).

In case of a licensee's insolvency, under the CCAA and BIA, a stay is triggered (or ordered) at the outset, preventing a licensor from enforcing a termination clause in a license agreement. Nevertheless, the licensor may enforce the post-petition payment under the license agreement for the ongoing "use" of licensed property after filing for bankruptcy, which seems to allow the licensor to unilaterally alter the terms of the license agreement to require a cash-upon-delivery payment schedule for the duration of the licensee's insolvency. If the intellectual property is used, the licensor can demand immediate payment for such use. Since the statutes do not define the term "use", it is not clear whether it means to merely hold a license, without any "active" post-petition use. Based on the recent case law developments, it appears the courts look for some form of "active use", but the question has not been expressly answered. Further, a debtor-licensee may assign its rights and obligations under a license agreement by applying to the Canadian courts for such approval.

In sum, Canada is one of only a few countries in the world that statutorily provides a higher level of protection to the licensees of intellectual property in an insolvency situation. Yet, much uncertainty remains. The last significant amendments relating to the treatment of intellectual property rights in Canadian insolvency were adopted more than eight years ago, providing ample time to identify gaps and weaknesses in the legislation and formulate the responsive legislative improvements. Thus, it will be interesting to see how long it will take Canadian legislators to respond and whether it will fully align the Canadian intellectual property protection framework with the one adopted in the US, or go beyond it.

3.3 Intellectual property rights in England and Wales in the wake of Brexit

On March 29, 2017, the United Kingdom ("UK") triggered Article 50 of the Treaty on the Functioning of the European Union, which marked the start of its negotiations to determine the terms on which the UK will exit the EU. It may, therefore, be some time before the practical implications of Brexit are fully known. Until then, the EU Regulations will continue to apply within the UK. The UK's exit from the EU could have significant implications for corporate insolvency work.[76] Unless it is agreed otherwise in the ongoing exit negotiations, the UK's exit from the EU will remove automatic recognition in the UK of insolvency proceedings commenced in another member-state without any formality, as the EU Regulations only apply to the EU Member States. Similarly, insolvency proceedings commenced in the UK would not be automatically recognized in another member-state, necessitating additional applications to the courts of the member-state in which relevant assets may be located for recognition. Such applications may be costly, time-consuming and come with a risk that foreign courts may be unwilling to grant the requested recognition. For a debtor subject to insolvency proceedings in the UK with intellectual property protected in a foreign jurisdiction, an

[76] The UK's exit from the European Union could also have significant implications for intellectual property laws more generally. The changes, although outside the scope of this article, should be borne in mind by a company to ensure its rights are protected in the event of an insolvency process. Changes to registration requirements and protections would have different effects on different types of intellectual property. There will be no effect on UK patents granted by the UK's Intellectual Property Office and the application of the European Patent Convention and the Patent Co-operation Treaty will not be affected by Brexit. Various rights deriving from EU Regulations will, in the absence of a negotiated agreement to the contrary, no longer apply to the UK upon its leaving the EU, including the Community Trade Mark (Regulation (EC) No 207/2009), Registered Community Designs (Regulation (EC) No 6/2002), Community Plant Variety Rights (Regulation (EC) No 2100/94) and Geographical Indications (Regulation (EU) 1151/2012). These may be required to be converted into national rights and could diminish the value of such rights if they are reduced in geographical scope. This is likely to be the most significant development in the IP field during the negotiation process. Holders of trade secrets will be unaffected as the UK is in the process of exceeding to the EU Trade Secrets Directive (ref 2013/0402(COD)). The UK will continue to protect copyright in accordance with the Berne Convention and these rights are generally not subject to EU harmonization. No changes to copyright law are expected as a result of Brexit. It is important to emphasize that the exact implications of Brexit remain unclear while the UK Government negotiates its position. Thereafter, IP rights-holders should identify what rights have been affected and whether any further steps need to be taken to protect these rights.

insolvency practitioner may encounter problems dealing with such assets. For now, until the UK formally exits the EU, the law relating to cross-border insolvency proceedings remains unchanged. The future, however, depends on the outcome of the exit negotiations.

In terms of a legal framework for recognition, the UK is not solely reliant on the EU Regulations. Foreign insolvency proceedings also benefit from the UK's enactment of the Model Law by way of the Cross-Border Insolvency Regulations 2006 ("CBIR"). Although the mechanisms provided by the CBIR are much more limited than automatic recognition under the EU Regulations, its scope is wider as it is not limited to EU Member States. Irrespective of the result of the Brexit negotiations, the CBIR should remain unaffected and there will continue to be a certain degree of cohesion between insolvency procedures crossing over between the UK and other Model Law enacting states. Despite this, only four EU Member States have adopted the Model Law into their domestic laws and companies entering insolvency proceedings in the UK may encounter difficulties in a European cross-border insolvency.[77] There could be significant changes to the landscape of cross-border insolvencies within Europe as a result of Brexit; but the extent of any changes will not be known until the negotiations between the UK and the EU are concluded.

Intellectual property rights under English insolvency law

While intellectual property is as significant for UK businesses as it is for businesses in other parts of the world, English law does not specifically provide for enhanced protection of intellectual property rights on insolvency. Such rights are dealt with as an asset, or liability, of the insolvent company in accordance with general insolvency rules. The treatment of an intellectual property right will depend on a number of factors, including: the insolvency procedure used, the value of the right to the insolvent entity, the type of right concerned, what license rights are in place and whether such rights are terminated on the insolvency. Matters are more complex where the intellectual property is the subject of a license, particularly on the insolvency of the licensor. While English law does not provide any specific protections for a licensee in this situation, there are mechanisms which licensees can, in certain cases, avail themselves of to gain a level of protection.

English law offers various procedures that may be utilized by a company experiencing financial difficulties. The formal, frequently used insolvency procedures are: company voluntary arrangement ("CVA"), administration and liquidation.[78] A CVA is similar to a scheme of arrangement in that it is also a process by which the company may propose a compromise with its creditors and in which dissenting unsecured creditors can be bound by a decision of a sufficient majority. A CVA is an insolvency procedure that is supervised by an insolvency practitioner, while the debtor remains in possession. CVAs most commonly deal with the compromise of the company's debts and would not directly affect intellectual property rights. However, licenses may provide for termination of the license upon a CVA. CVAs are, therefore, considered below in the section considering termination of licenses on insolvency. In both administration and liquidation, an insolvency practitioner is appointed to manage the company's affairs and deal with its assets. The primary objective of administration is to rescue the company as a going concern, or if that is not possible to achieve a better result for creditors than would be achieved in a liquidation, or if neither of those objectives is possible to realize

77 http://www.uncitral.org/uncitral/en/uncitral_texts/insolvency/1997Model_status.html.

78 Schemes of arrangement are also commonly utilized by companies in financial distress, but a scheme of arrangement is not an insolvency procedure. It is a Companies Act procedure by which a company can propose a compromise or arrangement with its members or creditors. Such a compromise can be imposed on a dissenting minority if a sufficient majority vote in favor. Administrative receivership is an insolvency proceeding, but its use was significantly curtailed by reforms in 2003; thus, administrative receiverships are now rare and are not considered in this Report.

property to allow a distribution to secured or preferential creditors. This differs from the objective of liquidation, which is to realize the company's assets and distribute the proceeds to creditors and shareholders in accordance with statutory priority rules. As administrators and liquidators deal with the company's assets, including its intellectual property, these are the most relevant procedures for the purposes of this Report. Accordingly, in this Report, the term "insolvent company" refers to a company in administration or liquidation and "insolvency office holder" or "office holder" refers to the administrator or liquidator.

One of the first tasks for an insolvency office holder is to evaluate the assets and liabilities of the insolvent company. This is important whether the aim is to rescue the company or the business, as such an assessment will inform if and how this can be done, or to realize the assets and pay the company's liabilities with a view to its eventual dissolution. An insolvency office holder will consider, as part of this exercise, what intellectual property rights are owned by the insolvent company, whether those rights are subject to licenses, and what intellectual property the insolvent company has rights to by way of license. Where there is a license, the office holder will also assess whether the license has terminated automatically upon the insolvency or is now capable of termination because of the insolvency, or otherwise. The insolvency office holder will then determine the value of the intellectual property or the license to the insolvent company, which will inform how it is dealt with by the office holder. The potential options for an office holder dealing with intellectual property are considered further in the following sections. It is important that the insolvency office holder correctly understands the value of any intellectual property right before deciding how it should be dealt with. An office holder would be open to criticism if valuable rights were not properly protected and their value realized for creditors.

Termination of licenses upon insolvency

English law does not make specific provision for the treatment of intellectual property licenses in insolvency proceedings. In the absence of contractual provisions providing for termination on the insolvency of a party, an intellectual property license will not automatically terminate when the licensor or licensee becomes insolvent. It is common, however, for intellectual property licenses to provide for termination on insolvency, particularly the insolvency of the licensee. Such termination clauses may provide for automatic termination or may trigger a right to terminate. Subject to the limited exceptions described below, clauses providing for the termination of a contract upon the insolvency of a party to it are generally enforceable.

Pursuant to Section 233A of the Insolvency Act 1986, if a company enters administration or a CVA, clauses in contracts for the supply of essential goods or services to such company that provide for the contract to terminate or for the supplier to be entitled to terminate because the company enters administration or company voluntary arrangement, or which provide for the supplier to be entitled to terminate because of an event which occurred before the company entered administration or company voluntary arrangement, are not enforceable. A supplier may still terminate the contract, however, if the court or the insolvency office holder consents, payments due post-insolvency are not made within 28 days of their due date, or if the supplier gives notice to the insolvency office holder that it requires a personal guarantee from the office holder of post-insolvency charges and such a guarantee is not provided within 14 days. The categories of essential supplies to which section 233A relates are supplies of utilities (electricity, gas, water, communications services) and supplies of the following goods or services by any party whose business includes making such supplies and where the supply is for the purpose of enabling or facilitating anything to be done by electronic means: point of sale terminals, computer hardware and software, information, advice and technical assistance in connection with the use of IT; data storage and processing and website hosting. Accordingly, software licenses and licenses to use know-how in relation to IT are arguably covered by section 233A, at least upon the insolvency of the licensee. That said, while supplies of software or IT know-how are clearly intended to be included, a license to use software or know-how cannot be entirely comfortably described as either a “good” or a “service”.

With regard to an intellectual property license, section 233A is only likely to apply on the administration or CVA of a licensee as it relates to contracts for essential supplies *to the insolvent company.* Under a software license, for example, the licensor is providing the right to use the software to the licensee. The licensee is usually only providing payment to the licensor, the licensee does not therefore provide an essential service to the licensor. In a consultation paper published in 2016, the UK Government sought views on proposals to allow companies to designate other types of supply as essential to their business and thereby to gain protection from termination of those supplies. The proposal was in a relatively early state, so it is unclear whether it is intended that such further essential supplies would be granted protection on the same terms as the current list of supplies under 233A, or indeed whether rights such as those under other intellectual property rights are intended to be included. The proposals have not, as yet, advanced any further.

Further, it is a key principle of English law that the assets of an insolvent company should be shared equally among its creditors. Various statutory and nonstatutory rules exist to uphold this principle. One such rule is the anti-deprivation principle, which prevents a company from entering into arrangements that will deprive its creditors of assets upon its insolvency. It is possible for a termination clause in a license to be invalidated by the anti-deprivation principle, but most are not. A provision terminating a license on the insolvency of a licensee will generally be enforceable, as it is seen not as depriving the insolvent licensee of an asset which would otherwise have been available to creditors, but rather as setting out the parameters of the right which was granted to the licensee in the first place. In other words, all the licensee ever had was a right to the intellectual property until such time as it became insolvent, or the license otherwise terminated in accordance with its terms.[79] Similarly a provision terminating a license on the insolvency of the licensor is unlikely to run afoul of the anti-deprivation principle as the rights in the intellectual property itself will revert to the licensor, it will simply be losing contractual rights, which again were from the outset predicated on the licensor remaining solvent. In addition, the anti-deprivation principle will only apply where, in addition to the contractual provision or arrangement having the effect of removing an asset from the company as a direct consequence of the company's insolvency, the provision or arrangement also has the commercial objective of depriving the company’s creditors of the asset in question.[80] In most cases, that will not be the commercial objective of a termination provision. That is not to say it is impossible for a termination provision in a license to trigger the anti-deprivation principle, such circumstances are, however, likely to be relatively rare.

In some situations, intellectual property is assigned, rather than licensed, to the party wishing to utilize it. Such assignments may include what is known as a “reverter clause”, which provides that at the end of a certain period or on the occurrence of an event, such as the insolvency of the assignee, the right will be reassigned (revert) to the assignor. These clauses could also be subject to challenge under the anti-deprivation principle. In many cases, they would not be invalidated by the principle, however, as it could be argued that either the reversion was a limitation on the right which the assignee held and so creditors are not deprived of an asset they would otherwise have had, or that the commercial objective was not to deprive creditors of the asset, rather there was some other commercially sensible objective. Whether such

79 *Belmont Park Investments PTY Ltd v BNY Corporate Trustee Services Ltd and another* [2011] UKSC 38 (see paras 84-91 in particular).

80 *Id.* ¶¶ 102-106.

arguments would be successful will depend on the circumstances of the particular assignment.

Retention of intellectual property rights

If the insolvent company owns valuable intellectual property, which is not subject to a license, the office holder will usually seek to realize that value by selling the intellectual property to a third party, or, if the aim of the insolvency is a rescue of the company, will seek to maintain the property for use by the company following the rescue. A sale where there is no license in place will in most cases be relatively straightforward. Insolvency office holders typically sell only such right, title and interest as the insolvent company may have in an asset and on terms that exclude any representations as to title, quality, value or validity and any implied statutory warranties. This is because the office holder will not have full knowledge of the business. A sale on these terms seeks to protect against claims from those with unknown interests, for example unknown licensees. A buyer will, therefore, take the risk that the intellectual property cannot be used or a third party has competing rights, which typically lowers the purchase price.

There is an added layer of complexity where the intellectual property owned by the insolvent company is subject to a license. The office holder will first need to decide if it would be beneficial to the insolvent licensor, or a potential purchaser, for the license to remain in place. It may be beneficial to retain the license, for example, because of the level of license fees payable, or because the licensee is the only, or one of very few people, likely to want a license of the property. If the office holder determines that it is beneficial for the license to remain in place, the office holder will cause the insolvent licensor to continue to comply with the terms of the license and will generally seek to sell the property with the license still in place. The licensee is only likely to be concerned about this if the proposed sale is to a person who would be an undesirable licensor. The licensor may seek to assign the intellectual property in breach of a prohibition on assignment in the license. If the licensor does so, the licensee will have a breach of contract claim, but such a claim is likely to fall to be paid as an unsecured claim in the insolvency, which may be of little comfort if there are not sufficient assets for the licensor to meet its unsecured claims in full. Whether the assignment is in breach of the license or not, the licensee will be concerned to ensure that the license is transferred subject to its rights to the property. An office holder is not likely to attempt to sell the property as expressly being free of a known license without properly terminating the license, as that may leave the company open to a claim that ranks as an expense of the insolvency and is payable ahead of unsecured creditors and the office holder's own remuneration. However, as mentioned above, insolvency office holders would not typically sell on terms which state the property is free of any license, rather they will sell only such right, title and interest as the insolvent company may have in the property and do not give any representations as to title.

Generally, *bona fide* purchasers for value without notice of the licensee's interest will take the property free of the license. The licensee will therefore wish to take such steps as it can to ensure potential purchasers are on notice of its interest, in order to protect its rights. If the licensee registers its interest in the intellectual property, this will prevent a purchaser taking the property free of the licensee's interest. It is not possible, however, to register an interest over all types of intellectual property. In cases where there is not an intellectual property register on which the licensee's interest can be registered, the licensee may take security over the intellectual property and register its security interest which (i) results in putting a buyer on notice of the existing license and (ii) ensures that the security remains attached to any sale of the intellectual property. If the licensee is aware of the identity of a proposed purchaser before the sale occurs, the licensee may seek to put that purchaser on notice of its interest in order to protect its rights.

Where the licensor seeks to transfer the license along with the intellectual property itself, the licensee may or may not need to consent to such a transfer depending on the terms of the license and whether the licensor has any remaining obligations to perform. If the licensor has obligations which are yet to be performed, it generally will not be able to fully transfer the license without the licensee's consent. This is because obligations generally need to be transferred by a novation, which would require the cooperation of the licensee. It will usually be in the licensee's interests to have any remaining obligations novated as it is better to have a solvent licensor against which these can be enforced. If there are no obligations yet to be performed, the licensor's rights (for example, to receive payment of royalties) are generally assignable in some manner. Where the license contains a prohibition on assignment, the licensor may not be able to fully assign its rights, in that the licensee may not be bound to pay the assignee, but there is nothing to stop the licensor from assigning the fruits of the license once received. This may not be ideal for a licensor company looking to wind up its business, however.

If the insolvent company is the licensee and the rights it receives under the license are valuable to it, the office holder will likely seek to maintain the license by continuing to comply with it, or will negotiate with the licensor to reinstate it if it has been terminated. The office holder would then generally seek to assign the license to a third party, either as part of a sale of the insolvent licensee's business or separately. It is not usually possible for the licensee to assign the license without the consent of the licensor, although this will depend on the terms of the license. Consent may be forthcoming, particularly if the income stream from the license is important to the licensor, as it would likely prefer a solvent licensee where there are ongoing payment obligations.

Rejection of intellectual property rights

If the intellectual property owned by the insolvent company, or a license to which it is a party, has little or no value, the insolvency office holder may choose to cause the company: (i) not to maintain the property, for example by not paying registration fees or not protecting against infringement; (ii) to repudiate or not perform its obligations under any license agreement (a licensor might, for example, not maintain the intellectual property, or a licensee might cease to make payments due under the license); or (iii) less commonly, where the intellectual property or license constitutes onerous property and the insolvent company is in liquidation, the liquidator may disclaim the property or license.

If the intellectual property has no value, an insolvency office holder can choose not to take steps to preserve the intellectual property; for example, the office holder may choose not to pay registration fees or bring proceedings to prevent infringements. In a liquidation, if the intellectual property right is not fully eroded by the office holder's inaction and not assigned to a third party, it would pass *bona vacantia* to the Crown on dissolution of the company at the conclusion of the liquidation. In an administration, the ultimate fate of the intellectual property is dependent upon the conclusion of the proceeding. Broadly an administration can end when: the company moves from administration to liquidation, in which case the intellectual property will be dealt with in the liquidation as described above; the company moves directly to a dissolution, in which case the property would similarly pass *bona vacantia* to the Crown upon the dissolution; or by the company being handed back to the directors, for example when a rescue can be achieved (this is quite rare); if this happens, the intellectual property will be left to be dealt with by the company acting through its directors in the same way it would have been when the company was solvent. A licensee may choose to attempt to purchase the intellectual property from the licensor prior to dissolution, or from the Crown following dissolution of the licensor.

The insolvency office holder of a licensor may choose to cause the company to breach the terms of the license, for example by not taking action to protect the intellectual property as it had promised to do. If an insolvent licensor breaches the terms of the license, the licensee will have a breach of contract claim against the licensor, but this is usually of little comfort as it will generally be dealt with as an unsecured claim in the insolvency of the licensor, in which case the licensee is unlikely to recover the full amount of its claim. Injunctive relief may be available to the licensee to order the licensor to perform its obligations, but the licensee would need to convince the court both to lift the moratorium, which arises in administrations and in most liquidations and prevents claims being brought against the insolvent company, and that injunctive relief is appropriate, both of which can be challenging. The insolvency office holder of an insolvent licensee may similarly cause the company to breach the license, most likely by ceasing to make payments under the license. The insolvency office holder is unlikely to cause the insolvent licensee to breach the license other than by not meeting its liabilities. The major concern for a licensor faced with an insolvent licensee is therefore likely to be the loss of revenue from the license.

A liquidator (but not an administrator) may choose to disclaim any intellectual property, or any license, which qualifies as “onerous property”. Onerous property is (a) “any unprofitable contract” and (b) “any other property of the company which is unsaleable or not readily saleable or is such that it may give rise to a liability to pay money or perform any other onerous act.” A license is perhaps more likely to be considered onerous property than the underlying intellectual property right, as the licensor or licensee may have ongoing obligations under it. Disclaimer operates to determine the rights, liabilities and interests of the insolvent company in the relevant onerous property. It does not, except so far as is necessary for the purpose of releasing the company from liability, affect the rights of third parties. The licensee will therefore retain its right to use the licensed rights following disclaimer, as long as it continues to perform its obligations under the license. Any security interest in the intellectual property which is disclaimed will also remain. In addition, a licensee or security holder can apply to court for disclaimed intellectual property to be vested in it. There is no obligation on a liquidator to disclaim, so the liquidator may choose to simply ignore intellectual property with no value and allow it to be eroded or eventually pass to the Crown on dissolution.

Protection of a licensee upon licensor’s insolvency

A licensee may seek to take security over the underlying intellectual property right in order to protect itself from the licensor’s insolvency. If it does so, this will generally mean that the licensee's consent will be needed to transfer the intellectual property and that any proceeds of such a transfer will be paid to it to discharge any amounts owed by the licensor.

A license may contain a suspended assignment of the intellectual property rights to the licensee, which will be triggered when certain events occur. If the relevant events are pre-insolvency events the assignment is unlikely to breach the anti-deprivation principle as it will not be triggered by the insolvency, but there is a risk of such an assignment being avoided or set aside under other rules which also seek to maintain the insolvent company's assets for the benefit of its creditors. For example, it may be set aside as a transaction at an undervalue, a transaction defrauding creditors, or if the transfer takes place after a winding up petition has been presented, but before the company is in liquidation, under the rules prohibiting post-petition dispositions of property. If successfully challenged under one of these rules, a court may, among other things, order the intellectual property transferred as part of the transaction to be re-vested in the insolvent company. If the assignment is triggered on the insolvency of the licensor, it will need to be considered whether it may fall foul of the anti-deprivation principle, as described above.

To protect itself against a sale of the intellectual property which extinguishes its rights, the licensee can register its interest in the intellectual property. Registration will mean that the purchaser takes subject to the license.

As this discussion illustrates, while English law does not provide specifically for intellectual property rights in insolvency, insolvency law and other general laws do provide for answers to many of the issues that arise, including providing some solutions to protect licensees on a licensor's insolvency. Nonetheless, with the expanding importance of intellectual property rights in the globalized economy, there is room for more certainty and clarity on the treatment of intellectual property rights under English law.

3.4 Intellectual property rights under the National Insolvency Laws of Selected EU Member States

As discussed above, the EU Regulations provide a procedural and jurisdictional framework for cross-border insolvency proceedings within the EU. To that end, the EU Regulations state that the jurisdiction of a debtor's COMI will house the main insolvency proceeding. While this alone has helped homogenize the procedural aspects of European insolvencies, the regulations have not amalgamated the substantive laws of each Member State, including with respect to the treatment of assets in bankruptcy. It follows that the laws of a Member State of a debtor's COMI determines the treatment of intellectual property rights during the relevant insolvency process. Although there has been a degree of harmonization of insolvency laws within Europe principally in relation to cross-border insolvencies, on a national level, despite recent amendments to domestic insolvency laws in several EU Member States, a great level of divergence still remains.

There is a general absence of specific statutory treatment in European jurisdictions concerning intellectual property rights in insolvency situations. With some narrow exceptions, EU Member States' domestic laws governing insolvency proceedings generally do not treat intellectual property rights or the underlying intellectual property differently than any other asset class or contract. Likewise, there are no explicit provisions addressing how intellectual property rights should be treated upon the insolvency of the licensor and licensee. In many European jurisdictions, general contract law principles will be applied and the intellectual property license will be treated in the same manner as any other contract.

The primary duty of an insolvency practitioner is consistent across the European jurisdictions: to maximize the value of the debtor's estate in an insolvency proceeding. The domestic laws dealing with the sale of intellectual property rights in an insolvency process can have a significant impact on the value of intellectual property in any sale. The rights available to an insolvency practitioner to deal with the intellectual property license varies by, among other things, the laws of the EU Member States, the type of insolvency process and the nature of the right in the intellectual property.

It is clear that although there are similarities across the European insolvency regimes concerning the lack of specific statutory treatment of intellectual property rights, there are significant differences between each Member State. Accordingly, consideration of each European jurisdiction individually is required to explain each regime's treatment of intellectual property rights in insolvency. The insolvency regimes within the EU of Germany, Poland, France and Italy have been explored for the purposes of this Report.[81]

[81] Accordingly, all references to "European insolvency regimes" or "European jurisdictions" are limited to those aforementioned jurisdictions.

Germany

German regime governing cross-border insolvencies

For centuries, German courts took a "territorial" approach to foreign bankruptcy proceedings: while German bankruptcy proceedings claimed universal effect on the debtor's assets worldwide, bankruptcy proceedings pending abroad had no effect on assets located in Germany, except as was provided in rare bilateral treaties.[82] In 1985, the German Federal Supreme Court changed course, holding that foreign bankruptcy proceedings are to be given effect in Germany, subject only to considerations of international jurisdiction and German public policy.[83] Consistent with the new course, the courts subsequently developed overarching principles, but many details remained unclear until Germany adopted a comprehensive set of statutory rules governing cross-border insolvencies in March 2003 (which were incorporated into the German Insolvency Code), around the same time as the Original EU Regulation was adopted. Such new rules govern cross-border insolvencies of jurisdictions outside the EU, while the EU Regulations govern cross-border insolvencies of the EU Member States. In principle, such rules on the applicable law and recognition correspond to the rules under the EU Regulations, except for the additional requirement that the foreign bankruptcy proceedings have to satisfy the international jurisdiction test according to German law principles (to exclude long arm jurisdiction) in order to be recognized in Germany.[84] Germany was one of the driving countries developing the principles underlying the Original EU Regulation and, insofar, has, to a large extent, coherent principles governing cross-border insolvencies within and outside of the EU and, arguably, has not seen a need to adopt the Model Law.[85]

Intellectual property rights as assets in German insolvency proceedings

Technology, along with intellectual property, is one of the major pillars of the German economy. Accordingly, German intellectual property law, although quite a young area of law, rapidly developed in the last century and became of great importance to German enterprises. In contrast, German bankruptcy law has a long tradition, with its roots in Roman law and characterization as a collective enforcement proceeding. Its principles have historically focused around tangible assets, not intangibles and the concept of intangible assets only developed later in time. The further development of both areas of the law give the impression of a friendly coexistence without much meaningful interaction, being very different to the manifold interrelations between the German bankruptcy law and the law of movables and immovables.

The former German bankruptcy law (in force until 1999) and the current German Insolvency Code do not specifically provide for the treatment of intellectual property rights. In essence, intellectual property rights, including licenses, are governed by the general insolvency law principles, in some instances, by way of analogous application of the provision governing tangible assets. This is not without difficulties and one may question whether the interests are always similar as, for example, with respect to the treatment of security over intellectual property and the treatment of licenses in insolvency.

[82] F. Bruder, *Crossborder insolvency*, in: Basedow, Hopt, Zimmermann, The Max Planck Encyclopedia of European Private Law, Vol. I, 2012, p. 904-909; A. Heidbrink, *The New German Rules on International Insolvency Law*, AM. BANKR. INST. J. (Nov. 2003).

[83] Bruder, *supra* note 82, at 904-909; A. Heidbrink, *supra* note 82.

[84] Section 335 of the German Insolvency Code governs the effects in Germany of a foreign insolvency proceeding that is recognized under s. 343 of the German Insolvency Code.

[85] See generally, C. Schiller, *Recognition and Treatment of Non-EU Insolvency Proceedings Under German Law*, Practical Law (2016) (discussing differences between the Model Law and German's legislation on foreign bankruptcy recognition).

Generally speaking, under German insolvency law, intellectual property rights of the debtor become part of the insolvent estate's assets upon the commencement of the insolvency proceeding, with its value realized by the administrator (or the debtor in debtor-in-possession proceedings) for the benefit of the creditors. This is in principle also true for copyrights; however, due to the personal core of a copy right, copyright law has some particularities in this context. The treatment of intellectual property rights in the various types of insolvency proceedings under German law (ie, regular proceedings, debtor-in-possession proceedings, insolvency plan proceedings, going concern asset sale and liquidation proceedings) do not differ in principle, as they all have the same objective.

The sale of intellectual property rights is governed by general law principles, whether the debtor is sold as a going concern or liquidated, with the exception that the administrator (or the debtor in debtor-in-possession proceedings) has the power to dispose of the intellectual property rights. Typically, the intellectual property rights are of significant value and importance for the estate and, therefore, the creditors' committee must be consulted. To the extent the costs to maintain the intellectual property rights outweigh its use benefits and potential proceeds from such use or disposition, the administrator may abandon the intellectual property rights in the interest of the creditors. If the debtor is restructured as a going concern by way of an insolvency plan, the intellectual property may remain in the ownership of the debtor, even after the exit from the insolvency proceeding. In special circumstances, the administrator may also license the intellectual property rights to increase the value of the estate. However, this is usually only an interim measure as the insolvency proceedings are limited in duration, although this may well be a business concept of the acquirer of the business.[86]

If intellectual property rights are sold in a fire sale pre-petition, they may be clawed back on the basis that the sale was not at arm's length (*Bargeschäft*). Another potential complicating factor may be the debtor's grant of security over its intellectual property rights, or grant of licenses to third parties. In particular, if the intellectual property rights have been pledged, there is a considerable uncertainty whether the administrator has the right of disposal / realization, or if the pledgee holds such right. If the latter, the pledgee may delay and even undermine the sale process of other assets of the estate, which may have a much higher value if sold alongside the intellectual property rights or a respective license. Even if the business is not sold, the pledgee may have significant "hold-up" consequences; indeed, the pledgee may inhibit any going concern if the production and / or distribution requires such intellectual property rights, or a respective license, ultimately making a going concern sale impossible.

Typically, a license, at least if nonexclusive, does not prohibit the sale of the underlying intellectual property, as the license in principle travels with the intellectual property (that is, the licensee may invoke its license right as against the successor in title). However, if the license is insolvency-proof, its continuing existence may reduce the value of an intellectual property significantly and may even render it worthless. This goes without saying for an exclusive license. Therefore, the question whether and which licenses survive the insolvency and have to be honored by the estate (that is, those that are "insolvency-proof") and the administrator's ability to terminate the license, in particular by way of *ipso facto* clauses, are key practical questions discussed in more detail below.

[86] In both scenarios – the sale as well as the insolvency plan – the valuation of the intellectual property rights often constitutes a difficult task and requires third-party valuation opinions, in particular if their value is not reflected in the financial statements with their fair market value following a transaction.

Licenses in German insolvency proceedings

An intellectual property license may constitute an important asset of the insolvent licensee's estate, in particular if it is needed for the going concern of the enterprise. Even if not needed for the going concern, the license itself has a value that an insolvency administrator should attempt to monetize. Yet, neither the former German insolvency regime (*Konkursordnung*) nor the current German Insolvency Code (*Insolvenzordnung)* expressly addresses the effect of insolvency on intellectual property licenses.

Based on the general principles of German insolvency law, the treatment of intellectual property licenses in insolvency depends on the legal nature of the license. Specifically, exclusive licenses are considered (*quasi*) *in rem* rights that remain outside of the estate and, therefore, are not affected by the insolvency of the licensor. In contrast, nonexclusive licenses are considered contractual rights that become unenforceable against the estate of the licensor upon the commencement of a bankruptcy proceeding, except if (i) the statute provides otherwise, or (ii) the administrator elects performance in case the license agreement is regarded as executory in nature (with ongoing mutual obligations that have not been fully performed by both parties at the time of opening an insolvency proceeding). In a recent case, the German Federal Court of Justice held that a licensee may continue to use the license in case of a licensor's insolvency if under the license agreement the licensee has paid the royalties in full upfront and has begun to use the license, rendering the contract nonexecutory.[87]

With respect to nonexclusive licenses, under the former German insolvency regime license agreements were essentially "insolvency-proof" as a license agreement was treated as a lease agreement for chattels that, by an explicit statutory provision, the administrator could not terminate.[88] In the current German Insolvency Code, this provision, governing the lease of chattels by an insolvent lessor, was abandoned because it was widely regarded as an obstacle to a going concern sale and the realization that a lessee had a right to continue the prepetition lease and remain in possession of and exclusively use the chattel belonging to the estate. The official justification for this change only mentions chattels with no references to intellectual property as, arguably, no one at that time thought of intellectual property rights. It appears that, back then, intellectual property rights did not enjoy the importance, both generally and in bankruptcy proceedings, as they do today. The issue came to light later, in two large bankruptcy proceedings – of Kirch Media in 2002 in relation to copyright licenses and Qimonda in 2009 in relation to patent licenses.

Although the German Insolvency Code contains a similar provision dealing with lease agreements regarding immovable property, the prevailing opinion arguably rejects the extension of this provision to intellectual property licenses. Accordingly, general bankruptcy principles applicable to contracts govern intellectual property licenses, namely sections 103 and 112 of the German Insolvency Code.[89] In particular, nonexclusive licenses are subject to the general rule governing executory contracts. According to German case law, intellectual property license agreements are often executory in nature because the licensee typically has a continuing obligation to pay a license fee and the licensor has an obligation to continuously grant the license as well as to maintain, service and update the underlying intellectual property. If the license agreement is executory, then the administrator (or the debtor itself in debtor-in-

[87] *Bundesgerichtshof*, GRUR 2016, 201 - *ecosoil*.

[88] R. Nack, *Insolvency and IP Licenses Under German Law*, 49 LES NOUVELLES: J. OF THE LICENSING EXECUTIVES SOCIETY INT'L 255 (Dec. 2014).

[89] Other pieces of legislation specific to IP are relevant but do not redress the bankruptcy issues. Sec. 29(2) MarkenG (Trademark Act) and Sec. 30(3) DesignG (Design Act) merely allow the registration of an insolvency notice in the relevant register to simply confirm that the IP rights are part of the estate being subject to insolvency administration.

possession proceedings) may in its discretion, acting in the best interest of the creditors, either assume or reject the license agreement. To avoid delays, the nondebtor-counterparty may request the administrator to assume or reject the contract without undue delay. This may be particularly useful when, for example, a nondebtor-licensor has granted an exclusive license to the debtor-licensee, which will prevent the creation of any new licenses to exploit and monetize the underlying intellectual property until the existing license has been terminated.

If the administrator assumes the license agreement, both parties have to perform their respective contractual obligations. If the administrator assumes the outbound license and subsequently disposes of the underlying intellectual property, the license in principle remains unaffected as the licensee may invoke its license against the successor. If the license agreement is rejected, the licensee is unable to demand specific performance and, instead, is left with a potential unsecured claim. A licensor's bankruptcy often has severe consequences for a licensee as acting in the best interests of the estate usually contradicts the interests of the licensee. An insolvency administrator may use this legal situation to renegotiate the terms of the intellectual property license for the benefit of the bankruptcy estate, including to request additional royalties (even if the royalties agreed in the license agreement have already been paid), as was the case in *Qimonda*. Specifically, in *Qimonda*, the German courts of first and second instance held that the cross-patent licenses survived insolvency, as the mutual obligations were fully performed before the commencement of the bankruptcy proceedings. Unfortunately, the case was settled and the appeal to the Federal Court of Justice was withdrawn before a decision was rendered.[90]

With respect to the right to terminate a license agreement, the rights of a nondebtor differ from the rights of a debtor. The nondebtor-licensor, for example, cannot terminate the contract as a result of the licensee entering into insolvency proceedings. Any termination clauses within an executory contract triggered by the opening of insolvency proceedings by a party is invalid pursuant to section 119 of the German Insolvency Code, as such a termination would infringe upon the rights of the insolvency administrator to elect performance.[91]

In the case of a pre-insolvency default, there are further protections available for an insolvent licensees to preserve the continuation of the license if any pre-insolvency defaults have occurred. Section 112 of the German Insolvency Code states that once a request has been filed to open insolvency proceedings, an agreement may not be terminated because of (i) a default in payments before the request to open insolvency proceedings, or (ii) deterioration in the debtor's financial situation. German case law applies this provision to intellectual property licenses.

With respect to sublicenses, recent German case law (although not in the context of insolvency) indicates that if the insolvency administrator of a licensee terminates the intellectual property license, the sublicense may survive termination,[92] potentially causing complications for a licensor that desires to grant a new license, including a diminished value of a new license.

As to the insolvency administrator's power to assign a license, German insolvency law does not contain any provision expressly allowing the insolvency administrator of a licensee to assign or sell the license to a third party without a mutual agreement as among the licensor, licensee and transferee. A contract must typically be entered into between the transferee and the original licensor to determine that the transferee is responsible for any claims after assignment.

---

[90] T. Braegelmann, *Intellectual Property Rights Under German Insolvency Law*, Restructuring e-Newsletter – Global Insight (Apr. 2015).

[91] *Id*.

[92] BGH GRUR 2012, 916 - *M2Trade.*

Legislative attempts to fill the gap and recent case law

In 2007 as well as in 2012, in light of the bankruptcy proceedings of Kirch Media and Qimonda, the legislator attempted to regulate the treatment of intellectual property rights by introducing a statutory provision to address and balance the rights of licensors and licensees in insolvency. The proposal in 2012 intended, *inter alia*, to provide nondebtor-licensees with an option to request the insolvency administrator to negotiate a new license agreement upon rejection of the original license agreement on "adequate terms" to enable licensees to retain intellectual property licenses that may be critical to their businesses. Both attempts failed as no consensus was found as to a fair balance of the interests.

In addition to the aforementioned legislative attempts, there has been a series of recent decisions issued by the German Federal Court of Justice, which demonstrate a tendency to protect the licensee in the bankruptcy of the licensor.[93] For example, in a most recent decision, the German Federal Court of Justice explicitly referred to the structure and content of the obligations under the license agreement, holding that the license was insolvency-proof because the primary obligations were fully performed prior to the commencement of the bankruptcy proceeding and, therefore, the license agreement was no longer executory.[94] Because this decision was issued by the 1st Senate of the German Federal Court of Justice (which is competent as to all issues related to intellectual property except for patents) and consulted with the 10th Senate, which is competent as to all patent-related issues, there is reason to believe that the holding is applicable to licenses regarding all types of intellectual property. The decision still awaits the confirmation of the 9th Senate, which is competent as to all issues related to insolvency law. There are, in particular, some questions open as to how the current reasoning may be accommodated within general insolvency law principles. A prevailing opinion in legal literature is that license agreements that grant unrestricted and irrevocable license rights should be considered as granting (*quasi*) *in rem* rights.[95]

In sum, although there has been a significant amount of judicial attention dealing with the treatment of intellectual property rights in insolvency proceedings, many areas remain open to interpretation. In view of this, stakeholders should proceed with caution when dealing with intellectual property rights in an insolvency proceeding. That said, the recent decisions provide good guidance as to how intellectual property license agreements should be drafted in order to be insolvency-proof under German law.

Poland

Poland enacted the Model Law into its domestic law in 2003, before officially joining the EU in May 2004, in order to regulate its relationship with other countries on issues pertaining to cross-border insolvency. The Model Law was incorporated into the Polish legal system through the Insolvency and Reorganization Act of February 28, 2003 (as subsequently amended), starting with Article 378. From January 1, 2016, there are two separate acts in the Polish legal system: the Bankruptcy Act (earlier - before amendments – the Bankruptcy and Reorganization Act) and the new Restructuring Act of May 15, 2015 (collectively, the "Polish Bankruptcy Law").

As with any other jurisdiction within the EU, the EU Regulation applies to insolvency proceedings commenced in Poland on or after June 26, 2017, and insolvency proceedings commenced before that are governed by the Original EU Regulation. Article 378(1) of the Polish Bankruptcy Law excludes the application of the Polish

93 See BGH GRUR 2007, 877 - *Windsor Garden*, BGH GRUR 2009, 946 - *Reifen Progressiv*; BGH ZIP 2012, 1671 - Take Five, BGH GRUR 2012, 916 - *M2Trade*.

94 BGH, GRUR 2016, 201 – *ecosoil*.

95 See Fischer, WM 2013 Heft 18, 821, 822 and BGH GRUR 2007, 877 - *Windsor Garden*; but see, e.g., Ganter, NZI 2011, 833).

Bankruptcy Law provisions governing international bankruptcy proceedings to the extent that they conflict with the EU Regulations. Thus, Articles 378-417 of the Polish Bankruptcy Law are generally applicable solely to bankruptcy proceedings from outside of the EU.

In Poland, substantial pro-business legal reforms were implemented in January 2016 in order to address creditors' dissatisfaction with costly and lengthy bankruptcy proceedings. These reforms are composed of (i) significant changes to the existing Polish Bankruptcy Law and (ii) the coming into force of an entirely new law containing a raft of new rescue and recovery restructuring processes inspired by English and US procedures and are intended to introduce a real "second chance" policy in Poland.[96] Currently, in the Polish legal system there are: (i) bankruptcy proceedings and (ii) four different restructuring proceedings (proceedings for the approval of an arrangement, accelerated arrangement proceedings, arrangement proceedings and rehabilitation proceedings). The aim of bankruptcy proceedings is to liquidate the debtor's assets and satisfy the claims of its creditors. The objective is different in the case of restructuring proceedings, as these proceedings are geared toward preserving the debtor's enterprise by entering into an arrangement with its creditors. The arrangement scheme provides for the restructuring of the debtor's liabilities, primarily through debt reduction and rescheduling. Each particular restructuring proceeding has a varied scope of debtor protection against its creditors (especially regarding the possibility of suspension of the enforcement proceedings) and also a varying extent of limitation on the debtor's right to manage its assets (for example, in general, in the course of proceedings for the approval of an arrangement, accelerated arrangement proceedings and arrangement proceedings, the court leaves the administration of the debtor's assets with the debtor, under court supervision; but in rehabilitation proceedings, in general, the court appoints an administrator to manage the debtor's assets).

Despite the substantial improvement in the Polish regulatory regime, there are no specific provisions in Polish legislation addressing intellectual property rights in insolvency. In general, certain intellectual property rights (for example, patents or trademarks) are treated similarly to other assets, but their treatment varies depending upon the type of intellectual property. Upon declaring bankruptcy, all of the debtor's assets become part of the bankruptcy estate under Article 61 of the Bankruptcy Law, but only "transferable" intellectual property rights become a part of the bankruptcy estate. The copyrights are considered "moral" (or nontransferrable) rights that remain with the author and, thus, do not constitute an asset of the bankruptcy estate. In the course of a bankruptcy proceeding, the administrator sells[97] all assets (as a whole enterprise, an organized part thereof or certain assets) in order to satisfy creditor claims.

After a declaration of bankruptcy, the trustee immediately prepares an inventory of the debtor's assets and an estimation of the bankruptcy estate, as well as a liquidation plan. As a rule, the debtor's enterprise should be sold as a whole, if possible. A court expert selected by the trustee prepares a description and valuation of the debtor's enterprise, but each creditor may appeal such a valuation. Should anyone submit an appeal, the judge-commissioner will consider it and may select another court expert to prepare such a document. In general, the enterprise is sold by a public tender. The best offer is chosen by the trustee and then approved by the judge-commissioner. However, if the sale of the enterprise as a whole is not possible, the trustee may sell certain

96 For example, the new law introduces institutions that increase creditor committees' influence on the organization of the procedure. Creditors are able to request that the creditor committee be appointed and their request obligates the judge-commissioner to do so. Moreover, the judge-commissioner is obligated to appoint to the creditor committee a creditor chosen by a creditor, or creditors, holding 30% of the total sum of claims.

97 The goal of bankruptcy proceedings is different from the aim of restructuring proceedings: in case of the latter, there is no necessity to sell the debtor's assets, although such a possibility may exist.

assets without a public tender, but in that event the consent of a creditor committee is necessary.

In general, in the course of bankruptcy proceedings secured claims (usually by ordinary pledge or registered pledge) are satisfied from the sum obtained by liquidation of the encumbered assets, less the costs of the liquidation of the assets and other costs of the bankruptcy proceedings in an amount not higher than one-tenth of the sum obtained by liquidation. However, if the party has the right to a registered pledge established on an asset (for example, on a trademark), it may, where such a possibility was provided for under the pledge agreement, take the encumbered asset over or sell it. But such a possibility may be restricted in some cases. It usually occurs when an asset, encumbered by a registered pledge, is a constituent of a bankrupt enterprise and a sale of this asset with the enterprise could be more advantageous than a separate sale of the assets being subject to the pledge. If the encumbered asset is sold together with the enterprise, the value of the encumbered asset is “extracted” from the sale price of the enterprise and that amount is paid out from the sale proceeds to satisfy the registered pledge.

Under Polish jurisprudence, an intellectual property license is not an asset but a contract. In case of a bankruptcy, the intellectual property license is governed by Article 98 of the Bankruptcy Act, which provides that the trustee may continue or terminate a reciprocal contract with immediate effect but only if the agreement has not been fully performed. It is significant that the counterparty may compel the trustee (in writing with certified date) to inform, within a 3-month deadline, whether the trustee intends to terminate the contract or continue to perform it. The trustee’s failure to submit a declaration within the specified timeframe is deemed a termination of the contract. The trustee must obtain a judge-commissioner’s consent for a decision in this regard. The judge-commissioner may consider any significant interests of the other party and the other party may appeal the judge-commissioner’s consent. In case of restructuring proceedings, termination of licensing agreements is only possible in rehabilitation proceedings. In the course of a rehabilitation proceeding, the administrator should make a decision to continue or terminate the agreement within two weeks following the receipt of a request in writing from the counterparty and must submit an application to a judge-commissioner to grant consent to a future termination if the administrator does not wish to continue to perform under the contract. It is inconsequential whether the bankruptcy is declared (or the restructuring proceedings are opened) by the licensee or the licensor. The foregoing rules apply to termination of all agreements, irrespective of the parties involved. There is an emerging view that the trustee for the licensor should not be able to terminate the license, but it is only academic at this time.

In Poland, while clauses providing for the termination or modification of a license agreement in case of commencement of a bankruptcy or restructuring proceeding are often used in agreements, Article 83 of the Bankruptcy Law invalidates such provisions. The same treatment is afforded to termination clauses by the Restructuring Law. Likewise, clauses that trigger termination of a license agreement upon prepetition events, such as insolvency, are unenforceable. Clauses related to the financial standing of an entity without reference to a definition of “insolvent” or “threatened by insolvency” are usually not deemed invalid in the light of the Bankruptcy or Restructuring Laws.

The recent reforms in Poland’s insolvency regime is yet another factor demonstrating that Poland is one of Europe’s growing economies and progressive legal system. Because the Polish courts are yet to interpret the newly amended insolvency legislation, the effects of the reforms are yet to be seen. One thing is certain, whether through judicial interpretations or legislative amendments, Poland should provide better protection to intellectual property rights’ stakeholders to even better position itself in the global economy.

France

France was one of the original countries to form the EU and is subject to the EU Regulations, rendering the recognition of foreign EU proceedings automatic. With respect to secondary EU proceedings commenced in France after the commencement of main proceedings elsewhere in the EU, the insolvency administrators must communicate and coordinate as mandated by the EU Regulations. France, however, has never enacted the Model Law and French law does not specifically provide for a recognition or assistance mechanism of foreign non-EU bankruptcy proceedings. As in many other jurisdictions, a choice of law provision in a multi-national agreement would not be enforced under French law to trump the effect of French bankruptcy laws, which is a particularly important point for multi-national license agreements. Thus, French bankruptcy laws – which are not fully developed in the area of intellectual property protection – would govern.

The provisions relating to bankruptcy and insolvency proceedings in France are codified in articles L610-1 to L680-7 of the French Commercial Code ("Commercial Code"), as amended by Law No. 2015-990 ("Macron Law"), which came into force in August 2015. Similar to many European jurisdictions, intellectual property rights are not addressed specifically in this legislation and intellectual property licenses are treated no differently upon insolvency than other types of contracts. Copyright is the exception to this; the Intellectual Property Code (*Code de la propriété intellectuelle*) ("CPI") sets out various protections in favor of the authors of either the publication or the audiovisual production when a publisher (Article L132-15) and a producer of audiovisual production agreements (Article L132-30) enters into an insolvency.

There are three main types of insolvency proceedings in France available to a company encountering financial difficulties. Safeguard proceedings (*procédure de sauvegarde*) are available to a company that is not insolvent and involves an application to court to open the proceedings. The court judgment opens an observation period, during which the company will negotiate with its creditors a repayment of prepetition debt with the objective of formulating a safeguard plan. A receiver is appointed (*administrateur judiciaire*) to oversee the process, but the debtor retains control of management of the company. Additionally, rehabilitation proceedings (*redressement judiciaire*) are available to insolvent companies and must be opened within 45 days of the occurrence of insolvency. As with safeguard proceedings, upon opening a rehabilitation proceeding, a six-month observation period begins, subject to an additional six-month extension; in exceptional circumstances, the observation period may be further extended for an additional six months up to a total of eighteen months. The purpose of the observation period is to investigate the affairs of the debtor and to allow the debtor to make proposals for reorganizing its business or formulate a plan to sell its assets as part of a going concern. Here, a receiver is also appointed with the role to assist with the operations of the company or to formally takeover its management. For both of these procedures, the aim is to facilitate the reorganization of the company, to protect its operations and reduce its debt burden. Finally, judicial liquidation proceedings are opened if the company is insolvent and a company is unable to continue its operations or successfully reorganize due to chronic problems. A liquidator is appointed to administer this process, and creditors are paid out from revenue generated by the sale of business activities and assets.

The commencement of a safeguard, rehabilitation or judicial liquidation proceeding does not automatically terminate or rescind "current" or "ongoing" contracts (that is, contracts in force on the date of bankruptcy filing).[98] Intellectual property licenses are deemed to be current / ongoing contracts if royalties are regularly paid by the licensee to the licensor for use of the relevant intellectual property rights. If the intellectual

[98] Article L. 622-13, L. 631-14 para. 1 and L.641-11-1 of the Commercial Code.

property license transfers the right and / or is instantly fulfilled upon execution, the license agreement may be considered terminated; however, intellectual property involving a one-off payment are frequently deemed as current / ongoing contracts due to other continuous obligations within such agreements (intellectual property maintenance, servicing, etcetera).[99] The Commercial Code expressly provides that a clause terminating an agreement upon the insolvency of one of the contract counterparties is unenforceable, even if the debtor-licensee, for example, breached the agreement before the bankruptcy filing by failing to pay royalties. It follows that a solvent licensor, for example, would not have authority to terminate a license agreement simply due to the entering of insolvency proceeding by the licensee, irrespective of the terms in the license agreement.

In safeguard and rehabilitation proceedings, a receiver has the choice to terminate or continue intellectual property licenses during the observation period. In order to terminate the agreement, the receiver must apply to the court and the court must approve such termination after determining that the termination preserves the value of the debtor's estate and does not prejudice the interests of creditors.[100] The counterparty is theoretically entitled to damages and any claim will have to be filed with the creditors' representative. A nondebtor-counterparty may also formally ask the receiver whether or not the debtor intends to assume the agreement. The receiver has one month to answer the query, failure of which will result in termination of the contract. If the receiver elects to continue to carry out the obligations due under the license, it must continue full performance of the terms of that license as the receiver does not have authority to amend an intellectual property license without the consent of the counterparty.

Rehabilitation or judicial liquidation proceedings frequently result in a court-approved sale, including intellectual property subject to licenses or the licenses themselves. A clause within an intellectual property license that restricts or prohibits its transfer or assignment (regardless of whether by a licensee or licensor) is unenforceable in any insolvency proceeding. In case of a sale of intellectual property by the licensor that is subject to a license agreement, the license is not automatically terminated.[101] In fact, where an insolvency court orders the sale of a going concern, Article L. 642-7 states that all leasing, supply and services agreements necessary for the continuation of the business shall be included in that assignment. It is a well-established principle under French law that an intellectual property license falls within this scope. Although it has been argued that intellectual property licenses are of a personal nature (*intuitu personae*) and, therefore, consent should be required for assignment, case law makes clear that Article L. 642-7 does not distinguish between ordinary and personal contracts.[102] This is particularly troubling if the licensee is assigning a license that also includes confidential or highly confidential proprietary information or know-how, which is the case more often than not. In case of an assignment by the debtor-licensor, the "personal" nature argument appears stronger because licenses frequently provide for significant personal obligations by a licensors that can be fulfilled only by that licensor.[103]

It is important to note that, upon a bankruptcy filing, an "inventory" (similar to an "estate" in the US) is established by the debtor as a protection and at its request, or by an auctioneer designated by the court. The holder of intellectual property rights must

99 *See generally* E. Logeais, *Les Droits de Propriété Intellectuelle Dans le Bain des Procédures Collectives: Relevé Au Fil de L'eau,* Propriétés Intellectuelles (July 2011) (translation available upon request).

100 Article L. 622-13.

101 Article L. 613-8 CPI para. 4.

102 Colmar Court of Appeals, 13 June 1990, (1991) D Jur., 97.

103 *See* A. Michel & T. Loumeau, *Intellectual Property Licensing Agreements and Insolvency: A French Viewpoint*, 49 *Les Nouvelles* 251, 254 (2014) (analogizing the ruling by French courts in connection with franchise agreements, under which a franchisor provides very specific know-how that cannot be provided by anybody else, cannot be transferred without the franchisee's agreement).

specifically identify its property with supporting documentation in order to ensure that they do not fall within the pool of property identified as belonging to the debtor. The owner of personal property held by the debtor must claim ownership as against the court-appointed administrator within three months following notice by publication of the ruling commencing the proceeding.[104] French courts have held that the obligation to file an action for the recovery of property within the three-month deadline is not limited to tangible personal property and is strictly enforced. In one case, for example, the co-inventor of patents that were not included in the assignment plan and which were sold by the auctioneer when the plan was carried out, had claimed his patent rights 19 months after the commencement of the bankruptcy proceeding. The court rejected the request due to lapse of rights.

In relation to copyright, the IPC expressly provides for protections of publishing and audiovisual-production agreements,[105] which provides that where the publisher or producer is subject to safeguard or rehabilitation proceedings, the respective agreement will not be terminated. In relation to publishing, should the publisher business continue through the application of Articles L. 622-13 *et seq* of the Commercial Code, all the publisher's obligations to the author must be met. Additionally, an administrator of a producer of audiovisual work must comply with all the obligations if the work has continued to be exploited by the debtor. An author may interfere with the sale of the assets of a publishing company that is going through a liquidation process by requesting termination of the publishing agreement. A liquidator may sell copies of the production, but the author has a right of pre-emption.[106] In the event of a sale of a producer's company, each audiovisual work must be separated out in any sale, and the liquidator must advise each of the authors of the sale process who will have a right of pre-emption. Termination of these agreements may also be requested by the authors when activity has ceased for more than three months, or the producer company has entered liquidation proceedings.[107]

Overall, as a general policy consideration, French insolvency proceedings are aimed at maintaining economic activity and employment through successful reorganizations, resulting in French courts being significantly pro-debtor and pro-reorganization. This policy consideration, therefore, influences court's decisions with respect to the termination or assignment of intellectual property licenses.

Italy

Italy was a founding member of the European Economic Community in 1957, which became the EU in 1993 and, thus, is subject to the EU Regulations. Italy has not adopted the Model Law into its domestic insolvency law and does not have a statutory regime for the recognition of foreign insolvency proceedings. Nevertheless, non-EU insolvency proceedings can be recognized with certain level of ease if certain elements are met, critical of which are: (i) the judgment is not manifestly contrary to Italian public policy and (ii) the judgment would not be irreconcilable with other judgment involving the same parties. Courts take a closer look when an objection is raised that conditions required by Italian law for recognition are not met, or an enforcement procedure as against the assets (for example, seizure) is required under the foreign judgment or order.

Bankruptcy law in Italy is contained in Royal Decree no. 267 of March 16, 1942 (the "Italian Insolvency Act"), providing for a number of insolvency proceedings for a company whose business is made up of production or trade of goods and services. The main insolvency proceeding is the liquidation procedure called "bankruptcy"

[104] Article L. 624-9.
[105] Articles L. 132-15 and L. 132-30.
[106] CPI, Article L. 132-15.
[107] CPI, Article L. 132-30.

(*fallimento*), a judicial procedure aimed at liquidating the debtor's assets and distributing the proceedings *pari passu* among the creditors in proportion to their respective claims, except for securities and privileges granted by the law. To be eligible, a debtor must be an individual or entity carrying out commercial activities of a non-negligible size. The bankruptcy process restricts a debtor from managing and disposing of its assets. A receiver is appointed by the relevant bankruptcy court to administer the estate with the aim to maximize its value. Other insolvency proceedings are an in-court settlement with creditors (*concordato preventivo*), compulsory liquidation (*liquidazione coatta amministrativa*) and extraordinary administration (*amministrazione straordinaria*).

In Italy, upon filing for *fallimento*, all of the debtor's assets and rights are controlled by the receiver, who has a duty to preserve the value of those assets. The Italian Insolvency Act does not specifically address intellectual property licenses and, thus, contract rules are extended to licenses. The general rule is that, upon the insolvency of a party to a contract, the performance of the contract is suspended until the receiver (with the authorization of the creditors' committee) decides to perform or terminate the contract. This general rule does not apply to certain executory contracts covered in Articles 72 to 83 of the Italian Insolvency Act. One of these exceptions is Article 80 of the Italian Insolvency Act that governs the treatment of leases. Case law appears to have widened the scope of Article 80, now extending it to intellectual property licenses upon insolvency of the licensee and / or licensor. Article 80 states that upon the bankruptcy of the lessor / licensor, the lease / intellectual property license does not automatically terminate, and the receiver shall continue to perform the obligations due under the license. If the contract has a duration of four or more years after the opening of the bankruptcy proceeding, the receiver, within one year from the opening of the bankruptcy proceeding, is entitled to terminate the same providing to the other party an equitable compensation. While the receiver has a wide range of authority to deal with assets of the estate, the receiver cannot decide to cherry-pick which obligations to continue and which to discontinue under an agreement and, thus, the receiver should continue to perform all obligations due and owing under the license (for example, registration renewals).

The position for an insolvent licensee differs from that of an insolvent licensor.[108] Article 80 extends to the receiver of an insolvent lessee / licensee the authority to terminate the contract, irrespective of the existence of any contractual provision in the license, giving rise to a claim for damages by a nondebtor-counterparty in an amount to be agreed between the parties. If the amount of damages cannot be agreed, the court adjudicating the bankruptcy case will determine the amount of damages to be awarded. Since this will be an equitable amount, it will typically be set at a lower value compared to the full damages received for a standard breach of an intellectual property license agreement. The compensation received by the licensor (now as a creditor) will be ranked as a "super priority" claim (*crediti prededucibili*) in any distribution. This falls slightly behind the administrative priority claim and ahead of unsecured claims (*crediti chirografari*) and subordinated claims (*crediti postergati*).

[108] Although Italian national law requires registration of intellectual property licenses, the lack of registration does not impact the validity of the security. Failure to register may, however, have consequences for the original licensee on assignment as those rights will be unenforceable against a *bona fide* third party purchaser. Similarly, registration is important if there is a conflict between multiple licensees / assignees of intellectual property. The entity that registered its rights first, rather than who acquired the rights first, shall prevail. The rules on registration of copyright licenses is slightly different and Italian law does not require any strict formalities for a copyright license to exist and any registration merely serves to demonstrate its existence (Article 110 of Law No. 633 of April 22, 1941). In general bankruptcy terms, a license should be provided with a fixed date (i.e., through notarial certification or fiscal registration) in order to be effective against third parties (Article 45, Italian Insolvency Act). Similarly, there are no specific provisions within Italian Insolvency Act relating to the effect of bankruptcy on a pledged intellectual property right. In accordance with the general rules on priority, however, the pledge-holder will have a right of preference on the proceeds of insolvency.

The intellectual property may be sold as part of a going concern of a business, prior to which the receiver is under an obligation to obtain an expert appraisal of the value of the relevant intellectual property. This ensures that the receiver is complying with its obligations to maximize value for creditors by obtaining the highest price for the intellectual property. According to Article 2558 of the Italian Civil Code, agreements to which the going concern is a party will automatically be assigned to the acquiring party, provided they are not of a personal nature. intellectual property licenses are generally not considered to be of a personal nature. The purchaser, however, is entitled to terminate any such agreements with the company for "due cause" within three months from the transfer of the going concern. An example of "due cause" in these circumstances could be related to the financial condition of the purchaser. In the event that intellectual property is sold off separately by the receiver, the valuation by the expert will provide a benchmark to the sale of the assets. If these are sold through a public auction, bidding for the intellectual property will start at 100% of the value given by the expert. If the intellectual property fails to sell during the first bidding process, the starting value in the auction process will reduce by 20% to 25% each turn until the intellectual property is eventually sold. In the case of a one-off transfer of an intellectual property license, the anti-assignment clause in a license agreement will be enforced.

In sum, a review of Italian insolvency law reveals a great deal of uncertainty in the treatment of intellectual property rights, a weakness common to many European countries. Although the legal reforms of the last decade have sought to increase the efficiencies of insolvency proceedings as well as to improve the position of creditors, so far no successful attempts have been made to clarify the treatment of intellectually property rights and none appear on the horizon.

3.5 Treatment of intellectual property rights in some non-EU countries

Norway

Norway is not a member of the EU and, thus, EU Regulations have no binding effect in Norway unless incorporated and transformed into national Norwegian law in accordance with the procedures set forth in the agreement between the EU and The European Free Trade Association (EFTA) (where Norway is a member) relating to the European Economic Area. Instead, it is a member of the Nordic Bankruptcy Convention of November 7, 1933 (the "Nordic Bankruptcy Convention"), which governs insolvency issues within Norway, Finland, Iceland, Sweden and Denmark. If a company declares bankruptcy in one of these Nordic countries, the other countries under the Nordic Bankruptcy Convention will automatically recognize the proceeding. Norway, however, does not recognize insolvency proceedings commenced in other countries, outside of the Nordic Bankruptcy Convention, unless a specific treaty provides for such recognition. Norway has not adopted the Model Law, but in April 2015 the Ministry of Justice and Public Security proposed new rules on cross-border insolvencies which, among others, embrace the concept of COMI. The rules were adopted in June 2016, but are not in effect yet.[109]

Bankruptcy and insolvency proceedings in Norway are governed by the Bankruptcy Act of 1984 (*konkursloven*) (the "Bankruptcy Act") and the Norwegian Creditors Recovery Act of 1984 (*dekningsloven*) (the "Recovery Act"). The Bankruptcy Act provides procedural rules and criteria for the opening and finalization of the proceedings, whereas the Recovery Act articulates the comprehensive rules regarding the creditors' and the estate's rights and obligations. The Norwegian bankruptcy regime is centered on corporate liquidation. Although there are possibilities for making an arrangement with the creditors, the Norwegian bankruptcy system does not aim at restructuring the

[109] *See* F. Ahmed Y R. Rosaeg, *New Rules on Cross-Border Insolvencies in Norway,* 17 YEARBOOK OF PRIVATE INT'L LAW 385 (2015/2016).

insolvent company. Debt restructuring proceedings, with the assistance of a court-appointed committee, are available and aim at a debt settlement and cannot bind equity holders. If a debt restructuring proceeding fails, a company (or one of its creditors) may initiate a formal bankruptcy proceeding, in which case an estate administrator is appointed.

Neither the Bankruptcy Act nor the Recovery Act addresses intellectual property licenses expressly. Norwegian bankruptcy law also does not seem to differentiate, at least expressly, in its effects as between the licensee or licensor entering bankruptcy, main licenses and sublicenses or exclusive and nonexclusive licenses. Because the choice of law provisions have no effect in Norwegian bankruptcy to the extent they contradict the Norwegian law, the parties to a multinational license agreement with a Norwegian counterparty should be mindful of the undeveloped law in Norway on the intellectual property licensing issues.

Intellectual property rights are considered assets that an administrator can confiscate. According to section 2-2 of the Recovery Act, unless otherwise provided by statute, the debtor's estate includes (and, thus, creditors may seek satisfaction of their claims from) any of the debtor's property that attached at the time of the bankruptcy filing that can be sold, leased or otherwise converted into money. Under section 7-12 of the Recovery Act, however, a license fee claim against a debtor-licensee that has initiated the production of licensed products may only be presented as a dividend claim, provided that the debtor has made significant production investments prior to the initiation of the bankruptcy proceeding. This does not, however, entail a right for the bankruptcy estate to continue unlimited use of the licensed items. Any agreed production limits according to the license (for example, the first edition of a copyrighted work) must also be observed by the bankruptcy estate. Any production in excess of, for example, what is necessary to recover the invested costs will most likely be dependent on the bankruptcy estate (or the successor) paying licence fees. Section 39L of the Norwegian Copyright Act explicitly accepts all copyrights (*Åndsverk*) from creditor enforcement proceedings to the extent proceedings are against the original creator of the work protected by copyright. Furthermore, individual debt proceedings (as opposed to bankruptcy) cannot be invoked in connection with trademarks.

The administrator has broad powers to dispose of the estate's assets in the way that will result in the most sizable recovery to the estate. To that end, the administrator may "enter into" (or assume) any of the debtor's agreements in order to realize their commercial benefit, in which case the administrator must comply with their terms and may not modify them, unless the contract itself allows this.

In the case of a licensor's bankruptcy, the bankruptcy estate must respect the licensee agreements entered into prior to the effective date of the bankruptcy. License agreements generally do not require any registration to obtain legal protection and the bankruptcy estate must dispose of assets including the issued licenses. If the bankruptcy estate does not sell the assets, the licensee will still have a right to utilize the licensed rights according to the terms of the applicable license agreement. Patent license agreements must be registered in the patent register in order to obtain legal protection in the case of a bankruptcy of the patent holder (licensor). If, for any reason, the licensor's bankruptcy estate is not able to sell the assets, this will have no impact on the license agreement. In the case of a licensee's bankruptcy, the licensor can request the bankruptcy estate to declare whether it intends to assume the debtor's agreements under section 7-3 of the Recovery Act. The bankruptcy estate must then "within reasonable time" declare whether it intends to honor the license agreement.

The right of the bankruptcy administrator to assume the debtor's agreements under section 7-3 of the Recovery Act, however, is not without limits: the statutory language provides that the nondebtor-counterparty may request that the administrator terminate the agreement, provided that the "nature of the agreement" supports such termination. Although Norwegian case law has not fully developed on this issue, it is apparent that agreements of a "personal nature" would fall in this category. It is speculated that trademark licenses are more likely to be treated as agreements of a "personal nature". According to section 7-3(2) of the Recovery Act, termination clauses (both automatic and elective) that are triggered by a bankruptcy filing, although not unenforceable *per se*, contradict the statutory authority of the estate administrator to assume any of the debtor's contracts and, thus, may not be binding upon the administrator. Similarly, anti-assignment clauses, although not unenforceable outright, may be interpreted as a factor in considering whether an agreement is of a "personal nature". Generally, any transfer that would breach a license agreement would require that the administrator seek consent from the counterparty.

As evidenced above, the treatment of intellectual property rights (and licenses in particular) in bankruptcy under Norwegian law is undeveloped, vague and devoid of statutory guidance, resulting in a high level of uncertainty and unpredictability to counterparties to licensing arrangements. Interestingly, a school of thought in Norway is that the scarce case law regarding the intellectual property licensing issues may be due to the fact that "the flexible and pragmatic approach allowed by current Norwegian law may be seen as a proof that the rules work", accounting for the "heterogeneous" nature of intellectual property licenses that needs to be considered on a case-by-case basis.[110] The past several years, however, have marked a movement in the Norwegian Parliament toward innovating in the bankruptcy realm, including with respect to cross-border insolvencies. It will therefore be interesting to see the bankruptcy law developments in Norway in the coming years.

Japan

Japan is a civil law country, where the legal system is based primarily on statutory codes; nevertheless, judicial precedent is important in many instances, including in the area of insolvency. The intellectual property environment in Japan is very strong as it enjoys relatively strong legal protection and good enforcement. The 2017 US Chamber International Property Index ranks Japan as among four world leaders in intellectual property among the US, UK, and EU. Within the international arena, Japan continues to be dedicated to bolstering the business environment for intellectual property activities, as evidenced by the adoption of the Japan-ASEAN Joint Statement for Intellectual Property and Agreement on Intellectual Property Rights Action Plan as recently as May 2017. In the context of cross-border insolvencies, Japan was one of the first three countries to adopt the Model Law in 2000. It also reformed its license registration and protection system in 2011 in order to provide protections to the licensees of certain intellectual property without the need to register such licenses (the legislation was implemented as a result of strong lobbying efforts by business, primarily, to maintain the licensing arrangements as confidential and avoid high registration costs). Japan is also the only jurisdiction besides the US and Canada that provides licensees of certain intellectual property licenses with protections similar to those under section 365(n) of the US Bankruptcy Code.

Adoption of the Model Law

Over the past 17 years, bankruptcy practitioners in Japan have made great strides in internationalizing the insolvency laws of Japan. In 2000, for example, Japan was one of the first jurisdictions that recognized the importance of the cross-border cooperation in insolvency proceedings, adopting the Model Law into its domestic law through the Act on Recognition of and Assistance for Foreign Insolvency Proceedings (Act No. 129 of November 29, 2000) (the "2000 Act"). Although the 2000 Act adopted the fundamental

[110] V. Tsang & I. Standal Naess, *IP Licensing and Insolvency (Norway)*, AIPPI (June 10, 2014).

structure of the Model Law, there are significant differences primarily due to the civil law system of Japan (versus the common law approach of the Model Law).[111] For example, the automatic stay under Model Law is not available under the 2000 Act. In addition to the recognition of the foreign insolvency proceedings by the Tokyo District Court, obtaining a separate court decision is necessary to suspend legal proceedings against a debtor (such as compulsory execution and a prohibition on the disposition of a debtor's assets). Approximately two dozen foreign proceedings have been recognized under the 2000 Act so far.

Intellectual property rights in insolvency proceedings, generally

Under Japanese insolvency law, there are three types of insolvency proceedings: (i) liquidation-management proceedings (or bankruptcy proceedings under the Bankruptcy Act (Act No. 75 of June 2, 2004)), (ii) reorganization-management proceedings (or corporate reorganization proceedings under the Corporate Reorganization Act (Act No. 154 of December 13, 2002)) and (iii) reorganization-debtor-in-possession proceedings (or civil rehabilitation proceedings under the Civil Rehabilitation Act (Act No. 225 of December 22, 1999)). The main difference between bankruptcy and corporate reorganization / civil rehabilitation is that after corporate reorganization / civil rehabilitation, the reorganized company will survive, while after bankruptcy, the corporation will be liquidated. Accordingly, after a corporate reorganization or civil rehabilitation, some of the assets of the insolvent company will remain with the company so that it may continue its business; whereas in bankruptcy, all of the assets will be liquidated and received cash distributed to creditors. As between corporate reorganization and civil rehabilitation, the main difference is that in corporate reorganization a trustee is appointed to manage the assets of the insolvent company, whereas in civil rehabilitation, the insolvent company itself manages its assets.[112]

Intellectual property, including patent, utility model, design, copyright, trademark rights and trade secrets, are each defined and protected by the relevant intellectual property laws. Patent, utility model, design and trademark (the “Protected IP”) rights arise upon a registration with the Japan Patent Office. Transferring the Protected IP rights, establishing pledges over them, establishing statutory exclusive licenses to use such Protected IP and transferring or establishing pledges over such statutory exclusive licenses of the Protected IP, become effective upon registration with the Japan Patent Office. Under the statutory scheme, no registration is required, however, for establishing statutory *nonexclusive* licenses to use the Protected IP or establishing pledges over such statutory nonexclusive licenses of the Protected IP. A licensee can assert its right conferred by a nonexclusive license to use patent, utility model and design against third parties without registration. With regard to trademarks, although a registration is also not mandatory, it is necessary for a licensee of nonexclusive license to assert its right against third parties. “Moral” rights of the Protected IP are recognized in Japan, but are not transferrable or waivable.

In contrast, copyright rights arise and are protected from the moment of copyright creation. Moral rights of the author or the performer and neighboring rights such as rights of performers, rights of producers of phonograms, rights of broadcasters and rights of cablecasters are recognized under the Copyright Act of Japan (Act No. 48 of May 6, 1970). Transfer of copyright or a neighboring right and establishing pledges over copyright or a neighboring right, become effective upon entering into the relevant

[111] H. Horikoshi, *Guide to Japanese Cross-Border Insolvency Law,* 9 LAW AND BUS. REV. OF THE AMERICAS 725 (2003).

[112] In addition to the proceedings under the insolvency law, there are other insolvency-type proceedings, such as special liquidation under the Companies Act (Act No. 86 of July 26, 2005). Special liquidation proceedings are more flexible than bankruptcy proceedings because it is a debtor-in-possession proceeding and the insolvent company is allowed to settle with its creditors through mutual agreement under the supervision of the court. The special liquidation procedure is suitable for small-sized companies with a small number of creditors.

binding agreement. Registration with the Agency for Cultural Affairs is not necessary for the above-mentioned agreements to be binding, but necessary for the parties to assert their respective rights against third parties. Registration of copyright licenses (except for the right of publication) is not available in Japan. Trade secrets are regulated under the Unfair Competition Prevention Act (UCPA) (Act No. 47 of May 19, 1993), which does not require any registration or filing for them to be protected.

When an order for the commencement of insolvency proceedings has been entered, all of its assets, except for assets that are subject to a valid security interest, set-off or are effectively ring-fenced by a trust arrangement, can be collected by a trustee for the payment of that company's debts, or disposed of in accordance with corresponding rehabilitation plans. Security holders can exercise their security rights outside of the bankruptcy proceedings or civil rehabilitation proceedings over the secured assets. In corporate reorganization proceedings, valid security interests will also be processed in accordance with the reorganization plans but security holders will be prioritized over ordinary creditors.

Upon the sale of a bankruptcy asset, a trustee must first try to sell the asset under the supervision and approval of the court and obtain the consent of the pledgor, if any, before commencing proceedings for the compulsory sale by auction, as generally it is probable that assets will be sold more speedily and at higher prices through voluntary transactions than through a compulsory sale. However, a pledgor can force the commencement of a compulsory sale by auction to recover debts if he wishes to do so. After the trustee successfully sells the asset, the pledgor can recover its debt from the proceeds of the sale. Alternatively, a pledgor and a trustee can enter into an agreement with the purchaser to transfer the intellectual property together with the pledge, but it rarely happens in practice.

For the sale of intellectual property, generally trustees and courts experience difficulties in finding purchasers and valuing the intellectual property. They usually seek help from directors and employees of the insolvent company to find a purchaser and determine the sale price. There is a court precedent holding that it is not necessary to appoint an expert appraiser if the trustee sells intellectual property through voluntary transactions.[113] Practically speaking, a trustee will appoint an expert appraiser only if the intellectual property is valuable and he expects to find a purchaser who is willing to purchase the intellectual property at a high price. In compulsory sale by auction proceedings, the court has full discretion to appoint an expert appraiser. In practice, however, courts generally appoint expert appraisers to value the intellectual property. If there is no pledgor and the trustee believes that the intellectual property is valueless, or the expense of selling the intellectual property will exceed the sales price, the trustee may simply abandon the intellectual property with court approval.

If Protected IP is successfully sold in insolvency proceedings, the parties will need to make a registration to effectuate the transfer. A trustee can transfer copyright through an agreement, without registration. A trustee can also abandon Protected IP by submitting a notice of abandonment to the Japan Patent Office, or by failing to pay the registration maintenance fee.

Treatment of license agreements upon insolvency

Generally, from the commencement of insolvency proceedings, if both the insolvent party and the counterparty to an agreement have not fully performed their obligations, the trustee (or the insolvent party in civil rehabilitation proceedings) may choose to terminate the agreement, or may perform the insolvent party's obligations under such agreement and request the counterparty to perform its duty. The termination right of the

[113] *Tokyo High Court, 1978 (Ra) No. 1371.*

trustee (or the insolvent party) can make the parties' contractual right to terminate their license agreement in the event of one party's filing for insolvency proceedings, voidable. In other words, even if it is agreed in the contract that commencement of an insolvency proceeding would trigger termination, such termination clause is generally unenforceable in Japan because it may conflict with the trustee's (or the insolvent party's) statutory right to assume executory contracts.

If a licensee commences insolvency proceedings, the trustee for the licensee (or the licensee himself) may terminate the license agreement, or perform the licensee's obligations, including paying royalties and request the licensor to perform its duties. When the trustee (or the licensee himself) chooses to continue the license agreement, the licensor's claims, including claims for royalties arising on or after the commencement of insolvency proceedings, under the license agreement are prioritized over ordinary claims, while the licensor's claims arising before the commencement of insolvency proceedings are treated as ordinary claims. In liquidation-type proceedings, the license agreement will end upon the liquidation of the licensee's assets.

Unlike the licensor, the licensee enjoys a certain level of protection in Japan (somewhat similar to the US protections) if the licensor files for bankruptcy. Specifically, in a case of licensor's insolvency, the trustee for the licensor (or the licensor himself) may terminate the license agreement unless the licensee takes certain steps to protect its rights against third parties prior to the commencement of insolvency proceedings, such as complying with registration requirements, if applicable (as discussed above) and meeting any other requirement for duly asserting the contractual right against any third party. In that case, the licensor cannot terminate the license agreement and the licensee can force the trustee to perform its duty under the license agreement. In other words, a licensee of a statutory nonexclusive license for the Protected IP (excluding trademark), registered nonexclusive license for trademark and registered exclusive license for Protected IP, can request the trustee (or the licensor) to perform the licensor's duties under the license agreement if the registration is completed prior to the commencement of the insolvency proceedings and assign the license to any third party. However, since a perfection method to assert its right against third parties for protecting know-how license, including trade secret and copyright license, are not available, the trustee (or the licensor) can choose to terminate the know-how or copyright license agreement. Further, if the trustee of the licensor transfers the copyright under the license agreement to a third party, the licensee cannot assert its right against that third-party successor.

In sum, Japan is one of very few jurisdictions that provides licensees of certain intellectual property licenses with protections. However, such protections are not comprehensive, partly because the existing protections of know-how or copyright licensees in insolvency proceedings are not sufficient to protect the parties' expectations. Thus, it would be advantageous to establish a legal system similar to the system protecting the licensees of patent license agreements to protect the licensees of know-how and copyright license agreements.

China

In July 2017, the People's Republic of China ("China" or "PRC") hosted the World Economic Forum's Annual Meeting of the New Champions, a prominent global meeting on science, technology and innovation.[114] At the meeting, the Chinese government emphasized the strength and importance of entrepreneurship and innovation in China. While China has been taking steps to enhance the protection of intellectual property rights and boost innovation on various fronts, Chinese insolvency law still has not

[114] J. Zukus, *How China Is Emerging As a Leader in Global Innovation and IP Rights,* THE DIPLOMAT (July 7, 2017).

distinguished intellectual property rights in bankruptcy proceedings. The judicial interpretations and published cases do not provide explicit legal guidance on the treatment of IP licenses during bankruptcy proceedings either. In mid-July 2017, PRC's cabinet adopted guidelines with detailed measures to boost mass entrepreneurship and achieve innovation-driven growth,[115] but the guidelines do not seem to address intellectual property-related protections in insolvency proceedings.

Beginning in 2014, China has taken substantial steps to protect intellectual property rights, including the introduction of specialized intellectual property courts, by amending its intellectual property laws that has resulted in the expansion the enforcement provisions.[116] China equally demonstrates its dedication to becoming the leader in global trade, appearing to be doing away with its "centrally planned" economy. Accordingly, although China has not adopted the Model Law, commentators note that China, in drafting its insolvency laws in 2007, has to a degree embraced the spirt of the Model Law by unifying the treatment for state-owned, private and foreign companies and incorporating a more universal approach to cross-border insolvency through Article 5 by treating all creditors, whether in China or abroad, equally.[117] That being said, recognition of foreign proceeding in China remains "quite restrictive".[118]

Intellectual property rights in insolvency proceedings

There are three distinct types of insolvency proceedings in China – (i) rehabilitation, (ii) settlement and (iii) bankruptcy declaration; the treatment of intellectual property rights, however, does not differ depending on the type of insolvency proceeding. An intellectual property right, such as patent, trademark and copyright, is viewed as an ordinary debtor's asset during a bankruptcy proceeding under the Enterprise Bankruptcy Law of PRC (which was promulgated in August 2006 and became effective in June 2007 – "PRC Bankruptcy Law") and its relevant judicial interpretations. According to Provisions (II) of the Supreme People's Court on Several Issues Concerning the Application of Bankruptcy Law, the people's court will deem the intellectual property rights as the debtor's assets. Under Article 30 of the PRC Bankruptcy Law, a debtor's assets refer to all the assets that belong to a debtor when an application for bankruptcy is accepted, as well as the assets obtained by the debtor during the period from when an application for bankruptcy is accepted to when the proceedings for bankruptcy are concluded. Regardless of the type of intellectual property rights being dealt with, they will be treated as an asset of the debtor. A debtor's assets become assets of the insolvent estate after the people's court announces a debtor bankrupt. All assets of the insolvent estate will go through the same liquidation and distribution process as provided under the PRC Bankruptcy Law.

Under Article 111 of the PRC Bankruptcy Law, a bankruptcy administrator must sell the insolvent assets according to a liquidation plan prepared by the administrator and adopted at the creditors' meeting. Alternatively, if at the creditors' meeting the creditors fail to adopt the liquidation plan drafted by the administrator, the insolvent's assets will be sold according to a liquidation plan determined by the People's Court. The PRC Bankruptcy Law does not define the specific requirements for the "liquidation plan" but according to the official legislative interpretation, the liquidation plan generally only provides for the principles of the liquidation. The administrator has the discretion to liquidate the assets, as long as the principles stipulated in the liquidation plan are observed. Under Article 83 of the Supreme People's Court Provisions on Issues Concerning the Trial of Enterprise Bankruptcy Cases ("SPC's Provisions"), the

[115] *China to Deepen Reform to Promote Mass Entrepreneurship, Innovation,* IPR IN CHINA (July 14, 2017), *available* at http://www.chinaipr.gov.cn/article/industryreports/201707/1908357.html.
[116] W. Sobon, *The Surprising Rise of China As IP Powerhouse,* TC (Apr. 11, 2017).
[117] M. Mannan, *The Prospects and Challenges of Adopting the UNCITRAL Model Law on Cross-Border Insolvency in South Asia*, Master of Laws Thesis, Leiden Law School (July 27, 2015), at 27.
[118] *Id.*

administrator may determine a qualified expert appraisal institution to carry out an appraisal of the assets of the insolvent estate. However, where the creditors at the creditors' meeting do not disagree over the market price of the insolvent's assets (and upon consent by the people's court), an appraisal is not necessary. Further, unless otherwise determined at the creditors' meeting, under Article 112 of the PRC Bankruptcy Law the liquidation of the insolvent's assets must be conducted through an auction to maximize the value of such assets, which may be sold as a whole or in parts. The intangible assets, such as intellectual property rights, can be liquidated independently. According to the SPC's Provisions, the administrator shall be responsible for entrusting a qualified auction institution to carry out the auction. Where the proceeds from the asset are insufficient to pay the expenses for the auction, such asset shall not be auctioned. Interestingly, judicial auctions for insolvent assets, including intellectual property rights, can now be conducted on an Internet platform, such as the e-commerce platform Taobao.

The PRC Bankruptcy Law also sets out the rules of priority in the distribution process. Under Article 109 of the PRC Bankruptcy Law, a secured creditor will enjoy a priority right to be repaid from the proceeds of the collateral. Where a secured creditor cannot be fully repaid by the proceeds of the collateral, the unpaid part shall be deemed as an ordinary credit. Where the priority right for repayment is waived, the creditor's right will be taken as the right of an ordinary creditor. Similarly, Article 71 of the SPC's Provisions provides that the mortgaged, liened and pledged assets do not belong to insolvent's assets, the only exception being where the creditor waives its priority right of repayment or the unpaid part after being repaid in priority. Under Article 75 of the Guarantee Law of the PRC, promulgated in June 1995 and effective as of October 1995, a pledge right can be taken on exclusive trademark rights, patent rights and copyright that can be transferred legally. Article 79 further requires that the pledgor and pledgee establish a written contract and register the pledge with the relevant intellectual property administrative authority. The pledge right goes into effect as of the date of the registration of such pledge. When the intellectual property rights are pledged, the pledgor cannot transfer or allow others to use the pledged intellectual property without consent from the pledgee. Where the pledgee consents to the pledgor's assignment or license of intellectual property rights, the assignment fees or the licensee fees shall be used to pay off the pledged rights in advance, or will be deposited with a third party agreed upon by the pledgee. If the pledgor is bankrupt, the pledgee will be treated as a secured creditor and will enjoy the priority right as stipulated under the aforementioned Article 109 of the PRC Bankruptcy Law.

Another group of priority claims under the PRC Bankruptcy Law are administrative expenses and community liability. Under Article 42 of the PRC Bankruptcy Law, community liabilities include, among other things, the liabilities generated from the debtor's assumption of executory contacts, unjust enrichment, labour cost for the continuance of business operations, social insurance premiums and related liabilities and personal injuries arising from the debtor's assets. Pursuant to its official legislative interpretation, community liabilities refer to nonadministrative liabilities incurred for the common interests of all creditors. The bankruptcy expenses and the community liabilities can be "cleared" or paid through the debtor's assets at any time under Article 43 of the PRC Bankruptcy Law. The bankruptcy expenses must be paid off first, and where the debtor's assets are insufficient to satisfy all bankruptcy expenses and community liabilities, the distribution is *pro rata*.

Treatment of license agreements upon insolvency

An intellectual property license is likely treated as an executory agreement under the PRC Bankruptcy Law and the registration of an intellectual property license does not provide any special treatment in a bankruptcy proceeding. According to Article 18 of the PRC Bankruptcy Law, an executory contract is an agreement that has formed before acceptance of the bankruptcy application but not yet been fully performed by both parties. Most intellectual property licenses will most likely meet this definition because the performance of an intellectual property license is ongoing on both sides until the termination of the license. Accordingly, an administrator has the power to rescind or assume an intellectual property license agreement.

If an intellectual property license is found to constitute an executory contract and a licensor files for bankruptcy, the administrator for the licensor may choose to rescind the license such that the licensed intellectual property can be sold free of encumbrance, in which case the solvent licensee may claim damages as an ordinary creditor according to Article 53 of the PRC Bankruptcy Law. Such a claim will be ranked as unsecured creditor and will be paid after all the prioritized claims. Hence, the licensee may not be able to recover the full damages it has claimed. In one published opinion on the subject,[119] where the solvent counterparty wished to resume the contract in circumstances where the administrator rescinded it, the court ruled that the contract was terminated under Article 18 of the PRC Bankruptcy Law and the solvent counterparty only had an unsecured claim. Arguably, if the licensee is a public entity and the rejection would harm the public, bankruptcy courts would likely consider the equities, potentially ruling against the proposed rejection by the administrator. After the license is rejected, the licensee cannot use the intellectual property underlying the license. In the case of the termination of a license, the sublicenses will very likely be terminated as well, exposing the licensee to lawsuits by the sublicensees for breach of contract unless the sublicense agreement provides for an automatic termination of the sublicense in the event of licensor's bankruptcy or termination of the license.

On the other hand, where a licensee files for bankruptcy, the administrator for the licensee may choose to rescind the license or to resume the license, whichever option maximizes the licensee's assets under the particular circumstances. If the administrator for the insolvent licensee chooses to resume the license, under Article 18 of the PRC Bankruptcy Law, the counterparty concerned must continue the performance of the contract. However, the solvent licensor can request the administrator to provide a guarantee (such as a performance bond or pledge) in accordance with Article 18 of the PRC Bankruptcy Law. Where the administrator does not provide such guarantee, the executory contract shall be deemed rescinded. If the administrator provides the guarantee, the licensor becomes a secured creditor.

In practice, an intellectual property license agreement often contains an automatic termination clause triggered by the insolvency of a party. Under PRC contract law, each party has a right to rescind a contract unilaterally if certain agreed upon conditions are satisfied. In bankruptcy, however, the administrator may terminate or assume the contract. Although legally the bankruptcy law should be supreme in such a case, practically speaking even if the administrator for a licensing party chooses to resume the contract, the solvent counterparty will resort to the contractual clause to terminate the agreement, which would likely be enforced.

Unlike the US and Japan, the current bankruptcy regime in PRC does not distinguish intellectual property licenses from other executory contracts, which frequently places hardship on the solvent licensees whose businesses are built upon the licenses. Because the solvent licensee is ranked as an unsecured creditor, the damages afforded under Article 53 of the Bankruptcy Law may not compensate the lost profits suffered as a result of the termination of the license.
Although in China the parties to a cross-border licensing agreement may choose any law to govern the relationship and the jurisdiction for any related dispute, the choice of law provision will only govern the contractual interpretation – it cannot take precedence over the PRC Bankruptcy Law in a bankruptcy proceeding commenced in China.

---

[119] (2016) Yue Civil Final No.1597, PKU - CLI.C.8989700. *See* http://www.pkulaw.cn/ (China legal database).

In sum, as one of the world's leading users of intellectual property, China has taken substantial steps to protect intellectual property rights. While these steps do not address intellectual property in insolvency proceedings, given the progress achieved to date China may very well soon address the treatment of intellectual property in its domestic bankruptcy laws.

Singapore

Singapore has long maintained its reputation as Southeast Asia's financial hub. The ease of doing business in Singapore is well noted in the world community and it is sometimes called the Delaware of Asia. Singapore is also reinventing itself as Asia's financial technology (or "fintech") hub with state funding, light regulations, a recent move to allow start-ups to test financial products in a controlled environment and an unprecedentedly innovative and progressive government, all of which attract many technology giants.[120] The world's first self-driving car prototype was actually tested in Singapore in August 2016. A conscious light-touch regulatory approach has made it the most attractive fintech hub in Asia and the fourth most attractive in the world (after California, the United Kingdom and New York). Singapore's government aspires to match Silicon Valley and Israel, offering generous funding to startups in addition to the Lion City's already recognized ease of doing business, stable legal regime and pool of skilled professionals. These efforts are paying off – all but a dozen of around 210 fintech firms operating in Singapore have opened in the past two years, which marks the fastest growth rate in Asia.[121] Singapore is also attracting interest from about 60,000 fintech firms that are on London's near-$9 billion market; it is predicted that Brexit will accelerate this.[122]

In addition to this, Singapore recently amended its insolvency laws to establish itself as an attractive venue for cross-border insolvency matters. These amendments, however, do not specifically affect the treatment of intellectual property. However, the intellectual property treatment in insolvency may very well be the subject of future rounds of amendments as Singapore is evolving into a key technology and start-up hub. Furthermore, this year Singapore enacted the Model Law into its domestic law, further demonstrating its intention to streamline cross-border insolvency proceedings and gaining more popularity in the international arena.

Amendments to insolvency laws

The Singapore Companies Act 2006 ("Act") governs, among other things, the insolvency of companies. As of May 23, 2017, Singapore introduced amendments to these insolvency laws through the Companies (Amendment) Act 2017 (the "Amendments"), in the hope of making Singapore a regional and international hub for debt restructuring. Broadly speaking, the amendments modernize Singapore's restructuring and insolvency law procedures and render Singapore an ideal venue within which to restructure distressed companies.

With respect to schemes of arrangement, under the Amendments foreign companies that have a substantial connection with Singapore are able to be subject to the scheme of arrangement regime, whereby the rights of the company and its creditors and shareholders are restructured in order for the company to remain afloat. The Amendments will also allow the court to (i) grant worldwide moratorium orders to apply to any person within Singapore's jurisdiction, regardless of where the act takes place;[123]

---

[120] S. Azhar & M. Zaharia, *In Race to Be Asia's Fintech Hub, Singapore Leads Hong Kong,* REUTERS (Aug. 16, 2017).
[121] *Id*.
[122] *Id*.
[123] Singapore Companies Act 2006 § 211C.

(ii) grant new financing priority over other creditors' claims to assist with the restructuring of the company, including granting super priority over preferential debts (provided the existing secured creditors are not unfairly prejudiced);[124] and (iii) approve a scheme even if a class of creditors opposes it, provided those creditors will not be unfairly prejudiced.[125]

With respect to a judicial management, which involves a judicial manager being appointed to the company along with an automatic moratorium with the aim of restoring the company to a going concern, the Amendments allow for: (i) judicial management to be made available to foreign companies;[126] (ii) an earlier application (in that the court need only be satisfied that the company "is likely to become" as opposed to "will be" unable to pay its debts);[127] (iii) the prioritization of rescue funding ahead of all other secured debt;[128] and (iv) the appointment of a judicial manager notwithstanding that a person who has appointed, or is entitled to appoint, a receiver and manager has objected to it, provided that the prejudice to the person objecting is not disproportionately greater than that caused to unsecured creditors.[129]

The inclusion of a new sub-section 351(d) to the existing winding-up provisions allows a court to be able to assume winding-up jurisdiction over foreign companies, provided they can demonstrate a "substantial connection to Singapore". Additionally, the Amendments abolish the ring-fencing rule applied by the old section 377 to the winding-up of foreign companies, which only allowed a Singapore liquidator to remit funds to a foreign jurisdiction if all Singaporean debts had been paid.

Adoption of the Model Law

Singapore is now one of the few Asian countries to have adopted the Model Law through the Amendments. With the incorporation of the Model Law, the Singapore insolvency regime now allows foreign representatives and creditors to apply directly to the court for the recognition of a foreign proceeding in which the foreign representative has been appointed.[130] The Amendments also provide for the granting of provisional relief in applications for recognition of a foreign proceeding, including: (a) staying execution against the debtor's assets; (b) entrusting the administration of the debtor's assets located in Singapore to the foreign representative or another designated person, in order to preserve the value of the assets; (c) suspending the right to dispose of any assets of the debtor; and (d) providing for the taking of evidence concerning the debtor's assets and affairs.[131] The Amendments also provide for the local courts to communicate and cooperate with foreign courts[132] and deal with concurrent insolvency proceedings such that there is consistency between / among the proceedings as to the relief granted.[133] The Amendments have substantively adopted the Model Law with no noteworthy deviations. Due to the relative newness of the Amendments and bearing in mind that parties may only take advantage of the new rules from August 1, 2017 onwards, there are currently no cases to report regarding the application or treatment of the Amendments in Singapore courts.

[124] *Id.* § 211E.
[125] *Id.* § 211H.
[126] *Id.* § 227AA.
[127] *Id.* § 227B.
[128] *Id.* § 227HA.
[129] *Id.* § 227B.
[130] *Id.* Arts. 9 & 15(1).
[131] *Id.* Art. 19.
[132] *Id.* Arts. 25-27.
[133] *Id.* Arts. 28-30.

Effect of insolvency on intellectual property rights

While the Amendments to Singapore's insolvency regime have greatly improved the ease with which companies can undertake cross-border restructuring activities in Singapore, the Amendments do not deal specifically with intellectual property rights, including those related to licenses, in insolvency. Thus, the default position in Singapore is that general contract law principles apply to intellectual property licenses.[134] Accordingly, whether an intellectual property licensor may terminate a licensee's right to use, or whether an intellectual property licensee may continue to use intellectual property assets licensed to it even though the licensor wants to terminate the license, while either party is in insolvency, depends on the terms of the license agreement.[135] As a result, some intellectual property licenses contain a choice of law provision, providing for New York law to govern, with the intention of taking advantage of, among other things, section 365(n) of the US Bankruptcy Code and its facilitation of software source code and other technology escrow agreements. The Singaporean courts, however, will not enforce a choice of law provision over the applicable insolvency laws; in other words, the choice of law clause will not make the section 365(n) protections applicable to a main insolvency proceeding commenced in Singapore.

"Termination upon insolvency" clauses in license agreements are enforceable, provided the intellectual property license in question includes insolvency of the licensor or licensee as an event of default, entitling the nondebtor counterparty to terminate the license. License agreements usually provide that the insolvency of a licensee is an event of default, entitling the licensor to terminate the license agreement. It is less usual for a license agreement to provide that insolvency of a licensor triggers a default. Accordingly, a liquidator may terminate a license in accordance with the terms and conditions of the license (unless the liquidator disclaims the contract as "unprofitable"). The remedies available to the solvent counterparty would be governed by general Singaporean contract law and a claim as to whether the liquidator's termination violated the terms and conditions of the license causing the insolvent party to be in breach. If successful in its claim, the solvent counterparty may then pursue any order for damages awarded by a court as an unsecured creditor of the insolvent party.

Pursuant to section 272(2)(c) of the Act, a liquidator is entitled to sell all moveable property, which includes intellectual property, subject to anti-assignment provisions in the license agreement. Anti-assignment provisions are governed by general contract law, which is largely based on English contract law. Anti-assignment clauses are usually, but not always, enforceable, depending on the language in the agreement. Section 332(1) of the Act provides that a liquidator, with leave of court (or the committee of inspection), may be able to disclaim "unprofitable" contracts or property which are unsaleable or not readily saleable, in that it binds the licensor to the performance of an onerous act or to the payment of money. An "unprofitable contract" is usually one that imposes financial obligations on the debtor that are detrimental to the debtor's creditors (that is, conferring no reciprocal benefit on the debtor). Singaporean courts frequently consult UK precedent on the issue. Because the government encourages the growth of intellectual property-intense industry and licensing, in particular to stimulate business growth, in the event of an insolvent licensor the preferred route is for the licensee to negotiate the license with the insolvent licensor

[134] It is important to note that the licensee can take a security interest in the licensed intellectual property. Section 39(2)(c) of the Trade Marks Act, section 43(3)(b) of the Patents Act and section 24(20(c) of the Registered Designs Act permit the licensee to provide a loan in exchange for a security interest. Further, if the IP is a trade mark, it can be subject to a charge under section 38(6) of the Trade Marks Act. Finally, as evidenced in section 43(3)(b) of the Patents Act, the licensee can take a mortgage of the intellectual property if it is a patent. The security interest or pledge renders the licensee a secured creditor entitled to priority over any amounts realized from the sale of the underlying intellectual property right.

[135] Because, generally, a sub-licensee derives its rights under the sub-license from the licensee, it is in no better position than a licensee.

or the new owner of the underlying intellectual property. It is important to note that exclusive licenses are generally treated no differently than nonexclusive licenses.

Registration of intellectual property licenses and its effects

Singapore has a registration system for licenses relating to trade marks, patents, registered designs and plant varieties. However, it does not have a process for copyright, unregistered trademarks and layout designs of integrated circuits. If the license of the intellectual property has not been registered, the third-party purchaser of the intellectual property may be able to take the intellectual property free of the license and will not be required to comply with its terms and conditions. Further, if an intellectual property license is not registered, any party who acquires the intellectual property right is no longer deemed to have notice of the license or to have acquired the intellectual property right subject to that license. The formalities required for registration are dependent on the type of intellectual property license. Generally, a license will usually need to be in writing for it to be effective. Further, in terms of section 42 of the Trade Marks Act trade mark licenses are not effective unless in writing and signed by or on behalf of the grantor. However, a patent license does not need to be entered in any particular form and oral patent licenses can be enforceable.

Based on the above, the question is: where to from here? Singapore has long established itself as a regional and international financial center and an increasingly attractive venue for international debt restructuring activities. However, the recent amendments to the insolvency law do not specifically address issues in intellectual property licenses. Currently, there is little guidance for intellectual property licensors and licensees on how to proceed in situations where the parties have elected not to make insolvency an event which allows for termination of an intellectual property license. As discussed above, however, because Singapore is fast becoming a leading start-up and technology hub, Parliament might consider specific amendments to govern intellectual property in future legislation to attract intellectual-property-dependent companies.

Cuba

On the opposite side of the spectrum from Singapore, is Cuba. The economic and political isolation of the Republic of Cuba ("Cuba") since the 1960s has adversely affected its economy as well as the development of intellectual property. The shift in the diplomatic environment between the United States and Cuba, however, signals a potential positive change in Cuba's involvement in the global economy, although the continued embargo and lack of bankruptcy laws creates a strong sense of uncertainty and stiffens foreign investments.

The US has maintained a broad embargo against Cuba since 1962, which is primarily enforced by the US Treasury Department's Office of Foreign Assets Control. Subject to several narrow exceptions, the embargo prohibits almost all commercial, investment, trade and other business activities involving Cuba, Cuban property or Cuban nationals. Accordingly, no products, technology or services may be exported from the United States to Cuba but for certain foods and medical products. With the recent changes in US - Cuba relations, certain aspects of the Cuban market opened up to US companies (at least for a brief moment).[136] Indeed, during his administration, President Barack Obama attempted to restore full diplomatic ties with Cuba and de-isolate Cuba by easing travel and trade restrictions.[137] President Obama even spoke about lifting the embargo, which has been in place for over 55 years. As a result, although the Cuban

136 Baker Donelson, *The New Cuba Reality and Your Intellectual Property,* JDSUPRA (July 28, 2015).

137 C. Felter & B. Lee, *et al.*, *U.S.-Cuba Relations,* COUNCIL ON FOREIGN RELATIONS (last updated on June 19, 2017); *see also Fact Sheet: Treasury and Commerce Announce Regulatory Amendments to the Cuba Sanctions,* U.S. Department of the Treasury (Jan. 15, 2015).

embargo remains in force today, many US-based companies, including Google, Airbnb and Starwood Hotels & Resorts, were able to invest into Cuba following the warming of the relations with and relaxation some of the embargo terms on Cuba.[138] With the Trump administration coming to power, there has been a significant, although not full, regression in the relations and, thus, any lifting of the embargo is unlikely at this time. Accordingly, protecting investing companies' intellectual property assets is, and should be, at the forefront, but it is difficult in light of its legislative environment.

First, Cuba is a first-to-file jurisdiction, meaning that the first party to register a trademark in Cuba is the first party to obtain exclusive rights to the trademark in Cuba; "even absent underlying use and good will, a third party 'troll' could obtain exclusive rights to a legitimate US brand in Cuba."[139] Generally, despite the Cuban embargo, US companies have been allowed to register their trademarks, prosecute infringement proceedings and retain attorneys in Cuba, but the registration may be cancelled if the trademark is not used within three years of its registration. Cuba, however, is a signatory to several international treaties (as discussed below) that mitigate these issues for the US. Second, Cuba does not have any bankruptcy law or bankruptcy courts.[140] Despite the uncertainties, more than 400 US companies have registered over 5,000 trademarks in Cuba, which evidences the appetite US businesses have for the Cuban market.[141]

From the Cuban standpoint, it is Cuban intellectual property rights that are not protected on the US market despite the fact that both the US and Cuba are parties to a few intellectual property-related international treatises: the Paris Convention of the Protection of Intellectual Property Rights (the "Paris Convention") and the 1929 General Inter-American Convention for the Trade Mark and Commercial Protection (the "Pan-American Convention"), both of which provide protections to well-known trademarks that lack registrations in contracting countries. These treaties do not seem to be enforced for the benefit of Cuba. For example, the Paris Convention recognizes the "famous marks doctrine" (that is, allows owners of well-known foreign trademarks to seek refusal or cancellation of registrations of confusingly similar trademarks in the countries that are parties to the Paris Convention even if the owner does not have the mark registered) as an exception to the "principle of territoriality" (that is, a trademark owner has no right to its trademark in a country unless it is registered in that country); yet, the US courts diverge on the issue whether Cuba's intellectual property rights are protected in the US due to the ambiguity of the Lanham Act and the existence of the embargo. The Pan American Convention provides that a trademark owner protected in one of the contracting countries has the preferential right to use such trademark in another contracting state; yet, the US courts hold that the Cuban embargo precludes Cuban manufacturers' acquisition of property rights in trademarks in the US.[142] As a result, US entities can register their own version of the well-known Cuban marks (such as Cuban rum or cigars) and market them throughout the US. Since Cubans are unable to register or be recognized by the US, Cuban entities cannot generally seek relief against an entity registering and marketing their own version the Cuban well-known marks.

The above discussion of Cuba – with its nonexistent bankruptcy laws and lack of intellectual property protections – serves as an important reminder of how critical a

---

[138] Felter & Lee, *supra* note 137; K. Linthicum, *U.S. Companies Line Up to Do Business in Cuba*, LOS ANGELES TIMES (Mar. 25, 2016).

[139] C. Campbell, *Top Ten Reasons US Companies Need to Protect Their Brands in Cuba Now,* LICENSING JOURNAL (May 2016).

[140] M. Travieso-Diaz & A. Musa, *Courts of Limited Jurisdiction in a Post-Transition Cuba,* 39 VANDERBILT J. OF TRANSNATIONAL LAW 125, 148-50 (2006).

[141] L. Ashery, *Importance of Protecting Intellectual Property in Cuba*, CAESARRIVISE (Apr. 27, 2016).

[142] *See generally* M.G. Griffin, *Caught Between a Mark and a Hard Place: Resolving U.S.-Cuban Trademark Disputes in Post-Embargo World*, 23 J. INTELL. PROP. L. 293 (2016).

well-established bankruptcy regime and intellectual property rights are to a country's economy.

4. Conclusion

Despite the exponential growth of intellectual property and focus on its monetization, the approaches of national insolvency schemes to the treatment of intellectual property rights upon insolvency of a holder of such rights, including licensors and licensees, have been, at best, unpredictable and inconsistent. Only US, Canada and Japan have explicit protection for intellectual property licensees in the case of a licensor's insolvency. Decisions addressing the treatment of intellectual property rights in cross-border proceedings and recognition of foreign insolvency proceedings between or among nations, where substantive approaches to the treatment of the intellectual property rights differ – like *Qimonda* and *Nortel* – are ample evidence of the need to harmonize substantive insolvency law governing intellectual property. Even with the various supranational statutory mechanisms that help streamline multi-jurisdictional insolvency procedures, there is still significant progress to be made to provide a completely cohesive regime that deals with the specifics of intellectual property and provides commercial certainty to companies entering into intellectual property licenses. Commercial uncertainty that stems from the lack of uniform treatment of intellectual property rights in cross-border insolvencies is not attractive to investors or potential contract counterparties to intellectual property licenses, thereby hampering the global trade. Unless UNCITRAL and the European Council harmonize the treatment of intellectual property ownership and use rights, certainty simply cannot be achieved and the full potential of monetizing and protecting intellectual property will not be realized.

INSOL International
GROUP THIRTY-SIX

AlixPartners LLP
Allen & Overy LLP
Alvarez & Marsal
Baker McKenzie
BDO
Brown Rudnick LLP
BTG Global Advisory
Chadbourne & Parke LLP
Clayton Utz
Cleary Gottlieb Steen & Hamilton LLP
Clifford Chance
Conyers Dill & Pearman
Davis Polk & Wardwell LLP
De Brauw Blackstone Westbroek
Deloitte
Dentons
DLA Piper
EY
Ferrier Hodgson
Freshfields Bruckhaus Deringer LLP
Goodmans LLP
Grant Thornton
Greenberg Traurig LLP
Henry Davis York
Hogan Lovells
Huron Consulting Group
Jones Day
King & Wood Mallesons
Kirkland & Ellis LLP
KPMG LLP
Linklaters LLP
Morgan, Lewis & Bockius LLP
Norton Rose Fulbright
Pepper Hamilton LLP
Pinheiro Neto Advogados
PPB Advisory
PwC
Rajah & Tann Asia
RBS
RSM
Shearman & Sterling LLP
Skadden, Arps, Slate, Meagher & Flom LLP
South Square
Weil, Gotshal & Manges LLP
White & Case LLP

INSOL International

6 – 7 Queen Street, London EC4N 1SP
Tele: +44 (0)20 7248 3333
Fax: +44 (0)20 7248 3384
www.insol.org