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License agreements (and IPR) in the perspective of bankruptcy proceedings

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Growing importance of IP in insolvency and undesirable consequences

- *The fundamental tension*
 - *The principle of contract continuity*
 - *The trustee's option right*
 - *Impact on exclusive licenses*
 - *Transfer of IP rights*
- *UsedSoft – The software exhaustion paradox*

The fundamental tension

Competing interests in IP insolvency

Licensee protection

- Continuation of business operations dependent on licensed IP
- Protection against third-party interference, including competitors
- Avoiding loss of investment in licensed technology

Creditor rights

- Maximising asset value for distribution to creditors
- Trustee's duty to realise assets or continue profitable operations
- Freedom to reorganise or liquidate the estate

The principle of contract continuity



General rule: Contracts continue

- Insolvency does not constitute force majeure releasing parties from obligations
- The mere circumstance that one contracting party is involved in insolvency does not automatically result in contract termination
- Principle of continuity applies to ongoing contracts after insolvency opening

Why continuity matters:

- If counterparties could terminate contracts due to threatened continuity, reorganisation would be doomed to fail
- Preserves going-concern value
- Protects licensee's reliance on continued access to IP

Key exceptions to contract continuity

- ***Intuitu personae* contracts**

Contracts entered into because of the identity of the counterparty: automatically dissolved upon insolvency of the relevant party

- **Resolutive conditions**

Contractual provision stipulating that insolvency opening immediately terminates the contract

- **Express termination clauses**

Permits extra-judicial termination for counterparty default, but requires notice of breach and invocation of the clause

The trustee's option right

Trustee's right to continue or terminate

- Trustee has power to decide whether to continue performing ongoing contracts not terminated by bankruptcy
- If trustee fails to take position, counterparty may demand decision
- Absent timely decision, contract deemed discontinued

Evolution of Belgian law

- Initial right of non-performance vs now actual right to terminate, when necessary for proper estate administration

Limits on trustee's termination power

- Insufficient that contracts impact sale price of assets; trustee must provide special justification for termination
- Required that contract continuation prevents or abnormally burdens liquidation of the estate

Practical impact

- Mere reduction in IP asset value insufficient to justify termination, only where contract makes assets 'unsaleable'

The trustee's option in practice

Licensors insolvency

Negative obligations

- Mere obligation not to oppose licensee's use of IP
- Generally cannot terminate merely because IP has lower sale value
- Trustee may continue license until IP sale

Positive obligations

- Payment of maintenance fees, provision of know-how, technical assistance, enforcement against infringers
- Usually allows trustee to invoke option right under insolvency law
- Impact on estate administration must be assessed case-by-case

Licensee insolvency

- Trustee will rarely need to exercise option to terminate; licensor usually terminates for non-payment of royalties

Sublicense risks

- Termination of main license normally terminates sub-licenses : sublicensees risk losing user rights overnight

Contractual solutions

- Automatic assumption of license by sublicensee upon licensee insolvency
(with licensor control/consent rights over sublicensee identity)
- Direct relationships between licensor and sublicensees

Impact on exclusive licenses

Special concerns for exclusivity

- Exclusivity can reduce the value of licensed IP rights
- In oligopolistic markets, third parties rarely interested in acquiring IP burdened by competitor's exclusive license
- Exclusivity provisions may incentivise trustee termination

Contractual responses

- Non-competition restrictions on IP transfer (must withstand competition law scrutiny)
- Conversion to non-exclusive upon insolvency
- Purchase options or pre-emption rights

Transfer of IP rights

Trustee's power to sell IP assets

"Saleable" IP Rights

- IP rights are intangible movable property; debtor's assets secure obligations
- Patents, patent applications explicitly subject to seizure
- Trademarks and designs belong to holder's assets and may be sold
- Copyrights: economic rights (transferable and saleable) vs moral rights (personal, non-transferable)

→ **Trustee has broad discretion, subject to judicial oversight**

Transfer as part of business (going concern)

- Object (in reorganization): all assets "*necessary or useful for preserving all or part of the economic activity*"
- Given growing importance of IP, usually included in transfer scope
- Ongoing licenses generally continue with transferee

→ **Risk: licensee confronted with unwanted new licensor (potentially competitor)**

UsedSoft – The software exhaustion paradox

CJEU (C-128/11, 2012): Digital software can be resold

The principle

- Copyright exhaustion applies to software distributed by download if rightholder grants perpetual use right for fee enabling remuneration corresponding to economic value
- "Used" software licences may be resold despite contractual prohibition

Critical limitations for insolvency

- Computer programs only (Software Directive 2009/24/EC)
- **Not** e-books, music, or other digital content (Tom Kabinet, C-263/18, 2019)
- **Not** SaaS or subscription models – only perpetual licences

Evidential requirements

- Complete licence chain documentation
- Proof of deletion by original acquirer
- Proof second acquirer uses within original licence scope
- Technical verification measures essential

Insolvency application

- Perpetual licence conversion clause might qualify as "sale" triggering exhaustion
- **But:** trustee retains termination rights; evidential burden prohibitive
- Most modern software licensing (cloud/SaaS) falls outside UsedSoft scope

Anticipating insolvency

- *Due diligence*
 - *Opposability requirements*
 - *Intuitu personae*
 - *Termination clauses*
 - *Perpetual license conversion*
 - *Pre-emption and ROFR clauses*
 - *Security interests*
- *Why contractual solutions face challenges*

Due diligence

Before entering IP licenses

Assess licensor identity

- Determine whether licensor is direct owner or sub-licensor
- Sublicense creates dual insolvency risk: both sublicensor and ultimate owner

Assess financial health

- Investigate licensor's (and ultimate owner's) financial condition
- Exclude risk of precarious financial situation
- Monitor financial covenants and early warning indicators

Consider license criticality

- If license involves substantial investment (e.g., R&D on licensed technology), consider purchase option exercisable on warning signs
- If license essential for operations, consider *in rem* security interests on licensed IP
- Alternative structures: special purpose vehicle, joint venture, sale-and-license-back

Opposability requirements

Making licenses enforceable against third parties

Patents

- Must be registered with IP Office to be opposable to third parties
- Exception: opposable before registration to third parties who acquired rights after license date but had knowledge of license

Trademarks & Designs

- Benelux/EU trademarks: deposit of extract or signed declaration in register
- Similar requirements for registered designs
- EU law: express exception for third parties with knowledge

Copyright & Unregistered Rights

- No registration requirement under Belgian law
- Licenses exist and are opposable to third parties upon execution
- Acquire "certain date" only upon registration or notarial act

Intuitu personae character in IP licenses

Personal nature of license agreements

General assessment

- *Intuitu personae* character must always be assessed *in concreto* based on parties' intention
- Express contractual statement alone insufficient without supporting evidence

- **Licensee insolvency**

Most licenses have *intuitu personae* character for the licensee: licensor grants license only to specific persons based on reliability, quality, reputation

Prevents trustee from transferring license to third party (potentially a competitor) in going-concern transfer

- **Licensor insolvency**

Licensee enters license for the IP right itself, not the licensor's identity

Licensor insolvency generally does not terminate license on *intuitu personae* grounds

Exception: licenses involving technology transfer, know-how, technical support

Termination clauses

Resolutive condition vs. express termination clause : Two distinct mechanisms

Resolutive condition

- Automatic termination upon future and uncertain event (insolvency)
- No declaration of will required
- Valid if insolvency (not breach) is the triggering event
- Generally disadvantageous for licensees - no choice

Express termination clause

- Permits extra-judicial termination for breach
- Requires notice to defaulting party and invocation of clause
- Licensee retains choice whether to continue or terminate

Recommendation: Licensees should opt for express termination clause rather than resolutive condition to avoid automatic termination

Perpetual license conversion

Automatic conversion upon insolvency

- License with periodic payments automatically converts to perpetual/full-term license upon insolvency opening
- Requires payment of correct lump-sum supplement
- In principle lawful

Critical Limitations

1. No "Perpetual" Contracts

Perpetual contracts do not exist in Belgian law; may be deemed indefinite duration (or 99 years)

Recommendation: convert to license for full duration of IP rights

2. Survival ≠ Opposability

Contract survival different from opposability to trustee; trustee may still terminate if necessary to estate administration

Leaves licensee with non-privileged claim only

3. Exclusivity Concerns

Partly exclusive license may incentivise termination as exclusivity reduces IP value

Pre-emption and ROFR clauses

Contractual rights to acquire IP upon insolvency

The challenge

- Pre-emption and right-of-first-refusal are personal rights without "in rem" effect
- Bankruptcy constitutes collective seizure with real property effect
- Not opposable to trustee if trustee decides not to continue underlying contract

→ Counterparty often unaware of insolvency until trustee notification

→ Trustee may decide breach of pre-emption clause less costly than honouring it : only non-privileged claim for damages

Better Solution

- Make option exercisable upon early warning signs before insolvency (e.g., social security arrears)
- Alternative: resolute condition with automatic sale of licensed technology upon insolvency opening

Security interests

Pledges and collateral

Requirements for valid pledge

- Goods must be transferable
- Negative publicity measure: dispossession (which must be real, public, and unambiguous)

IP-specific rules

- Patents: notice to IP Office satisfies dispossession requirement
 - Trademarks/Designs: registration in Benelux/EU registers
 - Copyright: major uncertainty; no registration system
- Belgian pledge law reform 2017: registration in a central IP register

Benefits of security interest

- Secured IP stays outside bankruptcy estate to extent value does not exceed secured claim
- "Separatist" status: right to separate execution

Why contractual solutions face challenges

The fundamental problem

- Trustee may terminate any contract when necessary for estate administration, even contracts granting opposable rights
- Includes clauses expressly stated to survive contract termination for any reason
- Counterparty's remedy: non-privileged claim for breach damages

Practical consequences

- Contractual solutions may become inoperative
- Purely contractual rights provide inadequate protection
- *In rem* rights (pledges) offer stronger protection
- Timing crucial: rights must vest before insolvency opens

Balancing approaches

- Combine multiple protective mechanisms
- Consider special purpose vehicles for critical IP
- Implement early-warning triggers
- Secure *in rem* interests where possible

Insolvency risk management

- *Security structures*
 - *Ongoing monitoring*
- *Key takeaways*

Security structures

In rem protection

Pledge/security interest

- Removes IP from insolvency estate to extent value does not exceed secured claim
- Right to separate execution

Special Purpose Vehicles

- Place critical IP in entity with no commercial activities beyond IP management
- Reduces insolvency risk; easier to monitor financial health
- Permits clean separation of IP from operating business risks

Joint Ventures / Co-ownership

- Manage IP in co-ownership through joint venture
- Provides mutual oversight and shared control
- May complicate commercialisation but enhances stability

Sale-and-License-Back

- Transfer IP to licensee, who grants license back to transferor
- Reverses typical risk profile
- Useful where close collaboration exists

Ongoing monitoring

Active risk management

Financial monitoring

- Track licensor/licensee financial health
- Monitor compliance with financial covenants
- Watch for early warning signs (payment delays, covenant breaches)

Maintenance of rights

- Ensure license registrations remain current
- Monitor IP maintenance (patent annuities, trademark renewals)
- Preserve evidence of license performance and payments

Trigger events for action

- Social security arrears, business withholding tax non-payment, etc.
- Exercise purchase options upon warning signs, before insolvency opens
- Credit rating downgrades, public insolvency rumours

Relationship management

- Maintain dialogue with licensor/licensee
- Address performance issues promptly
- Document all variations and amendments properly

Key takeaways

Balancing protection and practicality

The challenge

- Economic uncertainties require licensors and licensees to account for counterparty insolvency and anticipate it to the extent possible
- Opening insolvency proceedings does not automatically terminate licenses, but risks remain

Layered protection

- **Contractual:** Express termination clauses, proper registration, careful exclusivity structuring
- **Structural:** SPVs, joint ventures, sale-and-license-back arrangements
- **Proprietary:** Security interests
- **Procedural:** Due diligence, ongoing monitoring, early-warning triggers



Thank you

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