The Fate of Intellectual Property Assets in Cross-Border Insolvency Proceedings

Nadine Farid*

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* Assistant Professor of Law, Gonzaga University School of Law. My thanks to Linda Rusch and Stephen Sepinuck for assembling this Symposium, and to Lawrence Friedman, Brooks Holland, Linda Rusch, and Stephen Sepinuck for providing review of and commentary about this article. Mistakes herein are only mine. I am grateful to Arnold Jin and Hillary Jin, who proved invaluable in translating documents not available in English. Beau Ellis and Arnold Jin provided thorough research assistance.
I. INTRODUCTION

The licensing of intellectual property rights in patent, copyright and trademark has grown along with the role of intellectual property in the global economy. Increasingly, the licensing of these assets is occurring multi-nationally. As this trend continues, special attention should be paid to the treatment of the licensed rights in the event of bankruptcy of either party to the license agreement.

Intellectual property licenses place special obligations and rights upon contracting parties. Often, the subject intellectual property of a particular license can be the basis for a licensee's entire business model. If the licensor of the rights in that subject intellectual property goes bankrupt, the licensee's rights under the license could be in jeopardy. Similarly, a non-debtor licensor could face significant losses in royalties and in control of the intellectual property rights if the licensee files bankruptcy.

Despite these unique issues facing parties to licenses of rights in intellectual property, there is no universal consensus as to how the rights and obligations of licensing parties should be handled in the event of the insolvency of one of the parties. The insolvency laws that address the matter are highly complicated and are not consistent across different jurisdictions, either in terms of domestic interpretations of the law or, on a global level, in terms of dissimilar laws of various states.

While the differing—and often unsatisfactory—provisions concerning the treatment of intellectual property licenses in the insolvency context are perhaps frustrating to the licensors and licensees of intellectual property rights in the domestic realm, the difficulties wrought by the variances in the laws are much more prevalent when considered in the international context. Recent efforts at harmonizing international insolvency laws have focused on procedural aspects of cross-border insolvencies, but have failed to amalgamate substantive laws with respect to the treatment of assets in bankruptcy. The implementation of laws in view of these procedural concerns has helped to streamline the cross-border insolvency process by outlining means for determining a central jurisdiction to house a debtor's cross-border insolvency proceeding, by encouraging recognition among states of that central proceeding, and by placing cursory limits on the commencement of related proceedings in different jurisdictions. The European Union and the United Nations, via its Commission on International Trade (UNCITRAL), promulgated the relevant laws. The laws do not offer any assurance to contracting parties as to which jurisdiction might control the assets, rights and obligations of those parties in the event of one party's declaration of bankruptcy.
Because the regimes of the EC Regulation\(^1\) and UNCITRAL fail to create an environment of certainty of jurisdiction for parties whose multinational intellectual property licenses may be subject to cross-border insolvency proceedings, the regimes create a burden for multinational entities that can and should be alleviated.

This article first discusses the treatment of intellectual property licenses under the insolvency provisions of the United States (U.S.), exploring the factors that inform the U.S. approach, comparing that model to those of other states, and highlighting the complex variances in the intellectual property-specific insolvency laws on a global scale.

The article then considers the ramifications of these disparate viewpoints in cross-border insolvency proceedings by reviewing the relatively recent systems put forth by the European Union and UNCITRAL. Finally, the article canvasses the theories behind various international insolvency law models and suggests that, with respect to intellectual property licenses, an approach which permits private entities to establish and invoke bankruptcy selection clauses while operating in the larger systems offered by the European Union and UNCITRAL would respect the processes of the latter while serving to alleviate the environment of jurisdictional uncertainty inherent in that process.

II. THE INTELLECTUAL PROPERTY LICENSE IN THE INSOLVENCY PROCESS: DOMESTIC CONFUSION ON A GLOBAL SCALE

There is no substantive international insolvency law. Thus, in an international insolvency situation, there is no consensus as to, or uniformity in, the treatment of various types of assets upon an entity’s declaration of insolvency.

With respect to intangible assets, such as rights in intellectual property, the manner of treatment in the event of an insolvency can hinge on a number of factors, ranging from the type of intellectual property right at issue, to the substantive rules which govern the procurement of those rights, to the nature of the debtor’s obligation under a license concerning that intellectual property right. The treatment of intellectual property licenses in an insolvency proceeding presents special issues for debtors and non-debtors alike.\(^2\) As discussed herein, however, the insolvency regimes of various jurisdictions often fail to address those issues, whether fully or at all. When a state’s insolvency law does acknowledge the special nature of and provide for the handling of intellectual property licenses, moreover, the result is often unwieldy and, from the perspective of the parties involved, unsatisfactory.\(^3\)

\(^{1}\) See infra note 109 and accompanying text for discussion of “EC Regulation.”

\(^{2}\) See generally Peter S. Menell, Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis, 22 BERKELEY TECH. L.J. 733, 769–812 (2007) (delineating the issues with respect to both licensors and licensees in the bankruptcy context).

\(^{3}\) See infra Parts II.B and II.C (discussing ramifications of legal provisions addressing intellectual property licenses in insolvency proceedings).
Parties to multinational licenses of rights in intellectual property may be exposed to a myriad of insolvency laws, each of which may offer different approaches to the treatment of intellectual property licenses in insolvency proceedings—or which may fail to offer relevant provisions for the treatment of those licenses. In the following discussion, the treatment of intellectual property licenses in the U.S. insolvency model is reviewed, and the approach of the U.S. is then compared somewhat succinctly with the approaches of other states. This discussion will serve to illustrate not only the intricacy of the U.S. system (and those like it), but also the differences in the insolvency laws between states and the ramifications of these laws on debtors and other parties in the cross-border insolvency context.

A. The Effects of Reorganization on Intellectual Property Assets in the United States

Bankruptcy treatment of intellectual property assets in the U.S. is an area of significant complexity. This is due to variances in the classification of assets, the treatment of different types of intellectual property rights and the resulting approaches to determining post-bankruptcy rights and obligations in the assets at issue.

The reformation of the bankruptcy code in the late 1970s and early to mid-1980s failed to provide guidelines for the treatment of licensed rights in intellectual property. In fact, initial incarnations of the revised Bankruptcy Code left intellectual property licensees, in particular, with no recourse in the event of a licensor’s

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4. The U.S. Bankruptcy Code, 11 U.S.C. §§ 101–1532 (2000 & Supp. V. 2005), provides means for corporate debtors to resolve their obligations via liquidation or reorganization. Liquidation, under Chapter 7 of the Code, involves the collection and sale of the debtor’s assets and the cessation of the debtor’s business under the guidance of a court-appointed trustee. See 11 U.S.C. §§ 701–727 (2000 & Supp. V. 2005). Reorganization, under Chapter 11 of the Code, also involves the collection and possible sale of the debtor’s property but reserves the option of reorganization of the party’s business and its maintenance as an ongoing concern. See 11 U.S.C. §§ 1101–1146 (West 2000 & Supp. V. 2005). Because intellectual property asset issues are most prevalent in the U.S. in matters of the reorganization of businesses, the only bankruptcy proceeding referred to with respect to the U.S. Bankruptcy Code will be that conducted pursuant to reorganization under Chapter 11. As discussed infra, a number of states have changed their laws to allow for reorganization as an alternative to liquidation; this highlights the need for considered handling of intellectual property licenses in the insolvency context. See infra Part III.B.

5. See generally Menell, supra note 2; see also generally In re Cardinal Indus., Inc., 116 B.R. 964 (Bankr. S.D. Ohio 1990) (discussing various treatments of executory contracts and the legislative history of relevant amendments to the Code).

bankruptcy. Section 365 of the Code\(^7\) permits a debtor\(^8\) to determine unilaterally whether to reject, assign or assume\(^9\) the executory contracts to which it is a party\(^10\) based upon the debtor’s calculation as to which action would be beneficial to its reorganization and ongoing operations.\(^11\) The rejection of an intellectual property license pursuant to section 365\(^12\) by a debtor-licensor left the licensee with an unsecured claim against the debtor’s estate—and even then, such a claim was only for damages; the licensee had no recourse in specific performance.\(^13\)

Thus, a licensee whose business was predicated, to any significant degree, on the use of a licensed technology, process, work, or the like therefore faced a considerable risk in entering the license agreement—a risk not at all alleviated by the court in a bankruptcy proceeding. Employing a forgiving “business judgment rule” standard in adjudging the propriety of a debtor’s decision to reject an executory contract,\(^14\) the court was not to evaluate the position of (potential harm to) the licensee.\(^15\)

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8. In the case of reorganization under Chapter 11 of the Code, the debtor is usually a “debtor-in-possession” who simultaneously continues to operate its business and acts as trustee of the “bankruptcy estate” formed upon filing. See 11 U.S.C. § 1101(1) (2000); see also infra notes 73–74 and accompanying text.


10. “Executory contracts” is a phrase undefined in the Code. Generally, an executory contract is one that requires ongoing or otherwise future performance by both parties. See BLACK’S LAW DICTIONARY 344 (8th ed. 2004). As discussed below, intellectual property licenses are usually, but not always, considered to constitute executory contracts in the bankruptcy sense. See infra Part II.A.1.


12. Section 365 only applies to an intellectual property license when such a license is considered an executory contract. See infra Part II.A.1.

13. Johnson & Giddens, supra note 9, at 457–58. The goal of § 365(a) was to enable the debtor to act in a manner deemed beneficial to it in its pursuit of reorganization and in light of its fiduciary duty to maximize its estate for creditors. The contemplation of fairness or potential harm with respect to a licensee was not included in the Code and, therefore, was not to be undertaken in an adjudicatory setting: “equitable considerations may not be indulged by courts.” Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1048 (4th Cir. 1985). In light of this, and in furtherance of the point of § 365(a), specific performance could be seen only as a contradictory, and therefore unavailable, option. See id.

14. See Lubrizol, 756 F.2d at 1046–47; Johnson & Giddens, supra note 9, at 457–58.

15. See Lubrizol, 756 F.2d at 1047–48.
The extent to which an intellectual property licensee was periled under such a system was brought to light with the 1985 decision by the U.S. Court of Appeals for the Fourth Circuit in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.* In the course of the appellant-licensor’s bankruptcy proceedings, the appellant rejected its agreement with the appellee, a nonexclusive license covering patented technology owned by the appellant. On appeal, a panel of the Fourth Circuit, writing unanimously, reversed the district court’s decision in favor of the appellee, countering the lower court’s determination that the license agreement at issue was not an executory contract and concluding that the lower court had erred in choosing to “substitute” its business judgment for that of the licensor, the appellee, with respect to the rejection of the license agreement.

The *Lubrizol* appellate panel acknowledged that the position of licensees under the scheme of section 365 of the Bankruptcy Code could induce a “chilling effect” on the willingness of parties to enter into agreements of an executory nature but concluded that because Congress had offered no special consideration to such agreements in the intellectual property context, none could be bestowed by the judiciary. Where other special interests had been granted exemption from the perils of unilateral rejection under section 365, licensees of intellectual property rights...

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16. 756 F.2d 1043 (4th Cir. 1985).
17. *Id.* at 1045. *Lubrizol* concerned a nonexclusive license, granted to the appellee (Lubrizol), for use of a metal coating process technology owned by appellant and debtor-in-possession RMF. *Id.* The agreement obligated Richmond Metal Finishers (RMF):

1. to notify Lubrizol of any patent infringement suit and to defend in such suit; (2) to notify Lubrizol of any other use or licensing of the process, and to reduce royalty payments if a lower royalty rate agreement was reached with another licensee; and (3) to indemnify Lubrizol for losses arising out of any misrepresentation or breach of warranty by RMF. Lubrizol owed RMF reciprocal duties of accounting for and paying royalties for use of the process and of cancelling certain existing indebtedness.

20. *Id.* at 1047. This conclusion comports with the standard “business judgment rule” discussed supra at notes 9, 14.
21. *Lubrizol*, 756 F.2d at 1048 ("Nor can it be doubted that allowing rejection in this and comparable cases could have a general chilling effect upon the willingness of such parties to contract at all with businesses in possible financial difficulty.").
22. *Id.* The court explained:

Awareness by Congress of those consequences is indeed specifically reflected in the special treatment accorded to union members under collective bargaining contracts, see Bildisco, 465 U.S. at ——, 104 S.Ct. at 1193–96, and to lessees of real property, see 11 U.S.C. § 365(h). But no comparable special treatment is provided for technology licensees such as Lubrizol. They share the general hazards created by § 365 for all business entities dealing with potential bankrupts in the respects at issue here.

*Id.*
“share[d] the same hazards” as other business entities whose contractual obligations fell under that section’s provisions.\(^{23}\)

Shortly after *Lubrizol*—and in light of it\(^{24}\)—Congress passed the Intellectual Property Bankruptcy Protection Act (IPBPA)\(^{25}\) (now codified at section 365(n) of the Bankruptcy Code),\(^{26}\) in an effort to protect licensees placed in a position like that of the *Lubrizol* appellant.\(^{27}\)

23. *Id.*


(1) If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect—

(A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity; or

(B) to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), as such rights existed immediately before the case commenced, for—

(i) the duration of such contract; and

(ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.

(2) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, under such contract—

(A) the trustee shall allow the licensee to exercise such rights;

(B) the licensee shall make all royalty payments due under such contract for the duration of such contract and for any period described in paragraph (1)(B) of this subsection for which the licensee extends such contract; and

(C) the licensee shall be deemed to waive—

(i) any right of setoff it may have with respect to such contract under this title or applicable nonbankruptcy law; and

(ii) any claim allowable under section 503(b) of this title arising from the performance of such contract.

(3) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, then on the written request of the licensee the trustee shall—

(A) to the extent provided in such contract, or any agreement supplementary to such contract, provide to the licensee any intellectual property (including such embodiment) held by the trustee; and

(B) not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such
The IPBPA offers protection to a large swath of intellectual property licenses; the Bankruptcy Code incorporates several types of intellectual property in its definition of that phrase. Section 365(n) covers intellectual property licenses as executory contracts and preserves certain related rights for the licensee should the licensor

embodyment) including any right to obtain such intellectual property (or such embodiment) from another entity.

(4) Unless and until the trustee rejects such contract, on the written request of the licensee the trustee shall—

(A) to the extent provided in such contract or any agreement supplementary to such contract—

(i) perform such contract; or

(ii) provide to the licensee such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law) held by the trustee; and

(B) not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such embodiment), including any right to obtain such intellectual property (or such embodiment) from another entity.

27. As noted by one commentator:
The Lubrizol decision had a chilling effect on licensees of intellectual property because businesses were reluctant to rely on licensed technology knowing that they might lose their license if the licensor filed for bankruptcy. The Lubrizol result threatened to end the system of licensing of technology in the United States that had fostered economic and technological growth by providing a mechanism for inventors to use intellectual property for a ‘specific application’ or geographic market without an outright sale or assignment of the desired technology .... The 1988 amendment was intended to ‘correct the perception of some courts that § 365 was ever intended to be a mechanism for stripping innocent license[s] of rights central to the operations of their ongoing business ....’


(A) trade secret;

(B) invention, process, design, or plant protected under title 35;

(C) patent application;

(D) plant variety;

(E) work of authorship protected under title 17 [i.e., copyright]; or

(F) mask work protected under chapter 9 of title 17;

to the extent protected by applicable nonbankruptcy law.

29. This term is not defined, as discussed supra at notes 6, 10. The Lubrizol court determined that the intellectual property licenses at issue were executory based upon the two-part test created by Professor Vern Countryman in Executory Contracts in Bankruptcy: Part I, 57 Minn. L. Rev. 439, 460 (1973). Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1045 (4th Cir. 1985). Under the test, “a contract is executory if the ‘obligations of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete the performance would constitute a material breach excusing the performance of the other.’” ld. at 1045
seek bankruptcy protection—namely, a limited privilege of the licensee to retain its rights under the license agreement for the duration of the contract or for any permissible extension of the contract.\textsuperscript{30}

1. The Intellectual Property License as Executory Contract

Intellectual property license agreements are generally categorized as executory contracts in the Code.\textsuperscript{31} Whether an intellectual property license is considered an executory contract for purposes of a bankruptcy proceeding is significant in that it affects the ongoing obligations of the debtor and, correspondingly, the ongoing rights of the non-debtor party to the license agreement.\textsuperscript{32} The Bankruptcy Code does not define “executory contract,” the general definition given by courts operating in the bankruptcy context is a contract “on which performance is due to some extent on both sides”\textsuperscript{33} and with respect to which the “obligations of both parties are so far unperformed that the failure of either party to complete performance would constitute a material breach and thus excuse the performance of the other.”\textsuperscript{34} This formulation is not universally applied, however; given the plain language of section 365 and the Congressional goal of providing the debtor with means to reject contractual

\textsuperscript{31} Johnson & Giddens, supra note 9, at 458, 458 n.7 (citing cases).
\textsuperscript{32} The manner in which an intellectual property-related agreement is classified, in terms of creating a non-exclusive license, an exclusive license, a sale, or an assignment, will speak to whether the agreement is considered part of the “bankruptcy estate.” The bankruptcy estate is the body of property interests, legal and equitable, of the debtor owned at the time of the debtor’s commencement of the bankruptcy proceeding or acquired thereafter. See 11 U.S.C. §§ 541(a), (b), (c)(2) (2000 & Supp. V 2005) (describing estate and noting exceptions in creation of estate). Intellectual property rights, including licenses, can be considered property and, therefore, fall within the bankruptcy estate. See RAYMOND T. NIMMER & JEFF DODD, MODERN LICENSING LAW §15:6 (2007). Note that although trademarks are not included in the definition of intellectual property in the Bankruptcy Code, they are nonetheless considered property in terms of the bankruptcy estate. See Krebs Chrysler-Plymouth, Inc. v. Valley Motors, Inc., 141 F.3d 490, 497–98 (3d Cir. 1998).

The debtor’s creditors seek recompense from the estate, based upon the Code’s dictation of priority and its theory of equitable distribution of assets—creditors of equal rank are allocated equal sharing of losses. See Menell, supra note 2, at 753. Property of the estate is protected from creditors via an automatic stay; as part of this stay, no parties may seek recourse against the debtor without permission of the bankruptcy court presiding over the estate. See 11 U.S.C. § 362 (2000 & Supp. V. 2005). Thus, an intellectual property owner wishing to pursue a claim of infringement, for example, against a debtor may do so only upon seeking and receiving the approval of the bankruptcy court.

\textsuperscript{33} In re Wegner, 839 F.2d 533, 536 (9th Cir. 1988). See also supra note 29.
\textsuperscript{34} In re Wegner, 839 F.2d at 536. The “material breach” standard requires a consideration of applicable state law. See Menell, supra note 2, at 755 n.74.
relationships not deemed beneficial, some courts have found subject contracts to be executory if such a finding will benefit the debtor's estate.  

Under these considerations, intellectual property licenses that are non-exclusive in nature generally are found to be executory as such licenses commonly dictate ongoing responsibilities on the part of both parties. In the patent context, for example, a licensor's duty to notify a non-exclusive licensee of other licenses and uses of the subject intellectual property and of patent infringement lawsuits brought with respect to the subject technology as well as the duty to indemnify such licensee are deemed sufficient to lead to a finding that the license is executory (assuming the licensee's obligations also rise to the same level); a non-exclusive licensee's obligations in accounting, royalty payments, and notifications are classified as executory. The fact that such duties, of both licensor and licensee, are contingent in nature will not preclude finding that the license is an executory contract.

In addition to non-exclusive licenses, an intellectual property license that is an exclusive license may also be considered an executory contract. An exclusive license is not an assignment of the patent, but rather an agreement that confers on the licensee the right to operate free of particular competition from, and infringement lawsuits by, the patentee/licensor and to enjoy singular rights in the subject intellectual property (because the patentee/licensor is constrained from licensing the subject technology to others). In exchange for these rights, the licensee must maintain accounting information as well as payment of royalties to the patentee/licensor. The negative requirements imposed on the patentee/licensor are deemed an obligation sufficient to support the classification of an exclusive license as an executory contract. Conversely, this lack of an affirmative requirement of action on the part of the patentee/licensor has also been cited as a rationale for removing an exclusive license from the executory category insofar as the prohibition on suing an exclusive licensee is "inherent" in a licensing agreement and is merely a "defense" for the licensee in the event of suit and not a directive of action to the patentee/licensor.

35. See Menell, supra note 2, at 755–56, 756 n.76 (citing, inter alia, Sipes v. Atlantic Gulf Communities Corp. (In re Gen. Dev. Corp.), 84 F.3d 1364, 1374 (11th Cir. 1996)).
36. See supra notes 31–32.
37. See Menell, supra note 2, at 761–62.
38. Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1046 (4th Cir. 1985). Similarly, obligations which are remote in nature may still lead to a finding that the subject license agreement is executory.
39. See Menell, supra note 2, at 760–61.
40. See id. at 761.
41. See id.
42. See In re Select-A-Seat Corp., 625 F.2d 290, 292 (9th Cir. 1980).
43. See id.
44. See In re Gencor Indus., Inc., 298 B.R. 902, 912 (Bankr. M.D. Fla. 2003) ("The
Thus, an exclusive license is not always considered an executory contract in the bankruptcy context. Further, the licensee’s obligation to pay royalties to the patentee is not, in and of itself, a performance obligation rendering a license agreement executory, but the obligation would be sufficient if required alongside related duties such as maintaining accounting records and reporting the records to the patentee/licensor.

2. License Versus Transfer, and the Effect in Insolvency on Contracting Parties

As an intellectual property license may be classified as an executory contract if it imposes upon the parties ongoing requirements of performance (whether affirmative or negative), it follows that an intellectual property license constitutes a sale or assignment, and not an executory contract, if it relieves the licensee of continuing obligations to the licensor while granting to the licensee all or part of the bundle of exclusive rights associated with the intellectual property that is the subject of the license. The demarcation between an exclusive license and an “outright transfer” of rights (via a sale or assignment) is unclear, but can be informed by the type of intellectual property covered by the license at issue as well as by the specifics of the parties’ obligations in the license.

covenant not to sue, inherent in a licensing agreement, is not a material obligation imposed on the licensor. Rather, the clause provides a defense to the licensee if the licensee is sued for allegedly exceeding the scope of the license. The clause does not create an affirmative obligation on the licensor. See also Menell, supra note 2, at 762 (finding that because the license constitutes a covenant not to sue, “a continuing obligation not to sue the licensee would appear to be an empty duty ... [and] this ‘obligation,’ standing alone, should not be deemed sufficient to make the licensor’s side of the agreement executory”).

45. In re Gencor, 298 B.R. at 913.

46. Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1046 (4th Cir. 1985) (“[T]he promise to account for and pay royalties required that [appellant] deliver written quarterly sales reports and keep books of account subject to inspection by an independent Certified Public Accountant. This promise goes beyond a mere debt, or promise to pay money and was at the critical time executory.”).

47. See, e.g., Otto Preminger Films, Ltd. v. Qintex Entm’t, Inc. (In re Qintex Entm’t, Inc.), 950 F.2d 1492, 1497 (9th Cir. 1991) (finding no executory contract where non-debtor licensor had “signed away all rights of any kind or nature”) (internal quotations and citations omitted).

48. Note that non-exclusive licenses can be considered non-executory as well. See, e.g., DAK Indus., Inc. v. Microsoft Corp. (In re DAK Indus.), 66 F.3d 1091, 1092, 1095–96 (9th Cir. 1995).

49. See Menell, supra note 2, at 758.

50. For example, with respect to a license of software (whether it covers rights under patent or copyright law), the sale of the computer software with a shrink-wrap end user agreement imposes obligations on only one party (the licensee) and is therefore likely not an executory contract. Id. at 759 & nn. 91–92 (citing RAYMOND T. NIMMER, INFORMATION LAW §11:161); 758 & nn. 87–89
With respect to the latter consideration, courts may conduct an evaluation of the “economic realities” of the subject license to determine whether it constitutes an executory contract or a transfer of rights in the subject intellectual property. Under such a contextual approach, whether a license is exclusive is not singularly determinative; a non-exclusive license may therefore be deemed to transfer intellectual property rights to a licensee if the license terms are more akin to the terms of a sale. More often, however, courts classify non-exclusive licenses as executory contracts.

The type of intellectual property covered by the license may be instructive in the executory contract/transfer divide because of the intellectual property provisions that govern the transfer of rights in different forms of intellectual property. For example, as noted above, a patent license may be classified as executory depending upon the materiality of the ongoing obligations resting with each party to the license. A license covering rights in copyright will be classified as executory if the parties have ongoing obligations with respect to the subject work such as its creation or adaptation (licensor) or its commercialization (licensee). Where the license concerns a completed copyrighted work, however, it would not impose continued obligations on

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51. See, e.g., In re DAK Indus., 66 F.3d at 1095–96; Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 E2d 1043, 1046 (4th Cir. 1985).

52. See In re DAK Indus., 66 F.3d at 1095–96.

53. Id. at 1095–96.

54. For example, a license may divest the licensor of all rights in the subject intellectual property. See, e.g., Otto Preminger Films, Ltd. v. Qintex Entm’t, Inc. (In re Qintex Entm’t, Inc.), 950 F.2d 1492, 1497 (9th Cir. 1991).

55. Thus, the Ninth Circuit, in In re DAK Indus., seemed to eschew the “general rule that a non-exclusive license does not constitute a sale, but rather a mere license to use the licensed technology.” Johnson & Giddens, supra note 9, at 460; see also In re Access Beyond Techs., Inc., 237 B.R. 32, 44, 44 n. 12 (Bankr. D. Del. 1999) (distinguishing In re DAK Indus., which dealt with an agreement concerning software, in part because the debtor in DAK had a nonexclusive right to sell the subject technology). According to the court in In re Access Beyond Techs., “a ‘non-exclusive’ grant of the rights to make, use, and sell the patented invention, by its very terms, is not an assignment, but a mere naked license,” in that such a grant cannot be a transfer (i.e. a sale or assignment) when all or part of the exclusive right to practice the patented invention is not part of the grant. 237 B.R. at 44.

56. See Menell, supra note 2, at 761–66.

57. See supra notes 37–44 and accompanying text.

58. See Menell, supra note 2, at 763.

59. See id.
the licensor and would not qualify as executory.\(^6\) Other intellectual property rights are similarly classified by the corpus of the rights and the continued, related obligations of the parties to the license at issue.\(^6\)

3. Post-Classification Protection of the Contracting Parties

Whether the debtor party is the licensor or the licensee does not affect the classification of the license agreement in terms of its executory nature, but the rights of the parties with respect to the assignment, assumption and rejection of the contract do rest somewhat on which party—licensee or licensor—is the debtor.\(^6\) As noted, section 365(n), codifying the IPBPA,\(^6\) protects licensees (such as the appellant in *Lubrizol*) whose businesses rely upon licensed technology and other works of intellectual property,\(^6\) but it does not shelter licensors from the repercussions that may result in the event of a licensee’s declaration of bankruptcy under Chapter 11.\(^6\)

When the licensor is the debtor, the licensee is protected, by virtue of section 365(n), from a trustee’s rejection of the license. The licensee may choose to accept the rejection as a termination of the contract if the rejection would amount to a breach of the license terms.\(^6\) The licensee may also choose, despite the rejection, to retain its rights (subject to limitations and to the licensee’s continued performance) under the license for the contracted duration and any permitted extension of time.\(^6\)

If the intellectual property licensee is the party seeking Chapter 11 protection and the agreement at issue is deemed an executory contract (as opposed to a sale or

\(^{60}\) See id. at 762–63, 763 n.111 (citing, *inter alia*, *In re Learning Publ’ns Inc.*, 94 B.R. 763, 765 (Bankr. M.D. Fla. 1988)). *In re Learning Publications* concerned the transfer of rights in a book from the non-debtor author to the debtor licensee; the author, having completed the work contracted for, had no remaining obligations under the contract. 94 B.R. at 765. The court determined that the debtor-in-possession could not be compelled to assume or reject the contract, as it was not executory in nature. *Id.*

\(^{61}\) See, e.g., DAK Indus., Inc. v. Microsoft Corp. (*In re DAK Indus.*), 66 F.3d 1091, 1095–96 (9th Cir. 1995) (discussing whether licensing in the context of software constitutes an executory contract). Note, however, that trademark rights are not included in the definition of “intellectual property” in the Bankruptcy Code. *See supra* note 28.

\(^{62}\) Licensors are protected under § 365(c), as discussed in further detail at *infra* notes 68–80 and accompanying text.

\(^{63}\) See *infra* note 26 and accompanying text.


\(^{66}\) 11 U.S.C. § 365(n)(1)(A) (2000). This would entitle the licensee to remedies envisioned by the license agreement. *See supra* note 26 for text of § 365(n).

that the licensor's recourse comes from section 365(c). That section provides an exception for the rules of assumption and assignment when the relevant, "applicable law" governing the agreement precludes unilateral assignment of subject rights.

Intellectual property statutes are deemed "applicable law" pursuant to section 365(c) such that courts defer to these laws when in a section 365(c) situation. A split in authority exists, however, with respect to whether the prohibition of an assignment by an applicable intellectual property statute also precludes the licensee/debtor from assuming the license. At issue is whether the directive in section 365(c) that "[t]he trustee may not assume or assign any executory contract [of] the debtor" uses the term "trustee" to mean "debtor-in-possession" and whether "assume or assign" should be read as "assume and assign." With respect to the

68. Licensors of intellectual property rights could face significant losses in the event of a licensee's bankruptcy when the license at issue is declared a sale or assignment against the perceived intent of the licensor (a "sale in disguise"). See Johnson & Giddens, supra note 9, at 459-60. In that situation, the licensor loses its rights in its intellectual property, and the debtor/licensee has the opportunity to assign the rights to a third party without regard for the licensor (because the debtor/licensee is not bound by the strictures of § 365(n) with respect to assumption or assignment). See id.


The trustee may not assume or assign any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if—

(1)(A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to an entity other than the debtor or the debtor-in-possession, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and

(B) such party does not consent to such assumption or assignment.

70. Id.

71. This is meant in the context of intellectual property as defined by the Code. Although trademarks are not classified as "intellectual property" by the Code, courts addressing the handling of trademark licenses under § 365(c) have nodded to the Lanham Act, ch. 540, 60 Stat. 427 (1946) (codified as amended at 15 U.S.C. §§1051-1141n (2000 & Supp. V. 2005)) as constituting "applicable law." See, e.g., Wellington Vision, Inc. v. Pearle Vision, Inc. (In re Wellington Vision, Inc.), 364 B.R. 129, 135 (Bankr. S.D. Fla. 2007) (discussing how the court in In re Travelot Co., 286 B.R. 447, 455 (Bankr. S.G. Ga. 2002) found that federal trademark law restrictions on assignment of non-exclusive license were "applicable law" triggering § 365(c)).

72. See, e.g., In re Travelot Co., 286 B.R. at 454-55 ("applicable law" in § 365(c) context sufficiently broad to include intellectual property).

73. See, e.g., In re Aerobox Composite Structures, LLC, 373 B.R. 135, 138-39 (Bankr. D.N.M. 2007) (noting split); see also Johnson & Giddens, supra note 9, at 471.


75. See, e.g., In re Footstar, 323 B.R. at 569-70; Perlman v. Catapult Entm't, Inc. (In re Catapult Entm't, Inc.), 165 F.3d 747, 749-50 (9th Cir. 1999).
second consideration, some circuit courts evaluate the phrase on the basis of whether the debtor/licensee could hypothetically assign the license to a third party (the "hypothetical" test);\textsuperscript{76} this approach prevents the licensee from either keeping or assigning the license, given that the relevant intellectual property provisions prohibit assignment without the consent of the licensor. Other courts consider the circumstances of each debtor/licensee, evaluating the claim on the basis of what the debtor actually seeks to do with respect to the license (the "actual" test).\textsuperscript{77} This approach permits debtor/licensees the option of assuming the license at issue, an option that could significantly affect the licensee's likelihood of success in reorganization.\textsuperscript{78}

Recent cases addressing this issue have engaged in an evaluation of the status of the debtor-in-possession as trustee before using that determination to support employment of the "actual test."\textsuperscript{79} Under this approach articulated by the court in \textit{In re Footstar, Inc.}, the courts reason that the debtor-in-possession, as opposed to a trustee, may assume a license even though it may not be able to assign the license.\textsuperscript{80} The continued split in authority means, at base, that licensees seeking Chapter 11 protection should consider venue before proceeding.\textsuperscript{81}

4. Initial Lessons from the U.S. Approach in the Cross-Border Context

The approach taken by the Code is of note because of its recognition of the unique position of non-debtor and debtor parties to intellectual property licenses and its resulting attempts to address the needs of those parties. The resulting disarray in application of the law exposes the difficulties inherent in styling an insolvency regime that fully and satisfactorily addresses the concerns of intellectual property licensors and licensees.

\textsuperscript{76} See, e.g., \textit{In re Catapult Entm't Inc.}, 165 F.3d at 754.

\textsuperscript{77} See, e.g., Summit Inv. & Dev. Corp. v. Leroux, 69 F.3d 608, 612–14 (1st Cir. 1995).

\textsuperscript{78} See \textit{Johnson & Giddens, supra} note 9, at 475–76 (discussing options for "fixing the mess").

\textsuperscript{79} See, e.g., \textit{In re Aerobox}, 373 B.R. at 141–42.

\textsuperscript{80} See, e.g., \textit{In re Footstar}, 323 B.R. at 570–75; \textit{In re Aerobox}, 373 B.R. at 141–42.

\textsuperscript{81} As stated succinctly by bankruptcy law expert Robert Eisenbach: A debtor's ability to assume an IP license over the objection of the licensor can be radically different depending upon where the bankruptcy case is pending. Perhaps the developing circuit split over Section 365(c)(1) will lead the U.S. Supreme Court to agree to take up the issue. Until that happens, or Congress amends the law, what a debtor can do with its IP licenses will continue to depend, in no small part, on where it files bankruptcy.

The complexity and ambiguity of the U.S. system with respect to the treatment of intellectual property licenses in bankruptcy proceedings demonstrates that the continued uncertainty forces parties to these licenses, even domestically, to consider carefully the jurisdiction in which they may face administration of the license in an insolvency proceeding.\(^8\) For example, in the section 365(c) context, the parties' consideration of venue is relevant not only in whether courts employ the actual test, the hypothetical test, or the Footstar reading,\(^8\) but also, as at least a secondary consideration, how courts in a particular jurisdiction view the rights granted by a license in view of the type of intellectual property that is the subject of the license.\(^8\) Considered on a global scale, these frustrations and issues become even more difficult to navigate.

**B. The Executory Contract Approach in Non-U.S. Jurisdictions**

As discussed, classification of an intellectual property license as an executory contract acknowledges the ongoing obligations of each party to the license and permits the protection of non-debtor parties to the license.\(^8\) This classification seeks a balance in, for example, permitting the debtor's estate to benefit from reorganization and to meet its obligations to creditors without fully divesting a non-debtor licensee of expected rights in the licensed work or invention.\(^8\)

States including Germany\(^8\) and Japan\(^8\) address the issues raised by executory contracts, doing so, to some extent, in a manner similar to that employed by the U.S.

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82. See id.

83. *In re Footstar, Inc.*, 323 B.R. 566 (Bankr. S.D.N.Y. 2005). Footstar approached the § 365(c) debate differently, determining that a “trustee” under the provision was not necessarily a debtor-in-possession (as had been assumed by courts applying both the “actual” and “hypothetical” tests). See id. at 573. The result of this construction of the statute is that a non-debtor party to a license agreement may object to its assignment, but that objection does not preclude the assumption of the (executory) contract by the debtor-in-possession. See id. at 573–74.

84. See Menell, supra note 2, at 760–66 (reviewing approaches to handling of exclusive and non-exclusive licenses in patent, copyright, trademark and trade secret, and noting disagreements among courts as to the status of different licenses depending on their subject intellectual property category); see also supra note 50 and accompanying text.

85. See supra Part I.A.1.

86. The IPBPA demonstrates this, as it protects non-debtor licensees without further burdening the debtor licensor. See Menell, supra note 2, at 772.


88. See Hideyuki Sakai, *Recent Insolvency Reform in Japan: Some Tips for Foreign Investors into the Japanese Market* 1, 3 (September 2, 2007) (unpublished report on file with
in its Bankruptcy Code. In Germany, for instance, insolvency law reforms were implemented to provide a mechanism for protecting debtors via the option of reorganization. A benefit to debtors included in the reorganization option is the installation of a trustee who assesses the state of the debtor and recommends reorganization or liquidation and has the right to reject executory contracts in the event reorganization is commenced (though not before).

The Japanese insolvency regime, like Germany’s, has undergone marked reform in the past decade. Japan has witnessed a recent overhaul through the enactment of the new Bankruptcy Law in its corporate insolvency procedures along with a variety of changes in the substantive provisions of the Civil Rehabilitation Law and Corporate Reorganization Law. Changes affecting the cancellation of executory contracts under the new Bankruptcy Law include provisions empowering a trustee or debtor-in-possession to terminate such contracts after the related insolvency proceedings have begun. Although the revised law permits a trustee or debtor-in-possession to choose to “cancel” (reject) an executory contract, the trustee’s power is limited when the subject agreement has been or can be perfected such as by

89. See Ziad Raymond Azar, Bankruptcy Policy: An Empirical Investigation of 50 Jurisdictions Worldwide 67 (May 2007), available at http://ssrn.com/abstract=1079724. Germany’s laws were repurposed in light of its desire to see debtors protected, but its efforts at reform in this regard have not been successful; rather, the country’s pro-creditor stance has prevailed in practice. See id. at 67, 67 n.98.

90. See Goffman & Michael, supra note 87.

91. See generally Sakai, supra note 88, and Mori, supra note 88 (delineating the context and timeline of the reforms of Japan’s 1922 Bankruptcy Law). The reforms have resulted in the implementation of a new Bankruptcy Law and revised related laws of Corporate Reorganization and Civil Rehabilitation. See Mori, supra note 88, at 29; see also Soogeeun Oh, Comparative Overview of Asian Insolvency Reforms in the Last Decade, at 7 (April 27, 2006), in LEGAL & INSTITUTIONAL REFORMS OF ASIAN INSOLVENCY SYSTEMS (forthcoming, date not available) (discussing how reforms in Japan sought to overcome identified weaknesses in the existing multitudinous laws, not to alter the structure of extant procedures), available at http://www.oecd.org/dataoecd/42/41/38184426.pdf.


94. Id.
This, in turn, can affect license agreements concerning rights in intellectual property, depending upon the registrability of the rights at issue. Intellectual property license agreements that are not perfectible through registration may be subject to termination by a trustee or debtor-in-possession.

The degree to which the assumption, assignment and rejection of executory contracts are contemplated in the intellectual property context varies among the jurisdictions that provide for those options with respect to the handling of executory contracts in insolvency. This is significant because, as illustrated by the regime in Japan, the rights of parties to intellectual property licenses can be affected by the type of intellectual property that is the subject of the license agreement.

Other states utilize the concept of executory contracts in their insolvency regimes in a manner different from that implemented by the U.S. The autonomous power given the trustee or administrator of the estate with respect to executory contracts is not a universal provision; in England, for example, the leave granted the debtor’s administrator does not extend to the power of that administrator to reject executory contracts.

C. Disparate Approaches in Insolvency Laws

The insolvency laws of some states fail to address treatment by trustees of executory contracts generally or intellectual property licenses specifically. Notions of property law that may not align well with considerations key to intellectual property

95. Id. The exception concerns agreements such as leases and licenses, contracts that “create[ ] rights for a party to use or make a profit in general.” Id.

96. As one author notes, parties to intellectual property licenses should be particularly cognizant of the conditions for termination because “in acquiring a licensee of unregistrable rights, the license of these rights or interests as copyrights or know-how may be terminated if the licensor undergoes an insolvency proceeding and the trustee or the debtor so elects.” Sakai, supra note 88, at 3.

97. See id.

98. Goffman & Michael, supra note 87 (administrator of the estate appointed in England can neither reject executory contracts nor prevent the application of any insolvency-based termination clauses in valuable contracts). Although the trustee’s rights of rejection are limited, section 315 of the UK Insolvency Act of 1986 does provide for the rejection of burdensome obligations on the part of the debtor:

(1) Subject as follows, the trustee may, by the giving of the prescribed notice, disclaim any onerous property and may do so notwithstanding that he has taken possession of it, endeavoured to sell it or otherwise exercised rights of ownership in relation to it.

(2) The following is onerous property for the purposes of this section, that is to say -

(a) any unprofitable contract, and

(b) any other property comprised in the bankrupt's estate which is unsaleable or not readily saleable, or is such that it may give rise to a liability to pay money or perform any other onerous act.

licensing rights are, nevertheless, employed in some jurisdictions to determine parties' rights under licenses upon the insolvency of a licensing party. In the absence of insolvency laws addressing executory contracts generally or intellectual property licenses specifically, an insolvency regime that views intellectual property licenses in view of traditional property rights creates a potential hazard to multinational licensing entities. The "traditional" approach presents particular difficulties for multinational licensing entities, because the approach necessarily will vary depending upon a given jurisdiction's concepts of not only what constitutes a "traditional" property right but also what rights are covered by an intellectual property license.

An acknowledgement of the special nature of executory contracts, particularly in the intellectual property context, may serve to guide parties even when domestic laws are unclear with respect to rights retained in and granted by an intellectual property license. For example, the current Canadian system for insolvency proceedings involves dual governance, by federal bankruptcy provisions and provincial property laws. Although rules establishing when an executory contract may be assigned, assumed or rejected are not provided for by the relevant federal authority (the "Canadian equivalent" of Chapter 11 of the U.S. Bankruptcy Code), approved amendments to that authority purport to add such rules and, further, to provide protection for intellectual property licensees specifically.

99. See, e.g., Svante O. Johansson, What Protection is Afforded a Licensor or Licensee with Regard to Perfected Rights in Bankruptcy? 16–17, 44–45, 53 (2003) (J.D. candidate paper, School of Business, Economics, & Law, University of Gothenburg, Sweden (Handelshögskolan vid Göteborgs Universitet Juridiska Institutionen)) (criticizing Sweden's use of traditional property principle of "loss of right to use through acquisition" in determining rights of parties to intellectual property licenses in an insolvency proceeding, noting the U.S. approach under § 365(n) and recommending the implementation of a similar system in conjunction with a favoring of a principle of priority or agreement), available at http://www.handels.gu.se/epc/archive/00003608/01/200351.pdf; Huei-Hsien Huang, The Effect of IP License in the Event of Bankruptcy - an Examination under Taiwan Insolvency Law, 19 Sci. & TECH. L. REV. No. 60, 62 (April 2007) (translation on file with author) (the insolvency laws of Taiwan employ traditional concepts of property in determining the rights of parties under a license).

100. Huang, supra note 98, at 58, 60, 62 (Taiwanese system affects multinational licensing entities because it disavows them of any commercial certainty).


102. Id. at 6 (referring to the Companies' Creditors Arrangement Act ("CCAA"), R.S.C. 1985, c. C-36).

103. Id. at 2.

104. Id. at 10–11. The amendments were approved December 14, 2007 in Bill C-12, An Act to amend the Bankruptcy and Insolvency Act, the Companies' Creditors Arrangement Act, the Wage Earner Protection Program Act and chapter 47 of the Statutes of Canada, 2005, 39th Parliament, 1st Session (2007), and will be implemented upon direction of the Governor in Council (representative of the Queen in Canada). See Office of the Superintendent of Bankruptcy, Bill C-12 Update, Dec.
It may be that license-specific insolvency provisions in states employing a “traditional notions” approach will evolve out of necessity, as intellectual property rights gain domestic significance in those jurisdictions. The current system in Taiwan, for example, limits the rights of non-debtor parties to a license agreement.\(^{105}\) This arrangement is consistent with the tendency of Taiwan's tech industry to use imported technologies; since most intellectual property owners in Taiwan are foreign entities, intellectual property rights in bankruptcy proceedings has been manageable within the country.\(^{106}\) The system may be seen as inadequate, however, in light of Taiwan's growing ability to create new technologies and the corresponding rising interest in the scope and extent of intellectual property rights.\(^{107}\)

Similar to the situation within the U.S. given the conflicting decisions of the U.S. courts, considerations of jurisdictional treatment of license agreements are significant in the multinational context. A country's approach to the rights of parties to an intellectual property license, to the possibilities available to a non-debtor party to an intellectual property license, and to the use of traditional property contours in an intellectual property situation will affect intellectual property licensors and licensees subject to the laws of the country and will, as a result, affect the willingness of parties to enter into license agreements that might subject them to those laws. As discussed below, reforms in the international insolvency context fail to address adequately these concerns.

### III. Toward the Procedural Harmonization of Cross-Border Insolvencies

Recent attempts to streamline the cross-border insolvency process have introduced some consistency in the manner in which the proceedings are to be undertaken. Yet the regimes resulting from these endeavors, although valuable, have not remedied—and perhaps cannot remedy—the uncertainty faced by parties with respect to the substantive laws that might be used to adjudicate cross-border insolvency proceedings.\(^{108}\) In the following discussion, the regimes of the European

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105. Article 93 of The Banking Law of the Republic of China (as amended, 2003), requires that: (1) Both parties must agree to both execute the contract along with any disagreements; (2) The bankruptcy trustee/administrator is allowed to execute the contract or cancel, ending the contract and limited powers; and (3) Relief of affected parties may be sought via a lawsuit. Huang, supra note 99, at 59, 62 (licensors’ recourse is only in Art. 93 and the bankruptcy trustee to be fair in deciding the fate of the intellectual property license).

106. Huang, supra note 99, at 59, 62.

107. Id. at 59–60 (an increasingly globalized economy will lead Taiwan to reform).

108. This is particularly evident in jurisdictions that employ traditional property right concepts to determinations of rights under license in the event of insolvency. The lack of “commercial certainty,” as phrased by Huang, supra note 99, at 59–60, 62, in insolvency cases for parties to intellectual property licenses is compounded when in the context of international
Union and of the United Nations Commission on International Trade (UNCITRAL) are summarized and their potential effect on parties to intellectual property licenses in cross-border insolvency proceedings is considered.

A. Determining Jurisdiction in Intra-EU Cross-Border Insolvencies

The Council of the European Union’s Regulation 1346/2000 on insolvency proceedings (“EC Regulation”) was promulgated in light of concerns about the detrimental effect an inefficient cross-border insolvency regime had on the functioning of the market of the European Union. It seeks to provide uniformity, fairness and efficiency in EU-based cross-border insolvency matters.

The EC Regulation establishes guidelines for determining jurisdiction over a cross-border insolvency proceeding of individual or corporate citizens within the European Union. It does not purport to dictate or harmonize the insolvency laws of each Member State, but instead provides for parallel insolvency proceedings—one main proceeding along with one or more ancillary (referred to in the Regulation as “Secondary”) proceedings—to aid in the efficient disposal of proceedings in which the debtors’ assets, obligations and liabilities are not contained within one Member State.

The rules governing the main proceeding—a proceeding that is “universal” in scope—were promulgated to assuage the Community concerns of efficiency, uniformity, and fairness. The establishment of ancillary proceedings served to acknowledge the variances in insolvency laws among Member States and to address concerns about the protection of a broader range of interested parties.

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110. Id. at L (160)1 (Recitals 2–4).
111. See id. at L (160)2 (Recital 11).
112. See id. at L (160)1, 5 (Recital 6 and art. 3).
113. See id. at L (160)2 (Recital 11).
114. See id. at L (160)2 (Recital 12).
115. Id.
116. See id. at L (160)1, 2 (Recitals 2, 8, 11).
117. See id. at L (160)2, 3 (Recitals 12, 18) (expanding ancillary proceeding rights under the Regulation to parties “empowered under the national law[s]” of their respective Member States in order “to protect the diversity of interests”).
1. The Process and Effect of Determining the Jurisdiction of the “Main Proceeding”

Under the EC Regulation, where a debtor holds its “centre of main interests” ("COMI") within a particular Member State, that state has jurisdiction over the main proceeding. Only debtors who are deemed to have a COMI within the European Union are permitted to undertake an insolvency proceeding pursuant to the EC Regulation. The COMI is not defined in the EC Regulation, but the prefacing Recitals note that the COMI “should correspond to the place where the debtor conducts the administration of his interests on a regular basis and is therefore ascertainable by third parties.” The EC Regulation presumes that the COMI for a corporate debtor is the location of that debtor’s registered office unless shown otherwise. Recent case law addressing the right of jurisdiction under Article 3 of the EC Regulation (which establishes the protocol for the main proceeding)

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119. See E.C. Regulation, supra note 109, at L (160)5 (arts. 3(1), (3)).
120. Id. at L (160)2 (Recital 14).
121. Id. (Recital 13).
122. Id. at L (160)5 (art. 3(1)). See infra note 123 for the full text of Article 3. Note that the EC Regulation does not provide guidance for corporate subsidiaries, some of which may have interests collected in a jurisdiction other than that of its parent. See United Nations Commission on International Trade Law, Working Group V (Insolvency Law), Treatment of Corporate Groups in Insolvency, ¶¶ 2, 4, 6, U.N. Doc. A/CN.9/WGV/WP.76/Add.2 (Mar. 6, 2007) (noting lack of guidance with respect to the determination of a debtor’s COMI).
123. Article 3, “International jurisdiction,” provides as follows:
   1. 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.
   2. 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. The effects of those proceedings shall be restricted to the assets of the debtor situated in the territory of the latter Member State.
   3. 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.
   4. 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
indicates that the perception of third parties as to the undertakings of a debtor plays a pivotal role in establishing the debtor’s COMI.\textsuperscript{124}

The determination of the debtor’s COMI is significant with respect to both neighboring jurisdictions and interested parties. As to the former, the main proceeding is afforded immediate recognition in all other Member States.\textsuperscript{125} This means that any judgments concerning the opening, conduct and closure of the proceeding are given effect in those states.\textsuperscript{126} As to interested parties, the determination of a debtor’s COMI is of import because the Member State in which the main proceeding is opened is also the state whose laws are deemed to govern key aspects of that proceeding.\textsuperscript{127} Most notably, the laws of the state of the main proceeding determine what comprises the bankruptcy estate in terms of assets.\textsuperscript{128} Those laws also determine the status, in view of the proceeding, of contractual agreements to which the debtor is a party.\textsuperscript{129} The laws of the state of the main proceeding, therefore, serve to govern the treatment of any intellectual property licenses to which the debtor is a party.

2. The Option of the Ancillary Proceeding

As noted, the requirement of a main proceeding under the EC Regulation is meant to streamline the adjudication of cross-border insolvencies,\textsuperscript{130} and the jurisdiction of the main proceeding is given automatic recognition by other EU Member States.\textsuperscript{131} However, the fact of recognition does not preclude parallel
proceedings. The Regulation permits the commencement of parallel, ancillary proceedings both prior to and after the opening of the main proceeding.\textsuperscript{132} Whether commenced before or after the opening of the main proceeding, an ancillary proceeding is brought in a Member State other than the state housing the debtor’s COMI (because that state would host the main proceeding) and can concern only assets within that second state.\textsuperscript{133}

Prior to the opening of the main proceeding, a territorial proceeding\textsuperscript{134} may be brought in a Member State that is not the site of the debtor’s COMI if it is a state in which the debtor conducts economic operations in a manner sufficient to constitute the showing of an in-state “establishment,”\textsuperscript{135} and then only when that state’s laws preclude the opening of a main proceeding or when the proceeding is sought by a properly situated creditor in that jurisdiction.\textsuperscript{136} A creditor seeking relief in a territorial (or secondary\textsuperscript{137}) proceeding cannot meet the threshold “establishment” requirement merely upon showing that the debtor has assets, or even a subsidiary, in the state.\textsuperscript{138} Rather, the debtor must be engaged in more substantial “non-transitory economic activity” from a “place of operations” in the state.\textsuperscript{139} Once the debtor’s establishment has been proved and the proceeding commenced, the subject of the territorial proceeding is limited to the assets located in the state of the proceeding.\textsuperscript{140}

\textsuperscript{132} See id. at L (160)2, 5 (Recital 12 and arts. 3(2), (3), (4)) (laying out the scheme for secondary proceedings).

\textsuperscript{133} Id. at L (160)5 (art. 3(2)).

\textsuperscript{134} Territorial proceedings are both: (1) insolvency proceedings opened in the member state where the debtor has its “COMI”; and (2) insolvency proceedings opened in a Member State where the debtor does not have its “COMI” and where no insolvency proceedings have been opened in the Member State where the debtor has its “COMI.” See id. at L (160)5 (arts. 3(1), (2)). Secondary proceedings are territorial proceedings initiated after a main proceeding (i.e. a proceeding in the Member State in which the debtor has its “COMI”) has been opened. Id. (art. 3(3)).

\textsuperscript{135} See id. at L (160)5 (art. 3(2)). An “establishment” is defined as a “place of operations where the debtor carries out a non-transitory economic activity with human means and goods.” Id. (art. 2(h)).

\textsuperscript{136} Id. (art. 3(4)). This provision concerns local interests, such that, for example, a creditor domiciled in or having a registered office in the secondary Member State—in which the debtor has an establishment—may bring an ancillary action in that state. See id. (art. 3(4)(b)). The territorial proceeding is also permitted here when the laws of the secondary state do not permit the opening of a main proceeding for the debtor. See id. (art. 3(4)(a)).

\textsuperscript{137} A secondary proceeding may be sought by a creditor if the law of the Member State in which the proceeding is sought so permits. See id. at L (160)10 (art. 29(b)).

\textsuperscript{138} Seejas, supra note 124, at 7 (citing Telia v. Hillcourt, [2002] EWHC (ch) 2377 (Eng.)). In Telia, a UK court refused to permit the opening of a territorial proceeding when the debtor’s COMI was in Sweden (as acknowledged by the creditor) and the only presence the debtor had in the UK was its British subsidiary. See Telia, [2002] EWHC at ¶¶ 2–3.

\textsuperscript{139} See E.C. Regulation, supra note 109, at L (160)5 (art. 2(h)).

\textsuperscript{140} See id. (art. 3(2)).
A secondary proceeding may be instigated in a Member State or states other than the state opening the main proceeding after the commencement of the main proceeding as well.\textsuperscript{141} A secondary proceeding also requires a showing that the debtor has an "establishment" in the state(s) in question\textsuperscript{142} and covers only the assets within the state of the proceeding.\textsuperscript{143} A secondary proceeding differs from a territorial proceeding, however, in that the former is to be a "winding-up proceeding,"\textsuperscript{144} meaning that it is to involve only the realization of the assets at issue.\textsuperscript{145} Subject to exceptions concerning, \textit{inter alia}, employment contracts and the location of immovable assets,\textsuperscript{146} the secondary proceedings are subject to the law of the state in which commenced.\textsuperscript{147}

3. Effect of the EC Regulation on Substantive Insolvency Matters

The EC Regulation was enacted after the creation of the UNCITRAL Model Law on Cross-Border Insolvency ("Model Law"),\textsuperscript{148} discussed below, and the approach of the former is largely predicated upon that of the latter.\textsuperscript{149} Neither the Model Law nor the EC Regulation delineates substantive laws concerning insolvency; each focuses rather on the jurisdictional issues arising from cross-border insolvency situations. As indicated by the previously summarized process provided in the EC Regulation, these jurisdictional questions are not settled fully by the Regulation, but rather, are left open with a nod to sovereignty concerns.\textsuperscript{150} The UNCITRAL Model Law, as the basis for the EC Regulation, creates a similar situation for enacting states.\textsuperscript{151}

\textsuperscript{141} See \textit{id.} at L (160)9 (art. 27).
\textsuperscript{142} \textit{Id.} at L (160)5 (art. 3(2)).
\textsuperscript{143} \textit{Id.} at L (160)5, 9 (arts. 3(2), 27).
\textsuperscript{144} \textit{Id.} at L (160)5 (art. 3(3)).
\textsuperscript{145} \textit{Id.} (art. 2(c)).
\textsuperscript{146} See \textit{id.} at L (160)6, 7 (arts. 5–15). As discussed \textit{infra}, Article 12 concerns Community-based rights in intellectual property.
\textsuperscript{147} \textit{Id.} at L (160)10 (art. 28).
\textsuperscript{149} \textit{See} Sejas, \textit{supra} note 124, at 9.
\textsuperscript{150} \textit{See} E.C. Regulation, \textit{supra} note 109, at L (160)5, 7, 9 (arts. 4–15, 26).
\textsuperscript{151} \textit{See} Model Law, \textit{supra} note 148, at art. 6 (laying out a public policy exception to the Model Law).
B. A Procedural Option for non-EU States: UNCITRAL's Model Law

The UNCITRAL Model Law is, as its name indicates, a measure drafted such that it can be incorporated, wholesale, into the insolvency laws of enacting states. The Law was motivated by concerns that outdated and inefficient insolvency laws in various jurisdictions would hinder cross-border investment. The Model Law was thus intended to provide an efficient, fair means by which cross-border insolvencies should be handled in order to promote cooperation between states and the protection of debtors.

States may choose to adopt the entire Model Law or certain provisions as they see fit. This option is distinct from the effect of the EC Regulation, which, as part of Community law, has direct effect in Member States; no further implementation is needed. As of mid-2007, nineteen countries had enacted or were on the verge of

152. Sejas, supra note 124, at 10.
154. See Model Law, pmbl., supra note 148, at 2. The Preamble lists the Law's objectives as follows:

[a] Cooperation between the courts and other competent authorities of this State and foreign States involved in cases of cross-border insolvency;
(b) Greater legal certainty for trade and investment;
(c) Fair and efficient administration of cross-border insolvencies that protects the interests of all creditors and other interested persons, including the debtor;
(d) Protection and maximization of the value of the debtor's assets; and
(e) Facilitation of the rescue of financially troubled businesses, thereby protecting investment and preserving employment.

Id.


156. This is with the exception of Denmark, due to its position with respect to the Treaty of the European Union. See E.C. Regulation, supra note 109, at L (160)4 (Recital 33).
enacting legislation that either adopted the Model Law or drew upon its provisions for guidance.\textsuperscript{157}

1. Establishing a Jurisdiction for the Adjudication of a Cross-Border Insolvency Proceeding under the Model Law

The Model Law, like the EC Regulation which drew from it, uses the “center of main interests” measure—defined not in the Law, but in the subsequently published Legislative Guide to its implementation and presumed to constitute a regulatory center\textsuperscript{158}—to determine the site of a “main” insolvency proceeding.\textsuperscript{159} The Law views other, non-COMI jurisdictions as eligible to house ancillary insolvency proceedings if the debtor is shown to have an “establishment” in those jurisdictions.\textsuperscript{160} That showing, in the Model Law as with the EC Regulation, rests not on the mere demonstration of assets in a state, but rather on the debtor’s having a place of business\textsuperscript{161} in that state, i.e., a “place of operations” from which “non-transitory economic activity” is conducted.\textsuperscript{162} Under the Model Law, such activity can be in goods or services whereas the EC Regulation only allows for consideration of goods based activity.\textsuperscript{163}

The Model Law references the “enacting State”—the state adopting the Law—and “foreign States”—states that, in the event of a cross-border proceeding in the enacting state, would be subject to the provisions of the Model Law and/or the sites of related proceedings.\textsuperscript{164} The Law establishes the procedural framework for the conduct of the “main” cross-border insolvency proceeding (whether held in the enacting state or in a foreign state) and for the conduct of any ancillary proceedings (whether held in the enacting state, a foreign state, or both the enacting state and a

\textsuperscript{157} UNCITRAL – Status – 1997 Model Law on Cross-Border Insolvency, http://www.uncitral.org/uncitral/en/uncitral_texts/insolvency/1997Model_status.html. These states include Australia, Argentina, the British Virgin Islands, Canada, the Cayman Islands, Colombia, Eritrea, Great Britain, Italy, Japan, Mexico, Montenegro, New Zealand, Poland, Romania, Serbia, Spain, South Africa and the United States. \textit{Id.}

\textsuperscript{158} UNCITRAL, \textit{Legislative Guide on Insolvency Law} 4 (2005) [hereinafter Legislative Guide] (defining “COMI” in § 2(f) of the “Glossary”), available at http://www.uncitral.org/pdf/english/texts/insolven/05-80722 _Ebook.pdf. The Guide uses the EC Regulation to clarify the concept of the “centre of main interests”, defining “COMI” as “the place where the debtor conducts the administration of its interests on a regular basis and that is therefore ascertainable by third parties.” \textit{Id.}

\textsuperscript{159} See Model Law, \textit{supra} note 148, at art. 17(2)(b).

\textsuperscript{160} See \textit{id.}

\textsuperscript{161} Sejas, \textit{supra} note 124, at 11.

\textsuperscript{162} Model Law, \textit{supra} note 148, at art. 2(e).

\textsuperscript{163} Compare \textit{id.}, with E.C. Regulation, \textit{supra} note 108, at L (160)5 (art. 2(h)).

\textsuperscript{164} See generally Model Law, \textit{supra} note 148.
The Law outlines standards for the recognition of foreign insolvency proceedings by the enacting state and the undertaking of ancillary proceedings in the enacting state if foreign proceedings have been initiated. With respect to proceedings in the foreign state, a foreign representative or court can seek recognition by the enacting state of an insolvency proceeding in the foreign state. Such recognition is to come promptly and may induce the enacting state to stay the continuation or opening of any action concerning the debtor’s assets as well as any execution against, transfer, encumbrance, or other disposal of the assets.

A foreign proceeding recognized by the enacting state may be either the foreign main proceeding or a foreign proceeding that is ancillary (labeled a “foreign non-main proceeding”). The relief granted with respect to the debtor’s assets and any in-state proceedings concerning those assets may vary depending upon whether the recognized proceeding is “main” or “non-main.”

2. Parallel Proceedings

Proceedings in the enacting state may be sought by an authorized party, labeled a “foreign representative,” if the state’s laws delineating the right to commence

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165. Model Law, supra note 148, at art. 1(1) provides for the application of the Law where:
   (a) Assistance is sought in this State by a foreign court or a foreign representative in connection with a foreign proceeding; or
   (b) Assistance is sought in a foreign State in connection with a proceeding under [identify laws of the enacting State relating to insolvency]; or
   (c) A foreign proceeding and a proceeding under [identify laws of the enacting State relating to insolvency] in respect of the same debtor are taking place concurrently; or
   (d) Creditors or other interested persons in a foreign State have an interest in requesting the commencement of, or participating in, a proceeding under [identify laws of the enacting State relating to insolvency].

See also id. at arts. 15–24 (laying out framework for recognition of foreign proceedings).

166. See id. at arts. 15–24.

167. A “foreign court” for purposes of the Law is “a judicial or other authority competent to control or supervise a foreign proceeding.” Id. at art. 2(e).

168. See id. at art. 15.

169. See id. at art. 17(3).

170. Compare id. at art. 20 (laying out presumptive relief upon the recognition of a foreign main proceeding), with id. at art. 21 (laying out discretionary relief upon recognition of a foreign ancillary proceeding). Such relief may be granted on an interim basis while the request for recognition is pending, but is much less likely to be granted if it interferes with a foreign proceeding. See id. at art. 19.

171. See id. at art. 17.

172. See supra note 170.

173. A “foreign representative” is defined as “a person or body, including one appointed on an interim basis, authorized in a foreign proceeding to administer the reorganization or the liquidation
insolvency proceedings are met by the foreign representative. Foreign creditors are also permitted to seek the opening of an insolvency proceeding in the enacting state. Additionally, once an enacting state recognizes a proceeding in a foreign jurisdiction, both foreign representatives and foreign creditors have the right to participate in related proceedings in the enacting state. Further, insolvency proceedings in the enacting state may only be brought upon the recognition of a foreign main proceeding if the debtor has assets in the enacting state; this second "non-main" proceeding concerns only the assets in the enacting state unless the adherence to provisions concerning the coordination and cooperation of concurrent proceedings necessitates, and the laws of the enacting state permit, administration of other assets.

C. The EC Regulation and the Model Law through the Intellectual Property Lens

The EC Regulation and the Model Law provide significant opportunity for the streamlining of insolvency proceedings at the multilateral level. By establishing a procedure by which proceedings are fairly consolidated, these regimes can effect a certain amount of efficiency in the cross-border insolvency context. Because they do not address substantive matters with respect to the handling of assets, however, they leave the fate of those assets—including intangible assets and the rights and obligations present in executory contracts—to the various jurisdictions. From the

of the debtor's assets or affairs or to act as a representative of the foreign proceeding." Model Law, supra note 148, at art. 2(d).

174. See id. at art. 11.

175. See id. at art. 13(1). Foreign creditors' rights in commencing or participating in insolvency proceedings in the enacting state are limited as follows:

[Commencement or participation in a proceeding by a foreign creditor] does not affect the ranking of claims in a proceeding under [identify laws of the enacting State relating to insolvency], except that the claims of foreign creditors shall not be ranked lower than [identify the class of general non-preference claims, while providing that a foreign claim is to be ranked lower than the general non-preference claims if an equivalent local claim (e.g. claim for a penalty or deferred-payment claim) has a rank lower than the general non-preference claims].

Id. at art. 13(2).

176. See id. at arts. 12, 13.

177. See id. at art. 28.

178. See id. The Model Law provides for cooperation and coordination between foreign representatives and the court of the enacting state and for the courts of the states housing the concurrent proceedings. See id. at arts. 25–27. When foreign proceedings are undertaken to be recognized or are actually recognized in the enacting state, the enacting state is to ensure that the relief granted with respect to the debtor's assets is consistent with any domestic proceedings in the enacting state. See id. at art. 29.
point of view of a party to an intellectual property license, the EC Regulation and Model Law fail to provide commercial certainty as to the handling of that license.

As noted above, the determination of a debtor's COMI pursuant to the opening of a main proceeding under the EC Regulation is of particular import because the laws of the state housing the main proceeding are the laws which dictate the assets within the bankruptcy estate and the rights of the debtor with respect to outstanding obligations such as those pursuant to an intellectual property license.179 The site of the main proceeding can, therefore, have particular impact on non-debtor parties. This is true for rights in foreign intellectual property as well as for Community-based rights as the latter are to be incorporated only in the main proceeding and not in any ancillary proceedings whether brought in advance of or subsequent to the main proceeding.180

The exception for Community-based rights in patent and trademark is the only specific reference to intellectual property in the EC Regulation. Because the EC Regulation seeks to harmonize the process of cross-border insolvencies in the European Union but does not proffer substantive rules with respect to insolvency laws, no provision with respect to the treatment of intellectual property licenses is given. The EC Regulation specifically provides that the laws of the state housing the main proceeding are to determine the status of a contract to which the debtor is a party.181 Thus, the location of the COMI is certain to affect whether an intellectual property license will be assumed, assigned or rejected. As explained by a European Commission-sponsored advisory group on intellectual property rights:

In the case of restructuring, the debtor participates in the decisions taken with regard to specific assets by making contractual proposals or using other legal instruments provided for by national law. In this way, the debtor, if given consent by the creditors, may prevent a right (e.g. a patent or a trade mark) from being sold and try to satisfy the creditors with other assets. Similarly, he can also try to satisfy the creditors by transferring the right onto the assets (e.g. by transfer of author's economic rights to a computer program) in exchange for remission of liabilities.182

179. See E.C. Regulation, supra note 109, at L (160)5, 6 (arts. 3(1), 4(2)).
180. See id. at L (160)7 (Art. 12) (addressing Community rights in intellectual property); see also Commission of the European Communities, Proposal for a Council Regulation on the Community Patent, at 45 (Aug. 1, 2000) (proposing, in Article 18, that the only insolvency proceedings in which a Community patent may be involved shall be those opened in the Member State within the territory of which the centre of a debtor's main interests is situated), available at http://www.europabio.org/documents/offdocs/COM2000177.pdf.
181. E.C. Regulation, supra note 109, at L (160)6 (Art. 4(2)(e)).
The significance of the COMI location in the EC system is also true in the UNCITRAL context, perhaps even more so because of the flexibility built into the Law. Because the Law’s proposed provisions may be adjusted by each enacting state,183 different states may have varied approaches to determining a debtor’s COMI. Coupled with the fact that the Model Law does not define COMI, this could be seen to dilute the effectuation of the Law’s purpose in establishing a universal standard from which the streamlined handling of cross-border insolvencies is to launch.184 Even if the standard is viewed as relatively universal, however, the establishment of a debtor’s COMI in a Model Law-based “foreign main proceeding,” as with an EC Regulation “main proceeding,” subjects the licensee or licensor debtor and any non-debtor counterparties to the substantive insolvency law of the presiding state.185

The Model Law does not address substantive insolvency provisions, but the difficulties in administering and determining the applicable laws in Model Law-based proceedings are acknowledged in the UNCITRAL Legislative Guide on Insolvency Law,186 a reference manual for states enacting the Model Law.187 The Legislative Guide encourages the use of *lex fori concursus*188 in determining the applicable law in cross-border insolvencies189 and advocates that the forum state’s laws should control “all aspects of the commencement, conduct, administration and conclusion”190 of the proceeding. The Legislative Guide includes the treatment of the debtor’s contracts in the administration of the estate under the *lex fori concursus*191 and provides for exceptions to the general rule permitting the debtor’s administrator...
to make determinations with respect to the continuance of those contracts, but cautions that any exceptions should be limited. The Legislative Guide acknowledges that intellectual property licenses, as contracts requiring performance and which, accordingly, can be continued, assigned or rejected by the debtor's estate administrator in an insolvency proceeding, could be excepted from the administrator's power. The Guide notes that limiting the administrator's power with respect to such agreements may be appropriate "where the debtor is a . . . licensor of intellectual property and termination of the agreement would end or seriously affect the business of the counterparty, in particular where the advantage to the debtor may be relatively minor." The recommendations detailed in the Legislative Guide do not address the interplay between intellectual property laws and insolvency provisions.

The EC Regulation and the Model Law seek to establish efficiency in the conduct of cross-border insolvencies. They do not, however, aid in the creation of an international bankruptcy law, acknowledging instead that such an undertaking would be fraught with unassailable hurdles. Because each law focuses largely upon the choosing of a principal forum for the subject insolvency, and then permits, to varying degrees, the opening of parallel proceedings, neither resolves the special issues concerning the treatment of intellectual property licenses in cross-border proceedings. In this manner, despite the significance of both the EC Regulation and the Model Law, the concept of a system of international insolvency remains "nothing more than the question of when, as a matter of domestic law, a court will resolve a dispute according to the law of another country rather than its own nation's bankruptcy law." The fate of intellectual property licenses in bankruptcy remains jurisdictionally determined.

192. See id. at 73–74 (providing, in Recommendations 32 and 33, that contracts regarding payment systems, financial markets or labor should be governed by the law applicable to these subjects).
193. See id. at 74 (Recommendation 34).
194. See id. ¶ 143, at 130 (discussing special contracts, including those which "cannot be performed," and citing intellectual property licenses as an example thereof).
195. See id.
196. Id. The Guide recommends that any such limitations be clearly established within the insolvency laws. Id. (¶ 144, at 130).
197. See, e.g., id. ¶ 3, at 307 ("The Model Law respects the differences among national procedural laws and does not attempt a substantive unification of insolvency law.").
IV. Options for Closing the Cross-Border Gap as it Pertains to Intellectual Property Licenses

There is a broad, far-reaching impact to international insolvency law—in its compulsory nature, illustrated by the fact that it mandates acquiescence of all of a debtor's creditors, and, in its status as a powerful "meta-law," shown in its ability to undercut otherwise valid and binding legal arrangements; such as contracts. This impact is onerous to multinational entities because it creates for them significant uncertainty as to the virility of their rights in the event of an insolvency.

One aspect of this uncertainty faced by multinational entities is the fate of their rights and obligations with respect to the intellectual property licenses to which they are party. As noted, the treatment of intellectual property licenses in cross-border insolvencies is determined jurisdictionally. Because the manner in which these licenses are treated in a particular jurisdiction can have significant repercussions on non-debtor licensors and licensees alike, multinational entities are burdened by not knowing, at the time of licensing, what jurisdiction's laws will determine the rights and obligations under a license in the event of an insolvency. If parties are informed as to the manner in which their intellectual property licenses will be handled in a cross-border insolvency proceeding, having that information could serve to assuage somewhat the more burdensome aspects of international insolvency law insofar as multinational entities are concerned.

The failure of the current cross-border regimes to account for the disparities in substantive laws, particularly with respect to the unique rights conveyed in intellectual property licenses, warrants the consideration of measures that address intellectual property licenses in the cross-border insolvency context. A mechanism that provides parties entering into intellectual property licenses with some


200. Id. at 1902, 1902 n.13.

201. Id. at 1902.

202. Cf. id.

203. See supra Part III.A.

204. In addition to the burdensomeness of the reach and power of international insolvency law, Professor Pottow also notes the frustratingly “prickly” nature of the law, exemplified not only by the disconnect between what is advocated as the proper focus of international insolvency regimes (“efficient resolution of financial distress”) and the purpose indicated in practice (redistribution), but also by the lack of consistency across jurisdictions as to whether liquidation or reorganization best serves the goals of the international insolvency regime. See Pottow, Greed and Pride, supra note 199, at 1902, 1902 n.15.
forewarning as to the likely fate of those licenses in the event of one contracting party's insolvency is therefore desirable.

This article advocates the implementation of a contract-based, choice-of-law system in which contemplation of the ramifications of insolvency on subject intellectual property licenses is conducted at the time of license negotiations. This option could work within the confines of current systems, such as that of the EC Regulation and that anticipated by the Model Law. It would permit parties to enter into license agreements concerning intellectual property with the knowledge of which jurisdiction's laws would cover the administration of the licenses in the event of one party's cross-border insolvency. The rationale for such an approach is best explained in view of the policies underlying international bankruptcy theory.

A. Established Theories Concerning International Insolvency

International bankruptcy theory lies primarily in three camps: territorialism, universalism and contractualism. Until the advent of the UNCITRAL Model Law and its progeny, in terms of both state-specific enactment of the Model Law and the EC Regulation, territorialism was the most prevalent approach to matters of international insolvency. Also nicknamed the "grab rule," territorialism approaches international insolvency on a state-by-state basis. Each jurisdiction administers (or "grabs") the assets of the debtor present in that jurisdiction, using the law of the forum and without regard for assets situated in other jurisdictions. In this system, parties are largely aware, before the fact, of which assets will be governed by various jurisdictions in an insolvency proceeding. The long-standing territorialism approach comports with general choice-of-law provisions but is

205. For an explanation of the economics of the ex ante and ex post approaches of the intellectual property and bankruptcy regimes, see Menell, supra note 2, at 737–68.

206. See, e.g., Pottow, Greed and Pride, supra note 199, at 1900, 1948 (territorialism and universalism are two competing paradigms, with Professor Rasmussen's contractualist theory offering an option in the cross-border realm).


210. See Pottow, Greed and Pride, supra note 199, at 1904.

211. See Farley, supra note 208, at 196.
criticized as inefficient\textsuperscript{212} and characterized by high transaction costs.\textsuperscript{213} Territorialism is also criticized because foreign creditors are often placed at a disadvantage under the system;\textsuperscript{214} although the application of national treatment principles alleviates that concern.\textsuperscript{215} Universalism favors the application of a single substantive law in cross-border proceedings.\textsuperscript{216} The substantive law to be applied would be chosen in light of the debtor’s “home” jurisdiction, and it would control assets in and out of that jurisdiction.\textsuperscript{217} This “substantive universalism”\textsuperscript{218} can be modified to allow for variations in state policy and other sovereign concerns, such that exceptions could be made for ancillary administration of foreign-based assets.\textsuperscript{219} As the approach favored most broadly by scholars in the field,\textsuperscript{220} universalism is touted as providing an economically efficient alternative to territorialism\textsuperscript{221} and increasing social welfare.\textsuperscript{222} However, it is criticized for failing to account for comity concerns\textsuperscript{223} and presents a challenge not addressed by proponents of the universalist theory, namely which country’s substantive law should be chosen.\textsuperscript{224}

\begin{itemize}
\item \textsuperscript{212} This is because of multiple proceedings and, at the other end, the likelihood of inefficient investments in contemplation of a territorial approach in the event of insolvency. See Rasmussen, Transnational Insolvencies, supra note 207, at 18–19, 19 n.89 (citing Lucian Arye Bebchuk & Andrew T. Guzmán, An Economic Analysis of Transnational Bankruptcies, (Harvard Law School Discussion Paper No. 180, 1996), subsequently published in 42 J.L. ECON. 715, 794–803 (1999)).
\item \textsuperscript{213} See Pottow, Greed and Pride, supra note 199, at 1904.
\item \textsuperscript{214} See Farley, supra note 208, at 196.
\item \textsuperscript{215} See Rasmussen, Transnational Insolvencies, supra note 207, at 29.
\item \textsuperscript{216} See Pottow, Greed and Pride, supra note 199, at 1904.
\item \textsuperscript{217} See Rasmussen, Private Ordering, supra note 198, at 2254. The “home” jurisdiction concept is akin to the “center of main interests” requirement of the EC Regulation and the Model Law. Cf. id.
\item \textsuperscript{218} Rasmussen, Transnational Insolvencies, supra note 207, at 16 (coining the phrase).
\item \textsuperscript{219} See Pottow, Greed and Pride, supra note 199, at 1904–05.
\item \textsuperscript{220} See, e.g., id. at 1904.
\item \textsuperscript{221} This is in part because universalism lowers administrative costs (one proceeding instead of several). See Rasmussen, Transnational Insolvencies, supra note 207, at 16–17. Universalism is also said to increase efficiency because it removes the incentive for creditors to “race” to the assets of the debtor. See Rasmussen, Private Ordering, supra note 198, at 2257. Most insolvency laws provide mechanisms such as stays to counter this incentive, however. See id.; see also, e.g., 11 U.S.C. §§ 362(a), 1520(a) (2000 & Supp. V. 2005).
\item \textsuperscript{222} See Rasmussen, Transnational Insolvencies, supra note 207, at 17.
\item \textsuperscript{223} See, e.g., Rasmussen, Private Ordering, supra note 198, at 2255 ("[Universalism] fails to respect the bankruptcy policies of the different countries involved, . . . Any credible theory of how to handle transnational insolvencies must wrestle with the problem of comity between sovereign nations.").
\item \textsuperscript{224} See, e.g., Farley, supra note 208, at 203 ("[O]ne of the biggest criticisms of universalism is the uncertainty surrounding how to determine the home country of a multinational corporation.").
\end{itemize}
Contractualism, proposed as appropriate for application in the international insolvency sphere by Professor Robert Rasmussen,\(^\text{225}\) permits a choice by parties as to the manner in which their assets will be handled in the event of a bankruptcy. Under this approach, a party\(^\text{226}\) may choose the jurisdiction to which it will be subjected in an insolvency proceeding and includes that decision in its corporate charter.\(^\text{227}\) A multinational entity making this decision has the option of having its assets handled state-by-state, in one proceeding or in some combination of these two options.\(^\text{228}\)

The contractual approach stems from the concept, in private international law, of the validity and enforceability of choice of law clauses in private agreements.\(^\text{229}\) Such forum selection clauses should be negotiated arm’s-length by parties having “‘experience[ ] and sophisticat[ion].’”\(^\text{230}\) This assurance of the parties’ status lends credence to the treatment of the clauses as valid.\(^\text{231}\)

Including contractual choice in transnational insolvency proceedings permits parties the leeway to determine, ex-ante, the best option for them in terms of approaching insolvency matters internationally: arguably, an entity is in the best position to make this determination as opposed to a court (making an ex-post decision) or a legislative body (making, like the entity, an ex-ante decision, but one that is generalized and therefore not sensitive to the particular circumstances of the entity).\(^\text{232}\) An option of contractual choice also provides parties with an ex ante understanding of what is likely to transpire in the event of a bankruptcy.\(^\text{233}\) With respect to the latter point, contractualism, like universalism, may be criticized for its difficulty of implementation;\(^\text{234}\) contractualism may be seen to inform the contracting parties but not third-party creditors pertinent to an insolvency proceeding.\(^\text{235}\) Professor Rasmussen addresses this concern with the recommendation that the enforceability of a party’s bankruptcy selection clause be tied to the inclusion of the


\(^{226}\) In this context, a “party” is a transnational corporate entity. See Rasmussen, *Private Ordering*, supra note 198, at 2253.

\(^{227}\) See id. at 2254.

\(^{228}\) See id.


\(^{230}\) Cf. id. at 33 (quoting M/S Bremen v. Zapata Off-Shore Co., 407 U.S. 1, 12 (1972) (upholding forum-selection clauses)).

\(^{231}\) See M/S Bremen, 407 U.S. at 12–14.


\(^{233}\) Cf. id. (implicitly recognizing that transnational firms must hypothesize about the best result before choosing a preferred substantive law).

\(^{234}\) See id. at 2255, 2261–64.

\(^{235}\) See Rasmussen, *Transnational Insolvencies*, supra note 207, at 34.
clause in the party’s corporate charter, thereby creating a method of notifying would-be creditors of the party’s choice.\textsuperscript{236}

B. The Implementation of International Insolvency Theory

As noted, the territorial approach to cross-border insolvency has been long-practiced but has fallen out of favor due in large part to its perceived inefficiency.\textsuperscript{237} The contractual approach has not yet been implemented in an insolvency regime.\textsuperscript{238} The Model Law and its progeny reflect the approach closest to universalism, by the setup of a modified universalist system that is a procedural mechanism for the administration of a debtor’s assets in cross-border insolvency proceedings.\textsuperscript{239}

The modified universalist system, as put into practice by the EC Regulation and the Model Law, is attractive in its stated purpose, by virtue of its flexibility, and in its recognition of sovereignty over substantive matters pertaining to insolvency law. The EC Regulation and the Model Law seek, for example, to create a streamlined, efficient system that protects creditors from the “grab” race of a state-by-state process and aids debtors with efficient resolution in both process and cost.\textsuperscript{240} Further, each system offers flexibility that acknowledges differences in cultural and legal approaches to insolvency.\textsuperscript{241} Finally, each also nods to the realities of broad-based

\textsuperscript{236} See id. Professor Rasmussen counters another potential criticism of contractualism—that it fails to address concerns of involuntary creditors—by noting that such creditors are no worse off in a contractualist system than in the systems promulgated by other approaches to international insolvency, i.e., that involuntary creditors are often given the same type of low priority as unsecured creditors. See id. at 34–35. Professor Rasmussen suggests the creation of a rule protecting involuntary creditors in proceedings using bankruptcy selection clauses by applying the rules of the chosen jurisdiction only if they would afford involuntary creditors with “a priority at least as equal to the priority that the creditor would receive” in the enforcing court and where the rules of the chosen jurisdiction would “provide[ ] an effective means to resolve the claim.” See id. at 35. This approach, notes Professor Rasmussen, is consistent with that of the U.S. Supreme Court in \textit{M/S Bremen}, 407 U.S. 1 (1972). \textit{Id. M/S Bremen} upheld the validity and enforceability of a forum-selection clause in an international shipping agreement, acknowledging that such clauses should be upheld unless the circumstances “clearly show that enforcement would be unreasonable and unjust . . . .” 407 U.S. at 15. Professor Rasmussen, in favoring the extension of the holding in \textit{M/S Bremen} to international insolvency agreements, would limit the enforceability of bankruptcy selection clauses only where application of the clause (to, for example, an involuntary claimant) would be neither “unreasonable” nor “unjust”. See Rasmussen, \textit{Transnational Insolvencies}, supra note 207, at 35.

\textsuperscript{237} See supra notes 212–214 and accompanying text.

\textsuperscript{238} See, e.g., Pottow, \textit{Greed and Pride}, supra note 199, at 1948 (discussing proposal).


\textsuperscript{240} See UNCITRAL Model Law, pmbl. \textit{supra} note 148, at 2; E.C. Regulation, \textit{supra} note 109 (L 160)1 (Recitals 2, 8).

\textsuperscript{241} See Model Law, \textit{supra} note 148, at art. 6; E.C. Regulation, \textit{supra} note 109, at L (160)9 (art. 26).
change: states' resistance to wide revision, particularly when marked by a requirement to acquiesce to the authority of a sister jurisdiction, is likely to be strong.  

These regimes fall short, however, because they cannot offer sufficient guidance to parties in terms of what to expect, jurisdictionally, from a cross-border insolvency proceeding. In this way, the very flexibility built into the systems becomes a disservice, particularly when coupled with the extant silence on key substantive issues. For example, the determination of an entity's COMI, or centre of main interests, is an imprecise process. Without a clear idea of which state's laws might apply in the event of an entity's bankruptcy, parties contemplating the licensing of rights in intellectual property cannot know how a licensing agreement might be adjudicated in terms of its scope or of the rights of a debtor party to assume, assign or reject the agreement upon filing for bankruptcy. The Model Law, and the legislation enacted in its wake by several states, is therefore limited in the predictability and stability it can offer parties contracting over intellectual property rights.

The Model Law regime, as a system based in modified universalism, is pragmatic in that it recognizes the need for states to exercise some control over the assets of a debtor when those assets are in-state and when local creditors are affected by the bankruptcy. A standard that is too open to ancillary proceedings, however, is no longer part of a universal system but a thinly disguised territorial one. Permitting multiple proceedings thwarts the universalist trump card of efficiency. Yet a truly universalist system—arguably the system envisioned by most in the field—fails to account for sovereignty concerns; states are apt to balk at having to acquiesce to the jurisdiction and laws of another state.

242. See GA. Res. 52/158, supra note 148, at 2 (merely recommending that states give favorable consideration to the UNCITRAL Model Law); see generally E.C. Regulation, supra note 109(L. 160) (preserving multiple systems of substantive bankruptcy law rather than making one system of substantive European bankruptcy law); cf. also Pottow, Greed and Pride, supra note 199, at 1941 (noting, in the context of advocating a carve-out option within a universalist regime, the "nettlesome problem of local sovereign pride that is so challenging to universalism.").

243. The UNCITRAL Legislative Guide on Insolvency Law does consider some substantive issues regarding executory contract and intellectual property rights. See supra notes 188–196 and accompanying text.

244. See Farley, supra note 208, at 214.

245. See Pottow, Forum-Shopping Myths, supra note 239, at 791–95 (the operation of universalism, in the form of the Model Law, demonstrates the inability of the system to deliver predictability).

246. See Model Law, supra note 148, at art. 21.


248. See id. at 207–08 (noting that modified universalism sacrifices the advantages of true universalism by removing the possibility that non-forum courts will have to sacrifice local credit interests); cf. also Pottow, Greed and Pride, supra note 199, at 1941.
C. The Potential Benefits of an Amended System

The stated difficulties with the application of the modified universalist approach can point to the desirability of the contractualism approach offered by Professor Rasmussen. The modified universal system is marred by its limited ability to offer parties assurance, at the outset of their contractual relationship, as to the expected site of an insolvency proceeding. It is further hampered by the tensions arising between the goal of efficiency and the realities of sovereign concerns. Contractualism provides parties with stability from the outset of their contractual relationship because the parties themselves determine the best approach (universal or territorial) for the handling of their assets in an insolvency proceeding and because the parties, in making that determination, will have no uncertainty as to the state whose laws will govern in such a proceeding. Contractualism also may alleviate the tensions created by legislatively or judicially mandated acquiescence to the jurisdiction of another state; as suggested by one scholar, "it may be that the 'one law' of universalism is embraced better by states that must defer to that one law when it has been pre-selected by contract rather than by legal convention."

The growing popularity of the Model Law and its progeny means it is unlikely that a purely contractualist approach will be adopted in the international insolvency realm. There may be room still, however, for careful incorporation of the most beneficial aspects of contractualism into the modified universalism-based international insolvency regime. The latter continues to evolve and does so necessarily; as states fashion and revise their insolvency laws, choosing the Model Law provisions of which they approve and discarding the rest, the viability of the system is being and will continue to be assessed. Already, the recognition provisions of the Model Law, as implemented in various states, have come into question. The sovereignty issues that underlie the flexibility of the Model Law are likely to create

249. See supra Part IV.B.
250. See supra Part IV.B.
251. See Pottow, Greed and Pride, supra note 199, at 1948–1949. Professor Pottow notes, "[p]erhaps... states feel less of an affront to pride when they are deferring to the law of another state as the product of forum-selection by international contracting parties," and suggests that the contractarian approach proffered by Professor Rasmussen may warrant more consideration as an approach to international insolvency strategies. See id.
252. See Wessels, supra note 155, at 204–05.
253. See, e.g., In re SphinX, Ltd., 351 B.R. 103, 116 (Bankr. S.D.N.Y. 2006) ("[T]he Bankruptcy Code does not expressly mandate... across-the-board deference, nor would recognition of a foreign main proceeding necessarily be binding on choice of law determinations... [W]hile the decision to recognize a foreign proceeding as "main" may be viewed by some as significant, it has limited specified consequences under chapter 15 (particularly since the chapter gives the bankruptcy court the ability to grant substantially the same types of relief in assistance of foreign nonmain proceedings as main proceedings and to condition the foreign representative's ability to operate the business and dispose of the debtor's assets under section 1520(a)(3))... ").
further harmonization difficulties with respect to the application of the Model Law. Contractualism may serve to alleviate the issues presented by these current incarnations of modified universalism, as employed in the Model Law (and its ilk).

It may be that the approach of the Model Law-type system could be adjusted to permit inclusion of contractualist principles within the broader modified universalist system. At base, this would mean permitting parties to declare their choice of bankruptcy jurisdiction in certain situations, guided by the considerations set forth by Professor Rasmussen. Parties would then be permitted to exercise their choice while operating within the Model Law regime insofar as that involved determining a central site for the determination of cross-border insolvency matters and seeking recognition and cooperation among states. If states are indeed likely to be more willing to acquiesce to the authority of a sister jurisdiction if that authority is dictated by a private entity or entities, then the Model Law standards for recognition and cooperation would in fact be better adhered to if a limited use of the contractualist approach was incorporated into the system.

The benefits afforded by the addition of a limited contractualist option into the international insolvency system as it stands are particularly clear when considered in the context of intellectual property licensing. Tailoring the contractualist approach for use in the intellectual property licensing context would amount to providing a guarantee to licensing parties, a guarantee that could serve to incentivize entry into intellectual property license agreements. Giving licensors and licensees alike the knowledge, at the time of the agreement, of the fate of the agreement in the event of insolvency would remove the uncertainty that accompanies entry into license agreements presently.

Permitting a contractualist approach would also enable parties to determine the jurisdiction best suited to handle the special rights envisioned in intellectual property licenses. This is of import, in light of the myriad laws concerning the status of

254. See supra notes 225–236 and accompanying text.
255. See supra note 251 and accompanying text.
256. Cf. Menell, supra note 2, at 769 (noting that bankruptcy's specter lingers as a disincentive to licensing and exploitation currently).
257. Recall the benefits of "commercial certainty" as discussed supra note 99.
258. As noted, Professor Rasmussen recommends that a bankruptcy selection clause be specified in a party's corporate charter, so as to provide ample notice to creditors of the clause. See supra notes 235–236 and accompanying text; see also Rasmussen, Transnational Insolvencies, supra note 207, at 5. The logistics of implementation of a bankruptcy selection clause option with the aim of protecting non-debtor and debtor parties alike in the treatment of intellectual property licenses is beyond the scope of this article; however, because the concerns with respect to outside creditors are somewhat different in the context of the continuation or rejection of an executory contract covering rights in intellectual property, the enforcement of such a clause may not have to rest on its inclusion in a corporate charter. Cf. generally 11 U.S.C. § 365 (2000 & Supp. V 2005) (discussing rights considered in the assumption, assignment and rejection of intellectual property licenses deemed to be executory contracts).
licensed intellectual property rights in various insolvency regimes.\textsuperscript{259} Given the opportunity to determine which state's insolvency laws should apply, parties to an intellectual property licensing agreement can better ensure that their expectations with respect to the license will be met in the event of the bankruptcy of either party.

As with the contractualist approach generally, a modified use of contractualism might be criticized for encouraging forum-shopping.\textsuperscript{260} Such a system would, in fact, implicitly call for careful forum selection, but that fact should not be viewed as a negative. The selection of a bankruptcy forum is in fact premised on efficiency, permitting parties to determine which jurisdictional approach best addresses their needs.\textsuperscript{261} Any forum selection in the bankruptcy and intellectual property context would actually serve to benefit the selecting parties.\textsuperscript{262} In addressing concerns about forum-shopping when considering contractualism in the general sense, Professor Rasmussen draws an analogy to the method of forum selection undertaken by entities to determining their state of incorporation.\textsuperscript{263} To be sure, permitting that selection creates a costly period during the determinative stage, as the laws of the jurisdictions are reviewed and considered.\textsuperscript{264} The same undertaking is likely to occur in the intellectual property context (with respect to bankruptcy selection); the laws of various jurisdictions will need to be studied and understood in light of an entity's particular goals and circumstances.\textsuperscript{265} In the incorporation experience, as parties learn the variances in the relevant jurisdictions, the costs of research are lessened, leading to more efficient forum selection over time.\textsuperscript{266} Further, the value of the choosing entity is enhanced as a result of having the option of selection.\textsuperscript{267} A similar effect is likely to transpire in the bankruptcy selection process.\textsuperscript{268}


\textsuperscript{260} See Farley, supra note 208, at 210–11; Rasmussen, Private Ordering, supra note 198, at 2264.

\textsuperscript{261} See Rasmussen, Private Ordering, supra note 198, at 2255. To maintain the integrity of this approach, an entity's ability to change its chosen jurisdiction opportunistically should be circumscribed. See id. at 2255, 2255 n.14.

\textsuperscript{262} See id. at 2255; see also Pottow, Forum-Shopping Myths, supra note 239, at 814–15 (questioning the degree to which forum shopping should be rebuked and noting its presumed benefit in the theory of contractualism, but acknowledging the fact that U.S. courts have voiced concern over the practice).

\textsuperscript{263} See Rasmussen, Private Ordering, supra note 198, at 2261–62.

\textsuperscript{264} See id. at 2262.

\textsuperscript{265} Cf. id. at 2261–62.

\textsuperscript{266} See id. at 2262.

\textsuperscript{267} See Farley, supra note 208, at 211; Rasmussen, Private Ordering, supra note 198, at 2262.

\textsuperscript{268} See Rasmussen, Private Ordering, supra note 198, at 2262 (hypothesizing about the likely cost of a bankruptcy selection clause regime).
Incorporating a contractualism component into the modified universalist system could also prove beneficial to both insolvency laws and intellectual property provisions. As multinational entities determine which jurisdictions' insolvency laws best support their needs in terms of the treatment of intellectual property licenses, those jurisdictions perceived to have "better" laws will be chosen repeatedly. Other jurisdictions may seek to model their laws on the laws of those states repeatedly chosen by the multinational entities; thus normalizing the "better" principles of insolvency law with respect to the treatment of intellectual property licenses. As demonstrated by the actions of Germany, Japan and Canada, each of which have modified or are modifying their insolvency laws on the basis of reforms undertaken in the United States, the likelihood of such change is considerable. The opportunity for states to set an example in this regard may also extend to the refinement of intellectual property laws insofar as those laws offer clear guidelines with respect to, for example, the assignment and other transfer of rights in various forms of intellectual property.

V. CONCLUSION

The particular needs and expectations of both licensors and licensees of rights in various forms of intellectual property are highlighted when those parties face a cross-border insolvency situation. International insolvency laws, being extensive in scope and having the capacity to undermine valid legal relationships in the pursuit of curing financial stress, can place parties in peril with respect to their expected rights and obligations under intellectual property licenses. The current systems concerning cross-border insolvencies do much to streamline the process by which such insolvencies are undertaken, yet do not provide parties contracting in intellectual property rights with sufficient certainty as to the likely state of adjudication of those contracted rights in the event of a cross-border insolvency. Permitting these parties to invoke bankruptcy selection clauses with respect to the treatment of intellectual property licenses would be one means of increasing the commercial certainty of these parties.

269. See id.

270. Cf. Pottow, Greed and Pride, supra note 199, at 1919 n.83 (in the context of universalism, some scholars believe the hegemonic effect of forum selection could be beneficial in that a "net exportation of certain states' bankruptcy norms" would have the positive effect of allowing the "best norms [to] rise to the top") (citations omitted); Rasmussen, Private Ordering, supra note 198, at 2262 (discussing possible selection patterns of bankruptcy law by corporate entities).

271. See supra Parts II.B & II.C.

272. Cf. Rasmussen, Private Ordering, supra note 198, at 2262 (hypothesizing that a contractarian system in cross-border insolvencies could lead to a determination that "a certain, small number of nations could end up being viewed as having the 'best' bankruptcy law"; also finding that incorporation trends in the U.S., with the emergence of Delaware as the state of choice for incorporation, point to another instance of the benefit of a forum-shopping system).