

Changes to the Treatment of Intellectual Property in Insolvency Proceedings

Joseph J. Bellissimo, Casey Chisick, Eric Mayzel, Monique Sassi, Jessica Zagar

November 19, 2018

On October 29, 2018, the Government of Canada introduced Bill C-86¹ (Bill C-86), which, among other things, would amend the *Bankruptcy and Insolvency Act*² (the BIA) and the *Companies Creditors' Arrangement Act*³ (CCAA). The proposed amendments clarify and codify certain intellectual property rights during an insolvency proceeding, which are currently subject to an incomplete patchwork of protections. Specifically, Bill C-86 seeks to preserve the usage rights of licensees of IP in all BIA and CCAA proceedings.

The introduction of Bill C-86 is part of the Government of Canada's new national IP strategy, which was first unveiled in April 2018. The new IP strategy is intended to provide Canadian businesses and entrepreneurs with access to the best IP resources through improved tools and improved legislation.

Disclaimer of IP Licences

Most BIA and CCAA proceedings allow the debtor, in some cases through a court-appointed officer, to disclaim contracts as part of its restructuring process.⁴

The CCAA,⁵ as well as the sections of the BIA that deal with proposals,⁶ restrict the effect of a disclaimer of an IP licence where certain criteria are met. In particular, where a debtor has granted a third party the right to use IP, no disclaimer of that contract will affect the third party's right to continue to use the IP, including the right to enforce an exclusive use, during the life of the contract, as long as the user continues to perform its obligations under the licence. However, these IP-specific disclaimer provisions have not previously been extended to the sections of the BIA that govern bankruptcies and receiverships.

Bill C-86 would add almost identical language to the sections of the BIA that address bankruptcies and receiverships, thereby providing broad protection for the usage rights of IP users in connection with a disclaimer under any of a BIA proposal, receivership, bankruptcy, or CCAA proceeding.

Sale or Disposition of Assets

The BIA and CCAA also contain certain provisions dealing with a sale of a debtor's assets,⁷ which may include IP that has been licensed to third parties. Under the existing legislation, it is unclear what the rights and respective priorities would be in respect of that IP, especially whether the purchaser acquires the IP

subject to the use of the IP by the licensee.

Bill C-86 would resolve this uncertainty by amending the sections of the BIA that deal with proposals, receiverships, and bankruptcies, and by adding a new provision to the CCAA.

These provisions would confirm that the sale or disposition of a debtor's IP assets will not affect a user's rights to continue to use the IP for the life of the agreement, as long as the user continues to perform its obligations under the licence. Therefore, any transferee of IP that is subject to a pre-existing licence will acquire the IP subject to the usage rights of the licensee.

Conclusion: Welcome Clarity for Licensees

Bill C-86 and its IP-related provisions pertaining to the BIA and CCAA underscore the government's commitment to minimizing risks for licensees and preventing a chilling of IP licence arrangements.

At the time of drafting, Bill C-86 has received its second reading in the House of Commons and has been referred to committee in the House of Commons. The IP strategy provisions have also been referred to the Standing Senate Committee on Banking, Trade and Commerce for additional review. As budget implementation legislation, Bill C-86 is being treated as a high priority by the government and is expected to be signed into law before the end of December.

¹ Bill C-8, *A second Act to implement certain provisions of the budget tabled in Parliament on February 27, 2018 and other measures*

² RSC 1985 c. B-3

³ RSC 1985. c. C-36

⁴ The BIA sections dealing with receivership proceedings do not include any express provision which permits the disclaimer of a contract.

⁵ Section 32(6)

⁶ Section 65.11(7)

⁷ The BIA sections dealing with receivership proceedings do not include any express provisions that permit the sale of assets, which is typically done by court order.