



Unlocking
IP-backed
Financing
Series

Country
Perspectives
**China's
Journey**



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Preface

China has improved its innovation capacity, the prosperity of its capital market and strengthened its intellectual property rights (IPR) system and capacity. This has led to the emergence and development of intellectual property (IP) financial services, which have become one of the major ways of effectively promoting the commercialization and use of IP assets within China. After more than two decades of development and innovation, China's IP financing now covers IP pledged lending, IP insurance and IP securitization. Particularly, as China's IP assets operation service system has improved, there is a growing trend to capitalize IP as an asset that has led to active IP financing activities of various types. China's IP financial services are oriented toward all kinds of market players, especially innovative small and medium-sized enterprises (SMEs). Therefore, it is hoped that this report will enable market players around the world to understand how China's IP financial services have developed, and to participate in IP financial activities in China.

Disclaimer

The views expressed in this publication are those of the authors and do not necessarily represent those of WIPO.

Acronyms

CCB	China Construction Bank
CNIPA	China National Intellectual Property Administration
GDP	gross domestic product
IP	intellectual property
IPR	intellectual property rights
MSME	micro, small and medium-sized enterprise
NCAC	National Copyright Administration of China
PICC	People's Insurance Company of China
R&D	research and development
SME	small and medium-sized enterprise
WIPO	World Intellectual Property Organization

Executive summary

Patent and trademark pledged lending is thriving within China, reaching 486.9 billion renminbi (CNY) in 2022. These types of loans grew steadily between 2016 and 2022 at an annual growth rate of 28.4 percent. In the first three quarters of 2023, China's patent and trademark pledge financing reached CNY 495.0 billion, an increase of 52.9 percent year-on-year. At least 18,000 businesses benefited from this form of financing in 2022, each receiving loans of no more than CNY 10 million.

Innovative and creative businesses make a significant contribution to China's economy. Patent-intensive industries reached a value of CNY 14.3 trillion and the copyright industry reached CNY 8.5 trillion in 2021. Combined, these businesses accounted for nearly 20 percent of China's GDP that year.

As of September 2023, the People's Insurance Company of China (PICC) has been providing an IP assets insurance business in 99 third-tier cities in 22 provinces, providing risk coverage of over CNY 130 billion for the more than 50,000 patents, trademarks and geographical indications held by almost 31,000 businesses.

With the growth of the IP lending industry, 119 IP-backed security products had been issued on the Shanghai and Shenzhen stock markets by September 2023. The amount financed reached CNY 26.8 billion.

The value of intangible assets in Chinese firms continues to rise, reaching CNY 4.48 trillion in A-share companies in 2021, up 17.7 percent year-on-year. Among these firms, 94.6 percent disclosed IP assets in their financial reports. The reports disclosed IP assets valued at CNY 964.2 billion, accounting for 15.7 percent of the total intangible assets disclosed by these companies.

The import and export value of IP royalties has also grown, from CNY 226.5 billion in 2017 to CNY 387.2 billion in 2022. The annual export growth rate for the year was 17 percent. From January to July 2023, the import and export value of IP royalties reached CNY 223.8 billion, an increase of 3.2 percent year-on-year.

Good results have been achieved in supporting 37 key cities across China in providing IP operation services with which to engage in IP pledged lending, foster high-value patents and develop the IP service sector more broadly. The IP operation service chain and ecosystem has thus been continuously improved. In 2022, the number of patent transfers, licenses and pledges that took place in the 37 key cities reached 220,000, accounting for 43 percent of the national total and representing an important driver invigorating China's patent operation market.

China's Journey

Introduction

Driven by the concepts of respecting, protecting and profiting from innovation, IP assets are used in a diversity of ways within China to meet the needs of innovators, including the need to access financial services. The biggest beneficiaries of an inclusive, dynamic and forward-looking IP financial service ecosystem that takes into account the interests of all stakeholders will be the market players – especially small and medium-sized enterprises (SMEs). Patent and trademark pledged lending¹ registered in China has grown from CNY 108.6 billion in 2016 to CNY 486.9 billion in 2022 at an average annual growth rate of 28.4 percent.² During the first three quarters of 2023, this amount reached CNY 495.0 billion, up 52.9 percent year-on-year, with 28,000 pledges, an increase of 49.3 percent over the previous year. Among them, inclusive patent and trademark pledges with an amount below CNY 10 million accounted for 71.7 percent, benefiting 18,000 micro, small and medium sized enterprises (MSMEs), an increase of 41.7 percent year-on-year, further expanding the scope of inclusion.^{3,4} IP financing covers IP pledged lending, IP insurance and IP securitization. Of these, IP pledged lending started early, progressed fast and has matured the most and benefited SMEs the most. In implementing a series of important reforms in the capital market, China has created the conditions for IP financial services that are more diversified.

This report shares China's experiences in IP financial services by outlining the history, development and practices of such services so that China can better cooperate with countries in related fields and jointly addressing the challenges faced by IP financial services.

Overview

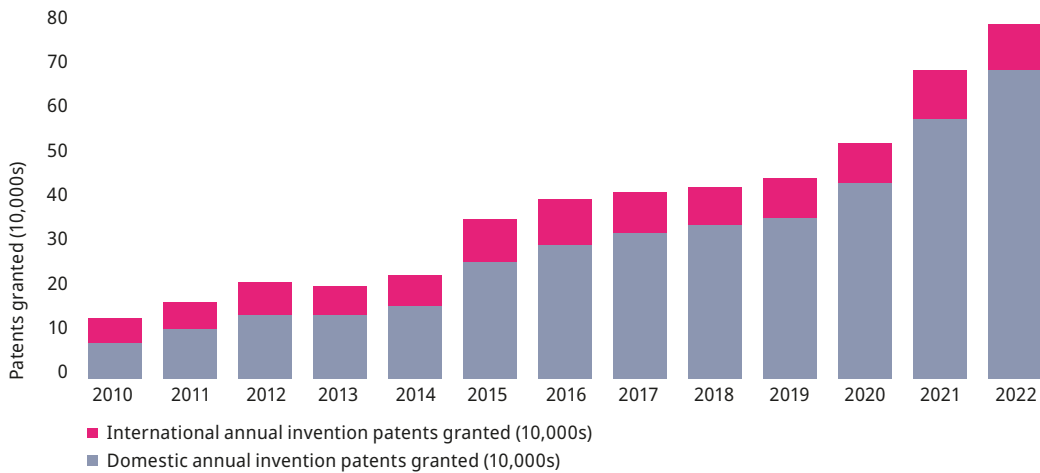
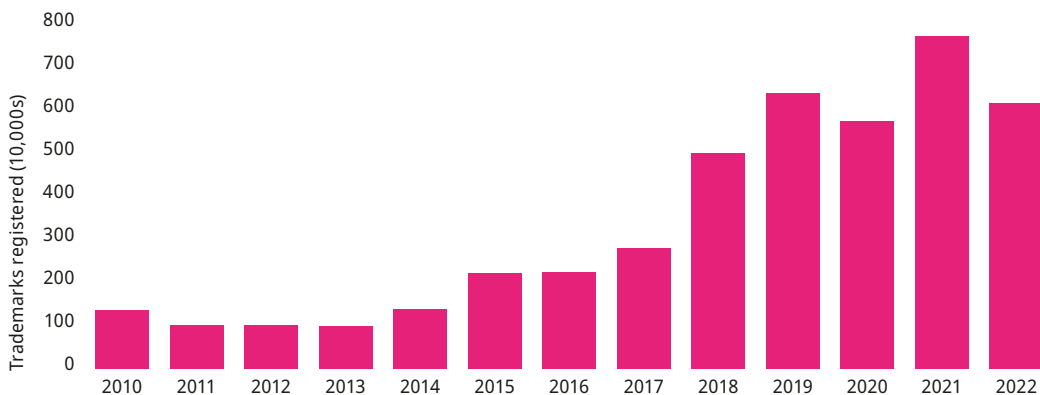
Overview of the IP landscape in China

Along with the expansion of China's market economy and innovation capability, the role of IP assets in the operation of businesses has become significant. More and more market players have come to recognize the importance of using IP management to realize the full potential of their IP assets. In addition, an improvement in the quality of IP assets and their quantitative accumulation have provided a solid foundation for the development of IP financial services.

In 2022, China granted 798,000 invention patents and filed 74,000 international patent applications through the Patent Cooperation Treaty (PCT) route, ranking first in the world for a fourth consecutive year (table 1) (figure 1).⁵ In addition, 6,177,000 registered trademarks were approved, as well as 5,827 applications filed by domestic applicants for the international registration of marks via the Madrid System (figure 2). The number of registered copyrights for works and computer software reached 4,517,000 and 1,835,000, respectively. Furthermore, 4,026 new plant variety rights were granted.⁶ In the Global Innovation Index 2023 published by the World Intellectual Property Organization (WIPO), China ranked 12th in the world for innovation.⁷

Table 1 Overall development of intellectual property rights in China, 2022

Total number of invention patents granted	798,000
Number of international patent applications filed via the PCT route	74,000
Number of approved registered trademarks	6,177,000
Number of Madrid System applications received from domestic applicants	5,827
Number of copyright registrations for works	4,517,000
Number of copyright registrations for computer software	1,835,000
Number of new plant variety rights granted	4,026

Figure 1 Patents granted in China (10,000s), 2010–2022**Figure 2 Trademarks registered in China (10,000s), 2010–2022**

Industrial and trade growth closely associated with IP rights has also shown good momentum. In 2021, the value-added of patent-intensive industries reached CNY 14.3 trillion, accounting for 12.4 percent⁸ of gross domestic product (GDP), while the added value of the copyright industry reached CNY 8.5 trillion in 2021, accounting for 7.4 percent⁹ of GDP. Both are an important support for high-quality growth. In 2021, the intangible assets of A-share companies (including those listed on the Main Board, the Growth Enterprise Board, the Sci-Tech Innovation Board and the Beijing Stock Exchange) reached CNY 4.5 trillion, up 19.1 percent from the previous year.¹⁰

Among A-share companies, 94.6 percent disclosed IP assets within their financial reports. The total amount of these IP assets stood at CNY 964.2 billion, accounting for 15.7 percent of the total intangible assets of these companies. This relatively high disclosure rate can be attributed to the following factors: (1) with the rapid increase in filings and grants for patents, trademarks and other intellectual property rights (IPRs), more and more companies are gradually recognizing the significant value of IP as part of intangible assets; (2) the number of innovative science and technology listed companies continues to grow, and they are paying more attention to IPR disclosure; and (3) the introduction of relevant policies is conducive to the standardization and refinement of IPR disclosure by listed companies.

It shows a continuous growth trend of the value of imports and exports based on IP royalties in China. The import and export value of IP royalties grew from CNY 226.5 billion in 2017 to CNY 387.3 billion in 2022. The annual growth rate of exports reached 17 percent.¹¹ From January to July 2023, the import and export value of IP royalties reached CNY 223.8 billion, an increase of 3.2 percent year-on-year.¹²

The development of IP financial services

IP operation is a term to describe using the IP system and operational rights to enhance and realize the value of IP assets. It covers IP assets planning and creation, value assessment, transfer and commercialization, investment and financing, strategic use, and patent navigation. Among them, realizing the value of IP through financing is the most important means of IP operation. Under the trend of China's industrial transformation and upgrading the promotion of high-quality economic development, market players are increasingly aware of the value of IP assets as a core competitiveness and are attaching greater importance to improving their competence in IP operation. High-quality IP supports a company's profitability. It also stimulates demand for IP-backed financing.

Meanwhile, as China reforms its business registration system in order to create an enabling environment, micro, small and medium-sized enterprises (MSMEs) are flourishing, giving rise to a greater demand for IP financial services. Relevant authorities work together to diversify IP financing and make it more inclusive. They have built an IP operation system, improved support policies, innovated financial products and provided IP financial services. Through multi-dimensional cooperation, they seek to expand IP financial services, broaden financing channels for innovative entities with IP assets, and create a favorable environment for the development of IP financing.

Patents can be taken as an example of the amount of finance involved. Patent pledged lending increased from CNY 7.1 billion in 2010 to CNY 401.5 billion in 2022¹³ – a 50-fold increase – with an annual growth rate of 40 percent. Particularly since the COVID-19 pandemic broke out in 2020, the role of IP-based financing in coming to the assistance of stressed businesses has received close attention. In 2022, industrial enterprises accounted for 99.5 percent of total patent pledgors, highlighting the role of IP-based financing in supporting the real economy.¹⁴

As for IP insurance, since 2016, the China National Intellectual Property Administration (CNIPA) has carried out pilot work on patent insurance in 19 regions. In that year, the amount insured in the pilot regions amounted to CNY 310 million covering all 1,702 projects.¹⁵ By the end of September 2023, the People's Insurance Company of China (PICC) had been providing IP assets insurance service in 99 third-tier cities in 22 provinces, providing risk coverage of over CNY 130 billion for the more than 50,000 patents, trademarks and geographical indications held by more than 31,000 businesses.¹⁶

IP assets insurance is an important type of IP-based financing, as well as being a means to resolve IP assets risk. To date, IP assets insurance can be divided into four types: liability insurance, guarantee insurance, credit insurance and cost recovery insurance.

In terms of IP assets securitization, China issued its first IP-backed security product in 2018.¹⁷ Since then, the number of IP-backed security products issued and the amount financed have been increasing year-on-year. By the end of September 2023, 119 IP-backed security products were issued in Shanghai and Shenzhen, with the amount financed reaching CNY 26.8 billion.¹⁸

Building an IP financial services system

Policy system

In the 1990s, Chinese government departments and relevant institutions began to connect IP assets with financing and launched policies and working measures for IP-pledged lending. After the nascent stage from the 1990s to the beginning of the 21st century, and with the promulgation of the Outline of the National Intellectual Property Strategy, IP financial services entered the pilot and promotion stage (2008 to 2018).¹⁹ Projects on IP-pledged lending, IP insurance and securitization, etc., were piloted and gradually expanded. Among them, the building of a work system to provide IP operation services, which started in 2014, accelerated the expansion of IP financial services. Since 2019, with the end of the pilots, the IP financial service model has become mature, the policy system improved, and IP financial services have started to expand on a large scale.

The Outline of the 14th Five-Year Plan (2021–2025) for National Economic and Social Development of the People's Republic of China and Vision 2035 (2021) proposes improving the financial support system for innovation and encourages financial institutions to develop sci-tech financial products, such as IP pledged lending and technology insurance.²⁰ The Outline for Building an Intellectual Property Powerhouse (2021–2035) (2021) proposes the establishment of a “standardized, orderly and vibrant market-based operational mechanism” and regards IP financing as an important aspect of the market-based operation of IP assets.²¹ The Outline emphasizes the “active and steady development of IP financing” and “innovation in IP-based financing models.” The development of IP financing in China at this stage is therefore focused on stability and innovation.

Technology insurance compensates for losses as the result of risks associated with technology innovation activities and the application and promotion of science and technology innovation products.

IP pledged lending

The registration of pledges is required for loans pledged with IP rights in China. After the promulgation of the Guarantee Law of the People's Republic of China in 1995,²² supporting regulations were formulated. They included the Measures Patent Pledge Registration (1996, amended in 2010 and 2021),²³ Provisions on the Procedures for Registration of Pledges on the Exclusive Right to Use Registered Trademarks (1997, amended in 2009 and 2020)²⁴ and Measures for Registration of Pledges on Copyright (1996, amended in 2010).²⁵ These regulations have improved provisions around the registration of IP pledges and laid the foundation for coherent registration by competent authorities.

In the 10 years that followed, the CNIPA, together with other government departments, gradually established a policy system for IP financial services, including support for SME financing; guidance for commercial banks in developing IP pledged loans; the strengthening of the management of IP assets appraisal; and promotion of IP financial services. Meanwhile, pilot projects were conducted nationwide to try new models and methods in the IP financial services. In 2019, the former China Banking and Insurance Regulatory Commission,²⁶ the CNIPA and the National Copyright Administration of China jointly issued the Notice on Further Strengthening the Work of IP-pledged Lending.²⁷ The Notice specifies that should the non-performing rate of commercial banks' IP pledged lending be higher than for other kinds of the bank's loan by 3 percentage points or less, the rate will not count as a negative factor in the performance rating made by the supervisory department. Internal evaluators of banks also provides support measures such as separate credit planning for IP pledged lending.

Banks are also encouraged to improve internal due diligence and their performance evaluation mechanisms that are in line with the characteristics IP pledged lending. In the case of risks arising in IP pledges, this policy document exempts commercial banks from all or part of

their liabilities if they have complied with the workflow, exercised due diligence, and fulfilled their duties as required by law. This has had a positive role in encouraging banking financial institutions to increase IP pledged loans.

In 2020 and 2021, the CNIPA revised the Provisions on the Procedures for the Registration of Pledge on Exclusive Rights to Registered Trademarks²⁸ and the Measures for the Registration of Pledge of Patent Rights²⁹ to simplify the registration procedure, shorten the registration cycle and relax registration criteria. At present, the registration of pledges on patents and trademarks in China can be completed in one working day. During the COVID-19 pandemic in 2020, more than 5,000 businesses completed registration of pledges on IP rights through expedited services.³⁰

IP insurance

Since 2011, the CNIPA has promoted patent insurance. It has completed, step by step, enterprise demand surveys, training and workshops, business process optimization, policy promotion and media communication in order to improve IP risk management by enterprises. The CNIPA has worked with insurance institutions to establish an IP insurance system, standardize business processes and improve services. It also strengthened research on risk control, so as to ensure patent insurance products are acceptable to the market. The 2017 State Council Opinions on Strengthening the Innovation-driven Development Strategy and Further Promoting Entrepreneurship and Innovation seeks to “promote patent pledges and other IP-based financing models and encourage insurance companies to provide guarantee insurance for IP-based financing of small and medium-sized technology businesses.”³¹ The Opinions on Strengthening the Protection of Intellectual Property Rights issued in November 2019 “encourages insurance institutions to provide overseas IP infringement liability coverage, patent enforcement coverage, losses from patent infringement coverage and other insurance services.”³² Taken together, these policies point out priorities in the development of IP insurance and propose a focus on product innovation, risk prevention and market player support.

Securitization of IP assets

In 2015, China for the first time proposed the “securitization of intellectual property.”³³ In 2016, it further proposed exploring “IP securitization and trust services and support for the use of IP for capital contribution.”³⁴ The piloting of IP securitization has also been incorporated into the development plans of regions such as Guangdong–Hong Kong–Macao Greater Bay Area and Hainan Free Trade Port. From 2018 to 2021, IP assets securitization was trialed in some provinces and cities.

Legal system

Evolution of laws and regulations relating to IP financing

Owing to the continuing improvements to its legal system related to IP and finance, financial activities related to IP in China today enjoy a more solid institutional basis and are protected by legal safeguards. In 2020, China promulgated and enacted the Civil Code of the People’s Republic of China.³⁵ This is the first time that China has systematically codified civil legal norms into such a code. Before promulgation of the Civil Code of the People’s Republic of China, financial activity provisions related to IP were covered by civil laws in different areas. Article 75 of the Guarantee Law of the People’s Republic of China (1995)³⁶ clarifies the scope of the rights in IP pledged financing, specifying that exclusive rights to trademarks, patent rights and economic rights in copyrights that are legally transferrable rights that can be pledged. Articles 79 and 80 provide for a procedure for creating a pledge on IP rights and the effects of such a pledge. The Guarantee Law thus provides a legal basis for pledges on IP. The Real Right Law³⁷ of the People’s Republic of China that became effective as of 2007 also provides, under a section on pledges, that transferrable IP rights, such as registered trademarks, patents and copyrights, may be pledged.

In addition, the much earlier Company Law of the People’s Republic of China (1993) also provides that shareholders may fulfill their obligation to the company’s capital contribution with IP rights.³⁸ According to this law, besides monetary, in-kind and land contributions, “industrial

property rights and non-patent technologies” are allowed as capital contributions, and such contributions shall not exceed 20 percent of the registered capital of a limited liability company.³⁹

The Company Law, as revised in 2005, replaced “industrial property rights and non-patent technology” with “intellectual property rights,” expanding the type of intangible asset that can be contributed as shares.⁴⁰ The Company Law (2005) also requires that monetary contributions shall not be less than 30 percent. After the Law was further amended in 2013, the restriction on the proportion of each type of contribution was removed from the provisions on capital contribution and evaluation, which means a capital contribution in the form of IP may now be up to 100 percent.⁴¹

Current laws and regulations relating to IP financing

In the Civil Code of the People’s Republic of China, Book Two – Reals Rights clearly provides for pledges on IP rights.⁴² Article 444 provides that:

[a] pledge on a proprietary right in intellectual property, such as the right to the exclusive use of a registered trademark, a patent right, or copyright, is created upon registration. A proprietary right in intellectual property, after being pledged, may not be transferred or licensed by the pledgor to another person, unless otherwise agreed by the pledgor and the pledgee through consultation. The proceeds obtained by the pledgor from the transfer or licensing of the proprietary right in the pledged intellectual property shall be applied to pay to the pledgee to discharge the obligation before it is due or be placed in escrow.⁴³

Regarding the registration of a pledge, Article 14 of the Rules for the Implementation of the Patent Law of the People’s Republic of China (2010) provides that, where a patent right is pledged, the pledgor and the pledgee shall jointly register the pledge with the patent administrative department under the State Council.⁴⁴ Article 70 of the Regulations on the Implementation of the Trademark Law of the People’s Republic of China (2014) provides that, where the exclusive right to use a registered trademark is pledged, the pledgor and the pledgee shall sign a written pledge agreement and jointly apply to the trademark office for the registration of the pledge, which shall be announced by the trademark office.⁴⁵

Pledging patent and trademark rights

- Pledges created upon registration. Once pledged, the IP cannot be transferred or licensed without agreement from the pledgee. Article 444 of the Civil Code of the People’s Republic of China, Book Two – Reals Rights.
 - Pledges for patents must be registered jointly by the pledgor and pledgee at the appropriate administrative department. Article 14 of the Rules for the Implementation of the Patent Law of the People’s Republic of China (2010).
 - Pledges of trademarks must be in writing and registered with the trademark office. Article 70 of the Regulations on the Implementation of the Trademark Law of the People’s Republic of China (2014).
-

In terms of capital contribution in the form of IP, the Company Law provides that shareholders may make capital contributions in the form of money, or in kind, in IP, land use rights and other non-monetary property that can be monetized and transferred in accordance with the law.⁴⁶ At the same time, relevant requirements are made for an evaluation of non-monetary property as a capital contribution.

Laws and regulations on science and technology, industry and SMEs also provide for financial activities to take place within different fields and by different right holders. The Law of the People’s Republic of China on Promoting the Transformation of Scientific and Technological Achievements (2015) allows research institutions and institutions of higher learning to transfer scientific and technological achievements to businesses or other organizations by means of assignment, licensing, or investment with their value pre-determined.⁴⁷ The Law of the People’s Republic of China on the Progress of Science and Technology (2021)⁴⁸ specifies that:

the state encourages financial institutions to carry out intellectual property-pledged lending; encourages and guides efforts of financial institutions to support the application of technology and the development of high-tech industries by providing credits and investments; and encourages insurance institutions to develop insurance products in accordance with the needs of high-tech industries in the application of new technologies.

The Film Industry Promotion Law of the People's Republic of China (2016) encourages financial institutions to provide financial services to the film industry and diversify risks for film activities through the development of IP pledged lending, credit support, insurance products and financial guarantees.⁴⁹ The Law of the People's Republic of China on the Promotion of Small and Medium-Sized Enterprises (2017) provides that "the State shall improve the security-based financing system and support financial institutions in providing SMEs with loans secured by accounts receivable, IP rights, inventory, machinery and equipment."⁵⁰

Local regulations

In the development of IP financing, innovative practices have been trialed across China, and many upgraded to local regulations. According to inexhaustive statistics, 20 provincial-level administrative regions have introduced 39 local IP regulations involving IP financing provisions.⁵¹ For example, the Beijing Municipal Intellectual Property Protection Regulations promulgated in April 2022 encourage commercial banks, together with guarantee, insurance and other financial institutions, to provide financial services in line with the nature of IP. It also encourages them to increase the scale of IP pledged loans while controlling risk, offer innovative financial products such as IP insurance and credit guarantee services, and provide financial support for the transformation, application, transaction and operation of IP. The Regulations on the Promotion and Protection of Intellectual Property Rights of Jiangsu Province, adopted in January 2022, propose innovations in IP financial products, services and risk management, while supporting financial institutions in providing services such as IP pledged lending, IP insurance, venture capital, IP securitization and IP trusts for SMEs. The Regulation on Science and Technology Innovation of Shenzhen Special Economic Zone promulgated in May 2021, also provides corresponding incentives for IP pledged lending, IP securitization and IP evaluation services.

Building an IP finance ecosystem

China started to address IP finance with policies as early as the 1990s, beginning with a series of pilot projects. Building on their success, the ecosystem gradually evolved to support financing for SMEs and guiding commercial banks in their efforts to develop IP pledged loans, including by strengthening the valuation process and through promotion.

As a part of these policies, several laws and regulations encouraged the use of IP-backed financing. For example, the Law of the People's Republic of China on the Progress of Science and Technology (2021) encourages financial institutions to conduct IP pledged lending in high-tech industries. The Law of the People's Republic of China on the Promotion of the Film Industry (2016) promotes financial institutions in supporting the film industry in the same way.

At least 20 provincial-level administrative regions have introduced IP financing provisions. These regulations encourage the introduction of innovative financial products like IP insurance, credit guarantee services and IP securitization, and offer support for securing and commercializing IP.

Both laws and regulations operate by offering incentives for banks to offer such services.

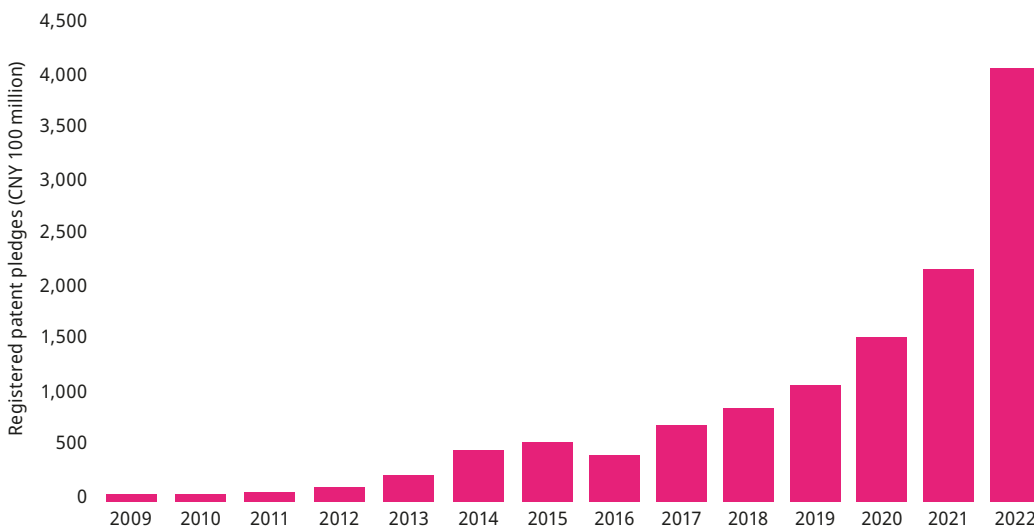
Main Types of IP financing

IP pledged lending

Pledge-backed lending is the earliest type of IP financing developed in China and the fastest growing one. In 2022, the registered amount of patent and trademark pledged lending in China reached CNY 486.9 billion, up 57.1 percent year-on-year. Twenty-eight thousand projects from 26,000 businesses received loans, both increasing about 65.5 percent year-on-year.⁵² Among these pledge types, the registered amount of patent pledged lending accounted for a higher and faster growth, increasing from CNY 7.5 billion in 2009 to CNY 401.5 billion in 2022, with an annual growth rate of 35.9 percent (figure 3).⁵³ In the first three quarters of 2023, the registered amount of patent and trademark pledged lending grew to CNY 495.0 billion, year-on-year, an increase of 52.9 percent.⁵⁴

From a geographical perspective, the developed eastern region of China is the most active in terms of IP financing activities. In 2022, the amount of patent and trademark pledged lending in eastern China reached 62.5 percent of the national total; and the top 10 list of patent pledged lending areas includes all the provinces and cities from this region. Eastern China is followed by southern China, northern China and central China, accounting for 21.1 percent, 6.4 percent and 3.8 percent of the overall amount, respectively. The southwest, northeast and northwest regions have relatively small shares, accounting for only 2.7 percent, 2.1 percent and 1.3 percent of total patent pledged lending.

Figure 3 Trends in registered patent pledges in China, 2009–2022 (CNY 100 million)⁵⁵



IP pledged lending is classified according to different criteria. Based on the type of pledge, a loan may be pledged by a single IP asset, multiple similar IP assets, mixed types of IP asset, and mixed pledges of IP assets and other type of assets, such as equity and fixed assets. Depending on the type of pledgees involved, a loan may be issued by a bank or non-banking institution. Depending on the type of guarantee and guarantor, IP collaterals may be used for guaranty, commercial guarantee and commercial insurance.

In terms of the composition of pledgees, they come primarily from banking and guarantee institutions are in the majority, particularly large state-owned commercial banks. In 2022, the combined amount of patent and trademark pledged lending registered by six large, state-owned commercial banks in China exceeded CNY 200 billion, accounting for 41.3 percent of the national total, with the China Construction Bank, the Industrial and Commercial Bank of China and the Bank of China the top three in the ranking.⁵⁶

In terms of the structure of pledges, the combination of IP rights and tangible collateral, such as fixed assets, accounted for 42.8 percent of the loans issued by banking financial institutions in 2022, while patent-only collateral accounted for 43.2 percent, up nearly 3 percentage points

from 40.0 percent in 2020. Patents are therefore becoming recognized by banks as a core asset of technology-based businesses.

Commercial banks play an important role in IP pledged lending product innovation. And many banks have launched special IP pledged products for technology-based MSMEs. The Bank of China's Zhihui Credit and the China Construction Bank's Yunzhi Credit are representative online financial products. The Bank of China's Zhihui Credit provides comprehensive credit lines to eligible micro and small businesses and encourages credit extension exclusively using patent pledges. The Yunzhi Credit first examines the innovation capability, commercialization capacity and IP ownership of technology-based micro and small businesses and then provides IP pledged loans through an online self-service to those in need of liquidity in order to operate and for research and development (R&D). This online, accessible retail credit product provides a maximum loan of CNY 2 million.

IP insurance

IP insurance is an important type of IP-based financing, as well as a means to resolve IP asset risks. In 2011, China began preparation for patent insurance. At present, China's IP insurance covers almost every type of asset, that is, patents, trademarks, geographical indications and copyright, as well as every aspect of an IP asset, namely, its creation, protection and application. The IP asset insurance developed so far can be divided into four types, namely, liability insurance, guarantee insurance, credit insurance and cost recovery insurance (table 2).

Table 2 Types of IP insurance

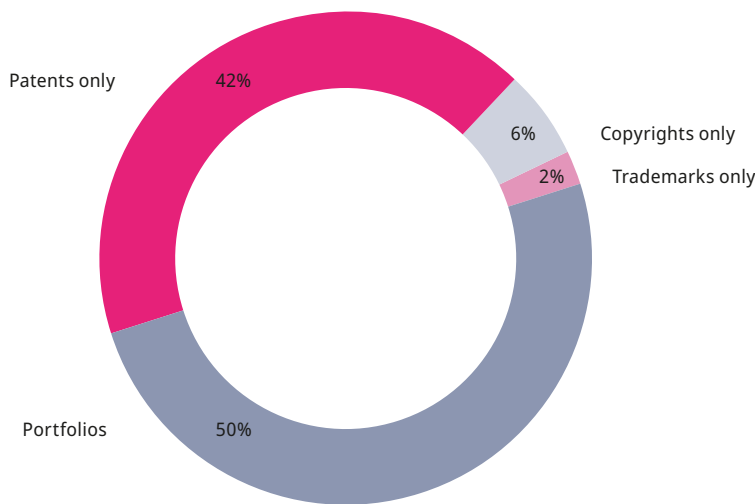
Type of IP insurance	What it covers
Liability insurance	Infringement liability (e.g., patent infringement and risks related to infringement abroad) and professional liability insurance
Guarantee insurance	IP pledged lending guarantees
Credit insurance	Credit risks involved in patent licensing
Cost recovery insurance	IP-related losses and expenses, such as patent application costs, IP infringement losses, and patent enforcement

Building on the traditional service model, China has identified two new IP insurance models. In the first, insurance companies are encouraged to form an IP insurance service alliance with law firms, IP service organizations and industry experts. In the second, an IP insurance consortium comprising several insurance companies may be formed in order to make up for the lack of IP insurance experience of some insurance companies. For example, in June 2020, the IP insurance consortium formed by Cathy Insurance Co., Taiping Science and Technology Insurance Co., Ltd., Fubon Property & Casualty Insurance and Huahai Property Insurance Co., Ltd. in Shanghai provided coverage for 223 items of IP rights and trade secrets belonging to a business that included patents, trademarks, software copyrights and integrated circuit layout designs with an insured amount of CNY 3.5 million.⁵⁷

Securitization of IP

The first IP-backed security product issued in China was the Qiyi Century IP Supply Chain Financial Asset Backed Special Plan, which was issued on the Shanghai Stock Exchange in December 2018. Since then IP-backed security products have been issued in Guangzhou, Shenzhen, Shanghai and Foshan.⁵⁸ At present, the underlying assets of IP securities include IP transfer receivables, IP license fee receivables and IP pledged loan receivables.

Among the types of IP involved in securitization projects are patents, trademarks, copyright and any portfolio that includes a mix of IP rights. Such portfolios usually include patents in addition to other types of IP assets. Projects involving pure patents and portfolios of various types of IP rights are the most numerous (figure 4).

Figure 4 Profile of the underlying assets of IP securities

Depending on the underlying assets, there are two models of IP-backed security products that have been developed in China. One is based on transfer and licensing, the other on IP pledging. Under the first model, the transferor or licensor signs a contract with the transferee or licensee to create a cash flow transfer or license fee payments. This first model regards patent royalties as the underlying asset and is easy to replicate. In addition, because this model is built on IP usage, the attention of investors is shifted away from the general operation of a business to the quality of its IP assets and their implementation, which better captures the value of IP. The second model is IP pledging-based securitization. Under this model, businesses use their inventions, utility models, trademarks and software copyrights as collateral for obtaining loans from financial institutions, which then generate cash flow in the form of debt repayment.

	Transfer and sale	Pledging
How it works	IP owner transfers its IP to a third party	IP used as collateral for a loan
Payments	Licensing fee	Loan repayment

Other types of IP financing

IP operation funds

Different from venture capital, an IP operation fund is an investment fund to improve the IP competitiveness of key industries. It pays close attention to the IP status of the invested enterprise and its IP operations through post-investment management and services. Since 2015, Beijing, Shanghai, Zhejiang and Guangdong have set up key industry IP assets operation funds that serve strategic and regionally competitive industries. As a result, a large amount of social capital has been directed into new materials, intelligent manufacturing, biomedicine, new generations of information technology and other emerging industries. The 20 IP operation funds for key industries have raised CNY 4.8 billion and invested in more than 150 projects. A number of businesses invested in have been successfully listed on China's Science and Technology Innovation Board.

At the same time, some businesses, investment institutions and IP service institutions have set up various IP operation funds on their own initiative and explored effective modes of operation. In 2015, Beijing Guozhi Zhihui Intellectual Property Equity Fund was established, with a fund size of CNY 100 million. Professional IP service institutions also contributed capital and provide IP services throughout the Fund's investment and operation.⁵⁹ The fund provides IPR due diligence plus consulting services. IP due diligence is conducted at the project evaluation stage. IP service institutions provide IP assets risk warning and planning consultation to help businesses develop high-value patents and improve competitiveness. The eight businesses invested in by the Fund are all technology-based, high-growth businesses that have expanded their R&D and patent

development after accepting investment. Some have gone on to issue an IPO and become a publicly listed company.

IP-related venture capital investment

Venture capital is a flexible financing method whereby the investor and the entrepreneur jointly determine the form of investment. A venture investor can either support the IP creation process or the commercialization of IP assets. As with traditional investments, matching an investor with an investment project is always a challenge. In China, professional organizations and relevant project mechanisms have helped in the development of IP venture capital.

Venture capital in IP R&D is applicable to technologies with long development cycles and high costs like biomedicine, which is an area with active venture capital activity. For example, the VIC (venture capital-IP-contract research organization) model in biomedicine unites venture capitalists, pharmaceutical IP developers, and contract research organizations (CROs) to create a complete innovation chain. In this model, pharmaceutical R&D projects are provided with sufficient funds for continuous operation, while ensuring that the R&D entity retains decision-making power over the project, thus safeguarding both the innovativeness and clinical value of the R&D results.

The Chinese Government and universities have run programs to support youth innovation and entrepreneurship. The University Student Entrepreneurship Program was launched by the Ministry of Education together with other government departments. The aim is to provide start-up funds for young people's innovation and creativity. Similar entrepreneurship programs launched around the country have helped many young people turn their creativity into business opportunities. These programs have also increased the likelihood of attracting venture capital. As recently as 20 years ago, Li Lingling, a university student at Huazhong University of Technology, received support from multiple investors for her technology.⁶⁰

IP rights as equity

According to the Company Law of the People's Republic of China (2013), it is possible to fund the registered capital of a company entirely through IP rights, either for initial equity or capital increase.⁶¹ In addition, there are also tax advantages to making capital contributions through IP rights. Article 67 of the 2019 Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China provides for a deduction in the amortization expenses of intangible assets calculated on a straight-line basis.⁶²

According to *China Patent Survey Report 2022*, in 2022, 0.7 percent of valid domestic patents were contributed as equity. Table 3 shows universities to have made the greatest number of contributions, followed by businesses and research institutions. Patents for inventions were used more often as equity than either utility models or designs.⁶³

Table 3 The ratio of valid patents sold in exchange for equity (by types of patentees)⁶⁴

	Enterprises	Institutions of higher learning	Research institutes	Total
Patents for inventions	1.0	1.4	0.5	1.0
Utility model patents	0.6	1.0	1.1	0.6
Design patents	0.7	0.5	1.4	0.7
Total	0.6	1.2	0.7	0.7

Participants in IP financial services

Government departments

Central and local government departments are important players in the development of IP financing. Listed below are six of the most representative central departments. Local departments are involved under the guidance of central departments.

CNIPA

The CNIPA is the administrative authority coordinating national IP work and specifically manages patents, trademarks and geographical indications. Its main functions are formulating and organizing the implementation of national IP strategies, protecting IP rights and promoting their application. Specifically, CNIPA guides and regulates the valuation of IP assets, and guides the efforts of local and relevant institutions to promote IP financial services.

National Copyright Administration of China

The National Copyright Administration of China (NCAC) is the administrative department for copyright. Its main functions are proposing a national copyright strategy and policy measures for copyright protection, management and use, and organizing their implementation; overseeing the management and use of copyrighted works held by the State; and managing the registration of copyright and statutory licensing.

Ministry of Finance of the People's Republic of China

The Ministry of Finance is primarily responsible for regulating asset valuation related to IP financing. It has guided the development of a series of IP-related evaluation standards and corporate accounting standards.

People's Bank of China

The People's Bank of China (PBOC) is China's central bank and responsible for formulating and implementing monetary and credit policies. The PBOC continuously promotes the integration of finance and technology and improves the financial support system for innovation.

National Administration of Financial Regulation

The National Administration of Financial Regulation (NAFR) (formerly the China Banking and Insurance Regulatory Commission) exercises unified supervision and administration of the national banking and insurance industry, formulating reform, development and regulatory policies for banking and insurance, and guiding banks, insurance companies and other financial institutions in their efforts to provide IP financial services in accordance with the rules.

China Securities Regulatory Commission

China Securities Regulatory Commission is responsible for research and formulation of policies and development plans for the securities and futures markets, drafting relevant laws and regulations, and formulating regulations, rules and practices. It provides centralized and unified supervision over the securities and futures market.

Financial institutions

Commercial banks

Commercial banks, including large state-owned banks, joint-stock banks, urban commercial banks and rural commercial banks, provide loans pledged by IP rights. In addition, microfinance companies can also provide IP pledged loans.

Stock exchanges

Stock exchanges are legal entities that provide the infrastructure and facilities for the centralized trading of securities, including securitized IP products. They also organize and supervise securities transactions and implement self-regulation. Currently, there are three stock exchanges on the Chinese mainland, namely, the Shanghai Stock Exchange and the Shenzhen Stock Exchange, both established in 1990, and the Beijing Stock Exchange, which was established in 2021.

Insurance companies

Insurance companies provide IP insurance services. Since 2010, PICC Property and Casualty Company Limited, Ping An Property and Casualty Insurance and China Pacific Property Insurance Co., Ltd. have been active in IP insurance.

Guarantee agencies

A guarantee agency is a professional institution that undertakes the function of providing credit guarantees for individuals or SMEs. A guarantee company obtains economic and social benefits by lending its own credit resources for a fee and preventing and controlling credit risks. The main role of guarantee agencies is to provide guarantees for IP pledged lending and increase the credit rating of loans or bonds.

Securities firms

Securities firms serve to securitize IP assets by improving the structure of bond products, underwriting IP-backed security products, promoting such products among potential investors, and offering the products on a stock exchange.

Other participants

IP service providers

Closely related to IP financing are service institutions engaged in IP operation-related services. The services they provide include IP transfer and licensing, transformation and implementation, financing and investment, which are all an important part of the IP financial services system. By the end of 2021, there were more than 6,000 institutions engaged in IP operation services, mainly dealing with patents and trademarks. The 2022 National Intellectual Property Services Statistical Survey report shows that 84.4 percent of IP assets operation service institutions had provided IP assets licensing and transfer services, 34.1 percent patent implementation and commercialization services, 20.2 percent IP pledged financing and guarantee investment services, and a small number of institutions had also provided IP assets insurance and securitizing services.⁶⁵

Investment institutions

Investment institutions include various types of venture capital and IP assets operating fund institutions, who provide direct financing support for IP rights holders by way of equity investment.

Other professional service providers

Among other professional service organizations are IP evaluation agencies, law firms, data service organizations, credit rating agencies and other service entities engaged in IP operations. Such organizations have expertise in legal compliance, value assessment and credit analysis. They serve as consultants, as well as intermediaries between IP holders and financial capitalists.

IP valuation agencies are qualified to provide professional IP valuation services and have a good understanding of market value and the technical prospect of an IP asset. Law firms provide legal services needed for transactions, including legal consultation, contract drafting, agreement review, compliance review, risk prevention, and follow-up to breaches of contract. Data service agencies provide support for investment and lending decisions through data analysis concerning a business, related markets and IP assets. Data service agencies are subject to laws and regulations regarding privacy protection, such as the Civil Code and the Personal Information Protection Law (2020). Credit rating agencies are intermediaries that rate the credit of securities issuers and securities. Credit rating reports issued by such agencies provide information for investment decisions.

Industry associations

Industry associations involved in IP financial activities include the China Banking Association, the China Insurance Association, the China Securities Association and the China Asset Appraisal Association. They are self-regulatory organizations within their respective sectors and guide the industry's efforts in providing IP financial services. The China Asset Appraisal Association is a self-regulatory organization for the sector.

Initiatives on IP financial services

Building a work system to provide IP operation services

Since 2014, the CNIPA, together with other authorities, has worked to develop IP assets operation platforms, service institutions, guidance funds and service systems in key cities. An initial IP assets operation service system comprising platforms, institutions, capital, industries and people has been established. IP transformation is achieved through facilitated transactions and financial empowerment. For instance, 33 IP assets operation platforms (centers) have been built serving the major regional strategies of the state and key industrial areas. Relevant institutions have been supported in building national trading institutions for IP assets and research achievements to facilitate the transaction of IP pledges. A number of IP assets operation service institutions have been fostered on a priority basis, leading to the establishment of more than 3,000 operation service institutions nationwide providing professional services for the transfer and transformation of IP assets. In 37 key cities, the CNIPA supported the creation of IP assets operation service systems, as well as IP pledged lending, incubation of high-value patents and the development of the IP assets service industry more generally. Good results have been achieved with respect to improving the IP assets operation service chain and ecosystems. These 37 cities have become an important driving force within the national patent operation market. At the same time, they have led the market in innovating IP financial service models and products.

Increasing financing channels for SMEs

By the end of 2022, the number of MSMEs in China reached 52 million. The operating revenues of SMEs above a designated size exceeded CNY 80 trillion.⁶⁶ It is particularly important to address their financing needs, reduce their financing costs and broaden their financing channels.

Compared with large businesses with many tangible assets, MSMEs have relatively fewer physical assets that can be pledged, and their demand for IP pledged lending has been strong. As early as 2015, the CNIPA had proposed addressing the SME financing needs through the following measures:

- launching targeted financial services for SMEs;
- establishing a system to study the needs of small and micro businesses for IP financial services;
- encouraging small and micro businesses to explore new channels for realizing the value of their IP assets, such as pledging, the licensing and transfer of IP assets, and using them as a capital contribution;
- reducing the loans of SMEs within reason; and
- reducing guarantee and insurance rates of SMEs.

In 2021, the CNIPA signed strategic cooperation agreements with the Bank of China, the China Construction Bank and other banking institutions on research into IP financial service policies, the development of IP pledged loan products and an improvement in IP financial services to better meet the needs of market players, especially innovative SMEs. In 2022, 20,000 pledges were registered for inclusive, patent and trademark pledged loans up to CNY 10 million, accounting for 71.1 percent of all patent and trademark pledged loans, benefiting 18,000 SMEs, giving full play to the inclusive role of assisting SMEs to alleviate their funding difficulties and to develop.⁶⁷

Since 2014, the CNIPA and the PICC Property and Casualty Company Limited have been working together to optimize IP insurance products, services and business models. In addition to helping technology SMEs obtain IP pledged lending through the introduction of guarantee insurance, they also support the innovation and development of small and micro enterprises through the “direct investment of insurance funds,” a useful attempt to broaden the financing channels for businesses. In 2019, the two parties started a new round of cooperation focused on the creation of an IP financing laboratory for further promoting IP insurance service.

Improving risk prevention and control

The risks involved in IP financing come from a variety of factors. These include external infringement, the stability of rights and technological upgrading. China tries to prevent and control IP financial risks through guarantees and insurance, and a risk-sharing mechanism that involves multiple parties. Insurance companies are encouraged to introduce reinsurance mechanisms and establish a risk rating system for insured patents, so as to disperse operational risks. Innovations in financing products and guarantee methods, such as converting pledges into equity and reverse licensing, are encouraged. Financial institutions are also encouraged to realize pledge rights through targeted recommendations, negotiations and auctions.

In terms of corporate credit management, the People’s Bank of China has been building a credit system for small and micro businesses since 2014. It has established a credit system that includes both positive and negative information on businesses and individuals, including basic information, information on non-financial liabilities reflecting credit status, information on legal actions, and other information from public sources, subject to private information protection. Credit management in the field of IP rights is also being improved. The CNIPA formulated a set of Regulations on Credit Management of Intellectual Property Rights in 2022 in order to manage breach of trust in the field of IP rights.

Improving IP evaluation rules

To bring to the attention of relevant parties the question of patent value and those factors influencing that value, the CNIPA and other institutions have designed the Patent Valuation Index for patent value analysis.⁶⁸ The Index provides a comprehensive review of patent values in three dimensions, namely, legal value, technical value and economic value, subdivided into 18 indicators. At the same time, the CNIPA has piloted the Index’s use by universities and research institutes, large businesses, evaluation agencies and other market players in order to accumulate practical experience for further improvement. On the basis of this preliminary work, the CNIPA in September 2023 issued Patent Evaluation Guidelines, a national standard that promotes a more scientific, comprehensive and accessible patent evaluation index.

At the same time, the asset appraisal industry has a whole set of rules governing IP rights. In July 2016, the Asset Appraisal Law of the People’s Republic of China was enacted, laying the foundation for the development of an asset appraisal industry.⁶⁹ The evaluation system also includes basic principles, guidelines, guides and opinions on the valuation of various types of IP asset.

In practice, banks have experimented with a number of different IP valuation operation models. Some banks have introduced professional appraisal agencies to provide evaluation reports and assist banks in IP assets disposition. At the same time, banks ensure appraisers perform their duties with due diligence by means of third-party supervision or liability insurance. In recent years, some banks have begun to establish internal bank appraisal systems.

Personnel training for IP financing

IP financing involves multiple areas and requires interdisciplinary experts, who have technical, financial, legal and other necessary expertise. There is a high demand for technology managers, asset appraisers, IP specialists and other professionals for IP assessment, operation and management. The CNIPA proposes to foster more high-caliber IP assets operation personnel in order to “improve the ability of institutions in financial services, such as IP pledging, insurance, securitization and fund operation, and achieve better outcomes in IP appraisal.”⁷⁰

China has also created the new profession of “IP specialist” for IP management and operation. Such IP specialists are required to have cross-cutting knowledge of IP, law and business. They apply their specialized knowledge and practical experience to IP related operations.

Challenges of IP financial services

High professional requirements

Strong IP portfolios and high-quality IP assets are the foundation for the development of IP financial services. Compared with tangible assets, there are more factors influencing the IP asset value, such as scientific discovery and technological innovation, adjustments to industrial policy and changes in market environment. At the same time, the realization of IP value requires that the holder has the ability to make use of the IP. Besides the IP’s own value, a business’s operational ability and the external environment are also important. These IP asset characteristics make the disposition of IP pledges more complicated and time consuming than the disposition of fixed assets. They also make banks and guarantee institutions concerned about related services. Therefore, the disposition of IP pledges requires us to improve the value stability and market liquidity of IP assets, as well as the ability of market players to make use of those assets.

Technical complexity

The operation of IP financing is complicated and faces technical problems relating to evaluation, compliance and data support. In terms of evaluation, the value of an IP asset is affected by a variety of factors and the appraisal more complex than for other assets. Appraisers must have the expertise to define an IP asset’s present and future market value. In terms of compliance, mature financial products need to be standardized and achieve a certain degree of stability. The development of IP financial products therefore takes a long time and requires more investment, which is a test for the product development and management capabilities of banks and other financial institutions. In terms of data, information analysis is a crucial aspect of IP asset evaluation and insurance product development. A lack of data and information asymmetry is one of the challenges in IP insurance and value assessment that needs to be addressed. China processes and analyzes IP-related data and information using big data and algorithms in accordance with privacy regulations. It encourages platforms to voluntarily share open data, so as to facilitate analysis by market players and relevant institutions in IP financing and valuation.

Unsatisfactory external environment

According to the *China Patent Survey Report 2022*, the commercialization rate of valid domestic patents held by China-based businesses reached 49.8 percent in 2021 (from 2018 to 2022, the overall commercialization rate showed a fluctuating upward trend, rising from 46.0 percent in 2018 to 49.8 percent in 2021, and decreasing slightly to 49.3 percent in 2022). But still left a large number of MSMEs with no quality IP assets that could be used for financing.⁷¹ The patent commercialization rate of micro businesses, in particular, stood at only 36.9 percent, needing further improvement. At the same time, the number of financial institutions, evaluation agencies, service agencies and professionals engaged in IP financial services is unable to fully meet the needs of this rapidly developing sector. Social recognition for IP financing needs to be reinforced. The proportion of rights holders who choose to finance through IP is still smaller than the number who instead choose traditional financial methods, regardless of whether they are businesses, financial institutions or service providers.

Outlook

China attaches importance to the role of IP assets in accessing financial support for innovation and the development of small and micro businesses and recognizes the challenges faced in developing IP financial services. To address these challenges, a comprehensive approach must be taken to promote IP finance actively and with confidence. The CNIPA will continue to work closely with other government departments and institutions to implement plans such as the Outline for Building a Powerful Country with Intellectual Property Rights (2021–2035).

It is committed to building a good IP assets operation ecology and providing multi-tiered and diversified financial services for IP assets. To do this the CNIPA has undertaken to do the following:

- Improve the IP operation ecology. The CNIPA will support relevant institutions in building a national trading body for IP rights and technological achievement and in establishing a number of regional, industry-focused IP operation platforms to provide IP trading channels and promote the efficient disposition of IP pledges. The CNIPA will foster internationalized, market-oriented and specialized IP service institutions, promote the qualitative development of the IP service industry and provide professional services for IP transfer and transformation and for financial services.
- Optimize IP financial services. The CNIPA will deepen cooperation with the banking sector; support banks in innovating internal assessment and management; encourage banking financial institutions to exploit the separate credit planning policy for IP pledged lending; and optimize the assessment of non-performing rates in order to expand the scale of IP pledged loans under the premise of risk control. The CNIPA will encourage innovation in financial products such as IP insurance, and an improvement in the risk management mechanism for IP pledged lending. The CNIPA will optimize IP pledge registration services and build an IP pledge information platform.
- Consolidate the foundation of IP evaluation. The CNIPA will improve IP evaluation management policies, promote the application of national standards, such as the Patent Evaluation Guidelines, and encourage the development of intelligent IP evaluation tools. The CNIPA will increase the supply of basic IP data, establish a mechanism for the collection and release of IP transaction prices, and strengthen data analysis and disclosure, in order to provide references for IP assets evaluation and operation activities.

The CNIPA is willing to work with WIPO, as well as other countries, to foster more exchanges on IP financial services, stronger service cooperation, and to further share China's experience in IP financial services, so as to jointly address the risks and challenges. The CNIPA will promote a deep integration of IP and financing to ensure quality economic growth.

China case studies

Case study 1:

Rapid online access to financing by innovation companies

Company location

Changsha, Hunan

IP holder

Hunan Minghuang Technology Development Co., Ltd.

Type of rights used

Patent

Institutions or entities that enabled the transaction

China Construction Bank

Amount raised

CNY 2 million

Hunan Minghuang Technology Development Co., Ltd., located in Changsha Lugu High-tech Zone, is an enterprise with 16 utility model patents and two invention patents. In 2021, because of a sudden increase in orders, its operations came to a standstill because of liquidity problems. A typical technology company, Minghuang was faced with financing difficulties due to not having enough assets that could be used as collateral.

Minghuang financed itself by applying for IP pledged loans from the China Construction Bank (CCB). The Bank, in cooperation with a number of IP agencies, scored the company's "big data" of innovation through the Technology Stream rating system. The entire loan process, including credit analysis, was "digitized." Minghuang Technology was able to secure a loan of CNY 2 million and in doing so became a beneficiary of the pilot Technology Stream evaluation system launched by the CCB's head office. Applying evaluation system results, CCB Hunan Branch allocates credit lines specially designed for high-quality micro and small technology businesses like Minghuang and also provides a variety of IP pledged loan products, thus broadening the financing channels of micro and small technology businesses in general.

Case study 2:

Patent pledged loans assist a wind energy company's R&D

Company location

Wuhan, Hubei

IP holder

WindMagics (Wuhan) Co., Ltd

Type of rights used

Patent

Institutions or entities that enabled the transaction

Bank of China

Amount raised

CNY 10 million

WindMagics (Wuhan) Co., Ltd. is a technology-intensive business. It has a high level of R&D investment in the early stages and a 2 to 3-year payback period for its operations, resulting in a large amount of tied-up capital. The company has sought loans from financial institutions in recent years, but could not meet financing requirements, because of the company's limited assets and lack of traditional collateral.

The Bank of China has launched a timely service for innovative businesses. It has developed loan products exclusively for IP pledges and to provide loans to technology-based businesses with a high potential. While WindMagics basically had no fixed assets, it did have quality IP rights (i.e., 11 invention patents). In consideration of this situation, the Bank of China Wuhan Free Trade Zone Branch identified the appropriate financial products and provided a working capital loan of CNY 10 million to WindMagics within two weeks of their application to the Bank, which solved the company's shortage of capital in the early stages of the project.

Since obtaining the loan, WindMagics has expanded its R&D investments and project promotion. With a good growth momentum, the company plans to cooperate with several new energy power plants in China and expand the scale of its business.

Case study 3:
IP insurance**Company location**
Ningbo, Zhejiang**IP holder**
Trademark business**Type of rights used**
Trademark**Institutions or entities that enabled the transaction**

Ningbo Branch of Ping An Property and Casualty Insurance Company Limited and Ningbo Branch of China Life Property and Casualty Insurance Company Limited.

In June 2018, an insurance consortium composed of two institutions – Ningbo Branch of Ping An Property and Casualty Insurance Company Limited and Ningbo Branch of China Life Property and Casualty Insurance Company Limited – led the development of two innovative products in China. They were a compensation plan to cover trademark application costs and a compensation plan to cover losses from trademark infringements. The two products cover strong agricultural brand products, long-established trademarks, geographical indication marks and other well-known trademarks. Trademark right holders are able to reduce the risk of capital loss in the process of creating and protecting exclusive trademark rights by means of commercial insurance. In addition to compensating for conventional investigation costs and legal fees, the trademark insurance plan also covers damages as a result of court judgements. For all trademark infringement cases in which damages are imposed by the court, the damages will be paid by the insurance company first and recovered later to maximize the protection of the rights and interests of right holders.

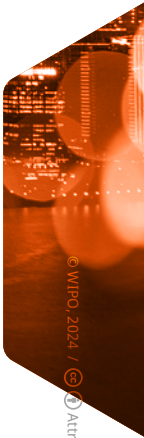
Trademark insurance has improved the joint governance of IP rights, diversified the public services for those rights, and optimized the legal environment for rights protection and the market environment for innovation and entrepreneurship. Since July 2018, trademark insurance underwriting services have been provided for the 5,173 trademarks held by 101 businesses with a cumulative coverage of CNY 25.61 million. A total of 32 claims have been filed and 29 cases closed. CNY 670,000 has been paid out to the businesses in question.⁷² At present, trademark insurance is expanding its coverage by tiers and steps. In particular, industry associations, industrial parks and characteristic towns have come to consider trademark insurance to be a standard practice of trademark businesses and in international trademark registration applications. The scope of coverage is to be expanded in accordance with market demand. Such standard insurance products meet the individual needs of businesses. In addition, third-party services have been introduced to provide solutions covering the entire IP creation process, including application, management and protection.

Endnotes

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