

Recent Changes in Bankruptcy and Intellectual Property Licensing: We are Finally Entering the 21st century!

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On November 1, 2019, several changes to the *Bankruptcy and Insolvency Act* ("BIA") and the *Companies' Creditors Arrangement Act* ("CCAA") will come into force regarding bankruptcy and intellectual property licensing.

These amendments were anticipated in the *Budget Implementation Act, 2018, No. 2* whose goal was to protect the rights of users of intellectual property in cases where licensor becomes insolvent in order to prevent the operational activities of these users from being suddenly affected because of their inability to use the intellectual property for which they normally hold rights.

Current Situation

Currently, the holder of an intellectual property licence **in good standing** may only continue to use the intellectual property if the debtor terminates this license unless they are in the process of a **restructuring** pursuant to the BIA² or the CCAA³.

In return for maintaining the right to use the intellectual property, the intellectual property holder must **continue to meet its contractual obligations** with respect to the use of the right, such as the payment of royalties.

Upcoming Changes

The goal of these changes is to protect the rights of intellectual property users in all insolvency cases, while pointing out acceptable practices to prevent the misuse of these rights.

These amendments therefore extend this right to maintain the license to liquidation proceedings and sales of assets by allowing a licensee of intellectual property in good standing to continue to make use of the intellectual property and to enforce its exclusive use where applicable if:

- The intellectual property is **sold** as part of a **restructuring** under the BIA;
- The intellectual property is **declined or sold** in the context of a **liquidation** under the BIA;

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² Paragraph 65.11(7) of the BIA.

³ Paragraph 32(6) of the CCAA.

- The intellectual property is **declined or sold** under **escrow**;
- The intellectual property is being **sold** as part of a **restructuring** under the CCAA.

In the same way as in the case of a restructuring, the holder must **respect its own contractual obligations** with regards to this right, for the period established in the contract including any period for which it extends the agreement as of right.

Coming into Force

The effective date of these amendments is **November 1, 2019**. No transitional period or provision has been made.

However, these provisions will only apply with regards to proceedings pursuant to this Act on or after the effective date of these amendments.

It will be important to **verify the date of the proceedings** in question. If they are initiated **on or after November 1, 2019**, then the new provisions will apply to the intellectual property licenses.

Uncertainties

However, there are still some uncertainties as to the implementation of these provisions. The affected laws do not provide a clear definition of the term "**intellectual property**" that would suggest that certain intellectual property would not be affected by these provisions.

The definition of the term "**contractual obligations**" is also leaves uncertainty regarding its coverage. It is possible to speculate what may be included in these obligations, particularly in the context of royalties payable for intellectual property and other services. Will it be possible to pay only a partial amount of these royalties equalling to the maintenance of the right to intellectual property?

Finally, the question of what is included in "**use of an intellectual property right**" is rather unclear. It is not possible, for the time being, to state that all rights relating to the use of intellectual property will automatically be maintained.

For more information about these new provisions or any assistance concerning their implementation, do not hesitate to contact the [corporate law team at ROBIC](#).

KEEP IN MIND

What's new?

A licensee of intellectual property in good standing may continue to use the intellectual property concerned and enforce its exclusive use if:

- It is being sold as part of a restructuring under the Bankruptcy and Insolvency Act ("BIA") and the Companies' Creditors Arrangement Act ("CCAA");
- It is declined or sold as part of a liquidation under the BIA;
- It is declined or sold under escrow.

Criteria?

For the changes to apply, three criteria must be met:

- 1) That the license is in good standing at the beginning of the procedure;
- 2) Be in one of the listed procedures; and
- 3) That the licensee complies with its own contractual obligations under the licence for the period specified and for any extensions.

When?

These changes will be applicable as of November 1, 2019. The relevant proceedings must have begun on or after that day.