Annex

Intellectual Property (IP) Financing Sandbox

Operating Principles

A. Introduction

Enterprises rich in IP assets can be a critical driver of innovation and economic growth. However, the use of IP assets to secure bank financing remains at a nascent stage around the globe, due to challenges such as difficulties in valuating IP assets, the absence of a liquid and transparent secondary market, and the lack of a solid understanding of IP by many lenders and investors[1]. Against this backdrop, it was announced in the 2025 Policy Address that the Commerce and Economic Development Bureau (CEDB), Intellectual Property Department (IPD) and the Hong Kong Monetary Authority (HKMA) will jointly launch an IP Financing Sandbox (Sandbox) to assist pilot sectors in leveraging IP assets for financing with the support of the banking, insurance, valuation, legal and other professions. This note sets out the objectives and operating principles governing the Sandbox.

B. Objectives

The Sandbox aims to provide a collaborative and risk-controlled environment for banks and their partnering service providers to pilot financing arrangements based on the value of the borrowing enterprises' IP assets. The objectives are to:

- promote awareness of IP as a valuable asset class among banks and other stakeholders;

- facilitate the development of IP financing, thereby improving access to finance for innovative enterprises with IP assets and contributing to the development of an IP trading ecosystem in Hong Kong;

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1 "Moving IP Finance from the Margins to the Mainstream", World Intellectual Property Organization ("WIPO") 2025.

- promote collaboration among all relevant stakeholders in the IP trading and financing ecosystem. Through the Sandbox, participating banks can gather feedback from their partnering service providers and the participating enterprises and accumulate experience in providing IP financing as a new product offering; and

- enable the authorities to provide support and receive early feedback from the Sandbox participants (including banks and IP valuation providers) and, based on the feedback and experience of the Sandbox participants and to the extent appropriate, to develop and promote good industry practices for IP financing and IP valuation. This may include sharing good practices relating to banks' credit risk management practices for IP financing, and developing a set of local IP valuation guidelines incorporating standards that are acceptable to all stakeholders.

C. Operating Principles

1. <u>Recognition of IP value</u>
   - Participating banks will take into account the value of IP assets owned by the borrowing enterprises, including but not limited to the fair value[2] (IFRS), market value, equitable value/investment value and liquidation value, alongside a host of other relevant factors such as the borrower's credit demand, overall financial position and repayment ability, in the credit underwriting process.

2. <u>Independent IP valuation</u>
   - IP valuation is expected to be conducted by independent IP valuation service providers who are members of local or overseas reputable professional organisations[3].

   - The IP valuation service providers are expected to use standardised methodologies for IP valuation, such as the income, market, or cost approach.

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[2] As defined in the International Financial Reporting Standards.

[3] For example, the Hong Kong Institute of Surveyors, the Hong Kong Institute of Certified Public Accountants, CFA Society Hong Kong and the Royal Institute of Chartered Surveyors.

- Where applicable, a qualitative patent evaluation report may be obtained via the IPD to facilitate the conducting of IP valuation by service providers. Such qualitative patent evaluation service is only available for the Hong Kong patents of the participating enterprises.

3. <u>Risk management</u>
   - Participating banks should comply with applicable supervisory requirements on credit risk management and other risk areas.

   - Participating enterprises should comply with the legal and regulatory requirements in respect of maintaining and developing the IP assets concerned.

4. <u>Stakeholder collaboration</u>

   The successful implementation of the Sandbox hinges on the collaboration among various stakeholders in the IP financing ecosystem. Participating enterprises with IP assets and banks form the core of the initiative. They will be involved in real financing transactions, supported by professional service providers in the IP financing ecosystem comprising IP valuation firms, legal practitioners and other relevant professionals. The Government and the HKMA will oversee the implementation of the Sandbox, communicate feedback, and facilitate a secure and effective environment for developing IP financing in Hong Kong.

Commerce and Economic Development Bureau
Intellectual Property Department
Hong Kong Monetary Authority

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