APEC Business Advisory Council

APEC's Work on IP Finance: Background, Recent Developments and Prospects

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IPR-based Credit Products

Debt-based financing using IPR offers advantages for SMEs. While it can be used in conjunction with equity-based finance, debt-based products are not equity-intensive for SMEs. For lenders, credit risk is controlled through different structures of scalar complexity. IP-backed loans are the simplest form, providing a foundation for more advanced securitization and tokenization financing mechanisms. Archetypical structures are grouped into three categories commonly used or emerging in APEC economies; each structure can be customized and adapted.

IP as a Commercial Asset

IP-backed Loans

- Standalone collateral
- Pool of Assets

This product class is a basic form of loan-based financing. It involves different types of secured transactions. In particular, it involves the creation of security rights on specific IPRs, on a bundle of IPRs, or on a pool of IPRs (with or without other tangible assets). The use of IPR as a standalone collateral is suitable for SMEs with specific innovations. Loan-backed by a pool of assets suited for SMEs with a structured business tied to the value chain.

IP Securitization

- Corporate Bonds Publicly Offered
- Corporate Bonds Privately Offered

This product category can be structured in different ways to ensure the monetization of future income from IPRs. In essence, securitization involves issuing securities (corporate bonds) from a special purpose vehicle (SPV). Such bonds are backed by the income and underlying IPRs. Privately offered bonds can be suitable for IP-intensive SMEs that have successfully completed the incubation stage.

IP Tokenization

- Fungible
- Non-fungible (NFT)

This new product category leverages blockchain integration with IP and sustainable finance systems. Tokens, fungible or non-fungible (NFTs), may represent authenticity, provenance, or real-world assets. Tokens can be used to establish secondary markets. Tokenization mechanisms can be suited for SMEs at different growth stages who are willing to raise new capital through ICOs or traditional financing methods.

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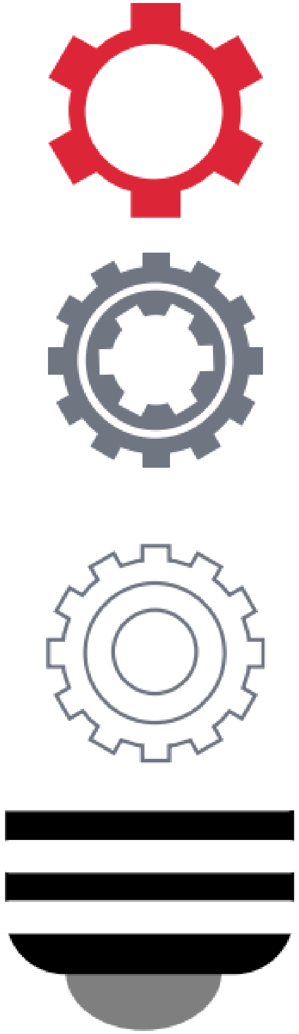
Understanding the Challenges

In most economies, a **negative feedback loop** hinders the financing and the use of IPRs: the limited diffusion of these products fails to prompt policymakers to take action, leading to a lack of incentives to develop new IPR products (Castellano 2024b; Castellano & Dubovec 2025).

Various challenges emerge: Secondary markets may not be well-established as lenders do not invest in the knowledge needed to manage IPR collateral, while borrowers underestimate the need for legal protections to commercialize their inventions.

These challenges are compounded by a legal and regulatory framework that (despite its potential to accommodate such products) contains critical ambiguities. In particular, the lack of clarity in establishing legal titles on IPRs and the disharmonious interaction between the law of secured transactions, financial regulation, and relevant IP laws have a chilling effect.



Market Depth

- **Secondary Market**: The limited diffusion of IPR financing in some economies may limit the establishment of liquid secondary markets.
- **Collateral Realization**: Without a liquid secondary market, the pricing and the disposal of collateral may be difficult.

Supply Side

- **Asymmetries of Information**: Lenders may have limited knowledge of the IPR-management techniques borrowers use to protect their IP.
- **Limited Experience**: Owing to the general reliance on real estate collateral, practices to monitor and control IP assets are not common.

Demand Side

- **General**: Small businesses are less likely to secure bank loans than large firms.
- **IP & Financial Illiteracy**: Lack of knowledge and training on managing IP assets and on the legal protections provided by IPR lead SMEs to underestimate the commercialization potential of their inventions.

Legal and Regulatory Challenges

- **Uncertain Legal Title**: Without proper mechanisms, the legal title of IP might be challenged giving rise to litigations.
- **Coordination Failure**: the uncoordinated application of secured transactions law, financial regulation, and IP law results in an incongruous framework.

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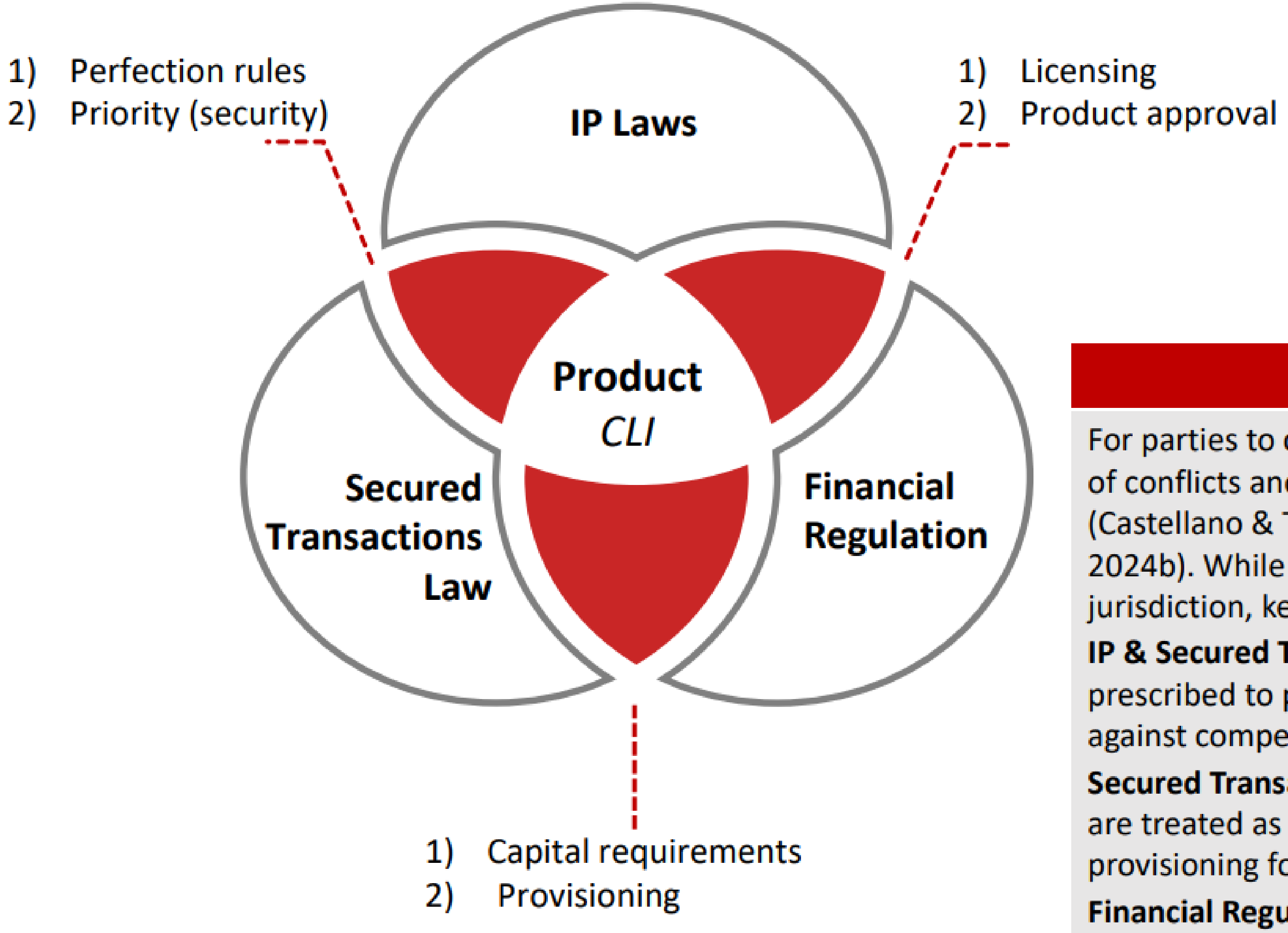
Commercial Law Intersections & Coordination Failures



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COMMERCIAL LAW INTERSECTIONS (CLI)

From a legal standpoint, IP-based products are transactions and corporate actions that fall concurrently within the purview of at least three law branches, giving rise to a "**commercial law intersection,**" which is a **system of rules** and logical deductions **that govern the product** (Castellano & Tosato 2021; Castellano 2024b).

COORDINATION FAILURES

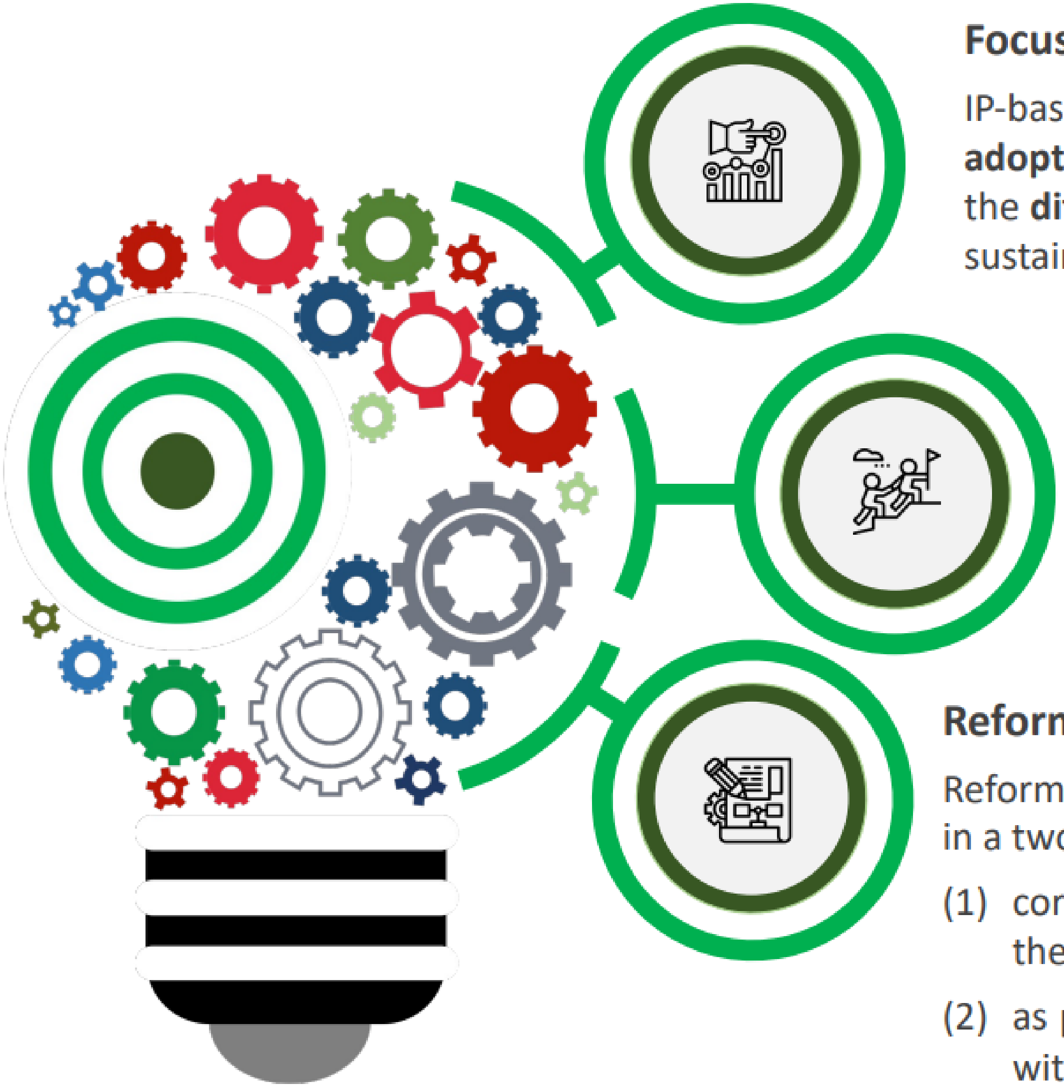
For parties to carry out such dealings, rules within the CLI must be voided of conflicts and inconsistencies. However, "**coordination failures**" (Castellano & Tosato, 2021) and "**legal non-linearities**" (Castellano 2024b). While their intensity and impact vary depending on product and jurisdiction, key incongruencies are recurring in APEC economies:

IP & Secured Transactions Law: Different or conflicting mechanisms are prescribed to perfect security rights on IP and determine their priority against competing claims (Castellano & Tosato 2020, 2021)

Secured Transactions Law & Financial Regulation: Loans secured with IPR are treated as unsecured under capital requirements and loan-loss provisioning for banks (Castellano & Dubovec 2018, 2025).

Financial Regulation & IP Laws: The licensing requirements for non-banks offering products involving IP receivables may be uncertain. (Castellano 2024a; Castellano & Dubovec 2025)

Product-focused Reform Strategy (PRS)



Focus on Credit Products

IP-based products are piloted to stimulate **adoption,** address challenges, and facilitate the **diffusion** of IP-based lending to finance sustainable innovation

Piloting and Sandboxes

Products are **tested** in a sandbox. The purpose is threefold:

(1) to **reduce credit risk**,

(2) to collect **data**, and

(3) to generate an **imitation effect**.

Reforms and Policy Actions

Reforms and policy actions are implemented in a two-step process:

(1) correct **immediate impediments** affecting the deployment of selected products, and

(2) as product products are tested, alignment with **international standards** is ensured.

PRS

A PRS is a **harmonized methodology** for executing law reforms that facilitate new financing mechanisms (Castellano & Dubovec 2025).

The overarching objective is to **induce a change in lending behaviors** and **eliminate existing obstacles**.

A PRS is designed to stimulate the **adoption** (first) and **diffusion** (subsequently) of **credit products** that cater to the needs of small innovators.

Reforms are incremental (as needed), coordinated, and aligned with **international standards**. (Castellano & Dubovec 2025)

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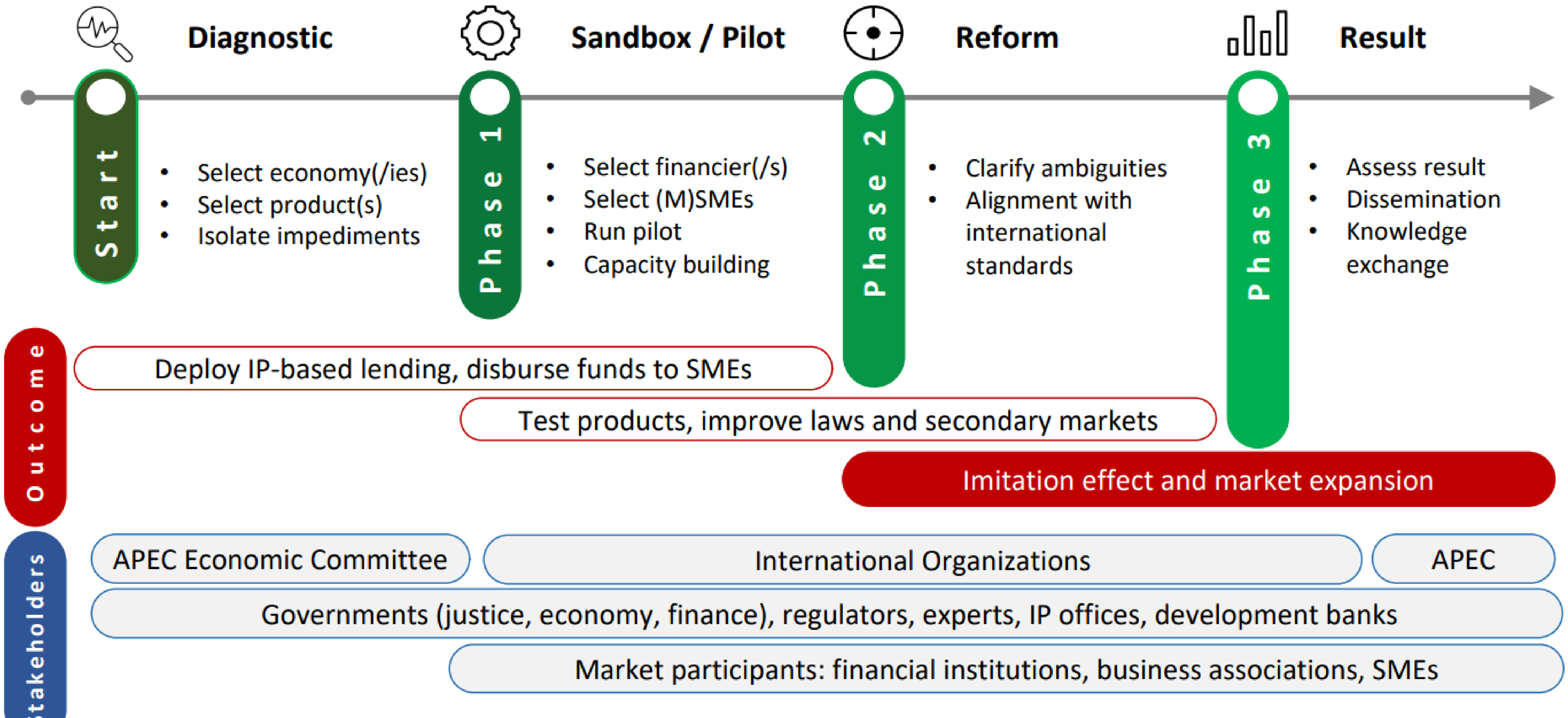
ABAC Proposal: IP Finance Product-Focused Reform Strategy



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IP Finance Initiative - Collaboration with APEC

APEC Intellectual Property Rights Experts Group (IPEG)

- Joint ABAC-IPEG-APFF Workshops
  - May 14 and 15 (Virtual) – focused on valuation issues
  - August 7 (Hybrid, Incheon) – focus on legal and regulatory issues
- August 8-9, Incheon: IPEG Plenary discussed outcomes of workshops
- IPEG Chair's report to APEC Committee on Trade and Investment noted:
  - "APEC can play an important role in [mobilizing private sector financing to scale up the IP finance market] through the relevant APEC fora that are undertaking work on relevant aspects, especially IPEG, the EC, which work on secured transactions and asset-based finance, and FMP."

APEC Economic Committee (EC)

- August 12-13, Incheon EC Meeting
  - Presentation of proposed IP Finance work plan to EC Strengthening Economic and Legal Infrastructure (SELI) Friends of the Chair Group and to EC Plenary Meeting
  - EC endorsed the proposal to develop an APEC project concept note on expanding the use of various types of assets that are being used as collateral, including IP.
    - EC delegates from Hong Kong; Japan; Peru; the Philippines and Thailand agreed to be invited to co-sponsor the project.
    - Project concept note to be submitted for APEC funding in 2026.

Sandbox Implementation

- Ongoing discussions **in Hong Kong** and **Singapore**.
- November 28: APFF workshop in Hong Kong on next steps for sandbox implementation

Thank you!

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