

Question Q241

National Group: Belgium

Title: **IP licensing and insolvency**

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Questions

I. Current law and practice

Groups are invited to answer the following questions under their national laws. If both national and regional laws apply to a set of questions, please answer the questions separately for each set of laws.

Please number your answers with the same numbers used for the corresponding questions.

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

Yes, in Belgium we do have a system of registration for IP licenses when relating a.o. to patent, trademark or design. However, as a rule, under Belgian law, registration of an IP license is never required for the validity of the contract, but only for the enforceability towards third parties.

Regarding Benelux [trademarks](#), Article 2.33 of the Benelux Convention for Intellectual Property of 25 February 2005 (BCIP) states that, in order for a license of a Benelux trademark to be effective towards third parties, the deed or a declaration containing the license needs to be registered with the Benelux Office for Intellectual Property.

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With regards to Community trademarks, Articles 22 and 23 of the Regulation No 207/2009 of 26 February 2009 on the Community trade mark provide for similar provisions. The registration has to be made in the register of OHIM.

Regarding Benelux designs, Article 3.27 of the BCIP states that, in order for a license of a Benelux design to be effective towards third parties, the deed or a declaration containing the license needs to be registered with the Benelux Office for Intellectual Property.

With regards to Community designs, Articles 32 and 33 of the Regulation No 6/2002 of 12 December 2001 on Community designs provide for similar provisions. The registration has to be made in the register of OHIM.

The license of a Belgian patent needs to be registered with the Belgian Office for Intellectual Property in order to be enforceable towards third parties. Hereto, a certified copy of the written agreement needs to be notified to the Belgian Office for Intellectual Property, that will enter such information in its register (Article 44 of the Belgian Patent Act of 28 March 1984). It must be noted however that the license of a patent will also be enforceable towards a third party without registration in case such third party has acquired his rights while knowing of the existence of said prior agreement (Article 44§6).

Copyright, neighbouring rights and database rights on the other hand are unregistered rights, and there is no system foreseen for the registration of a license of copyright, neighbouring rights or database rights.

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

In Belgium, the most important insolvency procedures are:

- Bankruptcy (“faillissement”, “faillite”);
- Judicial reorganisation (« gerechtelijke reorganisatie », « réorganisation judiciaire »); and
- Voluntary and judicial liquidation (“vrijwillige en gerechtelijke vereffening”, “liquidation volontaire et judiciaire”).

Only trade persons (physical or legal persons) can be declared bankrupt.

It should be noted that Belgian law also provides for a specific insolvency proceeding for private, non-trading, persons, named “collective debt settlement” (“collectieve schuldenregeling”, “règlement collectif de dettes”) (Articles 1675/2 – 1675/19 of the Belgian Judicial Code). However, this proceeding is only of a very limited relevance to the present report and will therefore not be discussed further.

BANKRUPTCY

The bankruptcy process is governed by the Bankruptcy Act of 8 August 1997, published in the Official State Gazette of 28 October 1997 and in effect as of 1 January 1998 (“**Bankruptcy Act**”).

Under Belgian law, a trade person or a commercial company which (i) is experiencing a durable period of cessation of payments and (ii) has lost the confidence of its creditors, is in a state of bankruptcy. Both conditions must be met.

Bankruptcy is declared by the Commercial court. The following persons can petition the court for an order:

- the bankrupt person (if a company, through its directors, filing for cessation of payment);
- one or more creditors; or
- the public prosecutor.

The bankruptcy order declares the bankruptcy and appoints an administrator.

The administrator is appointed by the Commercial Court to manage the business of the bankrupt company with the purpose of liquidation. The administrator sells the bankrupt company's assets and ensures that creditors are paid in the legally determined order. Following the liquidation of assets and, to the extent possible, the repayment of creditors, the process is complete.

Once appointed, the administrator must also take all necessary steps to preserve the bankrupt estate.

The Belgian Bankruptcy Act provides that, as from the date of the bankruptcy order, the bankrupt person cannot manage his assets anymore (article 16) and that the administrator will sell a.o. the movable and immovable properties and goods.

In addition, certain acts must or can be declared without effect vis-à-vis third parties if they were performed by the company at a time when it had already ceased payments, i.e. during the ‘suspect period’. The day of cessation of payments is assumed to be the date on which the company is declared bankrupt. This date can however be backdated by a court order at the request of the administrator or of any interested third party, up to 6 months before the date of the initial bankruptcy order.

JUDICIAL REORGANISATION

The Act on Continuity of Enterprises of 31 January 2009, published in the Official State Gazette of 9 February 2009 and in effect as of 1 April 2009 (“**ACE**”) has set out a new framework with respect to judicial reorganisation. The purpose of judicial reorganisation proceedings is to preserve, under court supervision, the continuity of (part of) a company in distress or (part of) its activities.

Judicial reorganisation proceedings are opened by the Commercial Court upon the request of the company in distress.

The order for judicial reorganisation can be obtained if the continuity of the company is threatened in the short or medium term.

If the court allows the petition, it will grant a moratorium for a maximum of six months (with several possible extensions).

The law grants a distressed company protection against its existing creditors by allowing it either to negotiate an amicable settlement, or a collective reorganisation plan voted by all creditors or a transfer of (part of) the company's activities to one or more third parties.

LIQUIDATION

Liquidation follows the dissolution of the company in order to divide or realize the assets of the company and distribute them amongst its creditors and, possibly, the shareholders. As a principle, also so-called liquidation in deficit is accepted as an alternative to a bankruptcy.

The general meeting of shareholders can decide on a discretionary basis to start a voluntary liquidation procedure. In exceptional circumstances, a judicial liquidation can be ordered by the court. This is the case if the net assets decreased below a certain amount or when the company failed to file its annual accounts for at least three consecutive years. Such request can be introduced by all interested parties or the public prosecutor.

The decision to dissolve and liquidate the company taken by the shareholders meeting of the company, triggers the dissolution of the board of directors.

Application of Belgian law

Belgian insolvency law is applicable to any company or trade person which has its seat (centre of main interests) in Belgium (see hereunder the answer to question 5).

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

General: no distinct rules or regime

Neither the Bankruptcy Act nor the ACE do address IP rights or IP licenses as distinct from other types of contracts, assets and property rights.

In principle, a debtor needs to perform its obligations and all his/her assets (movable and immovable property, present and future goods) constitute the common guarantee for the creditors. All intellectual property rights will therefore *a priori* form part of a bankruptcy and will be the subject of the final settlement in bankruptcy by the administrator.

Monetary claims that the bankrupt company may have towards licensees (i.e. due royalties), will also be part of the bankrupt's assets like any other monetary claims.

The general regime applicable to ongoing agreements will be applicable to IP license agreements (see answer to question 4a below and Article 46 of the Bankruptcy Act and Article 35 of the ACE).

Exceptions: publication contracts and audiovisual production contracts

The Belgian Copyright Act of 30 June 1994 ("Belgian Copyright Act") contains specific provisions for publications contracts and audiovisual production contracts.

Article 30 of the Belgian Copyright Act entitles the author (licensor or assignor) to immediately terminate the publishing agreement with his publisher (licensee or assignee) in case of bankruptcy of the latter. It further determines the formalities and consequences of such termination; in particular, the author has the possibility to acquire all copies and other reproductions of his work.

Article 20 of the same Act determines the effect of a bankruptcy on an audiovisual production agreement. This article foresees that the bankruptcy of a producer does not automatically result in the termination of the agreements with the authors. The article further stipulates that the administrator needs to fulfill all the obligations of the producer with respect to the authors when the production or exploitation of the work is continued.

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

BANKRUPTCY

- (i) Summary: administrator's ability to adopt or terminate an IP license but not to modify it

In principle, bankruptcy does not of itself cause the automatic termination of ongoing IP license agreements.

The Bankruptcy Act entitles the administrator to decide whether agreements concluded prior to the bankruptcy and not terminated by the "bankruptcy order" will be continued (Article 46). Contracts concluded prior to the bankruptcy can therefore be continued, with the exception of (a) contracts concluded *intuitu personae*, which can only be continued with the consent of the other contracting party, and of (b) contracts containing express contractual terms providing for the termination of the agreement in case of bankruptcy.

(ii) *In principle: choice of the administrator to perform or terminate*

Article 46 of the Bankruptcy Act, which gives the administrator the choice whether or not to continue to perform agreements, also applies to ongoing IP license agreements.

Except in the case of an express clause or an *intuitu personae* agreement (see hereabove), the bankruptcy order does not of itself cause the termination of all ongoing agreements. In principle, the administrator's decision in one or another direction, will be guided by the interest of the bankrupt estate (the creditors).

Pursuant to Article 46 of the Bankruptcy Act, if the administrator does not take a decision, the other party can request him to do so within 15 days after such request. If the administrator does not take a decision on time, then the agreement is deemed to have been terminated.

In the legal literature, it has been suggested that the administrator is not entitled to terminate an ongoing agreement if this agreement does not cause an increase of the debt of the bankrupt estate. The right of the administrator to terminate current agreements is aimed at preventing a further increase of the debt, and it is thus not to be applied in case there is no increase of the debt. In other words, the administrator cannot prejudice the rights which were granted in an ongoing agreement, if these rights are opposable to third parties (for example through registration – see question 1) and do not increase the liabilities of the estate. This principle seems to be relevant in case of bankruptcy of the licensor. The right for the administrator to terminate the agreement will depend on the extent of the licensor's obligations under the agreement.

In this respect, the Supreme Court has held that the prohibition for the administrator to terminate an agreement when it does not increase the debt of the estate, does not apply if the administrator can demonstrate that the termination of the agreement is necessary for the management of the estate with all reasonable care. According to some authors, the mere fact that the IP rights would have less value because of the continuation of the license agreement would however not suffice².

Consequences of early termination

In case of early termination of an ongoing license agreement by the administrator of the bankrupt party, the counter party may claim compensation for the damage suffered as a consequence of the early termination³, although there will rarely be enough assets to satisfy such claim.

(iii) *Exception 1 : Contracts intuitu personae*

² B. Delmotte and E. Goldschmidt, "Intellectuele eigendom als bron van financiering. Over het lot van merken, modellen en licenties bij faillissement, het belang van zekerheidsrechten en de nieuwe opportuniteiten onder Belgisch recht", *Bull. BMM*, 2012/2-3, p. 74.

³ B. Delmotte and E. Goldschmidt, "Intellectuele eigendom als bron van financiering. Over het lot van merken, modellen en licenties bij faillissement, het belang van zekerheidsrechten en de nieuwe opportuniteiten onder Belgisch recht", *Bull. BMM*, 2012/2-3, p. 74.

Agreements which are entered into because of the identity and the quality of (one of) the parties, and that therefore qualify as “*intuitu personae* agreements”, will be automatically terminated in case of bankruptcy of the party in whose respect the agreement has an *intuitu personae* character.

Whether an IP license agreement is an agreement *intuitu personae* must be assessed on a case by case basis. According to the case law, a contractual provision which states that the agreement is *intuitu personae* is not sufficient as such for an automatic termination of the agreement in case of bankruptcy, if it would appear from the other clauses of the agreement that the parties nevertheless wanted the agreement to continue in case of bankruptcy.

The IP license agreements will often be considered as having been entered into *intuitu personae* as regards the licensee. This will less often be the case as regards the licensor. In general, the licensor will only want to grant a license to specific persons to whom it wants to entrust the exploitation of the IP concerned by the license. The licensee will in general enter into the agreement in the first place because of what is licensed and not because of the identity of the licensor⁴.

This means that the bankruptcy of the licensee will often cause the termination of the IP license on the ground of its *intuitu personae* character. This will not often be the case however for software or database licenses, because these are rarely dependent upon the person of the licensee⁵.

This means on the other hand that the bankruptcy of the licensor will not often cause the termination of the IP license on the ground of its *intuitu personae* character.

Publishing contracts are considered “*intuitu personae*” *per se* (see above answer to question 3 - the specific provision of the Belgian Copyright Acts).

(iv) Exception 2 : Express contractual terms

Express contractual terms concerning the effect of the insolvency or bankruptcy in an IP license agreement will generally be considered as valid. As such the parties can agree that the IP license contract will be terminated as a result of the bankruptcy of one of the parties, either automatically or upon option of the solvent party. In both cases the solvent co-contracting party will have to invoke this provision of the contract to terminate the agreement⁶.

(v) Assignment – modification

Under Belgian law, an assignment or modification of a contractual obligation requires the consent of all parties. This remains true in case of bankruptcy.

JUDICIAL REORGANISATION

⁴ B. Delmotte and E. Goldschmidt, “Intellectuele eigendom als bron van financiering. Over het lot van merken, modellen en licenties bij faillissement, het belang van zekerheidsrechten en de nieuwe opportuniteiten onder Belgisch recht”, *Bull. BMM*, 2012/2-3, p. 74; B. Vanbrabant, *La propriété intellectuelle. Nature juridique et régime patrimonial*, to be published by Larcier, Brussels, Third Part, Title II, Chapter 1, Section 4.

⁵ *Ibid.*

⁶ A. Zenner, *Dépistages, faillites et concordats*, Bruxelles, Larcier, 1998, nr. 66.

In principle, judicial reorganisation does not cause the termination of ongoing IP license agreements.

The ACE does not contain a provision similar to Article 46 of the Bankruptcy Act allowing the administrator to terminate.

Further, the *intuitu personae* character of the IP license agreement is irrelevant when it comes to judicial reorganisation because the identity of the parties remains unchanged.

Moreover, pursuant to Article 35 (1) of the ACE, a termination clause, granting the counter party the right to terminate the agreement in case of insolvency, is deprived of any effect in case of judicial reorganisation. Also, as per Article 35 (2) of the ACE, a breach of contract may be cured, by the debtor who is under judicial reorganisation, within a delay of 15 days following notice to do so, in which case, again, the agreement cannot be terminated (for cause) by the counterparty.

As far as the distressed company is concerned, it can terminate a contract, e.g. an IP license agreement, if the continuity of the company requires so. This power of early termination only applies to contract which are costly but considered superfluous to the business. A good example might be sponsoring contracts.

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

No, Belgian insolvency law does not foresee the taking into account of equitable or public policy reasons for the treatment of an IP license.

However, mention must be made here of the very exceptional case of mandatory patent licenses. The Belgian Patent Act (Articles 31-39) provides for the possibility of such mandatory licenses for reasons of general interest, in case of absence of exploitation of the patented invention and in case of patented improvement⁷.

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

Yes, see answer to question 4a).

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

A registration is not always possible. When a registration system exists (see answer to question 1), then registration is required for enforceability of the license towards third parties.

⁷ See for example B. Vanbrabant, *La propriété intellectuelle. Nature juridique et régime patrimonial*, Third Part, Title II, Chapter 1, Section 2.

In case of judicial reorganisation, there is no “third party”, since the administrator, if any, represents the insolvent party only, and therefore the question of registration is not particularly relevant.

In case of bankruptcy, the administrator represents both the bankrupt party and the creditors. Consequently, if the license has not been registered, the administrator has the right to choose whether he wants to consider the license or not, depending on what is most advantageous for the creditors.

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

Preliminary observation : availability of a pledge in an IP right

Until recently, it was debatable whether registered IP rights could be pledged. This uncertainty arose from former Article 2076 of the Belgian Civil Code, which required dispossession of the pledged property. With respect to intangible assets such as IP rights, this condition was problematic. Indeed, it is not possible to simply hand over IP rights to a creditor (see the Belgian report on Q190). Some legal scholars suggested that the registration of a pledge in industrial property rights was to be considered as a kind of dispossession, but there was no certainty in this respect, in particular because nothing prevents the right holder to continue exploiting – and thus possessing – its intellectual property following such registration.

However, the provisions of the Civil Code on pledges were recently reworked (entry into force foreseen in December 2014) and now expressly provide for the possibility to pledge IP rights (see Article 7 of new Title XVII of Book III of the Civil Code). More generally, dispossession is not anymore a validity requirement; it is only an alternative way of rendering the pledge effective vis-à-vis third parties. However such *erga omnes* effect may now also be created by registering the pledge in a particular registry (personal securities register, not yet in effect).

For pledges of certain registered IP rights, such as trademarks, designs, patents and plant breeders' rights, the pledge will also have to be registered in the specific IP registers in order to be enforceable towards third parties.

As far as copyright is concerned, only the patrimonial rights can be pledged, as moral rights are by definition inalienable and protected against seizure. Until now, a pledge of the patrimonial rights was particularly problematic, since these rights are not registered and the law required dispossession for the pledge to be valid. Some legal scholars suggested that, by transmitting to the creditor or a third party the physical medium on which a copyright-protected work was fixed, the pledge might extend to the IP rights in the work. However, this was a matter of controversy, particularly when a work can be infinitely copied (e.g. a computer program). Since dispossession will not be a validity requirement under the new provisions of the Civil Code, the main obstacle against pledging copyright will be removed. In order to be enforceable

towards third parties, the pledge will have to be registered in the general registry of personal securities mentioned above.

Impact of a pledge in an IP right

The standard rules on pledges apply to a pledge of licensed IP rights to the benefit of the licensee.

Article 1 of Title XVII of Book III of the Civil Code defines a pledge as “*the right for the creditor to be paid from the pledged goods, with priority over other creditors*”.

Generally speaking, it is a matter of controversy, under Belgian law, whether a pledge may guarantee non-monetary claims. Some authors argue that a pledge cannot guarantee non-monetary obligations, namely because Article 30 of Title XVII requires that the pledge registration mentions the “maximum amount” for which the pledge is granted by the pledgee. On the other hand, according to the preparatory works of the new security law, a pledge may guarantee “*any kind of obligation*”⁸.

Consequently, there is some doubt whether, a pledge in a licensed IP right may be used as to guarantee the performance of the various (non-monetary) obligations of the licensor towards the licensee, in particular the useful and peaceful enjoyment of the licensed intellectual property, but also the payment of annuities or renewal fees, or the obligation to take steps against infringers. It is in any case advisable to mention in the pledge deed the maximum “guaranteed amount”. The pledge will then, at least, guarantee the payment of the damages due in case of breach of the non-monetary claims.

If the licensor does not fulfil the guaranteed obligations, the pledgee-creditor is entitled to request a bailiff to auction, sell, or “lease”, the underlying IP right (Article 51 of Title XVII of Book III of the Civil Code). In case of private sale, however, the pledgee-creditor is not allowed to acquire the right (Article 52). Before requesting the sale of the underlying IP right, the licensee should verify that its license is effective and enforceable against third parties (see question 1 above). If not, there is a risk that the buyer of the IP right will be entitled to ignore the license.

If the licensee wish to secure ownership of the underlying IP right in the event that the licensor does not perform its obligations, this may be agreed, provided an express provision is included in the pledge agreement or in a later agreement; the clause should specify that the value of the pledged assets (in this case the IP rights) will be estimated by an expert (Article 53 of Title XVII of Book III of the Civil Code).

Further, according to Article 62, a contract providing for the assignment of a claim in ownership as a security will only be considered as a pledge, and will not provide to the assignee any further rights than a pledge could provide. Therefore, any contractual clause providing for the transfer of the IP right(s) to the licensee in case of bankruptcy of the licensor will most likely be considered as a pledge.

⁸ *Doc. Parl.*, Ch. repr., nos 53-2463/001 et 53-2464/0001, p. 17

In view of the above, it is advisable to carefully draft the pledge agreement, in order to accurately define the guaranteed obligations, as well as the licensee's rights in the event that they would not be fulfilled, including in the case of an insolvent licensor.

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

No, except for the specific cases of publishing contracts and contracts regarding the production of audiovisual works (see answer to question 3 above, regarding Articles 20 and 30 of the Copyright Act).

g) Does the law apply differently to sub-licenses versus “main” licenses?

No.

However, in this regard, it should be noted that, the author of a work protected by copyright can always invoke his/her moral rights, which can never be part of the bankrupt estate.

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

No, the law does not distinguish between these cases.

However, it is clear that depending on the sole, exclusive or non-exclusive character of the license, the license agreement will be of a different value to the administrator from an economic point of view. This in turn will influence the way in which the administrator will deal with the contract, taking into account the choice given to him by Article 46 of the Bankruptcy Act (see above answer to question 4a).

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

JUDICIAL REORGANISATION

No.

BANKRUPTCY

As explained above (question 4a), there are two exceptions to the rule of Article 46 of the Bankruptcy Act that the administrator is free to decide whether to continue or to terminate the IP license agreement:

- Intuitu personae contract: most IP license agreements will be considered *intuitu personae* as regards the licensee, giving the licensor a right to invoke the termination of the agreement in case of bankruptcy of the licensor. License agreements are less often *intuitu personae* as regards the licensor, although this might be the case when the license imposes particular obligations on the licensor, e.g. in terms of research and development, improvements etc.
- An express contractual termination provision in case of bankruptcy: such a clause will in practice most often be stipulated in favour of the licensor, in case of bankruptcy of the licensee.

LIQUIDATION

- No. The liquidation does not automatically end the ongoing agreements, unless contractually agreed otherwise or if the agreement is *intuitu personae*. However, as the company merely exists for its liquidation, the liquidator will most likely terminate all agreements.

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

N/A

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

Yes, a choice of law provision in an IP agreement would be « considered » during a bankruptcy or insolvency proceeding in Belgium. Indeed, as such, these proceedings do not modify the law that is applicable to the agreement (*lex contractus*). Furthermore, the applicable law will not be affected by the nationalities of the parties to the IP license or by the physical location of the assets involved (assuming that such location can be determined, taking into account the incorporeal nature of IP rights). This being said, when Belgian law, in particular the Bankruptcy Act or the ACE, is applicable to the insolvency proceeding (pursuant to Article 4 of Council regulation (EC) No 1346/2000 of 29 May 2000⁹), one will face *mandatory provisions*, including provisions concerning the validity and effects of agreements entered into by the insolvent party, that are likely to *override* the provisions of the *lex contractus* (as well as the provisions of the agreement itself). In other words, a choice of law, although respected as a matter of principle, will not allow to circumvent the mandatory provisions of Belgian insolvency law, where applicable.

For example, since Article 35 (1) of the ACE provides that, notwithstanding any provision to the contrary, the opening of judiciary reorganisation proceedings, and the

⁹ In this respect, see below.

request thereto, do neither put an end to pending agreements, nor alter their performance, a contractual provision enabling the licensor to terminate immediately the license in case of insolvency of the licensee will remain without effect *even if*, according to the law elected by the parties to govern their license agreement, such termination clause would be enforceable. Conversely, since Article 46 (1) of the Bankruptcy Act formally enables the bankruptcy administrator to terminate the agreements entered into prior to the bankruptcy judgment, a contractual provision that would exclude such termination will remain without effect, *whatever* the choice of law and the content of such law may be. If, on the other hand, the above statutes are silent about a particular issue – e.g. whether the licensee may sublicense – the choice of law will be considered and can possibly be deciding. The same is true if Belgian IP law, as opposed to Belgian insolvency law, contains a rule that diverges from the chosen law, e.g. if, under the latter, the validity of patent licenses is not subject to a written agreement being signed by both parties ; the choice of law will then develop its full effect.

In light of the above, it may not be useless to say a few words about the international private law aspects of bankruptcy and insolvency *in general*. Actually, the question whether *Belgian insolvency law* will apply (and possibly overrule the *lex contractus*) depends directly upon the prior question whether Belgian courts have *international jurisdiction*. Indeed, pursuant to Article 4 (1) of Council regulation (EC) No 1346/2000 of 29 May 2000 on insolvency proceedings (hereinafter the "Regulation"), "the law applicable to insolvency proceedings and their effects shall be that of the Member State within the territory of which such proceedings are opened, hereafter referred to as the State of the opening of proceedings".¹⁰ Article 4 (2) of the Regulation adds that "the law of the State of the opening of proceedings shall determine the conditions for the opening of those proceedings, their conduct and their closure. It shall determine in particular (...) the effects of insolvency proceedings on current contracts to which the debtor is party (under e) (and) the rules relating to the voidness, voidability or unenforceability of legal acts detrimental to all the creditors (under m)". The question which then arises is : in which territory may insolvency proceedings be opened, when the situation has cross-border elements ?

Pursuant to Article 3 (1) of the Regulation, "the courts of the Member State within the territory of which *the centre of a debtor's main interests* is situated shall have jurisdiction to open insolvency proceedings. In the case of a company or legal person, the place of the registered office shall be presumed to be the centre of its main interests in the absence of proof to the contrary"¹¹. Therefore, (mandatory) Belgian law on insolvency and bankruptcy shall apply (and possibly overrule the *lex contractus*) when the insolvent party's main interests are located in Belgium, and, as far as legal persons are concerned, (normally) when their registered office is in Belgium.

¹⁰ The exception referred to at the beginning of Art. 4 of the Regulation concerns principally contracts relating to immovable property (cf. Art. 8 of the Regulation) and is therefore not relevant for our topic.

¹¹ Emphasis added.

It is also worth noting that a *Community trademark*, a *Community design* or a *Community plant variety right* may not be included in any other insolvency proceeding than the “main” proceeding referred to above. Indeed, pursuant to Article 12 of the Regulation, “for the purposes of (the) Regulation, a Community patent¹², a Community trade mark or any other similar right established by Community law may be included only in the proceedings referred to in Article 3(1)”. The *exclusive jurisdiction* rule under Article 12 of the Regulation is confirmed by Article 31 of Council Regulation (EC) N° 6/2002 of 12 December 2001 on the Community Design and by Article 21 of Council Regulation (EC) No 207/2009 of 26 February 2009 on the Community trade mark, be it that, in the particular case where the insolvent debtor is an insurance undertaking or a credit institution, the connecting factor is not the place where the institution has its centre of main interests, but the Member State where it has been authorised.¹³

As far as other – *non EU unitary* – IP rights are concerned, the question must be raised whether they can be included into *another* insolvency proceeding than the one considered above (*i.e.* a proceeding opened in a place where the debtor does not have the centre of its main interests, or which is not the place of authorisation) ; in particular, can a registered IP right be included in the insolvency proceeding opened in the country of registration ? Pursuant to Article 3(2) of the Regulation, “where the centre of a debtor's main interests is situated within the territory of a Member State, the courts of another Member State shall have jurisdiction to open insolvency proceedings against that debtor only if he possesses an *establishment* within the territory of that other Member State” *and* “the effects of those proceedings shall be restricted to *the assets of the debtor situated in the territory of the latter Member State*”.¹⁴ For the purposes of the Regulation, “the Member State in which assets are

¹² *Sic.* In our view, the rule under Article 12 should apply also to the (future) European patent with unitary effect. Art. 7 of Regulation 1257/2012 is, in our view, not meant to exclude such applicability.

¹³ Article 21 (1) CTMR reads as follows :

“The only insolvency proceedings in which a Community trade mark may be involved are those opened in the Member State in the territory of which the debtor has his centre of main interests.

However, where the debtor is an insurance undertaking or a credit institution as defined in Directive 2001/17/EC of the European Parliament and of the Council of 19 March 2001 on the reorganisation and winding-up of insurance undertakings (1) and Directive 2001/24/EC of the European Parliament and of the Council of 4 April 2001 on the reorganisation and winding up of credit institutions(2), respectively, the only insolvency proceedings in which a Community trademark may be involved are those opened in the Member State where that undertaking or institution has been authorised.”

Regulation N° 6/2002 does not include the same rule, probably because financial institution are not supposed to own design rights.

¹⁴ Emphasis added. Art. 3 (3) further provides that, “where insolvency proceedings have been opened under paragraph 1, any proceedings opened subsequently under paragraph 2 shall be secondary proceedings. These latter proceedings must be winding-up proceedings”, while art. 3 (4) states that “Territorial insolvency proceedings referred to in paragraph 2 may be opened prior to the opening of main insolvency proceedings in accordance with paragraph 1 only:

(a) where insolvency proceedings under paragraph 1 cannot be opened because of the conditions laid down by the law of the Member State within the territory of which the centre of the debtor's main interests is situated; or

(b) where the opening of territorial insolvency proceedings is requested by a creditor who has his domicile, habitual residence or registered office in the Member State within the territory of

situated" shall mean, in the case of (...) property and rights ownership of or entitlement to which must be entered in a public register, the Member State under the authority of which the register is kept » (as per Article 2, g). Therefore, it seems that a Belgian patent (for example) might be included in a bankruptcy proceeding opened in Belgium even though the debtor, holder of the concerned (licensed) patent, has the centre of its main interests in another Member State of the EU, provided said debtor has an establishment in Belgium ; the Bankruptcy Act will then apply to such proceeding, as explained above. On the other hand, if the insolvent party is the *licensee*, it does *not* seem that the right of use under the license may be included within the insolvency proceedings (possibly) opened in any other member state than the state where the debtor has the centre of its main interests ; indeed, according to Article 2 (g) of the Regulation, "the Member State in which assets are situated shall mean, in the case of (...) claims, the Member State within the territory of which the third party required to meet them has the centre of his main interests, as determined in Article 3(1)". Similarly, it is doubtful whether the Bankruptcy Act might ever apply to a license of copyright or neighbouring rights, where the insolvent licensor does not have the centre of its main interests (or his authorisation) in Belgium. Indeed, Article 2 of the Regulation, which determines for the purposes of Article 3(2) of the Regulation "the Member State in which assets are situated" addresses only the cases of (i) « tangible property », (ii) registered property and rights and (iii) "claims" ; unregistered intellectual property rights do not belong to any of those three categories.

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

In case of bankruptcy, both a clause for automatic termination and an optional right to terminate are allowed.

In both cases the contract can provide that the termination can take place without notice nor compensation. However, in both cases the application of the clause must be invoked through a (written) notification by the solvent party who wishes to apply the clause¹⁵.

The exception of abuse of right might be opposed in the case of an optional right to terminate, not when termination is automatic.

On the other hand, in case of judicial reorganization, since the basic assumption of the ACE is the continuation of all ongoing agreements, such clause is not valid (see Article 35 of the ACE, referred to above under Question 4, a).The answer would not

which the establishment is situated, or whose claim arises from the operation of that establishment".

¹⁵ A. Zenner, *Dépistages, faillites et concordats*, Bruxelles, Larcier, 1998, nr. 66.

be different whether the clause provides for automatic termination or for an optional right to terminate.

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

Yes, both in case of bankruptcy and in case of judicial reorganisation.

- 8) **In the event of a transfer or assignment of an IP license resulting from a bankruptcy or insolvency proceeding, what are the rights and obligations between the transferee and the remaining, original party or parties to the IP license?**

Under Belgian law, a debt cannot be transferred without the agreement of the other contracting party. The assignor can thus only be released from his obligations towards his co-contractant upon the latter's consent. As far as the transferee's rights are concerned, they will normally be identical to the transferor's.

This principle remains applicable both in case of bankruptcy and in case of judicial reorganisation.

In case of a judicial reorganisation tending at a transfer of (a part of) its undertakings, rights of third parties including rights in rem (pledge) on transferred assets (e.g. a license) would be transferred from the assets to the price paid (art. 66 ACE).

Does it matter if the insolvent party is a licensor, a licensee, or a sub-licensee?

No, it does not matter.

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

The law does not confer any particular rights on the licensee in the event that the licensor's insolvency results in the termination of the license.

As explained above (see the answer to Question 4), bankruptcy does not affect existing agreements, unless i) the agreements were entered into *intuitu personae* or ii) they provide for early termination in the event of bankruptcy or iii) the bankruptcy administrator decides to terminate, in the interest of the bankruptcy estate (or fails to take a decision in this respect – see answer to question 4a above).

If the agreement is terminated upon the licensor's insolvency, the licensee loses its right to use the underlying IP rights.

Adjustments can nevertheless be made on a contractual basis (see Question 4(e) above).

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

Belgian law does not provide for any specific answer to this question.

The answer to this question will depend on the provisions both of the IP license agreement and the possible co-ownership agreement between the co-owners.

It will also depend on whether the license has been concluded with all co-owners, and if not, with the/a solvent co-owner or with the/a solvent co-owner.

In general, the principles set out above, in particular under question 4a, will be applicable.

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

The licensee will always be better protected if the license is registered.

A pledge agreement, possibly including the possibility to secure ownership of the relevant IP right, can protect the licensee in the event of the licensor's bankruptcy (see Question 4(e) above).

In addition, for a software license, it should be noted that source codes are often held in escrow by a third party¹⁶. Under Belgian law, it is recommended that the third party's undertaking to release the source code in specified circumstances is an independent undertaking, abstracted from its original cause, so that the administrator is not allowed to rescind the contract of the bankrupt company with the third party escrow agent.

The creation of a dedicated IP holding company is one of the safest solutions to protect assets from bankruptcy. However, where the licensor is a small or medium enterprise, it is not usual to create a dedicated IP holding company.

¹⁶ I. Verougstraete, *Manuel de la continuité des entreprises et de la faillite*, Waterloo, Kluwer, 2011, p. 585.

Another creative mechanism discussed by the group consists in concluding, in parallel with the license agreement, a sale, to the licensee, of the underlying IP rights under suspensive condition of the bankruptcy of the licensor; this means that the sale would only become effective if and when the licensor would be declared bankrupt. A reasonable amount should be provided for as the consideration for such sale.

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

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

Licenses of registered IP rights must generally be registered in order to be enforceable towards third parties (see Question 1 above).

Although it ensures legal certainty, registration can prove burdensome and costly for large IP portfolios requiring multiple modifications. It is thus desirable to streamline the registration process (e.g. the filing of user friendly forms along with a statement by the licensor and the licensee, rather than a copy of the entire license agreement). These steps should be fulfilled electronically, whenever possible, in order to reduce costs.

The Act of 10 January 2011 modifying the Belgian Patent Act is a step in the right direction, as it provides for the possibility to communicate electronically with the Belgian Intellectual Property Office. However, the new system is not yet effective.

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

We are of the opinion that it might be desirable to provide a statutory protection mechanism for the licensee in case of bankruptcy of the licensor, which mechanism would restrict the administrator's freedom in how to deal with the license agreement.

We have discussed the following options:

- Creation of a preferential right on the licensed IP for the licensee in case of bankruptcy of the licensor.

However, this might be difficult to organize when there are several licensees (exclusive and non exclusive, different territories, different applications, etc.). Moreover, it is questionable whether the licensee should receive such favor whereas other creditors of the bankrupt person, who are in a comparable situation, do not; we think e.g. about the lessee of a moveable asset. The attribution of the IP right to the (exclusive) licensee will also prejudice the other creditors of the bankrupt estate, at least if no consideration is paid.

- A “droit de suite”, a right to obtain a new (non-exclusive) license from the new owner of the IP following the bankruptcy of the licensor, analogous to what is foreseen in case of “revindication” of a patent (cf. Art. 10, paragraph 2, under b, Patent Act)

In general, because bankruptcy administrators are not very familiar with IP rights and IP licenses, it might be advisable to insert in the law of bankruptcy a specific provision regarding the treatment of IP licenses. This would have the merit to make bankruptcy administrators aware of the issues and interests at stake in case of bankruptcy of a licensor. However, the level of protection which should be provided to the licensee, often to the detriment of other creditors, is a political question which would have to be discussed in a democratic debate.

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

In case of a “chain” of license agreements, it would be a good idea to provide for a solution in case one of the links of the chain would become bankrupt. A direct right to enjoyment of the intellectual property, by the sublicensee against the IP owner, main licensor, should be contemplated.

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

III. Proposals for substantive harmonisation

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

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

Yes since IP licenses very often cross borders, both in terms of the scope of the license and in terms of the nationalities of the parties involved.

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

In general, in our view, Belgian law appears to strike a fair balance between the rights and interests of the licensee, the licensor and other creditors of the bankrupt party. We consider that the Belgian system could therefore be used as a “standard” in this respect, under the condition of the introduction of a “right of preference” or a “droit de suite” under the form of a non-exclusive license in favour of the licensee (see answer to question 13).

- a) **What restrictions, if any, should be placed on a bankruptcy administrator's ability to adopt, assign, modify, or terminate an IP license in the event of bankruptcy of a party to that license? Should these restrictions be statutory?**
- b) **With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon pre-bankruptcy registration of the IP license?**
- c) **With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the bankrupt party is the licensor or a licensee?**
- d) **With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the licensee has a security interest in the underlying IP rights?**
- e) **With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the license is a sub-license or a "main" license?**
- f) **With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the license is sole, exclusive or non-exclusive?**
- g) **With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon the type or types of IP rights that are licensed in the IP license?**
- h) **With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon equitable or public policy considerations?**
- i) **With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon the language of the license itself, e.g., a right to terminate upon insolvency or a prohibition against assignment?**
- j) **In the event a bankruptcy or insolvency proceeding in your country involves treatment of an IP license between a domestic entity and a foreign entity, which national bankruptcy laws should be applied? Should this depend on the choice of law clause in the IP license? Should this depend on the physical location of the entities or the assets involved?**

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

N/A.

Summary

Belgian bankruptcy law does not address IP rights or IP licenses as distinct from other types of contracts, assets and property rights. However, the Belgian Copyright Act provides for specific provisions with regard to bankruptcy in relation to publication contracts and audiovisual production contracts.

As a matter of principle, bankruptcy does not itself cause the automatic termination of ongoing IP license agreements. Rather, the administrator can decide to terminate the agreement or to further perform the obligations thereunder; he may modify or assign the agreement only with the consent of the counterparty.

The two exceptions to the power of the bankruptcy administrator to continue existing agreements are, on the one hand, the contracts concluded *intuitu personae* (which can only be continued with the consent of the other contracting party) and, on the other hand, the contracts containing express contractual terms providing for the termination of the license agreement in case of bankruptcy; the latter clause will generally be considered as valid and enforceable under Belgian law. Whether license agreements have an *intuitu personae* character is something to be decided on a case by case basis.

In the context of a judicial reorganization, the contract parties may not terminate pending (licensing) agreements, even if the agreement expressly provides for such a termination right; the administrator may terminate, modify or assign the agreements with the consent of the contract parties.

The Belgian group is of the opinion that it might be desirable to introduce into Belgian law a statutory protection mechanism for the licensee in case of bankruptcy of the licensor, which mechanism would restrict the administrator's freedom in how to deal with the license agreement, such as the creation of a preferential right on the licensed IP for the licensee in case of bankruptcy of the licensor or a "droit de suite", a right to obtain a new (non-exclusive) license from the new owner of the IP following the bankruptcy of the licensor.

Our conclusion is that under the condition that such a right for the protection of the licensee would be introduced, we consider that the Belgian system could be used as a "standard", striking a fair balance between the rights and interests of the licensee, the licensor and other creditors of the bankrupt party.

Résumé

Le droit belge de la faillite ne traite pas les droits intellectuels ou les contrats de licence de manière distincte par rapport aux autres types de contrats, d'actifs et de droits de propriété. Toutefois, la loi belge sur le droit d'auteur contient certaines dispositions spécifiques relatives à la faillite, en matière de contrats d'édition et de contrats de production audiovisuelle.

En principe, la faillite n'entraîne pas en soi la fin automatique des contrats de licence de droits intellectuels en cours. Au contraire, le curateur peut décider de mettre fin au contrat ou de poursuivre l'exécution des obligations qui en découlent. Il ne peut modifier ou céder un contrat qu'avec le consentement du cocontractant.

Le pouvoir du curateur de poursuivre l'exécution des contrats en cours souffre deux exceptions. Il s'agit, d'une part, les contrats conclus *intuitu personae* (auxquels il peut uniquement être mis fin moyennant le consentement du cocontractant) et, d'autre part, des contrats contenant des dispositions expresses prévoyant la fin du contrat de licence en cas de faillite. Une clause de ce type sera généralement considérée comme valable et assortie d'effets en droit belge. La question de savoir si les contrats de licence ont un caractère *intuitu personae* doit être tranchée au cas par cas.

Dans le contexte d'une réorganisation judiciaire, les parties contractantes ne peuvent pas mettre un terme aux contrats (de licence) en cours, même si le contrat leur en offre expressément la possibilité. Le mandataire de justice peut mettre un terme, modifier ou céder les contrats moyennant le consentement des cocontractants.

Le groupe belge estime qu'il peut être souhaitable d'introduire en droit belge un mécanisme légal de protection du licencié en cas de faillite du donneur de licence. Ceci permettrait de restreindre la marge de manœuvre du curateur vis-à-vis du contrat de licence, notamment en créant un droit de préférence au profit du licencié sur le droit intellectuel objet du contrat, en cas de faillite du donneur de licence. On pourrait également envisager un "droit de suite" qui permettrait au licencié d'obtenir une nouvelle licence (non exclusive) du nouveau titulaire du droit, à la suite de la faillite du donneur de licence.

En conclusion, si un tel mécanisme de protection du licencié devait être introduit, il pourrait s'inspirer du système belge, qui tente de ménager à la fois les droits et les intérêts du licencié, ceux du donneur de licence et ceux des autres créanciers du failli.