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Intellectual Property licenses in cross-border insolvency: Lessons from In Re Qimonda

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Intellectual Property licenses in cross-border insolvency: Lessons from *In Re Qimonda*

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ABSTRACT:

Introduced in 2016, the Insolvency and Bankruptcy Code overhauled the Indian insolvency regime. Five years young, the Code is now in the process of adopting the Cross-Border insolvency, which was omitted from its original mandate. In 2018, a legislatively appointed committee suggested that the Code should adopt the UNCITRAL Model Law on Cross Border Insolvency. However, the Committee overlooked a crucial jurisprudential guideline, which colored the interpretation of the Model Law. It was a cross-border insolvency dispute between American and German regimes. An American bankruptcy court subjected to the German administration of American Intellectual Property assets to protection exclusively available within the American Bankruptcy Code. This paper studies the American judicial decisions in the Samsung v. Jaffe dispute to identify and underline the importance of its directive. The study reveals that there is virtually no guidance on how an intellectual property license is treated within the Indian insolvency regime. The authors underline the importance of such guidance considering the proposed adoption of the Model Law and suggest legislative inquiry in the issue.

Keywords: Cross-Border Insolvency, In *Re Qimonda*, Rejection, Disclaimer, intellectual property licenses, Insolvency and Bankruptcy Code, 2016.

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TABLE OF CONTENTS

I. INTRODUCTION

Until 2016, the Indian insolvency and bankruptcy regime remained *multilayered and fragmented.*[1] In response to decades of suggestions for an overhaul of the insolvency regime, [2] the Indian Parliament enacted an umbrella legislation for insolvency resolution: The Insolvency and Bankruptcy Code, 2016 (IBC, 2016). IBC, 2016 reformed India's insolvency regime by substituting the multitude of operational bankruptcy laws, some of which dated as far back as 1924.[3] The Code introduced a creditor-in-control regime, a time-bound resolution process, and reduced the scope of juridical intervention.[4]

While the Code has been touted as "*one of the most progressive financial reforms in recent times,*"[5] it was not designed to deal with issues related to cross-border insolvency. The first draft of IBC, 2016, was prepared by The Bankruptcy Law Reforms Committee (BLRC), set up by the Ministry of Finance to reform the Indian bankruptcy Regime.[6] The BLRC explicitly noted that their recommendations are limited to insolvency and bankruptcy in so far as it is a "*purely domestic issue.*"[7] When the bill was presented before the Joint Parliamentary Committee (JPC), they disagreed with the BLRC. The JPC noted that the Code must incorporate some manner of regulating cross-border insolvencies, "*not incorporating this will lead to an incomplete code.*" Deliberating on the manner of regulation, the JPC included an enabling mechanism on the suggestion from the Department of Economic Affairs, Government of India*.* The mechanism empowered the Central Government to enter into bilateral agreements with other countries for cooperation in cases of cross-border insolvencies.[8]

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1. INTERNATIONAL FINANCE CORPORATION & INSOLVENCY AND BANKRUPTCY BOARD OF INDIA, UNDERSTANDING THE IBC: KEY JURISPRUDENCE AND PRACTICAL CONSIDERATION 11–12 (2020).

2. VIDHI CENTRE FOR LEGAL POLICY, UNDERSTANDING THE INSOLVENCY AND BANKRUPTCY CODE, 2016 11 (2019); Swiss Ribbons Pvt. Ltd. and Another v. Union of India & Others, 4 SCC 17 (2019).

3. *See* Sreyan Chatterjee, Gausia Shaikh & Bhargavi Zaveri, *An Empirical Analysis of the Early Days of Insolvency and Bankruptcy Code, 2016*, 30 NAT'L LAW SCH. OF INDIA REV. 89 (2018); Abhishek Saxena & Akshay Sachthey, *The Insolvency and Bankruptcy Code, 2016 - A Fresh Start for India's Insolvency Regime*, 10 INSOLVENCY & RESTRUCTURING INT'L 22 (2016).

4. VIDHI CENTRE FOR LEGAL POLICY, *supra* note 2, at 8.

5. Neeti Shikha, *Cross-border insolvency in India: What lies ahead?*, 30 INT INSOLVENCY REV. 163, 163–168, (2021).

6. BANKRUPTCY LAW REFORM COMMITTEE, INTERIM REPORT OF THE BANKRUPTCY LAW REFORM COMMITTEE 5 (2015).

7. BANKRUPTCY LAW REFORMS COMMITTEE, THE REPORT OF THE BANKRUPTCY LAW REFORMS COMMITTEE VOLUME I: RATIONALE AND DESIGN 10–18 (2015); JOINT COMMITTEE ON INSOLVENCY AND BANKRUPTCY CODE, 2015, REPORT OF THE JOINT COMMITTEE ON THE INSOLVENCY AND BANKRUPTCY CODE, 2016 43, 44 (2016). However, BLRC's chairman acknowledged the importance of regulating cross-border insolvencies. Referring to the UNCITRAL Model law, BLRC's chairman, Mr. Vishwanathan noted "we have not so far formalized our views because we want to put this Bill and the court into action and then explore how best we should handle that."

8. The Insolvency and Bankruptcy Code, 2016, §§234, 235 (India); JOINT COMMITTEE ON INSOLVENCY AND BANKRUPTCY CODE, 2015, *supra* note 7, at 43–46; Shikha, *supra* note 5, at 163.

The enabling framework included in the IBC, 2016, encountered various problems when issues related to cross-border insolvency were brought to the attention of the Indian judiciary. In 2019, when JET Airways, an Indian Airlines company, entered insolvency proceedings, it had assets in two jurisdictions: India and Netherlands, and parallel insolvency proceedings were initiated in both jurisdictions.[9] Owing to the lack of a robust cross border insolvency mechanism, the National Company Law Tribunal (NCLT) in June 2019 declared that the Dutch proceedings are a *nullity in the eyes of the law*.[10] On appeal before the National Company Law Appellate Tribunal (NCLAT), the insolvency professionals, on direction from the NCLAT, entered into a '*Cross-Border Insolvency protocol*' as a temporary solution.[11]

The Jet Airways dispute underlined the requirement of a robust cross-border insolvency mechanism in India, and "*an imminent need was felt to fill the legislative gap.*"[12] The Insolvency Law Committee ("ILC"), constituted by the Government of India had, in 2018, highlighted that IBC, 2016 does not regulate cross border insolvencies and had approved the adoption of the UNCITRAL Model Law within IBC, 2016.[13] The ILC did not deal with the rules and regulatory framework which enables the implementation of the Model Law. To prepare such a framework, the Ministry of Corporate Affairs constituted the Cross-Border Insolvency Rules/Regulations Committee (CBIRC) in January 2020.[14] The Committee submitted its report on June 15, 2020,[15] which was made publicly available on November 23, 2021.[16]

Apart from the judicial quandary, the linear growth of Foreign Direct Investment (FDI) in India also creates a strong argument favoring the

9. State Bank of India v. Jet Airways (India) Ltd., CP2205(IB)/MB/2019, NCLT, Mumbai (India), order dated 20 June 2019; Sudhakar Shukla & Kokila Jayaram, *Cross Border Insolvency: A Case to Cross the Border Beyond the UNCITRAL, in* INSOLVENCY AND BANKRUPTCY REGIME IN INDIA 307, 316-317 (2020).

10. State Bank of India v. Jet Airways (India) Ltd., CP2205(IB)/MB/2019, NCLT, Mumbai (India) at 28-33. "Thus, even if the judgement of Foreign Court is verified and found to be true, still *sans* the relevant provision in the I&B Code, we cannot take this order on record."

11. Jet Airways (India) Ltd. v. State Bank of India & Anr., 2019 SCC Online NCLAT 385 (2019); Shikha, *supra* note 5, at 163; For details see Priya Misra, *Cross-border Corporate Insolvency Law in India: Dealing with Insolvency in Multinational Group Companies—Determining Jurisdiction for Group Insolvencies*, 45 VIKALPA 93, 98–100 (2020).

12. Shikha, *supra* note 5, at 163.

13. Insolvency Law Committee, Rep. of Insolvency Law Committee on Cross-Border Insolvency (issued on Nov. 1, 2018) (India).

14. Cross Border Insolvency Rules/Regulations Committee, Report on the rules and regulations for cross-border insolvency resolution (Issued on June, 2020) (India).

15. *Id.*

16. Along with the Cross Border Insolvency Rules/Regulations Committee report, the Ministry of Corporate Affairs in India also invited comments on the incorporation of the cross-border insolvency in the IBC, 2016, see Ministry of Corporate Affairs, Government of India, Invitation of comments from public on Cross-Border Insolvency under Insolvency and Bankruptcy Code, 2016 (Issued on Nov. 24, 2021) (India).

adoption of robust Cross-Border Insolvency guidelines.[17] FDI Equity Inflow in India between April 2000 and June 2021 was $547.2 billion. In 2016, India witnessed an inward FDI of $39.97 billion, which rose by 26% to 50.61 billion in 2018.[18] Even outward FDI from India has witnessed substantial growth, from $8.18 billion in 2015-16 to $12.27 billion in 2018-19.[19] With the growing international investments and business transactions in India, cross-border insolvency issues are expected to emerge, and adoption of cross border insolvency law in some form seems imminent.

However, the introduction of cross-border insolvency regulations can be accompanied by a compelling set of procedural and implementational limitations. In and of itself, Insolvency Law is a meta law that, once activated, supersedes otherwise applicable laws.[20] Section 238 of the IBC, 2016, incorporates a comprehensive non-obstante clause. The provision overrides the mandate of any other law if such mandate is contrary to the provisions of the IBC, 2016.[21]

Therefore, domestic insolvency regimes are governed by an intersection of a diverse mosaic of legal rules.[22] A convergence of such diverse legal rules can result in problematic conclusions. In 1985, the American Court of Appeals of the Fourth Circuit potentially disrupted the entire model of monetizing intellectual property through licensing.[23] The damage was so pervasive that in 1988 the American Congress had to step in and denude the 1985 judgement from its precedential authority.[24]

Marked divergences between domestic insolvency regimes further complicate such intersection and its implications in cross-border insolvency cases.[25] This is especially true in the case of Intellectual Property (IP)

17. *See* Morshed Mannan, *Are Bangladesh, India and Pakistan Ready to Adopt the UNCITRAL Model Law on Cross-Border Insolvency?*, 25 INT'L INSOLVENCY REV., 195, 207 (2016). "This is not only prejudicial to creditors, both domestic and foreign, but also stymies foreign direct investment and undermines companies that may have the possibility of being rehabilitated."

18. Department for Promotion of Industry and Internal Trade, Fact Sheet on Foreign Direct Investment (FDI) from April 2000 to June 2021 (issued on June 2021) (India), https://dpiit.gov.in/sites/default/files/FDI_Factsheet_June2021.pdf.

19. Reji K Joseph, *Outward FDI from India: Review of Policy and Emerging Trends* (2019), http://rgdoi.net/10.13140/RG.2.2.13229.23527.

20. John A. E. Pottow, *Greed and Pride in International Bankruptcy: The Problems of and Proposed Solutions to "Local Interests"*, 104 MICH. L. REV. 1899, 1899–1902 (2006); Frederick Tung, *Fear of commitment in international bankruptcy*, 33 GEO. WASH. INT'L L. REV. 555–583, 566 (2001).

21. *See* AKAANT KUMAR MITTAL, INSOLVENCY AND BANKRUPTCY CODE: LAW AND PRACTICE 1295–1373 (2021).

22. RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY LICENSING 450–472 (Jacques de Werra ed. 2012).

23. Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043 (4th Cir. 1985) (1985); *see* James E Meadows, *Lubrizol: What Will It Mean for the Software Industry?*, 3 SANTA CLARA HIGH TECH. L.J. 311 (1987).

24. Intellectual Property Bankruptcy Protection Act, Pub. L. No. 100-506, 102 Stat. 2538 (1988).

25. Andrea Tosato, *Intellectual Property License Contracts: Reflections on a Prospective UNCITRAL Project*, 86 U. CIN. L. REV. 1251, 1255 (2018); Werra, *supra* note 22.

licenses, as there is no international guidance on the treatment of IP licenses during bankruptcy.[26] A classic example of this is the *In Re Qimonda* dispute.

In 2011, Qimonda, a manufacturer of semiconductor chips, filed for insolvency before an insolvency court in Munich, Germany. When the German trustee requested the administration of American assets, citing the possible differences between German law and American law, an American Bankruptcy Court subjected the relief to the explicit protections made available to intellectual property licenses by the Congressional intervention from 1988.[27] The decision from the Bankruptcy Court and its affirmation by the Court of Appeals in 2013 meant that the licensees of American patents would enjoy a dramatically different treatment from the treatment afforded to German licensees.[28]

The present study identifies the jurisprudential concerns highlighted in the case of *Samsung v. Jaffe.*[29] The interpretation of American bankruptcy courts can substantially color the understanding of the UNCITRAL Model Law, and therefore it deserves the attention of other insolvency regimes. Further, the intersection of the American and German insolvency law highlights the lack of any international guidance regarding the treatment of IP licenses in bankruptcy. The authors analyze the treatment of IP licenses within the Indian regime and its possible implications on the proposed cross-border insolvency regulations.

Part 1 of the present study explains the dispute and contextualizes it within the scope of the UNCITRAL Model Law. Part 2 examines the pitfalls of India's existing cross-border insolvency regime and analyses the proposed regulations in light of the current jurisprudence of the Model Law. Part 3 highlights the lack of a clear mandate on the treatment of IP licenses within the international instruments guiding cross-border insolvency. Part 3 also investigates the possible treatment of IP licenses in the IBC, 2016. Part 4 contextualizes the *Qimonda* dispute within Indian insolvency law and highlights the need for an administrative study of IP licenses within the Indian insolvency regime.

II. IN RE QIMONDA/ SAMSUNG V. JAFFE

In January 2009, Qimonda, a manufacturer of semiconductor chips, initiated insolvency proceedings in Munich, Germany. Qimonda's principal assets comprised 10000 registered patents, 4000 of which were registered in the USA. Given the existence of the bankrupt debtor's assets in a foreign

26. Tosato, *supra* note 25, at 1255–1260.

27. 11 U.S.C. S. 365(n); *See* Stuart S. Moskowitz, *Intellectual Property Licenses in Bankruptcy: New "Veto Power" for Licensees Under Section 365(n)*, 44 BUS. LAW. 771, 771–790 (1989).

28. ELINA MOUSTAIRA, INTERNATIONAL INSOLVENCY LAW: NATIONAL LAWS AND INTERNATIONAL TEXTS 82-85 (Elina Moustaira ed., 2019).

29. The bankruptcy court has referred to the dispute as *In re Qimonda,* while the Court of Appeals for the Fourth Circuit refers to this controversy as *Samsung v. Jaffe.* The authors have used these two terms interchangeably.

jurisdiction, the proceeding assumed the nature of cross-border insolvency. The German trustee approached an American Bankruptcy Court to recognize the German proceedings and administration of the American assets.

Before dealing with the particulars of the dispute and the judicial decisions arising therefrom, this paper explains the underlying statutory mechanism responsible for the dispute.

A. INTELLECTUAL PROPERTY LICENSES IN THE AMERICAN BANKRUPTCY CODE

The American Bankruptcy jurisprudence has a controversial history of dealing with IP licenses.[30] Multiple American judicial decisions, academic commentaries, and Congressional guidelines delineate the treatment of IP licenses during bankruptcy. Most such guidelines and decisions traced their connection back to Section 365 of the American Bankruptcy Code, which allows a bankrupt debtor to reject onerous contracts entered into before the institution of bankruptcy proceedings.[31]

Subjected to repeated criticism,[32] Section 365 intends to release the debtor from burdensome contractual obligations that impede successful reorganization and liquidation.[33]Section 365 enables a bankruptcy estate to incorporate the contractual arrangements which offer a net benefit while contracts that can be detrimental to the estate are rejected.[34] Rejection of burdensome and onerous contracts reduces the prospective debts,[35] increasing the funds available to the bankrupt business.[36] The debtor can then restructure these funds into payments towards creditors in case of liquidation or reorganization.

While Section 365 is very broad in its ambit, the threshold requirement for its application is that a contract must be '*executory*.'[37] While the American Congress has not defined the term, there is sufficient academic and judicial opinion to create a workable definition.[38] The most used and

30. 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, 291 (2018).

31. 11 U.S.C. § 365; For details, *see* 3 COLLIER ON BANKRUPTCY § 365.02 (Richard B. Levin et al. eds., 16th ed. 2009).

32. The power to reject executory contracts is "extraordinary and almost superhuman" Chapter 5: Executory contracts and unexpired leases, in STEPHEN LUBBEN, AMERICAN BUSINESS BANKRUPTCY: A PRIMER 58–62 (2019); Section 365 proffers a radical departure from contract law. Lee Silverstein, *Rejection of Executory Contracts in Bankruptcy and Reorganization*, 31 U. CHI. L. REV. 467, 468 (1964); Michael T. Andrew, *Executory Contracts in Bankruptcy: Understanding Rejection*, 59 U. COLO. L. REV. 845, 849 (1988).

33. NLRB v. Bildisco & Bildisco, 465 U.S. 513, 527-28 (1984); *See also In re* Orion Pictures Corp, 4 F.3d 1095, 1098 (2d Cir. 1993).

34. DOUGLAS G. BAIRD, BAIRD'S ELEMENTS OF BANKRUPTCY 120–126 (5th ed. 2010).

35. James E. Meadows, *Lubrizol: What Will It Mean for the Software Industry?*, 3 SANTA CLARA HIGH TECH. J. 19, 316 (1987).

36. *Id.* at 316.

37. 11 U.S.C. § 365(b)(1)

38. 3 COLLIER ON BANKRUPTCY, *supra* note 3.

widely accepted definition[39] was developed by Prof. Vern Countryman. According to the Countryman Analysis,' "*a contract is executory if both parties have sufficient unperformed obligations so that either party's discontinuance would constitute a material breach.*"[40]

Most intellectual property (IP) licenses include continuing material obligations[41] and therefore qualify as executory contracts.[42] In 1985, the decision from the Court of Appeals for the Fourth Circuit in the case of *Lubrizol v. RMF*[43] *dramatically distorted* the meaning of rejection in reference to IP licenses. It led to an alarming disruption of the IP licensing landscape.[44]

Richmond Metal Finishers had granted a non-exclusive patent licensing agreement regarding a metal coating process to Lubrizol. When Richmond filed for Chapter 11 Bankruptcy in 1983, they sought to reject the Lubrizol license by placing reliance on Section 365. The Bankruptcy Court allowed Richmond to reject the licensing agreement.[45] On appeal, the District Court held that the rejection would not benefit the bankruptcy estate and sided with Lubrizol.[46] The District Court opinion was overruled on appeal when the Court of Appeals allowed rejection of Lubrizol's license.[47] In the court's opinion, a rejection under Section 365 would not only freed a licensor from its prospective obligations but would also extinguish the licensee's right to continue using the licensed intellectual property.[48] The court's decision effectively meant that rejection of an IP license during the licensor's bankruptcy would mean that rejection under Section 365 constitutes a complete recission.[49]

The decision from the Court of Appeals effectually rendered all the investments made by the licensee towards the exploitation of an intellectual

39. Lewis Bros Bakeries Inc v. Interstate Brands Corp (In re Interstate Bakeries Corp), 690 F.3d 1069, 1073 (8th Cir. 2012) (Court of Appeals for the Eighth Circuit, The Countryman test is binding in the eighth circuit); Sharon Steel Corp. v. Nat'l Fuel Gas Distrib., 872 F. 2d. 36, 39 (3rd Cir. 1989), Wilson v. TXO Prod. Corp., 69 BR 960, 962 (Bankr. ND Tex. 1987), Lewis Bros. Bakeries v. Interstate Brands Corp. (In re Interstate Bakeries Corp.), 751 F.3d 955, 962 (8th Cir. 2014), In re Exide Tech., 607 F.3d 957, 962 (3d Cir. 2010).

40. Vern Countryman, *Executory Contracts in Bankruptcy: Part II*, 58 MINN. L. REV. 479 (1974).

41. Benjamin Howard, *Reconciling Trademark Law with Bankruptcy Law in License Rejection*, 2014 COLUM BUS. L. REV. 172, 191 (2014); Amanda E James, *Rejection Hurts: Trademark Licenses and the Bankruptcy Code*, 73 VAND. L. REV. 889, 895–96 (2020).

42. However, there are some cases where IP licenses were deemed not to be executory; For eg: Lewis Bros. Bakeries Inc. v. Interstate Brands Corp. (*In re* Interstate Bakeries Corp), 690 F.3d 1069, 1073 (8th Cir. 2012); *In re* Exide Tech., 607 F.3d 957 (3d Cir. 2010).

43. Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc., 756 F.2d.1043 (4th Cir. 1985).

44. Michael J. Shpizner, *Congress Passes New Legislation Protecting Licensees of Intellectual Property*, 30 IDEA1, 2 (1989).

45. *In re* Richmond Metal Finishers, Inc., 34 BR 521, 526 (Bankr. ED Va. 1983).

46. *In re* Richmond Metal Finishers, Inc., 38 BR 341, 345 (E.D. Va. 1984).

47. Richmond Metal Finishers, Inc., 756 F.2d.1043, 1043.

48. *Richmond Metal Finishers, Inc.*, *supra* note 43, at 1048; Alan 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).

49. James, *supra* note 41, at 897.

property license sunk costs.[50] Upon rejection, the licensees claim for damages would be unsecured,[51] non-priority[52] and dischargeable.[53] After *Lubrizol,* a licensor could use Section 365 and "*reclaim intellectual property licenses in an effort to negotiate better terms.*"[54] To safeguard their interests, licensees demanded security interests in the licensed intellectual property and insisted that the license agreements be structured as completed sales.[55]

Owing to the market instability created as a result of the *Lubrizol* decision*,*[56] in August 1987, a bill designed to clarify the "*right of the parties when a licensor or licensee declares bankruptcy*"[57] was introduced before the American Congress.[58] Signed into law on October 18, 1988, the Intellectual Property Bankruptcy Protection Act (IPBPA) introduced Section 365(n) to the American Bankruptcy Law.[59] Section 365(n) served as a *veto power* in favor of the licensees, who now had the option to determine the effect of the licensor's rejection on an intellectual property license.[60] Upon rejection, a licensee can treat such a contract as terminated and rely on Section 365(g) to seek a remedy.[61] Alternatively, the rights under the licensing agreement could be retained by the licensee.[62] With the introduction of Section 365(n), the *Lubrizol* decision was impeached of its precedential authority.[63]

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

51. *See* 11 U.S.C. § 506(a)(1), defining secured claims to include only those secured by a lien on the debtor's property; James, *supra* note 41, at 897-98.

52. *See* 11 U.S.C. § 507, prioritizing payment of certain types of claims; *Id.* at 897-98.

53. *See* 11 U.S.C. § 1141(d)(1): The confirmation plan discharges the debtor from…any debt of a kind specified in Section 502(g); *Id.* at 897-98.

54. 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. 30, 44-46 (2012).

55. Michael J. Shpizner, *Congress passes new legislation protecting licensees of intellectual property*, 4 COMPUTER LAW & SECURITY REVIEW 27–28, 27–28 (1989).

56. Intellectual Property Bankruptcy Protection Act, *supra* note 24. The 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. Daniel A. Nolan, *A "Fundamental" Problem: The Vulnerability of Intellectual Property Licenses in Chapter 15 and the Meaning of § 1506*, 28 EMORY BANKR. DEV. J. 177, 184–86 (2011).

57. Intellectual Property Bankruptcy Protection Act, *supra* note 24.

58. *Id.* For a detailed legislative history of the bill see: 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, 178–183 (1989).

59. John Fry, *The Rejection of Executory Contracts under the Intellectual Property Bankruptcy Protection Act of 1988*, 37 CLEV. ST. L. REV. 621, 640 (1989)

60. 11 U.S.C. §§ 365(n)(1)-(2); Moskowitz, *supra* note 27, at 786.

61. 11 U.S.C. § 365(n)(1)(a); For a detailed assessment of Section 365(n), see Nolan, *supra* note 56, at 185-86.

62. 11 U.S.C. § 365(n)(1)(b).

63. 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).

B. IN RE QIMONDA AND IP LICENSES

The introduction of Section 365(n) through IPBPA, 1988 is significant to the string of judicial decisions in the *Qimonda* liquidation dispute. The bankruptcy court's decision identified Section 365(n) and the congressional intentions supporting its promulgation as *the fundamental public policy* of the United States.[64] The decision from the Court of Appeals also weaved the underlying concerns of IPBPA, 1988 within its decision.[65]

After Qimonda filed for insolvency in Germany, the German trustee, Dr Jaffe, approached an American Bankruptcy Court. The requests made by Dr. Jaffe were within the remit of Chapter 15 of the American Bankruptcy Code. Enacted in 2005, titled *Ancillary and Other Cross-Border Cases,*[66] Chapter 15 incorporates the Model Law on Cross Border Insolvency in the American Bankruptcy Code.[67] It provides "*a clear procedural framework for Courts dealing with bankruptcy of a multinational company, and it was intended to work with the fundamental United States policy and existing case law.*"[68] Chapter 15 makes very *narrow and limited* deviations from the Model Law.[69] Section 1515 of the Code allows a foreign representative to file a petition for recognition before an American bankruptcy court. Section 1521(a) allows the foreign representative to request additional relief from a foreign court.[70] Apart from an application for recognition, citing his entitlements under Section 1521(a)(5), Dr. Jaffe also requested the administration of Qimonda's American assets.

The bankruptcy court recognized the German proceedings as the foreign main proceedings.[71] However, Qimonda's licensees approached the bankruptcy court challenging the administration of American patents by the German bankruptcy proceedings. After an evidentiary hearing, the court entered a supplemental order, where the German trustee was required to ensure that the protections available in Section 365(n) of the American Bankruptcy Code are made available to the American licensees.[72] On appeal, the supplemental order was amended. The bankruptcy court ruled in favor of a central administration of the worldwide patent portfolio and opined that the protections of IP licenses would be a subject of litigation before the German

64. Jaffe v. Samsung Elecs. Co. (*In re* Qimonda AG), 470 B.R. 374, 382 (E.D. Va. 2012).

65. Jaffe v. Samsung Elecs. Co., 737 F.3d 14, 23 (4th. Cir. 2013).

66. 11 U.S.C. § 1501-1532; For details, see Ethan Meredith, *Bilateral Insolvency Agreements: A Two-Sided Solution for Reciprocity in Cross-Border Insolvency*, 8 GEORGE MASON J. INT'L COM.L L. 286, 379, 385 (2017).

67. *See* Peter Gilhuly et al,, *Bankruptcy Without Borders: A Comprehensive Guide to the First Decade of Chapter 15*, 24 AM. BANKR. INST. L. REV. 47, 54–60 (2016).

68. Nolan, *supra* note 56, at 177.

69. In re Condor Ins. Ltd., 601 F.3d 319, 322 (5th Cir. 2010).

70. R. CRAIG MARTIN & CULLEN DRESCHER SPECKHART, CHAPTER 15 FOR FOREIGN DEBTORS 37, 38, 72–77 (2015).

71. In re Qimonda AG, No. 09-14766-RGM (Chapter 15), 2009 Bankr. LEXIS 4410 (Bankr. E.D. Va. July 22, 2009).

72. *Id.*

insolvency proceeding.[73] Such amendment of the order meant that if the German law allowed Dr Jaffe to reject IP licenses, he could sidestep the protections legislated by the IPBPA, 1988.

On appeal to the District Court, the decision of the bankruptcy court was reversed and remanded. [74] The bankruptcy court was called upon to consider the interests of the licensees of American patents and determine if the violation of the relief granted in Section 365(n) would violate fundamental public policy.[75] On remand, the bankruptcy court, and subsequently the Court of Appeals of the Fourth Circuit, held that the protections legislated by the IPBPA, 1988 should be made available to the American licensees.[76] Dr. Jaffe even approached the United States Supreme Court to challenge the decision of the Fourth Circuit court. However, the Supreme Court denied the writ of certiorari.[77]

The significant findings from the judicial decisions are discussed hereinbelow:

i. Balancing the antithetical interests of creditors and debtors:

Section 1521 of the American Bankruptcy Code catalogs the reliefs available to a foreign representative after the recognition of a foreign proceeding. Section 1521 closely tracks the language of Article 21 of the Model Law. The provision entitles a court to entrust the debtor's assets to a foreign representative.[78] The discretion of the court under Section 1521 is subjected to Section 1522, which mandates that a discretionary relief can be granted only if "*the interests of the creditors and other interested parties, including the debtor, are sufficiently protected*."[79]

When Qimonda's licensees approached the bankruptcy court, citing the potential loss of their interests, the bankruptcy court opined that Section 1522(a) requires that the licensees be *sufficiently protected* even if it adversely affects the bankrupt debtor. On appeal, the Fourth Circuit confirmed the interpretation of the bankruptcy court.[80] The Circuit Judge, Justice Niemeyer, held that before granting any relief under section 1521, the court must ensure compliance with the protections offered by section 1522. Section 1522 empowers the bankruptcy court to *subject* any relief granted under section 1521 "*to conditions it considers appropriate*." Section 1522 requires a court to consider the interests of both creditors and debtors.

73. In re Qimonda AG, 462 B.R. 165, 178-79, 181-82 (2011); *See* Andrew B. Dawson, *Modularity in Cross-Border Insolvency Comparative and Cross-Border Issues in Bankruptcy and Insolvency Law*, 93 CHI.-KENT L. REV. 677, 708–09 (2018).

74. Jaffe v. Samsung Elecs. Co. (In re Qimonda AG), 470 B.R. 376, 380 (E.D. Va. 2012).

75. *Id*. at 376, 381-82; Dawson, *supra* note 73, at 708-09.

76. *In re* Qimonda AG, 462 B.R. 167, 186 (2011); Jaffe v. Samsung Elecs. Co., 737 F.3d 14, 29, 32 (4th. Cir. 2013).

77. Jaffe v. Samsung Elecs. Co., 574 U.S. 921 (2014).

78. MARTIN & SPECKHART, *supra* note 70, at 72–74.

79. 11 U.S.C. § 1521(b).

80. *Jaffe*, 737 F.3d at 32.

Since the interests of the debtors and creditors can potentially be antagonistic, Section 1522 inherently calls for a *balancing test.* Support for this position was also found in the Guide to Enactment of the Model Law and judicial precedent dealing with Article 22 of the Model Law and Section 1522 of the American Bankruptcy Code.[81]

ii. Public Policy Limitation:

Section 1506, along with Sections 1521 and 1522 of the American Bankruptcy Court, serves as *safety valves,* allowing American Courts to protect the interests of the American creditors in a Chapter 15 insolvency proceeding.[82] Section 1506 is an embodiment of Article 6 of the Model Law. It allows a bankruptcy court to "*refuse to take any action under Chapter 15 if such action would be manifestly contrary to the United States Public Policy.*"[83] However, the public policy exception should be invoked only in "*exceptional circumstances concerning matters of fundamental importance for the United States.*"[84]

On remand, the bankruptcy court in *In Re Qimonda* cited the public policy exception to subject the relief sought by Dr. Jaffe to the protections offered by Section 365(n) of the American Bankruptcy Code.[85] The bankruptcy court argued that the failure to apply section 365(n) would *undermine the fundamental US public policy of promoting technological innovation*. Hence, the safety valve available under section 1506 was activated.

The bankruptcy court studied the existing judicial precedents on the subject[86] and extrapolated three principles that guide the application of section 1506: "*1) mere conflict between the US law and the foreign law is not sufficient to trigger the public policy exemption; 2) deference should not be afforded to a foreign proceeding if its procedural fairness is in doubt and cannot be cured; and (3) an action should not be taken in a chapter 15 proceeding if where it would frustrate a US court's ability to administer the chapter 15 case or would severely impinge on a US constitutional right.*"[87]

The bankruptcy court's interpretation of the public policy limitation received considerable criticism. Elizabeth Blunkel argued that the court in *Qimonda* failed to articulate how Section 365(n) constitutes *fundamental public policy* of the United States. She asserts that there may be multiple

81. Sandeep Gopalan & Michael Guihot, *Recognition and Enforcement in Cross-Border Insolvency Law: A Proposal for Judicial Gap-Filling*, 48 VAND. J. TRANSNAT'L L. 1225, 1256–57 (2015).

82. Michael Garza, *When is Cross-Border Insolvency Recognition Manifestly Contrary to Public Policy*, 38 FORDHAM INT'l L. J., 1587, 1623–1627 (2015); For relevance and importance of the public policy exemption see: John J Chung, *The New Chapter 15 of the Bankruptcy Code: A Step toward Erosion of National Sovereignty*, 27 NW. J. INT'L. L. & BUS. 89, 133–34 (2006).

83. 8 COLLIER ON BANKRUPTCY, *supra* note 31, at P 1506.01.

84. NEIL FRANCIS HANNAN, CROSS-BORDER INSOLVENCY 80–83 (Springer Nature ed. 2017).

85. In re Qimonda AG, 462 B.R. 167, 185 (2011).

86. *Id*. at 179.

87. 8 COLLIER ON BANKRUPTCY, *supra* note 31, at P 1506.01.

patent registrations, in different countries, over a single process or invention. Suppose each of these countries argues that their domestic policy best reflects their policy of technological innovation. In that case, it will lead to an inconsistent interpretation of the Model Law, which can, in turn, frustrate the "*general aims of comity*" expressed in the Model Law. Such an interpretation would suggest that the bankruptcy court conflated "*fundamental notions of public policy with statutory manifestations of current US policy.*"[88] Dr Hannan went as far as to suggest that the bankruptcy court's decision "*is not a true interpretation*" of the public policy exception. He argues that the bankruptcy court's decision is influenced by American economic concerns and the "*more political nature of the judges in the USA.*"[89] Alternatively, before the bankruptcy court gave its opinion, some scholars argued that the bankruptcy courts should interpret the public policy limitation to protect intellectual property licensees. The primary argument such scholars align with is that promoting intellectual property growth should certainly qualify as *fundamental* public policy of the United States.[90]

Both of these interpretations have merit. However, the judicial precedent and its international resonance seem to tilt in favor of the latter interpretation. For the authors in the present study to side with any of the interpretations, it would require a detailed analysis of *what constitutes fundamental US public policy?* Such an analysis is beyond the scope of the present study.

III. INDIAN CROSS-BORDER INSOLVENCY REGIME

A. EXISTING REGIME

IBC 2016, as it stands today, does not substantively deal with issues relating to cross-border insolvencies.[91] The Bankruptcy Law Reforms Committee (BLRC) noted that their recommendations are limited to insolvency and bankruptcy in so far as it is a "*purely domestic issue.*"[92] However, the Joint Parliamentary Committee (JPC), which reviewed a draft of the IBC, believed that the implication of Cross-Border insolvency could not be ignored for a very long time. Referring to provisions regulating cross-border insolvency, JPC noted that "*not incorporating this will lead to an incomplete code.*"[93] However, instead of incorporating comprehensive

88. Elizabeth Buckel, Curbing Comity: *The Increasingly Expansive Public Policy Exception of Chapter 15*, 44 GEO. J. INT'L L. 1282, 1304-06 (2013).

89. HANNAN, *supra* note 84, at 83.

90. Nolan, *supra* note 56, at 224.

91. MITTAL, *supra* note 21, at 1266; SUMANT BATRA, CORPORATE INSOLVENCY: LAW AND PRACTICE 571, 572, 586–90 (First ed. 2017) (India).

92. BANKRUPTCY LAW REFORMS COMMITTEE, *supra* note 7 at 10–18.

93. Joint Committee on Insolvency and Bankruptcy Code, 2015, Report on the Joint Committee on The Insolvency and Bankruptcy Code, 44 (Issued on April, 2016) (India); The Committee also amended the definition of the term 'property' to include property which is situated outside India.

statutory guidelines on the subject, only two provisions were included, dealing with cross border insolvency issues in a *cursory manner*.[94]

Section 234 of IBC, 2016 enables the Government of India to enter into *reciprocity agreements* with other countries.[95] Section 235 applies when the assets of the corporate debtor are situated in a foreign jurisdiction.[96] In such a case, the insolvency professional can submit an application to the NCLT stating that evidence or action in reference to assets is required in connection with a proceeding within IBC, 2016.[97] However, to make such a request, the foreign country and India should have entered into a reciprocal arrangement in terms of Section 234.[98] On being satisfied with the insolvency professional's request, the NCLT may issue a *letter of request* to a competent court in the foreign jurisdiction.[99]

IBC, 2016 heavily relies on the Indian government to enter into bilateral agreements. While the two provisions acknowledge the issues arising out of cross-border insolvency, they "*postpone consideration of substantive provisions on cross-border insolvency to bilateral agreements.*"[100] Such reliance on bilateral arrangements is misplaced as there are multiple challenges in creating such agreements.[101] Firstly, negotiating such bilateral agreements may require intense negotiations, which can be time-consuming.[102] Secondly, each country may require different sets of provisions, potentially resulting in further fragmentation of the Indian cross-border insolvency regime.[103] Since the adoption of the Code in 2016, the Government of India has not entered into any bilateral agreements within Section 234.[104] This in itself is a testament to the inherent issues with the existing mechanism.

Regardless of the inherent problems with the existing mechanism, the incidence of cross-border insolvency issues has been steadily increasing in India. In fact, Prof. Moustaira traces the first cross-border insolvency protocol to have entered into in case of cross-border insolvency between

94. Ran Chakrabarti, *Key Issues in Cross-Border Insolvency*, 30 NAT'L L. SCH. INDIA Rev. 119, 119–135 (2018).

95. Insolvency and Bankruptcy Code, 2016, § 234 (India); ASHISH MAKHIJA, INSOLVENCY AND BANKRUPTCY CODE OF INDIA: A COMMENTARY ON INSOLVENCY RESOLUTION, LIQUIDATION, BANKRUPTCY OF CORPORATE PERSONS, INDIVIDUALS, SOLE PROPRIETORSHIP & PARTNERSHIP FIRMS 1512–14 (First ed. 2019).

96. For a detailed discussion about Section 235 see BATRA, *supra* note 91, at 585–86.

97. *See* MAKHIJA, *supra* note 95, at 1515.

98. Insolvency and Bankruptcy Code, 2016, § 235(1) (India); *Id*. at 1515-16.

99. Insolvency and Bankruptcy Code, 2016, § 235(2) (India).

100. BATRA, *supra* note 91, at 581.

101. *See* Chakrabarti, *supra* note 94, at 126.

102. BATRA, *supra* note 91, at 583–84.

103. Ishita Das, *The Need for Implementing a Cross-Border Insolvency Regime within the Insolvency and Bankruptcy Code, 2016*, 45 VIKALPA 104, 110 (2020). *See* Vakil N. Bahram, Suharsh Sinha & Amrita Sinha, Insolvency and Bankr. Bd. of India, *Legislating for Cross Border Insolvency in India*, *in* QUINQUENNIAL OF INSOLVENCY AND BANKRUPTCY CODE, 2016, at 453, 455 (2021).

104. Das, *supra* note 103; BAHRAM ET AL., *supra* note 103.

India and England.[105] Dating back to 1908, the case involved an involuntary liquidation proceeding of an Anglo-Indian merchant and a banking partnership.[106] The two jurisdictions involved were India and England. In order to ensure the best results, the administrators from the two jurisdictions agreed that "*if there were surplus sums, they would be remitted to the other proceeding, so that all creditors could be satisfied.*"[107] Despite such lineage, the Indian insolvency regime lags far behind other jurisdictions as far as cross border insolvency issues are concerned.[108]

In 2019, the State Bank of India filed an application before the NCLT Chandigarh for initiating insolvency proceedings against SEL Manufacturing Company Ltd.[109] After the insolvency proceedings were initiated, the Indian insolvency practitioner approached the US bankruptcy court for the District of Delaware for recognition of Indian insolvency proceedings.[110] The US court recognized the Indian proceedings as the *foreign main proceedings* within the meaning of Section 1502(4) of the American Bankruptcy Court.[111] This was the first instance where a foreign court recognized Indian insolvency proceedings.[112]

A similar issue arose during the Jet Airways insolvency dispute, which highlighted how ill-equipped IBC, 2016 is to deal with cross-border insolvency issues. After the NCLT declared that the Dutch proceedings are a nullity in the eyes of law,[113] the NCLAT directed the administrators to explore the possibility of cooperation between the two proceedings.[114] The administrators from the two jurisdictions came up with the *terms and conditions* of their cooperation, and labelled it as "*Cross-Border Insolvency Protocol.*"[115] By an order dated September 26, 2019, the NCLAT mandated

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105. MOUSTAIRA, *supra* note 28, at 109-10. However, it should be noted that at the time when the case was decided, India was a colony of England and the insolvency laws in the two countries were largely identical).

106. *In re P. Macfadyen & Co. v. Vizianaaram Co., Ltd.,* 1 K.B. 675 (1908) as cited in UNCITRAL PRACTICE GUIDE ON CROSS-BORDER INSOLVENCY COOPERATION, 125, 126 (Vereinte Nationen ed., 2010).

107. MOUSTAIRA, *supra* note 28 at 109.

108. MOUSTAIRA, *supra* note 28, at 109; MANNAN, supra note 17.

109. Order, State Bank of India v. SEL Manufacturing Company Ltd. 2018 SCC OnLine NCLT 22455 (India).

110. Petition, *In re* SEL Manufacturing Co. Ltd., (2019) (No. 1:19-bk-10988); *See* Umakanth Varottil, *Indian Insolvency Proceeding Secures First Recognition under Chapter 15 of the US Bankruptcy Code*, INDIACORPLAW (Dec. 20, 2019), https://indiacorplaw.in/2019/12/indian-insolvency-proceeding-secures-first-recognition-chapter-15-us-bankruptcy-code.html.

111. Written Submissions on Behalf of the Applicant para. 3(j), Vikram Bajaj v. Internet Corporation for Assigned Names and Numbers & Ors., CB 409/PB/2017, NCLT, New Delhi (India).

112. Manisha Arora & Raushan Kumar, *India's tryst with cross-border insolvency law: How series of judicial pronouncements pave the way?*, SCC BLOG (Apr. 16, 2021), https://www.scconline.com/blog/?p=247207.

113. State Bank of India v. Jet Airways (India) Ltd., CP 2205/MB/2019, NCLT, Mumbai (India).

114. Jet Airways (India) Ltd. v. State Bank of India & Anr., 2019 SCC Online NCLAT 385 (2019) (India).

115. Protocols are generally written agreements dealing with actual and/or potential matters of conflict. In practice, Protocols are entered into at the behest of parties or insolvency representatives in consultation with the courts involved in a cross-border proceeding. Once approved formally by courts,

compliance with the protocol, and held that it should be treated as a "*direction of this Appellate Tribunal.*"[116] Largely modelled on the UNCITRAL Model Law, the protocol defined the terms of cooperation between the two insolvency courts. Given that Jet Airways was an Indian company, the protocol recognized India as the *centre of main interest.*[117] The decision of the NCLAT to recognize and enforce the insolvency proceedings according to the *Cross-Border insolvency protocol* was appreciated by some practitioners and academicians.[118] However, the adoption of the Protocol and its eventual recognition should not be treated as a potential solution for any cross-border insolvency issues that may arise in the future.[119]

The Standing Committee on Finance, on March 4 2020, noted that past disputes involving issues related to cross-border insolvency have resulted in "*uncertain recoveries for creditors.*" The Committee noted that a bill regulating such issues should be introduced *as soon as possible.*[120] Depending on judicial precedents without the guidance of statutory instruction is "*likely to inspire less confidence in global investors seeking to work with India Inc.*"[121] A statutorily directed cross border insolvency framework can "*reduce a great deal of uncertainty, unnecessary work and process, and potential points of tension.*"[122]

Protocols, such as the one entered into during the *Jet Airways* dispute, can be relied on to accommodate the possible conflicting objectives of different insolvency regimes. The CBIRC suggested that the NCLT should acknowledge the possible inconsistencies in the substantial insolvency laws of each jurisdiction and "*build provisions in the protocol to achieve the maximum possible cohesion in the steps taken by the foreign representative and the IP* (Insolvency Professional) *in dealing with the insolvency of the corporate debtor.*"[123]

B. ILC REPORT/ PROPOSED REGIME

Apart from the recent judicial controversy, the requirement of updating the cross-border insolvency framework of the Indian insolvency regime has

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such Protocols, entered into and agreed upon between the parties establish a broad framework of principles to govern multiple insolvency proceedings; *See,* Cross Border Insolvency Rules/Regulations Committee, *supra* note 14, at 59.

116. Jet Airways (India) Ltd. v. State Bank of India & Anr., 2019 SCC Online NCLAT 385 (2019) (India).

117. Priya Misra & Adam Feibelman, *The Institutional Challenges of a Cross-Border Insolvency Regime*, 2 CORP. & BUS. L.J. 329, 337–40 (2021).

118. *SEE, E.G.*, Bahram et al., *supra* note 103, at 454.

119. *See* Gabriela Roca Fernandez, *Cross-Border Insolvency in India: A Resistance to Change*, 29 TUL. J. INT'L & COMP. L. 99, 111–14 (2021); *see* Misra, *supra* note 11, at 99; *see* BATRA, *supra* note 91, at 571.

120. The Insolvency and Bankruptcy (Second Amendment) Bill, Standing Committee on Finance, 2019, § 2.6 (2020).

121. Bahram et al., *supra* note 103, at 454.

122. Misra & Feibelman, *supra* note 117, at 338.

123. Cross Border Insolvency Rules/Regulations Committee, *supra* note 14, para. 4.7.3, at 60-62.

been highlighted by multiple administrative committees. The Eradi Committee Report of 2000 suggested the adoption of the UNCITRAL Model Law, noting that the adoption of the Model Law will "*facilitate international trade.*"[124] This opinion was reiterated in 2002 by the NL Mitra Committee.[125] However, when the BLRC was preparing a draft of the IBC, issues related to cross-border insolvency were identified as the "*next frontier.*"[126] It was only in October 2018 that substantive provisions related to cross-border insolvency regulation were suggested.[127]

The Insolvency Law Committee was appointed in 2017 to "*take stock of the functioning and implementation of Insolvency and Bankruptcy Code, 2016 and identify the issues that affect the efficacy of the corporate insolvency resolution and liquidation framework.*"[128] In March 2018, ILC noted that the IBC, 2016 in its current form does not "*provide an overarching framework for insolvency involving assets, creditors or parallel proceedings in foreign jurisdictions.*"[129] Underlining the global recognition and acceptance of the Model Law, ILC prepared its draft regulations based on the Model Law template. The regulations, labelled by the Committee as '*Draft Part Z,*' are essentially an amended version of the Model Law.[130] Some important elements of the ILC draft regulations suggested by ILC are discussed below.

i. Scope

ILC noted that since the applicability of the Code does not extend to personal insolvencies and is limited to corporate debtors, the applicability of the cross-border insolvency provisions should also be limited to corporate debtors.[131] The CBIRC in their report identified that two sets of businesses, financial service providers and companies providing critical infrastructure or utility services, should be exempted from the applicability of cross-border insolvency regulations.[132]

The ILC identified that the definition of 'corporate debtor' requires an amendment to ensure that the companies outside India can approach the NCLT for cooperation and recognition of foreign proceedings. The suggested amendment includes foreign companies within the definition of a

124. MINISTRY OF LAW, JUSTICE AND COMPANY AFFAIRS, REPORT OF THE HIGH-LEVEL COMMITTEE ON LAW RELATING TO INSOLVENCY AND WINDING UP OF COMPANIES PARA. 6.19 (2000) (emphasis added).

125. COMMITTEE ON LEGAL ASPECTS OF BANK FRAUDS, THE REPORT OF THE EXPERT COMMITTEE ON LEGAL ASPECTS OF BANK FRAUDS, AT 36-44 (2001).

126. BANKRUPTCY LAW REFORMS COMMITTEE, *supra* note 7, at 2.

127. Insolvency Law Committee, *supra* note 13.

128. *Id.* at 12.

129. *Id.* at 83.

130. *See id.*; For details on the amendments see Misra & Feibelman, *supra* note 117, at 339-40.

131. For definition of Corporate Debtor, see Insolvency and Bankruptcy Code, No. 31 of 2016, India Code (2016), § 3(7)-(8); for further discussion, see MITTAL, *supra* note 21, at 96–106.

132. Cross Border Insolvency Rules/Regulations Committee, *supra* note 14, para. 4.1.1.

corporate debtor.[133] The CBIRC studied the viability of this amendment in further detail. It suggested that the Central Government should commission a study to investigate the amendments required to the IBC, 2016, and the Companies Act, 2013, to ensure that then provisions of the OBC can be made available to foreign companies.[134]

Further, ILC adopted the reciprocity requirement in the cross-border insolvency regulations.[135] Clause 1(4) of the proposed regulations provides that the cross-border insolvency provisions would apply only to countries that have either adopted the Model Law or if the Central Government extends the application of the Model Law to any other country. The requirement of reciprocity is absent in the American Bankruptcy Code[136], the English insolvency regime[137] and other insolvency statutes from New Zealand, China, Japan, Serbia, Montenegro and Poland.[138] Countries such as Mexico[139] and South Africa[140] have adopted reciprocity requirement. Without dealing with the substantive reasons for incorporating the reciprocity requirement, ILC noted that the requirement could be diluted with the growing experience of implementing the Model Law.[141]

The inclusion of the reciprocity requirement can be potentially controversial.[142] After conducting a thorough investigation of the national statutes incorporating the reciprocity requirement, Prof. Yamauchi noted that the reciprocity requirement "*leaves us with that same lack of predictability and potential and fairness that the Model Law was seeking to alleviate.*"[143] Countries can cite the reciprocity requirement to deny recognition to proceedings and judgements and result in *stalemates and retaliatory actions.*[144] This observation has important lessons for India.

ii. Recognition of Foreign Proceedings

Provisions dealing with recognition of foreign proceedings are a vital part of the Model Law.[145] Chapter III of the Model Law enables a foreign

133. Insolvency Law Committee, *supra* note 13, para. 1.1-.3.

134. Cross Border Insolvency Rules/Regulations Committee, *supra* note 14, para. 4.1.1.

135. Neeti Shikha, Insolvency and Bankr. Bd. of India, *India's Tryst with Cross Border Insolvency*, *in* INSOLVENCY AND BANKRUPTCY REGIME IN INDIA: A NARRATIVE 323, 325-26 (2020).

136. HARV. L. ASS'N, *Developments in the Law–Extraterritoriality*, 124 HARV. L. REV. 1226, 1293 (2011); *see* Keith D. Yamauchi, *Should Reciprocity Be a Part of the UNCITRAL Model Cross-Border Insolvency Law?*, 16 INT. INSOLV. REV. 145, 145-179 (2007).

137. Yamauchi, *supra* note 137, at 172–73.

138. *Id.* at 170–72.

139. Código de Comercio [CCom], art. 280, Diario Oficial de la Federación [DOF] 12-05-2000, (Mex.).; *see* Yamauchi, *supra* note 137, at 167-68.

140. Cross-Border Insolvency Act 42 of 2000 §2(2)(a) (S. Afr.); *see* Yamauchi, *supra* note 137, at 168-70.

141. Insolvency Law Committee, *supra* note 13, para. 1.6-1.8.

142. Shikha, *supra* note 5, at 3.

143. Yamauchi, *supra* note 137, at 179.

144. *Id.*

145. *See* NEIL HANNAN, *How Does the Model Law Affect Existing Principles of Recognition?*, *in* CROSS-BORDER INSOLVENCY 23-41 (2017).

representative to apply for recognition of foreign proceedings,[146] the manner of recognition,[147] and the effect of recognition of foreign proceedings.[148] Clause 12(1) of the proposed ILC draft regulations traces the language of Article 15 of the Model Law and empowers a foreign representative to apply to the NCLT for the recognition of foreign proceedings.[149]

The Model Law lays down an objective criterion for the recognition of foreign proceedings.[150] Article 17 of the Model Law provides *jurisdictional pre-conditions,* upon fulfilment of which, a court must recognize the foreign proceedings.[151] The reliance on pre-conditions reduces the discretion available to a bankruptcy court.[152] Similar provisions have been included in the Model Law. Clause 15(1) of the ILC draft regulations provides that as long as the foreign proceeding complies with the definition of the term "proceeding", the foreign representative is a person or body and the application meets the requirements set out in Clause 12, NCLT shall recognize the foreign proceeding.[153] The ILC was cognizant of that the NCLT does not have any discretion in recognizing the foreign proceedings, and therefore suggested that the NCLT be provided with an additional 30 days to decide an application for recognition.[154]

iii. Centre of Main Interests (COMI)

ILC draft regulations allow NCLT to recognize foreign proceedings as either foreign main proceeding, or as foreign non-main proceedings.[155] While making this distinction, the concept of Centre of Main Interests (COMI) assumes importance,[156] and becomes *fundamental to the operation of the Model Law.*[157] The Model Law identifies a foreign main proceeding as the location where the debtor's *centre of main interests* lies.[158] An inconsistent

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146. U.N. COMM'N ON INT'L TRADE L., UNCITRAL MODEL LAW ON CROSS-BORDER INSOLVENCY, art. 15, U.N. Sales No. E.99.V.3 (1997).

147. *Id.* art. 16-17.

148. *Id.* art. 20.

149. Insolvency Law Committee, *supra* note 13, § 12, at 56-57.

150. *Id.* para. 12.2.

151. The jurisdictional pre-conditions are: 1] the foreign proceeding complies with the definition of foreign proceeding set out in Article 2(a); 2] the application meets the requirements set out in Article 15(2), and 3] the application has been submitted before the appropriate court; U.N. COMM'N ON INT'L TRADE L., GUIDE TO ENACTMENT AND INTERPRETATION OF THE UNCITRAL MODEL LAW ON CROSS-BORDER INSOLVENCY para. 150–53, U.N. Sales No. E.14.V.2 (2014).

152. Insolvency Law Committee, *supra* note 13, para. 12.2; *See In re* Gold & Honey, 410 BR 357 (Bankr. EDNY 2009) (showing an instance where foreign proceedings have not been recognised); Christopher Mallon et al., *Cross-Border Issues*, *in* THE LAW AND PRACTICE OF RESTRUCTURING IN THE UK AND US 431, 461-63 (Christopher Mallon, Shai Y. Waisman, & Ray C. Schrock eds., 2nd ed. 2017).

153. Insolvency Law Committee, *supra* note 13, § 15, at 58.

154. Insolvency Law Committee, *supra* note 13, § 15(4), at 58.

155. *Id.* at 58.

156. *See* Mallon et al., *supra* note 152, at 465-66.

157. T.K. Viswanathan, Insolvency and Bankr. Bd. of India, *Cross-Border Insolvency: Challenges and Opportunities*, *in* INSOLVENCY AND BANKRUPTCY CODE: A MISCELLANY OF PERSPECTIVES 239, 245-46 (2019); Scott Atkins & Kai Luck, *Re Hydrodec Group*, 30 INT. INSOLV. REV. 460, 462-64 (2021).

158. UNCITRAL MODEL LAW ON CROSS-BORDER INSOLVENCY, *supra* note 146, art. 17(2).

application of the Model Law's principles on identifying COMI can result in inconsistent recognition of foreign main proceedings. If different jurisdictions subscribe to different tests in identifying COMI, the entitlements associated with the recognition of foreign main proceedings will not be consistently distributed.[159] Thus, leading to forum shopping and jurisdictional conflicts with each different court recognizing a different proceeding as the COMI.[160]

The jurisdiction where the debtor's *main interests* lie is recognized as the foreign main proceeding.[161] Following Article 16(3) of the Model Law, Clause 14 of the ILC draft regulations provides a rebuttable presumption that the COMI of the debtor will be where the registered office of the corporate debtor lies.[162]

ILC admitted that this provision could be surreptitiously used, resulting in forum shopping by the corporate debtor. The Model Law places the onus on domestic courts to identify the abuse of process by the corporate debtor.[163] To provide some safeguards against the abuse of process, ILC relied on the EU regulations and included a 3-month look-back period in Clause 14.[164] If the corporate debtor has moved its registered office to another country within three months before initiating insolvency proceedings, the presumption will cease to assume effect.[165] In such a case, ILC recommended that the place of *central administration,* that is readily ascertainable by the creditors should be recognized as the COMI.[166] In case the place of *central administration* is not ascertainable, ILC suggested that the list of *indicative factors* such as the location of financing and the location of the debtor's book and records should be consulted.[167] The CBIRC suggested an alteration to such a hierarchical manner of identifying the COMI. It identified a list of *indicative factors* and suggested that the identification of the place of *central administration* cannot be dissociated with the adjudication of such additional factors. Therefore, the CBIRC argued in favor of identifying the place of *central administration* by reference to the additional *indicative factors.*[168]

159. *See* Cross Border Insolvency Rules/Regulations Committee, *supra* note 14, at 51.

160. Meredith, *supra* note 66, at 391-93.

161. Atkins & Luck, *supra* note 157, at 462.

162. Insolvency Law Committee, *supra* note 13, para. 11.3.

163. *Id.* at cl. 11.3; GUIDE TO ENACTMENT AND INTERPRETATION OF THE UNCITRAL MODEL LAW ON CROSS-BORDER INSOLVENCY, *supra* note 151, para. 148; *see* Atkins & Luck, *supra* note 157, at 161-62, 165.

164. Regulation 2015/848 of the European Parliament and of the Council of 20 May 2015 on Insolvency Proceedings, art. 3(1), 2015 O.J. (L 141), 19, 19-72.

165. Insolvency Law Committee, *supra* note 13, § 14(2), at 57-58.

166. GUIDE TO ENACTMENT AND INTERPRETATION OF THE UNCITRAL MODEL LAW ON CROSS-BORDER INSOLVENCY, *supra* note 151, at 70-71.

167. Shikha, *supra* note 135, at 330; Viswanathan, *supra* note 157, at 246; for more relevant factors see HANNAN, *supra* note 84, at 43–53.

168. Cross Border Insolvency Rules/Regulations Committee, *supra* note 14, para. 4.6.

iv. Reliefs for a foreign proceeding

Once an application for recognition is filed, Article 19 of the Model Law allows a foreign representative to apply for interim relief even before the foreign proceedings are recognized. Discretionary upon the court's decision, interim relief includes staying the execution of debtor's assets, entrusting the administration or realization of debtor's assets who either by their nature or otherwise are perishable, susceptible to devaluation or otherwise in jeopardy. [169] Unless extended by the court, interim relief terminates on the recognition of the foreign proceeding.[170]

Citing the example of IBC, 2016, which does not provide interim relief during CIRP, ILC recommended that there is precedent for the misuse of the power to apply for interim relief. Therefore, ILC recommended that a discretionary interim relief should not be included in the regulations.[171]

Article 20 of the Model Law provides that, upon recognition, an automatic moratorium shall be appliable. ILC adopted this provision and recommended that a moratorium similar to the one imposed by Section 14 of the IBC, 2016 be applicable upon recognizing foreign proceedings.[172] While the Model law allows the courts to modify or terminate the scope of this moratorium,[173] ILC omitted this provision from their set of recommendations.[174]

Apart from the mandatory relief, the Model Law also empowers the courts to provide *discretionary relief* regarding foreign main and non-main proceedings. Article 21 of the Model Law provides an inclusive list of reliefs that a foreign representative can request.[175] Modelled on Article 21, ILC recommended the adoption of Clause 18, which empowers the foreign representative to apply to the NCLT for discretionary relief.[176] However, the ILC noted that this power should be used sparingly and only in cases *"where the need for such relief is clearly established and the interest of domestic creditors are protected."*[177]

The manner in which discretionary relief should be administered was a point of contention in *Qimonda* dispute.[178] The recommendations of ILC regarding Article 21 of the Model Law provisions assume particular importance to the present study as sections 1521 and 1522 of Chapter 15 of

169. UNCITRAL MODEL LAW ON CROSS-BORDER INSOLVENCY, *supra* note 146, art. 19(1).

170. *Id.* art. 19(3).

171. Insolvency Law Committee, *supra* note 13, para. 13.1-.4, at 35-36.

172. *Id.* para. 14.2-.3., at 36-37; *see id.* § 17, at 59-60.

173. UNCITRAL MODEL LAW ON CROSS-BORDER INSOLVENCY, *supra* note 146, art. 20(2), at 10.

174. Insolvency Law Committee, *supra* note 13, para. 14.4, at 37.

175. UNCITRAL MODEL LAW ON CROSS-BORDER INSOLVENCY, *supra* note 151, para. 189-95, at 87-89.

176. The CBIRC provided an indicative list of discretionary reliefs that can be provided within Clause 18. *See* Cross Border Insolvency Rules/Regulations Committee, *supra* note 16, at 57-58.

177. Insolvency Law Committee, *supra* note 13, § 18(1), at 60, para. 14.8-.13, at 38.

178. Jaffe v. Samsung Elecs. Co. (*In re* Qimonda AG), 470 B.R. 374, 380 (Bankr. E.D. Va. 2012); Jaffe v. Samsung Elecs. Co., 737 F.3d 14, 14, 32 (4th Cir. 2013).

the American Bankruptcy Code are American iterations of Article 21 and 22 of the Model Law.[179]

ILC's recommendation that discretionary relief should be used *sparingly* is in consonance with the international jurisprudence of Article 21.[180] However, the Committee did not make a reference to the balancing test, used in the *Qimonda* case, which is an integral part of the application of Article 21.[181]

v. Public Policy exception

Article 6 of the Model Law creates a safeguard in favor of the enacting state. Citing Article 6, a company can deny any action which has been requested by a foreign insolvency administrator. However, in order to deny any relief, Article 6 requires the court to establish that the proposed action is *manifestly contrary to the public policy of the enacting state.*

In making this exception, UNCITRAL did not define the term *public policy.* The Guide to Enactment acknowledges that the interpretation of *public policy* would vary from state to state, and therefore it should not be defined by the Model Law.[182] Pointing towards the use of the term *manifestly,* the Guide to Enactment highlights that the provision should be interpreted restrictively and should only be invoked in exceptional circumstances.[183]

Given the importance of this provision and its intersection with the remaining provisions in a cross-border insolvency regime, different countries have incorporated different versions of Article 6 in their domestic legislation. Some nations such as Australia, UK and USA have retained the term *manifestly,* whereas Canada, Mexico and Greece have omitted it.[184] In order to limit the applicability of the exception, Japan and Poland have replaced the term *public policy* with *public peace* or *public order.*[185]

ILC recommended a verbatim adoption of Article 6. Citing examples from US judicial decisions, the Committee noted that the public policy exception should be exercised narrowly and used sparingly.[186] The ILC draft regulations allow the NCLT to invite submissions from the Central Government if it believes that a proposed action can be *manifestly contrary* to the public policy. If the NCLT does not issue a notice, the proposed regulations empower the Central Government to approach the NCLT *suo moto* if it believes that a proposed action is in violation to the state's public

179. *See* Mallon et al., *supra* note 152, at 464.

180. *Id.* at para. 14.37-14.39; *cf.* MARTIN AND SPECKHART, *supra* note 70, at 72–76 (demonstrating an international example of discretionary relief).

181. *See* GUIDE TO ENACTMENT AND INTERPRETATION OF THE UNCITRAL MODEL LAW ON CROSS-BORDER INSOLVENCY, *supra* note 151, para. 196-99.

182. *Id.* para. 101.

183. *Id.* para. 104; Garza, supra note 82, at 1595-97.

184. Garza, *supra* note 82, at 1594-98.

185. *Id.* at 1587; Shikha, *supra* note 5, at 166.

186. Insolvency Law Committee, *supra* note 13, para. 3.4.

policy.[187] It has been pointed out that the Central Government may use its power to issue *suo moto notices* based on "*populist perception or in regard to domestic considerations.*"[188]

While discussing the possible interpretation of the public policy principle, ILC cited the experience from international jurisprudence,[189] specifically, *Samsung v. Jaffe*.[190] ILC cited the decisions of the bankruptcy court[191] and the Court of Appeals[192] in *Samsung v. Jaffe*, as valid applications of the public policy exception.[193] It was explicitly noted that the three principles developed by the bankruptcy court in *In re Qimonda,* largely guide the analysis of the public policy exception.[194] Since the Indian insolvency regime does not legislate explicit protections for intellectual property licensees, ILC's reliance on the judicial decisions in the *Qimonda* dispute is interesting.

The next section highlights the lack of international guidance on the subject of IP licensing in bankruptcy. It also examines the Indian insolvency regime to determine the possible treatment offered to intellectual property assets during an Indian licensor's bankruptcy.

VI. LACK OF A CLEAR MANDATE ON IP LICENSING DURING BANKRUPTCY

Unlike American law on the subject, Indian law does not legislate explicit protections for intellectual property licensees.[195] Further, unlike American judicial decisions, such as *Lubrizol,*[196] *In re Exide*[197] and *Tempnology,*[198] the Indian judiciary has not yet had an opportunity to decide on an issue of IP licensing in bankruptcy. Hence, there is a lack of judicial and legislative guidance about the treatment of IP licenses within the Indian insolvency regime.[199]

187. *Id.* § 3.7.; Shikha, *supra* note 135, at 330-31; Mamata Biswal, Insolvency and Bankr. Bd. of India, *UNCITRAL Model Law on Cross Border Insolvency in the Indian Legal Landscape, in* INSOLVENCY AND BANKRUPTCY REGIME IN INDIA: A NARRATIVE, 340–42 (2020).

188. Shikha, *supra* note 5, at 166.

189. Insolvency Law Committee, *supra* note 13, para. 3.6.

190. *In re* Qimonda AG Bankr. Litig., 2010 U.S. Dist. LEXIS 66926 *1, *42-63 (Bankr. E.D. Va. 2010).

191. *In re* Qimonda AG, 2011 Bankr. LEXIS 4191 *1 (Bankr. E.D. Va. 2011).

192. Jaffe v. Samsung Elecs. Co., 2013 U.S. App. LEXIS 24041 *1 (4th Cir. 2013).

193. Biswal et al., *supra* note 187, at 341-42.

194. *See* Gilhuly et al., *supra* note 67, at 70-71.

195. *See* M.P. Ram Mohan & Aditya Gupta, *Treatment of Intellectual Property License in Insolvency: Analysing Indian law in comparison with the U.S. and U.K.* 1, 17-22, 24 (Indian Inst. Of Mgmt. Ahmedabad, Working Paper No. 2021-08-01), https://web.iima.ac.in/faculty-and-research/research-and-publication/working-papers.html&rnp_id=14663.

196. Lubrizol Enter., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043 (4th Cir. 1985).

197. *In re* Exide Techs., 607 F.3d 957 (3d Cir. 2010).

198. Mission Prod. Holdings v. Tempnology, LLC., 139 S. Ct. 1652 (2019).

199. Mohan & Gupta, *supra* note 195.

Partial blame for the lack of any guidance can be accrued to the fact that the Indian Insolvency regime does not incorporate a power as broad and as far-reaching as the power of rejection incorporated in section 365 of the American Bankruptcy Code.[200] Furthermore, the international projects governing contractual relationships have failed to provide any guidance on the appropriate treatment of IP licenses. This essentially creates a vacuum in international guidance on the recognition and enforcement of IP contract archetypes.[201]

A. LACK OF AN INTERNATIONAL HARMONIZATION ABOUT IP LICENSING IN BANKRUPTCY

The growing ubiquity of IP *transactions* in contemporary global and domestic business transactions has consistently supplanted business enterprises that primarily depend on the sale of goods.[202] The growth in the number of IP registrations is a primary indicator of this growing ubiquity: In 1993-94, the Indian intellectual property (IP) office registered 1318 patents,[203] which grew to 5978 registrations in 2014-15,[204] and 15283 registrations in 2018-19.[205] Designs, trademarks and copyright registrations have also followed a similar growth trajectory.[206] The business environment aided by IP *transactions* can flourish only when the governing regulatory framework is predictable and consistent regarding IP *licensing transactions*.[207] To achieve this objective, various stakeholders of the process have proposed ameliorations and adjustments to the international licensing framework.[208]

Presently, the domestic regimes governing the regulation of IP *licensing* are dominated by an intersection of many distinct legal rules, including competition law, bankruptcy law, contract law, labor laws and consumer protection laws.[209] Section 365 of the American Bankruptcy Code is an example of this mosaic of interconnected domestic regulations which alter

200. *Id.*; *see* Indrajit Dube, *National Report for India, in* EXECUTORY CONTRACTS IN INSOLVENCY LAW: A GLOBAL GUIDE (Jason Chuah & Eugenio Vaccari eds., 2019).

201. Tosato, *supra* note 25, at 1255-56.

202. *Id.* at 1254.

203. INTELLECTUAL PROPERTY INDIA ANNUAL REPORT 2002-2003 OF THE CONTROLLER GENERAL OF PATENTS, DESIGNS, TRADE Marks AND GEOGRAPHICAL INDICATIONS at 7, https://ipindia.gov.in/writereaddata/Portal/IPOAnnualReport/1_43_1_annual-report-02-03.pdf.

204. INTELLECTUAL PROPERTY INDIA ANNUAL REPORT 2018-2019 OF THE CONTROLLER GENERAL OF PATENTS, DESIGNS, TRADE MARKS AND GEOGRAPHICAL INDICATIONS at 8, https://ipindia.gov.in/writereaddata/Portal/Images/pdf/IP_India_Annual_Report_2019_Eng.pdf.

205. *Id.* at 8.

206. INTELLECTUAL PROPERTY INDIA ANNUAL REPORT, *supra* note 204, at 8-13.

207. Werra, *supra* note 22, at 451.

208. *See id.* at 451; Eleonora Rosati, *The Wittem Group and the Project of a European Copyright Code,* 5 J. OF INTELL. PROP. L. & PRAC. 862 (2010).

209. Werra, *supra* note 22.

the IP licensing landscape.[210] This is further complicated by the *marked divergences* between different national insolvency regimes.[211] The issues which were discussed in *Samsung v. Jaffe* are a prime example of how these marked divergences affect the interaction between domestic insolvency regimes.

UNCITRAL has also expressed interest in addressing the legal framework responsible for initiating, maintaining, and concluding effective IP licensing transactions.[212] The UNCITRAL General Assembly in July 2013, requested its secretariat to prepare a study to "*identify the desirability and feasibility of the Commission preparing a legal text with a view to removing specific obstacles to international trade in the context of intellectual property licensing practices.*"[213] In July 2015, in its 48th Session, the Commission reiterated that they might consider the viability of a license on IP licensing after a colloquium or expert group meeting.[214] However, none of these formulations have assumed finality. [215]

B. TREATMENT OF IP LICENSES IN THE INDIAN INSOLVENCY REGIME

i. During Liquidation

IBC, 2016 empowers a bankruptcy trustee to disclaim any *onerous property* of the bankrupt estate.[216] The right to disclaim onerous property first appeared in English insolvency law in 1869.[217] Section 23 of the UK Bankruptcy Act, 1869 provided that a disclaimer would *determine the relationship*. Any person injured by the disclaimer would be *deemed a creditor of the bankrupt to the extent of such injury, and may accordingly prove the same as a debt under bankruptcy.*[218] A similar description of a disclaimer can be traced back to the present iteration of the English[219] and the Indian insolvency law.

210. Derek I. Hunter, *Nobody Likes Rejection: Protecting IP Licenses in Cross-Border Insolvency Notes*, 47 GEO. J. INT'L L. 1167–96 (2015).

211. Tosato, *supra* note 25; Werra, *supra* note 22.

212. Comm'n on Int'l Trade L., Rep. of Working Working Group VI (Security Interests) on the Work of Its Fourteenth Session, U.N. Doc. A/CN.9/667 (2008), https://undocs.org/en/A/CN.9/667; Int. Trade L. Comm'n, Rep. Of Working Group VI (Security Interests) on the work of its fifteenth session, U.N. Doc. A/CN.9/670 (2009), https://undocs.org/en/A/CN.9/670.

213. Comm'n on Int'l Trade L., Rep. on the Work of Its Forty-Third Session, ¶ 273, U.N. Doc. A/65/17 (2010), https://documents-dds-ny.un.org/doc/UNDOC/GEN/V10/556/48/PDF/V1055648.pdf?OpenElement.

214. U.N. Secretariat, Planned and possible future work, Note by the Secretariat, ¶ 31, U.N. Doc. A/CN.9/841 (Apr. 22, 2015).

215. Tosato, *supra* note 25, at 1257.

216. Insolvency and Bankruptcy Code, § 160 (2016); Insolvency and Bankruptcy Board of India (Liquidation Process) Regulation (2016); *see* MAKHIJA, *supra* note 95, at 1325-26

217. The Bankruptcy Act of 1869, § 23 1869 (Eng.); Paul McCartney, *Disclaimer of leases and its impact: the "pecking order"*, 28 CORP. RESCUE AND INSOLVENCY J. 79 (2002).

218. *See Id.*

219. Insolvency Act § 178, 1986 (UK); Hardinge Stanley Giffard, 17 HALSBURY'S L. OF ENG.; CO. AND P'SHIP INSOLVENCY, 762 (2017).

The power of a bankruptcy trustee to disclaim unprofitable contracts is the closest enunciation to Section 365 of the American Bankruptcy Code.[220] *Onerous property* includes any unprofitable contract or any property which cannot be disposed of for value.[221] In its present form, a disclaimer ends any liability of the bankrupt estate arising from *onerous property.*[222] Any person who sustains a loss due to the disclaimer shall be deemed a creditor of the bankrupt estate to the extent of the loss.[223] Any person who claims to have an interest in the disclaimed property can approach the NCLT challenging the disclaimer.[224] The provision allowing disclaimer is designed to reject the performance of contracts, the maintenance of which is unprofitable and can potentially result in depletion of the pool of assets available to a bankrupt estate.[225] A substantial difference between Section 365 of the American Bankruptcy Code, and the power of disclaimer is that disclaimer operates exclusively in reference to liquidation and has no bearing in cases of Corporate Insolvency Resolution Process.[226]

Similar to the term *rejection*, even the term *disclaimer* does not have an obvious contract law analogue. The lack of a clear mandate on the meaning of rejection and the lack of a clear contract law analogue has been the subject of judicial confusion and yielded *"wasteful litigation, observed results and dramatic distortions in bankruptcy law."* [227] The bankruptcy courts have often conflated the meaning of the terms' *rejection*' and '*termination*.' [228] A primary example of this confusion is the case of *Lubrizol v. RMF,* which led to the enactment of the IPBPA, 1988.[229]

Does lack of a contract law analogue mean that disclaimer can also distort the bankruptcy law? Given the lack of substantial guidance from the Indian judiciary, it is difficult to answer the question within the Indian insolvency context. However, since the provision traces its lineage from the

220. David Flint, *Man on a Mission*, 40 BUS. L. REV. 173, 174 (2019).

221. *Frosdick v. Fox,* [2017] EWHC 1737 (Ch).

222. Insolvency and Bankruptcy Code § 160(3) (2016); MITTAL, *supra* note 21, at 1196.

223. Insolvency and Bankruptcy Code § 160(4) (2016) (India).

224. Insolvency and Bankruptcy Code § 163(1) (2016) (India); WORKING GROUP ON INDIVIDUAL INSOLVENCY, *Report on Bankruptcy Process: Proposing Rules and Regulations for Personal Guarantors to Corporate Debtors,* 12.13 (2019).

225. INTERNATIONAL FINANCE CORPORATION AND INSOLVENCY AND BANKRUPTCY BOARD OF INDIA, *supra* note 1 at 202–203; Narayan Gajanan Vidvans v. Special Prints Ltd., [2020] SCC Online NCLT 636; Akshaya Imaging Sys. Priv. Ltd. v. Sreenivasan Janakiraman, [2019] SCC Online NCLT 3652.

226. Insolvency and Bankruptcy Board of India (Liquidation Process), 2016, Regulation 1(3) (India) (providing that the regulations are applicable solely in a liquidation context).

227. Andrew, *supra* note 32 at 847; Michael T. Andrew, *Executory Contracts Revisited: A Reply to Professor Westbrook*, 62 U. COLO. L. REV. 1, 3 (1991); *see also* International Trademark Association, *Brief as Amicus Curiae and Brief of International Trademark Association in Sumbeam Products Inc. v. Chicago American Manufacturing*, 102 TRADEMARK REP. 1374, 1379 (2012).

228. Eastover Bank for Sav. v. Sowashee Venture (In re Austin Dev. Co.), 19 F.3d 1077, 1082 (5th Cir. 1994); Fisher Bros. Mgmt. Co. v. Genco Shipping & Trading Ltd. (In re Genco Shipping & Trading Co.), 550 B.R. 676 (S.D.N.Y. 2015); Andrew, *supra* note 32.

229. Intellectual Property Bankruptcy Protection Act, *supra* note 24; Hunter, *supra* note 210.

English insolvency law, and given that the language applied by both statutes is identical,[230] we can rely on the interpretation of the provision by the English insolvency courts.

In 1997, the House of Lords explained the effect of disclaimer in the following terms:[231]

> "Disclaimer will, inevitably, have an adverse impact on others: those with whom the contracts were made, and those who have rights and liabilities in respect of the property. The rights and obligations of these other persons are to be affected as little as possible. They are to be affected only to the extent necessary to achieve the primary object: the release of the company from all liability. Those who are prejudiced by the loss of their rights are entitled to prove in the winding up of the company as though they were creditors."

The decision of the House of Lords has assumed prominence and has since followed and applied in multiple disputes.[232] Applying the court's opinion in cases of intellectual property licenses, a disclaimer of an intellectual property license during the liquidation of the licensor should only apply to the extent of releasing the bankruptcy estate from its foregoing obligations. The right of the licensee to continue using the licensed intellectual property, in so far as it does not affect the foregoing interests of the bankrupt licensor, should not be affected.

ii. During CIRP

IBC, 2016 allows a bankrupt debtor to avoid some transactions and empowers a modification and alteration of transactions during CIRP. Since the power of disclaimer does not extend to CIRP, this section examines the extent up to which interference is warranted by IBC, 2016 during CIRP.

IBC, 2016 legislates avoidance powers regarding four *vulnerable transactions*: preferential transactions,[233] undervalued transactions,[234] extortionate credit transactions[235] and transactions defrauding creditors.[236] The avoidance powers are a statutory acknowledgement that there may be a considerable time period between the management of the corporate debtor realizing that the corporate entity is heading towards insolvency and insolvency proceedings being initiated. During this time, the management may be inclined to strategically place a few creditors in a comparatively

230. Mohan and Gupta, *supra* note 195.
231. Hindcastle Ltd. v. Barbara Attenborough Assoc. Ltd., [1997] AC 70.
232. Shaw v. Doleman, [2009] EWCA Civ 904; *RVB* Investments Ltd. v. Bibby, [2013] EWHC 65 (Ch); Groveholt Ltd. v. Hughes, [2005] EWCA Civ 897.
233. Insolvency and Bankruptcy Code § 43 (2016) (India).
234. Insolvency and Bankruptcy Code § 45 (2016) (India).
235. Insolvency and Bankruptcy Code § 50 (2016) (India).
236. Insolvency and Bankruptcy Code § 49 (2016) (India).

advantageous position than the other.[237] To ensure that the interests of creditors are sufficiently protected, "*the bankruptcy law allows the ex-post alignment of incentives between factually insolvent debtors and their creditors.*"[238] These avoidance powers are essentially "*retrospective adjustment of pre-petition transactions*" and allow a bankrupt debtor to claw back the assets that the corporate debtor's management has surreptitiously distributed.[239] Avoidance provisions are a part of many modern insolvency laws.[240]

However, the avoidance powers apply to a very limited set of corporate transactions and multiple statutory guidelines limit the scope of their application.[241] For example, preferential and undervalued transactions made in the *ordinary course of business* cannot be avoided.[242] Further, if a transaction was entered into two years prior to the initiation of insolvency proceedings, it cannot be avoided.[243] Apart from these myriad statutory guidelines, avoidance powers are designed to counter fraudulent transactions and fraudulent preference to a specific creditor or group of creditors.[244] The Bankruptcy Law Reforms Committee further limited the scope of these provisions when they submitted that vulnerable transactions "*fall within the category of wrongful or fraudulent trading by the entity or constitute unauthorised use of capital by the management.*"[245] Therefore, while avoidance transactions allow interference with pre-petition transactions, they are limited to a very specialized segment of corporate transactions.

This is in stark difference between avoidance powers, and Section 365 of the American bankruptcy code. This position is further buttressed by the fact that the American bankruptcy code explicitly legislates a set of avoidance powers.[246] Compared to avoidance powers, the mandate of Section 365 is very far extensive and far reaching. It allows the reduction of businesses' prospective liabilities, which can, in turn, increase the value of the underlying assets. For example, if a patent licensing agreement is onerous

237. IMF Legal Dept., "Orderly & Effective Insolvency Procedures: Key Issues" 34 (1999); AYUSH J. RAJANI, KHUSHBOO RAJANI & ALKA ADATIA, INSOLVENCY AND BANKRUPTCY IN INDIA - LAW AND PRACTICE 18.4-18.8 (2nd ed. 2021).

238. Aurelio Gurrea-Martinez, *The Avoidance of Pre-Bankruptcy Transactions: An Economic and Comparative Approach*, 93 CHI.-KENT L. REV. 711, 713 (2018).

239. Gurrea-Martinez, *supra* note 238, at 711.; For a history of avoidance provisions see BATRA, *supra* note 93, at 535–536.

240. JL Westbrook, *Looking the Eye of the Financial Storm*, 32 BROOK. J. INT'L L. 1019, 1021 (2007).

241. Mohan and Gupta, *supra* note 195.

242. Insolvency and Bankruptcy Code, §43(3), 45(2) (2016) (India).

243. Insolvency and Bankruptcy Code, §46(1)(ii), 43(4)(b), 50(1) (2016) (India); *Anup Kumar, Resolution Professional of Shivakal Developers Pvt Ltd v BDR Builder & Developers Pvt Ltd* Company Appeal (AT) (Insolvency) No. 679 of 2018 (National Company Law Appellate Tribunal); MAKHIJA, *supra* note 95, at 985; Makhija Ashish, *Case Digest on Insolvency and Bankruptcy Code, 2016* (Bloomsbury 2020) 2.317-2.320.

244. BANKRUPTCY LAW REFORMS COMMITTEE, *supra* note 9, at 5.5.7.

245. *Id.* at § 5.5.7.

246. 11 U.S.C. § 548, 547, 544(b); RODRIGO OLIVARES-CAMINAL ET AL., DEBT RESTRUCTURING 27–34 (1st ed. 2011).

of the option of the licensor, it can potentially reduce the saleable value of the underlying patent. Reducing the onerous licensing arrangements can therefore help a licensor assume a better value of the IP asset. This position has been approved by administrative committees, both in India, and internationally.

In 2005, a committee empowered by the Ministry of Corporate Affairs explicitly aligned with this position. The Committee noted that provisions which provide for interference "*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 the value of assets.*"[247] In 2016, even the World Bank noted that *"to achieve the objectives of the insolvency proceedings, on the system should allow interference with the contract where both parties are not fully perform their obligations."*[248]

Therefore, a resolution professional during CIRP should be allowed to interfere with onerous pre-petition contractual arrangements. The legislature can either, extend the power of disclaimer to CIRP proceedings, or a specific set of provisions modelled on section 365 of the American Bankruptcy Code should be enacted. Such amendments should take cognizance of their possible interaction with intellectual property licenses, and specific protection should be legislated where required.[249]

V. IP LICENSES DURING INDIAN INSOLVENCY AND THE NEED FOR ADMINISTRATIVE ENQUIRY

Having understood the Model Law and the judicial discourse related to treatment of IP licenses in cross-border insolvency, the authors now study the issues highlighted by the *Samsung v. Jaffe* dispute within the Indian Insolvency regime. What happens if an Indian insolvency professional approaches an American bankruptcy court for recognition of Indian insolvency proceedings, and administration of American IP assets?

Before addressing this question, it must be underlined that unlike American bankruptcy jurisprudence, the Indian legislature and judiciary has not addressed the concerns of IP licensing in bankruptcy. There is little to no guidance on the subject, and the findings of the authors are largely tentative.

Addressing whether an Indian insolvency professional would be able to secure unencumbered access to administration of American IP assets would largely depend on two questions: Firstly, which proceedings are sought to be recognized? If the Indian proceedings sought to be recognized are liquidation proceedings, then the statutory instruction on the subject is largely clear. A

247. JAMSHED J. IRANI, REPORT OF THE EXPERT COMMITTEE ON COMPANY LAW 13 (2005).

248. *Principles of Effective Insolvency and Creditor/Debtor Regimes*, THE WORLD BANK 24 (2016), https://documents1.worldbank.org/curated/en/518861467086038847/pdf/106399-WP-REVISED-PUBLIC-ICR-Principle-Final-Hyperlinks-revised-Latest.pdf.

249. For further discussion *see* Mohan and Gupta, *supra* note 195.

disclaimer, in most circumstances, should not affect the ability of the licensee to continue using the licensed IP. Alternatively, if a corporate insolvency resolution proceeding (CIRP) is sought to be recognized, the issue of rejection loses relevance. As our analysis indicates, the power of an insolvency professional to interfere with IP licenses during CIRP is very specialized. None of the discussed powers are comparable to Section 365 of the American Bankruptcy Code. Therefore, in either of these instances a licensee's ability to continue using a bankrupt licensor's IP, should not be affected.

However, owing to the lack of explicit legislative guidance on the subject, this conclusion can be easily dismantled. One such instance, can arise when American IP rights are subjected to exclusive licensing agreements. The law on disclaimer explicitly states that a disclaimer shall affect the rights of the licensee "*so far as is necessary for the purpose of releasing the corporate debtor, and the property of corporate debtor.*"[250] A licensing agreement which includes an exclusivity covenant limits the licensor's ability to monetize and exploit the subject IP right. Such a covenant can create subsisting and continuing liabilities. It is possible that a disclaimer may frustrate the exclusivity requirement of a licensee. Such treatment would be in stark contrast with the American Law on the subject. Section 365(n)(1)(b), explicitly provides that an exclusivity covenant can be enforced by the licensee if he decides to retain the license post rejection.[251] Therefore, while the Indian insolvency regime is largely compliant with the protections offered by Section 365(n), there can be nuanced situations where this compliance would be called into question.

The Indian insolvency regime is on the precipice of adopting cross-border insolvency regulations. In August 2021, the Secretary to the Ministry of Corporate Affairs informed the Standing Committee on Finance that "*The cross-border insolvency is on the priority list and we are working on it. Very soon we will be drafting the legislative part.*"[252] The Ministry and any affiliated bodies should remain mindful of the possible impediments to the implementation of cross border insolvency regulations. The present study underlines that there is a glaring gap in judicial, legislative, and administrative direction regarding the treatment of IP licenses in bankruptcy. This gap can lead to problematic conclusions when cross border insolvency regulations are put to the test. An administrative study should identify the potential problems of IP licensing in bankruptcy, and legislative interventions should be made to fill the gap in existing law.

250. Insolvency and Bankruptcy Board of India (Liquidation Process) Regulations, 2016, Reg. 10.

251. 11 U.S.C. § 365(n)(1)(b) (1992); *See* 3 COLLIER ON BANKRUPTCY, *supra* note 31.

252. STANDING COMMITTEE ON FINANCE & MINISTRY OF CORPORATE AFFAIRS, IMPLEMENTATION OF INSOLVENCY AND BANKRUPTCY AODE – PITFALLS AND SOLUTIONS 34 (2021) at 18.

VI. CONCLUSION

The insolvency law and its intersection with intellectual property exploitation reveals a curious deficiency: There is virtually no international guidance on the treatment of intellectual property licenses during bankruptcy. Some jurisdictions such as America have substantively dealt with this issue, while others such as India provide no discernible guidelines, legislatively or otherwise. Such *marked divergences* in insolvency legislations of different countries, can result in problematic conclusions. An area where the lack of such harmonization becomes an important concern is cross-border insolvency. The issue manifested itself in the *Qimonda* dispute, where the intersection of American and German insolvency law resulted in a dramatically different treatment between the American and the German creditors. The authors underlined the importance of the *Qimonda* guidelines, and studied them within the context of the Indian insolvency regime. The study revealed that the treatment afforded to intellectual property licensees by the Indian and the American bankruptcy law is largely in compliance with one another. However, owing to the lack of any judicial, administrative, or legislative guidance, or any policy-based motivations within the Indian insolvency law, this conclusion is only tentative. There can be many situations which can potentially disrupt this compliance. One such instance that the authors highlight is the possible repugnancy between the Indian and the American bankruptcy law in relation to exclusive intellectual property licenses.

The Indian insolvency regime is on the cusp of adopting cross-border insolvency regulations. The CBIRC explicitly acknowledges that there can be possible repugnancies between the insolvency laws applicable in *concurrent* proceedings. The Committee suggested that the insolvency professionals, with guidance from NCLT, can enter into protocols that accommodate the possible statutory inconsistencies between different regimes.[253] However, without any clarity on how Indian insolvency law treats IP licenses, the approach that can be taken for preparing, regulating and enforcing protocols would remain largely speculative in this particular respect. Further, given the express acknowledgement of the Indian legislative bodies on the international character of insolvency proceedings, it is imperative for the Indian insolvency law to regulate the treatment of intellectual property licenses in insolvency. Therefore, the authors suggest administrative inquiry of the issue, in order to avoid any confusion in cases of cross-border insolvency where the treatment of intellectual property licenses constitutes a substantial concern.

253. INSOLVENCY BANKRUPTCY BOARD OF INDIA, REPORT OF THE WORKING GROUP ON INDIVIDUAL INSOLVENCY, *supra* note 224, at 18.

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