Question Q241

National Group:	**Sweden**
Title:	**IP licensing and insolvency**
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Questions

I. Current law and practice

1) Does your country have a registration system for IP licenses? If yes, please describe this system.

For the avoidance of doubt, the answer only regards the possibilities to register IP licenses in respect of national IP rights in national IP registers.

Yes, a license which pertains to a registered trademark, a plant variety right, a patent right or a design right shall upon request be noted in the applicable register (Chapter 6 Section 5 of the Trade Marks Act, Chapter 7 Section 2 of the Plant Variety Rights Act, Section 44 of the Patents Act and Section 27 of the Design Rights Act). For copyright licenses there is no such registration procedure.

Furthermore, a license which pertains to a trademark which is subject of an application for registration shall upon request be noted in the Patent and Registration Office's records (Chapter 6 Section 5 of the Trade Marks Act).

A registered licensee is presumed to be the licensee in cases of infringement and invalidity actions.

The validity of a licence agreement does however not depend on whether it is registered or not. Furthermore, a license registration has no effect in rem (*Sw. sakrättslig verkan*).

2) Describe the type or types of bankruptcy and insolvency proceedings that are available in your country.

Under Swedish law there are two main proceedings available; bankruptcy and business reorganization.

Insolvent persons or companies can be declared bankrupt by the court under the Bankruptcy Act. The court appoints an official receiver (bankruptcy administrator). The bankruptcy administrator administers the estate in bankruptcy, which includes taking charge of and selling the debtor's property and dividing the balance among the creditors in the order of preference laid down by law. The administration is supervised by a supervisory office.

A company or its creditors can apply for company reorganization under the Company Reorganization Act in situations where the company is deemed to become unable to pay its debts. The court then appoints an administrator. The administrator investigates whether the business is capable of continuing, and if so, whether it is possible for the company to reach agreements with its creditors regarding payment of its debts (composition). Upon request by the company, the court may also order the commencement of proceedings for judicial composition. Judicial composition is a compulsory composition, where the majority of the creditors may accept a composition proposal which will have a binding effect also on the minority of the creditors.

3) Does the law that governs bankruptcy and insolvency proceedings in your country address IP rights or IP licenses as distinct from other types of contracts, assets, and property rights? If yes, is the law statutory, regulatory, or based on precedent? Please identify any relevant statutes or regulations.

The Swedish law governing bankruptcy and insolvency proceedings only sparsely regulates IP rights or IP licenses. However, the general regulations in the Bankruptcy Act and the Enforcement Code - when applied in combination with the applicable IP laws - will have certain effects on IP rights and IP licenses and may separate them from other types of assets within bankruptcy proceedings (please see further below).

4) Please answer the following sub-questions based upon the law and jurisprudence in your country that governs bankruptcy and insolvency proceedings:

a) Describe the law and its effects on a bankruptcy administrator's ability to adopt, assign, modify, or terminate an IP license.

Neither the Swedish Bankruptcy Act nor the Swedish Enforcement Code explicitly addresses a bankruptcy administrator's ability to adopt, assign, modify, or terminate an IP license in the event of bankruptcy or insolvency of a bankrupt. Instead, such provisions are located in different IP laws and the Sale of Goods Act is applied by analogy.

The general principle is that the bankruptcy administrator has the right to continue performance by entering into to the relevant IP license agreement. If the bankruptcy administrator enters into to the agreement it will assume all rights and obligations, previously held by the bankrupt party, and is then not allowed to modify the license agreement for "cherry picking".

The bankruptcy administrator's right to continue performance under the agreement requires that the agreement has not been terminated prior to the bankruptcy event. As further described in the answer to Question 6 below, the general view is that termination provisions allowing automatic termination in the event of bankruptcy or insolvency (so called "ipso facto" clauses) may not be enforced against a bankruptcy estate.

In the event of insolvency of a licensee, the bankruptcy administrator's right to enter into the agreement should be dependent upon its ability to at least perform under the most material obligations under the agreement (e.g. pay royalty fees, uphold certain quality of production

etc.). In this regard the bankruptcy administrator cannot modify the license by excluding material obligations.

In the event of insolvency of a licensor, the general view is that IP licenses granted prevail and is deemed to have effect in rem and can therefore be enforced by a licensee against the bankruptcy estate (i.e. the bankruptcy administrator may not freely choose to terminate the agreement). However, the prevailing opinion is that this right does not extend to secondary obligations under the agreement which are not directly associated to the use of the underlying IP right. These secondary obligations only become enforceable if the bankruptcy administrator decides to adhere to the agreement by entering into it (which it may be interested in doing, for example, if running royalties are due). Hence, the surviving license may be limited to the "right of use" under the license agreement. Situations where the licensee may refuse the bankruptcy administrator the right to enter into the agreement include those situations where personal completion by the bankrupt party as licensor is required and which cannot be fulfilled by the bankruptcy estate. Furthermore, the licensee should be entitled to terminate the agreement, which the bankruptcy administrator has entered into, if the secondary obligations under the agreement are of material importance for the licensee and cannot be fulfilled by the bankruptcy estate.

As further described in the answer to Question 7 below, with regard to the bankruptcy administrator's ability to assign a license, in general, only contractual rights may be assigned without the prior approval from the other party. According to central Swedish IP laws, with the exemption for business transfers concerning copyright and registered designs (under which the original licensee remains liable for performance of the license agreement), a license cannot be assigned without the prior consent from the licensor. The prevailing view (even if not established in case law) should be that the same principle applies in relation also to fully paid-up, irrevocable licenses.

It may be noted that in the event of insolvency, a contractual provision restricting a licensor to assign an underlying IP right is, according to the prevailing opinion (even if not established in case law), not enforceable against a bankruptcy estate. However, the license will prevail as an encumbrance in the disposed underlying IP right (at least as a "right of use").

b) Are equitable or public policy considerations relevant to how an IP license is treated?

No, the prevailing opinion is that there are no equitable public policy considerations relevant to how an IP license is treated.

c) Is the law different for different types of bankruptcy and insolvency proceedings in your country?

In Sweden, as described in the answer to Question 2 above, the main insolvency proceedings next to bankruptcy, is business reorganization (including proceedings for judicial composition). These proceedings have different aims and therefore different legal consequences. Compared to bankruptcy proceedings, which aim is to protect the creditors, the purpose of business reorganization and proceedings for judicial composition is the survival of business in financial difficulties. Another fundamental difference is that in bankruptcy proceedings the bankruptcy estate forms a separate legal entity, which is not the case in business reorganization (including proceedings for judicial composition). Thus, an administrator under a business reorganization proceeding can neither adhere to an ongoing license agreement nor terminate the same and it cannot assign any underlying IP right.

However, by entering into a business reorganization proceeding, any counter party to a valid agreement is, as a general rule, denied the possibility to terminate an ongoing agreement during the proceedings (Section 30 of the Company Reorganization Act).

d) Does the law require, or give preference to, IP licenses that have been registered according to a registration scheme?

The law does not require IP licenses to be registered according to a registration scheme. As described in the answer to Question 2 above, such registration has no effect in rem. However, a registered licensee is presumed to be the licensee in cases of infringement and invalidity actions.

e) Would the existence of a pledge of or security interest in the IP rights for the benefit of the licensee affect application of the law in the case of an insolvent licensor?

A pledge or security interest does not affect the bankruptcy administrator's ability to continue performance under a license agreement or terminate the same. However, licensees holding a pledge or other security interest in an IP right have a special preferential claim and are therefore entitled to receive payment from the disposed asset before other creditors (Section 4 of the Rights of Priority Act). The existence of a pledge, which in contrast to IP licenses (in most cases) requires written agreement and registration to be valid and have effect in rem (Chapter 12 Section 101 of the Patent Acts and Chapter 7 Section 2 of Trade Marks Act), entitles the holder of the pledge to require attachment to settle its claim despite the bankruptcy (Chapter 3 Section 7 of the Bankruptcy Act).

If the licensee holds a pledge, it is restricted from settling the claim by simply retaining the pledged IP right. It is not restricted from acquiring the pledged IP right, but it must follow certain requirements set out in the Swedish Commercial Code (Chapter 10 Section 2 of the Swedish Commercial Code). In practice, a pledge holder more often disposes of the pledge at public auction in accordance with the requirements set out in the Swedish Pawn Broker Act or it seeks enforcement title after which it turns to the Enforcement Authority to assert attachment. Also, the licensee must accept payment for the claim if the bankruptcy administrator disposes of the IP right (Chapter 8 Section 11 of the Enforcement Code). However, as described in the answer to Question 4 a) above, in the event of disposal to a third party, the license survives as an encumbrance in the disposed IP right (at least as a "right of use").

f) Is the law limited to or applied differently among certain types of IP rights (e.g., patents versus trademarks or copyrights)? If yes, please explain.

GENERAL BANKRUPTCY RULES

Chapter 3 Section 3 of the Bankruptcy Act states that property belonging to the bankrupt party, at the time when bankruptcy was declared, that can be subject to seizure shall belong to the bankruptcy estate.

The Enforcement Code contains rules concerning, among other things, what property that is exempted from seizure. According to Chapter 5 Section 5 of the Enforcement Code, property which may not be transferred due to a prohibition binding upon each and every one cannot be subject to seizure.

REGISTERED IP RIGHTS

In relation to patents, registered trade marks, registered designs and plant variety rights it follows indirectly from the Patents Act, the Trade Marks Act, the Design Rights Act and the Plant Variety Rights Act, respectively, that these IP rights can be subject to seizure. (Please refer to the following statutory provisions: Section 40 a para. 3 and Section 54 para. 2 of the Patents Acts; Chapter 10 Section 9 of the Trade Marks Act; Section 33 para. 2 of the Design Rights Act; Chapter 8 Section 2 para. 2 of the Plant Variety Rights Act.) These IP rights will thus be included in the bankruptcy estate.

Registered trade names cannot be subject to seizure but are nevertheless included the bankruptcy estate (Section 14 of the Trade Names Act).

UNREGISTERED IP RIGHTS

In the Act on Protection for Integrated Circuits nothing is stated regarding seizure. In legal literature the view is that it should be possible to make such IP rights subject to seizure and, consequently, such rights should be included in the bankruptcy estate.

Unregistered trade marks established through use cannot be subject to seizure, but are included in the bankruptcy estate (Chapter 10 Section 9 of the Trade Marks Act).

Copyright can be subject to seizure and form part of the bankruptcy estate, but there are exemptions.

Section 28 of the Copyright Act states that copyright cannot be transferred unless this has been explicitly agreed or if the copyright is transferred together with a business. If an agreement regarding transfer of copyright contains a provision stating that the copyright cannot be transferred (i.e. confirming the position in Section 28 of the Copyright Act) or if nothing has been agreed and the copyright cannot be transferred under the exemption in this Section 28, the copyright cannot be subject to seizure according to Chapter 5 Section 5 of the Enforcement Code. It will then not be included in the bankruptcy estate.

Also, copyright cannot be subject to seizure, and consequently not form part of the bankruptcy estate of the author/creator or of a person who has acquired the copyright through a separation of goods, inheritance or will. The same applies to a manuscript or work of art that has not been displayed publicly, offered for sale or otherwise approved for publication (Section 42 of the Copyright Act).

In Chapter 5 Section 9 of the Enforcement Code it is stated that when a literary work, work of art or other works are exempted from seizure, this will apply also to remuneration payable for the use of such rights. The remuneration can only be made subject to seizure, and included in the bankruptcy estate, once the use of the aforementioned rights has been initiated and the remuneration can be calculated.

Unregistered rights to an invention can most likely also be subject to seizure and thus be included in the bankruptcy estate, even if this is debated in legal literature. However, there are no explicit provisions prohibiting such a seizure.

g) Does the law apply differently to sub-licenses versus "main" licenses?

Even if not established in statutory or case law, an IP license will presumable be handled in the same way if the licensee or sub-licensee goes bankrupt.

If the sub-licensor (i.e. "main" licensee) goes bankrupt there exists uncertainty as to whether the sub-licensee's license rights will be protected in relation to third parties, such as the licensor, through the license agreement alone. (A "main" licensee's license rights are generally considered to obtain protection in relation to third parties through the license agreement, see the answer to Question 4 a) above.) For the sub-licensee to get protection in relation to third parties for its license rights denunciation of the "main" licensor is likely required, but even then it is not certain that the sub-licensee's license rights will be protected in relation to third parties. For further discussion, please see the answers to Questions 14-15 below.

h) Does the law apply differently to sole or exclusive licenses versus non-exclusive licenses?

In legal literature there have been discussions concerning differences between exclusive and non-exclusive licenses. One opinion brought forward is that the licensee's bankruptcy estate should only be entitled to enter into to an exclusive license in case production has started or substantial investments have been made and that a non-exclusive license should generally be able to be entered into. However, the conclusion generally arrived at is that exclusive and non-exclusive licenses should be treated in the same way.

i) Does the law apply differently if the bankrupt party is the licensee versus the licensor?

In principle, no. However, since the licensee gets protection for its license rights in relation to third parties through the license agreement, it is generally considered that the licensor's bankruptcy estate cannot terminate the license rights in case of the licensor's bankruptcy. Accordingly, the licensor's bankruptcy estate will have the right to assign the IP right only with the licensee's rights (at least the "right to use") as an encumbrance. The licensee's bankruptcy estate is normally considered to be prevented to assign the license, unless having entered into the license agreement and assigning according to the terms and conditions of the license agreement.

j) Please explain any other pertinent aspects of this law that have not been addressed in the sub-questions above.

Statutory and case law concerning IP licenses in bankruptcy is very limited in Sweden. The topic has been discussed in legal literature, but only to a limited extent and many of the works dealing with these questions are quite old. Consequently, there exists uncertainty regarding how IP licenses should be handled if the licensee or licensor goes bankrupt as well as how sub-licenses should be dealt with.

5) Would a choice of law provision in an IP license agreement be considered during a bankruptcy or insolvency proceeding in your country? Is this affected by the nationalities of the parties to the IP license or by the physical location of the assets involved?

The answer is pending on whether the administrator chooses to enter into the IP license agreement or not. If the administrator chooses not to enter into the IP license agreement, a choice of law provision stipulated in the license agreement is not enforceable in relation to the bankruptcy estate.

In such case it must be determined whether the license is included in the bankruptcy estate or not. In case the parties are domiciled in EU Member States, the Regulation No 1346/2000 of 29 May 2000 on insolvency proceedings will be applicable. Article 4 in the EC Regulation on insolvency proceedings states that the law applicable to insolvency proceedings and their

effects shall be that of the EU Member State within the territory of which such proceedings are opened. The law of the state of the opening of proceedings shall for example determine which assets that are included in the bankruptcy estate and the effects of insolvency proceedings on current contracts to which the debtor is party.

However, in case one of the parties of the license agreement is not from an EU Member State, the choice of law for the determination of whether the license is included in the estate or not will be determined in accordance with international private law, taking into account where the IP right is registered or located as well as the place of business of the parties and to which country the agreement and the performances of the parties has the closest connection.

If the administrator chooses to enter into the IP license agreement, the bankruptcy estate replaces the debtor in bankruptcy as a party to the contract. As a result of this action, the bankruptcy estate is also bound by the same rights and obligations under the IP license agreement as the bankrupt company was before. Even if not stipulated in statutory or case law, the prevailing opinion is that the bankruptcy estate, under such circumstances, is bound by a choice of law provision in the IP license agreement provided that it is not contrary to mandatory Swedish law.

6) Would a clause providing the solvent party in an IP license agreement the right to terminate or alter an IP license be considered enforceable during a bankruptcy or insolvency proceeding in your country? Would the answer be different if the clause provides for automatic termination as opposed to an optional right to terminate?

Ipso facto clauses, i.e. clauses that provide for automatic termination in case of the other party's bankruptcy, are generally considered not to be enforceable against the bankruptcy estate under Swedish law, since they are considered to discriminate the creditors in the bankruptcy. The question is, however, disputed and there is no case law that gives a clear answer.

As regards so-called pre bankruptcy clauses permitting a right of termination even at early signs of insolvency, it has been clarified in Swedish case law by the Swedish Supreme Court in December 2010 (NJA 2010 s. 617), that this type of clause is enforceable against the licensee's bankruptcy administrator provided that the termination is effected by giving termination notice before the licensee is declared bankrupt. The case from 2010 concerned an agreement of transfer of ownership, but from the statements made by the Supreme Court it can be concluded that at least the same assessment would have been made if the agreement had constituted a license agreement. Such pre bankruptcy clauses are generally considered enforceable also in relation to the bankruptcy estate of the licensor.

A termination clause that gives one party the right to terminate the agreement if the other party breaches any of the terms of the license agreement, has been considered possible to apply also in a bankruptcy situation and in relation to the bankruptcy estate, provided that there is a breach of contract and the party in breach (i.e. in this case the bankruptcy administrator) has not within the required time remedied the breach.

7) Would a clause in an IP license agreement that restricts or prohibits transfer or assignment of the IP license be considered enforceable during a bankruptcy or insolvency proceeding in your country?

LICENSEE'S BANKRUPTCY

Statutory IP laws stipulate that a licensee may not assign the license without the licensor's consent. This means that the bankruptcy administrator of a licensee normally is prevented from assigning a license without the licensor's participation (or unless the licensor has already given its consent for assignment in the license agreement).

However, under certain statutory IP laws, the licensee may assign the license agreement when the related business is transferred together with the IP right. Also in relation to such IP rights where this right to transfer a license within a transfer of the business is not stipulated in law, the prevailing opinion is that the licensee may assign the license under certain conditions. However, the assignor (in this case the bankruptcy administrator) will always be responsible for the assignee's (the new licensee's) fulfillment of the obligations under the agreement.

If an assignment under the conditions mentioned above is not possible, the bankruptcy administrator must receive the licensor's consent to assign the license or enter into the license agreement and assign it according to the terms and conditions of the license agreement. If the administrator enters into the license agreement, a non-assignment clause will be enforceable also in relation to the bankruptcy estate (at least provided that the non-assignment clause is general and not only relates to a bankruptcy situation). A non-assignment clause will most likely be considered as a conditional consent for assignment by the licensor.

LICENSOR'S BANKRUPTCY

Even if not established in Swedish case law, the prevailing opinion is that the bankruptcy administrator of a licensor is not prevented from disposing of the IP right (even if the granted license as such will continue as a valid encumbrance therein). Consequently, the licensee normally has no interest of not consenting to the license agreement being assigned together with the IP right (despite any non-assignment clause therein). The bankruptcy administrator may also uphold the license agreement by entering into it as a party thereto under statutory law. The bankruptcy administrator is then not allowed to modify the license agreement for "cherry picking". Hence, any disposal of also the license agreement, and not only the IP right as such (with the license agreement as a valid encumbrance therein), which is relevant if there is an ongoing obligation for the licensee to pay royalty for the use of the IP right, will need to be in accordance with the terms and conditions of the license agreement or based on consent from the licensee.

8) In the event of a transfer or assignment of an IP license resulting from a bankruptcy or insolvency proceeding, what are the rights and obligations between the transferee and the remaining, original party or parties to the IP license? Does it matter if the insolvent party is a licensor, a licensee, or a sub-licensee?

LICENSEE'S BANKRUPTCY

As mentioned in the answer to Question 7 above, a licensee may not assign the license without the licensor's consent. The basic rule is considered to be that the assignor's (in this case the bankruptcy administrator's) responsibility for fulfilment under the license agreement remains, unless otherwise agreed. However, it has been argued in legal literature that consent from the licensor to assign the IP license should generally be considered as a consent to cease the bankruptcy administrator's responsibility to fulfil obligations under the license agreement. The legal situation in this aspect is unclear.

SUB-LICENSEE'S BANKRUPTCY

A sub-licensee does not have a contractual relationship with the main licensor. In terms of the relationship between the main licensee and the sub-licensee it may be argued, with reference to what has been said regarding the licensee's bankruptcy, that consent from the main licensee to assign the sub-license is considered as consent to cease the bankruptcy administrator's responsibility to fulfil obligations under the sub-license agreement. The legal situation in this aspect is, however, unclear.

LICENSOR'S BANKRUPTCY

As mentioned in the answer to Question 7 above, a bankruptcy administrator in the licensor's bankruptcy is not permitted to terminate licenses that have been granted by the licensor before the bankruptcy. The bankruptcy administrator's right to terminate an IP license provides that the licensee has committed breach of contract. The bankruptcy administrator is therefore obliged to make a reservation for the granted license when assigning the IP right.

In principle, the terms and conditions, applicable between the licensee and the company in bankruptcy, are applicable also between the new owner of the IP right and the licensee. However, it should be noted that reservation does not need to be made for lateral obligations, for example technical assistance, since these obligations cease in conjunction with the bankruptcy.

9) In the event an IP license is terminated during a bankruptcy or insolvency proceeding in your country, would the licensee be able to continue using the underlying IP rights (and if so, are there any limitations on such use)? Does the (former) licensee have a claim to obtaining a new license?

Irrespective of whether the licensor's administrator enters into the IP license agreement or not, the licensor's bankruptcy does not create any right for the licensor's administrator to terminate the IP license. If the administrator enters into the IP license agreement and terminates the IP license without cause, the licensee would be entitled to continue using the underlying IP rights without any other limitations than the ones set out in the (terminated) IP license agreement.

10) If IP rights that are jointly owned by two parties have been licensed to a licensee by one or both of the joint owners, and one of the joint owners becomes insolvent, how would the IP license be treated in a bankruptcy or insolvency proceeding in your country? Could the IP license be terminated even if this would result in termination of an agreement between the solvent, joint rights owner and the solvent licensee?

IP licenses to jointly owned IP rights will be treated in the same manner as IP licenses to IP rights owned by one single licensor. Hence, the co-licensor's bankruptcy does not give its administrator any right to terminate the IP license and the IP license will be enforceable against an assignee in case the administrator assigns the licensor's rights to the jointly owned IP rights.
It should be added that the legal relationship between co-owners of IP rights is not uniformly organised in Sweden. Except for one provision in the Copyright Act, there are no explicit provisions in statutory IP laws on co-ownership of IP rights. Instead, the general Partnership and Non-registered Partnership Act (1980:1102) may be applicable on the legal relationship between co-owners. Also the Act on Joint Ownership (1904:48 p. 1) regarding corporeal personal property may be used analogously in the absence of an agreement between the co-owners. Due to the lack of specific provisions and relevant case law, it is not clear under Swedish law whether a co-owner (or a co-owner's administrator) may transfer its rights to the jointly owned IP without the consent of the other co-owner. Regarding copyright, it is stated in the preparatory works that a co-owner's share of a copyright may be transferred without

the consent of the other co-owner. As regards the other IP rights the legal doctrine is divided, but the prevailing view is that the same principle applies.

11) Are there non-statutory based steps that licensors and licensees should consider in your country to protect themselves in insolvency scenarios, e.g., the creation of a dedicated IP holding company, creation of a pledge or security interest in the licensed IP for the benefit of the licensee, registration of the license, and/or inclusion of certain transfer or license clauses?

A licensor should consider including so-called pre-bankruptcy termination rights in IP license agreements, so as to entitle the licensor to terminate the IP license upon early signs of the licensee's insolvency prior to the licensees filing for bankruptcy or reorganisation. A licensor may also wish to explicitly clarify that the license is non-transferrable (particularly in relation to copyright and design licenses, as such licenses may be transferred together with the licensee's business unless the license agreement provides otherwise).
A licensee should consider requiring the licensor to pledge the licensed IP as security for the licensor's obligations in the IP license agreement. Depending on the circumstances, a licensee may also wish to clarify in the IP license agreement that the license is irrevocable and/or fully paid-up and/or to require an option to acquire the licensed IP upon early signs of the licensor's insolvency.
Registration of IP licenses are possible for patents, plant variety rights and for registered trademarks and designs, but will have no legal implications in insolvency scenarios. Even so, it may often be advisable for licensees to have the IP license registered, as this will put the administrator on notice and thus may prevent dispositions that may otherwise lead to practical problems.

II. Policy considerations and proposals for improvements to your current system

12) If your country has a registration system for IP licenses, is it considered useful? Is it considered burdensome? Are there aspects of the system that could be improved?

Some licenses, such as patent, design and trademark licenses, can be registered at the Swedish Patent and Registration Office (PRV). The possibility to register licenses is rarely utilized.

According to Swedish law, license registrations do not have any effect as a right in rem. However, it should be mentioned that a registered licensee to a registered design or patent will under certain conditions be entitled to continue as licensee also after the licensor's right has been transferred to the correct holder of the design or patent. One other benefit of having a registered license is that PRV sends out a letter of warning to the licensee in the case of the registered IP right being withdrawn by the licensor. It is then up to the licensee to act upon or according to this information. Moreover, if a patent will be subject to litigation, (revocation, compulsory license and transfer of title) those which are registered licensees must be informed of the legal action.

The registration procedure as such is not considered burdensome since there is only one formulary to be filled in by the applicant. The registration procedure takes two weeks at most and the cost is approximately EUR 100. Further conditions are to be found easily on the website of PRV.

Given the fact that the possibility to register licenses is rarely utilized and that the registration as such does not have any legal effect from a property law perspective, the registration system is not considered to be important. Regarding the question of whether there are any aspects of the system that can be improved, it is once again worth mentioning that only patent, trademark and design licenses can be registered at PRV and that other IP licenses

cannot be registered in public systems. However, it can be questioned if an expanded registration system is necessary when the existing system is not utilized to a large extent.

13) If the law that governs bankruptcy and insolvency proceedings in your country does not address IP rights or IP licenses as distinct from other types of contracts, assets, and property rights, should it do so? If yes, should the law be statutory?

The status of IP rights and IP licenses in questions concerning bankruptcy is only sparsely regulated in Swedish bankruptcy law. Instead, general principles of contractual law, insolvency law and law of property are to be applied, as well as analogies from solitary sections of statutory law. Also, case law in this field of law is not developed. Therefore the legal position regarding IP rights in a situation of bankruptcy is vague, which is often regarded as unsatisfactory for both the licensor and the licensee, as well as for the bankruptcy administrator, the debtor and the creditor collective.

The absence of regulation of IP rights and IP licenses in questions regarding bankruptcy, results in difficulty for the parties involved to predict the outcome of a license agreement in the case of bankruptcy. The lack of predictability surely implicates a certain level of hesitation when granting licenses. The fact that the parties involved cannot be sure of the outcome in a possible future situation of insolvency, despite attempts to regulate the relationship through agreements, will most likely have a negative impact on the question to enter into a license agreement in general.

To be able to take advantage of the economic benefits that comes with IP rights and licenses, it is of importance, and therefore recommended, that the legal position concerning IP rights and licenses from a property law perspective is more thoroughly investigated and regulated. Such regulation would also contribute to reduced transactional costs for the parties involved, and to predictability and transparency from a bankruptcy law perspective. Hence, clarifying the legal position would probably add potential of IP rights. Since IP rights nowadays is merchandise it is important that IP rights have an adequate protection against third parties in the event of bankruptcy.

Consequently, it can be concluded that the legal position concerning IP rights and IP licenses in a bankruptcy situation is often unsatisfactory regulated and that a clarification of the legal situation is desirable.

SHOULD THE LAW BE STATUTORY?

Due to the non-tangible state of intellectual property rights, it could be difficult to apply the property law regulation for tangible assets. This fact, in addition to the conflicting interests between the creditors and the holder of the right, makes this matter delicate and a question that should be handled carefully.

The question, if the law that governs bankruptcy and insolvency proceedings should address IP rights and IP licenses more specific, has been touched upon in several governmental investigations (Ds 1994:37, SOU 1985:10, SOU 2001:80). Since these investigations have not resulted in statutory law which address IP rights or IP licenses as distinct from other types of contracts, assets and property rights it raises the question whether or not such statutory law is possible to obtain. However, the Swedish group is of the opinion that it should be possible to have statutory provisions which protect the licensee in cases of transfer of the title of the IP right, including transfer of IP rights in bankruptcy proceedings. A number of questions will arise in this situation such as whether or not the licence conditions will survive in its entirety or in some parts only. Such questions would be appropriate to deal with in case law.

14) With regard to a bankruptcy administrator's ability to adopt, assign, modify, or terminate an IP license under the current law of your country, are there aspects of this law that could or should be improved to limit this ability? Should equitable or public policy considerations be taken into account?

In principle, the Swedish Group is of the opinion that clear rules, which the parties can consider in negotiations for license agreements, are preferable compared to rules which may be modified on a case-by-case basis due to equitable or public policy considerations. Such considerations should instead be solved by general rules on equitable or public policy considerations for bankruptcy and insolvency proceedings, such as the right of the bankruptcy administrator to recover agreements made at a price below market value (especially between related parties).

As described in the answer to Question 6 above, a licensor is free to invoke a termination clause in a license agreement which gives the licensor a right to terminate the agreement without any compensation in the event that the licensee becomes insolvent, at least provided that such termination is effected by giving termination notice under this clause (invoking the licensee's insolvency) before the licensee is declared bankrupt. It is not a requirement for such termination clause to be enforceable that the licensee's exercise of the license in any way has been limited. Furthermore, even if ipso facto clauses are not enforceable against the bankruptcy administrator, the licensor may still terminate the license agreement after bankruptcy has been declared due to breach of the agreement giving rise to a right to terminate (for example, delays in paying contractually agreed royalty).

Furthermore, the prevailing opinion (even if not established in case law) is that an assignment clause which for example requires the licensor's prior written consent before the license agreement may be assigned by the licensee is enforceable as a conditional consent for assignment. This is because it follows from statutory laws relating to IP rights that a license may not be assigned without explicit consent (which may be given in advance in the license agreement), but for some IP rights there is an exemption for the case that the related business is transferred together with the IP right. Since there is no obligation to give consent to assignment under statutory IP law, such voluntary consent prior to the event in the license agreement may be conditional. This means that the bankruptcy administrator often is prevented from assigning a license without the licensor's participation.

Against the above background, the licensor should already under the current Swedish system be able to contractually protect itself against a continued license in the licensee's bankruptcy and against the bankruptcy administrator disposing of the license as part of the assets of a bankrupt licensee. Hence, from the perspective of bankruptcy and insolvency proceedings for the licensee, the licensor may already contractually limit the bankruptcy administrator's actions and no improvements of the current system are considered necessary. Neither should any equitable or public policy considerations be taken into account, except perhaps in relation to sub-licensees (see the answer to Question 15 below for further discussion).

From the perspective of bankruptcy and insolvency proceedings for the licensor, the prevailing opinion (even if not established in case law) is that a contractual provision preventing the licensor from assigning the underlying IP is not enforceable against the bankruptcy administrator. However, a granted license will continue as an encumbrance in the IP right (at least as a "right of use") even if the IP right is disposed of by the bankruptcy administrator. There is no protection insofar that a licensee can demand performance of any other obligations under the license agreement in addition to the license grant, such as technical assistance. However, it would anyway in most cases not be practically possible to demand such performance from the bankruptcy estate or any new owner of the IP right.

Since the bankruptcy administrator is not prevented from disposing of the IP right (even if the granted license as such will continue as a valid encumbrance therein), the licensee has no interest of not consenting to the license agreement being assigned together with the IP right (despite any non-assignment clause therein). The bankruptcy administrator may also uphold the license agreement by entering into it as a party thereto under statutory law. The bankruptcy administrator is then not allowed to modify the license agreement for "cherry picking". Hence, any disposal of also the license agreement, and not only the IP right as such (with the license agreement as a valid encumbrance therein), which is relevant if there is an ongoing obligation for the licensee to pay royalty for the use of the IP right, will protect the interests of the licensee.

Considering the above-described protection for a licensee that does not want to terminate the license agreement in case of the licensor's bankruptcy, no major improvements of the current system are considered necessary. However, it should be clarified in statutory law that a license survives the disposal of the licensed IP following bankruptcy. A licensee should also be entitled to a continued right to use also related material provided under the license agreement, such as know-how, despite the bankruptcy of the licensor. The latter is motivated by equitable considerations, providing the licensee with the practical means to continue exploiting the IP right. The protection of licensees in relation to disposal of the IP right in general under the current system is also motivated by concerns of the investments typically made by a licensee in relation to licensed technology.

The above discussion concerns only simple licensor-licensee relations under a single license agreement. Potentially more problematic are single agreements under which there are cross-licenses. However, under such agreements the licenses are usually fully paid-up and irrevocable and have been entered into to solve a dispute between the parties. In such case, there are no ongoing obligations between the parties and the situation should simply be solved so as that each license provided is a valid encumbrance in the IP right being sold by a bankruptcy administrator on either side (provided that the bankruptcy proceedings are subject to Swedish law or any other jurisdiction with a similar system). That a buyer of the IP right should not become a licensee under the cross-license agreement (potentially giving someone access to IP right which the licensor would not voluntarily have entered into a license agreement with) should be regulated contractually (for example by a non-assignment clause in the agreement).

15) Are there other changes to the law in your country that you believe would be advisable to protect IP licenses in bankruptcy? If yes, please explain.

It is likely so (even if this has not been established in case law) that a sub-licensee will not have any protection against the main license being terminated by the main licensor (for example in the case of insolvency of the main licensee). This may have very negative consequences, also from a public policy perspective, in case the sub-licensee is dependent on the sub-license for certain derivative products or services or has made substantial investments in the exploitation of the sub-licensed IP right. The same concerns apply as to why main licenses should be protected as valid encumbrances in the IP right also in case of disposal of the IP right by the bankruptcy administrator. Considering that sub-licenses only may be granted provided that the main licensor has given its consent to the main licensee to grant sub-licenses, there are good arguments to be made that also a sub-license should constitute a valid encumbrance in the licensed IP right (provided that the sub-license has been granted in accordance with the main license agreement).

III. Proposals for substantive harmonisation

16) Is harmonization of laws relating to treatment of IP licensing in bankruptcy and insolvency proceedings desirable?

Yes. Considering that license agreements between parties spanning two or more jurisdictions represent substantial values in some industries, harmonisation would lead to more predictability and less risk, i.e. higher value.

17) Please provide a standard that you consider to be best in each of the following areas:

a) What restrictions, if any, should be placed on a bankruptcy administrator's ability to adopt, assign, modify, or terminate an IP license in the event of bankruptcy of a party to that license? Should these restrictions be statutory?

In a bankruptcy proceeding, the creditors' interest in a fast dissolution of the bankruptcy estate and a high value of the assets is the highest priority and above other interests. This order is presumably very important for a well-functioning financing system. To facilitate the bankruptcy administrator's task, the administrator should generally be free to enter into an agreement, thereby succeeding the bankrupt company, or not enter into such agreement, depending of what suits the situation best. There is however a risk, in particular as regards a fully paid-up license in a licensor's bankruptcy, that an administrator has no interest in succeeding such a license, which could result in value losses for a licensee as noted in the answer to Question 14. This could call for certain restrictions necessary to protect the licensee's interests. Once the bankruptcy estate has succeeded the bankrupt company as party to an agreement, there should only be restrictions on the bankruptcy administrator's ability to handle an IP license agreement insofar as such restrictions follow from the agreement, bankruptcy law or general contract law and such restrictions apply on other contract categories as well.

Restrictions related to IP license agreements should, other than as noted above regarding transfer of IP rights in the answer to Question 13, to the extent possible, not be statutory, as the bankruptcy administrator benefits from as large a degree of freedom as possible when realizing the bankruptcy estate's value.

b) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon pre-bankruptcy registration of the IP license?

Pre-bankruptcy registration seems only to serve a purpose if IP license agreements are treated fundamentally different than other, unregistered, contract categories. As we do not suggest a standard based on particular treatment of IP license agreements, and considering the host of practical problems that can be foreseen with a registration regime, we believe that there should be no restrictions depending on pre-bankruptcy registration.

c) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the bankrupt party is the licensor or a licensee?

As there are fundamental differences in licensor's and licensee's performance under an IP license agreement, restrictions according to the standard proposed under 17(a) above will apply differently if the bankrupt party is the licensor or the licensee. There seem to be no particular need for differentiating restrictions depending on the bankrupt party's role in the IP licence agreement, other than as noted under Question 17 (a) above.

d) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the licensee has a security interest in the underlying IP rights?

The Swedish Group believes that there should be no other restrictions on a bankruptcy administrator's ability with regard to the answer to Question 17(a) than those that follow from general securities law in combination with general insolvency and bankruptcy law.

e) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the license is a sub-license or a "main" license?

We see no reason to differentiate between the situations of a sub-license or a main license in this respect. The two types are equally worthy of protection, albeit from different perspectives. They should therefore be treated similarly in a bankruptcy situation.

f) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the license is sole, exclusive or non-exclusive?

We see no reason to differentiate between whether the license is sole, exclusive or non-exclusive, as neither type is more worthy of protection than the other. A sole or exclusive licensee may have made substantial investments in the use of the IP right, but is generally quite close to the licensor and have therefore, typically several means of protecting itself, particularly if the license is valuable. A non-exclusive licensee may be further away from a licensor and may not have all the means that are available for a sole or exclusive licensee, but there are on the other hand typically other substitutes to the licensed IP-right(s) available on the market in such case.

g) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon the type or types of IP rights that are licensed in the IP license?

We see potentially that a distinction could be made between more personal IP rights, such as for example personal copyrights, unregistered designs or "applied art", where the personal element in terms of the fulfilment of the contractual obligations is larger, on the one hand and industrial property rights on the other hand. Restrictions on an administrator's of the bankruptcy of a licensee (or a sub-licensee) right to adopt, assign, modify, or terminate an IP license regarding these personal IP rights could therefore be considered if they are necessary in order to protect the holder of the personal IP right.

h) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon equitable or public policy considerations?

The Swedish Group does not believe that any restrictions should depend upon equitable or public policy considerations. Even though we acknowledge that such considerations, to a certain extent, have been used in determining reasonable remuneration to IP right holders, particularly in relation to copyrights, we do not believe that they should be applied in a bankruptcy situation, for predictability reasons mainly.

i) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon the language of the license itself, e.g., a right to terminate upon insolvency or a prohibition against assignment?

As previously stated, if the bankruptcy administrator has entered into the license agreement, the starting point should always be the wording of the agreement. The only restrictions on the bankruptcy administrator's ability should in such case be those which follow from the agreement, bankruptcy law or general contract law.

If the bankruptcy administrator has not entered into the license agreement, the bankruptcy estate should, other than as noted above under Question 17(a), not be bound by any restrictions in the license agreement.

j) In the event a bankruptcy or insolvency proceeding in your country involves treatment of an IP license between a domestic entity and a foreign entity, which national bankruptcy laws should be applied? Should this depend on the choice of law clause in the IP license? Should this depend on the physical location of the entities or the assets involved?

If there has been a bankruptcy, such proceedings should be carried out in the territory where the debtor is domiciled. The applicable law to the insolvency proceedings (including the determination of which assets are included in the bankruptcy estate and the effects of the proceedings on contracts to which the debtor is a party) should be the substantive laws of that territory. We acknowledge that if the bankruptcy administrator has entered into a license agreement which includes a choice of law clause that choice of law should then also be binding upon the bankruptcy estate.

18) To the extent not already stated above, please propose any other standards that you believe would be appropriate for harmonization of laws relating to treatment of IP licenses in bankruptcy and insolvency proceedings.

A licensee should be granted the same protection under a licensor's bankruptcy as in the situation that a pledge of an IP right is made after the license is granted. Furthermore, a license should be deemed to have effect in rem from the date of which the relevant license agreement was concluded.

Summary

The Swedish law governing bankruptcy and insolvency proceedings only sparsely regulates IP rights or IP licenses. The Swedish group is of the opinion that this lack of regulation is unsatisfactory and that a clarification of the legal situation is desirable. It should be possible to have statutory provisions which protect the licensee in cases of transfer of the IP right; a licensee should be granted the same protection under a licensor's bankruptcy as in the situation that a pledge of an IP right is made after the license is granted. Thus, a licensee should have protection for at least continued use of the IP right to the same extent as under the license agreement. Other questions would be more appropriate to deal with in case law. Corresponding rules of protection should apply to licensees and sub-licensees equally.

The Swedish group does not consider the registration system to be of importance since the system is rarely used and since a license registration has no effect in rem. Instead a license shall have effect in rem from the date the relevant license agreement was concluded.

The Swedish group believes that harmonisation of laws relating to the treatment of IP licenses in bankruptcy and insolvency proceedings is desirable since this would lead to more predictability and less risk.