American Bankruptcy Institute Law Review, Vol 31, Summer 2023

TREATMENT OF INTELLECTUAL PROPERTY LICENSES IN BANKRUPTCY

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A bankrupt debtor's ability to escape unprofitable contracts, enshrined in section 365 of the United States Bankruptcy Code, is considered central to a successful reorganization within chapter 11. The ambit of this power and the consequence of its application have been the subject of unceasing legal and business controversy. Intellectual property licenses assumed the forefront of this controversy in 1985 when the Court of Appeals for the Fourth Circuit held that section 365 includes a unilateral power to rescind an Intellectual Property License. Congress reacted to the court's decision by amending section 365 and legislating specific protections for Intellectual Property Licensees. This Article explores the American jurisprudence on the treatment of intellectual property licenses during bankruptcy and examines them within the insolvency regimes of the United Kingdom and India. The study reveals an important legal deficiency: neither jurisdiction incorporates any explicit protections for Intellectual Property Licenses during bankruptcy. Further, we find no substantive provisions that deal with the treatment of ongoing contracts during corporate insolvency resolution proceedings in India and administration in the United Kingdom. For India, this raises an important issue relating to the desirability of a resolution professional's ability to interfere with pre-petition IP licensing agreements. The authors underline the importance of such interference and suggest amendments to the Indian insolvency regime to deal with intellectual property licenses during bankruptcy.

Keywords: Lubrizol; executory contracts; Chapter 11 Bankruptcy; Intellectual Property Licenses; Insolvency and Bankruptcy Code 2016; UK Insolvency Act 1986

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We are extremely thankful to Pratik Datta and Vishakha Raj for review comments, and Research and Publication Area of IIMA in supporting this project.

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INTRODUCTION

Imagine that an automobile manufacturer, Company C, has developed an engine that allows cars to run on distilled water. Soon enough, C registers a patent in reference to the newly developed technology. Recognizing the potential financial implications of the ground-breaking automobile technology, Company B successfully negotiates a patent licensing agreement from C. In order to develop the required infrastructure to exploit the licensed technology, Company B incurs substantial monetary investments. However, before Company B can begin production and start monetizing their licensing agreement, they hear that C, owing to financial difficulties, has filed for bankruptcy.[1] Meanwhile, Company B receives a notice from C's lawyers that their contract has been "rejected." Company B's lawyers explain that rejection of their licensing agreement means that they are no longer entitled to use the licensed technology. Any further use of the licensed technology will result in infringement of the patent. Given the rejection of B's license and the losses accrued because of such rejection, what would be the remedies available to B? In the United States, Company B would be reduced to an unsecured creditor. Since unsecured creditors are amongst the last business creditors to receive any compensation, given the bankrupt state of company C, B's claim would be repaid as "pennies on the dollar."

A similar situation arose in 1985 in the United States of America. A licensor, Richmond Metal Finishers, rejected a patent licensing agreement before the licensee, Lubrizol Enterprises, could begin using the licensed technology.[2] The Court of Appeals for the Fourth Circuit interpreted Richmond's rejection as a bar on the licensee's ability to continue using the licensed technology.[3] The Fourth Circuit precedent essentially meant that a licensor could unilaterally rescind a licensing agreement during insolvency proceedings.[4]

The decision in *Lubrizol v. RMF* received overwhelming criticism, which centered on the market instability created by the decision.[5] After the decision, licensees realized that they were vulnerable to their licensor's bankruptcy. The United States Congress acknowledged the policy concerns voiced after the *Lubrizol* ruling[6]

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[1] The term bankruptcy is used commonly in the American context and the term insolvency is primarily used in the Indian context while referring to corporations which is the thrust of this study. While the authors acknowledge the differences between the two terms, in the present paper, the terms insolvency and bankruptcy have been used interchangeably.

[2] *See* Lubrizol Enters. v. Richmond Metal Finishers, Inc. (*In re* Richmond Metal Finishers, Inc.), 756 F.2d 1043, 1045 (4th Cir. 1985).

[3] *See id.* at 1048.

[4] *See* Mark DuVal, *High Technology Bankruptcies: What the Licensor Giveth It May Taketh Away.*, 57 HENNEPIN LAWYER 8, 23 (1987).

[5] *See* Michael T. Andrew, *Executory Contracts in Bankruptcy: Understanding "Rejection"*, 59 UNIV. COLO. L. REV. 845, 916–19 (1988) [hereinafter *Understanding "Rejection"*].

[6] *See* S. REP. NO. 100-505 (1988), *reprinted in* 14 BERNARD D. REAMS, JR. & WILLIAM H. MANZ, FEDERAL BANKRUPTCY LAW: A LEGISLATIVE HISTORY OF THE BANKRUPTCY REFORM ACT OF 1994 PUB. L. NO. 103-394, 108 STAT. 4106 INCLUDING THE NATIONAL BANKRUPTCY COMMISSION ACT AND OTHER BANKRUPTCY CODE AMENDMENTS (1987-1993) 22–25 (William S. Hein & Co., Inc. 1998)

and enacted a specific legislation, the Intellectual Property Bankruptcy Protection Act, 1988,[7] to denude the *Lubrizol* ruling of its precedential authority. Despite the intervention from Congress, the ramifications of the *Lubrizol* judgment plagued American insolvency jurisprudence till 2019,[8] when ultimately, the United States Supreme Court intervened and settled the issue.[9] The Supreme Court's intervention came as a relief for trademark licensees, who were initially omitted from the protection offered by the United States Congress in 1988.[10]

It is possible that in the late 1970s when the United States Bankruptcy Code was enacted, the concerns related to the treatment of intellectual property licenses during insolvency were not obvious. However, decades of litigation have brought these concerns to the forefront of bankruptcy jurisprudence. To avoid a jurisprudential predicament and ensure that intellectual property licensees are treated in a fair and equitable manner, the experience of the United States Bankruptcy Code should serve as an essential lesson for the recently enacted Insolvency and Bankruptcy Code, 2016 (IBC, 2016)[11] in India.

Towards this objective, this Article seeks to investigate the treatment afforded to intellectual property licenses during insolvency proceedings in the United Kingdom and India. The provisions that can proffer a power to interfere with pre-petition contractual agreements appear in similar iterations in the English and the Indian insolvency law. Some provisions of the IBC 2016 examined by the present study derive their origin from the United Kingdom Insolvency Act, 1986 ("Insolvency Act, 1986").[12] Therefore, to achieve its objective, the provisions of IBC 2016 are examined and interpreted along with their counterparts from the Insolvency Act, 1986.

Part I of this Article explains the underlying statutory construction from the United States Bankruptcy Code responsible for the *Lubrizol* ruling. Part II of this Article describes the possible treatment afforded to an intellectual property license during a chapter 11 insolvency proceeding. Part III of this Article explores the prevalent insolvency law in India and the United Kingdom. It seeks to analyze if an insolvent licensor can unilaterally rescind an IP license through a resolution professional or bankruptcy administrator. Part IV of this Article examines if the Indian insolvency regime should be amended to provide for interference with pre-bankruptcy transactions.

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[7] *See* Intellectual Property Bankruptcy Protection Act of 1987, Pub. L. No. 100-506, § 1(b), 102 Stat. 2538, 2539 (codified as amended 11 U.S.C. § 365(n)(1)).

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[9] *See* Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652, 1666 (2019).

[10] *See generally* Aditya Gupta & Hiral Mehta Kumar, *In* Re Tempnology*: Revisiting trade mark licensing in bankruptcy in the USA and India*, 15 J. INTELL. PROP. L. & PRAC. 749, 749–60 (2020).

[11] *See generally* The Insolvency and Bankruptcy Code, 2016 (India) (providing "[a]n Act to consolidate and amend the laws relating to reorganisation and insolvency resolution of corporate persons, partnership firms and individuals . . . .").

[12] *See* BANKR. L. REFORM COMM., INTERIM REPORT OF THE BANKRUPTCY LAW REFORM COMMITTEE 53–57, 97–99 (2015); *see also* Insolvency Act 1986, c. 45 (UK).

I. TREATMENT OF EXECUTORY CONTRACTS IN UNITED STATES CHAPTER 11 BANKRUPTCY

Bankruptcy seeks to mitigate the risks of financial failure. The United States bankruptcy law is a federal law and can be found in title 11 of the United States Code.[13] The United States Supreme Court has time and again reiterated that "[t]he principal purpose of . . . [b]ankruptcy . . . is to grant a fresh start to an honest but unfortunate debtor."[14] Currently, the United States Bankruptcy Code is codified into six chapters. For the present study, the most important of these six chapters is chapter 11, which addresses the restructuring and reorganizing of businesses.[15] The primary purpose of a chapter 11 proceeding is the successful rehabilitation of the debtor.[16]

The United States Bankruptcy Code tends to favor the debtor[17] and follows a Debtor-in-Possession Model.[18] The underlying belief in the Code is that in order to maximize the debtor's assets, it is critical to protect the debtor from being fragmented by its creditors.[19] To release the debtor's estate from burdensome obligations which can impede successful reorganization, the Code permits the rejection of burdensome or unproductive executory contracts.[20] The power to reject onerous executory contracts is legislated in section 365 of the Bankruptcy Code.[21] According to the legislative mandate, the beneficial contracts that posit a net benefit to the bankruptcy estate are swept into the estate while the detrimental contracts are rejected.[22] The power to reject unprofitable contracts enables the bankrupt estate to avoid debts that such contracts' performance would otherwise create.[23] Rejection increases the funds available to the estate, which can be structured into payments to the creditors in reorganization.[24] Given the advantages of rejection, some scholars argue that

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[13] *See generally* 11 U.S.C. (2018) (emphasis added) (internal marks omitted).

[14] Marrama v. Citizens Bank of Mass., 549 U.S. 365, 376 (2007). *See* Hanover Nat'l Bank v. Moyses, 186 U.S. 181, 192 (1902); *see also* Loc. Loan Co. v. Hunt, 292 U.S. 234, 244 (1934); *see also* G. Eric Brunstad, Jr., *Bankruptcy and the Problems of Economic Futility: A Theory on the Unique Role of Bankruptcy Law*, 55 BUS. LAW. 499, 591, 524–26 (2000).

[15] *See generally* 11 U.S.C. §§ 1181–95; KEVIN M. LEWIS, BANKRUPTCY BASICS: A PRIMER, CONG. RSCH. SERV. 14 (2022).

[16] *See* LEWIS, *supra* note 15, at 12.

[17] *See* Innoventive Indus. v. ICICI Bank & ANR., (2018) 1 SCC 1, 14 (2017) (India).

[18] *See* Jay Lawrence Westbrook, Charles D. Booth, Christoph G. Paulus & Harry Rajak, A GLOBAL VIEW OF BUSINESS INSOLVENCY SYSTEMS 76 (Jay Lawrence Westbrook ed., 2010).

[19] *See* Susana Dávalos, *The Rejection of Executory Contracts: A Comparative Economic Analysis*, 10 MEX. L. REV. 69, 74 (2017).

[20] N.L.R.B. v. Bildisco and Bildisco, 465 U.S. 513, 528 (1984); *see also* Orion Pictures Corp. v. Showtime Networks (*In re* Orion Pictures Corp.), 4 F.3d 1095, 1098 (2d Cir. 1993).

[21] 11 U.S.C. § 365 (2018).

[22] *See* DOUGLAS G. BAIRD, ELEMENTS OF BANKRUPTCY 114 (West Academic 6th ed. 2014).

[23] *See* James E Meadows, Lubrizol: *What Will It Mean for the Software Industry?*, 3 SANTA CLARA COMPUT. AND HIGH TECH. L. J. 311, 316 (1987).

[24] *See id.*

"thousands of bankruptcy cases are filed each year for the primary purpose of rejecting executory contracts."[25]

The provenance of section 365 can be traced back to section 70(b) and section 63(c) of the United States Bankruptcy Act, 1938.[26] The Act of 1938, also known as the Chandler Act, was the first statute wherein the power to reject executory contracts was codified.[27] Section 70(b) set out the procedures and requirements for assuming or rejecting contracts, while section 63(c) provided that the rejection of an executory contract would amount to the breach of such contract.[28] Although, it should be mentioned that while first codified in 1938, these sections reflected prior law, which developed through judicial decisions.[29]

The power to assume and reject contractual arrangements has time and again been the subject of academic criticism[30] and has been suggested to proffer a radical departure from contract law.[31] The power has been remarked as being "extraordinary [and] almost super-human."[32] Given the multiple amendments and confusing language of section 365, the provision "has yielded wasteful litigation, absurd results, and dramatic distortions [of] bankruptcy law."[33] Despite the criticism received by the power to reject executory contracts, it is pertinent to note that section 365 is a "compulsory bankruptcy rule."[34] Parties cannot waive the right to assume or reject a contract by a pre-petition agreement.[35] "Prior to the enactment of the Bankruptcy Code of 1978, *ipso facto* clauses . . . were not explicitly unenforceable."[36] With the 1978 enactment, section 365(e) was introduced to the United States Bankruptcy

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[25] Jesse M. Fried, *Executory Contracts and Performance Decisions in Bankruptcy*, 46 DUKE L. J. 517, 520 (1996); *see also* Jay Lawrence Westbrook, *A Functional Analysis of Executory Contracts*, 74 MINN. L. REV. 227, 229 (1989) [hereinafter *Functional Analysis*].

[26] *See* David G. Epstein & Lisa Normand, *"Real-World" and "Academic" Questions about "Nonmonetary Obligations" under the 2005 Version of 365(b)*, 13 AM. BANKR. INST. L. REV. 617, 626 (2005); Bankruptcy Act of 1938, Pub. L. No. 75-696, §§ 70(b), 63(c), 52 Stat. 840, 880–81, 873–74.

[27] *See* Epstein & Normand, *supra* note 26, at 626. Bankruptcy Act of 1938, Pub. L. No. 75-696, § 70(b), 52 Stat. 840, 880–8.1

[28] *See* Michael T. Andrew, *Executory Contracts Revisited: A Reply to Professor Westbrook*, 62 UNIV. COLO. L. REV. 1, 7–8 (1991) [hereinafter *Executory Contracts Revisited*]. Bankruptcy Act of 1938, Pub. L. No. 75-696, §§ 70(b), 63(c), 52 Stat. 840, 880–81, 873–74.

[29] *See generally* Lee Silverstein, *Rejection of Executory Contracts in Bankruptcy and Reorganization*, 31 U. CHI. L. REV. 467 (1964) (providing a brief history of early English and American judicial decisions discussing the power to reject executory contracts and leases).

[30] *See* Alexandra Baumgartner, The Effect of Bankruptcy on Executory Contracts in General and on Licensing Agreements of Intellectual Property in Particular 3–4 (Jan. 1, 1996) (LLM Thesis, University of Georgia School of Law) (on file with Digital Commons, University of Georgia School of Law) (emphasis added).

[31] *See* Silverstein, *supra* note 29, at 468.

[32] STEPHEN LUBBEN, AMERICAN BUSINESS BANKRUPTCY: A PRIMER 58–62 (Edward Elgar 2d ed. 2021).

[33] Andrew, *Understanding "Rejection"*, *supra* note 5, at 849.

[34] 11 U.S.C. § 365(e)(2) (2018).

[35] *See In re* Trans World Airlines, Inc., 261 B.R. 103, 123 (Bankr. D. Del. 2001).

[36] Emil A. Kleinhaus & Peter B. Zuckerman, *The Enforceability of* Ipso Facto *Clauses in Financing Agreements:* American Airlines *and Beyond*, 23 NORT. J. BANKR. L. & PRAC. 193, 195 (2014).

Code.[37] Subject to a limited set of exceptions,[38] the subsection invalidates ipso facto clauses in executory contracts.[39] The House Report on the 1978 Bankruptcy Reform Act makes it clear that the primary purpose behind the enactment of section 365(e) was "to protect the debtor from losing valuable contract rights as a result of bankruptcy filing."[40]

Presently, as long as an agreement posits ongoing obligations for both parties, each party to the agreement shall remain vulnerable to the insolvency proceedings of the other party.[41] During such proceedings, the bankrupt debtor assumes a unilateral power to reject the continued performance of a contract.[42] Further, the Code is so designed that the parties cannot "contract out" such unilateral rejections.[43] Therefore, it is essential to understand what does section 365 entail and when does it assume importance.

A. Executory Contracts

The threshold requirement for the application of section 365 is that the contract must be executory.[44] In enacting the Code, Congress noted that "there is no precise definition of what contracts are executory," but said that the definition "generally includes contracts on which performance remains due to some extent on both sides."[45] Although, owing to the unceasing controversy section 365 has remained a part of, there is ample judicial and academic opinion to establish the meaning of executory contracts.

Professor Vern Countryman wrote a series of influential papers wherein he defined an "executory contract."[46] Often referred to as the "Countryman analysis" or the "material breach test," Professor Countryman's treatise has assumed approval from the United States Congress[47] as well as the judiciary.[48] The 2013 American

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[37] 11 U.S.C. § 365(e) (1976).

[38] *Id.* § 365(e)(1).

[39] *Id.* § 365(e)(2).

[40] Kleinhaus & Zuckerman, *supra* note 36, at 195 (emphasis added). *See* H.R. REP. NO. 95-595, at 348–49 (1977).

[41] *See* 11 U.S.C. § 365(e)(1)(A) (2018).

[42] *See id.* § 365.

[43] *See id.* § 365(e)(1)(A).

[44] *See* Timothy J. Keough, *You're Asking the Wrong Question—The Effect of a Licensor's Rejection on the Trademark License*, 47 SUFFOLK UNIV. L. REV. 165, 169 (2014).

[45] H.R. REP. NO. 95-595, at 347 (1977), *as reprinted in* 1978 U.S.C.C.A.N. 5787, 6303 (emphasis added). *See* Phx. Expl., Inc. v. Yaquinto, 15 F.3d 60, 62 (5th Cir. 1994) (the court noting that the Code does not define executory contracts).

[46] *See* Vern Countryman, *Executory Contracts in Bankruptcy: Part I*, 57 MINN. L. REV. 439, 460 (1973) [hereinafter *Part I*]; *see also* Vern Countryman, *Executory Contracts in Bankruptcy: Part II*, 58 MINN. L. REV. 479, 479 (1974) [hereinafter *Part II*].

[47] *See* H.R. REP. NO. 95-595, at 347 (1977); Mary A. Moy, *The Intellectual Property Bankruptcy Protection Act: An Unbalanced Solution to the International Software Licensing Dilemma*, 11 U. PA. J. INT'L. BUS. L. 151, 166 (1989).

[48] *See* Lewis Bros. Bakeries Inc. & Chi. Baking Co. v. Interstate Brands Corp. (*In re* Interstate Bakeries Corp.), 690 F.3d 1069, 1073 (8th Cir. 2012) (making the Countryman test binding in the Eighth Circuit); *see*

Bankruptcy Institute's report to study the Reform of Chapter 11 suggested that the Countryman analysis should be drafted into law.[49] The Countryman analysis states that a contract is executory if both parties have sufficient unperformed obligations so that either party's discontinuance "would constitute a material breach."[50] Therefore, according to the Countryman analysis, as long as the parties to the contract owe continuing obligations to each other, such a contract would be an executory contract.[51]

Professor Jay Lawrence Westbrook, another influential academic, has been a vocal advocate of abandoning the executoriness requirement as a gateway to section 365.[52] He suggests that a "functional" analysis focusing on debtor-centric economic benefit should subsume or replace the executory requirement.[53] Professor Westbrook's analysis reasoned that as long as "a contract . . . remains unperformed to some extent," it should be subject to section 365.[54] Further, the course of action that benefits the estate should determine which contracts should be assumed or rejected.[55] The functional analysis posits working "backward from an examination of the purposes to be accomplished by rejection, and if they have already been accomplished, then the contract cannot be executory."[56] Understood simply, Professor Westbrook never sought to interpret the executoriness requirement; his argument called for abolishing the requirement altogether.[57] The courts which reject the approach espoused by Professor Countryman[58] have sought recluse within the functional analysis approach.[59]

IP licenses share an interesting relationship with the executoriness requirement. While some IP licenses fail to fulfil the requirement,[60] an overwhelming majority of

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also Sharon Steel Corp. v. Nat'l Fuel Gas Distrib., 872 F.2d 36, 39 (3d Cir. 1989); *In re* Wilson, 69 B.R. 960, 962 (Bankr. N.D. Tex. 1987) (citing Countryman, *Part I*, *supra* note 46, at 458–62); *In re* Exide Techs., 607 F.3d 957, 962 (3d Cir. 2010).

[49] *See* MICHELLE M. HARNER, FINAL REPORT OF THE ABI COMMISSION TO STUDY THE REFORM OF CHAPTER 11 112 (2014).

[50] Countryman, *Part I*, *supra* note 46, at 460 (emphasis added).

[51] *See id.*

[52] *See* Jay Lawrence Westbrook & Kelsi Stayart White, *The Demystification of Contracts in Bankruptcy*, 91 AM. BANKR. L. J. 481, 483 (2017) [hereinafter *Demystification*].

[53] Westbrook, *Functional Analysis*, *supra* note 25, at 230–31.

[54] Westbrook & White, *Demystification*, *supra* note 52, at 495 (emphasis added).

[55] *See id.* at 488.

[56] Roberta Righi & Jessica J. Winters, *National Report for the United States*, *in* EXECUTORY CONTRACTS IN INSOLVENCY LAW: A GLOBAL GUIDE 589 (Jason Chuah & Eugenio Vaccari eds., 2019) (emphasis added) (internal marks omitted).

[57] *See* John A. E. Pottow, *A New Approach to Executory Contracts*, 96 TEX. L. REV. 1437, 1449 (2018).

[58] *See* Chattanooga Mem'l Park v. Still (*In re* Jolly), 574 F.2d 349, 351 (6th Cir. 1978); Holzer v. Barnard, No. 15-CV-6277, 2016 WL 4046767, at *34–35 (E.D.N.Y. July 27, 2016).

[59] *See* Sipes v. Atl. Gulf Cmtys. Corp. (*In re* Gen. Dev. Corp.), 84 F.3d 1364, 1375 (11th Cir. 1996); Thompkins v. Lil' Joe Recs., Inc., 476 F.3d. 1294, 1306 (11th Cir. 2007).

[60] *See* Otto Preminger Films, Ltd. v. Ointex Ent., Inc. (*In re* Quintex Ent. Inc.), 950 F.2d 1492, 1495 (9th Cir. 1991) ("Licensing agreements are not, however, universally considered executory contracts."); *see also* Ron E. Meisler, Elaine D. Ziff, Tracy C. Gardner & Carl T. Tullson, *Rejection of Intellectual Property License Agreements Under Section 365(n) of the Bankruptcy Code: Still Hazy After All These Years*, 19 NORTON J. BANKR. L. PRAC. 163, 164 (2010).

IP licenses are found to be executory.[61] IP licensing agreements often include material obligations that are due to be performed by either party.[62] Some examples of such covenants would include:[63] assisting in production,[64] reporting events at regular intervals,[65] and defending against litigation.[66]

B. Understanding Assumption and Rejection

Once the threshold inquiry of section 365 is completed, and the court returns a finding favoring the executoriness of the contract, the Debtor-In-Possession ("DIP") is authorized to assume or reject[67] the executory contract.[68] This Section explains the meaning of these two terms—assumption and rejection—and the treatment afforded to the creditor of an assumed or rejected contract.

As should be clear from the discussion above, a contract relevant to section 365 is both an asset (the right to receive performance) and an obligation (the obligation to render performance) to the debtor.[69] Any contract which fails to fulfil this dual purpose is irrelevant to section 365. A good example of such a contract is a nonexclusive patent licensing agreement where the licensor received a lump sum compensation at the time of effectuating the licensing agreement. Assuming that the licensing agreement does not posit any other foregoing obligations, such license has been completely concluded and is neither an asset nor a liability for the licensor.

While allowing a debtor to reject the performance of a contract, the Bankruptcy Code limits this power by mandating that all aspects of that particular contract have to be treated similarly.[70] A debtor is not allowed to "cherry pick" profitable aspects of the contract and choose to perform them.[71] A contract has to be assumed or rejected *in its entirety*.[72] This requirement is referred to as *cum onere* (subject to existing

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[61] *See* Eric Stenshoel, *The Treatment of Intellectual Property Licenses under U.S. Bankruptcy Law*, 10 INT'L CORP. RESCUE, 41, 42–43 (2013); RCC Tech. Corp. v. Sunterra Corp., 287 B.R. 864, 865 (D. Md. 2003) ("[T]here is a long line of authority holding that intellectual property licensing agreements such as [software licensing agreements] are executory contracts.").

[62] For discussion on ongoing obligations see Benjamin Howard, *Reconciling Trademark Law with Bankruptcy Law in License Rejection*, COLUM. BUS. L. REV. 172 (2014).

[63] *See* Amanda E. James, *Rejection Hurts: Trademark Licenses and the Bankruptcy Code*, 73 VAND. L. REV. 889, 895–96 (2020).

[64] *See*

[65] *See In re* Provider Meds, LLC, No. 13-30678, 2017 WL 213814, at *16 (Bankr. N.D. Tex. Jan. 18, 2017).

[66] *See In re* Aerobox Composite Structures, LLC, 373 B.R. 135, 139 (Bankr. D.N.M. 2007).

[67] 11 U.S.C. § 365(a) (2018).

[68] *Id.* § 365(f)(1).

[69] Andrea Coles-Bjerre, *Ipso Facto: The Pattern of Assumable Contracts in Bankruptcy*, 40 N.M. L. REV. 77, 83–84 (2010).

[70] *See id.* at 84.

[71] *Id.*

[72] *See id.*

burdens).[73] The Code, in this way, maintains the integrity of pre-petition transactions.[74]

A contract that has been assumed within section 365 shall be performed in the same manner had bankruptcy not intervened.[75] Once assumed, an executory contract retains the same status as a contract entered into post-petition.[76] If a breach follows the assumption, any resulting claims shall be entitled to payment as an administrative expense.[77] Administrative expenses are paid first, usually in full,[78] and assume priority over other unsecured creditors.[79] Moreover, in a chapter 11 case, unless a resolution plan proposes to pay administrative claims in full on the plan's effective date, it cannot be confirmed.[80] Alternatively, once the DIP rejects an executory contract, the non-bankrupt party's claim for breach of contract is relegated to the status of a pre-petition general unsecured claim.[81] Since general unsecured claims usually receive "only a fraction of their claims," by application of section 365, a bankruptcy estate benefits from the favorable contracts of the debtor, while the cost of unburdening the debtor from unfavorable contracts is dramatically reduced.[82]

As for the contractual obligations between the parties to a rejected executory contract, section 365(g) provides that a rejection under section 365 should be treated as a breach.[83] Neither does the Code delineate the "consequences of [the] rejection of an executory contract" nor does the term "rejection" assume an obvious contract law analogue.[84] Owing to this lack of clarity, the courts have interpreted the concept of rejection inconsistently, which has led to multiple special interest amendments to the provision.[85]

On the concept of rejection, Professor Westbrook and Professor Michael T. Andrew have published three influential articles.[86] Despite being published more than

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[73] Tex. N.W. Ry. Co. v. Atchison, Topeka & Santa Fe Ry. Co. (*In re* Chi., Rock Island & Pac. Ry. Co.), 860 F.2d 267, 272 (7th Cir. 1988); Richmond Leasing Co. v. Cap. Bank N.A., 762 F.2d 1303, 1311 (5th Cir. 1985).

[74] Coles-Bjerre, *supra* note 69, at 84.

[75] *See* Don Fogel, *Executory Contracts and Unexpired Leases in the Bankruptcy Code*, 64 MINN. L. REV. 341, 376 (1980).

[76] Pottow, *supra* note 57, at 1453.

[77] 11 U.S.C. § 503(b) (2018).

[78] Fried, *supra* note 25, at 524–25.

[79] *See* 11 U.S.C. § 507(a)(2); *see also* Am. Anthracite & Bituminous Coal Corp. v. Leonardo Arrivabene, S.A., 280 F.2d 119, 124 (2d Cir. 1960).

[80] *See* 11 U.S.C. § 1129(a)(4).

[81] *See id.* § 502(g)(1). If a security interest was created, the status would be that of a General Secured Creditor. Section 502 relates to allowance and disallowance of claims. For more detail see 4 COLLIER ON BANKRUPTCY, ¶ 502.08, at 502-79–81 (Alan N. Resnick & Henry J. Sommer eds., 16th ed. 2009).

[82] Fried, *supra* note 25, at 519–20.

[83] 11 U.S.C. § 365(g).

[84] *See* Amicus Brief of the Int'l Trademark Ass'n as Amici Curiae Supporting Petitioner at 4, Sunbeam Prods. v. Chi. Am. Mfg., 568 U.S. 1076 (2012) (No. 12-431). NAT'L BANKR. REV. COMM'N FINAL REP. (U.S.), BANKRUPTCY: THE NEXT TWENTY YEARS 460 (1997).

[85] *See, e.g.*, Intellectual Property Bankruptcy Protection Act of 1988, Pub L. No. 100-506, § 1, 102 Stat. 2538–39 (codified as amended at 11 U.S.C. § 365(n)(1)); NAT'L BANKR. REV. COMM'N, *supra* note 84, at 460.

[86] *See generally* Andrew, *Understanding "Rejection"*, *supra* note 5; Andrew, *Executory Contracts Revisited*, *supra* note 28; Westbrook, *Functional Analysis*, *supra* note 24.

twenty years ago, these articles bear influence on the interpretation of section 365.[87] On the legislative history of the power to reject contracts as embodied in section 365, Professor Andrew noted, "[w]hat . . . history teaches, most importantly, is that 'rejection' is not some mystical power to cause contracts to vanish, nor a power to . . . breach them in any meaningful sense. . . . Rejection is very simple. It is the estate's decision not to assume . . . ."[88] Further, "[r]ejection of a contract or lease is not an avoiding power that somehow clears the estate's title to some underlying asset to which the contract or lease relates."[89] While the two authors disagree on the conceptual underpinnings of section 365, they agree on the meaning of rejection.[90]

Multiple courts have conflated the meaning of rejection and termination.[91] A perusal of the statutory scheme of section 365 clearly reflects Congress's intention of differentiating between rejection and termination.[92] There are specific provisions within section 365 that allow for the termination of a contract. For example, section 365(i) provides a vendee of real property with an option to terminate the contract if such a contract has been rejected during insolvency proceedings.[93] Courts have repeatedly cautioned against interpretations that result in superfluous terms in legislation.[94]

Courts have consistently cautioned against interpreting a statute that results in superfluous terms.[95] Furthermore, a closer look at the United States Bankruptcy Code reveals that the option to terminate contracts is exclusive to the non-bankrupt party, without whose concurrence the bankrupt party cannot unilaterally terminate contractual relationships.[96] In 1994, the Fifth Circuit noted that "the trustee may reject any of [the] contracts, but termination does not occur except at the other party's option."[97] Therefore, it can be safely concluded that the contract does not disappear by application of section 365.[98] This position has been vouched by the Bankruptcy Court of the Southern District of New York in very explicit terms: "Rejection has

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[87] *See In re* Bergt, 241 B.R. 17, 21 (Bankr. D. Alaska 1999); *see also* Brief of Law Professors as Amici Curiae Supporting Petitioners at 3, Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652 (2019) (No-17-1657) (penned by Edward J. Janger, Jay Lawrence Westbrook & Eric F. Citron).

[88] Andrew, *Executory Contracts Revisited*, *supra* note 28, at 8.

[89] *Id.* at 10.

[90] *See* Barnett v. Blachura, 618 N.W.2d 777, 780–81 (Mich. Ct. App. 2000); Westbrook, *Functional Analysis*, *supra* note 25, at 323–24; Andrew, *Executory Contracts Revisited*, *supra* note 28, at 2.

[91] *See, e.g., In re* Giles Assocs., 92 B.R. 695, 698 (Bankr. W.D. Tex. 1988); Sea Harvest Corp. v. Riviera Land Co., 868 F.2d 1077, 1080–81 (9th Cir. 1989).

[92] *See In re* Storage Tech. Corp., 53 B.R. 471, 474–75 (Bankr. D. Colo. 1985).

[93] 11 U.S.C. § 365(i) (2018).

[94] Similar options to terminate on rejection can be seen in 11 U.S.C. §§ 365(n) & 365(h). Vivek Sankaran, *Rejection versus Termination: A Sublessee's Rights in a Lease Rejected in a Bankruptcy Proceeding Under 11 U.S.C. § 365(d)(4)*, 99 MICH. L. REV. 853, 860 (2001).

[95] *See* United States v. Alaska, 521 U.S. 1, 59 (1997); *see also* Walters v. Metro. Educ. Enters., 519 U.S. 202, 209 (1997).

[96] *See* Sankaran, *supra* note 94, at 861–62; *see also* Sowashee Venture v. Austin Dev. Co. (*In re* Austin Dev. Co.), 19 F.3d 1077, 1082–83 (5th Cir. 1994).

[97] *In re* Austin Dev. Co., 19 F.3d at 1082.

[98] *See In re* Locke, 180 B.R. 245, 257 (Bankr. C.D. Cal. 1995); *see also In re* Bergt, 241 B.R. 17, 34 (Bankr. D. Alaska 1999).

absolutely no effect upon the contract's continued existence; the contract is not cancelled, repudiated, rescinded, or in any other fashion terminated."[99]

The effect of rejection is that the debtor relinquishes any right to receive future benefits under the contract and relieves himself from the obligations of the contractual relationship.[100] In the context of intellectual property licenses, a rejection does not impede the right of an intellectual property licensee to continue the use of the licensed intellectual property post-rejection of the subject licensing agreement.[101] A rejection would simply mean that the licensor shall not perform any residual obligations on his part.[102] Once a DIP decides to reject an executory contract, the decision has to be approved by the court.[103] The following Part this Article explores this court approval requirement and delineates the standard of review incorporated therein.

C. The Court Approval Requirement

The Bankruptcy Code renders the decision to assume or reject a contract subject to the bankruptcy court's approval.[104] The requirement of court approval was added to the Code in 1978.[105] Prior to 1978, section 70(b) of the Bankruptcy Act of 1898 did not require approval of the court before the rejection or assumption of an executory contract.[106]

The overwhelming majority of bankruptcy courts adjudge a decision to accept or reject an executory contract on the pedestal of the business judgment rule.[107] This rule is satisfied as long as it can be shown that the rejection of an executory contract will benefit the debtor's estate.[108] Proper business judgment is said to be exercised as long as the decision reflected investigation or analysis consistent with its probable consequences, and the choice of the DIP bears some relationship to the reasonable operation of the business.[109] Generally, a court would summarily approve the debtor's decision to reject an executory contract unless the decision is the "product of bad faith, or whim or caprice."[110] The bankruptcy courts rarely overrule the business

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[99] *In re* Drexel Burnham Lambert Grp., 138 B.R. 687, 708 (Bankr. S.D.N.Y. 1992). *See, e.g., In re* Spansion Inc., No. 09-1069, 2011 WL 3268084, at *24 (D. Del. July 28, 2011).

[100] Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652, 1658 (2019).

[101] *See id.* at 1165–66.

[102] *See* Clayton A. Smith, *It's Not You, It's Us: Assessing the Contribution of Trademark Goodwill to Properly Balance the Results of Trademark License Rejection*, 35 EMORY BANKR. DEV. J. 267, 289 (2019).

[103] *See* 11 U.S.C. § 365(a) (2018).

[104] *See id.*

[105] Bankruptcy Reform Act of 1978, Pub. L. No. 95-598, § 365(a), 92 Stat. 2549, 2574 (1978).

[106] *See* Thinking Machs. Corp. v. Mellon Fin. Servs. Corp. (*In re* Thinking Machs. Corp.), 67 F.3d 1021, 1026 (1st Cir. 1995). Bankruptcy Reform Act of 1898, Pub. L. No. 55-541, § 70(b), 30 Stat. 544, 565 (1898).

[107] *See* Smith, *supra* note 102, at 271.

[108] Raymond T. Nimmer & Richard B. Feinberg, *Chapter 11 Business Governance: Fiduciary Duties, Business Judgment, Trustees and Exclusivity*, 6 BANKR. DEVS. J. 1, 14 (1989).

[109] *See id.* at 13.

[110] *In re* Trans World Airlines, Inc., 261 B.R. 103, 121 (Bankr. D. Del. 2001) (quoting *In re* Wheeling-Pittsburgh Steel Corp., 72 B.R. 845, 849–50 (Bankr. W.D. Pa. 1987)). *Accord* Nimmer & Feinberg, *supra* note

decisions made in relation to assumption or rejection of executory contracts.[111] The reason for such delegation of responsibility on the debtor is that business managers should make business choices, not the court. "The bankruptcy court is not a business consultant."[112]

Despite the widespread judicial popularity of the business judgment rule, some bankruptcy courts have deviated from this approach.[113] Such deviation is premised on the burdensome approach also known as the balancing tests approach, which requires proof of the burden caused to the bankrupt estate by the performance of the contract.[114] Premised in providing an equitable solution to rejection, this approach is employed when the rejection causes disproportionate harm to the other party.[115]

The approach is best explained in an IP licensing context by the Bankruptcy Court of the Western District of Washington in *In re Petur*.[116] Here, the court disallowed a rejection of a licensing agreement, despite compliance with the business judgment rule.[117] The licensing arrangement between the licensee, Petur of Canada and the licensor, Petur of U.S.A, provided for continuing contractual obligations and was executory.[118] The business of the licensee entirely depended on the licensing agreement.[119] The court observed that bankruptcy courts are courts of equity and cannot authorize rejection which would result in the "actual ruination of an otherwise profitable, successful and ongoing business."[120] The balancing tests approach has been developed to ensure that rejection by the licensor does not result in the actual ruination of the licensee's business.[121] Therefore, it has been applied in a minimal number of cases. Another case where the test was applied comes from the Bankruptcy Court of the Southern District of Florida.[122]

II. TREATMENT OF INTELLECTUAL PROPERTY LICENSES UNDER SECTION 365

With an understanding of the mandate enshrined under section 365 and the meaning of rejection, this section explores the treatment afforded to IP licensing agreements within section 365. Before analyzing the *Lubrizol* judgment, it is

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108, at 14; *In re* Pisces Energy, LLC, No. 09-36591, 2009 WL 7241976, at *4 (Bankr. S.D. Tex. Dec. 21, 2009); *In re* Summit Land Co., 13 B.R. 310, 315 (Bankr. D. Utah 1981) ("[C]ourt approval under Section 365(a), if required, except in extraordinary situations, should be granted as a matter of course.").

[111] *See* Benjamin H. Roth, *Retaining the Hope That Rejection Promises: Why* Sunbeam *Is a Light That Should Not Be Followed*, 30 EMORY BANKR. DEVS. J. 529, 539–40 (2014).

[112] Nimmer & Feinberg, *supra* note 108, at 14.

[113] *See In re* Petur U.S.A. Instrument Co., 35 B.R. 561, 563 (Bankr. W.D. Wash. 1983).

[114] *See In re* Chi-Feng Huang, 23 B.R. 798, 800 (B.A.P. 9th Cir. 1982).

[115] *See* Nimmer & Feinberg, *supra* note 108, at 14.

[116] *See* 35 B.R. at 563.

[117] *See id.*

[118] *See id.*

[119] *Id.* at 562.

[120] *Id.* at 564.

[121] *See id.*

[122] *See In re* Matusalem, 158 B.R. 514, 522 (Bankr. S.D. Fla. 1993).

necessary to understand the state of law that existed before the judgment was declared, i.e., before 1985.

A judicial decision that assumed importance in this regard is Judge Steiner's opinion in *In re Petur*, which dates back to 1983.[123] As elaborated above, Judge Steiner did not allow the debtor to reject the executory trademark licensing agreement and relied on the burdensome test in coming to a conclusion.[124]

Be that as it may, even before the *In re Petur* decision, in 1980, the Ninth Circuit in *In re Select-a-Seat*, adopted a different approach.[125] The court in that case was called upon to approve rejection of a licensing agreement that allowed the licensee exclusive rights to use and license the debtor's software package.[126] Underlining that the licensing agreement provided for payment of pro-rata royalties and the continuing obligation of the debtor-licensor not to sell its software package, the court ruled that the agreement was executory in nature.[127] The Ninth Circuit allowed the rejection as the trustee had only sought to reject the debtor's continuing obligations.[128] Therefore, the licensee could continue to use the licensed IP, with the exception that the exclusivity obligation could not be enforced.[129]

The Ninth Circuit's position in *In re Select-a-Seat* provides an interesting analysis. Firstly, if a bankrupt debtor's rejection only seeks to withdraw from its ongoing obligations, the rejection can be approved. Secondly, the exclusivity requirement falls within the ambit of obligations, the performance of which can be omitted post rejection. Judge Steiner's approach in *In re Petur* is considerably different from the position in *In re Select-a-Seat.*

The court in *In re Select a Seat* analyzed what the bankrupt debtor sought to achieve from the rejection, which in that particular case was independence from foregoing obligations.[130] On the other hand, Judge Steiner in *In re Petur* considered what would be the effect of the rejection on the licensee.[131] When called upon to approve the rejection of the licensing arrangements, the courts adopted two unique approaches. While the court in *In re Petur* gave importance to what would be the effect of rejection on the licensee, the court in *In re Select-A-Seat* premised its discussion on what the licensor sought to achieve from the rejection. Thus, the vantage point assumed by the two courts while reviewing the decision to reject the licensing agreement was considerably different. It can be argued that this difference in vantage points was responsible for one court favoring, while another disapproving, the decision to reject an executory IP license.

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[123] *See* 35 B.R. at 561.
[124] *See id.* at 563.
[125] *See* Fenix Cattle Co. v. Silver (*In re* Select-A-Seat Corp.), 625 F.2d 290, 293 (9th Cir. 1980).
[126] *See id.* at 290.
[127] *See id.* at 292.
[128] *See id.*
[129] *See* Stuart S. Moskowitz, *Intellectual Property Licenses in Bankruptcy: New "Veto Power" for Licensees Under Section 365(n)*, 44 BUS. LAW. 771, 776–78 (1989); *see also In re* Select-A-Seat, 625 F.2d at 292.
[130] *In re* Select-A-Seat, 625 F.2d at 292.
[131] *See In re* Petur U.S.A. Instrument Co., 35 B.R. 561, 563 (Bankr. W.D. Wash. 1983) (suggesting Petur would consequently "be forced out of the business").

Having analyzed *In re Select-a-Seat* and *In re Petur*, we may conclude that, even before *Lubrizol,* the treatment afforded to IP licenses under section 365 was not uniform. The next Part of this Article will further deal with the Fourth Circuit's decision in *Lubrizol*, which mandated congressional intervention to delineate the rights of a licensee whose IP licensing agreement had been denied by application of section 365.[132]

A. Lubrizol*: The Decision that Forced Congressional Intervention*

In August of 1983, Richmond Metal Finishers ("Richmond") filed for chapter 11 bankruptcy.[133] Thirteen months before declaring bankruptcy, Richmond entered into a non-exclusive patent licensing agreement with Lubrizol Enterprises.[134] Within the terms of the licensing agreement, Lubrizol was entitled to use Richmond's patented metal coating process.[135] The terms of the license stipulated that Lubrizol shall not exploit the patented process until May 1, 1983.[136]

On August 16, 1983, Richmond filed a chapter 11 bankruptcy petition.[137] As part of its plan, Richmond sought to reject the contract with Lubrizol.[138] The bankruptcy court ruled in favor of Richmond and allowed rejection of the licensing agreement.[139] On appeal, the district court ruled in favor of Lubrizol and opined that the contract is not executory and its rejection would not be beneficial to the bankruptcy estate.[140] In coming to this conclusion, the court relied on the fact that Lubrizol's contract was not exclusive in nature, which meant that Richmond could readily license the underlying patent to other firms.[141] The lack of an exclusive licensing covenant was read to disfavor the rejection.[142] According to the district court, the nature of obligations remaining on part of Richmond were not burdensome and there was no rationale for exercising the business judgment rule in favor of rejection.[143]

Subsequently, on appeal by Richmond, the Court of Appeals for the Fourth Circuit rejected the district court's reversal.[144] The court concluded that the contract was executory and the rejection was a sound business decision.[145] In deciding whether

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[132] *See* Lubrizol Enters. v. Richmond Metal Finishers, Inc. (*In re* Richmond Metal Finishers, Inc.), 756 F.2d 1043, 1048 (4th Cir. 1985).
[133] *Id.* at 1045.
[134] *Id.*
[135] *Id.*
[136] *See id.*
[137] *Id.*
[138] *Id.*
[139] *In re* Richmond Metal Finishers, Inc., 34 B.R. 521, 526 (Bankr. E.D. Va. 1983).
[140] *In re* Richmond Metal Finishers, Inc., 38 B.R. 341, 345 (E.D. Va. 1984), *rev'd* Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043 (4th Cir. 1985).
[141] *Id.* at 344.
[142] *See id.*
[143] *See id.*
[144] Lubrizol Enters. v. Richmond Metal Finishers, Inc. (*In re* Richmond Metal Finishers, Inc.), 756 F.2d 1043, 1048 (4th Cir. 1985).
[145] *See id.* at 1047.

or not the contract was executory, the court relied on Professor Countryman's material breach test.[146] Richmond owed two obligations to Lubrizol. First, it had to notify Lubrizol of any patent infringement suits and had to indemnify Lubrizol from such suits.[147] Second, Richmond had to notify Lubrizol if it licensed the patent to any other entity.[148] Also, if a subsequent license was granted at a royalty rate lower than what was paid by Lubrizol, Richmond was obligated to reduce Lubrizol's rate accordingly.[149] Coming to Lubrizol's set of obligations, the court summarily concluded that payment of a flat rate of royalty was not sufficient to mean that substantial obligations were remaining.[150] Although, the court later underlined that such an imposition was not relevant in the present case, as Lubrizol's agreement provided for a percentage-based pro rata royalty scheme.[151] Lubrizol was also obligated to maintain a record of its accounts and submit it to Richmond.[152] Owing to the materiality of obligations, the court ruled that the contract was executory.[153] The court succinctly concluded:

> Therefore, if Lubrizol had owed RMF nothing more than a duty to make fixed payments or cancel specified indebtedness under the agreement, the agreement would not be executory as to Lubrizol. However, the promise to account for and pay royalties required that Lubrizol 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.[154]

Coming to the court approval requirement, which was explained in Part I.C, the Fourth Circuit decided to apply the business judgment rule.[155] The court impugned the burden of proof on Lubrizol, i.e., the licensee, to prove that the decision of rejection was entered into in bad faith.[156] Lubrizol failed to provide any such evidence.[157] On the other hand, Richmond provided evidence to the effect that the patent was the primary source of funds for Richmond.[158] Therefore, in order to effectuate a fresh start, the patent was more valuable as an unencumbered asset.[159]

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[146] *Id.* at 1045.
[147] *Id.*
[148] *Id.*
[149] *Id.*
[150] *See id.* at 1046.
[151] *See id.*
[152] *See id.*
[153] *See id.* at 1045–46.
[154] *Id.* at 1046.
[155] *See id.* at 1046–47.
[156] *Id.* at 1047.
[157] *See id.*
[158] *Id.*
[159] *See id.*

The court therefore upheld the decision of the bankruptcy court which had approved the rejection of the licensing agreement.[160]

The *Lubrizol* judgment from the Fourth Circuit is potentially problematic on multiple fronts. From the definition accorded to executory contracts to the test employed for approving the rejection decision, there are multiple findings in the judgment which deserve analysis on the basis of precedential authority. However, the most problematic part of the court's ruling did not relate to the rejection of the contract, it related to what the rejection meant and what would be the effect of such rejection of the licensee, i.e., Lubrizol.[161]

Judge Philips, who delivered the decision in *Lubrizol,* was of the opinion that if Lubrizol was allowed to continue the use of licensed technology, such continuance would be akin to specific performance.[162] Further, if Lubrizol were allowed to enforce specific performance of the contract, it would "obviously undercut the core purpose of rejection under § 365(a), and that consequence cannot therefore be read into congressional intent."[163] In coming to this conclusion, the court dealt with the legislative history of section 365(g) and concluded "the purpose of the provision is to provide only a damages remedy . . . ."[164] Not only would rejection mean that the licensor is freed from his obligations in the agreement, it would also mean that the licensee cannot continue to exploit the intellectual property licensed through the, now rejected, licensing agreement. The court interpretation effectively meant that rejection of a contract under section 365 would constitute complete recission.[165]

Further, the court adopted a negative inference approach to substantiate its decision.[166] Meaning, the court opined that Congress was aware of what would be the result of the rejection of an executory contract, which is why it had legislated specific "carve-outs" to protect certain classes of creditors.[167] For example, under section 365(h) of the United States Bankruptcy Code, if the debtor landlord rejects a property lease, the tenants are allowed to remain in possession.[168] Absent from the statutory scheme of section 365 was a similar protection for IP licenses. Therefore, an intellectual property licensee shall have to "share the general hazards created by § 365 for all business entities dealing with potential bankrupts . . . ."[169] The hazard here being the loss of the right to use the licensed intellectual property.

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[160] *See id.* at 1048.
[161] *See* James, *supra* note 63, at 897–98.
[162] *See In re* Richmond Metal Finishers, Inc., 756 F.2d at 1048.
[163] *Id.*
[164] *Id.*; *accord* Alan N. Resnick, Sunbeam *Offers a Ray of Sunshine for the Licensee When a Licensor Rejects a Trademark License Agreement in Bankruptcy*, 66 SMU L. REV. 817, 825–30 (2013).
[165] *See* James, *supra* note 63, at 897.
[166] *Id.* at 923.
[167] *See In re* Richmond Metal Finishers, Inc., 756 F.2d at 1048.
[168] *See id.*; *accord* Resnick, *supra* note 164, at 830; 11 U.S.C. § 365(h) (2018).
[169] *In re* Richmond Metal Finishers, Inc., 756 F.2d at 1048.

The court's reliance on the legislative history was later disputed by Professor Michael Andrew.[170] He traced the passage from the legislative history on which the *Lubrizol* court placed reliance:

> Subsection (G) defines the time as of which a rejection of an executory contract or unexpired lease constitutes a breach of the contract or lease. Generally, the breach is as of the date immediately preceding the date of the petition. The purpose is to treat rejection claims as prepetition [damages].[171]

The passage does not support the court's conclusion that the purpose of section 365(g) of the United States Bankruptcy Code is to provide *only* a damages remedy.[172] Despite such inconsistency in the court's reasoning, the Supreme Court of the United States denied *certiorari* in *Lubrizol.*[173]

Apart from the possible fallacies in judicial interpretation, the *Lubrizol* decision was accompanied by cogent policy considerations. As explained in Part I, after a contract is rejected under section 365(a), the non-debtor party's claim for damages is "unsecured,[174] nonpriority,[175] and dischargeable."[176] The statutory construction coupled with the *Lubrizol* ruling essentially means that a non-debtor licensee shall not only lose the right to use the licensed intellectual property right, all the investments made towards exploitation of the patent can potentially be reduced to sunk costs.[177] The *Lubrizol* court was aware of the possible implications of its decision and noted that such rejection can have a "chilling effect upon the willingness of such parties to contract at all with businesses [with] financial difficult[ies]."[178] Although, according to the court the bankruptcy law does not allow a court to indulge in such equitable considerations.[179]

As a result of the *Lubrizol* judgment, the intellectual property licensing landscape witnessed a substantial overhaul. Licensees had now realized that they were vulnerable to the bankruptcy of the licensor.[180] This was met with a demand for

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[170] Andrew, *Understanding "Rejection"*, *supra* note 5, at 924–25 n.279.

[171] S. REP. NO. 95-989, at 60 (1978), *as reprinted in* 1978 U.S.C.C.A.N. 5787, 5846; H.R. REP. NO. 95-595, at 349, (1977), *as reprinted in* 1978 U.S.C.C.A.N. 5963, 6305.

[172] *See* Andrew, *Understanding "Rejection"*, *supra* note 5, at 924.

[173] Lubrizol Enters., v. Canfield (*In re* Richmond Metal Finishers, Inc.), 756 F.2d 1043 (4th Cir. 1984), *cert. denied*, 475 U.S. 1057 (1986).

[174] James, *supra* note 63, at 897–98; *accord* 11 U.S.C. § 506(a)(1) (2018) (defining secured claims to include only those "secured by a lien on [the debtor's] property").

[175] James, *supra* note 63 at 897–98; *accord* 11 U.S.C. § 507 (prioritizing payment of certain types of claims).

[176] James, *supra* note 63, at 897–98; *accord* 11 U.S.C. § 1141(d)(1) ("[T]he confirmation of a plan . . . discharges the debtor from . . . any debt of a kind specified in section 502(g) . . . .").

[177] *See* Laura B. Bartell, *Straddle Obligations Under Prepetition Contracts: Prepetition Claims, Postpetition Claims or Administrative Expenses?*, 25 EMORY BANKR. DEVS. J. 39, 48–49 (2008).

[178] *In re* Richmond Metal Finishers, Inc., 756 F.2d at 1048.

[179] *Id.*

[180] *See* Michael J. Shpizner, *Congress Passes New Legislation Protecting Licensees of Intellectual Property*, 4 COMPUT. L. & SEC. REV. 27, 27 (1989).

structuring transactions as completed sales, requiring security interests in the licensor's estate, and third-party software escrows.[181]

B. The Congressional Intervention: The Intellectual Property Bankruptcy Protection Act, 1988

If we look at the decision in the cases of *Select-A-Seat*, *In re Petur*, and *Lubrizol,* we realize that three courts faced with the option to approve rejection of IP licensing agreements rendered three significantly different judgments. This confusion around treatment of IP licenses within section 365 should have been sufficient to mandate congressional intervention. Although, it was possibly the changing licensing landscape, a consequence of the *Lubrizol* ruling, which mandated a congressional course correction.[182] After the *Lubrizol* decision, a licensee was at the mercy of its licensor who could use its rejection powers "to reclaim . . . intellectual property [licenses] in an effort to negotiate better terms."[183] A licensor who can reclaim its property could effectively put licensees out of business.[184]

On August 7, 1987, Senators DeConcini and Heflin introduced the Intellectual Property Bankruptcy Protection Bill.[185] The bill was designed to clarify "the rights of parties [when] a licensor or licensee declares bankruptcy."[186] Highlighting the need of such clarification, Senator DeConcini referred to the *Lubrizol* judgment and submitted that "[t]he Lubrizol ruling occurred because Congress never considered this issue, because no courts had considered it before the Bankruptcy Reform of 1978 and because it requires the application in bankruptcy cases of the very specialized area of intellectual property law."[187] The Bill was signed into law on October 18, 1988.[188] The Intellectual Property Bankruptcy Protection Act of 1988 ("IPBPA"), introduced section 365(n) to the statutory scheme of section 365.[189] In order to delineate the protection provided within section 365(n), the Act also defined what is *intellectual property.*[190]

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[181] *See id.*

[182] *See* 133 CONG. REC. S1626, 23204 (daily ed. Aug. 7, 1987) (statement of Sen. DeConcini) ("[T]his quirk in . . . bankruptcy law threatens American licensors competing in the international marketplace. Uncertainty over the law jeopardizes American technology licenses in the world market."); *see also supra* note 6.

[183] Alexander N. Kreisman, *Calling All Supreme Court Justices! It Might Be Time to Settle This "Rejection" Business Once and For All: A Look at* Sunbeam Products v. Chicago American Manufacturing *and the Resulting Circuit Split*, 8 SEVENTH CIR. REV. 36, 45 (2012) (internal marks omitted).

[184] *Id.* at 45–46.

[185] *See* DECONCINI, *supra* note 182, at 23204. For a detailed legislative history of the bill see Moy, *supra* note 47, at 178–83. *See* Intellectual Property Bankruptcy Protection Act of 1987, Pub. L. No. 100-506, § 1, 102 Stat. 2538, 2538–40 (1988).

[186] DECONCINI, *supra* note 182, at 23204. *See* Intellectual Property Bankruptcy Protection Act of 1987, § 1, at 2538–40.

[187] DECONCINI, *supra* note 182, at 23204.

[188] *See* Intellectual Property Bankruptcy Protection Act of 1987, § 1, at 2538–40.

[189] *See* John Fry, *The Rejection of Executory Contracts Under the Intellectual Property Bankruptcy Protection Act of 1988*, 37 CLEV. STATE L. REV. 621, 623 (1989).

[190] 11 U.S.C. § 101(35A) (2018).

Protection under section 365(n) is available only on the confluence of three conditions. First, the bankruptcy debtor should be the licensor.[191] Second, the concerned licensing transaction should be for intellectual property as defined by the Bankruptcy Code.[192] Third, the license should have been executed before the commencement of the bankruptcy proceedings.[193]

Section 365(n) is further divided into four subsections.[194] The first subsection provides the licensee with an option in case the licensor rejects an executory licensing agreement.[195] On rejection, the licensee can treat such contract as terminated by the licensor's rejection and seek a remedy under section 365(g).[196] Alternatively, the licensee can choose to retain its rights in the licensing agreement.[197] If so retained, the licensor shall be released of its contractual obligations.[198] Such release would not disentitle a licensee from enforcing an exclusivity covenant for the remainder of the term of the contract[199] and any period for which the license can be extended as a matter of contractual right.[200] Although, the licensee cannot compel specific performance of the contract, specific performance can increase the burden of a bankrupt debtor and has therefore been prohibited.[201]

The second subsection elaborates the consequences of the licensee's option to retain.[202] It provides that a trustee shall allow the licensee to exercise the rights as provided within the retained agreement[203] and in return the licensee shall continue to make royalty payments for the period of the licensing agreement.[204] In conclusion, a rejection does not force the licensee to relinquish its right of continued usage of the intellectual property licensed vide the rejected licensing agreement.[205] The second subsection also provides that a licensee shall waive any right of setoff and any administrative claims against the estate.[206] Any offset or administrative expenses can defeat the right to royalty payments and have therefore been omitted.[207]

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[191] Michael Schein & Brandon J. Fleischman, *Licensing issues in today's bankruptcy world*, 17 J. COM. BIOTECHNOLOGY 195, 196 (2011).

[192] *Id.*

[193] *Id. See* 11 U.S.C. § 365(n)(1).

[194] For overview of section 365(n) see Fry, *supra* note 189; 3 COLLIER ON BANKRUPTCY, ¶ 365.15 (Alan N. Resnik & Henry J. Sommer eds., 16th ed. 2009).

[195] *See* 11 U.S.C. § 365(n)(1)(A).

[196] *See id.*

[197] *See id.* § 365(n)(1)(B).

[198] *See id.* § 365 (n)(2)(C)(ii).

[199] *See id.* § 365(n)(1)(B)(i); *see also* Moskowitz, *supra* note 129, at 786.

[200] *See* 11 U.S.C. § 365(n)(1)(B)(ii).

[201] *See id.* § 365(n)(1)(B); *see also* Moy, *supra* note 47, at 184.

[202] *See* 11 U.S.C. § 365(n)(2).

[203] *See id.* § 365(n)(2)(A).

[204] *Id.* § 365(n)(2)(B); *In re* Sima Int'l, Inc., No. 17-21761, 2018 WL 2293705, at *11 (Bankr. D. Conn. May 17, 2018).

[205] *See generally* Fry, *supra* note 189, at 639–44.

[206] 11 U.S.C. § 365(n)(2)(C).

[207] Moy, *supra* note 47, at 185.

The third subsection imposes an affirmative and a passive duty on the DIP.[208] Affirmatively, on a written request by the licensee, the DIP shall provide the intellectual property to the licensee as provided within the terms of the license agreement.[209] Passively, the DIP is also directed not to interfere with the licensee's right to use the technology or with efforts by the licensee to obtain technology from another party.[210] The last subsection provides that the DIP shall continue to duly perform the licensing agreement before it either accepted or rejected in accordance with section 365.[211]

IPBPA provided substantial protection for intellectual property licensees in the form of a new "veto-power" over the licensors.[212] This power allows a licensee to determine what would be the effect of a rejection of an intellectual property licensor by a bankrupt licensor.[213] The mandate of IPBPA was clear and provided substantial protection for an IP licensee. The success of the legislation can be gauged by the fact that no other federal appellate court had the cause to interpret the legislative instruction embodied in the IPBPA for twenty-four years, until 2012.[214] Even in 2012, the factual matrix before the federal court involved a trademark license, which was explicitly omitted from the scope of IPBPA.[215] The next Part of this Article addresses the continued effect of the *Lubrizol* judgment in reference to trademark licenses after the implementation of IPBPA.

C. Lubrizol *After IPBPA: The Continued Menace*

Given that the 1988 IPBPA was enforced specifically to counter the effects of the *Lubrizol* ruling, one would assume that rejection in cases of intellectual property licensing was clarified post-1988. Although, when IPBPA defined intellectual property, it omitted trademarks from the definition.[216] Congress was of the opinion that trademark licenses were beyond the scope of IPBPA as they required "a more

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[208] *See* 11 U.S.C. § 365(n)(3).
[209] *Id.* § 365(n)(3)(A).
[210] *Id.* § 365(n)(3)(B).
[211] *See id.* § 365(n)(4); *see also* Moy, *supra* note 47, at 184, 186.
[212] Moskowitz, *supra* note 129, at 786.
[213] *See id.*
[214] *See* Sunbeam Prods. v. Chi. Am. Mfg., 686 F.3d 372, 376 (7th Cir. 2012) ("No other court of appeals has agreed with *Lubrizol*—or for that matter disagreed with it. *Exide*, the only other appellate case in which the subject came up, was resolved on the ground that the contract was not executory and therefore could not be rejected."); James M. Wilton & Andrew G. Devore, *Trademark Licensing in the Shadow of Bankruptcy*, 68 BUS. LAW. 739, 740 (2013).
[215] *See* 11 U.S.C. § 101(35A).
[216] *See id.*; *see also* Peter S. Menell, *Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis*, 22 BERKELEY TECH. L. J. 733, 774 (2007).

extensive study."[217] Many courts considered this omission to mean that Congress intended the *Lubrizol* ruling to continue to apply on trademark licenses.[218]

Between 1985 and 2012, multiple bankruptcy courts, including the ones from the Southern District of New York,[219] Rhode Island,[220] the Northern District of California,[221] and the District of Delaware,[222] relied on *Lubrizol v. RMF* to determine the treatment that would be afforded to trademark licenses.[223] It was only in 2010 that the Court of Appeals for the Third Circuit in *In re Exide Technologies* considered the merits of deviating from the *Lubrizol* approach.[224] However, even in 2010, the court had only pre-empted such a deviation.[225] The licensing agreement therein was not executory and therefore the issue of rejection could not be entertained.[226]

It was only in 2012 that Judge Easterbrook in *Sunbeam Products*[227] addressed the incorrect interpretation of the *Lubrizol* court. The court's approach was premised on the interpretation of section 365(g), which as explained in Part I.B, provides that rejection under section 365 amounts to breach.[228] Judge Easterbrook opined that outside bankruptcy, the breach would not amount to rescission of the intellectual property license and therefore, similar treatment should be within bankruptcy.[229] In order to explain its position, the court created an analogy with a lease for actual property. The court argued that when by breaching a contract for lease, the lessor cannot reacquire the leased property, why would the breach of an intellectual property license denude the licensee of his right to continue the use of the licensed intellectual property.[230] The *Sunbeam* approach assumed validation from the United States Supreme Court in 2019.[231]

After the Supreme Court intervened, the protection afforded to IP licensees within IPBPA in 1988 was extended to trademark licensees. The Supreme Court concluded a judicial confusion that plagued the American bankruptcy jurisprudence for more than twenty-five years (from 1988 until 2019). The next Part of this Article seeks to investigate the United Kingdom and India's insolvency regimes to find a power analogous to section 365 of the United States Bankruptcy Code.

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[217] S. REP. NO. 100-505, at 5 (1988), *as reprinted in* 1988 U.S.C.C.A.N. 3200, 3204; *accord* Roth, *supra* note 111, at 547.

[218] *See, e.g., In re* Old Carco LLC, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009). *See* Meisler et al., *supra* note 60, at 166–67.

[219] *See, e.g., In re* Chipwich, Inc., 54 B.R. 427, 431 (Bankr. S.D.N.Y. 1985).

[220] *See, e.g., In re* Blackstone Potato Chip Co., 109 B.R. 557, 560 (Bankr. D.R.I. 1990).

[221] *See, e.g., In re* Centura Software Corp., 281 B.R. 660, 669–70 (Bankr. N.D. Cal. 2002).

[222] *See, e.g., In re* HQ Glob. Holdings, Inc., 290 B.R. 507, 513 (Bankr. D. Del. 2003).

[223] *See generally* Roth, *supra* note 111, at 548–53.

[224] *See In re* Exide Techs., 607 F.3d 957, 965–66 (3d Cir. 2010) (Ambro, J., concurring).

[225] *See id.*

[226] *See* Gupta & Mehta Kumar, *supra* note 10, at 753.

[227] *See* 686 F.3d 372, 376–77 (7th Cir 2012).

[228] *See id.*

[229] *See id.*

[230] For a detailed discussion see Gupta & Mehta Kumar, *supra* note 10, at 755–56.

[231] *See* Mission Prod. Holdings v. Tempnology, LLC, 139 S. Ct. 1652, 1660 (2019).

III. ADMINISTRATION IN UNITED KINGDOM AND CORPORATE INSOLVENCY RESOLUTION PLANS IN INDIA: TRACING COMPARABLE MANDATES

The Insolvency Act of 1986 governs the English Insolvency Regime. "The [statute] unified both personal and corporate . . . insolvency law for the first time in the United Kingdom."[232] The Act of 1986 was the legislative response to the recommendations of the Cork Committee whose mandate was to review the insolvency law and practice in the later 1970s.[233] The English bankruptcy regime received a significant overhaul in 2002 with the introduction of the Enterprise Act.[234] The Enterprise Act amended the administration procedure of the UK insolvency regime and followed a chapter 11 template.[235] An enabling provision was included in the Enterprise Act, which created a new section 8 of the Insolvency Act, 1986 and enacted Schedule B1 of the Act, which contains the provisions for administration of companies.[236] The primary purpose of the administration regime is to rescue a company so that it can continue trading as a going concern. This objective is very similar to a chapter 11 bankruptcy proceeding.[237]

On the other hand, the Indian insolvency regime was substantially revamped in 2016, when the Insolvency and Bankruptcy Code ("IBC") was introduced.[238] IBC resulted from decades of recommendations and suggested changes to an insolvency regime which was fragmented and plagued with delays and poor recoveries for creditors.[239] There have been nine government committees that worked on insolvency laws and have time and again suggested an overhaul of the bankruptcy framework.[240] IBC marked a significant departure from the previous insolvency regime. "[IBC] introduced a creditor-in-control regime . . . , a time-bound resolution process and reduced [the] scope for judicial intervention . . . ."[241] In order to reduce the uncertainty that arises from multiplicity of legislation, the Code was enacted to "consolidate the fragmented law" of insolvency in India.[242]

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[232] INTERNATIONAL INSOLVENCY LAW: THEMES AND PERSPECTIVES 107 (Paul J. Omar ed., Routedge 2008).

[233] *See* Sandra Frisby, *In Search of a Rescue Regime: The Enterprise Act 2002*, 67 MOD. L. REV. 247, 247 (2004).

[234] *See* Enterprise Act 2002, c. 40 (UK).

[235] *See generally* Andry Scruton & Lee Smith, *Introduction to the United Kingdoms Enterprise Act 2002*, 23 AM. BANKR. INST. J., Aug. 2004 at 36, 36.

[236] *See* Frisby, *supra* note 233, at 257–58.

[237] *See* Alexandra Rhim, *Reorganization Schemes Under U.K. Insolvency Act of 1986: Chapter 11 as a Springboard for Discussion*, 16 LOY. L.A. INT'L & COMP. L. J. 985, 987 (1994).

[238] *See* The Insolvency and Bankruptcy Code, 2016 (India).

[239] *See* BANKR. L. REFORMS COMM., THE REPORT OF THE BANKRUPTCY LAW REFORMS COMMITTEE VOLUME I: RATIONALE AND DESIGN 7 (2015) [hereinafter REPORT OF THE BANKRUPTCY LAW REFORMS COMMITTEE].

[240] *See id.* at 20 tbl.3.1; Akshaya Kamalnath, *Corporate Insolvency Resolution Law in India—A Proposal to Overcome the 'Initiation Problem'*, 88 UMKC L. REV. 631, 631–32 (2020).

[241] VIDHI CTR. FOR LEGAL POL'Y, UNDERSTANDING THE INSOLVENCY AND BANKRUPTCY CODE, 2016: ANALYSING DEVELOPMENTS IN JURISPRUDENCE 7 (2019).

[242] *Id.* at 11; Swiss Ribbons Priv. Ltd. v. Union of India, (2019) 3 S.C.R. 581.

In November 2015, the Bankruptcy Law Reforms Committee, set up by the Government of India, submitted a two-volume report which included a draft of the IBC.[243] The 2016 IBC provides for initiating a Corporate Insolvency Resolution Process ("CIRP")[244] by a corporate applicant.[245] A CIRP is initiated when the corporate debtor defaults on making payments to its creditors and should mandatorily be completed within 330 days.[246] Similar to a chapter 11 proceeding in the United States Bankruptcy Code, a CIRP aims to reorganize a company's debt structure and its revival from a state of insolvency.[247] Unlike chapter 11, IBC is designed for the sale of the corporate debtor as a going concern.[248] Unless in exceptional circumstances,[249] the corporate debtor does not retain control of the business after the initiation of the CIRP proceedings.[250]

Unlike section 365(n) of the United States Bankruptcy Code, neither the United Kingdom, nor the Indian insolvency regime affords any special protection to intellectual property licensees during the insolvency proceedings of the licensor. Further, neither the Indian[251] nor the English insolvency regime[252] provide any special protections to an IP license agreement.

The United States Bankruptcy Code incorporates a Debtor-in-Possession financing model,[253] wherein the management of the bankrupt debtor retains control over the assets and business activities of the debtor during the insolvency proceedings.[254] The English and the Indian insolvency regimes do not incorporate a similar DIP model. In England, during administration, an administrator is appointed[255] who acts in a dual capacity as an agent of the insolvent company[256] and an officer of the court.[257] Once appointed, the administrator takes all the company's property into his custody or control.[258] Similarly, the 2016 IBC provides that once the CIRP has been initiated, the control of the corporate debtor is assumed by an Interim

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[243] *See* BANKR. L. REFORMS COMM., *supra* note 239, at 2.

[244] *See* The Insolvency and Bankruptcy Code, 2016, §6 (India).

[245] *See id.* §10 (describing the initiation of the corporate resolution process by a corporate applicant); *id.* §5(5) (defining a corporate applicant).

[246] *See id.* §12(3).

[247] *See id.* §25.

[248] Pratik Datta, *Value Destruction and Wealth Transfer Under the Insolvency and Bankruptcy Code* 9 n.38 (Nat'l Inst. Pub. Fin. Pol'y, Working Paper No. 247, 2018).

[249] *See* The Insolvency and Bankruptcy Code, 2016, §12(a) (India).

[250] *See* Datta, *supra* note 248, at 7.

[251] *See* Gupta & Mehta Kumar, *supra* note 10, at 758.

[252] *See* Brett Israel, *Intellectual property rights and English insolvency law: a need for new tools?*, CORP. RESCUE & INSOLVENCY J. 58, 62 (2009).

[253] *See* WESTBROOK ET AL., *supra* note 18, at 77.

[254] *See* 11 U.S.C. § 1107 (2018); *see also* Izak Atiyas, *Bankruptcy: Policy, Law, and Strategy*, *in* 4 CURRENT LEGAL ISSUES AFFECTING CENTRAL BANKS 421, 425 (Robert C. Effros ed., 1997).

[255] Insolvency Act 1986, c. 45, §§ 2, 14, sch. B1 (Eng.).

[256] *Id.* § 69.

[257] *Id.* § 5.

[258] *Id.* § 67.

Resolution Professional ("IRP").[259] Within thirty days of the initiation of the CIRP, the IRP appoints the Committee of Creditors ("CoC").[260] After that, the CoC appoints a Resolution Professional ("RP"),[261] who assumes the control of the corporate debtor.[262] The RP's control of the corporate debtor's assets is maintained under a strict vigil of the CoC.[263] This difference in the financing model between the American and the Indian and the English insolvency regimes has no bearing on the rejection of pre-petition transactions. As has been explained in Part III.B, both these regimes provide for interference with pre-petition contracts. Although, the manner in which the interference is exercised is very different.

The following Part of this Article studies the statutory scheme of the Insolvency Act, 1986 and the IBC, 2016 to determine whether a licensor can reject an IP licensing agreement during insolvency proceedings. For the present study, the authors seek to trace statutory mandates comparable to section 365 in a chapter 11 proceeding of the United States Bankruptcy Code. Therefore, the scope of analysis is limited to insolvency procedures similar to a chapter 11 proceeding which are Administration in the UK and the Corporate Insolvency Resolution Process (CIRP) in India.

A. Termination of Contracts: Ipso Facto Clauses

What happens if the licensing agreement stipulates that in the event of either party entering into insolvency proceedings, the licensing agreement stands materially altered or terminated? If a licensing agreement can be terminated upon insolvency, this would mean that the powers of an insolvency professional shall be subject to the contractual relationship between the parties. Not only does this denude the powers of an insolvency professional, but it also impedes his ability to reorganize the debt structure of a company. The Delhi High Court in 1994 ruled in favor of this contractual foresight and permitted the termination of an intellectual property license in terms of the ipso facto clause contained therein.[264] Therefore, before analyzing the powers of an insolvency professional, it is crucial to investigate whether the incidence of such powers is subject to the contractual relationship between the parties.

Ipso facto clauses are contractual stipulations that allow either termination or substantial modification of contracts in the event of bankruptcy.[265] An ipso facto clause is defined as "a non-statutory shorthand label for a category of contractual provisions that, in essence, would provide for the debtor's rights under the contract

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[259] *See* The Insolvency and Bankruptcy Code, 2016, §17 (India); *see also* Kamalnath, *supra* note 240, at 650.

[260] *See* The Insolvency and Bankruptcy Code, 2016, §21 (India) *read with* IBBI (Insolvency Resolution Process for Corporate Persons) Regulations, 2016, Reg. 17(1) (India).

[261] The Insolvency and Bankruptcy Code, 2016, §22 (India).

[262] *See id.* §23.

[263] *See id.* §28.

[264] *See* Unikol Battlers, Ltd. v. Dhillon Kool Drinks LNIND, AIR 1995 Del 25, 4 (1994); *see also* Gupta & Mehta Kumar, *supra* note 10, at 759.

[265] *See* Coles-Bjerre, *supra* note 69, at 77.

to terminate upon the filing of bankruptcy or related events."[266] As discussed in Part II, the American law on the subject invalidates the applicability of such ipso facto clauses.[267] This Part of the Article seeks to analyze the treatment afforded to ipso facto clauses during the administration proceedings in the United Kingdom and CIRP in India.

1. Traditionalist or Proceduralist: policy arguments concerning Ipso Facto Clauses

Before dealing with the statutory construction of the operative bankruptcy provisions, it is vital to understand the countervailing policy arguments accompanying ipso facto clauses. Professor Coles-Bjerre has distinguished these countervailing arguments in two camps: proceduralists and traditionalists.[268] In its simplest enunciation, the traditionalist camp believes that bankruptcy law has its own important substantive goals and plays a distinctive role in the legal system.[269] Concerning invalidation of ipso facto clauses, a traditionalist author would argue that it serves the purpose of "maximizing right holders' recoveries by preserving valuable assets . . . ."[270] On the other hand, the proceduralists reduce bankruptcy as only an element that should be well integrated into the rest of the nation's economy and legal systems.[271] They support that contractual autonomy of the parties should be maintained, and ipso facto clauses should not be invalidated.[272] The proceduralists claim that an ipso facto clause would favor a foresightful non-debtor who would be able to opt-out of his share of pain in a bankruptcy proceeding.[273]

The United Nations Commission on International Trade Law's ("UNCITRAL") Legislative Guide to Insolvency underlines concerns similar to Professor Coles-Bjerre's findings.[274] However, the UNCITRAL has not labeled these concerns in proceduralist or traditionalist camps.

The Legislative Guide notes that many arguments, including the desirability of respecting commercial bargains, may support retaining the validity of ipso facto clauses.[275] On the other hand, the guide also notes that while invalidation of ipso facto clauses may interfere with the general principles of contract law, "such interference

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[266] *Id.* at 87.

[267] *See* Kopelman v. Halvajian (*In re* Triangle Lab'ys, Inc.), 663 F.2d 463, 465 (3d Cir. 1981).

[268] Coles-Bjerre, *supra* note 69, at 93. Professor Coles-Bjerre built on Professor Baird's distinction of separating the "world of bankruptcy scholarship" into two camps: proceduralists and traditionalists. *See* Douglas G. Baird, *Bankruptcy's Uncontested Axioms*, 108 YALE L. J. 573, 576–77 (1998).

[269] Baird, *supra* note 269, at 576.

[270] Coles-Bjerre, *supra* note 69, at 93 n.72.

[271] *See* Baird, *supra* note 269, at 577–78.

[272] Charles W. Mooney, Jr., *A Normative Theory of Bankruptcy Law: Bankruptcy As (Is) Civil Procedure*, 61 WASH. & LEE L. REV. 931, 1043 (2004) ("If not offended, procedure theory is at least annoyed that Section 365 overrides ipso facto provisions to which parties have agreed.").

[273] *See* Coles-Bjerre, *supra* note 69, at 92–93; Alan Schwartz, *A Contract Theory Approach to Business Bankruptcy*, 107 YALE L. J. 1807, 1842 (1998).

[274] *See* U.N. Comm'n on Int'l Trade L., Legislative Guide on Insolvency Law, U.N. Sales No. E.05.V.10, at 122–23 (2005).

[275] *Id.* at 222.

may be crucial [for] the success of the proceedings."[276] The guide explicitly refers to intellectual property licensing agreements and argues that retention of such contracts may be necessary to further the goals of an insolvency proceeding.[277]

Having acknowledged the countervailing arguments, the UNCITRAL concludes that since the continued performance of commercial agreements is necessary for the success of the insolvency process, the ipso facto clause should be invalidated subject to certain exceptions.[278] The European Parliament made a similar suggestion in 2019: "Early termination can endanger the ability of a business to continue operating during restructuring negotiations, especially when contracts for essential supplies such as gas, electricity, water, telecommunication and card payment services are concerned."[279] In light of this discussion, Article 40 of the EU Directives recommends invalidation of ipso facto clauses.[280] The European Union argues that solely because of the debtor's restructuring/insolvency, the creditor should not be allowed to amend executory contracts to the debtor's detriment.[281] In recent years, many jurisdictions, including Netherlands, Austria, and France, have adopted provisions that invalidate ipso facto clauses in bankruptcy.[282]

2. Legal position in UK and India

Coming to the position of the law in the UK, the Insolvency Act, 1986 does not invalidate ipso facto clauses.[283] Historically, the UK maintained a proceduralist stance and permitted the applicability of ipso facto clauses and retained the freedom of contract. The UK Supreme Court in the *Belmont Park* case confirmed this position.[284] It agreed with the validity of *ipso facto* clauses as long as these provisions do not invalidate the anti-deprivation rule[285]:

> There was no dispute before me as to the efficacy in English law of the provisions in cl. 28.1 of the contract which allow termination by reason of an insolvency event. It was accepted that those provisions are valid in English law. In particular, it was accepted that the rule of insolvency law, known as the anti-deprivation rule, does not strike down those provisions.[286]

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[276] *Id.*
[277] *See id.* at 122–23.
[278] *See id.* at 123.
[279] Council Directive 2019/1023, art. 41, 2019 O.J. (L 172) 18, 25.
[280] *See id.* at art. 40.
[281] *Id.* at art. 7.
[282] *See* Ilya Kokorin, *Promotion of group restructuring and cross-entity liability arrangements*, 21 J. CORP. L. STUD. 557, 576–77 (2021).
[283] *See id.* at 570.
[284] *See* Belmont Park Invs. PTY v. BNY Corp. Tr. Servs. [2011] UKSC 38 [2012] 1 AC 383 (appeal taken from Eng.).
[285] Kokorin, *supra* note 283, at 570.
[286] Fibria Celulose S/A v. Pan Ocean Co. [2014] EWHC (Ch) 2124 [13], [2014] Bus L. Rep. 1041 (Eng.).

In 2020, the UK enacted the Corporate Insolvency Governance Act ("CIGA"), which introduced section 233B to the Insolvency Act, 1986.[287] With the introduction of section 233B, ipso facto clauses in a specific set of contracts were made unenforceable.[288] The provision invalidates a clause in any contract that terminates it or does "any other thing" regarding that contract on the ground that the bankrupt debtor is entering into an insolvency procedure.[289] Interpreting the provision, the England and Wales High Court, on January 26, 2021, noted that the protection afforded by section 233B does not only cover termination by a supplier but also includes the variance of terms by the supplier.[290] However, the provision is applicable only when the contract was for the supply of goods and services to the bankrupt debtor.[291] The bar on invalidation of clauses would not apply where the bankrupt debtor is the supplying party.[292] The lack of such invalidation can affect the revenue stream of the insolvent company. Therefore, it is safe to say that section 233B of the UK Insolvency Act, 1986 is narrower than the mandate of section 365(e) of the United States Bankruptcy Code.

The Indian bankruptcy system does not communicate a clear mandate concerning the treatment of ipso facto clauses in insolvency. Unlike American and English bankruptcy systems, IBC, 2016 and the Indian Companies Act, 2013 do not include explicit provisions which deal with the legality of ipso facto clauses in insolvency.[293] The requirement of dealing with this question was, however, underlined as far back as 2005. While presiding over a committee set up by the Ministry of Corporate Affairs, Government of India, Dr. J.J. Irani believed that "[t]he law should provide for treatment of unperformed contracts. Where the contracts provide for automatic termination on filing of insolvency, its enforcement should be stayed [by] commencement of insolvency."[294] The report also acknowledged that such powers should be subject to exceptions where there is "a compelling commercial, public or social interest in upholding the contractual rights."[295]

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[287] *See* Corporate Insolvency and Governance Act 2020, c. 12, § 1, sch. 12 (UK); *see also* Insolvency Act 1986, c. 45, § 233B (UK). CIGA has now been withdrawn. The temporary provisions introduced via the Act cease to assume applicability. Although, since section 233B was a permanent change made to the Insolvency Act, 1986, the withdrawal has no bearing on the present study.

[288] *See* Kathy Stones, *Corporate Insolvency and Governance Act 2020: freezes on contract terminations*, LEXISNEXIS BLOGS (July 27, 2020), https://www.lexisnexis.co.uk/blog/restructuring-and-insolvency/corporate-insolvency-governance-act-2020-freezes-on-contract-terminations.

[289] Hetal Doshi & Yashasvi Jain, *The Insolvency and Bankruptcy Framework and Principle of Business Efficacy across Different Jurisdictions in the COVID Era*, 42 BUS. L. REV. 45, 46 (2020) (emphasis in original); Insolvency Act 1986, c. 45, § 233B(3)(b) (UK).

[290] *See* P&O Princess Cruises Int'l v. Demise charterers of the vessel 'Columbus' [2021] EWHC 113 [48], [2021] All ER (Comm) 1305 (Eng.).

[291] *See* Insolvency Act 1986, c. 45, § 233(B) (UK); Doshi & Jain, *supra* note 290, at 46.

[292] *See* Doshi & Jain, *supra* note 290, at 46.

[293] Gujarat Urja Vikas Nigam Ltd. v. Amit Gupta, Unreported Judgments, Civil Appeal / 9241 of 2019, decided on Mar. 8, 2021 (SC), 10 (India).

[294] JAMSHED J. IRANI, MINISTRY OF CO. AFFS., REPORT OF THE EXPERT COMMITTEE ON COMPANY LAW 2005 147 (2005).

[295] *Id.* at 148.

Another report published in 2018 acknowledged that the IBC does not regulate the applicability of ipso facto clauses.[296] The report placed reliance on the compulsory declaration of moratorium by the National Company Law Tribunal ("NCLT"), which *inter alia* prohibits transferring, alienating or disposing of assets, legal rights and interests beneficial to the bankrupt debtor.[297] According to the report, section 14 of IBC, 2016 provides a limited exception from the termination, suspension or interruption of specified "essential goods [and] services."[298] The term "essential supplies" only includes electricity, water, telecommunication services and information technology services.[299] The report suggested inserting a provision in the IBC, 2016 which would conditionally stay the operation of ipso facto clauses until the CIRP proceedings' resolution.[300]

An amendment introduced an explanation to section 14(1) of the Insolvency and Bankruptcy Code, 2016 in 2020.[301] The explanation clarifies that section 14, IBC, 2016 invalidates the termination or suspension of government grants[302] during the moratorium period.[303] The Insolvency Law Committee report, which discussed the legislative intent behind the explanation, admitted that the explanation was geared to regulate termination of contracts by the government authorities only.[304]

Further the Insolvency Law Committee, on two separate occasions,[305] suggested that a new subsection should be introduced to section 14, IBC, 2016. It was recommended that such introduction was necessary "to ensure that supplies that are critical to running the corporate debtor as a going concern, and would contribute to the preservation of the corporate debtor's value and success of the resolution plan should not be terminated, suspended or interrupted . . . ."[306]

These suggestions were taken into account in 2020,[307] and section 14(2A) was introduced to IBC, 2016.[308] The subsection allows a resolution professional to prevent

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[296] *See* VIDHI CTR. FOR LEGAL POL'Y & ERNST AND YOUNG, INSOLVENCY AND BANKRUPTCY CODE: THE JOURNEY SO FAR AND THE ROAD AHEAD 35 (2018).

[297] The Insolvency and Bankruptcy Code, 2016, §14(1)(b) (India); VIDHI CTR. FOR LEGAL POL'Y & ERNST AND YOUNG, *supra* note 297, at 35.

[298] The Insolvency and Bankruptcy Code, 2016, §14(2) (India); VIDHI CTR. FOR LEGAL POL'Y & ERNST AND YOUNG, *supra* note 297, at 35.

[299] IBBI (Insolvency Resolution Process for Corporate Persons) Regulations, 2016, Reg. 32 (India).

[300] VIDHI CTR. FOR LEGAL POL'Y & ERNST AND YOUNG, *supra* note 297, at 35.

[301] *See* The Insolvency and Bankruptcy Code, 2016, §14(1) (India).

[302] The word grants include licenses, permits and quotas, concessions, registrations, or other rights. *See id.*

[303] *See* Gujarat Urja Vikas Nigam Ltd. v. Amit Gupta, Unreported Judgments, Civil Appeal / 9241 of 2019, decided on Mar. 8, 2021 (SC), 62–63 (India); *see also* The Insolvency and Bankruptcy Code, 2016, §14(1) (India).

[304] *See* MINISTRY OF CO. AFFS., REPORT OF THE INSOLVENCY LAW COMMITTEE 34–36 (2020) [hereinafter 2020].

[305] For the first time in March 2018, see MINISTRY CO. AFFS., REPORT OF THE INSOLVENCY LAW COMMITTEE 35 (2018) [hereinafter 2018]. The second time in February 2020, see MINISTRY OF CO. AFFS., 2020, *supra* note 305, at 309.

[306] MINISTRY OF CO. AFFS., 2020, *supra* note 305, at 39.

[307] Although, the amendment was brought into force with effect from December 28, 2019. *See* Gujarat Urja Vikas Nigam Ltd. v. Amit Gupta, Unreported Judgments, Civil Appeal / 9241 of 2019, decided on Mar. 8, 2021 (SC), 65 (India); *see also* The Insolvency and Bankruptcy Code (Amendment) Act, 2020 (India).

[308] *See* The Insolvency and Bankruptcy Code (Amendment) Act, 2020, §5 (India).

the termination of supply of goods and services, which they consider "critical to protect and preserve the value of the corporate debtor and manage the operations of such corporate debtor as a going concern."[309] However, the amendment witnessed criticism because no legislative guidance was provided to determine which supplies would be critical. The lack of such guidance renders the amendment ambiguous in its interpretation and creates room for unguided judicial discretion.[310] Further, even after the introduction of section 14(2A), the validity of ipso facto clauses is contingent on the opinion of the resolution applicant. A comparison of this position with the United States Bankruptcy Code reveals a curious distinction. While the Indian insolvency law doles the responsibility to suspend ipso facto clauses on the resolution professional, American law clearly states that all ipso facto clauses shall stand suspended during proceedings under the U.S. Code.[311]

To summarize the validity of ipso facto clauses in Indian bankruptcy, the paper relies on a judgment of the Supreme Court of India delivered on March 8, 2021:

> The position of law in India today invalidates *ipso facto* clauses in:
>
> (i) Government licenses, permits, registrations, quotas, concessions, clearances or a similar grant or right given by the Central Government, State Government, local authority, sectoral regulator or any other authority constituted under any other law for the time being in force, in accordance with the Explanation to Section 14(1); and
>
> (ii) Contracts where the counter-party supplies essential/critical goods and services to the Corporate Debtor, within the meaning of Sections 14(2) and 14(2A).
>
> However, no clear position emerges in relation to the validity of *ipso facto* clauses in other contracts, from the bare text of the IBC.[312]

The Supreme Court of India has acknowledged the lacunae of legislative instruction and appealed to the Legislature to provide guidance in the present matter:

> Consequently, we hold that question of the validity/invalidity of ipso facto clauses is one which the court ought not to resolve exhaustively in the present case. Rather, what we can do is appeal in earnest to the legislature to provide concrete guidance on this issue, since the lack of a legislative voice on the issue will lead to confusion and reduced commercial clarity.[313]

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[309] Amrit Mahal, *Termination Of Contracts During The Moratorium: Looking Beyond The 'Going Concern' Status*, 7 NAT'L L. SCH. BUS. L. REV. 153, 162–63 (2021) (internal marks omitted).

[310] *See id.* at 163 (emphasis in original).

[311] *See* 11 U.S.C. § 365(e)(1)(A) (2018).

[312] Gujarat Urja Vikas Nigam Ltd. v. Amit Gupta, Unreported Judgments, Civil Appeal / 9241 of 2019, decided on Mar. 8, 2021 (SC), 62–63 (India).

[313] *Id.* at 60.

Therefore, in conclusion, English law prohibits the validity of ipso facto clauses during bankruptcy in a limited set of circumstances and is qualified by a list of exceptions.[314] Unfortunately, the law in India is not as clear as its English counterpart. The introduction of section 14(2A) appears to be a step in the right direction, but a lack of legislative guidance plagues the amendment. The Indian courts and administrative bodies have relied on the declaration of a moratorium to regulate the applicability of ipso facto clauses.[315] Neither of these approaches provides a mandate as explicit and exhaustive as the one incorporated in American law.

Answering the question this part set out to answer: The English law would invalidate an ipso clause provided that it does not contradict with the exceptions meted in section 233B, Insolvency Act, 1986. The Indian law on the subject is unclear. However, it can be argued that if the agreement was between the corporate debtor and the government or any statutory body, it should not be terminated solely because of the initiation of CIRP proceedings.[316] Similarly, if the licensing agreement was in relation to the provision of essential, critical services to the corporate debtor, any ipso facto termination clauses shall remain invalid.

Having understood the validity of ipso facto clauses in India and the UK, the next Part of this Article turns to study whether an intellectual property license can be rejected during CIRP proceeding in India and Administration in the UK.

B. Disclaimer of Contracts

The Insolvency Act, 1986 and the IBC, 2016 provide for disclaimer of unprofitable contracts.[317] The power to disclaim unprofitable contracts is the closest enunciation to section 365[318] of the U.S. Bankruptcy Code's power to reject executory contracts. While exploring a power similar to section 365 in English law, multiple authors and reports have pointed towards the Insolvency Law's ability to disclaim contracts.[319] The intention here is to enable a bankrupt debtor to reject the performance of contracts, the maintenance of which is unprofitable and can

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[314] *See* Insolvency Act, 1986 c. 45 § 233B (UK); *see also* Doshi and Jain, *supra* note 290, at 45–47.

[315] Gujarat Urja Vikas Nigam Ltd. v. Amit Gupta, Unreported Judgments, Civil Appeal / 9241 of 2019, decided on Mar. 8, 2021 (SC), 57–59 (India).

[316] *See* The Insolvency and Bankruptcy Code, 2016, §14(1) (India).

[317] *See* Insolvency Act 1986, c. 45, § 178 (UK); *see also* The Insolvency and Bankruptcy Code, 2016, §160(5)(i) (India); IBBI (Liquidation Process) Regulations, 2016, Reg. 10 (India).

[318] *See* David Flint, *Man on a Mission*, 40 BUS. L. REV. 173, 173–74 (2019).

[319] *See id.* at 173–74; *see also* Baker McKenzie LLP, *IP License Agreements in insolvency: Managing licensing arrangements in financially turbulent times*, BAKER MCKENZIE IP, 4–5, 36 (June 24, 2020); *see also* Kubianga Michael Udofia, *The Impact of Insolvency on Corporate Contracts: A Comparative Study of the UK and US Insolvency Law Regimes* (Aug. 2014) (Ph.D. thesis, University of Nottingham) (on file with the University of Notingham eTheses Archive); *see also* OKSANA KOLTKO, RICHARD A. CHESLEY, & JOE RICHES, INSOL INTERNATIONAL: THE PROTECTION OF INTELLECTUAL PROPERTY RIGHTS IN INSOLVENCY PROCEEDINGS 12, 36 (2017).

potentially result in the acquisition of further obligations, which may diminish the pool of assets available for distribution.[320]

The statutory enunciation of this intention is similar in the English and the Indian insolvency regimes. The two insolvency regimes provide for the disclaimer of onerous property.[321] The definition accorded to "onerous property" by the two regimes is also similar and includes "any unprofitable contracts."[322] However, the provisions that determine onerous property's disclaimer explicitly refer to the bankruptcy trustee[323] and the liquidator.[324] In India, the power to disclaim contracts in the case of insolvency of corporate debtors is provided within the Insolvency and Bankruptcy Board of India (Liquidation Process) Regulations, 2016.[325] The regulations are exclusive to the liquidation process and do not apply to CIRP proceedings.[326]

Such legislative directive raises a pertinent question: Can an administrator or a resolution professional disclaim unprofitable contracts during an administration or CIRP? The simple answer is no. The power of disclaimer is exclusive to the liquidation proceedings and does not extend to other insolvency proceedings.[327] This Part of the Article explores the statutory limits of the ability to disclaim onerous property.

During liquidation, in order to disclaim a contract, it is not sufficient to show that the insolvent company can secure a contract at a higher price.[328] What is required to be established is that the contract imposes future obligations, the performance of which shall be detrimental to the creditors.[329] Therefore, an intellectual property license that obliges the licensor to incur any prospective liabilities would ideally be categorised as an unprofitable contract within English [330] and Indian law.

A disclaimer determines the rights, interests and liabilities of the bankrupt debtor in, or in respect of, the property disclaimed.[331] The disclaimer operates solely to release the debtor from his obligations in a contract and does not affect the rights and liabilities of any other person.[332] Therefore, a licensee will retain the right to use the

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[320] *See* Paul J. Omar, *Disclaiming Onerous Property in Insolvency: A Comparative Study*, 19 INT'L. INSOLVENCY REV. 41, 43, 44 (2010).

[321] *See* Insolvency Act 1986, c. 45, § 178(2) (UK); *see also* IBBI (Liquidation Process) Regulations, 2016, Reg. 10 (India). For Indian law see IFC & IBBI, UNDERSTANDING THE IBC: KEY JURISPRUDENCE AND PRACTICAL CONSIDERATIONS 202–03 (2020).

[322] Insolvency Act 1986, c. 45, § 178(3)(b) (UK); IBBI (Liquidation Process) Regulations, 2016, Reg. 10(1)(d) (India).

[323] *See* Insolvency Act 1986, c. 45, § 178(1) (UK).

[324] *See* IBBI (Liquidation Process) Regulations, 2016, Reg. 10(1) (India).

[325] *See id.*

[326] *See id.* Reg. 1(3).

[327] *See id.* Reg. 10(4).

[328] *See* Blue Sennar Air Pty. Ltd. (In Liq) [2016] NSWSC 772, [12].

[329] *See id.*

[330] *See* Israel, *supra* note 252, at 62.

[331] Insolvency Act 1986, c. 45, § 178(4)(a) (UK); The Insolvency and Bankruptcy Code, 2016, §160(3) (India).

[332] Insolvency Act 1986, c. 45, § 178(4)(b) (UK); IBBI (Liquidation Process) Regulations, 2016, Reg. 10(4) (India).

licensed rights following the disclaimer.[333] Similar to American law, the English and the Indian insolvency law would require an IP licensee, whose contract has been disclaimed, to continue to perform the obligations accrued to him via the licensing agreement.[334] A person who sustains a loss or damage is accorded the status of an unsecured creditor.[335]

Where the UK and Indian regimes differ is the manner in which onerous property is disclaimed. The English law on the subject allows disclaimer by communicating a notice to the opposite party.[336] On the contrary, the Indian insolvency regime mandates the approval of the adjudicating authority before the power of disclaimer can be exercised.[337] The court approval requirement within the Indian regime would enable a stricter vigil on the liquidator's actions.[338] Furthermore, section 20(2)(b) IBC, 2016, which empowers the Interim Resolution Professional and the Resolution Professional,[339] to "amend [and] modify" the terms of pre-petition contracts,[340] cannot be cited to proffer a power of disclaimer or rejection during CIRP. The NCLT Hyderabad ratified this position in 2018.[341] Before NCLT, the dispute related to the unilateral modification of the terms of a management agreement.[342] The applicant, EIH Ltd., claimed that the agreement was entered into between the corporate debtor and the applicant before the commencement of the CIRP proceedings and could not be modified unilaterally.[343] The IRP, on the other hand, claimed that section 20(2)(b) IBC, 2016 empowered him to modify the Management Agreement.[344] The NCLT sided with EIH Ltd. and explicitly noted that the resolution professional, even with the consent of the Committee of Creditors, cannot unilaterally alter pre-petition contractual arrangements.[345]

Extending the tribunal's rationale even further, the NCLT Mumbai, in 2019, opined that even a resolution plan cannot alter legally valid pre-petition agreements.[346] Such contracts would be governed in the manner they would have been governed had insolvency proceedings not intervened.[347] Hence, it is safe to conclude that the residual powers conferred in section 20(2)(b), Insolvency and

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[333] KOLTKO ET AL., *supra* note 320, at 26.

[334] *See id.*

[335] Insolvency Act 1986, c. 45, § 178(6) (UK); IBBI (Liquidation Process) Regulations, 2016, Reg. 10(5) (India).

[336] *See* Insolvency Act 1986, c. 45, § 178(2) (UK); *see also* Udofia, *supra* note 320, at 228.

[337] *See* IBBI (Liquidation Process) Regulations, 2016, Reg. 10(4) (India).

[338] *See* Phatu Rochiram Mulchandani v. Karnataka Indus. Areas Dev. Bd., (2014) 3 SCR 723–24 (India).

[339] *See* The Insolvency and Bankruptcy Code, 2016, §20(2)(b) (India) *read with* §23(2).

[340] *Id.* §20(2)(b).

[341] *See In re* Golden Jubilee Hotels Priv., Unreported Judgments, Internal Affairs / 73 Of 2018, decided on July 25, 2018 (NCLT), ¶¶ 39–41 (India).

[342] *See id.* at ¶ 3.

[343] *Id.* at ¶¶ 17, 18.

[344] *Id.* at ¶¶ 19–21.

[345] *Id.* at ¶¶ 38–45.

[346] *See* DBM Geotechnics and Constrs. Priv. v. Dighi Port Ltd., Unreported Judgments, Master Appeals / 529 Of 2019, decided on Aug. 5, 2019 (NCLT), 67–70 (India).

[347] *See id.* at 67, 69.

Bankruptcy Code, 2016, cannot be cited to proffer a unilateral ability to modify and alter pre-petition contractual agreements.

The power to disclaim onerous property is also unavailable to administrators and administrative receivers within the English insolvency law.[348] Unlike a liquidator, an administrator does not have the power to disown onerous contracts.[349] It is clear that the ability to disclaim onerous property is available only in winding up or liquidation.[350] The administrator does not enjoy the power to disclaim contracts. Therefore, it is safe to conclude that that the power to disclaim onerous property is exclusive to liquidation proceedings. The English and Indian insolvency regimes do not provide for disclaimer of contracts during administration and CIRP.[351] This limitation of the power of disclaimer renders this power beyond the scope of the present study. The powers available during liquidation cannot be used during reorganization proceedings. Therefore, they cannot act as a corollary to section 365 of the United States Bankruptcy Code, which assumes applicability during a chapter 11 proceeding.

Having understood that the power to disclaim an IP licencing agreement is exclusive to liquidation, the question arises: Is there any provision that empowers the rejection of an IP licensing agreement during an administration or a CIRP? To answer this question, the next Part of the Article investigates the avoidance powers couched in the English Insolvency Law[352] and its Indian counterpart.[353]

C. Vulnerable Transactions in Bankruptcy

Avoidance powers or claw-back actions allow the retrospective adjustment of pre-petition transactions.[354] If a pre-petition transaction can be avoided after the initiation of insolvency proceedings, it would be referred to as a vulnerable transaction.[355] Avoidance powers are legislated because there might be a considerable time period between the management of a bankrupt debtor realizing that the debtor is heading towards bankruptcy and the debtor actually initiating insolvency proceedings.[356] During this time, the management may create contractual relationships that strategically place themselves in a comparatively advantageous

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[348] *See* Israel, *supra* note 252, at 63.

[349] *See* 2 LEN SEALY & DAVID MILMAN, ANNOTATED GUIDE TO THE INSOLVENCY LEGISLATION 77 (15th ed. 2012); Camilla Lamont, *Re-structuring leasehold estate under Chapter 11 of the US Bankruptcy Code and in England and Wales - a comparison*, 31 INSOLVENCY INTEL. 8, 12 (2018).

[350] *See* The Insolvency (England and Wales) Rules 2016, SI 2016/1024, ¶ 19.

[351] *See* IBBI, EXPLORING NEW PERSPECTIVES ON INSOLVENCY 101 (2022).

[352] *See* Insolvency Act 1986, c. 45, §§ 238–39, 423 (UK).

[353] *See* The Insolvency and Bankruptcy Code, 2016, §§43, 45, 49–50 (India).

[354] Aurelio Gurrea-Martinez, *The Avoidance of Pre-Bankruptcy Transactions: An Economic and Comparative Approach*, 93 CHI.-KENT L. REV. 711, 712–13 (2018).

[355] *See* JOHN ARMOUR & HOWARD BENNETT, VULNERABLE TRANSACTIONS IN CORPORATE INSOLVENCY 37 (John Armour, Howard N. Bennett, & Michael Bridge eds., 2003).

[356] *See* IMF, *Orderly & Effective Insolvency Procedures: Key Issues*, Legal Department, 34 (Apr. 1999).

position to the bankrupt debtor's creditors.[357] To ameliorate such a situation, "[the] bankruptcy law allows the ex post alignment of incentives between factually insolvent debtors and their creditors . . . ."[358]

The power to avoid pre-petition transactions appears in the bankruptcy statutes of multiple jurisdictions and forms an integral part of bankruptcy jurisprudence.[359] The United States Bankruptcy Code also empowers a DIP to avoid pre-petition contractual arrangements.[360] The avoidance powers couched in the United States Bankruptcy Code are not the same as the power to reject executory contracts as provided in section 365.[361]

Multiple international organizations, including the UNCITRAL,[362] IMF[363] and World Bank,[364] have recognized the importance of legislating avoidance powers in domestic insolvency laws. The legislative guide prepared by the UNCITRAL underlines the importance of the ability to avoid pre-petition arrangements in the following terms: "[I]t is desirable that an insolvency law provide certainty to all parties through clearly defined criteria for avoidance, including the elements that will need to be proved by the insolvency representative and the defenses available to the creditors."[365] The Indian Bankruptcy Law Reforms Committee, in its interim report, suggested immediate reforms to improve the corporate insolvency regime in India.[366] Heavily relying on the English law, the interim report suggested an amendment to the Indian Companies Act, 2013 to strengthen the provisions which regulated vulnerable transactions.[367]

There are essentially four kinds of vulnerable transactions[368] common to both the Indian and the English insolvency law.[369] They are preferential transactions,[370]

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[357] *See id.*

[358] Gurrea-Martinez, *supra* note 355, at 713.

[359] *See* Irit Mevorach, *Transaction Avoidance in Bankruptcy of Corporate Groups*, 8 EUR. CO. FIN. L. REV. 235, 239 (2011).

[360] *See* 11 U.S.C. §§ 544(b), 547–48 (2018); *see also* RODRIGO OLIVARES-CAMINAL, JOHN DOUGLAS, RANDALL GUYNN, ALAN KORNBERG, SARAH PATERSON, DALVINDER SINGH, & HILARY STONEFROST, DEBT RESTRUCTURING 27–34 (Nick Segal & Look Chan Ho eds., 2011).

[361] *See* Mission Prod. Holdings Inc. v. Tempnology, LLC, 139 S. Ct. 1652, 1663–64 (2019); *see also* Sunbeam Prods. v. Chi. Am. Mfg., 686 F.3d 372, 376 (7th Cir. 2012).

[362] *See* U.N. COMM'N ON INT'L TRADE L., *supra* note 275, at 135–42.

[363] *See* IMF, *supra* note 357, at 34–37.

[364] *See* THE WBG, PRINCIPLES FOR EFFECTIVE INSOLVENCY AND CREDITOR/DEBTOR REGIMES 1 (2015).

[365] U.N. COMM'N ON INT'L TRADE L., *supra* note 275, at 139.

[366] *See* BANKR. L. REFORMS COMM., *supra* note 239, at 7.

[367] *See id.* at 97–99.

[368] *See generally* WESTBROOK, ET AL., *supra* note 18, at 105–17.

[369] For English law see Hamish Anderson, *The Nature and Purpose of Transaction Avoidance in English Corporate Insolvency Law*, 2 NOTTINGHAM INSOLVENCY & BUS. L. J. 3, 9 (2014). For Indian law see JYOTI SINGH & VISHNU SHRIRAM, INSOLVENCY AND BANKRUPTCY CODE, 2016: CONCEPTS AND PROCEDURE 169–76 (2d ed. 2017).

[370] *See* Insolvency Act 1986, c. 45, § 239 (UK); *see also* The Insolvency and Bankruptcy Code, 2016, §50 (India).

undervalued transactions,[371] extortionate credit transactions,[372] and transactions defrauding creditors.[373] As the case may be, a resolution professional or an administrator must apply to the adjudicating authority to avoid a vulnerable transaction.[374] If approved, the adjudicating authority shall pass orders to nullify the effect of the vulnerable transactions.[375] Both English and Indian insolvency law enumerate the orders that the adjudicating authority is empowered to pass in order to restore the parties to the position which existed prior to engaging in the vulnerable transaction.[376]

While it may be tempting to conclude that the avoidance powers meted out in the English and Indian insolvency laws are similar to the powers granted to a DIP within section 365; unfortunately, that is not the case. The rules of procedure that govern the avoidance of vulnerable transactions limit the applicability of the empowering provisions. Simply put, not all transactions entered into by a bankrupt estate qualify as vulnerable transactions. Furthermore, not all vulnerable transactions can be avoided. The following table illustrates the myriad conditions which require compliance before a transaction can be avoided:[377]

Type of Transaction	**Insolvency Act, 1986**	**IBC, 2016**
Undervalued Transactions	Transactions that were entered into in good faith and for the purpose of carrying on the business of the company cannot be avoided. [378]	Transactions made in the ordinary course of business cannot be avoided.[379]
Preferential Transactions		A preferential transaction can be avoided only when, in giving the preference, the bankrupt debtor was influenced by

[371] *See* Insolvency Act 1986, c. 45, § 238 (UK) (defining undervalued transactions under English law); *see also* MacDonald v. Carnbroe Ests. [2019] UKSC 57 (appeal taken from Scot.) (UK); *see also* The Insolvency and Bankruptcy Code, 2016, §45 (India).

[372] *See* Insolvency Act 1986, c. 45, § 244 (UK); *see also* The Insolvency and Bankruptcy Code, 2016, §50 (India).

[373] *See* Insolvency Act 1986, c. 45, § 423 (UK); *see also* The Insolvency and Bankruptcy Code, 2016, §49 (India).

[374] *See* IBBI (Insolvency Resolution Process For Corporate Persons) Regulations, 2016, Reg. 35A (India); *see also In re* Balaknath Bhattacharyya, Unreported Judgments, Disciplinary Committee / 51 Of 2020, decided on Dec. 4, 2020 (DC), 4.1–4.4 (India).

[375] *See* Insolvency Act 1986, c. 45, § 241 (UK); *see also* The Insolvency and Bankruptcy Code, 2016, §§44, 48, 49, 51 (India).

[376] *See* Insolvency Act 1986, c. 45, § 241 (UK); *see also* The Insolvency and Bankruptcy Code, 2016, §§44, 48, 49, 51 (India).

[377] The table is only indicatory and does not intend to exhaustively delineate the conditions required for the applicability of the avoidance powers.

[378] Insolvency Act 1986, c. 45, § 238(5)(a) (UK).

[379] The Insolvency and Bankruptcy Code, 2016, §§43(3)(a), 45 (India).

		a desire to produce a preferential effect. [380]
Transactions defrauding creditors	The transaction should have been entered into to deprive a person's access to assets they are entitled to make a claim against.[381]	
Extortionate Credit Transactions	Limited to transactions where the terms of the transaction grossly contravene the ordinary principles of fair dealing.[382]	Limited to transactions where the terms of such transactions are unconscionable under the principles of law relating to contracts.[383]

Apart from navigating the statutory puzzle, vulnerable transactions should have been entered into within a "relevant time," or else they cannot be avoided.[384] There is a look-back period calculated from the date on which the insolvency proceedings are initiated.[385] Transactions that were entered into before the look-back period are not within the scope of avoidance powers.[386] The following table illustrates the timelines which determine whether or not a vulnerable transaction is avoidable:

Type of Transaction	**Relevant Time under Insolvency Act, 1986**	**Relevant Time under IBC, 2016**
Undervalued Transactions	2 years[387]	2 years[388]
Preferential Transactions	2 years[389]	2 years[390]
Extortionate Credit Transactions	3 years[391]	2 years[392]

[380] Insolvency Act 1986, c. 45, § 239(5) (UK).
[381] *See* The Insolvency and Bankruptcy Code, 2016, §49(1) (India); *see also* Insolvency Act 1986, c. 45, § 423(3)(a) (UK).
[382] Insolvency Act 1986, c. 45, § 244(3)(b) (UK).
[383] IBBI (Liquidation Process) Regulations, 2016, Reg. 11(2) (India).
[384] *See* Insolvency Act 1986, c. 45, § 339 (UK).
[385] *See id.*
[386] *See id.*
[387] *See id.* § 240(1)(a).
[388] *See* The Insolvency and Bankruptcy Code, 2016, §46(1)(ii) (India).
[389] *See* Insolvency Act 1986, c. 45, § 240(1)(a) (UK).
[390] *See* The Insolvency and Bankruptcy Code, 2016, §43(4)(b) (India).
[391] *See* Insolvency Act 1986, c. 45, § 244(2) (UK).
[392] *See* The Insolvency and Bankruptcy Code, 2016, §50(1) (India).

Transactions defrauding creditors	The action can be brought at any time, regardless of debtor's insolvency.[393]	2 years[394]

These tables highlight the time limits and the myriad exceptions which form an integral component of the avoidance powers. The avoidance powers are very narrow in their scope and assume applicability only when a set of conditions are fulfilled and the alleged transactions have been entered into within a specific period of time.[395] On the other hand, as discussed in Part I, the power enshrined within section 365 is very far-reaching and is not marred by specific timelines.[396]

Further, the purpose of avoidance powers in the UK and Indian regimes is very different from that of section 365 of the United States Bankruptcy Code. The avoidance powers are set out to avoid two sets of transactions. Firstly, transactions where the bankrupt debtor received a lower consideration, for example, undervalued transactions.[397] Secondly, transactions by virtue of which a particular creditor is put in a comparatively better position by the debtor, for example, preferential transactions.[398] While discussing regulation of vulnerable transactions, the Bankruptcy Reform Committee of India noted, "[t]hese are transactions that fall within the category of wrongful or fraudulent trading by the entity, or unauthorised use of capital by the management."[399] The Committee divided the scope of avoidable transactions into fraudulent transfers and fraudulently preferring a specific creditor or class of creditors.[400]

Similarly, English law intends to upset transactions "entered into with the deliberate intention of giving a particular creditor an unfair advantage over others . . . ."[401] In 2013, the UK Supreme Court opined that the underlying policy of avoiding vulnerable transactions is "to protect the general body of creditors against a diminution of the assets by a transaction which confers an unfair or improper advantage on the other party . . . . "[402]

Therefore, we may conclude that the avoidance powers have not been legislated to review and reject commercial obligations resulting from fair and equitable business decisions. The avoidance powers seek to regulate the unfair and fraudulent conduct of the corporate management of the now bankrupt debtor. Hence, owing to the statutory design and the legislative intent, the avoidance powers incorporated in IBC,

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393 ARMOUR & BENNETT, *supra* note 356, at 301.
394 The Insolvency and Bankruptcy Code, 2016, §49 (India) *read with* §45(2) *read with* §46(1)(ii).
395 *See* Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652, 1663 (2019).
396 *See supra* text accompanying notes 21–34.
397 *See* Gurrea-Martinez, *supra* note 355, at 715, 718.
398 *See id.* at 715–19.
399 BANKR. L. REFORMS COMM., *supra* note 239, at 101.
400 *Id.*
401 DEP'T OF TRADE & INDUS., A REVISED FRAMEWORK FOR INSOLVENCY LAW 31 (Her Majesty's Stationary Off. ed., 1984) *as cited in* Anderson, *supra* note 370, at 13–15.
402 Rubin v. Eurofinance SA, [2012] UKSC 46, 95 (appeal taken from Eng.) (UK).

2016 and the Insolvency Act, 1986 cannot be comparable to rejection of executory contracts within section 365 of the United States Bankruptcy Code.

IV. LESSONS FOR INSOLVENCY AND BANKRUPTCY CODE, 2016

The power to reject pre-petition executory contracts is crucial to American bankruptcy jurisprudence[403] for two reasons. Primarily, the ability to reject onerous contracts enables the bankrupt debtor to reduce prospective liabilities, therefore increasing the pool of assets available for distribution to the creditors.[404] Secondly, rejection reduces the counter-party's claim to a general unsecured claim, which enables the distribution of the pain felt by the bankrupt debtor amongst its creditors.[405]

A. Examining the Need for Amendment

Comparing the United States Bankruptcy Code to the Indian and English insolvency law reveals a curious deficiency: The Insolvency Act, 1986 and IBC, 2016 do not provide for interference in pre-petition contractual arrangements. In this part, the authors address the viability of amending the Indian insolvency regime through IBC, 2016, to incorporate a power similar to section 365 of the United States Bankruptcy Code.

As explained in Part III, unlike chapter 11 of the United States Bankruptcy Code, IBC 2016 does not incorporate a Debtor-in-Possession financing mode.[406] During CIRP, the IRP/RP maintain the commercial affairs of the corporate debtor in close coordination with the CoC.[407] The CoC approves a resolution plan which reorganizes the corporate debtor's debt structure.[408] However, regardless of the business model followed by the two insolvency regimes, both regimes are geared towards maximizing the net value of the debtor's assets.[409] Rejection of onerous contractual obligations in the manner espoused by section 365 can help achieve this objective. Within the American regime, the rejection of an onerous IP licensing agreement enables the bankrupt licensor to reduce its prospective liabilities.[410] Such reduction can, in turn, enhance the net value of the underlying IP asset. The JJ Irani Committee report, empowered by the Ministry of Corporate Affairs, Government of India,

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[403] Roger M. Whelan, *An Explanation of, and Guide to, Business Reorganizations Under Chapter 11 of the U.S. Bankruptcy Code*, *in* 4 CURRENT LEGAL ISSUES AFFECTING CENTRAL BANKS 430, 431 (Robert C. Effros ed., 1997).

[404] Meadows, *supra* note 23, at 316.

[405] *See* Jason J. Kilborn, *Technology and Regulatory Black Holes: Issues in Protecting IP Rights in Insolvency for Both Licensors and Licensees*, 18 QUT L. REV. 290, 293 (2018).

[406] *See* WESTBROOK ET AL., *supra* note 18, at 76–77.

[407] *See* The Insolvency and Bankruptcy Code, 2016, §23 (India).

[408] *See id.* §30; *see also* SINGH & SHRIRAM, *supra* note 370, at 145–50.

[409] For American law see Robert R. Bliss & George G. Kaufman, *A comparison of U.S. corporate and bank insolvency resolution*, ECON. PERSPS. 44, 47 (2006). For Indian law see BANKR. L. REFORMS COMM., *supra* note 239, at 20.

[410] *See* Meadows, *supra* note 23, at 311–12.

explicitly aligned with this position while underlining the importance of interfering with pre-petition contracts in 2005:

> There should be enabling provisions to interfere with the contractual obligations which are not fulfilled completely. Such interference or overriding powers would assist in achieving the objectives of the insolvency process. The power is necessary to facilitate taking appropriate business and other decisions including those directed at containing rise in liabilities and enhancing value of assets.[412]

Surprisingly, these recommendations were never acted upon, even when the Bankruptcy Law Reforms Committee ("BLRC") prepared a draft of IBC, 2016.[411]

The "Principles of Effective Insolvency," published by the World Bank in 2016, explicitly noted that the ability to interfere with the performance of a contract, where both parties have impending obligations, is necessary to achieve the objectives of the insolvency proceedings.[412] According to the report, a bankrupt debtor should not be obligated to perform contractual obligations that constitute a net obligation for the estate and can potentially result in accrual of even more liabilities.[413]

Jurisdictions across the globe have identified the importance of regulating pre-petition onerous contractual arrangements. Apart from the United States Bankruptcy Code, multiple other jurisdictions provide for the rejection of onerous contractual obligations during insolvency proceedings.[414] Canada recently amended its insolvency regime to incorporate protections to IP licensees similar to the protection pioneered by the IPBPA in 1988.[415] The German legislature, on the other hand, has recognized the importance of this issue. However, substantial amendments to the German insolvency regime have remained unsuccessful.[416]

Therefore, if a power analogous to section 365 is drafted within IBC, it can potentially reduce the prospective liabilities of a bankrupt debtor and enhance the

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[412] *See* IRANI, *supra* note 295, at 147.

[411] The BLRC in its report identified the requirement of regulating "Treatment of contracts" and "Treatment of onerous property" while discussing the insolvency process for individuals. Although, similar concerns were not highlighted for corporate debtors. *See*

[412] THE WBG, *supra* note 365, at 24.

[413] *See id.*

[414] For Canadian law see Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, § 65.11 (Can.) and Alphonso Nocilla, *National Report for the Canada*, *in* EXECUTORY CONTRACTS IN INSOLVENCY LAW: A GLOBAL GUIDE 601–16 (Jason Chuah & Eugenio Vaccari eds., 2019). For Swiss law see SR 281, SchKG art. 211 ¶ 2 (Switz.) and Patrick Keinert, *National Report for Switzerland*, *in* EXECUTORY CONTRACTS IN INSOLVENCY LAW: A GLOBAL GUIDE 419–37 (Jason Chuah & Eugenio Vaccari eds., 2019).

[415] *See* Budget Implementation Act, S.C. 2018, c C-86, § 269 (Can.); *see also* Alan Mecek, *Intellectual Property Licenses in Bankruptcy Scenarios*, SLAW (July 17, 2019), https://www.slaw.ca/2019/07/17/intellectual-property-licenses-in-bankruptcy-scenarios/.

[416] *See* Michael A. Fammler & Christoph Krieger, *The Fate of a Trademark License in the Case of Bankruptcy of the Licensor – The U.S. Supreme Court Decision* Mission Product Holdings Inc. v Tempnology, LLC *in the Light of German Law & Practice*, 69 GRUR INT'L. 35, 36 (2020); *see also* Derek I. Hunter, Note, *Nobody Likes Rejection: Protecting IP Licenses in Cross-Border Insolvency*, 47 GEO. J. INT'L L. 1167, 1183–84 (2015).

value of the debtor's underlying IP assets. Such a provision would prove even more critical in cases where the business model of the corporate debtor heavily relies on licensing of intellectual property or in cases where the financial hardships of the corporate debtor are the result of onerous IP licensing transactions. While this position has seen acceptance,[417] the approach taken by this study is markedly different.

B. Proposal to Amend IBC, 2016

Having addressed the instrumentality of the power to interfere with pre-petition contractual arrangements, this Section comments on the necessary elements of the amendment proposed to IBC, 2016. The present research was limited to addressing the treatment afforded to intellectual property licenses during bankruptcy. Of the numerous exceptions and carve-outs that form part of section 365, the authors have limited their analysis to section 365(n). Therefore, given the scope of the research, the suggestions made herein are limited to the treatment of IP licenses during CIRP. The authors submit that a provision analogous to section 365 should be legislated within IBC, 2016.

Executoriness Requirement: Interference should be warranted only when some prospective obligations remain on the part of the licensor. If the licensor does not owe any prospective obligations, he cannot accrue any liabilities, in which case any interference would be unwarranted, as it would not benefit the corporate debtor. In doing so, the legislature should acknowledge the controversy surrounding the executory requirement[418] and abandon the executoriness analysis favoring a functional analysis. If rejection of a licensing agreement does not reduce the prospective obligations of the licensor, such rejection should not be allowed. Such an analysis would be in tune with the recommendations of Professor Westbrook.[419]

General Unsecured Damages Claim: To ensure the licensee, post rejection, shares corporate debtor's misfortune, the licensee should be entitled to pre-petition general unsecured damages claim only. A post-petition claim would accrue a preferential treatment favoring the licensee as opposed to other creditors and should therefore not be provided. Similarly, providing a remedy of specific performance is also unwarranted. A licensee who can require specific performance from the licensor shall essentially recover a 100 payment over its claim. Such a treatment would mean that the licensee has assumed a preferential treatment over other creditors who would recover only a fraction of their original claim.[420] The UNCITRAL also validated this position in its '*Legislative Guide on Insolvency Law.*'[421]

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[417] *See* Indrajit Dube, *National Report for India*, *in* EXECUTORY CONTRACTS IN INSOLVENCY LAW: A GLOBAL GUIDE 644 (Jason Chuah & Eugenio Vaccari eds., 2019).

[418] *See* Pottow, *supra* note 57, at 1148–49.

[419] *See* Westbrook, *supra* note 25, at 229.

[420] For details in relation to this position see WESTBROOK ET AL., *supra* note 18, at 94.

[421] *See* U.N. COMM'N ON INT'L TRADE L., *supra* note 275, at 128.

Although, in order to admit the licensee's claim, the claim approval process during CIRP has to be amended. Presently, a creditor has to submit his claims before the ninetieth day of the insolvency commencement date.[422] Therefore, in order to ensure that the licensee's claim is admitted, the legislature can either stipulate that the resolution professional has to exercise its powers within ninety days or a suitable amendment should be made in order to admit the licensee's claim past ninety days.

The timelines for submission of claim posit a unique problem: What happens if the resolution professional decides to breach an intellectual property licensing agreement after ninety days? In order to remedy this situation, the legislature can take either of two legislative routes. Either the resolution professional's power to breach the licensing transaction should be limited to ninety days from the commencement of the insolvency, or a suitable amendment should be made to provide that an IP licensee whose licensing agreement has been rejected post-ninety days shall be allowed to submit a claim thereafter.

Court Approval Requirement: Similar to the United States Bankruptcy Code, a court approval requirement should be incorporated in the provision. Where necessary, the court should require the corporate debtor to establish that the rejection would benefit the bankrupt debtor. When the rejection would cause disproportionate harm to the licensee, as was the case in *In re Petur*,[423] the court should be allowed to veto the decision to reject the licensing agreement. However, it is essential to acknowledge that providing such overwhelming discretionary authority to bankruptcy courts can result in inconsistent results. In order to address this possible inconsistency, bankruptcy courts should be cautioned that the power to veto the business judgment to reject a licensing arrangement should be only in exceptional circumstances. Further, once the amendment is brought into force, the appellate review of the bankruptcy would eventually ensure that some tests are developed that circumscribe the bankruptcy court's power to veto rejection decisions.

Election to Breach: Similar to section 365, a resolution professional should be entitled to assume and assign an intellectual property license. Unlike section 365, IBC, 2016 should use the term "election to breach" instead of using the term "rejection." The United States National Bankruptcy Review Commission's Report made a similar suggestion about section 365 in 1997.[424] The reason for avoiding the term rejection is that the term does not have an obvious contract law counterpart. The term, therefore, becomes difficult to interpret and yields wasteful litigation.[425]

Breach not recession or termination: Similar to section 365(n), the legislature should clarify that the power to interfere with contractual obligations should not be interpreted as rejection or termination of the license. Interference with a pre-petition agreement should be limited to affect the terms of the licensor's liabilities and

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[422] *See* IBBI (Insolvency Resolution Process for Corporate Persons) Regulation, 2016, Reg. 12(2) (India).

[423] *See In re* Petur U.S.A. Instrument Co., 35 B.R. 561, 563 (Bankr. W.D. Wash. 1983).

[424] *See* David G. Epstein & Steve H. Nickles, *The National Bankruptcy Review Commission's Section 365 Recommendations and the "Larger Conceptual Issues"*, 102 DICK. L. REV. 679, 680 (1998).

[425] *See* Andrew, *Understanding "Rejection"*, *supra* note 5, at 881.

obligations within a license. Such interference should not be interpreted as a unilateral power to rescind a perfectly valid contractual agreement. The onus to terminate the licensing agreement, post-rejection, should be on the licensee and not be retained by the licensor.

The reasoning for this position draws from the treatment which would be afforded to a contractual relationship outside bankruptcy. Had insolvency not intervened, the conclusion of a contractual relationship would be determined by reference to the explicit contractual covenants included in the licensing agreement. In the absence of such a covenant, the relationship would have terminated as per the principles of contract law. Under Indian contract law, on breach of the contract by the licensor, the licensee would have an option to either put an end to the contract or elect to continue the licensing agreement.[426] A resolution professional who takes charge of the corporate debtor's assets cannot assume a title better than the title enjoyed by the corporate debtor himself.[427] Therefore, it is apposite that insolvency rules proffer an approach similar to the general principles of contract law.

CONCLUSION

The power to interfere with and regulate contractual agreements during an insolvency proceeding fosters a radical departure from the principles of contract law. It is for this reason that the power has been remarked as being "extraordinary and almost superhuman."[428] When analyzed with reference to the Intellectual Property licensing regime, a curious deficiency is highlighted: While the United States Bankruptcy Code has incorporated and regulated this power since 1938, the IBC 2016 does not incorporate this power.

Regardless of its interaction with the principles of contract law, the power to regulate and interfere with pre-petition contractual agreements is an essential iteration of the principles of insolvency law. Obligating a financially distressed debtor to perform onerous contractual obligations can potentially result in the acquisition of further liabilities and depletion of the insolvent estate. Any depletion of the insolvent estate would reduce the value of assets available for distribution amongst the creditors. Compelling the insolvent debtor to continue discharging onerous and burdensome contractual obligations is synonymous with giving one of the creditors, i.e., the counter-party to the contract, an unfair preference over the other creditors. Further, intellectual property licenses can exponentially increase the rate of depletion of an insolvent debtor's estate. Intellectual property assets can be a significant revenue-generating resource for a company. If onerous and burdensome contractual

[426] *See* The Indian Contract Act, 1872, §39; *see generally* 1 CHITTY ON CONTRACTS ch. 24 (Hugh Beale ed., 32d ed. 2018).

[427] For a detailed explanation of this argument see Andrew, *Understanding "Rejection"*, *supra* note 5, at 863.

[428] LUBBEN, *supra* note 32, at 61.

obligations tie down such a resource, it would impede possible revenue streams for the company and potentially denude the asset's value.

Therefore, to avoid the accrual of prospective liabilities, maintain the underlying IP asset value, and avoid giving an unfair preference to a creditor, the IBC should legislate a power similar to the one incorporated in the United States Bankruptcy Code via section 365. Although, in doing so, the Indian Parliament should remain conscious of the lessons learned by the American bankruptcy jurisprudence. That is, the licensee should share the burden of the licensor's insolvency with other creditors of the business. Any interference by the licensor should be in the best interest of the insolvent estate and should be approved by a bankruptcy court. Most importantly, the licensor should not be empowered to rescind an intellectual property license unilaterally. The terms of the interference should be limited to the prospective obligations of the insolvent licensor.