Early Termination of a Software Development Agreement: Which Provisions in the General Terms & Conditions of the IT Provider shall be deemed "Unusual" (and thus Unenforceable) and Which Rights related to the Custom Software shall the Client have following Termination?

JACQUES DE WERRA, MARIANNA SORTON

Two provisions contained in the General Terms & Conditions of a B2B software development agreement were deemed "unusual" ("insolite") and therefore unenforceable against the corporate client of an IT provider. Moreover, the software development agreement did not provide for any transfer of IP rights (copyrights) of the custom software developed by the IT provider; as a result, the client could not legally continue to use the software following termination.

Judgment of the Federal Supreme Court of 11 July 2023
Case Reference : 4A_372/2022

Facts

In December 2016, Z (the "IT Provider") and A (the "Client", together "the Parties") entered into a set of three agreements intended to provide a comprehensive IT solution (the "IT Solution") for the Client's business.

Both the IT Provider and the Client were companies. The IT Provider's corporate purpose included the provision of all kinds of IT and consulting services, the sale of hardware, software as well as technical maintenance and training. As for the Client, its corporate purpose was to finance, acquire and manage stockholdings in various types of companies.

As mentioned above, the IT Solution consisted of a package of three agreements ("the Agreements"), namely:

> (1) a license agreement (the "License Agreement") whereby the IT Provider granted the Client the right to use a standard business software product ("the Standard Software");
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> (2) an IT service agreement (the "Software Development Agreement") whereby the IT Provider undertook to develop custom software to address the Client's particular business needs ("the Custom Software"); and
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> (3) a maintenance agreement (the "IT Maintenance Agreement") whereby the IT Provider undertook to provide IT support and maintenance to the Client in relation to the above.

Art. 11.2 of the Software Development Agreement contained the following provision (unofficial translation from French to English):

"In the event of default on payment for the Custom Software by the due date, or in the event of termination of this contract for any reason whatsoever, the Client shall return a copy of the source [codes] […] to [the IT Provider], destroy all copies, formats and parts of the Custom Software in its possession, and inform [the IT Provider] in writing that these actions have been carried out."

The original French version provided as follows: "*En cas de non-paiement des Logiciels Spécifiques au terme prévu, ou en cas de résiliation du présent contrat pour quelque raison que ce soit, [le Client] est tenu de retourner une copie des sources […] à Z.________ SA, de détruire toutes reproductions, formes et parties des Logiciels Spécifiques en sa possession, et de notifier par écrit à Z.________ SA que ces opérations ont bien été accomplies.*"

In addition, each Agreement had its own general terms and conditions (GTCs) specific to each contract.

The GTCs applicable to the Software Development Agreement included the following clause ("Art. 6 GTC") (unofficial translation from French to English):

"The Client may object to all or part of the services [listed] on an invoice, provided [the objection] is duly substantiated and is sent by registered mail with AR [confirmation of receipt], within a maximum period of 30 days upon receipt of the invoice."

The original French version provided as follows: "[…] *Le Client pourra émettre une réserve de prestation dûment motivée dans un délai maximum de 30 jours sous forme d'un courrier recommandé avec AR [accusé de réception, réd.] après émission de la facture pour tout ou partie des prestations de la facture*."

Furthermore, under this same provision, the Client had the obligation to pay a lump-sum termination fee of CHF 107,289 ("the Lump Sum Termination Fee") if it terminated the Software Development Agreement without fault on the part of the IT Provider, for any reason whatsoever.

The Parties had initially agreed upon a minimum contractual term of three years. However, in February 2019, the Client terminated all contractual relations with the IT Provider, effective immediately. It claimed that the initial budget had been significantly exceeded and that recurring IT problems had caused it reputational harm and damages estimated in the millions.

Based on the record of the case (see the judgment of the Cantonal Court of Fribourg, 11 July 2022, ref. 102 2019 240), in its termination notice, the Client had demanded that the IT Provider transfer the source codes and licenses of the various software products that the Client claimed belonged to it.

The IT Provider contested these accusations, refused to surrender the source codes and licenses, and initiated proceedings against the Client before the Cantonal Court of the canton of Fribourg. The Cantonal Court (i) ordered the Client to pay the outstanding invoices and the Lump Sum Termination Fee; (ii) prohibited the Client from using the IT Solution (including the Standard Software, specific applications and the Custom Software developed by the IT Provider); (iii) ordered the Client to return the IT Solution to the IT Provider; and (iv) ordered the Client to destroy all copies, formats and parts of the Custom Software in its possession. Moreover, the Client's counterclaim for some CHF 3 million in damages was dismissed.

The Client appealed to the Federal Supreme Court. It demanded to be discharged from the obligation to pay the outstanding invoices and the Lump Sum Termination Fee, and sought the admission of its counterclaim for damages. In addition, it sought, on the one hand, a declaration that it owned the copyrights over the Custom Software and, on the other hand, a declaration that the Client had the right to continue to use both the Standard Software and the Custom Software despite the termination.

Issue

The first issue submitted to the Federal Supreme Court was whether the Client owed the outstanding invoices and the Lump Sum Termination Fee under Art. 6 GTC. The Federal Supreme Court tackled this issue by examining the validity of this provision under the "unusual terms" test ("*clause insolite*").

The second issue required the Federal Supreme Court to determine the extent of the Client's rights over the Custom Software developed by the IT Provider and whether the Client could legally continue to use the Standard Software and the Custom Software despite the termination of the Parties' contractual relationship.

Decision

(1) As regards the unusual nature of Art. 6 GTC

The Cantonal Court had ordered the Client to pay the outstanding invoices and the Lump Sum Termination Fee based on Art. 6 GTC. However, it did so without having first examined if the GTCs had been validly incorporated into the Parties' agreement.

The Federal Supreme Court began by recalling a few basic rules regarding the conditions under which GTCs are integrated in a contract. According to the case law of the Federal Supreme Court, standardized provisions that are pre-formulated by one party and that are intended to govern multiple contractual relationships are not binding as such. The contracting parties must incorporate them into their agreement, by expressly or tacitly agreeing that they will form an integral part of said agreement. This is sometimes done by means of reference to the GTCs in the signed contract or by means of signature affixed directly on the GTCs.

Even if the incorporation of the GTCs is established, a blanket acceptance of GTCs by a contracting party does not cover so-called unusual terms ("*clauses insolites*") if their existence has not been specifically brought to the attention of the weaker or less experienced party. Under the principle of trust, the drafter of the GTCs must assume that an inexperienced contracting partner will not adhere to unexpected or atypical clauses. In this regard, a clause that is customary in a particular industry may seem unusual for a party who does not usually operate in that industry. In order to be considered as unusual, the clause must *objectively* appear extraneous to the deal, in the sense that it considerably changes the nature of the deal or significantly differs from the legal framework governing the type of contract concerned. The more a clause is onerous and affects the legal position of the contracting party, the more likely it is to be deemed unusual. However, if the clause is drafted clearly, unequivocally and is moreover emphasized (e.g. in bold font) then it can be said that the contracting party's attention has been sufficiently drawn to the clause in question, meaning that the clause shall be binding and enforceable.

In the case at hand, while the Cantonal Court had not fully analyzed the issue of the GTCs' incorporation, it did find that the Parties had "agreed upon" the GTCs and on Art. 6 GTC in particular. This finding was binding on the Federal Supreme Court.

Nonetheless, the Federal Supreme Court decided that it was within its powers to examine the enforceability of Art. 6 GTC under the "unusual terms" test (even though neither of the Parties had specifically raised this legal argument with regard to this provision, and nor had this issue been addressed by the Cantonal Court). The Federal Supreme Court considered the fact that the Cantonal Court had not examined this legal issue was an "obvious legal error" and that the Federal Supreme Court was therefore in a position to address this issue on appeal. Moreover, the Federal Supreme Court stated that the IT Provider could not be surprised by the application of the "unusual terms" principle and that its application did not violate the right to be heard; indeed, the principle had been raised by the Client in the proceedings with respect to other contract provisions and is, generally, a classic issue in relation to GTCs.

Art. 6 GTC featured two components that, for the Federal Supreme Court, rendered its unusual nature palpably obvious ("*le caractère insolite […] saute aux yeux du Tribunal fédéral*"):

- First, Art. 6 GTC set a limit of 30 days for the Client to object to the services invoiced by the IT Provider (30 days as of the date the invoice was submitted to the Client) and required any such objection to be delivered by means of registered mail with confirmation of receipt. According to the Federal Supreme Court, this was unusual and seriously undermined the Client's legal rights. If the Client had failed to react within 30 days, the invoices would have been deemed accepted and the Client would have owed the amounts invoiced. This is a significant departure from the law, which, according to the Federal Supreme Court, requires no strict form of service nor any specific time-limit to dispute an invoice (subject only to the general prohibition on abuse of rights as per Art. 2 SCC).
- Second, Art. 6 GTC provided for the payment of the Lump Sum Termination Fee of CHF 107,289 if the termination by the Client was effected without any fault on the part of the IT Provider. According to the Federal Supreme Court, this provision amounted to an "unusual contractual penalty" ("*clause pénale insolite*") that undermined the Client's rights and constituted a considerable deviation from the legal regime.

In its analysis, the Federal Supreme Court noted that the Parties were corporate entities (B2B). Even if it may be difficult to speak of a "strong" and "weak" party, as is the case with parties to an employment contract or a residential lease, the Federal Supreme Court held that the unusual terms test is not limited to such a scenario. In fact, a clause may well be deemed unusual for someone who does not operate in the industry in question. In this case, the IT Provider was specialized in IT and was therefore well versed in the specificities of IT contracts, unlike the Client, who was a simple software user for its daily business activities. The IT Provider was also the drafter of the GTCs and of the Agreements.

The record of the case was of little use in clarifying the circumstances in which the Agreements were negotiated and signed. The identity and level of expertise of the Client's representatives were unknown and the record contained no indication of whether the Client's attention had been specifically drawn to the existence and content of Art. 6 GTC.

Given this context, the Federal Supreme Court ruled that one could not assume that the Parties were on an equal footing in terms of legal expertise.

For the reasons set out above, the Federal Supreme Court ruled that Art. 6 GTC contained unusual terms and was therefore unenforceable against the Client. Therefore, the IT Provider could not rely on Art. 6 GTC to claim the payment of outstanding invoices and of the Lump Sum Termination Fee.

Instead, the IT Provider should have substantiated its monetary claims as required under the general conditions of contractual liability: i.e. the IT Provider should have proven (i) that it had performed the services invoiced to the Client for which it sought payment; and (ii) that it had suffered a damage resulting from the unilateral termination of the Agreements by the Client. The Federal Supreme Court found that the IT Provider had failed to substantiate either claim in its submissions. It therefore rejected the IT Provider's monetary claims and, in so doing, reversed the Cantonal Court's ruling in favor of the Client.

(2) As regards the rights of the Client on the Custom Software

In ruling on the second issue, the Federal Supreme Court began by recalling certain theoretical principles ("*préceptes théoriques*") applicable to agreements relating to software products. According to the Federal Supreme Court:

- The granting of the right to use a software touches upon three fields of law: intellectual property (IP) law, contract law and, lastly, property rights. As a rule, party autonomy is key in this field. The interpretation of contracts follows the usual rules and methods of contract interpretation but takes into account the so-called "purpose of transfer" theory ("*théorie de la finalité*"; "*Zweckübertragungstheorie*") developed in copyright law (according to which copyrights are transferred to the extent this is required for the purpose of the contract.
- Parties may agree to a license contract in return for the payment of royalties. Such an agreement may concern standard software or custom software. On the one hand, standard software ("*logiciel standard"; "Standardsoftware"*) is intended for a large number of users, whether the general public (e.g. Word, Excel) or an unspecified number of clients in a particular sector (doctors, lawyers, hospitals, etc.). On the other hand, tailored or custom software ("*logiciel individualisé ou spécifique*"; "*Individualsoftware"*) is designed to meet a client's specific business needs. There are also intermediate options: the IT provider may adapt standard software to the particular needs of a client, whether through simple implementation, through specific configurations added to the standard program or through genuine customization.
- Depending on whether the IT provider is required to implement the software for the client or to configure it in depth, its accessory duty or even principal obligation may fall within the scope of a contract for work and services ("*contrat d'entreprise*", 363 SCO).
- In a license agreement, the supplier of the software (who is the licensor) grants to its client a relative right to *use* the software, a right that is limited in time. The parties may agree on a fixed-term contract or set a notice period to terminate the contract, usually after a minimum duration. When the contract is terminated, the client is no longer authorized to use the software – a rule often specified in the contract. If it continues to do so, it is in breach of copyright and must return the software or destroy it. The contract sometimes requires it to confirm this destruction in writing.
- When the IT provider supplies the client with custom software, it must be assumed that it is simply granting the client the right to *use* the custom software, without any transfer of copyrights on such custom software. That said, the contract may address this point. There are certain factors that may plead in favor of a transfer of copyrights to the client, such as: the software is the result of an entirely new development; the software contains the client's business secrets; the client wishes to prevent competitors from using the software; the client's collaboration and know-how contributed to the creation of the software; the client bore the development costs (or, on the contrary, obtained a significant discount). On the other hand, the transfer of the software source codes to the client is not necessarily a decisive factor in favor of a transfer of copyrights on the software.

In its appeal, the Client seemed to argue that the Software Development Agreement should be considered a contract for works and services ("*contrat d'entreprise*") and that this would imply the delivery of a product (i.e. the Custom Software), which would belong to the Client. The Federal Supreme Court disagreed. Software license agreements can be structured in different ways and it is difficult to reduce this type of agreement to one type of contract. Even if the Software Development Contract has certain attributes of a contract for works and services ("*contrat d'entreprise*"), this in and of itself does not necessarily imply a transfer of copyrights to the Client.

In this case, the Client was unable to point to any provision in the Software Development Agreement that would provide for the transfer of copyrights on the Custom Software. The Client argued that the wording of Art. 11.2 of the Software Development Agreement (which required the Client to return the source codes to the IT Provider) implied a transfer of the copyrights to the Client. It also argued that it had collaborated closely with the IT Provider in the development of the

Custom Software. However, for the Federal Supreme Court, neither element was sufficient to establish a transfer of the copyrights on the Custom Software to the Client.

The Client also argued that Art. 11.2 of the Software Development Agreement was disproportionate and entailed an "excessive commitment" that would violate its personality rights and economic freedom (within the meaning of Art. 27 para. 2 SCC and Art. 27 of the Constitution). The Client claimed that it had paid for the development of the Custom Software that was adapted to its business needs and that the obligation to return said software under Art. 11.2 would deprive the Client of a tool that was at the very heart of its business activity, thus jeopardizing its economic existence. Yet again, the Federal Supreme Court disagreed. It stated that this was the very essence of a license agreement, even one where the IT Provider undertakes to perform obligations inherent to a contract for works and services ("*contrat d'entreprise*").

Finally, the Federal Supreme Court also rejected the claim for damages advanced by the Client on the grounds that the Client had not substantiated it in the cantonal proceedings.

Key takeaways

IT service providers who use GTCs in their contracts must carefully assess whether their GTCs are valid and enforceable under the "unusual terms" test. This requires an assessment of whether any GTC clause may be deemed unusual, in particular vis-à-vis inexperienced clients, which, in a B2B setting, can include business clients that have less experience in the industry, in this case IT. If a clause deemed unusual has not been brought to the attention of the inexperienced party at the time the contract is concluded, the client may claim that the GTC provision at hand is unusual and therefore unenforceable. Even in the absence of such a claim, and as this case illustrates, courts (including the Federal Supreme Court) may exercise judicial control of GTCs on their own prerogative (i.e. without any motion from either party).

Furthermore, parties negotiating software development agreements should specifically state the nature and the scope of the IP rights (if any) assigned to the clients with regards to any custom software products. The agreement should specify whether the client obtains the ownership of the copyrights on the custom software or only a license to use such software; it should also regulate the right to use the software in the event of early termination of the agreement.

Comments

(1) The unusual nature of Art. 6 GTC

Turning first to the issue of the unenforceability of Art. 6 GTC (on the ground that this clause is unusual for the inexperienced client of an experienced IT provider), one can wonder whether this finding of the Federal Supreme Court was fully justified in light of the circumstances of the case.

The case law of the Federal Supreme Court has not always been consistent on the degree of protection offered to inexperienced clients of IT providers. In the leading case (ATF 125 III 263), it was held that an IT provider had no duty to clarify the extent of a license agreement to its client (object code vs. source code), even though there was a considerable "gap" between the level of expertise of each party.[1] Another, more recent case illustrative of this difference in approach is the judgment of 17 June 2022 (4A_502/2021, see also https://new.swisscontract.law/29/), in which a transaction was invalidated because the seller (who apparently lacked experience/IT savviness) was found to have fraudulently misled the corporate buyer (considered more experienced in IT-related activities) over the extent of IP rights covered by the sale. In neither case did the client's apparent lack of experience justify protection. However, neither of the latter cases involved the judicial control of GTCs based on the "unusual terms" test, which may perhaps explain the difference.

Under the case law of the Federal Supreme Court (see e.g. ATF 138 III 411), for a GTC clause to be deemed unusual, two cumulative requirements must be met: a subjective and an objective requirement. Under the subjective requirement, the party who is supposedly bound by the disputed GTC clause must *subjectively* lack industry-specific experience ("*des Fehlens von Branchenerfahrung*"). As for the objective requirement, it requires the clause to be *objectively* unusual or extraneous to the industry at hand, which is the case if its application leads to a substantial change in the nature of the contract or (alternatively) if the clause in question differs considerably from the legal framework regulating the contract.

The particularity of this case is that the GTCs formed part of a B2B agreement. As mentioned earlier, the Federal Supreme Court ruled that Art. 6 GTC was unusual from the Client's perspective, who was a corporate entity with (allegedly) less experience in IT contracts than its contracting partner. However, the level of experience attributed to the Client under the subjective leg of the test seems somewhat debatable. The Federal Supreme Court itself admits that the record of the case held little evidence as to how the Agreements had been negotiated and signed. In particular, the record contained no mention of the identity and level of expertise of the Client's agents or representatives: in other words, we have no record of the level of expertise that must be legally attributed to the Client. Instead of referring the case back to the Cantonal Court to elucidate this factual grey zone, the Federal Supreme Court concluded that the Parties were not on an equal footing (even though, in the absence of evidence, one could have arguably arrived at the opposite conclusion, much like the Cantonal Court had in this case when it found the parties to be "economically equal" and "both experienced in business"). As such, the Federal Supreme Court considered the Client to be an inexperienced business customer as opposed to the IT Provider, who was specialized in IT and therefore "well versed in the specificities of IT contracts" ("*rompue aux particularités des contrats informatiques*"). This relative asymmetry or "gap" between the level of expertise of the parties was ultimately held against the IT Provider.

Even by assuming the weaker position and the need to protect business clients of IT service providers, it would not be unreasonable to expect that this need for protection applies only to GTC provisions that appear unusual to a client who is unfamiliar with the specificities of IT contracts. Indeed, the test aims to protect an inexperienced client from the clutches of a service provider who operates in the industry and is "well-versed" in IT contracts. In this case, however, one cannot help but wonder whether the contractual provisions that were deemed unusual and thus unenforceable by the Federal Supreme Court were truly specific to IT contracts or to software development agreements.

According to the Federal Supreme Court, the first unusual aspect of Art. 6 GTC was the contractual process imposed on the Client for disputing the IT Provider's invoices, i.e. a 30-day deadline and a strict form of service (registered mail with confirmation of receipt). The second unusual aspect of Art. 6 GTC was the penalty clause which provided for the payment of the Lump Sum Termination Fee (of some CHF 107,000) in the event of early termination of the Software Development Agreement by the Client with no fault on the part of the IT Provider. The Federal Supreme Court found that both aspects deviated considerably from the law – without, however, indicating which legal provisions specifically, leaving the reader guessing as to the qualification of the contract and the applicable legal framework.

In the section regarding the second, IP-related issue, the Federal Supreme Court held that software development agreements contained features of a contract for works and services ("*contrat d'entreprise*"), even though this kind of agreement could not be reduced to one type of regulated contract only. It is possible, therefore, that the issues being challenged would in fact have been subject to certain default provisions contained in [Art. 363 et seq. SCO](#) (while the contractual penalty was moreover subject to [Art. 160 et seq. SCO](#)). However, the Federal Supreme Court provided no discussion thereof. In fact, it merely stated that the unusual nature of Art. 6 GTC was blatantly obvious ("*le caractère insolite […] saute aux yeux du Tribunal fédéral*") without offering any substantial assessment of the objective leg of the test that is designed to identify unusual clauses.

This is unfortunate, given that provisions on invoice-dispute mechanisms and contractual penalties are common features in many business/B2B agreements, including in the applicable GTCs. The invoice-dispute mechanism, in particular, can be found in many contracts for works and services ("*contrat d'entreprise*") governed by [Art. 363 et seq. SCO](#). For instance, payment terms in contractor agreements often include a payment deadline of 30 days as of receipt of an invoice, which encompasses the deadline to verify (and object to) the content of the invoice.[2] It goes without saying that similar mechanisms are common features in other fields of law (e.g. banking/credit agreements), which may prompt stakeholders to review the way in which the clients' attention is drawn to such GTC provisions, insofar as their blanket acceptance by the client may no longer suffice.[3]

(2) The rights of the Client on the Custom Software

On the second issue, the Federal Supreme Court ruled that the Client had no right to continue using the IT Solution, including the Custom Software, following the termination of the Agreements. Indeed, the Federal Supreme Court held that the Client had obtained a mere license to use the Custom Software but not the ownership of the copyrights on that software.

It seems (based on the limited record of the case) that the Parties had not clearly addressed the issue of ownership of the copyrights on the Custom Software in the Software Development Agreement. This is surprising, as the issue is of fundamental importance in such contracts. If not adequately addressed in the contract, this issue may lead to unpleasant surprises for clients (as shown in this case, the Client who commissioned the development of the Custom Software ended up not owning the copyrights on it) and, ultimately, to litigation. Foreign case law seems to confirm this as well.[4]

The Federal Supreme Court seemed to suggest that the default rule in software development agreements is that the client only obtains a contractual right to use the software (i.e. a license) but not the transfer of copyrights on the software itself. However, the question should be analyzed on a case-by-case basis, taking into account all circumstances surrounding the case, including the factors mentioned by the Federal Supreme Court (i.e. whether the custom software is an entirely new software, whether it incorporates trade secrets of the client, whether the client bore the full cost of the development, etc.).

In any event, a client who only holds a license remains dependent on its licensor (e.g. in case of bankruptcy of the licensor) which may call for additional mechanisms of protection (e.g. escrow agreements with a third party).[5]

Moreover, provisions like Art. 11.2 of the Software Development Agreement may leave the client in a vulnerable position in case of early termination. By way of reminder, Art. 11.2 provided as follows (unofficial translation from French to English): "In the event of default on payment for the Custom Software by the due date, or[6] in the event of termination of this contract for any reason whatsoever, the Client shall return a copy of the source [codes] […] to [the IT Provider], destroy all copies, formats and parts of the Custom Software in its possession, and inform [the IT Provider] in writing that these actions have been carried out."

The cantonal judgment stated that Art. 11.2 was part of the "general terms and conditions relating to the contracts for the provision of IT services", which was not addressed by the Federal Supreme Court in its judgment. However, if Art. 11.2 were indeed part of the GTCs, the Federal Supreme Court could have examined the potentially unusual nature of this clause which, unlike Art. 6 GTC that was deemed unusual by the Federal Supreme Court (cf. point (1) above), is truly specific to IT agreements and particularly to software development agreements (since it deals with the return/destruction of software). Moreover, given the Client's risk exposure upon termination, the question could arise as to whether such a clause substantially changes the nature of the contract and can therefore be qualified as unusual (and therefore unenforceable).

In this case, the Client went as far as to claim that Art. 11.2 unduly restricted its economic freedom and jeopardized its very existence, because the provision obliged it to cease using software that was essential for its business despite the fact that it had paid for it (although it is unclear how much was paid by the Client for the Custom Software at the time termination occurred).

A closer reading of Art. 11.2 shows that there were two situations that could oblige the Client to return the Custom Software to the IT Provider and therefore oblige it to stop using the Custom Software. The first situation relates to the "default on payment for the Custom Software by the due date". This situation could potentially be understood to mean, *a contrario,* that as long as the Client is up-to-date in its payments for the Custom Software, it shall have the right to keep using said software. The second situation relates to the termination of the Software Development Agreement "for any reason whatsoever" which is the applicable scenario in this case. This situation is quite harsh on the Client to the extent that it prevents the Client from using the Custom Software even if the Client had paid for it and even where the Client had a valid reason for terminating the Software Development Agreement (the justification for termination remains uncertain here, based on the limited record of the case). This contractual solution shows the risk to which a client can be exposed in case of early termination of a software development agreement if such termination puts an end to the client's right to use the custom software. From the perspective of the Client, it would have been helpful to ensure a continued right of use of the custom software in spite of the early termination of the agreement, provided the client is up-to-date on its payments.

Ideally, parties may also wish to foresee that in case of early termination, custom software that is not yet fully developed may be modified and completed by (or for) the client (including the right to create derivate works), without risking the infringement of copyrights belonging to the initially commissioned software developer. This issue is sometimes overlooked in software development agreements which do not clearly regulate the fate of copyrights in case of early termination. It is also conceivable for the contracting parties to agree that a lump-sum early termination fee (such as the Lump-Sum Termination Fee in this case) covers compensation for the continued right to use the custom software by the client (or even the transfer of the ownership of the copyrights on the custom software including the right to create derivate works thereof). This issue can also arise beyond software development agreements (including for contracts with architects; for an example of a contractual clause, see judgment of the Federal Supreme Court of 20 July 2007, ref. 4A_215/2007).

In any event, it is regrettable that the Federal Supreme Court did not seize the opportunity in this case to clarify the distinction that must be drawn between, on the one hand, the ownership of the work – conceived as the deliverable due to the Client under the Software Development Agreement (i.e. the Custom Software) – and, on the other hand, the ownership of the copyrights on the Custom Software (see also, for a similar issue, https://new.swisscontract.law/29/). The Client's claims in the proceedings seem to portray a certain confusion between these notions, which the courts then failed to clarify.

All in all, this judgment handed down by the Federal Supreme Court conveys mixed impressions. On the one hand, it is rather protective of the Client's interests, which is reflected in the Federal Supreme Court's qualification of certain (non IT-specific) contractual terms contained in the GTCs of the IT Provider as unusual. On the other hand, the judgment is also protective of the IT Provider's interests with respect to the ownership of the copyrights on the Custom Software (based on Art. 11.2 of the Software Development Agreement). One can only hope that this case will serve as an important call for closer contractual diligence for parties negotiating software development agreements in the future.

In this context, it is doubtful whether the judicial route is the most appropriate means of resolving disputes that arise in this field, which are often complex and form part of long-lasting (if not inextricable) contractual relations between the parties. By contrast, alternative dispute resolution mechanisms (in particular mediation) have the potential of producing more favorable (and speedier) outcomes to the dispute (see for e.g. the activities and services offered by the Institution for IT and Data Dispute Resolution – ITDR, www.itdr.ch).

Other comments of this judgment

Sarah Drukarch / Michèle Burnier, A Rare and Remarkable Decision by the Swiss Federal Supreme Court on General Terms and Conditions, published on 12.09.2023 (https://pestalozzilaw.com/en/insights/news/legal-insights/a-rare-and-remarkable-decision-by-the-swiss-federal-supreme-court-on-general-terms-and-conditions/)

Ariane Legler, Clause insolite dans les conditions générales d'un contrat informatique, published on 09.09.2023 (www.lawinside.ch/1352/))

iusNet Droit Bancaire, Cas de la semaine n°30/2023: un arrêt du Tribunal fédéral qui pourrait inspirer des plaideurs désireux de s'en prendre à certaines dispositions des conditions générales des banques, 4A_372/2022, published on 25.09.2023 (https://droit-bancaire.iusnet.ch/fr/jurisprudence/suisse/droit-priv%C3%A9/cas-de-la-semaine-n%C2%B0302023-un-arr%C3%AAt-du-tribunal-f%C3%A9d%C3%A9ral-qui)

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[1] See the case note of Christine Chappuis, *Note sur le devoir d'information du donneur de licence à l'égard du preneur de licence en matière informatique*, Semaine Judiciaire 1999 I 469 (available at: https://archive-ouverte.unige.ch/unige:42903).

[2] See e.g. Benoît Carron, General Contractor's Works Contract (*Contrat d'entreprise générale*), in: Sylvain Marchand / Christine Chapuis / Laurent Hirsch (ed.), *Recueil de contrats commerciaux*, Basel 2013, Art. 5 and N 5.7 (Commentary). See also invoice-dispute mechanisms in the General terms and conditions for construction works of the Swiss Society of Engineers and Architects (SIA) (SIA 118:2013 Rules, in particular Art. 55 and 153 et seq.).

[3] See also iusNet Droit Bancaire, Cas de la semaine n°30/2023 : un arrêt du Tribunal fédéral qui pourrait inspirer des plaideurs désireux de s'en prendre à certaines dispositions des conditions générales des banques, 4A_372/2022.

[4] See for e.g. in English law: T. J. McIntyre, Copyright in custom code: Who owns commissioned software?, Journal of Intellectual Property Law & Practice 2007, 473 ss, https://doi.org/10.1093/jiplp/jpm077, discussing the case I*nfection Control Enterprises Limited v Virrage Industries Limited and Aidan Cartwright, [2009] EWHC 2602 (QB); see also, in French law, the discussion of a recent dispute between AG2L Développement and Colas & Colas Digital Solutions: Les droits du prestataire de maintenance évolutive et corrective sur ses développements, published on 28 September 2023 (*https://www.legalis.net/actualite/les-droits-du-prestataire-de-maintenance-evolutive-et-corrective-sur-ses-developpements/*).*

[5] See e.g. Philipp Possa / Melanie Gasser, *Was geschieht mit Software im Konkurs des Entwicklers oder Anbieters?*, in: Jusletter 24 June 2019.

[6] It should be noted that the judgment of the Cantonal Court of Fribourg (dated 11 July 2022, ref. 102 2019 240, para. 5.2), provides a slightly different wording for Art. 11.2 ("and/or" instead of "or") (unofficial translation from French to English): "Art. 11.2 of the general terms and conditions relating to the contract for the provision of IT services […] expressly provides that in the event of non-payment for the custom software at the stipulated term *and/or* in the event of termination of the contract, as in the present case, the defendant is obliged to return a copy of the source codes to its co-contractor, before destroying any copy of the custom software in its possession" (italics added).