




# WIPO and Intangible Asset Finance

Moving Intangible  
Asset Finance from  
the Margins to  
the Mainstream

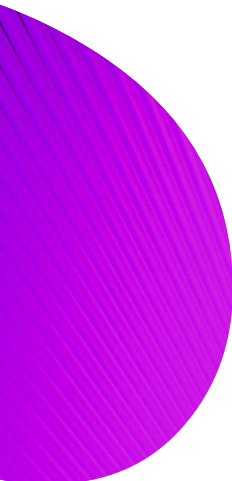




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# Executive summary

- Businesses need access to capital to scale and grow, yet many enterprises face challenges raising funds. This finance gap stands in the way of their success and the prosperity of our economies.
- Mainstreaming intangible asset finance could narrow this gap. What an enterprise creates and invents holds tremendous value when protected by intellectual property (IP) rights. These intangible assets can support both debt and equity financing.
- The field of intangible asset financing is still in its infancy. Several obstacles stand in the way of its growth. Overcoming these changes requires inputs from multiple sectors and disciplines. No single entity can address them alone.
- As the UN agency dedicated to developing a balanced and effective international IP system, WIPO will bring together actors across disciplines to make progress on these issues.
- This paper describes the potential of intangible asset finance, the challenges it faces, and outlines WIPO Action Plan to move intangible asset finance from the margins to the mainstream.



# The potential of intangible asset finance

Intangibles drive our economies.

Estimates suggest that the global value of intangibles has increased tenfold over the last 25 years to reach around USD 74 trillion in 2021.<sup>1</sup> The asset mix companies own reflects this fundamental shift. Intangibles make up more than 90% of the value of companies in the S&P 500.<sup>2</sup> For example, in 2021, global brand value has reached USD 12.5 trillion, a more than USD 1.5 trillion (or 14%) increase in just two years.<sup>3</sup> Brands, designs and technology, rather than physical assets, determine a business's ability to grow. This increased focus on intangibles influences who is doing what in global value chains and by extension the growing importance of these assets in international trade.

Intellectual property (IP) and other intangibles add on average twice as much value as tangible capital to products manufactured and traded along value chains.<sup>4</sup>

For many smaller businesses, their worth primarily lies in what they invent and create. These small- and medium-sized enterprises (SMEs) contribute to more than half of global employment and comprise 90% of businesses worldwide.<sup>5</sup> To grow, thrive and sometimes survive, they need access to capital.

Despite potential, without hard assets, traditional avenues of finance may seem unattainable for many SMEs. This finance gap creates an obstacle for many companies. Many groundbreaking innovations emerge from new market entrants, who still face a financing handicap. Without resources, the challenges these firms face are palpable, especially when seeking to gain traction in the global market. Many, unable to compete, are left behind and ultimately fail.<sup>6</sup> As a result, the promise these businesses offer to contribute to sustainable economic development in both developed countries and emerging economies, remains unfulfilled. Improving financing conditions could help to bring innovation activity to the next level and foster competition.

“Intellectual property adds twice as much value as tangible capital to products manufactured and traded along value chains.”

To drive our economies forward, businesses need access to affordable capital. Strategic use of intangibles to support efforts to secure finance could narrow the divide and become a game changer for intangible-intensive firms.

Their intangibles,<sup>7</sup> especially those protected with IP rights, such as copyright, industrial designs, trademarks and patents, can be used to support lending and investment.

A growing number of companies already leverage them to secure the cash they need to grow and expand. This paper outlines the potential of intangible asset finance and some of the barriers to its widespread deployment. It also sets out a vision for progress. Moving ahead requires work across disciplines, from finance, business and government.

As the United Nations (UN) agency dedicated to the development of a balanced and effective international IP system, the World Intellectual Property Organization (WIPO) can serve as a focal point for this undertaking.

This document outlines WIPO Action Plan to move intangible asset finance from the margins to the mainstream. These efforts are part of WIPO's general commitment to support businesses in maximizing the benefits they can reap from their IP, and, at a broader level, to support economic growth.

**“The strategic use of intangibles as support for finance could become a game changer for intangible-intensive firms.”**

# 1. What is intangible asset finance?

Intangible assets can be used to secure financing, either by pledging them or transferring rights to cash flows derived from these assets. Alternatively, intangibles can provide an indicator of a company's value and support financing decisions. For some firms, intangible assets represent only a small portion of what a company is worth. For other businesses, the bulk of their value may flow from intangible assets.

Businesses are commonly funded through debt or equity financing.<sup>8</sup> Intangibles play an important role in both types of funding.

In equity financing, a company exchanges an ownership stake for capital. Before closing the deal, inventors conduct due diligence on the intangibles to ensure they are robust enough to support the business strategy.

In debt financing, a company borrows money. Lenders may consider intangibles when determining the ability of a business to pay back the loan.

There are benefits to both approaches. For example, in the case of debt financing, the company retains greater control of commercialization.

In equity financing, the investor plays a more active role in the company, as in venture capital. As such, the suitability and availability of funds depend on the individual situation of the business. Other funding mechanisms, such as mezzanine financing, blend aspects of both debt and equity funding.

For many firms, raising capital through equity investments, in particular through business angels, venture capital and private equity investors, plays a positive role in a company's development. It opens the door to the transfer of know-how and to the networks that these investors can provide. This can explain the 25% compound annual growth of the number of venture capital deals over the last decade.<sup>9</sup>

At some point though, the cost of raising additional funds by giving away ownership might outweigh its benefits.

This is typically the point when companies look at debt financing, for example, taking out bank loans, which allows the founders and existing inventors to

retain control of their business. Debt financing also reduces the average cost of capital, which makes it easier for companies to access the resources needed to grow their business.

Despite its attractiveness, securing debt financing can prove challenging for intangible-intensive companies that lack hard assets, which lenders turn to as collateral to support a loan.

The decision boils down to two principal considerations for lenders: risk and return. Assessing IP collateral presents challenges for most debt providers. There is no clear formula to determine how much the collateral will be worth if a borrower defaults.

Additionally, most of the financing community has little experience with IP assets or lacks the appetite to do more with them due to their complexity compared to other forms of collateral.

This dynamic adds to the ambiguity of these assets, making them feel more speculative than solid. This perceived disproportionate risk and return profile limits the volume of debt financing, i.e., the debt capacity of intangible-intense SMEs, as financiers need to be confident that they will be repaid on time and in full.

The following graphic shows the different structures used by firms considering IP-backed financing.<sup>10</sup>



## Exploring routes to IP-backed financing

	Direct collateral	Securitization	Sale-and-leaseback <sup>11</sup>
<b>Description</b>	IP serves as security for loan	IP serves as underlying asset to issue securities in capital markets. Simultaneously, company enters into licensing agreement	IP sold in exchange for upfront funding. Simultaneously, company enters into licensing agreement to retain ability to commercialize/ use IP
<b>Role of intangibles</b>	IP assets or stream of revenues (e.g., derived from licensing agreement) pledged as collateral to the lender	IP assets or the rights to their projected revenues (e.g., royalties) transferred to a special purpose vehicle (SPV) <sup>12</sup>	IP assets or the rights to their projected revenues sold to specialized investor or a lender
<b>Advantages</b>	A lender can seize and monetize collateral and with proceeds recover principal (at least partly) in case of borrower defaulting on the loan. This additional security should reduce borrowing cost	Lending institutions can eliminate the risk of holding IP assets on balance sheet while the IP owner can obtain more favorable funding conditions. This is because the securities issued by the SPV are, in theory, separated from the firm's risk and therefore could obtain more favorable credit ratings	IP owner can increase its liquidity for short-term operations while maintaining its ability to commercialize/ use IP

**“Intangibles are gaining prominence as financial assets...”**

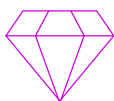
Intangibles are gaining prominence as financial assets, especially in both debt and equity contexts. As described below, investors scrutinize intangibles during due diligence to ensure these assets support a company's commercial strategy and the investor's exit plan. Similarly, more lenders are starting to look at IP and other intangibles for comfort.



- For many companies, raising capital through business angels, venture capital and private equity plays a positive role in their development.
- But, at some point, the cost of raising additional funds by giving away ownership might outweigh its benefits.
- Companies then look at debt financing, e.g., taking out bank loans.
- Yet, despite its attractiveness, debt financing can prove challenging for intangible-intensive companies without hard assets to put up as collateral.
- IP-backed financing offers a solution to improve access to finance, in both debt and equity contexts.
- Today, most lenders and many investors lack experience or even familiarity with intangible assets.
- That dynamic is shifting though, with intangible asset financing gaining traction through both public initiatives and in the market.

## 2. Challenges to intangible asset finance

Intangible asset finance is still in its infancy. The ecosystem for such financing still faces a number of obstacles, making it difficult to scale. These transactions require more effort and take longer than more common financing deals. That is primarily due to the following factors:



**1. Valuing intangibles is hard.** Difficulties, such as the – often large – discrepancy between accounting values and market values, limited disclosure restricting the amount of readily available information, and the lack of a common valuation framework, make it difficult to assign a value to these assets.



**2. Many lenders and investors lack a solid understanding of intangibles.** Intangibles are complex and not easy to understand. Identifying the relevant intangibles, performing due diligence on them and setting up the contracts to establish rights to these assets, takes time.



**3. Regulators do not encourage the use of intangibles as collateral.** This heightens scrutiny on the part of financiers, with respect to the intrinsic value of the underlying assets.



**4. Transaction costs make intangible asset finance less attractive.** The complexities associated with valuation, due diligence and the administrative effort to register the resulting security interests translates into transaction costs.



**5. Intangibles can be hard to liquidate.** Before doing a deal, financiers need to feel confident that they can recover their investment. They assess the disposal value of the intangible assets, to determine how much can be loaned or invested. As there is no liquid secondary market in which intangibles can be monetized, the amount paid out in the event of default is typically substantially lower than the assessed value of the intangibles.

Advances in technology may mitigate some of the challenges surrounding intangible asset financing. For example, improving data availability and quality may facilitate valuation, prediction and liquidation in IP markets. This includes easier access to metadata on inventions, brands, creative works and rights. Similarly, cleaner and more granular data around the use and exploitation of intangibles could prove useful.

In the following section, we take a deeper look at these challenges, and how they complicate the field of intangible asset finance.

## Challenge 1: Valuing intangibles is hard

Understanding an asset's value is key to using it to secure capital. But valuing intangibles is complex, and there are natural limits to valuation.

To start, context drives valuation. For example, a patent portfolio that provides access to a niche technology might increase the market share of an enterprise that knows how to put it to use. Without that expertise, the same assets may hold little value. Similarly, the value of IP that protects an early-stage innovation is unclear.

However, even when dealing with more established business cases, the lack of available data and precedents poses difficulties for the valuation of intangibles. The terms of many transactions involving IP are not publically available or sufficiently granular to attribute a specific value to an asset.

Additionally, given their unique value, it can be difficult to find comparable assets. Given the subjectivity involved in valuing intangibles, seasoned experts can come up with wildly different and yet reasonable valuations.

Such variations make it all the more critical to understand the assumptions that valuers make. However, without a consistent valuation framework, comparing reports from different experts remains challenging.

**“Currently, there is no single methodology for valuing IP.”**

Currently, there is no single methodology for valuing IP. Without a consensus approach, independently verifying the value attributed to IP assets to compare valuations from different jurisdictions is difficult, even if done in similar settings (see Creating standards for valuing intangible assets). Given the cross-border nature of transactions involving IP, interoperability across jurisdictions could provide significant benefits.

## Creating standards for valuing intangible assets

The International Valuation Standards Council (IVSC) has issued guidance on the valuation of intangible assets in IVS 210. Among others, IVS 210 covers the bases of value, valuation approaches and methods, market approach, income approach, cost approach, special considerations for intangible assets, discount rates/rates of return for intangible assets, intangible asset economic lives and tax amortization benefit. IVS 210 is a reference for professionals valuing intangible assets.<sup>13</sup>


For an expansion on IVS 210, consider the guidance note by the Royal Institution of Chartered Surveyors (RICS) on “Valuation of intellectual property rights” issued in March 2020. The guidance note elaborates on the specific aspects of different subgroups of IP assets, including brand-related IP, technology-related IP, artistic-related IP and data-related IP.<sup>14</sup>

The community of valuation professionals with IP experience is relatively small and concentrated in a few geographic areas. Even where the profession exists, their knowledge must be combined with other domains to get a complete picture of an asset’s contribution. For example, evaluating IP rights protecting a sophisticated manufacturing process requires an understanding of legal rights, the technology involved and the market. Educational programs are emerging to support valuation professionals build skills around intangible assets.

## Programs to support professional valuation skills

Considering the central role valuation plays to support intangible asset finance, some countries have focused on building valuation communities and improving their skill set.

In Singapore, the Chartered Valuer and Appraiser (CVA) program, offered since 2016, was developed to enhance valuation capability. It is the first business valuation certification in Asia that helps local valuation professionals align their practices with International Valuation Standards (IVS). The program comprises three levels and six modules, ranging from the valuation of entities, specific assets and industries, to different stages of a company, etc. The fourth module, “Business Valuation for Financial Reporting,” covers the valuation of intangible assets, including the conceptual framework, the valuation process under various approaches and practical insights and methodologies used.



In Jamaica, the Jamaica Intellectual Property Office (JIPO) is leading an effort to build capacity for IP valuation in Jamaica. A series of workshops took place in 2021 with SMEs and practitioners, followed by the first cohort of IP valuers, who were trained in advanced IP valuation methodologies by experienced IP valuation consultants from the UK. Bankers, business and finance specialists as well as representatives from the Bank of Jamaica took part in the course. This strategic blend of participants is being coached and supported by JIPO to establish Jamaica's first IP Valuation Association.

To compound the issue, intangible assets are nearly invisible on corporate books, despite driving significant value. IP created within a company shows up on its balance sheet under very narrow circumstances. These are limited to when the intangible asset creates an expense, or is directly associated with existing or future revenue. While these assets undoubtedly contribute to the value of a firm, they remain unrecognized in financial reporting. As a result, accounting frameworks do not provide a full and consistent reflection of the economic value of intangible assets.

The systematic underreporting of IP value creates a blind spot for investors, financiers and others whose attention is often anchored on the little information provided in financial reports. This places many young companies at a severe disadvantage when accessing finance, simply because intangibles are their primary assets.

There are a number of calls to improve this situation, and standard-setting bodies are taking note.

**“Systematic underreporting of IP value creates a blind spot for investors.”**

### **New research into intangible assets**

The International Accounting Standards Board (IASB) is an independent, private-sector body that develops and approves the International Financial Reporting Standards (IFRS). In its most recent work plan, the IASB decided to include a research project on intangible assets. The initiative also includes the need for a comprehensive review of IAS 38 which governs how companies disclosed their self-generated intangible assets on their corporate books. The IASB also published a proposal to give intangible assets more prominence in the management commentary in financial reporting.

## Challenge 2: Many lenders and investors lack a solid understanding of intangibles

Today, the number of investors and specialized institutions that accept intangible assets as security for financing is still very limited. Given the legal intricacies and the practical difficulties of understanding, forecasting and attributing cash generation potential, IP-backed financing is normally outside the lenders' expertise and comfort zone. Often, decision-makers perceive intangible assets as risky simply because of a lack of familiarity and expertise. The resulting uncertainty does not readily fit with established conservative lending practices.

**"IP financing is often outside the lenders' expertise and comfort zone."**

As such, commercial lenders have historically not considered intangible assets as appropriate collateral for debt financing and, as a consequence, have little experience in providing capital against them. Many investors, particularly those in developing countries, have limited experience in dealing with this asset class.

To overcome these roadblocks, some countries are engaging with their local lending community to raise the profile of intangible asset financing. This can include supporting credit decision-making processes of regional business lenders, as exemplified in Japan. Below, we highlight how lending communities have made efforts to learn about company IP using patent databases and engaging with IP-focused companies.

### Changing perspectives on IP in Japan

The Japan Patent Office's IP Finance Promotion Project,<sup>15</sup> introduced in 2015, has led to a number of regional financial institutions working on IP-focused initiatives.

The project promoted education and capacity building regarding IP-related specifics (such as IP register queries as part of due diligence) amongst employees of regional financial institutions. After engaging with lenders, use of the IP information rose to 25% of regional commercial lenders. Some of these financial institutions have even moved patent attorney services in-house.

Interestingly, the IP Finance Promotion Project also catalyzed lenders to incorporate a new IP perspective into their decision-making processes.

While, previously, the focus was on quantitative information to support the lending process, now, the relevance of IP to the borrower's business case, such as competitive strength and growth drivers, is gaining increasing relevance, even within credit committees and management circles.

### Challenge 3: Regulators do not encourage the use of intangibles as collateral

Regulators are tasked with upholding the stability of the financial system. Regulators require banks to hold a certain amount of capital to cover the risks they take. This obligation serves as a cushion to protect the banks and ensures they have enough headroom to withstand shocks in the market. The standards that lay out the regulatory capital requirements in banking are based on international rules such as the Basel III (see below). The amount of capital that regulators demand depends on the perceived risks associated with the loan and the underlying collateral.

#### Basel III capital recommendations

Basel III is a set of recommendations on banking regulation, issued by the Basel Committee on Banking Supervision (BCBS). It is a framework that provides international standards for bank capital adequacy, stress testing and liquidity requirements. These standards are aimed at strengthening bank capital requirements by increasing minimum capital requirements and, holdings of high-quality liquid assets and decreasing bank leverage.

The Basel III standards also define the criteria for using physical and financial assets as collateral for lending. Loans secured by certain types of collateral typically require the lender to hold less capital, because these forms of lending are perceived as less risky. However, banking regulators do not ease capital requirements for intangibles for lending purposes.

While this does not preclude banks from providing loans against intangibles as collateral, it leads to high regulatory capital requirements. IP-backed loans are likely being priced at rates similar to unsecured lending, making them unattractive from a borrower's perspective. However, there may be opportunities for the risk profile of certain forms of IP-backed finance to be considered sufficiently low to warrant a more nuanced regulatory treatment.

Revising banking regulations could allow lending institutions to reduce the amount of capital they need to hold for a loan secured by intangibles. Even though making changes to banking regulations requires coordinated work at the international level this is worth consideration.

“Without regulatory changes, lending institutions are unlikely to reduce the amount of capital needed for a loan secured by intangibles.”

At the same time, these constraints may yield opportunities for other lenders to support intangible asset financing. Alternative lenders, such as debt funds, could fill this gap as they can operate more freely than banks. In addition, insurers, given their different regulatory framework, could contribute to bankability by changing the economic risk profile of intangible asset finance products through the integration of insurance solutions.

### Challenge 4: Transaction costs make intangible asset finance less attractive

While intangible asset financing is growing, it is still largely nascent. Both the amounts and volume of transactions are low compared to other types of financing. With the complexity associated with valuation and extensive due diligence, intangible asset finance can be more expensive and time-consuming than other transactions. Unclear requirements, as well as the need for customized processes, often add to the overall transaction costs.

Consequently, the transaction costs are high, relative to deal value. At the same time, given the novelty of intangible asset finance, there are not enough transactions to realize learning curve effects and bring down process costs.

For financiers who rely on scale efficiencies with highly standardized products at the core of their business models, this creates a problem.

For companies seeking intangible asset financing, the capital outlay associated with valuation and other required administrative work can be a deterrent. These expenses are largely upfront and incurred before the financing decision is made. This increases the risk of sunk costs, reducing the attractiveness of IP financing models.

Policymakers in a number of countries have launched initiatives that aim to reduce transaction costs. Some have targeted the valuation process itself, offering IP valuation subsidies for borrowers or lenders. Subsidized interest rates and tax benefits have also been used. While this has helped to reduce transaction costs for market participants and prevent market failure, the cost of IP-backed financing remains too high to be a viable option for many companies.

“For companies seeking intangible asset financing, the cost of valuation can be a deterrent.”



## Challenge 5: Intangibles can be hard to liquidate without transparent secondary markets

With few precedents, little is known about how often and what happens when deals fail. Transactions based on IP in other contexts, such as licensing, occur much more frequently. However, IP deals are largely private and as such, they provide little insight for financiers. Even when they do become public, only limited details are available.

This creates challenges when valuing the assets underpinning a finance transaction, and when disposing of assets in the case of default. The issue of disposal is of particular concern for lenders who may end up with an asset that they cannot readily convert into cash. For large parts of the commercial lending community, this risk consideration prevents their entry into intangible asset finance. Regulatory concerns around the inability to recover value from intangible asset collateral have led to high capital adequacy requirements to compensate for the perceived uncertainty associated with such investments, as described in challenge 3.

There are efforts to bridge this gap.

Specialized insurers, development banks and state initiatives offer schemes that can change risk allocation, in particular with the lending community. Collateral protection insurance addresses the banks' concerns about being stuck with an illiquid asset in a worst-case scenario. Insurers can guarantee recoverability of a portion of the collateral value and limit the downside risk for the bank. Importantly, insurers may be in a position to do this because they operate in a different regulatory framework from banks, which allows them to take a more economic view of such risks.

### Development banks could catalyze the IP market

Experiments by commercial actors and governments to improve the use of intangible asset finance are ongoing. But the market lacks the critical mass of lenders required for it to operate on its own. Development banks could play a pivotal role in catalyzing the market.

In the field of intangible asset finance, two features set development banks apart from other market participants: **risk tolerance** and **capacity for smaller deals**.

With respect to risk, some development banks<sup>16</sup> can take on more risky transactions than more conservative parts of the lending community,

such as commercial banks. This allows development banks to step in and meet unfulfilled calls for finance when regular banking channels fail to do so.

### **Example from the Republic of Korea**

For example, in the Republic of Korea, IP-backed financing activity has been led by two state-owned banks, Korea Development Bank (KDB) and Industrial Bank of Korea (IBK). Following their engagement, commercial lenders, such as Woori, Shinhan and KEB Hana, have entered the intangibles finance space. In addition to providing bank guarantees to facilitate access to financing for intangible intense companies, KDB also runs a USD 60 million IP recovery fund.<sup>17</sup>

### **Example from Canada**

Secondly, the mandates of these development banks allow them to support the growth of small businesses and to take on smaller transactions compared to other lenders. For example, a division of the Development Bank of Canada, BDC Capital, has created a direct investment fund focusing on IP-backed financing structures with CAD 160 million available for equity, quasi-debt and debt investment with a ticket size between CAD 3 and 10 million. The first round of portfolio investments has already been completed in 2022.<sup>18</sup>

Development banks also play a role in fostering the evolution of the finance ecosystem. For example, in Jamaica, the Compete Caribbean Partnership Facility – a private sector program jointly funded by the Inter-American Development Bank (IDB), the United Kingdom’s Foreign, Commonwealth & Development Office (FCDO), the Caribbean Development Bank (CDB) and the Government of Canada – has funded capacity building in the field of IP valuation.<sup>19</sup> Another IDB project in Jamaica is focusing on combining access to capital funding (e.g., grants for innovation as well as adoption of digital technologies) with incubation services, to better assist evolving SMEs from a holistic perspective.<sup>20</sup>

Collateral monetization in the case of default has also been addressed by the public sector. Responses range from establishing a collection fund for distressed IP to credit guarantors offering underwriting. There are also a number of actors working towards the development of public marketplaces and IP exchanges that could make it easier to value and dispose of intangibles.

# 3. Addressing the challenges – moving towards market-driven intangible asset finance

Countries are currently experimenting with IP-backed finance and pursuing different solutions.

These national responses vary widely and often involve a combination of several measures to facilitate IP-backed financing. The following is a non-exhaustive list of the most prominent national responses:

## National responses to facilitate IP-backed financing



### Equity financing

- Direct equity financing by state-backed investment or venture funds
- Alternative fund setup via development banks to cater to IP equity financing



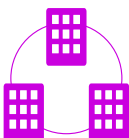
### Debt financing

- Government-backed loans either via directly subsidized interest rates or guarantee schemes
- IP commercialization loans via the quasi-public sector, through development banks
- State-backed venture debt/financing schemes to provide the needed debt financing



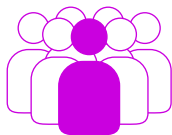
### Valuation

- Schemes aimed at building valuation capacity
- Subsidized valuation schemes
- Creation of valuation institutions



### Collateral monetization in the case of default

- Establishment of recovery/collection funds for distressed IP
- Credit guarantors offering underwriting
- Provision of collateral insurance by insurers



### General awareness, training and education

- Initiatives for general awareness-raising, training and education on IP-backed finance
- More targeted approaches are facilitating bank lending via education of commercial lenders

## Supporting debt financing in Asia

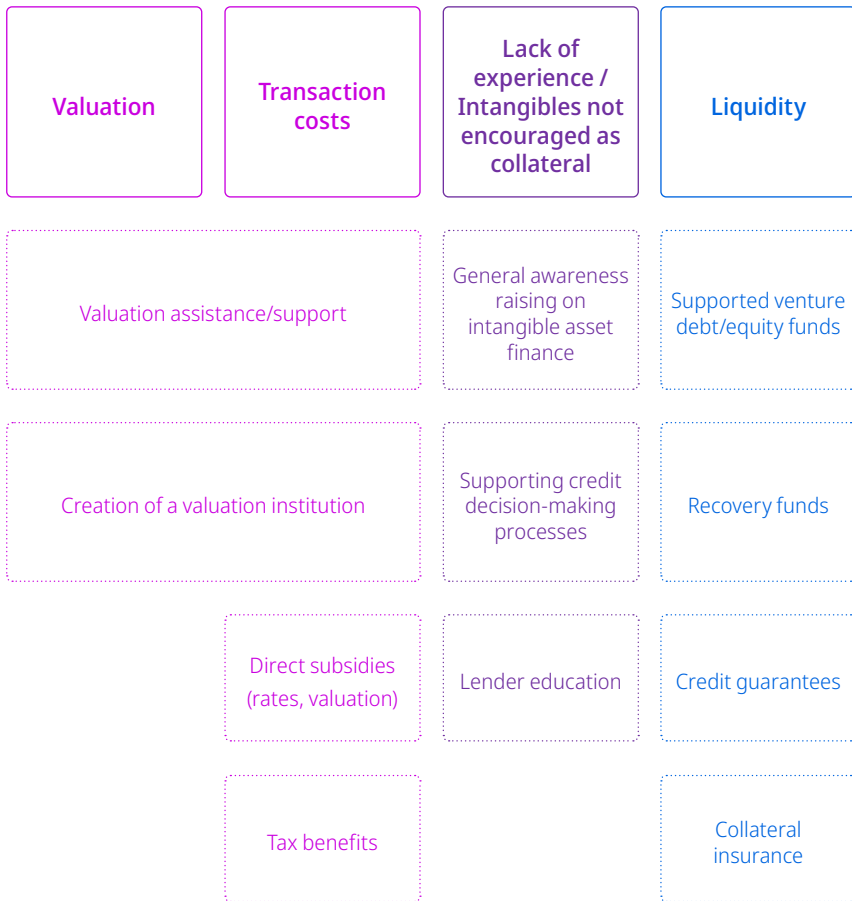
The **People's Republic of China**, which today is the largest market for state-supported IP-backed finance, has long been experimenting with IP-backed financing schemes. In the Chinese approach, credit guarantees and direct subsidies to borrowers, alongside schemes to foster confidence in IP-backed financing, play a prominent role. The Chinese government was one of the first to encourage sale-and-leaseback models, as a base for securitization.

The **Republic of Korea**, on the other hand, has deployed a different mix of instruments to facilitate IP-backed debt financing. Here, government backing of venture debt activity, development bank guarantees and the establishment of a recovery fund are at the core of the initiatives. These pillars are complemented by the creation of an IP valuation institution.

**Japan's** approach focuses very much on lender education and supporting credit decision-making processes. In addition, valuation assistance/support is provided to commercial lenders engaging in IP-backed financing. The Japanese approach is characterized by a comparatively lower degree of direct market intervention.

While there are differences in preferred forms of financing, e.g., debt vs. equity, general awareness raising, training and education on intangible asset finance are a common feature of these initiatives. The following graphic clusters the key building blocks of these country approaches and the challenges they address.

## Building blocks of IP-financing solutions



## 4. WIPO: moving intangible asset finance from the margins to the mainstream

Mainstreaming IP-backed finance faces a number of challenges that no single entity can solve alone.

Both commercial actors and governments are taking initiatives to improve the current situation.

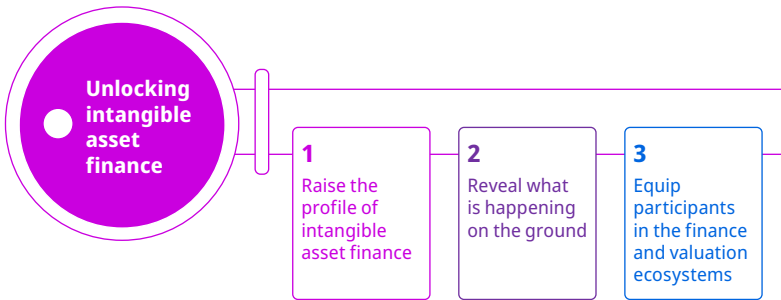
But, the market still lacks the critical mass of actors to close the finance gap. With the market for intangible asset finance still nascent, public interventions may be necessary to introduce a step-change in this form of financing. To build a sustainable market, these initiatives need to send the right impulses to spur private sector engagement over the long term.

Finding solutions to the challenges of intangible asset finance requires an approach that unites the public and private sectors. Experts from business, finance, IP and government will need to work together to make the transition from a policy-driven to a market-driven innovation ecosystem.

“Finding solutions to the challenges of intangible asset finance requires an approach that unites the public and private sectors.”

WIPO’s Medium Term Strategic Plan 2022-2026 describes the organization’s biggest challenge as *expanding the number and range of those who use intellectual property successfully*.<sup>21</sup> Given the untapped potential, WIPO is taking an action-oriented approach making the valuation and financing of intangibles a key area of WIPO’s work in the context of broader efforts to ensure that intangible assets support entrepreneurs and enterprises globally.

WIPO Action Plan on Intangible Asset Finance has three streams, as shown below:



### **Stream 1: Raise the profile of intangible asset finance**

WIPO will convene a series of high-level conversations to raise awareness among the global community about the potential of intangible asset finance. These conversations will bring together leaders in the fields of finance, business and IP from the public and private sectors.

To complement these conversations and increase their potential impact, WIPO will establish expert consultative groups (ECGs) on unlocking intangible asset finance. These groups will take a deep dive into technical roadblocks to intangible asset finance, such as valuation methodology, accounting rules and lender engagement. Each session of the ECG will create a discussion paper to flesh out the reality on the ground and potential options to make progress. In addition, WIPO plans to participate in finance-related forums to raise awareness of the potential and challenges involved in intangible asset finance.

### **Stream 2: Reveal what is happening on the ground**

Policymakers and financiers lack a complete view of the viability and extent of intangible asset finance practices around the world. WIPO is working to close this information gap by building an evidence base that reveals what governments and commercial actors are doing in this space.

For example, WIPO is developing a series of country reports on IP-backed finance. Each report is drafted by an expert, guided by a local government partner and WIPO. These reports offer an insider perspective on successes and challenges, as well as the view ahead. They highlight the great variety of measures around intangible asset financing, including subsidized interest rates,

the creation of dedicated funds and education programs to develop standards, raise awareness and promote good practices.

The project both adds to the knowledge base and provides a catalyst for countries to engage in this area. The first report, *Unlocking IP-backed Financing: Country Perspectives Singapore's Journey* was launched in 2021. Other reports are underway, including for Brazil, Canada, China, Jamaica, Japan, the Republic of Korea, Mexico, Saudi Arabia, Spain, Switzerland, Türkiye and the United Kingdom.

Interest in intangible asset finance has grown in the private sector. WIPO will engage in several research projects in this area, including highlighting commercial transactions and a study of the use of IP collateral in the film industry.

### **Stream 3: Equip participants in the intangible asset finance and valuation ecosystems**

Finally, participants in intangible asset finance need support to move forward at the ground level.

Businesses need practical tools to improve their chances when using intangible assets to secure debt and equity financing. Financiers who are less familiar with IP need a better understanding of the potential value of these assets, their chain of title and how they can be liquidated in the case of default. As a start, WIPO will build a practical finance toolkit to help borrowers and lenders communicate more effectively.

Given the complexities of IP valuation, WIPO is also exploring a service to facilitate the sourcing of valuation experts, which could be used directly by equity financiers and lenders. Alternatively, this service could serve to underpin programs in governments or through development banks.





## Notes

- 1 Brand Finance (2021). Global Intangible Finance Tracker — an annual review of the world's intangible value (<https://brandirectory.com/reports/gif-2021>)
- 2 Ocean Tomo (2021). *Intangible Asset Market Value Study*
- 3 WIPO (2022). Global Innovation Index 2022, 15th Edition: *What is the future of innovation-driven growth?* Top 5,000 brands (% of GDP), source: Brand Finance database (<https://brandirectory.com/>); and International Monetary Fund, World Economic Outlook Database, October 2021 (<https://www.imf.org/en/Publications/WEO/weo-database/2021/October>)
- 4 WIPO (2017). World Intellectual Property Report 2017: *Intangible Capital in Global Value chains*, <https://www.wipo.int/publications/en/details.jsp?id=4225>
- 5 <https://www.worldbank.org/en/topic/sme/finance>
- 6 See World Bank. Enterprise Surveys. Available at: <https://www.enterprisesurveys.org/en/enterprisesurveys>
- 7 This includes registered and unregistered intellectual property rights, and rights emerging from them such as licensing revenue, but excludes goodwill.
- 8 Businesses can also be funded through bootstrapping, crowdfunding and government grants. However, intangibles play less of a role in these types of financing.
- 9 WIPO (2022). Global Innovation Index 2022, 15th Edition: What is the future of innovation driven growth? Based on data by Refinitiv Eikon (private equity screener), accessed May 27, 2022.
- 10 OECD (2015). *Enquiries Into Intellectual Property's Economic Impact*, 463 et seq.
- 11 In some cases, a sale-and-leaseback transaction transfers the right to the cashflow from the asset, rather than ownership of the asset itself.
- 12 A Special Purpose Vehicle (SPV) is a distinct separate legal entity that is equipped with its own assets and liabilities. Usually, SPVs are created for a specific objective, i.e., purpose of the entity is restricted to the purchase and financing of specific assets or projects. This is often done by banks to separate financial risk from its other operations. Therefore, they are sometimes referred to as bankruptcy remoteness, as they would survive in the case the bank collapses.
- 13 IVSC (2020). International Valuation Standards, including IVS 210, pp. 63-79.
- 14 RICS (2020). "Valuation of intellectual property rights".
- 15 Umbrella term broadly used to refer to initiatives introduced on the webpage <https://chizai-kinyu.go.jp/>.
- 16 World Bank and regional development banks traditionally lend to governments. This applies mostly to national development banks.
- 17 OECD (2022). *Secured lending for SMEs: Making effective use of registries and intangibles*, 51 et seq.
- 18 BDC (2022). "World IP Day: BDC Capital's IP-Backed Financing Fund celebrates a busy year helping Canadian companies grow" ([www.bdc.ca/en/about/mediaroom/news-releases/world-ip-day-bdc-capital-op-backed-financing-fund-celebrates-busy-year-helping-canadian-companies-grow](http://www.bdc.ca/en/about/mediaroom/news-releases/world-ip-day-bdc-capital-op-backed-financing-fund-celebrates-busy-year-helping-canadian-companies-grow)).
- 19 Andrew Laidley (2021). "Over 300 trained in intro to IP valuation", *Jamaica Observer* ([www.jamaicaobserver.com/business/over-300-trained-in-intro-to-ip-valuation](http://www.jamaicaobserver.com/business/over-300-trained-in-intro-to-ip-valuation)).
- 20 Boosting Innovation, Growth and Entrepreneurship Ecosystem (BIGEE). <https://thinkbigee.com/>
- 21 WIPO. Medium-Term Strategic Plan (MSTP) 2022-2026 ([www.wipo.int/edocs/mdocs/govbody/en/wo\\_pbc\\_32/wo\\_pbc\\_32\\_3.pdf](http://www.wipo.int/edocs/mdocs/govbody/en/wo_pbc_32/wo_pbc_32_3.pdf))



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