



IP Finance in Japan



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What does it mean to leverage IP in financing?

In countries and regions where there is secondary market of IPR, IPR can be used for securitisation or as collateral by looking at its economic value (financial price), and is indeed used for that purpose. In Japan, secondary market for IPR cannot be said to be active (especially for those owned by SMEs is considered to be extremely limited), and securitization or collateralisation of IPR is stagnant.

Corporate Finance	Equity Finance	• Financing by capital participation with stocks.	Finances on the basis of company's 'trustworthiness'
	Debt Finance	• Financing by lending through monetary loan agreement.	
	Mezzanine Finance	• Financing that falls between above methods (subordinated loans, subordinated bonds, preferred stocks, etc.).	
Asset Finance	Securitization	• Financing method that converts assets into cash by sale or securitization.	Finances on the basis of 'asset value' that the company owns
	Asset-backed Finance	• Financing with collateral value of assets (typical example is real estate backed finance; movable assets and monetary claims can also be sued as security).	
Project Finance		• Financing with future cash flows generated by business (project).	

Outlook of IP-based finance in Japan

Various methods of IP-based finance have been considered in Japan, however, it can hardly be said to have become the mainstream financing method. In recent years, effective use and process of IP Valuation Report is attracting attention among regional financial institutions and others.

Asset Finance

Securitisation of IP

(There are examples where copyrights in films and video games were used for the securitization but it is not commonly used these days.)

IP-Asset-back Finance

(There are some examples existing since 1995 but it has not become a mainstream method.)

Corporate Finance

Use of Intellectual Asset-Based Management Report

(Some SMEs use this as a tool to improve management and to consider long-term management policy. Some regional financial institutions that assist preparation of the report.)

Intellectual Asset-Based Management Evaluation Financing

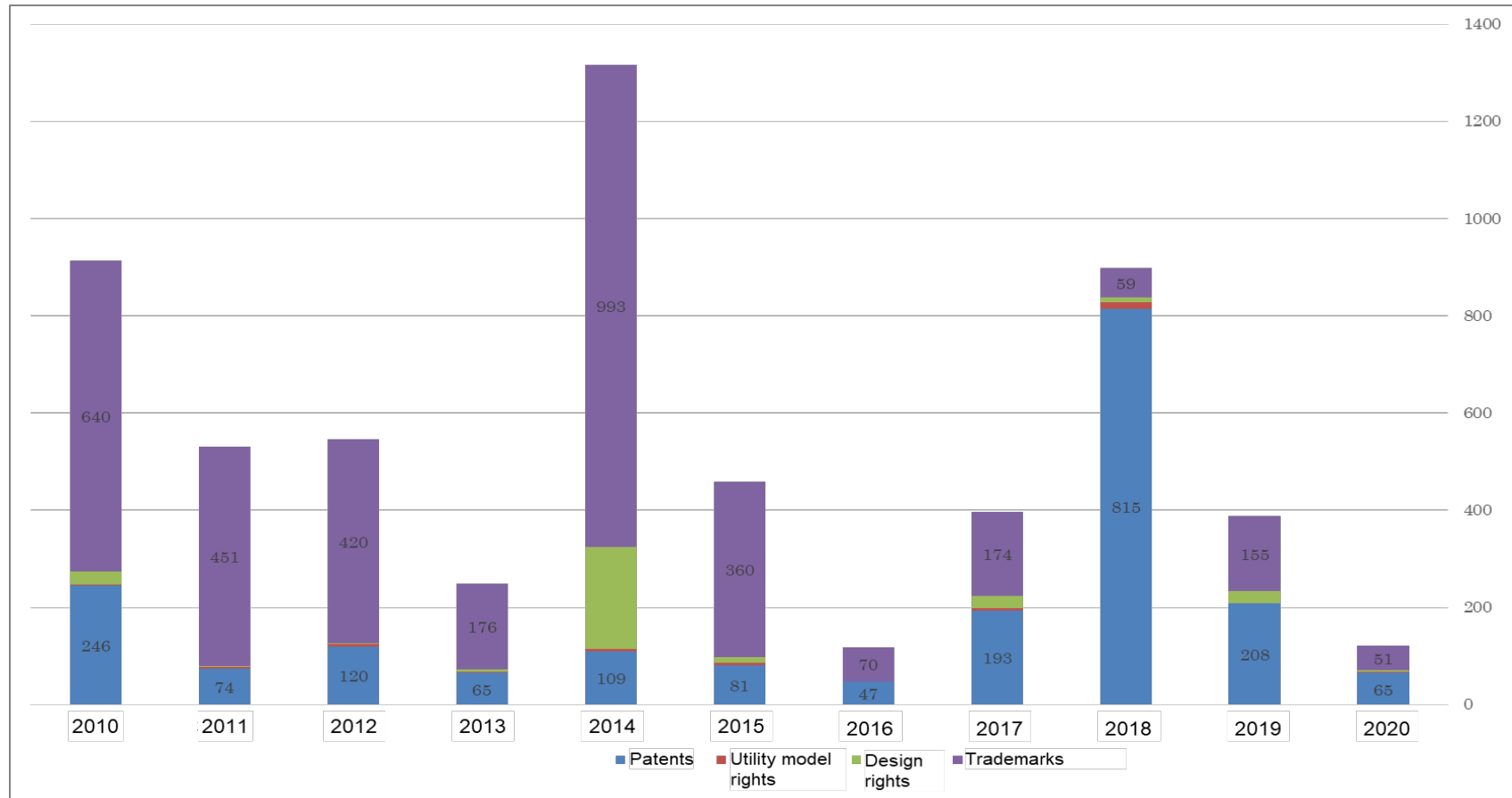
(Elements of the Intellectual Asset-Based Management were considered and discussed as a qualitative evaluation tool.)

Use of IP Business Valuation Report

(It is attracting attention as one of the methods regional financial institutions use in their evaluation of clients' business. As increasing number of regional financial institutions use this, there is expectation for its future promulgation.)

[Reference] IPR as Collateral in Japan

In Japan, IPR can be collateralised in the form of pledge or chattel mortgage. Statistics is available for pledge only as it is registered.



Prepared by Mitsubishi UFJ Research and Consulting based on data in the Japan Patent Office “JPO Annual Report 2021 <Statistics and data>”

Background as to IP Valuation Report is attracting attention for SME's financing

There are several reasons why regional financial institutions started to use IP Valuation Report in their business evaluation.

- 1 Circumstances surrounding regional financial institutions (long lasting ultra-low interest rates and managing environment)
- 2 Paradigm shift in the financial audit and administration (evaluation of business and support for main business)
- 3 JPO's initiatives (engagement in IP finance since 2014)

It is increasingly becoming a pressing task for the regional financial institutions to firmly understand their clients' business and provide support (not only in financing but also for main business in collaboration with experts and supporting organisations) for their growth. Against this background, regional financial institutions' intentions are aligned with that of JPO's initiatives, and there are several examples of such complementary practices.

Understanding about IP Business Valuation that is drawing attention in Japan

JPO (IP Finance Committee) emphasises the effectiveness of using IP as a tool to understand company's business.

IP business valuation is **not monetary valuation of IPR**, but rather **qualitative business valuation** that is undertaken in order to **facilitate understanding** about SME's business status and future potentials **from the perspectives of IP***.

Perspectives of IP will help understand characteristics of that companies through technologies unique to them or know-hows, and analyse if those are effectively used (is it making products more attractive, is it addressing the threats of competitors' counterfeit and supplementary goods, is it yielding cash flows, etc.).

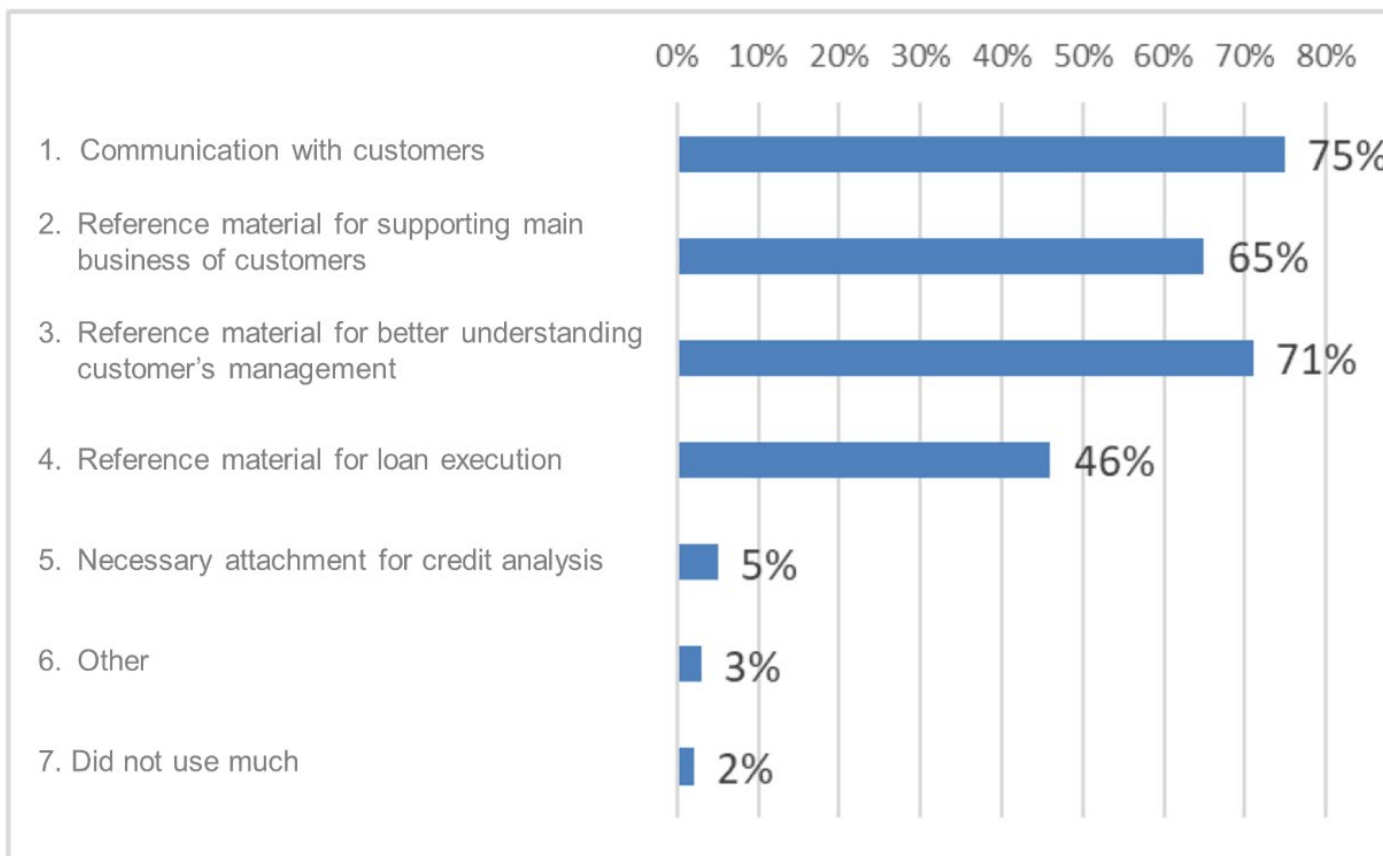
Further, if competitive superiority can be secured by IPR, financial institutions can grasp level of certainty of future cash flows and actions to take for its realization. Thereby financial institutions can make proposals to **support SME's growth**.

*When a financial institution manages credit and claim, it is possible to additionally undertake the monetary valuation of intellectual property.

IP Finance Committee "Approach on IP Businesses Evaluation"
<https://chizai-kinyu.go.jp/archives/docs/docs/arikata.pdf>

How Regional Financial Institutions use IP Business Valuation Reports

A survey from over 100 financial institutions who used the IP Business Valuation Report through JPO project indicates over 70% of the respondents used the report to accelerate communication with customers and to deepen understanding of their management.



Source: IP Finance Committee "Final Report on IP Finance Promotion for SMEs Project: Growth and outlook of IP business evaluation" (March 2019), page 48

Examples of Regional Financial Institutions that undertake IP finance in Japan

All of below examples spun out of JPO project, and there are many that collaborates with National Center for Industrial Property Information and Training (INPIT) or their IP Comprehensive Helpdesks throughout Japan.

- 1 Chukyo Bank (As a result of IP Business Valuation Report, supported SME's new business through their collaboration with academia)
- 2 Kanagawa Shinkin Bank (Supported new business and expansion of existing business by working with other supporting organisations)
- 3 Kiraboshi Bank (Supports through engaging in IP finance and improves consultation capabilities)
- 4 Hiroshima Bank (Improves business valuation capabilities at the organization level through engaging in IP finance)
- 5 Nagano-Ken Shinkumi Bank (Staff members using J-PlatPat to better understand the business and to make proposals)

Future Prospects in Japan (Personal Views)

Regional financial institutions to deepen support for main business

- Demand for experts such as patent lawyers who can support SME's business and commercialization in collaboration with financial institutions may rise.
- JPO's projects can accelerate this practice.

Possibilities of IP Business Due Diligence

- As companies become more aware of intangible assets and IP that they own, financial institutions can evaluate the business with closer focus on their technologies and IP. This will enable more effective and efficient provision of risk money.

Acquiring rights with the view to financing

- It is necessary to recognize that IPR, strategically acquired and in line with business visions, can facilitate financing.

Revision of Corporate Governance Code raised IP awareness

Review on Business Collateral System

Expectation for the promotion of financing that adds value to IP and leverages IP

[Reference] Summary of extent of IP and required change in IP strategies

Revision of the Corporate Governance Code is raising awareness and there are signs of changes to how companies think about IP strategy.

	Extent of IP	Purpose	Ways to use	Expected outcome
Conventional IP strategy	Mainly IPR such as patent rights, utility model rights, copyright	Claim exclusive rights on current business	Injunction of competing technologies and agreement of cross-licence	Averse risk of injunction of own products/technologies
		Monetize unused technologies	Licensing-out and sales of non-core technologies	Raise licence fee and collateralize when financing
IP strategy after revision of Corporate Governance Code	As well as IPR, widely understood intangible assets such as technologies and know-how	Disclose IPR's link between business model and strategy	Visualization of use of IPR and its use in future business	Maintain and improve competitiveness by creating innovation through IP 'assets'
		Disclose information on IP allocation and investment status in a wide sense	Visualization of allocation and investment status of IP such as know-how and confidential information	
		Disclose information of strategic use of IP in a wide sense	Visualization of future prospects of IP such as know-how and confidential information	

Source: Kazunori Suzuki and Masato Maitani, MURC, Quick Management Trend; 'Changes in IP strategy following revision of the Corporate Governance Code', 6 December 2021

Thank you.

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