IP Financing: Using IP to finance your business, May 23rd

Takeaways Lucas Liu:

1. IP financing is a financing method whereby the borrower pledges its IP rights to a bank, or other financial institutions, to obtain funds;

2. Advantages in terms of: (i) reduction of costs for IP financing because of governmental subsidies covering a portion of the loan interests (the range of the governmental subsidies for enterprises may vary locally from 20% to 70% of the loan interests); (ii) the possibility to use new assets, the IP rights, as collateral; (iii) increasing awareness of the intellectual property value and protection; (iv) encouraging IP innovation and development;

3. The intellectual property rights used as a collateral for a loan need to be registered and actually used in China so that their value can be appraised;

4. Timing for the process, the entire process from loan application to a bank up to the signing of the loan agreement may take - in a problem-free situation – around one month.

Take aways BoC:

1. There is a strong policy and regulatory framework at a national level encouraging IP financing;

2. Invention patents (registered in China) are considered as the best collateral for IP financing because the granting of an invention patent is subject to publication and substantial examination;

3. The beneficiary of the loan must be a company registered in China.

Take aways Elaine Feng

1. In a “combined pledge loan”, the borrower uses as a collateral for a loan both intellectual property rights and equity (shares) or tangible assets. This is also regarded as IP financing and the borrower can apply for governmental subsidies;
2. The bank can assist the enterprise / borrower with the application for the governmental subsidies;
3. IP financing increases enterprise’s visibility and value, in particular in view of corporate transactions such as equity transfer, restructuring or listing on a stock exchange.