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RICS Response – Pilot Patent Valuation Support Scheme, Guidelines for Quantitative IP Valuation Reports

Introduction

Hong Kong's ambition to develop as an international intellectual property (“IP”) trading and financing centre presents an important strategic opportunity to strengthen the city's innovation economy and broaden financing channels for enterprises.

The Pilot Patent Valuation Support Scheme (“Scheme”) and the accompanying *Guidelines for Quantitative IP Valuation Reports* represent significant initiatives supporting this vision. The establishment of a structured framework for intellectual property valuation has the potential to strengthen confidence among financial institutions, investors, enterprises, and valuation professionals, while supporting the development of a trusted ecosystem for IP financing.

As a leading professional body, RICS welcomes the Government's efforts to facilitate IP-backed financing and offers insights into key areas that can further strengthen implementation of the Scheme and support Hong Kong's ambitions to become an internationally recognised centre for intellectual property valuation and financing.

RICS offers recommendations across three key areas:

1. Strengthen Professional Standards and Market Confidence
2. Support Robust and Bankable IP Financing Frameworks
3. Facilitate Efficient Market Infrastructure and Technical Support

Recommendation 1 - Strengthen Professional Standards and Market Confidence

R1A – Establish Greater Consistency in Valuation Standards

RICS supports the principles-based approach adopted within the Guidelines, which appropriately recognises the importance of professional judgement in IP valuation.

However, to promote greater consistency across reports, particularly for lenders and other users of valuation advice, it will be important that the Guidelines clearly define minimum reporting requirements and disclosures expected under the Scheme.

RICS also supports explicit compliance with International Valuation Standards (“IVS”). To strengthen consistency further, valuations should comply with IVS as the primary framework while allowing supplementary professional guidance where such guidance remains consistent with IVS principles.

A clearer hierarchy of standards can improve consistency across valuation reports and strengthen confidence amongst financial institutions relying upon valuation conclusions.

R1B – Enhance Specialist Competency Requirements

RICS supports the requirement for valuers to be regulated by recognised professional bodies. However, quantitative IP valuation represents a highly specialised discipline requiring dedicated expertise beyond general professional membership.

Holding membership within a recognised institution does not inherently demonstrate competency in patent valuation, intellectual property financing, or intangible asset valuation.

The core mandates of professional institutions may vary significantly. While all recognised institutions play important professional roles, the primary focus of some bodies may pertain to accounting, audit, investment analysis, or other professional disciplines rather than dedicated valuation practice.

RICS recommends introducing minimum experience requirements for qualified valuers, such as demonstrating seven to ten years of practical experience in valuation of intangible assets, intellectual property, or business interests.

Valuation of business interests shares important methodological foundations with IP valuation, including income approaches, market risk assessment, and financial modelling, making it a relevant competency area supporting IP financing.

Greater emphasis on demonstrated specialist competency will contribute towards stronger valuation quality and increased lender confidence.

R1C – Reinforce Professional Accountability and Governance

Professional accountability remains fundamental to confidence in valuation reporting.

RICS recommends strengthening the distinction between the responsible individual valuer and the valuation firm.

The designated individual valuer responsible for the valuation engagement should undertake and sign the valuation report and assume professional responsibility for methodologies, assumptions, and valuation conclusions.

Firm-level signatories may provide quality assurance and management oversight as an additional safeguard but should not replace individual accountability.

RICS also recommends consideration of stronger governance measures that distinguish between individual professional competency and firm-level regulatory oversight.

Regulated valuation firms provide additional consumer protection through institutional oversight, internal quality assurance procedures, ethical compliance frameworks, and maintenance of Professional Indemnity Insurance arrangements appropriate for valuation work.

Strengthening accountability frameworks will improve transparency and contribute towards greater confidence amongst enterprises and financial institutions participating within the Scheme.

R1D – Strengthen Basis of Value and Intended Use Frameworks

RICS recommends strengthening disclosure requirements relating to Basis of Value, valuation purpose, intended users, and reliance on valuation reports.

Valuation methodologies, assumptions, and conclusions can differ materially depending on valuation purpose.

Given that the Scheme is intended to facilitate IP-backed financing, greater clarity is required to ensure valuation reports prepared under the Scheme remain fit for purpose and suitable for financing applications.

Where valuations are prepared to facilitate IP-backed financing, the valuation purpose should be clearly stated and aligned to financing or secured lending objectives where appropriate.

Valuation reports originally prepared for merger and acquisition transactions, internal restructuring, taxation, financial reporting, or other purposes may not necessarily provide an appropriate reflection of collateral value for lending institutions.

To strengthen lender confidence and improve transparency, valuation reports should clearly disclose:

- Basis of Value adopted;
- valuation date and report date;
- intended users and permitted reliance;
- purpose of valuation;
- nature of rights being valued, including ownership rights, licensed rights, partial rights, or geographically restricted rights;
- whether subject IP assets comprise registered IP, pending registrations, non-registrable IP, trade secrets, proprietary know-how, or other forms of intangible assets.

Clearer disclosure standards can support more consistent valuation outcomes while strengthening confidence amongst financial institutions and other users of valuation advice.

Recommendation 2 – Support Robust and Bankable IP Financing Frameworks

R2A – Improve Independence Frameworks and Governance Standards

RICS strongly supports strict valuer independence requirements.

Strong independence frameworks are fundamental to market confidence and lender trust.

To align with international financial market practice, consideration should be given to strengthening independence provisions by introducing retrospective cooling-off periods covering prior employment, ownership, or governance relationships.

Current independence provisions focus principally on present relationships.

A retrospective framework would further strengthen objectivity and align more closely with established market regulation and international professional standards.

Consistent application of independence requirements across individual, partnership, and corporate structures would further strengthen confidence in valuation objectivity.

R2B – Improve Financing Suitability and Lending Alignment

The intended purpose of valuation significantly influences methodology, assumptions, and valuation conclusions.

For financing purposes, valuation methodologies must appropriately reflect lending requirements and collateral assessment considerations.

Reports originally prepared for merger and acquisition activity, internal restructuring exercises, taxation, or financial reporting purposes may not necessarily provide appropriate collateral valuation outcomes for financing institutions.

Repurposed reports may create additional risk where assumptions, valuation methodologies, or Bases of Value differ materially from financing requirements.

Clear alignment between valuation purpose and financing application will strengthen lender confidence and improve consistency across lending decisions.

R2C – Improve Downside Risk Assessment Frameworks

RICS welcomes provisions encouraging consideration of alternative valuation outcomes where appropriate.

However, liquidation represents an alternative Basis of Value rather than merely an alternative scenario.

For IP-backed financing, downside risk assessment may provide useful information to financial institutions, but liquidation outcomes should supplement rather than replace primary financing valuations.

Commercial banks rarely base lending decisions solely upon forced liquidation outcomes for intellectual property assets.

Standalone intellectual property assets may experience materially different recovery characteristics where separated from broader operating businesses, personnel, know-how, or commercial infrastructure.

Where appropriate, sensitivity analysis around key assumptions such as discount rates, royalty rates, economic life assumptions, and revenue growth projections can further strengthen understanding of downside risks while maintaining a single point valuation conclusion.

R2D – Improve Due Diligence Transparency and Specialist Reliance Frameworks

RICS supports enhanced transparency regarding information, assumptions, investigations, and specialist inputs relied upon in preparing valuation advice.

Professional valuation practice operates within clearly defined professional boundaries.

Valuers provide financial and economic analysis but are not legal advisers, patent attorneys, or technical engineering specialists.

Where specialist legal or technical assessments are required, including ownership verification, patent validity assessments, claim scope analysis, or Freedom to Operate assessments, these should ordinarily be commissioned by the approved entity or lending institution.

This aligns with standard commercial practice and ensures specialist due diligence responsibilities remain allocated to the appropriate parties.

Valuation reports should clearly disclose:

- information sources relied upon;
- extent of independent verification performed;
- level of investigation and enquiries undertaken;
- assumptions adopted;
- matters not independently verified;
- external legal or technical reports relied upon and scope of reliance.

Improved transparency around specialist reliance frameworks can strengthen lender confidence and improve consistency across valuation outputs.

Recommendation 3 – Facilitate Efficient Market Infrastructure and Technical Support

R3A – Support Integration of Technical and Legal Assessment Frameworks

RICS welcomes the inclusion of qualitative patent evaluation support through the Hong Kong Technology and Innovation Support Centre (“HKTISC”).

The use of technical assessment standards provides valuable support to valuation professionals and contributes towards greater consistency, lower transaction costs, and improved accessibility for enterprises.

The integration of qualitative patent evaluation frameworks can provide a valuable technical and legal foundation supporting quantitative valuation while preserving professional independence in financial analysis and valuation judgement.

This approach also reduces duplication of specialist technical assessment work and improves efficiency within the financing process.

R3B – Improve Reporting Transparency and Comparability

To strengthen market confidence and facilitate financing decisions, valuation reports should encourage greater transparency around key quantitative assumptions where applicable.

These may include:

- discount rates;
- weighted average cost of capital (WACC) or required return assumptions;
- economic life or remaining useful life;
- royalty rates;
- revenue growth assumptions;
- contributory asset charges;
- probability weighting methodologies where applied.

Improved disclosure standards can strengthen comparability across reports while preserving professional judgement and methodological flexibility.

R3C – Enhance Disclosure Standards and Risk Transparency

RICS supports greater transparency around quantitative assumptions, limitations, risks, and uncertainty considerations within valuation reporting.

Intellectual property valuation inherently relies upon prospective assumptions regarding future commercial performance.

Appropriate disclosure improves comparability across reports while assisting financial institutions in understanding risk exposure and downside considerations.

RICS supports maintaining the requirement for valuation conclusions to be presented as a single point value rather than a valuation range where financing purposes are concerned.

For commercial lending purposes, financial institutions typically require a single deterministic valuation conclusion to support loan-to-value assessment, credit underwriting, and capital allocation decisions.

Sensitivity analysis or scenario analysis on key assumptions may provide additional support for risk assessment while maintaining a single absolute valuation conclusion.

Valuation reports should also clearly identify:

- material limitations;
- assumptions and uncertainties;
- potential risks affecting valuation conclusions;
- mitigation procedures undertaken;
- financing-use disclaimers where appropriate.

Strengthening disclosure standards can improve lender confidence, strengthen consistency across valuation outputs, and contribute towards building a trusted and internationally recognised IP financing ecosystem in Hong Kong.

Conclusion

Hong Kong stands at an important stage in the development of its intellectual property financing ecosystem.

The Pilot Patent Valuation Support Scheme represents a significant step towards establishing trusted valuation infrastructure capable of supporting financing innovation, facilitating commercialisation of intellectual property assets, and strengthening Hong Kong's position as an international intellectual property trading centre.

RICS welcomes the Government's commitment to developing robust valuation frameworks and believes continued refinement around valuation standards, professional competency, governance, transparency, and lender confidence can further strengthen the long-term success of the Scheme.

The future development of Hong Kong's IP financing ecosystem will require close collaboration between government, financial institutions, valuation professionals, enterprises, and industry stakeholders.

Through strong governance, internationally recognised professional standards, and a trusted valuation framework, Hong Kong can continue building its position as a leading international centre for intellectual property financing and innovation.

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