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Any Port in a Storm: New Protections for IP Licensees Under Canada's BIA and CCAA Legislation

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Insolvency, restructurings, and proposals create tidal waves of uncertainty for the numerous parties implicated in the proceedings. Third party intellectual property licensees who have relied on a long-term licence arrangement are often swept up in these proceedings, without certainty on whether they can continue to use the IP and, if so, under what conditions.

On November 1, 2019, recent amendments to the *Bankruptcy and Insolvency Act* (the BIA) and *Companies' Creditors Arrangement Act* (the CCAA) will come into force. The amendments codify and clarify IP rights during an insolvency proceeding, and grant broader protection to IP licence-holders.

These changes were included in Bill C-86 Budget Implementation Act (Bill C-86),[1] which received Royal Assent in December 2018. Bill C-86 is part of the Government of Canada's new national IP strategy, which was first unveiled in April 2018. These changes represent the Government's continuing efforts to modernize Canada's IP legislation and to provide businesses and entrepreneurs with access to a more proactive and comprehensive IP legislation.

What will the new amendments change?

Prior to the amendments, the BIA and the CCAA allowed debtors to disclaim agreements as part of its restructuring process. However, where the disclaimer implicates the rights of an IP license-holder, the BIA and the CCAA restricts the effect of the disclaimer where certain criteria are met. The BIA and CCAA have provisions that permit an IP license-holder to continue to use the IP and to enforce an exclusive use during the life of the contract, so long as the license-holder continues to perform its obligations under the licence.[2]

The new amendments will grant the same protection to broader situations, which will cover bankruptcies and receiverships. For example, where a court is involved in ordering the sale or disposition of a debtor's assets,[3] sales or dispositions by the trustee in bankruptcy,[4] and sales or dispositions by a receiver.[5]

Once these amendments come into force, there will be more expansive protection for the rights of IP users in connection with a disclaimer under a BIA proposal, receivership, bankruptcy, or CCAA proceeding.

What does this mean going forward?

The amendments to the BIA and CCAA are steps being undertaken by the Government of Canada to minimize the risk exposure for IP licence-holders. Without sufficient statutory guidance, the potential loss of a long-standing IP licence agreement due to a licensor's insolvency can create a chilling effect on entering IP licence arrangements. Bill C-86 aims to fill in the gap and to reduce the number of scenarios where IP licence-holders will lose sleep over news that their IP licensor is tied up in insolvency or restructuring proceedings.

However, while the legislation has given us an answer on the scope of the IP licence-holders' protection, it leaves us with questions on how this will operate in practice. Often, IP licences are bundled into larger contractual agreements. If only "use of the intellectual property" is covered by legislation, this may leave the licensee in an undesirable situation if other aspects of the contract are disclaimed. It may also leave the parties unclear as to what is required for a licensee to "perform its obligations under the agreement in relation to the use of the intellectual property."

How can we incorporate these amendments into practice?

If you're acting for an IP licence-holder that wants to have control over continuing to use or deciding to terminate a licence agreement in the event of insolvency, you may want to suggest separating the IP licence agreement from the larger services agreement. That way, it will reduce the uncertainty of whether the entire contract will be disclaimed. Another aspect to consider is whether the licence being held is a perpetual licence, where there is no ongoing obligation to pay. If the IP licence-holder wants the option to terminate the licence agreement in the event of the licensor's insolvency, ongoing payments may need to be made so that the licence-holder has a termination right. This may be something to consider when an agreement is first negotiated.

Ultimately, to mitigate uncertainty, companies entering into IP licence agreements should carefully structure the IP ownership rights of licence-holders and consider the implications in the event of an insolvency. Although the new amendments leave us with some questions and new practice points to consider, some clarity is better than none.

[1] https://www.parl.ca/DocumentViewer/en/42-1/bill/C-86/first-reading

[2] *Bankruptcy and Insolvency Act*, RSC, 1985, c B-3, s 65.11(7) [*BIA*]; *Companies' Creditors Arrangement Act*, RSC, 1985, c C-36, s 32(6) [*CCAA*].

[3] *BIA*, s. 65.13(9).

[4] *BIA*, s. 72.1

[5] *BIA*, s. 246.1.

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