Broader Protection for IP Licensees in Insolvency Proceedings Comes into Effect on November 1, 2019

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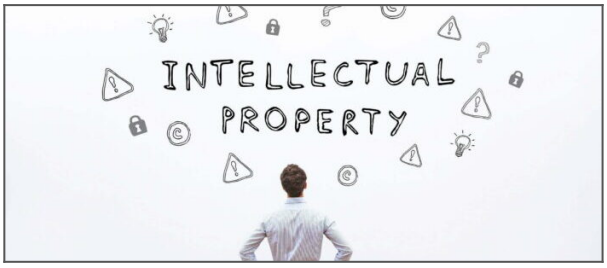

The *Bankruptcy and Insolvency Act* ("BIA") and the *Companies' Creditors Arrangement Act* ("CCAA") have been amended to provide greater protection to intellectual property ("IP") licensees in the event that an IP licensor becomes insolvent. These important amendments come into force on November 1, 2019.

Disclaiming a Licence

When the licensor who granted the right to a licensee to use certain IP becomes insolvent, a significant concern for a licensee is that the licensor may wish to disclaim the licence, that is, the licensor may wish to cancel, withdraw or terminate the licence.

Subject to certain conditions, section 65.11(1) of the BIA provides that where a debtor has filed a notice of intention to make a proposal to creditors or has made a proposal to creditors to avoid bankruptcy, a debtor may disclaim any agreement. Similarly, section 32(1) of the CCAA grants the authority to a debtor company, subject to certain restrictions, to disclaim any agreement to facilitate compromises and arrangements with creditors.

Amendments to the BIA and the CCAA that were enacted in 2009 provide that where there is a notice of intention to make a proposal or a proposal filed under the BIA or a compromise or arrangement under the CCAA and a debtor has disclaimed an IP licence agreement, section 65.11(7) of the BIA and section 32(6) of the CCAA preserve the right of a licensee to use the IP, as long as the licensee continues to perform its obligations under the licence agreement in relation to the use of the IP.

Implementation of Broader Protection for IP Licensees

Significantly, where an IP licensor is involved in an insolvency proceeding that is commenced on or after November 1, 2019, the protection granted to IP licensees is broadened. The new amendments together with section 65.11(7) of the BIA and section 32(6) of the CCAA provide certain protection to IP licensees in asset sales and disclaimers of IP licence agreements whether the licensor is involved in a bankruptcy, receivership or a BIA or CCAA restructuring.

The new amendments to the BIA and the CCAA related to IP, which come into force on

November 1, 2019, are each dependent on a licensee continuing to perform its obligations under the licence agreement in relation to the use of the IP. These amendments are:

(1) If an insolvent person who filed a notice of intention to make a proposal or filed a proposal under the BIA has been authorized by a court to sell assets, including an IP licence agreement, that sale does not affect the licensee's right to use the IP [BIA restructuring] (BIA, s. 65.13(9)).

(2) If a trustee sells or disclaims an IP licence agreement, the sale or the disclaimer does not affect a licensee's right to use the IP [bankruptcy] (BIA, s. 72.1).

(3) If a receiver sells or disclaims an IP licence agreement, the sale or the disclaimer does not affect a licensee's right to use the IP [receivership] (BIA, s. 246.1).

(4) If a debtor company has been authorized by a court to sell assets, including an IP licence agreement, that sale does not affect the licensee's right to use the IP [CCAA restructuring] (CCAA, s. 36(8)).

The Importance of an IP Licence Agreement that Considers Insolvency

The implementation of these amendments bring uniform protection for IP licensees in BIA and CCAA proceedings that involve an insolvent IP licensor. However, IP licensees should be aware that even in insolvency proceedings that begin on or after November 1, 2019, difficulties remain in solely relying on the statutory protections in the BIA and the CCAA. These difficulties include the word "use" not being defined in the legislation and there not being a statutory requirement on a licensor to satisfy any of its ongoing obligations under the IP licence agreement.

It is important for an IP licensor and licensee to consider the effect of an insolvency when having an IP licence agreement prepared. If we can be of any assistance, please do not hesitate to contact us.

Co-author Andrea Doyle has left TDS to pursue a new opportunity, effective July 28, 2023.

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