Financial Innovation in the 21st Century: Evidence from U.S. Patents¹

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We explore financial innovation through a dataset of 24 thousand U.S. finance patents granted over last two decades, using machine learning to identify the financial patents and extensively auditing the results to ensure their reasonableness. Patented financial innovation is substantial and economically important, with the number of annual grants expanding from a few dozen in the 1990s to over 2000 in the 2010s. The subject matter of financial patents has changed, consistent with the industry's shift towards household investors and borrowers. The surge in financial patenting was driven by information technology firms and others outside of financial sector, with more than threequarters of important financial awards being to such firms. The location of innovation has shifted, with banks moving activity from regions with tight financial regulation to more permissive ones. Concurrently, high-tech regions have attracted financial innovation by payments, IT, and other nonfinancial firms. While academic knowledge remains associated with more valuable patents, citations in finance patents to academic papers, especially in those by banks, fell sharply. An examination of the relative returns to financial and non-financial innovations suggests that firms are incentivized to pursue financial innovations that have high private value, but much less so to develop those with high social value. Our results highlight the limitations of standard measures of productivity in the financial sector.

Keywords: Banking, information technology, investment banking, productivity, regulation.

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1. Introduction

Despite the intense interest in financial innovations and their consequences,² we know remarkably little about where or by whom these new products and services are developed. This paper seeks to address this gap using a newly constructed dataset of over 24 thousand financial U.S. patents applied for between 2000 and 2018 and awarded by February 2019. While the legal treatment of these awards has shifted over time, patents provide a valuable window into the nature of financial innovation.

Table 1 takes a first look at our data, comparing industry-level economic activity and innovation in the finance sector. We rely on the U.S. Bureau of Economic Analysis' most detailed (405-industry) classification scheme, with slight modifications to facilitate comparison to the patent data.³ In each case, we look at the share of activity in finance across these industry groupings. The three activity measures that we compare are (i) U.S. BEA industry gross output, (ii) U.S. BEA industry GDP, and (iii) (ultimately successful) U.S. patent applications in the technologies most relevant to that industry.⁴ The changing economic composition of the financial services industry is consistent with the trends documented in the earlier literature. The most important among these are the shift towards household investors and borrowers documented by Greenwood and Scharfstein (2013) and Philippon (2015, 2019), which is manifest in the declining share of economic activity in the securities intermediation industry seen here. In addition, the shrinking role of banks in mortgage origination shown by Buchak et al. (2018) and Seru (2019) is evinced in the drop in the economic activity associated with banking.

The patterns in Table 1 regarding patented innovations, however, are largely undocumented in the finance literature. First, we see persistent differences in patenting across industries relative to economic activity. Non-bank credit and payments are strikingly overrepresented in patenting (a pattern driven by payments), while insurance is sharply underrepresented. The bulk of the awards are not in areas related to security design or investment banking.

Second, the shifts in patenting activity only partially reflect broader economic changes. To be sure, across the seven BEA industries, the change in economic activity and patenting activity are positively associated. The change in gross output and patenting between 2000-04 and 2015-18 has

² Recent theoretical papers include Biais, Rochet, and Woolley (2015), Caballero and Simsek (2013), Gennaioli, Shleifer, and Vishny (2012), Rajan (2006), and Thakor (2012). Recent empirical papers examining financial innovation in the run-up to and after the global financial crisis include Chernenko and Sunderam (2014), D'Acunto et al. (2021), Fostel and Geanakoplos (2012), Keys et al. (2010), and Simsek (2013). Another set of papers look at fintech innovation specifically, such as the special issue summarized by Goldstein, Jiang, and Karolyi (2019). Chen, Wu, and Yang (2019) in that volume use patent data to look at fintech firms. Jiang et al. (2021) link patent data and job postings to explore the consequences of fintech innovation. Specific recent innovations, such as cryptocurrency (Makarov and Schoar, 2020) and initial coin offerings (Howell, Niessner, and Yermack, 2020), have also been scrutinized. The older literature is reviewed in Frame and White (2004) and Lerner and Tufano (2011).

³Economic activity data are not generally available for detailed finance sectors globally, so we focus on the U.S. Since U.S. finance patenting is substantially undertaken by U.S. firms (see Table 4), it is not unreasonable to compare the mixture of U.S. patenting to that of U.S. economic activity. See details on construction of Table 1 in Appendix A.

⁴ It should be acknowledged up-front that both output (revenue) and value added have limitations as measurements of economic impact: a particular concern is the misleading declines that may occur when high-cost services are replaced by lower-margin ones. For a discussion of these issues in the context of the digital economy more generally, see Brynjolfsson et al. (2019).

a positive correlation coefficient of 0.25; the change in industry GDP and patenting has a correlation of 0.26. But finance patenting also has its own dynamics, presumably related to shifts in, among other considerations, the supply of relevant technologies and investment decisions in other industries (which account for the bulk of financial patenting). For instance, the dramatic acceleration of patenting oriented towards "non-bank credit and payments" occurred at a time when the category's share of economic activity did not increase as dramatically.⁵ Similarly, the decline in patenting in security intermediation--relevant to organizations such as investment banks and exchanges--substantially exceeded the corresponding changes in economic activity.

In the rest of the paper, we seek to better understand the forces that contributed to these dynamics. In Section 2, we discuss why patents are a reasonable measure of financial innovation in the 21st century. We show that the volume of financial patent awards and applications in the U.S. surged in the late 1990s and early 2000s, from a nearly infinitesimal share to between 0.4% and 1.1% of all grants. Though this level was modest compared to finance and insurance's share of GDP (7.6% in 2019⁶), financial patents were disproportionately important ones as measured by commonly used measures of patent value. We show that the patterns seen in patenting closely reflect those using another measure of innovative investment and do not appear to be driven by shifts in the reliance on trade secrets.

We describe the creation of the dataset in Section 3. We employ machine learning techniques to identify the many financial patents that were assigned to patent classes other than those devoted exclusively to financial innovations, and extensively audit the results to ensure their reasonableness. Our analysis exploits the "front page" data from the awards, as well as the patent text, to better understand their characteristics. In addition, we describe our extensive checks of the sample.

We explore the changing subject matter of financial patents more systematically in Section 4. We show that, as suggested by Table 1, an increasing fraction of patented innovation focused on consumer rather than business applications. Moreover, the surge in financial patenting was driven by U.S. information technology and payments firms and those in other industries outside of finance. Using two common patent weighting schemes that put weights on importance of a patent (see Section 2.2 below), these sectors were awarded 72% of the citation-weighted and 51% of the Kogan et al. (2017)-weighted patents, while banks only represented 3% and 36% respectively. Banks and payments firms increasingly focused on their core areas, while IT firms and other financial firms have continued to patent widely in finance. IT, payments, and other firms were in fact more likely to be issued process patents, as well as consumer finance ones (for instance, in the latter case, these three types of firms represent 84% of awards on a citation-weighted basis, about 12 percentage points more than in the sample as a whole).

⁵ The measurement issues highlighted above may account for the declining share of economic activity by non-banks and payments in Table 1. While payments is not disaggregated from non-bank credit in the BEA statistics, its share of gross output does not appear to have increased sharply, even though the economic importance of entrants such as Square, Stripe and Venmo may have been substantial. While BEA does not provide a stand-alone breakdown of gross output in payments, an unpublished McKinsey & Company estimate is that the U.S. payments industry's revenue between 2007 and 2020 (the longest time series available to us) grew by 3.0% annually, as compared to 3.1% for nominal GDP over the same period. It is also likely that some of the rise in payments was subsumed in the "Data processing, internet publishing, and other information services" industry, which grew at an annual rate of 10.5% between 2000 and 2019. ⁶ https://fred.stlouisfed.org/series/VAPGDPFI.

We highlight the related changes in the geography of financial innovation across the U.S. in Section 5. In particular, we document dramatic shifts across the metropolitan areas in the amount of financial innovations, with the rise of the greater San Francisco region (and the Pacific more generally) and the decline of the New York area.

Consistent with evidence that innovation responds to shifting demand and regulatory conditions (Acemoglu and Linn, 2004; Finkelstein, 2007), we show that financial regulatory actions seem to have adversely affected innovation by financial firms. In the years after the global financial crisis (GFC), financial innovation by banks shifted from locations with tight financial regulation to more permissive places. More speculatively, these results suggest that the seeming failure of banks and other financial institutions to expand their innovative scope may have (at least partially) been due to pressures from financial regulators. Not only may have financial regulation led financial incumbents to shift the location of innovative activities, it may have depressed their focus on innovation more generally, as suggested by works documenting a negative effect of regulation on innovation (e.g., Aghion, Bergeaud, and van Reenen, 2021; Prieger, 2002).

By way of contrast, regions with the highest technological opportunities in general attracted financial innovation by payments, IT, and other non-financial firms. Overall, the evidence is consistent with two sets of explanations for changed location of innovation: the push of regulatory pressures and the pull of technological opportunity.

In Section 6, we examine the source of the ideas behind finance patents. To do so, we explore the relationship between financial innovations and the academic knowledge base. Over the sample period, academic citations in finance patents were associated with more impactful patents, an effect that held for such citations in general, as well as those to articles in business, economics, and finance journals specifically. The relationship between academic citations and patent value became stronger over time, particularly in the 2015-18 period.

Over time, however, the number of citations in finance patents to academic papers fell. This decline was most dramatic for banks, and for citations to business, economics, and finance journals. Citations have been to increasingly older academic articles. Three explanations can be offered for these patterns. First, as the focus of financial patents shifted to consumers, there may have been less relevant academic work to cite. Second, commercially relevant academic discoveries in finance may be harder to come by, consistent with the "fishing out" hypothesis advanced in Eaton and Kortum (2002) and Bloom et al. (2020). Finally, financial organizations, especially banks, may have less ability to absorb these insights.

Collectively, these findings suggest two broad conclusions. First, financial innovation is a far more complex and richer phenomenon than has been depicted in the academic literature to date, which has largely focused on either the design of novel securities or fintech, especially blockchain. The extent to which finance patenting has been increasingly dominated by firms outside the finance industry is striking. So is the importance of payments technologies, as well as back-office functions such as security and communications.

Second, the results pose a puzzle regarding the failure of traditional financial institutions to maintain pace in consumer-focused innovation. The results hint at factors that may have exacerbated the

declining share of financial innovation by banks: the seeming decrease in relevant contemporaneous academic discoveries (or the ability to identify and absorb them), as well as regulatory pressures after the GFC (Buchak et al., 2018). These patterns were consistent with the arguments of Philippon (2019) regarding the impediments to innovation by incumbent banks, and the potential for breakthroughs by new entrants. They are also in line with the changing distribution of value added in credit intermediation away from traditional banking.

In Section 7, we explore, albeit imperfectly, the returns from these innovations. The magnitude and directions of the social returns to financial innovations has inflamed intense passions, with Miller (1986) and Merton (1992) on the one hand and Stiglitz (2010) on the other having staked out very different views. As Lerner and Tufano (2011) highlight, the evaluation of the social impact of financial innovations is particularly subtle: unlike a new chemotherapy or solar panel, these discoveries can have dramatically different impacts over time as they diffuse and the behavior of consumers and financial institutions changes.

We compare the private returns to financial and non-financial innovations, using an extension of the empirical specifications in Hall, Jaffe, and Trajtenberg (2005). We find that firms are particularly efficient in translating expenditures on financial discoveries into private market value. We also examine the impact of patent citations, which have been shown to proxy for the social value of innovations, on private market value and find a much weaker relationship with firm value for financial innovations. The results suggest that firms are incentivized to pursue financial innovations that have high private value, but much less so to develop those with high social value.

The conclusion ends by considering the broader implications of these findings. Government statistics report very low or even negative productivity growth in the finance sector. The OECD (2020) reported the U.S. gross value added per person employed (using constant prices) declined at an -0.19% annual rate for "finance and insurance services" between 2010 and 2018, as opposed to rising at a 0.94% rate for the entire economy. Similar patterns were seen in the United Kingdom. Sprauge's (2021) analysis of Bureau of Labor Statistics data (at the 60-industry level) similarly suggests that banking and securities were two of the four industries with the most negative contribution to private nonfarm business labor productivity growth in the 2005–18 period. Academic studies have also documented what Philippon (2016) dubs "the disappointing productivity of finance" (e.g., Philippon, 2015).

Our results, while focused on innovation, seem at odds with the productivity data, at least at first glance. The increase in highly valuable financial patenting, the responsiveness of the location of innovation to regulatory pressure and technological opportunity, the relevance of citations to academic research to patent impact, and the strong relationship between financial discoveries and private market value suggest the importance of innovation in this sector. The seeming disconnect between our findings and the measures of financial productivity may be an illustration of the famous "productivity puzzle": the fact that economy-wide information technology-driven innovations have been accompanied by low (and slowing) productivity growth as measured by standard metrics.

2. Patents as Indicators of Financial Innovation

2.1 A Historical Perspective

The financial services industry has historically differed from the manufacturing sector with regard to the ability of innovators to appropriate their discoveries. There has long been ambiguity about the patentability of financial discoveries in the United States. At least since a 1908 court decision established a "business methods exception" to patentability,⁷ many judges and lawyers have presumed that business methods were not patentable subject matter. While the U.S. Patent and Trademark Office (USPTO) issued patents on financial and other business methods during the twentieth century, many observers questioned their enforceability. Another concern limiting financial patenting was that it was very difficult for firms to detect infringement of their valuation-and trading-related patents. (The same considerations also affected the decision to file process patents in other industries.)

Consequently, awardees were reluctant to incur the time and expense to file for awards. Instead, new product ideas diffused rapidly across competitors (Herrera and Schroth, 2011; Tufano, 1989). As a result, patents traditionally only provided a limited guide to innovative activity in finance, in contrast to other fields (Griliches, 1990). This disparity was highlighted in Lerner (2002), who documented that between 1971 and 2000, only 445 financial patents were issued by the USPTO. These patents represented less than 0.02% of all awards during this period. A disproportionate share of these awards were made to individual inventors. Academic research, while highly relevant to many of these patents, was rarely cited or identified by the patent examiners.

Attitudes toward business method patents changed with the July 1998 appellate decision in *State Street Bank and Trust v. Signature Financial Group*. This case originated with a software program used to determine the value of mutual funds, on which Signature had obtained a patent in 1993. State Street Bank sued to have the patent invalidated on the grounds that it covered a business method. While State Street's argument prevailed in the district court, the Court of Appeals for the Federal Circuit (the central appellate court for patent cases, also known as the CAFC) reversed the finding. The CAFC affirmed the patentability of the software since it produced a "useful, concrete, and tangible result."⁸ The Supreme Court declined to hear State Street's appeal in January 1999.

State Street thus established that business methods were statutory subject matter on an equal playing field with more traditional technologies. Numerous trade press articles interpreted the case as unambiguously establishing the patentability of business methods. While this decision was refined and tightened in important subsequent rulings such as *Bilski v. Kappos* and *Alice Corp. v. CLS Bank* (discussed in Appendix B), it nonetheless represented a sharp discontinuity in the legal regime governing business method and financial patents.

Conversations with patent practitioners suggest that the historical differences between patenting in finance and in other domains has narrowed considerably in recent decades. In addition to the greater (though not iron-clad) confidence in the enforceability of finance patents, two factors contributed to

⁷ Hotel Security Checking Co. v. Lorraine Co., 160 F. 467 (2d Cir. 1908).

⁸ In particular, the court held "... that the transformation of data, representing discrete dollar amounts, by a machine through a series of mathematical calculations into a final share price, constitutes a practical application of a mathematical algorithm, formula, or calculation, because it produces 'a useful, concrete and tangible result'–a final share price momentarily fixed for recording and reporting purposes and even accepted and relied upon by regulatory authorities and in subsequent trades." See *State Street Bank and Trust v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998).

this change in practice. One reason was that greater regulatory disclosures and more public scrutiny after the GFC made it hard to keep discoveries secret. In these settings, the disclosure associated with patent awards may have been less problematic. A second reason was the emergence of fintech firms that were not vertically integrated. Since these new firms often could not capture the returns from their inventions directly, they regularly filed financial patents. These filings in turn spurred many incumbents who did not traditionally patent to also protect their innovations. Figure 1 illustrates the dramatic boost in financial patent applications and awards over this period, showing the increase from a nearly infinitesimal share to between 0.4% and 1.1% of all grants.

2.2. Empirical Evidence on Financial Patent Quality

The qualitative discussion above suggested that the mapping between financial innovations and patenting has become closer. These arguments were borne out in four preliminary empirical analyses.

The first analysis asks whether finance patent awards were valuable ones using traditional metrics of patent value. Table 2 examines all finance and non-finance utility⁹ patents filed between 2000 and 2018, and awarded by February 2019, using three leading measures of patent impact. These three measures, while positively correlated (Kelly et al., 2021), differ in both their methodologies and points of focus, and thus identify different patents and firms as the most impactful:

- The first of these was the subsequent patent citations (through October 2019) that the patent garnered. This metric measures the scientific value of a patent based on how many follow-on innovations build on that patent. Because the propensity to cite patents varied across technologies and over time, we normalized the citations by the mean number received by other patents in that four-digit Combined Patent Classification (CPC) class and awarded in the same quarter.
- The second impact measure was the Kogan et al. (2017) estimate of patent value, based on market reactions to the award grants. This measure could only be calculated for publicly traded firms. Unlike the other two measures, this metric only captures private, rather than private and social, returns.
- The final measure was the metric of patent novelty developed by Kelly et al. (2021), based on a comparison of the patent text with prior and subsequent patents. Because this measure requires a substantial corpus of subsequent patents, it was only calculated for patents awarded through the end of 2015.

Using the citation measure, the mean finance patent was on average 25% more impactful than the typical award. Using Kogan et al. (2017) average market values, the finance patents were four-and-a-half times more valuable. The differential in mean Kelly et al. (2021) weights was about 6%. These differences in means, as well as those in medians, were statistically significant.

Figure 2 plots the logarithm of the mean of Kogan et al. (2017) values and citation counts, by year of award. Financial patents since the GFC had an average Kogan value considerably greater than any other broad class. Using the count of citations, finance patents were second only to "Human

⁹ 94% of U.S. patent applications between 2000 and 2018 were for utility patents (<u>https://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm</u>). The remainder were primarily for design and plant patents with little relevance to finance. Following the literature, we did not consider non-utility patents in this paper.

Necessities," which includes pharmaceuticals. These patterns also held when examining the top 5th percentile of awards (Appendix Figure A-1). The results were inconsistent with the conception of these awards as trivial discoveries devoid of economic value.

The second analysis examined whether major finance innovations were associated with patents. To undertake this examination, we identified the most significant financial innovations over the past two decades. We used media compilations to do so: for instance, the *MIT Technology Review*'s annual listings of the "Top 10 Breakthrough Technologies of the Year," the discussion and recent examples of "Financial Innovation" in Wikipedia, the articles under the "Financial Technology & Automated Investing" column on the Investopedia website, and so on. We identified a total of 22 significant innovations in finance.

We then searched for the patents in our sample associated with each of these innovations. To find the patents related to a financial innovation, we identified those patents whose title alluded to the specific financial innovation directly or that used the term frequently in the text (using the USPTO's patent database). We also reviewed each patent to ensure it was truly related to the financial innovation we searched for. We found patents, typically in significant numbers and often awarded to industry leaders, associated with each major innovation.

The 22 innovations and the patent with the earliest application date associated with each are listed in Table 3. For instance, many popular tabulations identify online banking as one of the most significant financial innovations since the GFC. This has been an area of extensive patenting. The listed patent, by industry leader Bank of America, covers advanced fraud detection techniques fundamental to online banking. The patent is the most important financial patent in terms of Kogan et al. (2017) value and is among the most cited. Apart from commercial banks, the innovators include payments start-ups (VIVOTech) and incumbents (Visa), IT firms (e.g., Apple and IBM), investment banks and exchanges (e.g., Goldman Sachs and Chicago Mercantile Exchange), and a patent assertion entity (Blue Spike). Many of these awards rank highly on the three key value metrics.

The third analysis was motivated by Lerner's (2002) argument that the pre-*State Street* finance awards were subject to ineffective reviews. To examine the quality of review in the 21st century, we examined the subset of finance patents whose original applications were published by the USPTO. We compared the crucial independent claims in the applications and awards, and determined the extent to which the number and length of these claims were modified during the review process, following the methodology of Marco, Sarnoff, and deGrazia (2019).¹⁰

¹⁰ An independent claim "is a standalone claim that contains all the limitations necessary to define an invention" (https://www.uspto.gov/sites/default/files/documents/Website%20PDF%20-%20Invention%20Con%202017%20Claim%20Drafting%20Workshop%20-%20OPLA.pdf). These are the most important such rights granted. Not all patents have published applications: for instance, those applications only filed in the U.S. are often not published prior to issue (https://www.uspto.gov/web/offices/pac/mpep/s1122.html#d0e120159). We did not include patents initially published outside their U.S., as these may have been modified by another patent office before USPTO review. We determined the count and the length of independent claims in issued patents using the Patentsview database. Due to the difficulty in obtaining the claim text in application publications, we only used the applications analyzed by Marco, Sarnoff, and deGrazia (2019) and archived at https://www.uspto.gov/learning-and-resources/electronic-data-products/patent-claims-research-dataset.

Panels A and B of Figure A-2 present a comparison of 2.6 million non-finance patents and almost 16 thousand finance ones. Finance patents were more likely to have the number of independent claims reduced than non-finance patents (by one-half, rather than one-third, of an independent claim) and to have the shortest independent claim lengthened (by 84 words, as opposed to 49).¹¹ Both of these results were consistent with more intensive reviews of finance patents since the mid-2000s. Table A-1 in the Appendix presents a more detailed tabulation and statistical comparison, and finds consistent results.

Finally, we looked at whom was filing the finance patents. We examined the identity of the assignees of all utility patents applied for between 2000 and 2018 and awarded by February 2019. We used the classification of assignees provided by the USPTO, and assumed that all unassigned patents were awarded to individuals.

Table 4 shows that 8.6% of finance patents since 2000 were assigned to individuals, similar to nonfinance patents (7.8%). This share differs sharply from the 25% share in the pre-*State Street* sample of finance patents collected by Lerner (2002), as reported in Table A-2.¹² Since many of the most problematic patents in the earlier era were those of individual inventors, this result was again consistent with the suggestion that patent awards filed in recent decades provide a valuable window into changing trends in financial innovation more broadly.

2.3. Trade Secrets as an Alternative

Another natural concern was that patents did not correspond well to financial innovations, not because patents were not legitimate awards, but because firms chose to protect many inventions through trade secrecy. Moreover, the relative reliance on patenting versus trade secrets may have changed over time. A number of Supreme Court decisions between *Bilski v. Kappos* in 2010 and *Alice Corp. v. CLS Bank* in 2014 may have weakened the value of patent protection, and led firms to rely more on trade secrecy to protect ideas. Patents may thus give a distorted view of financial innovation.

While we were unable to answer this question definitely—trade secrets are of course virtually impossible to observe on a systematic basis—we undertook several diagnostic checks.¹³ To address this concern, we proceeded in three ways: we examined an alternative measure of innovative activities not based on patents, looked at references to the protection of innovative intellectual property in earnings calls of finance firms, and measured the litigation of intellectual property.

¹¹ In patent claims, patentees generally strive to have the broadest claims, i.e., those with the fewest limitations. An increase in claim length is thus often associated with a narrowing of claim breadth.

¹²Another way to assess the importance of individual patentees is to look at the difference in the share of awards that were made to individuals between finance and all other patents. While this gap was less than 1% in patents filed in 2000 and later, it was 10% in the earlier period.

¹³ This issue affects many other fields as well, even ones where patenting has been long-established. For an example from the pharmaceutical industry, see <u>https://www.justice.gov/usao-edpa/pr/former-glaxosmithkline-scientist-pleads-guilty-stealing-trade-secrets-benefit-chinese</u>.

First, we looked at another way in which incumbent firms invested in new technologies, using data on corporate venture capital transactions.¹⁴ In corporate venturing programs, corporations typically designate a group of professionals to make investments in young firms. The team usually purchase minority stakes in entrepreneurial firms undertaken alongside other venture capitalists, with the hope that these expenditures will lead to more informed decisions about acquisitions, internal investments, or licensing arrangements (Ma, 2020).

We totaled the dollar volume of closed corporate venture investments in U.S.-based finance firms reported by Capital IQ between January 2000 and December 2019, broken down by the industry of the investor. The patterns are summarized in Figure 3. (The methodology employed is detailed in Appendix C.)

The tabulation of this alternative manner of pursuing innovation was consistent with that of patenting in several significant respects:

- The level of innovative activity increased over time.
- There was modest share of activity associated with banks, which fell over time as a share of all such investments, while the IT/other and (to a lesser extent) payments categories grew.
- The share of total corporate venturing activity in the financial sector was roughly similar to the shares in patenting seen in Figure 1. For instance, the share of total corporate venture activity devoted to financial services between 2000 and 2016 was 1.5%.

The second analysis focused on earnings call transcripts of financial firms. These quarterly calls are transcribed in the Refinitiv Company Events (formerly Thomson Reuters Street Events) database. We closely followed the methodology of Hassan et al. (2019), which argued that these transcripts accurately represent the central concerns of corporate management and the analysts who follow firms. We identified whether the calls utilized the string "patent" and a number of phrases associated with trade secrecy using quarterly earning calls between 2002 and 2019 (see Appendix D for details).

We found that there was far more discussion of patent protection than trade secrets. In the nearly 26 thousand transcripts, 446 mentioned patents at least once, while the phrases associated with trade secrets appeared in only 23. Nor did mentions of trade secrecy become more frequent over time. The ratio of patent to trade secret-related mentions went from 17.5 in the pre-*Bilski* period (2002-09) to 21.4 thereafter (2010-19). The quarterly time series, normalized by the number of calls analyzed and their length, is depicted in Figure 4.

The third approach we undertook was to look at litigation involving intellectual property. Canonical models of suit and settlement (e.g., Cooter and Rubinfeld, 1989) suggest that firms will tend to litigate cases where, among other considerations, the stakes are higher. Thus, litigation may provide a rough proxy of the relative importance of different forms of protection. We focused, due to data

¹⁴ It should be noted that most other non-patent metrics of innovative activity in financial services are problematic. For instance, finance has had extremely low levels of reported R&D. In 2016, the U.S. finance and insurance industry spent 0.17% of total revenue on R&D, as opposed to 13.5% for pharmaceuticals, 10.7% for computers and electronic products, and 3.4% for manufacturing as whole (based on calculations by Kung, 2020). This low number may reflect the historical ambiguities about whether R&D tax credit covered such expenditures, which reduced the incentives for financial firms to track this spending (National Research Council, 2005).

limitations, on litigation in the federal courts in a relatively short window of time after the Defend Trade Secrets Act became effective in 2016, which greatly facilitated the litigation of trade secrets in the federal courts.¹⁵ Even in this period, pure trade secret cases made up a small share (under 10%) of intellectual property litigation involving financial innovations, as Appendix D summarizes.

Cumulatively, these analyses in Sections 2.2 and 2.3 help address concerns that the picture of financial innovation obtained from patents was incomplete or selected in some manner.

3. Construction of a Financial Patent Dataset

3.1 Identification of Financial Patents

The first step in the construction of our dataset was to develop an approach for identifying a "financial patent." Social scientists have generally relied on three types of information when classifying patents: the patent's technological classification code, the firm to which it was initially assigned (usually the inventor's employer), and/or keywords from some subset of the patent text, such as the title or abstract.

Each approach had advantages and disadvantages. Classification codes, for example, were created to help patent examiners identify prior art and often evolved in a somewhat piecemeal fashion. As a result, the codes do not necessarily map into broad technological categories like "finance." For example, while most finance patents were classified under the CPC system within G06Q 40 (Finance; Insurance; Tax strategies; Processing of corporate or income taxes), a substantial number of blockchain and cryptocurrency patents were classified within H04L 09 (Cryptographic mechanisms or cryptographic arrangements for secret or secure communications).

Another problem with identifying financial patents by classification code is that the U.S. changed from the U.S. Patent Classification (USPC) to Combined Patent Classification scheme in January 2013, during our period under study. The USPTO offers a concordance between CPC and USPC codes. However, this crosswalk is based on an unpublished statistical association between the old and new codes. As a result, CPC codes for patents issued before January 2013 are essentially imputed and may contain inaccuracies. Moreover, the USPTO stopped using USPC codes in 2015, so the use of those codes would limit our study and exclude recent technologies like blockchain.

Alternatively, we can identify financial firms using published lists of fintech firms, such as the Forbes 100, the KPMG 50, or the CB Insights Fintech 250, and assume that the patents held by these firms are all financial patents. For firms in the start-up phase, this assumption may be reasonable. But as firms grow larger and potentially expand into multiple lines of business, it no longer makes sense to assume that all of their issued patents are in finance. For example, a subsidiary of the payments firm Square, Weebly, held several patents. But Weebly was a website builder, rather than a financial company, and thus the bulk of their awards were associated with web site design and manipulation. Thus, it would be incorrect to assume that patents held by Square and its subsidiaries were financial patents. A similar issue surfaces when considering patents owned by established

¹⁵ Because they have not historically been compiled in sources such as Lex Machina, we cannot observe intellectual property litigation in state courts. Our end-date for this analysis of December 2016 was determined by the coverage of the patent litigation database compiled by the USPTO. See Appendix D for a fuller discussion.

financial institutions. Thus, this approach might bias the sample of financial patents in unpredictable ways.

Finally, we can use Google BigQuery to execute SQL queries for certain keywords across the corpus of all published U.S. patent documents, using the IFI Claims patent data. We thus can generate a suitable set of keywords predictive of "financial" status—for example, some form of the word "finance"—and search for those keywords across all patents. The main challenge here was to identify a suitable set of keywords without arbitrarily picking words that might bias the sample towards specific examples of financial innovation (like cryptocurrency) known to the researcher. Another challenge was to identify words that have high specificity and would not pick up too much noise (e.g., patents that use some form of the word "finance" but are not financial patents).

Of course, we could also use any combination of the sets of financial patents produced from each of these three techniques, like (A U B) \cap C (Hall and MacGarvie, 2010). However, without extensive auditing, we could not easily identify the best combination of techniques, nor evaluate how well these various combinations eliminate or reduce inherent bias in the merged dataset.

We broke with prior literature by employing supervised machine learning (ML) techniques to develop an algorithm for appropriately classifying patents as "financial" (treatment) or "not financial" (control), based on each patent's features. As with any standard supervised machine learning, we had to first choose a way to label the training set of patents. Based on our survey of existing classification techniques above, we elected to use CPC codes, under the belief that the codes would allow us to label a large sample of financial patents with relatively high accuracy. We chose CPC over USPC codes to enable future work and comparisons (as patents today and in the future are only classified using the CPC scheme). We experimented with various feature sets—the patent text, inventors, assignees, and the CPC codes of backward citations—before settling on the patent text and inventor names as the two feature sets which produced, in combination, the highest and most balanced levels of accuracy.

To determine which CPC codes might allow us to label a set of financial patents, we first looked at the USPTO's concordance file for the financial patent classes analyzed in Lerner (2002) (former USPC class 705, subclasses 35-38). We determined that CPC groups G06Q 20 and G06Q 40 broadly captured what we considered to be financial patents. Patents in G06Q 20 involved significant data processing operations and generally related to payment architectures, schemes, or protocols, while those in G06Q 40 generally covered finance, insurance, tax strategies, and the processing of corporate or income taxes. Patents with a primary CPC code (note the USPTO typically places patents into one primary and multiple secondary categories) in these two groups constituted our treatment set (set A). There were a total of 17,511 patents in CPC groups G06Q 20 and G06Q 40 that were applied for between 2000 and 2018 and awarded by February 2019.

Within subclass G06Q, we excluded groups 10 and 30, as those groups covered data processing systems or methods specially adapted to administrative or managerial purposes (group 10) and electronic commerce (group 30), categories that are not financial in our view. We also excluded group 50 and all subsequent groups, as they involved non-financial industries or technologies outside of our view of finance (e.g., business processing using cryptography). Patents with a primary CPC subclass in G06Q but not in groups 20 or 40 constituted our control set (set B).

Next, we merged our treatment set and control set, then bifurcated the data into a training set with 70% of the data and a testing set with 30% of data. Then we applied natural language processing techniques to each patent's text and the inventor names. When we first experimented with this approach, we used patent titles and abstracts for the patent text, but neither of these textual sources produced models with suitable accuracy.¹⁶ Our initial model runs produced high sensitivity (also called the true positive rate, the proportion of actual positives correctly identified as such) of about 98 percent. But the specificity (the true negative rate, the proportion of actual negatives that are correctly identified as such) was very poor: about 30 percent. We therefore elected to use each patent's entire written description, as the much richer set of language features obtained from the written descriptions produced much better results. With the entire written description as features, we obtained 91 percent sensitivity and 85 percent specificity.

Figure A-3 in the Appendix depicts how we applied the standard supervised machine learning process to predict financial patents.

We then repeated a similar natural language processing procedure for other features of interest, in addition to the written text. We generated feature sets of the prior art cited in each patent, the names of the firms to which the patent was initially assigned, and the names of the inventors. When we applied each model to the test data, we found that the text model was the most accurate, followed by the inventor model. The prior art and assignee models could not improve accuracy beyond what could be achieved with the text and inventor models. Compared to the text-only model, the text-inventor model slightly decreased sensitivity from 91.3 to 89.9 percent (a drop of 1.4 percentage points), but significantly improved specificity from 85.3 to 90.0 percent (an increase of 4.7 percentage points). As a result, our new model generated false positives and false negatives at about a similar rate. This low rate (10 percent) was a tremendous improvement compared to our initial model.¹⁷ The structure of our model is presented in Figure A-4.

We then deployed the model to capture financial patents outside G06Q by applying it to other supplemental classifications where some financial patents might reside. After analyzing all patents that had any (but not a primary) classification in G06Q groups 20 or 40, we found that nearly 80% of those patents had a primary subclass in nine other categories that we had not considered (G06F, G06K, G07C, G07F, G07G, H04L, H04M, H04N, and H04W). There were 12,010 such patents. Our next step was therefore to generate text and inventor feature sets for these patents, and apply our text-inventor model to that data to predict which could be financial. This process identified 6,777 of those patents as financial. The data set of financial patents thus consisted of 17,511 patents with

¹⁶ Intermediate steps included the removal of extra blank spaces, the converting of accented characters to ASCII characters, the removal of non-English characters, the removal of stop words, the stemming of each word, and the lowercasing of the text. (Stop words are very common words such as "we" or "are," which do not provide necessary differentiable information for machine learning classifiers.)

¹⁷ Our initial strategy was to adopt a stacking technique, an ensemble learning method that has the potential to improve further the classification accuracy but requires the combination of multiple classification models via a meta-classifier. After experimenting with different types of stacking architecture, we settled on the use of a Naive Bayes model for the patent description text, and a Logistic Regression model for the inventor names (Jurafsky and Martin, 2019, chapters 4-5). A concise "sum up" text-inventor model was adopted, in which a patent was predicted to be financial if either the text model or the inventor model made such a prediction.

a primary CPC group in G06Q 20 or 40 plus an additional 6,777 patents in the nine subclasses listed above that were predicted by the model to be financial, for a total of 24,288 patents.

To verify the quality of the ML model, we audited the results. Appendix E describes the auditing process.

3.2 Joining with Other Data Sets

After generating a list of financial patents and auditing the results of our ML models, we then obtained additional information about the financial patents and the firms to which they were assigned.

The first step in our process was to obtain additional patent-level data on financial patents from Derwent. Such information included the publication date, inventor names, assignee names, and abstract. We noticed one discrepancy in the assignee field when comparing the Derwent data and the IFI Claims patent data (accessed through Google BigQuery), but determined that the discrepancy could be readily addressed after auditing (see Appendix E).

We also obtained from Patentsview the patent assignee type (corporation, government, or individual, divided by domestic or foreign),¹⁸ the number of forward citations through October 8, 2019, and the geographical location of the first-named inventor.¹⁹

We then matched the firms listed as the first assignee of the financial patents to Capital IQ firms, in order to access more detailed information about the firms. First, we used the Global Corporate Patent Dataset (GCPD) developed by researchers at the University of Virginia (Bena et al., 2017). This database allowed us to match 12,351 patents to a Compustat GVKEY, which could be easily linked to the associated Capital IQ identifier because both Compustat and CapitalIQ are Standard & Poor's databases. Then, after removing inventor-assignees, we used a Levenshtein distance-based fuzzy name matching technique to match the remainder of the first assignee names with 12 million firm names in the Capital IQ database.²⁰

After examining the data, we determined that a matching score of 0.95 or higher was sufficiently accurate that the match could be accepted without further scrutiny. This yielded an additional 6,237 patents matched to Capital IQ firms. Similarly, we found that matches with scores below 0.8 were so poor that they should be rejected outright. For the 1,940 potential matches with scores between 0.80 and 0.95, we had a research assistant examine the potential matches, ultimately identifying an additional 818 patents with good assignee matches. This yielded Capital IQ identifiers for a total of 19,406 patents, or 80% of the sample (nearly 88% of the patents not awarded to individuals). We

¹⁸ Between 7% and 8% of the patents in the financial patent and overall samples had no assignee type in Patentsview. We audited 2% of the financial patents with a missing assignee type, and discovered that 99% of these were assigned to individuals (also known as inventor-assignees). In the analyses below, we treated all patents with a missing assignee type as assigned to an individual.

¹⁹ We also used Patentsview data to assign patents to primary CPC classes in some ambiguous cases where patents had more than one primary CPC code in the IFI data.

²⁰ We divided the Capital IQ database into three subsets, with four million company names in each subset, to execute the fuzzy name-matching algorithm in parallel and save computing time, and to get multiple optimum matches within each subset.

used the Capital IQ identifier to join to our financial patent database a host of detailed financial information about each firm in the year of the patent application, as well as its industry, employment, and whether it was publicly traded at the time. We used the Refinitiv VentureXpert database to determine whether the firms were actively venture-backed at the time of the patent filing, following the methodology in Akcigit et al. (2020).

We classified firms into industry groups as follows:

- Banks covered large and geographically diverse institutions, as well as regional and local ones, with significant business activity in retail banking, underwriting, and corporate lending. This category also included thrifts and mortgage finance firms providing mortgage and mortgage related services, and diversified financial services firms (GICS 401010, 401020, and 402010).
- Other finance included providers of consumer services like personal credit and lease financing (GICS 402020), capital markets including asset management and financial exchanges for securities, commodities, and derivatives (GICS 402030), and insurance (GICS 403010).
- Payments firms were classified under Data Processing and Outsourced Services (GICS 45102020).
- Information technology firms covered a wide variety of computer hardware and software developers, as well as technology consulting firms (GICS 45 outside of payments).
- All other firms that did not fall into the four categories above.

We thus constructed a database containing, for each financial patent in our list, Derwent patent data, Patentsview patent data, and financial data from Capital IQ (for each assignee that could be matched). Figure A-5 depicts the process we used in this step. We then used similar techniques to match assignee names with the names of Systematically Important Financial Institutions (SIFIs).²¹

We matched all patents to the database of citations to academic articles compiled by Marx and Fuegi (2019). This database contained all academic citations contained within patent documents (whether on the front page or in the text), as well as information about the subject matter of the articles and the name and impact factor of the journals in which the articles appeared.

As a last step, we associated financial patents with particular functions in financial services, which we refer to as patent type or subject matter. The patent classification scheme was insufficient here, as many categories did not map readily to particular subject matters. Instead, we created a set of keywords (listed in Table A-3) associated with accounting, commercial banking, communications, cryptocurrency, currency, funds, insurance, investment banking, passive funds, payments, real estate, retail banking, and wealth management. We based these keywords on a review of the patent abstracts, finance glossaries, and industry knowledge. Some patents had one keyword; others had many. For each patent that fell into more than one category, we assigned it a fractional share to each of the relevant classes.

²¹ Data on SIFIs were taken from <u>https://www.fsb.org/work-of-the-fsb/policy-development/addressing-sifis/global-systemically-important-financial-institutions-g-sifis/</u>. We focused on the initial SFIs designated in November 2011.

We adopted four progressively wider searches to identify these keywords. First, we just examined the patent abstracts. For the patents with no matches, we examined the first 100 words of the background section of the patent. For firms with no matches, we examined the entirety of the background section. For the remaining firms without matches, we examined the entirety of the patent text. Tables A-4 and A-5 summarize the matching process. For the 345 patents without a match, we read the patents. For the 33 patents that could not be classified even after manual examination, we excluded them from our dataset. Hence the final dataset contains 24,255 (24,288-33) patents. For the purposes of the analyses below, we consolidated the patent types into banking (encompassing commercial, investment, and retail), payments, and all others. Figure A-6 presents an overview of the financial dataset construction procedure.

3.3 A First Look at Patenting

As Panel A of Figure 5 depicts, the bulk of the awards were dominated by payments and various supporting back-office technologies. Figure 6—which reproduces the front pages of the patents in the sample with the greatest number of citations and the highest Kogan et al. (2017) and Kelly et al. (2021) weights—underscores this point. While the most-cited patent was geared toward professional traders, the other two were oriented towards meeting the needs of retail investors (fraud protection in banking and tax planning).

The surge in financial patenting was driven by U.S. information technology firms and those in other industries outside of finance. As Panel B of Figure 5 suggests, banks and other financial institutions had a modest share of the awards (about one-fifth of the total), with IT companies dominating.

Panel A of Table 5 summarizes the ten most frequent assignees in the finance patent sample. There was heavy representation of banks, computer hardware and software firms, and other finance firms. One possibility was that the impact of small firms may be collectively significant, even if they did not show up in this tabulation. To explore this possibility, Panel B presents the share of applications between 2000 and 2004 and between 2015 and 2018 applied for by small firms, using three thresholds based on employment in the application year. (These totals excluded patents awarded to individuals, which as shown below, have been falling sharply.) In each case, despite the media attention paid to fintech start-ups, the share of patents going to small businesses were quite modest and falling over time. Panel C looks at the substantial financial patentees with the most influential patents. The compilations here were limited to the firms with 200 or more financial patents. The table reports the firms whose financial patents had the highest average citation, Kogan et al. (2017), and Kelly et al. (2021) weights. The heavy representation of payments, banking, and computer firms was apparent.

4. Shifts in Financial Patenting

This section examines the changes in financial patenting since 2000 in a decomposition analysis. While there was a dramatic increase in financial patenting of all types, these years also saw a substantial shift in the nature of the innovators. In particular, awards to U.S. information technology and other non-financial assignees surged. We have also seen a shift in patent subject matter away from banking.

Before we turn to this analysis, we can illustrate the churn qualitatively. While the ranks of top patenting firms overall have remained largely constant over the 21st century (with companies like IBM, Canon, Hitachi, and Samsung dominating the compilations year after year), there has been considerable volatility in the financial patentees.

Panels D and E of Table 5 show the largest changes in patent assignees during the period between 2000 and 2004 on the one hand and 2015 and 2018 on the other. The table indicates that the share of innovation fell most sharply for unassigned patents (typically filed by individual inventors), computer hardware firms (Diebold Nixdorf, Fujitsu, Hitachi, HP, and IBM), legacy software firms (e.g., First Data and Oracle), and investment banks (Goldman Sachs and JP Morgan). Meanwhile, the most rapid growth was from commercial banks (Bank of America and Wells Fargo), insurers (State Farm, Allstate, The Hartford, and USAA), and payments firms, whether incumbents or entrants (Capital One, PayPal, Square, and Visa). These changes were consistent with the suggestion in Table 1 that financial innovation increasingly focused on consumer applications.

We then undertook a decomposition of patenting trends. To do so, we create 456 cells, one for each of the 19 award years, for each of the three broad patent types (banking, payments, and other), for four broad assignee industries (banking, other finance, payments, and IT plus all others), and for U.S. and foreign inventors. We estimated ordinary least squares (OLS) regressions of the form:

Patent Count_{ilpt} = $\beta_0 + \beta_1$ (Patent Type_p × Award Year_t) + β_2 (Assignee Industry_i × Award Year_t) + β_3 (Inventor Location_l × Award Year_t) + $\mu_i + \eta_l + \varphi_p + \gamma_t + \epsilon_{ilpt}$ (1)

The dependent variable was the number of patents in a given cell for each award year t, patent type p, assignee industry i, and inventor location l. The interaction term $Patent Type_p \times Award Year_t$ represented the vector of dummy variables denoting each award year t and patent type p. (This variable took the value of 1 in each case for eight observations, associated with the eight assignee industry-inventor location pairs.) The other interacted dummy variables were defined similarly. We also included assignee industry, inventor location, patent type, and award year fixed effects as controls in our regression. This analysis helped us better understand what is behind the surge of patenting, though it cannot explain what factors led to the boost in a specific category.

All the sets of explanatory variables jointly had significant explanatory power. The joint significance tests are presented in Table A-6. Panel A of Figure 7 presents the year fixed effects, with 2001 normalized as zero. It shows the sharp increase in the number of patents per year across all cells. To calibrate the rise in the year fixed effects from 0 to about 200 patents per cell, the mean cell had 53.2 patent awards. Panel B shows the steady decline in the share of patenting in banking relative to payments and all other subject matters.

Additional patterns are shown in Figure A-7. Panel A displays the sharp decline in patenting by banks and other financial institutions relative to IT and other firms, a decline that started at the beginning of the sample, accelerated after the GFC, and only began recovering in the mid-2010s. Payments firms, after mirroring the decline of banks, experienced a somewhat more rapid recovery of the 2010s. Panel B shows the strong trend towards increasing patenting by domestic assignees, at least up until the mid-2010s. This pattern was consistent with the strong domestic bias in finance patent assignees shown in Table 4.

This analysis also lent itself to a classic difference-in-differences analysis, where we looked around the GFC. To examine the changes in this manner, we substituted for the year dummies an indicator variable for whether the observation was from 2009 or after, or

Patent Count_{ilpt} = $\beta_0 + \beta_1$ (Patent Type_p × Post-Crisis_t) + β_2 (Assignee Industry_i × Post-Crisis_t) + β_3 (Inventor Location_l × Post-Crisis_t) + $\mu_i + \eta_l + \varphi_p + \gamma_t + \epsilon_{ilpt}$ (2)

The dependent variable was again the number of patents in a given cell: before 2009 or after, patent type p, assignee industry i, and inventor location l. Patent Type_p × Post-Crisis_t represented the vector of dummy variables denoting whether the cell was an observation before or after the financial crisis and of patent type p.

The analysis showed that financial patenting after the GFC increasingly took place outside the financial industry. The interaction between the indicator for an assignee in the banking industry and a post-GFC observation was significantly negative (coefficient of -125.4, with a p-value of 0.000), as was that for an assignee in another finance industry and a post-GFC observation (-104.7 and 0.000) and similarly for payments firms (-116.7 and 0.000). The interaction between patents with a subject matter in payments and the post-GFC dummy was insignificantly negative (-25.2 and 0.031). The interaction between domestic patentees and the post-GFC indicator was significantly positive (79.2 and 0.000).

While the above analysis suggested that the years after the GFC saw more patenting by firms outside of finance, and outside of the banking subject matter, it did not explore the interactions between assignee industry and patent type. To explore this phenomenon at a deeper level, we repeated the analysis denoted by equation (1), now with the addition of an interaction between the award year, assignee industry, and dummies denoting whether the patent came from a bank patenting a banking invention or a payments firm patenting a payments innovation. (In addition, we added controls for the interactions between assignee industry and patent type.)

Figure 8 graphically depicts the interactions. It shows that both banks and payments firms became progressively more likely (relative to other firms) to patent in their core areas over time. Thus, banks actually *increased* their share of patenting in banking, controlling for the overall decline for patenting activity by this type of firm and in this subject matter. The null hypothesis that the three-way interaction terms were equal to zero was rejected at the 1% confidence level. In short, innovation became more specialized over time: banks did not respond to the apparent decline in innovative potential in banking by moving their innovative efforts into other areas.²²

We also looked at the nature of the patent awards. Table 6 describes two distinct dimensions, gleaned from the language in patent claims:

²² Nor does it appear that banks disproportionately turned to outsourcing innovation. Figure 3 suggests that banks' share of corporate venture investments in finance start-ups fell over this period. An unreported tabulation of acquisitions of finance start-ups reveals a similar pattern.

- The first column (or set of columns) examines whether the patent was a *process* one, as opposed to a product-focused award. We assumed that all communications and security patents were unambiguously process-related ones. For the remaining patents, we divided them into process and product ones following the methodology of Seliger, Heinrich, and Banholzer (2019), which focused on the presence of process patent-related keywords in independent claims. We took the most conservative of their measures, which measured the share of independent claims that are process-related based on the initial two keywords.
- The right-hand column(s) determined whether the patent had a *consumer finance* application. We scrutinized the website for the U.S. Consumer Financial Protection Bureau and the titles of working papers of the NBER Household Finance Working Group for keywords or bigrams (two-word phrases) that related to consumer products. (These are listed in Table A-7.) We looked for these keywords or bigrams in the first 100 words of the field labelled description or background, the section where these phrases most frequently appeared.

Panel A of Table 6 relates these two metrics to several features of financial patents in the sample. We see that the share of process and consumer finance patents increased over the sample period. We also see that IT, payments, and other firms were more likely to be issued process and consumer-focused patents.²³ In unreported tabulations, we find that these three types of firms represent 79.8% and 83.5% of process and consumer patents respectively on a citation-weighted basis, as opposed to 71.6% of all finance patents, differentials of eight and twelve percentage points. The final two lines in the panel suggested that, in regard to process and consumer finance awards, patents assigned to IT, payments, and other firms became less differentiated over time. Put another way, the gap in the probability that these firms' patents were disproportionately process or consumer ones narrowed over time.

Panel B of Table 6 examines these relationships in regression analyses. We used each finance patent with available data as an observation. We estimated:

Consumer/Process Patent?_i = $\beta_0 + \beta_1 (IT \ Other_i) + \beta_2 (IT \ Other_i \times Early \ Award_t) + \beta_3 (IT \ Other_i \times Late \ Award_t) + \eta_1 + \gamma_t + C' \mathbf{B} + \epsilon_{ilpt}$ (3)

Consumer Patent?_i and *Process Patent*?_i represented dummy variables indicating whether a given patent *i* was consumer finance or process in focus, defined as above. The key independent variables were *IT Other*_i—that is, whether the patent was assigned to an information technology, payments,

²³ We also looked at whether the awards encompassed *software* technologies. We followed the methodology employed by Chattergoon and Kerr (2021), which in turn is based on Bessen and Hunt (2007), and again draws primarily on key words in the description field. Table A-8 reveals that a very large share of the finance patents were classified as "software," which may reflect judicial tests that linked the patentability of financial topics to their embodiment in software. For instance, in *State Street*, the relevant test in determining patentability "requires an examination of the contested claims to see if the claimed subject matter as a whole is a disembodied mathematical concept representing nothing more than a 'law of nature' or an 'abstract idea,' or if the mathematical concept has been reduced to some practical application rendering it 'useful.'" *Ibid.* at 1544, 31 U.S.P.Q.2D (BNA) at 1557. This test was a restatement of a rule first articulated in *In re Alappat*, 33 F.3d 1526, 31 USPQ2d 1545 (Fed.Cir.1994). Puzzlingly, IT firms were less likely to be issued patents classified as software. Practitioners that we discussed the results with hypothesized that financial firms may have faced greater skepticism than IT companies about whether their applications satisfied the *Alappat* test, and thus erred on the side of explicitly using software-related terminology.

and other non-finance firm—and dummies for the time period of the application. In the second and fourth regression, we added interactions between the *IT Other*_i dummy and the two time dummies (*Early Award*_i, for 2000-04 applications, and *Late Award*_i, for applications in 2015 and after), an inventor location fixed effect, and C **B**, a set of control variables. (These unreported controls were the age of the firm at the time of the application, its revenue, and dummy variables denoting its status as an academic institution, other non-corporate entity, publicly traded firm, and/or SIFI.)

We again see that patents assigned to IT, payments, and other firms were more likely to be process and consumer finance awards. The final column suggests that for process patents, this strong initial association diminished over time. Patents applied for in the 2015-18 period were no more likely to be process ones if they were assigned to IT, payments, and other firms.

Taken together, the analysis suggested that the financial institutions' share of financial innovation fell sharply over time, in part due to their failure to expand their range of innovative activities. The increased focus on banking patents by banks may have reflected the fact that they, perhaps more than IT and other companies, had existing businesses that faced intense competitive challenges and required greater managerial focus. Another possibility is that these firms aspired to expand into other areas of financial innovation, but found it difficult to do so. Two possible constraints may have been regulatory pressures or their lack of ability to innovate in these new technologies.

5. The Changing Geography of Innovation

This section focuses on the changing geography of financial innovation over the last two decades. Focusing on the United States (which as shown above, was the primary and increasingly important locus of financial innovation), we document two distinct effects. First, the locus of innovation dramatically shifted to the San Jose-San Francisco metropolitan area (from 8.5% to 18.3% of unweighted awards, and from 8.4% to 25.6% of Kogan-weighted awards), largely at the expense of the New York-Newark one (13.4% to 5.7% and 34.6% to 5.7%). While part of this change was due to the entry and exit of firms, it was also driven by the shifts in the locus of innovation within incumbent firms. These shifts reflected both regulatory pressures and technological opportunities.

5.1. Summarizing the Shifts

In order to undertake the analyses, we needed to map each patent to a combined statistical area (CSA). To do this, we used the state and county Federal Information Processing Standard (FIPS) code of the first-named inventor, also provided by Patentsview, and a crosswalk, compiled by the U.S. Bureau of the Census and made available through the NBER, between county-level FIPS codes and CSA codes as of mid-2013.²⁴

Table 7 shows the share of patenting by CSA for the ten CSAs with the highest financial patent counts. In each of four periods, the table tabulates finance patents in the CSA as a share of all finance patents, using simple patent counts, citation weights, and Kogan et al. (2017) weights.

²⁴ <u>https://www.nber.org/cbsa-csa-fips-county-crosswalk/List1.xls</u>. Our use of the first-named inventor here and elsewhere in the paper reflects the consensus from our conversations with legal practitioners. To quote one practitioner guide, "there is always significance to the order [of inventors]. On a patent, the person who is named first is usually considered the primary contributor" (<u>https://www.upcounsel.com/patent-inventor-name-order</u>).

The table shows that financial patenting became more geographically concentrated over time, with the share of applications from the ten largest CSAs rising from 40.5% in 2000-04 to 45.5% in 2015-18. The rise of patenting in the San Jose-San Francisco CSA drove much of the increase in concentration. The decline in the importance of New York and the rise of Charlotte (which passed New York using Kogan-weighted patents by the 2015-18 period) were also evident.

The change in the location of non-finance patents mirrored these changes, but in much less dramatic form. For instance, the share of non-finance patents awarded to a first inventor in the San Francisco-San Jose CSA rose from 18.5% for awards applied for between 2000 and 2004 to 22.8% for awards applied for between 2015 and 2018 (and awarded by February 2019). The share of New York CSA awards fell over the same two periods from 8.2% to 7.9%.

In Panels A through C in Table A-9, we assembled a variety of patenting measures for three CSAs. The "tale of three cities" painted a sharp set of contrasts:

- San Jose-San Francisco-Oakland saw dramatic growth, whether measured using raw or weighted patenting. This was driven by mid-sized firms (i.e., those where the firm's revenue in the application year was more than \$100 million but less than \$10 billion), rather than by small and large ones. The patenting activity was driven by firms in the IT and other category, but especially by payments firms.
- New York-Newark, by way of contrast, saw a sharp decline in patenting. This fall was driven by a decline in patenting by large firms, especially SIFIs. Meanwhile, innovation by small firms increased sharply, reflecting the rise of fintech companies there. Firms in the IT and other category saw the fastest growth.
- Charlotte-Concord saw rapid growth, particularly when using Kogan weighting. This growth was driven by patenting by large firms and SIFIs in banking. A closer look at the data shows that this change was largely driven by Bank of America, which not only consolidated its patenting activity in Charlotte (in the 2000-04 period, the largest CSA for patent applications by the bank was New York, with 26% of the total; in 2015-18, Charlotte-Concord represented 66% of its awards), but also greatly accelerated its innovative activities.

Figure 9 provides another view of the overall patterns, focusing on activity across U.S. Census regions over time. We constructed the analysis sample at the application year – U.S. Census region level, for a total of 171 observations (19 years x 9 census regions). We estimated the following specification to examine the pattern of financial patenting in U.S. Census regions over time:

$Patent \ Count_{rt} = \beta_0 + \beta_1 (Region_r \times Time \ Period_t) + \mu_r + \gamma_t + \epsilon_{rt}$ (4)

The dependent variable was the number of finance patents applied for in census region r in year t. As before, we divided the application years into four periods. The key independent variables were application period indicators *Time Period*_t interacted with the U.S. Census region dummies *Region*_r, using the Middle Atlantic region and the 2000-04 period as the baseline. We also included census region fixed effects μ_r and year fixed effects γ_t as controls in our regression.

The figure presents the coefficients of the above regression for two specific regions: the Pacific and South Atlantic (which includes Charlotte) regions. Financial patenting in these two regions increased sharply over time relative to the Middle Atlantic region, suggesting that the locations of financial patenting gradually shifted from the east coast to the west and south. These results were consistent with the rise of patenting in the San Jose-San Francisco and the Charlotte-Concord CSAs and the decline in the importance of New York reported in Table 7. Table A-10 further presents the detailed share of patenting by region for the nine U.S. Census regions between 2000 and 2018. More details on the construction of the CSA data set are in Appendix F.

5.2. Potential Reasons for Geographic Changes

We undertook two sets of analyses of the determinants of these geographic changes. We focused on two possible sets of explanations: the push of regulatory pressures and the pull of technological opportunity.

A first possibility was that these effects were driven by regulatory pressures faced by banks. To explore the impact of regulation, we used the data from Buchak et al. (2018), which constructed three measures of county-level regulatory burdens on financial institutions between 2008 and 2015, with a higher number in each case representing greater regulatory pressure: (1) the changes in bank capital ratios; (2) mortgage servicing rights (MSR) as a percentage of Tier 1 capital; and (3) the share of mortgage loan originations in 2008 that were within the purview of the Office of Thrift Supervision. Notably, these measures most directly reflect the regulatory pressure on banks' mortgage lending businesses. Nevertheless, we believe these are valuable measures. Mortgage lending was a major component of many banks' profitability during this period. Regulatory pressures here may have led to management distraction from the pursuit and implementation of innovations. These measures may also be indicative of regulatory pressure on banks more generally.

Using the same U.S. Bureau of the Census crosswalk, we converted the county-level measures to CSA-level data. We used all 121 CSAs with at least one first finance patent inventor between 2000 and 2015. We interacted this geographic measure with assignee industry and patent type, for a total of 1452 observations.

With this merged dataset, we examined the impact of regulatory burdens on financial patenting in a given geographic location. To do so, we estimated the following specification:

Patent Count_{ipc} = $\beta_0 + \beta_1 (Reg_c \times Assignee Industry_i) + \beta_2 (Reg_c \times Patent Type_p) + \varphi_p + \chi_c + \mu_i + \epsilon_{ipc}$ (5)

The dependent variable was the number of *p*-type finance patents applied for by assignee industry *i* between 2008 and 2015 in CSA *c*. Reg_c was one of the aforementioned measures of CSA-level regulatory pressure. The key independent variables were the regulatory measure Reg_c interacted with the assignee industry type *Assignee Industry*_i (with IT/Other firms being the baseline), as well as Reg_c interacted with the patent type *Patent Type*_p (with payment type being the baseline). We also included patent type (φ_p), assignee industry (μ_i), and CSA (χ_c) fixed effects in our regression.

The results in Table 8 (also summarized graphically in Figure A-8) show that the impact of regulatory burdens was far more negative for the three finance industries—banking, other finance, and payments—than it was for the IT/Other category, using all three measures. Meanwhile, we also found a consistent and strong negative effect of regulatory pressure on banking-type patents (relative to payment types).

To further examine the effects of regulation on financial patenting over time, we undertook a similar analysis, using an alternative broader measure of regulatory actions regarding banks. This analysis is reported in Panel A of Table A-11. This broader regulatory enforcement measure helps address concerns that the mortgage-based measures used in the CSA-level analysis above captured only part of the regulatory pressure faced by banks. The downside of this measure, however, is that it is available to us only at state level.

Following Lucca, Seru, and Trebbi (2014), we collected formal enforcement actions data from four banking regulatory institutions: the Federal Reserve Banks (Fed), the Federal Depository Insurance Corporation (FDIC), the Office of Comptroller and Currency (OCC), and the Office of Thrift Supervision (OTS). We then constructed state-level panel data using the intensity of these enforcement orders by all regulators as an indicator of regulatory strictness. We used state-application year-assignee industry-patent type interactions, for a total of 11,400 observations. Using the merged state-level panel data, we estimated the following specification, similar to equation (6):

 $Patent_Count_{ipst} = \beta_0 + \beta_1 (Reg_{st} \times Assignee \ Industry_i) + \beta_2 (Reg_{st} \times Patent \ Type_p) + \chi_s + \varphi_p + \mu_i + \gamma_t + \epsilon_{ipst}$ (6)

The dependent variable was the number of *p*-type finance patents applied for by assignee industry *i* in state *s* in year *t*. The key independent variables were the measure of enforcement actions in that specific state in a given year, Reg_{st} , interacted with (a) the assignee industry type Assignee Industry_i (with IT/Other firms being the baseline) and (b) the patent type Patent Type_p (with payment type being the baseline). We also included time fixed effects γ_t , state fixed effects χ_s , patent type fixed effects φ_p , and assignee industry effects μ_i in our regressions. We examined the impact of enforcement actions on patenting in the year of the action, and in the two years thereafter.

As shown in Panel A of Table A-11, the impact of enforcement actions was far more negative for the three finance industries (relative to IT/Other) and for the banking-type patents (relative to payment type). Taken together, these results suggested that part of the rise of patenting by non-finance firms and the drop of banking-type patenting may have been driven by increased pressure on banks due to financial regulation, particularly in the years after the GFC.

Table A-12 takes another look at these patterns. The specifications were as elaborated in equations (5) and (6), but now with an interaction between observations of banks and payments firms on the one hand and the type of patenting on the other as additional independent variables. The table shows that banks were particularly less likely to patent in their respective core areas in the face of regulatory pressure. This finding was again consistent with regional financial regulation having a particularly depressing effect on established financial incumbents, potentially through reducing their focus on innovation.

Another reason for the geographic shift in innovative activity might be the differential technological opportunities across regions. To explore the influence of technological opportunity, we used the State Technology and Science Index (STSI) data provided by Milken Institute to measure the state-level technology.²⁵ The STSI data included an overall technology index assessing states' technology development and capabilities, as well as five sub-indexes that measure different aspects of a state's technology level. These were termed Technological Concentration and Dynamism (which measures industrial activity in technology-related sectors), R&D Input, Risk Capital and Entrepreneurial Infrastructure, Technology and Science Workforce, and Human Capital Investment (which measures educational achievement and throughput, with a particular emphasis on science and technology). These scores, released on a biannual basis since 2008, were based primarily on statistics from the U.S. Bureau of Labor Statistics, U.S. National Science Foundation, and private sector sources such as Moody's and PitchBook.

We used as observations states interacted with the patent application year (focusing on the period from 2008 to 2018, due to the coverage of the index), assignee industry, and patent type. Thus, we had a total of 6600 observations. After merging those observations with the STSI data, we examined the impact of technological opportunity on financial patenting in a given state over time using a specification very similar to equation (6) above:

Patent Count_{ipst} = $\beta_0 + \beta_1 (Tech_{st} \times Assignee Industry_i) + \beta_2 (Tech_{st} \times Patent Type_p) + \chi_s + \varphi_p + \mu_i + \gamma_t + \epsilon_{ipst}$ (7)

As before, the dependent variable was the number of patents in a given cell. $Tech_{st}$ was one of the STSI's technology indexes of state *s* in year *t*. The key independent variables were the technology index $Tech_{st}$ interacted with the patent assignee industry and with the patent type. The baseline assignee industry was banks and the baseline patent type banking type. We also employed fixed effects for time, state, patent type, and assignee industry in our regressions. Table 9 (with some index measures) and Table A-13 (with the other index measures) show that there was a much stronger association between the state-level technology development and the financial patenting of the IT/Other firms and payments firms (relative to the banks). We also found a strong positive association between state-level technology indices and the number of payment-type patents and other types (relative to the banking type). Table 9 is also summarized graphically in Figure A-9.

Using specifications equivalent to those used above, we also examined the potential association of regulatory pressure and an alternative measure of innovative output: finance patents' quality. More specifically, using the same datasets as in Tables 8 and 9 and Panel A of Table A-11, we now employed as the dependent variable the average citations per patent in a given cell. We tested the association between regulatory burden and financial patent quality but found no clear pattern (see Panel B of Table A-11 for one example).

5.3 Analyzing Switchers

We then sought to understand these changes in more detail. In particular, we explored what drove these shifts in patenting location. The results highlight the importance of shifts in innovative activities by existing firms.

²⁵ <u>http://statetechandscience.org/</u>.

Table A-14 undertakes an initial decomposition of firms. Panel A divides them into three categories:

- Exiting innovators, who filed an (ultimately successful) financial patent in 2000-04, but not in 2015-18;
- Entrant innovators, who filed an (ultimately successful) financial patent in 2015-18, but not in 2000-04; and
- Continuing innovators, who filed an (ultimately successful) financial patent in 2000-04 and in 2015-18.

For the third category, we also broke out firms that shifted their modal CSA for patenting between these two periods. Location-switching continuers are relatively few in number (28 firms), but very significant when patents are tabulated: these firms represent 32% of the awards by continuing innovators, and 22% of the awards across all three categories. (Note we did not include firms that did not patent in 2000-04 and 2015-18, but just in intermediate years.)

Panel B looks at the 28 location-switching continuers in more depth. Nine of the firms (representing 2778 patents in total) moved their modal location from New York-Newark; no other CSA is close in losses. Meanwhile, the destination of these firms was much more diversely spread. These results suggested the importance of location-switching continuers in the location analyses. We also explored the nature of switchers in supplemental analysis.²⁶

One possibility is that banks were more likely to switch to escape regulatory pressures. To examine this hypothesis, we used a sample consisting of continuing financial innovators (here we required innovators to have filed successful patents from before 2008 and after 2014). We defined a switcher as an organization which shifted the modal location of its innovative activities between 2000 and 2007 on the one hand and 2008 and 2015 on the other (i.e., before and after the GFC). We tested whether banks were more likely to switch their location of innovation when the regulatory pressure in their original modal CSA increased rapidly after the GFC, using the following probit model:

Pr (*Firm is Switcher*_i =1) = $\Phi(\beta_0 + \beta_1 (Reg_{origincsa} \times Firm Industry_i) + \mu_i + C_i \mathbf{B} + \epsilon_i)$ (9)

 $\mathbf{Pr} (Firm is Switcher_i = 1) = \mathbf{\Phi}(\beta_0 + \beta_1 (Modal \ 2000-04 \ Location_i) + \beta_2 (2000 \ Finance \ VC \ in \ Modal \ 2000-04 \ Location_i) + \mu_i + C_i \mathbf{B} + \epsilon_i) (8)$

²⁶ Table A-15 looks at which continuing financial innovators were switchers in a probit analysis. We use all 129 continuing innovators as observations. We estimated:

Pr (•) denoted probability and Φ was the cumulative distribution function of the standard normal distribution. *Firm is Switcher_i* was an indicator for whether a firm shifted its modal location for innovation from 2000-04 to 2015-18. *Modal* 2000-04 *Location_i* were dummy variables indicting whether the firm's modal patent applied for between 2000 and 2004 was in the New York or the San Jose/San Francisco CSAs. 2000 Finance VC in Modal 2000-04 Location_i was the dollar volume of venture financing of finance firms in 2000 in the modal location for the firm's patenting in 2000-04. We also included firm industry dummies and a vector of firm controls C_i , such as whether the firm was publicly traded or venture backed. The results suggested that banks and payments firms were consistently more likely to switch than IT and other firms. Firms with the modal early patenting location in the greater New York area, as well as those that were privately held, were more likely to switch.

Pr (•) denoted probability and Φ was the cumulative distribution function of the standard normal distribution. *Firm is Switcher_i* was an indicator for whether a firm shifted its innovation modal location before and after the GFC. For the regulatory pressure in firm's original modal CSA, *Regorigincsa*, we used the same three measures of CSA-level regulatory burden from Buchak et al. (2018), as in Table 8. The key variables of interest were the measure of the extent of regulatory scrutiny interacted with the industry dummies, especially the interaction with the dummy for banks. We also included firm industry dummies and a vector of firm controls C_i , such as whether the firm was publicly traded or venture backed, in our probit analysis.²⁷

The results are shown in Panel A of Table 10. Regardless of which regulatory measure was employed, banks were more likely to switch their innovative location when their original modal CSA faced greater regulatory pressure. Moreover, they were likely to switch to a CSA with less regulatory pressure. The existence of those "switchers" may have been an important factor in the decrease of the financial patents by the banking industry in their original modal CSA.

Meanwhile, payments firms switched their location to pursue the advantages associated with innovation by other entities in some regions. Panel B of Table 10 looks specifically at which payments firms switched their locus of innovative activities. As in Table 9, we again used the STSI index data to measure state-level technological positioning. Since the STSI index was updated only every two years, we split our data sample between 2008 and 2016 into four time periods. We only considered the continuing financial innovators (in this case, the firms that had financial patents applied before 2008, in all four periods between 2008 and 2016, and after 2016). We defined a "switch event" as one where the firm changed its modal location for innovation across successive periods (i.e., from 2007 and before to 2008-09, from 2008-09 to 2010-11, and so forth).

We tested whether payments firms were more likely to switch when the technological capabilities in their original modal state were less developed, using the following probit model equivalent to equation (9):

Pr (*Firm is Switcher*_i =1) = $\mathbf{\Phi}(\beta_0 + \beta_1 (Tech_{origins} \times Firm Industry_i) + \mu_i + \gamma_t + C_i \mathbf{B} + \epsilon_i)$ (10)

As before, the key variables of interest were the industry dummies interacted with the technology index $Tech_{origins}$. We were particularly interested in the interaction term including the dummy for payments firms. We also included firm industry and time fixed effects and C_i , a vector of controls for firm characteristics.

The results suggested that payments firms were more likely to switch their innovative location from a state with weaker technology capability and slower technology development to a state with a more advanced technology environment. As before, the existence of those "switchers" were an important factor that increased the financial patents by the payments industry in those high-tech states.

 $^{^{27}}$ Because the switchers vary substantially in size and patenting activity, the regression analyses of switchers in Tables 10 and A-15 employ weighted data. The weights were constructed in each case using the finance patent activity at the time of the observation. Thus, Panel A of Table 10 used the number of finance patents filed by the firm between 2000 and 2007 as weights; Panel B of Table 10, the number of patents filed between 2000 and the year of the observation (e.g., as of 2007, 2009, and so forth). The observations in Table A-15 were weighted by the number of patents filed by the firm in the 2000-04 period.

These results were consistent with the finding of Moretti (2021) about the importance of location to innovative efficiency. It appeared that finance firms actively shifted their location, whether to pursue innovative advantages or to escape regulatory pressures. These shifts had important impacts on the location of financial innovation.

6. Trends in Academic Ties

A natural related question connects to the sources of the ideas in financial patents. To what extent were ideas drawn from academia, and from what disciplines? And how did the utilization of academic knowledge change? Using citations in patents to academic prior art, we show that there was a strong—and indeed growing—association between academic citations and financial patent impact. But in recent years, the rate of citation to academic research fell, particularly among banks.

Table A-16 presents a first look at the journals most frequently cited in finance patents. Aside from one anomalous case (discussed in the note to the table), the publications were well known ones that fell into three categories: journals devoted to computer technologies, academic finance journals, and practitioner-oriented finance publications.

We first looked at the probability that academic citations were included in finance patents. As Panel A of Table 11 illustrates, the correlation coefficients revealed a negative relationship between the number of academic citations in the finance patents and the award date. This pattern held for publications in all and business/economics/finance–related publications, as well as those in "Top 3" finance journals.²⁸ When we decomposed the patents, the decline was far stronger and more consistent for patents assigned to banks than for other assignee industries. Meanwhile, the average age of the citations (the years between the article publication and the patent grant) increased. Overall, the results suggested that finance firms, and banks especially, found academic knowledge less relevant over time or put less effort into accessing academic insights.

One concern was that the number of citations to academic work may have fallen more generally. For instance, patentees overall may have a reduced propensity to cite academic work, or patent applications with many academic citations may have faced longer examination periods. Thus, we looked at the changes in these citations relative to the academic citations per patent in non-finance patents.²⁹ In particular, we normalized the ratio of the average number of academic citations in

²⁸ We identify the "Top 3" finance journals (the *Journal of Finance, Journal of Financial Economics*, and *Review of Financial Studies*), from numerous efforts to rate journals in the literature, such as Chan, Chang, and Chang (2013).
²⁹ Table A-17 compares the finance patents to two broader populations: the entire population of patents applied for and awarded over the same period, and those in "academic-heavy" patent classes. To determine the academic-heavy classes, we first identified patents assigned to academic institutions. (We compiled all patents with an assignees containing the word "university," as well as those on the various annual lists of the most active academic patentees compiled by the Association of University Technology Managers (which allowed us to capture entities as the Massachusetts Institute of Technology and the Wisconsin Alumni Research Foundation).) We then extracted the four-digit CPC subclasses in which these patents most frequently had a primary assignment. We designated the 53 top classes (all those with 500 or more patent awards by academic institutions in the sample period) as academic heavy. In general, finance patents cited less academic work than other patents. The disparity between the finance and the academic-heavy awards was particularly striking. When we looked at the citations to articles in business, economics, and finance, and even more so top finance and top practitioner finance journals, a very different picture emerges: the financial patents made significantly more such citations to this subset of journals. Table A-18 examines these patterns in regression analyses,

finance patents to the mean number of academic citations in other patents to be equal to 100 in the year 2000, and looked how this ratio changed over time. We looked separately at citations to articles in business, economics, and finance journals, in IT publications, and in other periodicals. Figure A-10 shows a precipitous drop (in aggregate, by 71.3%) relative to other patents, particularly for citations to business, economics, and finance journals.

Thus, it appears that financial institutions, especially banks, accessed academic work less than they did in the past. Whether this reflected the shifts in the supply of relevant academic knowledge or in the ability of firms to absorb this knowledge (Cohen and Levinthal, 1990) was not obvious from this analysis.

It is natural to wonder how consequential these shifts in academic citations were. While academic citations have been shown to be linked to patent impact in other fields (e.g., Watzinger, Krieger, and Schnitzer, 2021), to what extent was this knowledge relevant for financial patents?

Panel B of Table 11 takes a first look. We compared the impact of finance patents with and without academic citations. As in Table 2, we used three metrics of patent value: citation weights, Kogan et al. (2017) patent values, and Kelly et al. (2021) weights. A striking association between more academic citations and greater patent impact appeared. Using citation weights, there was a statistically significant relationship for all academic cites, high-impact academic citations, business/economic/finance citations, and high-impact business/economic/finance citations. The only exception was citations to Top 3 journals, where the results were directionally similar, but insignificant. The results using Kogan et al. (2017) and Kelly et al. (2021) values were similar directionally and also statistically significant. Moreover, the results were large in economic magnitude: for instance, a financial patent without an academic citations, they were 49% more cited.

In Panel C of Table 11, we used two metrics of patent value as the explanatory variable in OLS regressions. Again, we used each patent with sufficient data as an observation. The specification was:

Patent Value_i = $\beta_0 + \beta_i$ (Academic Citations_i × Time Period_t) + $\mu_i + \gamma_t + C'\mathbf{B} + \epsilon_{ilpt}$ (11)

The dependent variable, *Patent Value*_i, was the normalized citations and the Kogan et al. (2017) value. The key independent variable was the number of academic citations interacted with the time period of the patent application (again, in four five-year blocks). We also included controls for the time period, inventor location, and assignee characteristics (the age of the firm, its revenue, and its status as an academic institution, other non-corporate entity, publicly traded firm, and/or SIFI).

The regression highlights that the relationship between the number of academic citations and two metrics of patent value, citations and Kogan et al. (2017) value, increased sharply over time. In particular, the relationship was much stronger for patents applied for between 2015 and 2018 than in other periods. (It was not relevant to use Kelly et al. weights in this analysis, as these were not calculated for patent awards made after 2015.)

and shows these patterns were driven by the patenting practices of U.S. corporations, the most frequently represented assignees.

Overall, the analysis suggested a seeming paradox. Academic knowledge was an important driver of financial patent impact, and this relationship strengthened over time. But citations to academic research have fallen, particularly for the banking industry. Moreover, financial patents in general cited increasingly older academic knowledge. These patterns may be due to the shifting focus of patenting away from areas where there is relevant academic knowledge, a reduction in the creation of actionable academic knowledge, or a decreased ability by firms, especially banks, to absorb this knowledge.

7. Examining returns to financial innovation

While the analyses in this paper thus far has shed light on the nature of financial innovation, an important question remains unanswered: to what extent do financial innovations create private and social value? As noted above, the magnitude and direction of the social returns to financial innovations is an area of open debate. While we were not able to answer these questions definitively, we tackle this issue by performing two sets of analysis.

First, we examine how innovations produced in our sample period were associated with private value for financial and non-financial innovators. We do this by comparing for these innovators the relationship between Kogan values of awarded patents and R&D expenditures, as proxy for the private return to R&D. Second, we examine how (private) value derived by these innovators varies with patents of high social value. Patent citations, as discussed above, measure the extent to which ideas spill over, typically to other users. Thus, while citations are often used as a rough proxy for patent importance, they also provide information about the social value of new discoveries.³⁰ Our analysis examines the way that firm value associated with financial innovation is differentially affected by citations of a given innovation.

To perform these analysis, we started with the population of firms that were awarded at least one successful financial patent in the sample. We restricted the analysis to those firms that were publicly traded in the U.S. and had at least one year of non-missing or non-zero R&D expenditures reported in Compustat. This gave us a total of 278 firms, each of whom was awarded at least one non-financial patent as well during this period. Collectively, these firms were awarded 1,203,145 patents during the period, among which 5,369 are financial patents. We undertook several analyses that seek to understand to what extent was financial and non-financial innovation associated with firm value, and the key drivers of that value. The details of the data preparation for the analysis and the specifications employed are reported in Appendix G.

³⁰ Trajtenberg (1990) showed that citation-weighted patent counts were highly correlated with the social value produced by successive generations of medical scanners.

Table 12 looks in each case at firms with at least one, five, and ten financial patents applied between 2000 and 2018. The table first reports the mean Kogan/R&D ratio. We then emulated Hall, Jaffe, and Trajtenberg (2005) and explored how Tobin's q is affected by the stocks of financial and non-financial R&D, patents, and citation-weighted awards. We report the elasticity of firm value to citation intensity, calculated in two ways. We first looked at the direct effect of citation intensity on firm value. Second, we looked at the change in market value with respect to change in R&D through the impact of R&D on mean citation intensity. An increase in R&D may lead to an increase in a firm's market value through different channels, such as an increase in patenting, or an increase in productivity-enhancing activities that are not patented. Here, we wanted to see how mean citations affected the market value of the firm. We termed this the "semi-elasticity of R&D through citations." We report the increase associated with a one standard deviation increase in citation intensity and R&D spending.

When looking at mean Kogan/R&D ratio, the proxy for the private return on R&D was considerably (approximately 23 times) greater for financial innovations than non-financial ones. When we compared the elasticity of value to citations and the semi-elasticity of R&D through citations, however, a very different picture emerged: the values were sharply lower for financial innovations. Put another way, firm market value increased less with a one standard deviation increase in citations to financial patents or such a boost in financial R&D (as manifested in citation intensity).

On the one hand, the results suggested that financial firms were particularly efficient in translating innovative expenditures into private market value. On the other, they suggested that financial innovators received fewer returns from the market for innovations with particularly high social value. As a consequence, firms may have had less incentive to develop financial discoveries with high social impact.³¹

8. Conclusion

In this paper, we explored the evolution of financial innovation by examining U.S. patents over the last two decades. We highlighted six key conclusions:

- The surge in the volume of financial patenting in the U.S. since the late 1990, with more than 24 thousand patents in the samples. Moreover, financial patents were disproportionately important ones, with 25% more adjusted citations and 4.5 times greater Kogan values than non-finance patents.
- The importance of U.S. IT, payments, and other non-finance firms as financial innovators, with 79% of all awards, and the associated reduction in innovation by banks and other financial institutions. Banks did not respond to the decline of innovation in their core area by shifting their innovative focus: in fact, they became more focused on banking innovations.
- The increasing representation of consumer and process innovations in financial patents, consistent with the broader shift in the financial services industry towards household investors and borrowers. This trend was driven by IT, payments, and other firms, whose citation-weighted share of process patents was eight percentage points more than average,

³¹ Our interpretation must be more cautious, because we are measuring social impact of innovations only through citations.

and whose citation-weighted share of consumer finance patents was twelve percentage points greater.

- *The reshaping of the geography of financial innovation.* The Bay Area's share of finance patents increased from 8% to 18% over the sample period, while that of the New York area fell from 13% to 6%, changes that were even more dramatic when using weighted patents. These shifts reflected both regulatory pressures and the changing location of technological opportunities.
- The reduction in the incorporation of academic knowledge in financial patents, which fell by more than 70% relative to other patents, despite the continuing (and indeed growing) association of such insights with patent value. This trend affected banks most adversely, as seen in the steep decline in their academic citations over time.
- The contrast between firms' (a) strong incentives to pursue financial innovations with high private value, as manifested in a ratio of mean Kogan values to R&D stock that was 23 times greater for financial innovation, and (b) much weaker incentives to pursue financial innovations with high social value.

We conclude with several observations. The first is the difference between the focus of academic studies of the financial innovation discussed in the introduction and the patterns documented here. The literature on financial innovation has largely highlighted new financial instruments created by banks and capital market firms, as well as the impact of fintech and cryptocurrencies. While these areas are doubtless important, the extent to which innovation is occurring in areas like payments, and has been driven by firms outside the traditional definition of financial institutions, has received relatively little attention in the literature.

A second observation relates to the pressure that financial institutions have felt in regard to innovation. The declining share and narrow scope of banks in financial innovation may reflect (at least in part) optimization decisions based on existing product lines. But these changes may also be driven by factors beyond their control, such as the decreased availability of relevant academic research and the increased regulatory pressures on banks. Many established industries, from publishing to transport, have faced pressure from information technology-savvy entrants, and finance appears to be no exception. But the broad size and far-reaching importance of the financial sector make understanding the nature and consequences of these shifts particularly important.

A final observation relates to the seeming disconnect between the absence of measured productivity growth in finance discussed in the introduction and the patterns regarding innovation documented in this paper. The high value and substantial magnitude of finance patents, as well as the strong relationship between investments in financial innovation and private market value, seem inconsistent with a sector devoid of productivity.

This disparity may have at least three explanations. First, the innovation documented here may be a "sideshow." Despite the volume of financial patents and innovation, they may not have materially affected the efficiency of the financial sector (at least so far). Second, the disconnect may reflect the limitations of standard government measures of productivity in financial services. The challenges facing the measurement of productivity in finance have been far less scrutinized than those in industries such as pharmaceuticals and computers, though Baily and Zitzewitz's (2001) case study of the banking industry suggests similar challenges. Third, the fact that much of the innovation in

the finance function has being done by firms outside the traditional definition of financial services may lead to attribution issues. Careful research is needed to distinguish between these explanations and to answer related questions.

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Figure 1. Financial patents and applications as a share of total U.S. patenting. The red line shows the ratio of the number of financial utility patents granted annually to the total number of utility patents granted. The blue line shows the number of financial utility patents applied for annually divided by the total number of utility patents applied for. The chart is drawn from two samples: the sample in this paper, namely patents applied from January 2000 to December 2018 and issued by February 2019, and the sample in Lerner (2002) (for applications before 2000 and awards before 2001). The definition of financial patents differs modestly across the two samples. Certain patents applied for before 2000 and awarded in March 2000 and after are not included in the numerator or denominator of any year.



Figure 2. Trends in Kogan et al. (2017) value and patent citations by cooperative patent classification (CPC) category and award year. We use all patents applied for between 2000 and 2018 and awarded by February 2019. There are nine main categories under the CPC scheme. We separate all of our finance patents and classify them into a new category. Panel A depicts the log of the mean Kogan et al. (2017) value by CPC category over time, and Panel B depicts the log of the mean patent citations (through October 2019) by CPC category over time.



Panel A: Mean of Kogan et al. (2017) value over time, by patent's CPC category.

Panel B: Mean of patent citations over time, by patent's CPC category.



Figure 3. The volume of corporate venture capital investments in U.S. finance firms, by industry of the investor. The figure presents the breakdown of the volume (in millions of U.S. dollars) of corporate venture investments over four five-year periods, with the investors divided into those that fall into the banking, other finance, payments, and IT and other industries. See Appendix C for details about the construction of the data set.



Figure 4. References to the protection of innovative intellectual property in finance firm earnings calls. The figure presents the number of appearances of keywords associated with patent and trade secret protection in earnings calls by finance firms, normalized by the number of such calls in the Refinit database and the mean transcript length and multiplied by 1000, on a quarterly basis between 2002 and 2019. See Appendix D for more details.



Figure 5. Composition of financial patents. The figures present the breakdown of patent type (Panel A) and assignee industry (Panel B) for patents applied for between 2000 and 2018 and awarded by February 2019. The tabulation in Panel B excludes patents assigned to governments, universities, or individuals, as well as those where the industry cannot be determined.



Panel A: Financial patenting by patent type.

Panel B: Financial patenting by assignee industry.



Figure 6. The front pages of the three most influential patents in the sample, as measured by cumulative numbers of citations, Kogan et al. (2017) weight, and Kelly et al. (2021) weight.

Panel A: Patent in the sample with the most citations.



(12) United States Patent Kemp, II et al.	(10) Patent No.:(45) Date of Patent:	US 6,772,132 B1 Aug. 3, 2004		

- CLICK BASED TRADING WITH INTUITIVE (54)GRID DISPLAY OF MARKET DEPTH
- (75) Inventors: Gary Allan Kemp, II, Winnetka, IL (US); Jens-Uwe Schluetter, Evanston, IL (US); Harris Brumfield, Chicago, IL (US)
- (73) Assignce: Trading Technologies International, Inc., Chicago, IL (US)
- Subject to any disclaimer, the term of this patent is extended or adjusted under 35 U.S.C. 154(b) by 245 days. (*) Notice:
- (21) Appl. No.: 09/590,692
- (22) Filed: Jun. 9, 2000

5,797,002 A

- **Related U.S. Application Data** (60) Provisional application No. 60/186,322, filed on Mar. 2, 2000.
- (51) Int. Cl.⁷
- .. 705/37; 705/35; 705/36; (52) U.S. Cl. 705/37; 705/10; 705/14; 345/814
- (58) Field of Search 705/35, 36, 37, 705/10, 14; 345/814

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Primary Examiner-Richard Weisberger

(74) Attorney, Agent, or Firm-Foley & Lardner

(57)ABSTRACT

A method and system for reducing the time it takes for a trader to place a trade when electronically trading on an exchange, thus increasing the likelihood that the trader will have orders filled at desirable prices and quantities. The "Mercury" display and trading method of the present invention ensure fast and accurate execution of trades by displaying market depth on a vertical or horizontal plane, which fluctuates logically up or down, left or right across the plane as the market prices fluctuates. This allows the trader to trade quickly and efficiently.

56 Claims, 6 Drawing Sheets



Figure 6 (continued).

Panel B: Patent in the sample with the highest Kogan et al. (2017) weight.



(12) United States Patent Barnhardt et al.

(54) FRAUD PROTECTION

- (75) Inventors: David Wayne Barnhardt, Huntersville, NC (US); Charles F. Pigg, Plano, TX (US)
- (73) Assignce: Bank of America Corporation, Charlotte, NC (US)
- (*) Notice: Subject to any disclaimer, the term of this patent is extended or adjusted under 35 U.S.C. 154(b) by 71 days.
- (21) Appl. No.: 11/752,224
- (22) Filed: May 22, 2007

(65) Prior Publication Data

US 2008/0290154 A1 Nov. 27, 2008

- (51) Int. Cl.
- *G06Q 40/00* (2006.01)

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(45)	Date of Patent:	Aug. 18, 2009

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Primary Examiner—Allyson N Trail (74) Attorney, Agent, or Firm—Banner & Witcoff, Ltd.; Michael A. Springs

(57) ABSTRACT

Systems and methods are illustrated for providing enhanced fraud protection. Aspects of the fraud protection system may be implemented by a filter that may be configured to detect fraud in a transaction between a financial institution and a customer. An input device may receive data that corresponds to a transaction between a financial institution and a customer, such as a transfer of money. A data store may store information relating to the transaction that includes the serial number and dollar amount of the transfer of money. When the filter detects fraud, an output device may output an alert resulting in zero false positives. The filter may also include a module that is configured to compare the data that is received by an input device to data that is store in the data store. Oftentimes, the data in the data store may be information relating to past fraud protection.

28 Claims, 3 Drawing Sheets



Figure 6 (continued).

Panel C: Patent in the sample with the highest Kelly et al. (2021) weight.



(12) United States Patent Bergmann et al.

- (54) METHOD OF ASCERTAINING AN EFFICIENT FRONTIER FOR TAX-SENSITIVE INVESTORS
- (75) Inventors: Michael D. Bergmann, Bow Mar, CO (US); Daniel Yoo, Aurora, CO (US)
- (73) Assignce: AMG National Trust Bank, Englewood, CO (US)
- (*) Notice: Subject to any disclaimer, the term of this patent is extended or adjusted under 35 U.S.C. 154(b) by 1228 days.
- (21) Appl. No.: 09/995,178
- (22) Filed: Nov. 27, 2001
- (65) Prior Publication Data
 - US 2002/0143682 A1 Oct. 3, 2002

Related U.S. Application Data

- (60) Provisional application No. 60/253,918, filed on Nov. 29, 2000.
- (51) Int. Cl.
- **G06Q 40/00** (2006.01)

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(10) Patent No.: US 7,461,021 B2 (45) Date of Patent: Dec. 2, 2008

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Primary Examiner—Harish T. Dass (74) Attorney, Agent, or Firm—Gregory W. O'Connor

(57) ABSTRACT

There are computerized processes for financial planning for individuals and groups whose financial portfolio would be subject to tax on certain events. But these processes do not take into account these taxes when optimizing investment decisions, since taxes levied on investment outcomes, typically on income and realized capital gains, may have an important impact on net portfolio results. This invention is a method for transforming the usual pretax information for calculation of an efficient frontier, unique to an investor's portfolio, in such a manner that any portfolio on the calculated frontier is efficient after incorporating the effect of taxes on the risk and expected return of each asset class permitted in the investor's portfolio. This invention addresses how this may be done and how certain facets of the process may be incorporated into a computer program or system so as to provide convenience to the potential user.

8 Claims, 3 Drawing Sheets



Figure 7. Decomposition of financial patenting. The charts depict the results of an OLS regression analysis, where the dependent variable is the number of financial patents awarded in each award year-assignee firm industry-patent type-inventor location cell. The charts depict the annual fixed effects with 95% confidence limits (Panel A) and the interactions between year and patent type fixed effects (Panel B, relative to "Other Types").



Panel A: Financial patenting by award year

Panel B: Financial patenting by patent type



Note: All applications depicted relative to Other Types

Figure 8. Decomposition of financial patenting. The charts depict the results of an OLS regression analysis, where the dependent variable is the number of financial patents awarded in each award year-assignee industry-patent type-inventor location cell. The chart depicts the coefficients of the interactions between award year, assignee industry, and patent type fixed effects.



Figure 9. Financial patenting in U.S. Census regions over time. The chart depicts the results of an OLS regression analysis of financial patenting across U.S. Census regions over time. Using observations at the application year-census region level, the dependent variable is the number of financial patents in a given cell. The chart presents coefficients on the interactions of the application time period fixed effects with fixed effects for two specific census regions: Pacific and South Atlantic regions. The Middle Atlantic region and the 2000-04 period are the baselines. Robust standard errors (90% level) are denoted with shadowed areas.



Table 1. Finance industry economic activity and patenting. The table presents for four periods the share of
gross output, value added, and patent applications at the 405-U.S. Bureau of Economic Analysis industry
level, with slight modifications to ensure comparability of the patent data. Patents are assigned to industries
based on the sector most likely to use the invention. See Appendix A for more details.

		2000-04	2005-09	2010-14	2015-18
Non-bank credit and					
payments	Gross output	23.4%	21.9%	22.2%	20.3%
	GDP	27.1%	22.6%	24.4%	23.8%
	Patent filings	55.6%	57.1%	60.7%	61.8%
Banks	Gross output	20.0%	18.7%	16.9%	14.8%
	GDP	27.3%	20.4%	22.1%	20.8%
	Patent filings	19.7%	18.2%	15.6%	15.9%
Investments and funds	Gross output	9.2%	10.3%	10.7%	9.9%
	GDP	6.3%	6.6%	8.8%	8.9%
	Patent filings	5.3%	5.5%	5.7%	8.3%
Securities intermediation	Gross output	10.5%	10.0%	8.2%	7.6%
	GDP	8.4%	8.9%	7.3%	7.4%
	Patent filings	10.8%	11.3%	10.5%	5.4%
Insurance	Gross output	26.3%	28.7%	30.9%	36.4%
	GDP	22.5%	31.7%	28.1%	30.0%
	Patent filings	1.1%	1.4%	1.7%	2.6%
Passive funds	Gross output	4.9%	4.8%	4.9%	4.6%
	GDP	1.3%	1.8%	0.9%	1.2%
	Patent filings	0.0%	0.0%	0.0%	0.0%
Accounting	Gross output	5.7%	5.5%	6.2%	6.5%
	GDP	7.0%	8.1%	8.4%	7.9%
	Patent filings	7.5%	6.5%	5.8%	5.9%

Table 2. The impact of finance patents and all patents, by assignee type. The table presents the citation weights, the Kogan et al. (2017) weights, and the Kelly et al. (2021) weights for finance patents and all other patents applied for between 2000 and 2018 and awarded by February 2019. The table presents as well results of a t-tests and nonparametric k-sample tests of the equality of medians. The table also presents the differences in the percentile ranks of the means and medians of the finance and non-finance patents using the distribution of all patents in the sample.

	<u>Citatio</u>	Citation weights		Kogan et al. weights		l. weights	<u># of patents</u>
	Mean	Median	Mean	Median	Mean	Median	
Finance Patents	1.25	0.28	53.61	17.50	0.86	0.99	24,255
All Other Patents	1.00	0.26	11.81	4.04	0.81	0.89	3,781,439
p Value, equality test	0.000	0.034	0.000	0.000	0.000	0.000	
Difference percentile	+4	+0	+20	+34	+6	+14	

Table 3. Top 21st-century financial innovations identified in popular media accounts, and first associated patent in the sample. The percentile rank columns reports the relative positioning of this patent relative to other patents in the same award year, using the citation weights, the Kogan et al. (2017) weights, and the Kelly et al. (2021) weights, with 100 as the highest rank.

					<u>Perce</u>	ntile Rar	<u>ık</u>
Innovation Name	Patent ID	Assignee	Filing Date	Grant Date	Citations	Kogan	Kelly
Apple Pay	8459544	Apple Inc.	3/5/2012	6/11/2013	94	96	9
Artificial Neural Network	7016872	Thomson Financial Inc.	6/19/2000	3/21/2006	87		100
Biometric Authentication in							
Payments	6957770	BioPay, LLC	5/10/2002	10/25/2005	99		71
Blockchain	9870562	Mastercard International Inc.	5/21/2015	1/16/2018	100	100	
Collateralized Debt Obligations	7386502	Goldman Sachs & Co.	6/29/2001	6/10/2008	85	100	86
Credit Default Swaps	8103578	Chicago Mercantile Exchange	9/15/2009	1/24/2012	41	90	59
Crowdfunding	9773242	Square Inc.	3/19/2015	9/26/2017	98	71	
Cryptocurrency	9836790	Bank of America Corp.	6/16/2014	12/5/2017	65	100	
Digital Currency	10147076		2/1/2018	12/4/2018	1		
Digital Transaction	7127236	VIVOtech, Inc.	12/18/2002	10/24/2006	100		93
Hierarchical Deterministic Wallet	10102526		1/5/2018	10/16/2018	99		
High Frequency Trading	8543488	Lime Brokerage LLC	4/15/2011	9/24/2013	20		32
Mobile Banking	7873573	Obopay, Inc.	3/30/2007	1/18/2011	99		93
Mobile Phone-Enabled							
Payments	8364590	Apple Inc.	8/1/2012	1/29/2013	96	94	11
Mobile Wallet	8041338	Microsoft Corporation	9/10/2007	10/18/2011	99	84	87
Online Banking	7575157	Bank of America Corp.	5/22/2007	8/18/2009	98	100	65
P2P Lending	8280788	Visa International	5/12/2010	10/2/2012	41		29
Quantum Computing	7159116	Blue Spike, Inc.	12/7/2000	1/2/2007	99		97
Quantum Cryptography	7353532	IBM Corp.	8/30/2002	4/1/2008	92	52	86
Remittances	7792746	Oracle International Corp.	7/25/2003	9/7/2010	83	88	93
Total Return Swaps	6766303	Goldman Sachs & Co.	10/15/2001	7/20/2004	66	99	98
Weather Derivatives	7184983	Planalytics, Inc.	8/10/2001	2/27/2007	60		81

Table 4. The assignee types of financial and non-financial patents. The sample consists of finance and non-finance patents applied for between 2000 and 2018 and awarded by February 2019. We compare the distribution of assignees of finance and non-finance patents in t-tests. * denotes rejection of the null hypothesis of no difference in the means at the 10% level; ** at the 5% level; and *** at the 1% level.

	Finance patents	Non-finance patents
Assignee Type:		
U.S. corporation	74.96%	43.14%***
Foreign corporation	16.05%	46.59%***
Individual	8.65%	7.79%***
U.S. government	0.08%	0.36%***
Foreign government	0.01%	0.09%***
U.S. university	0.19%	1.35%***
Foreign university	0.06%	0.69%***
Share active VC backed	4.02%	2.22%***
Share VC backed, U.S. inventors only	4.98%	4.43%***

Table 5. The assignees of financial patents. Panel A presents the most frequent assignees of finance patents applied for between 2000 and 2018 and awarded by February 2019. Panel B presents the share of applications with assignees below various employment size thresholds in the application year, as a share of all corporate applications with employment data in that period. Panel C presents the assignees with at least 200 finance patents in the sample and with the most influential patents. Panels D and E present the most sharply declining (growing) financial patent assignees. These are identified by comparing the share of financial patents in the sample applied for between 2000 and 2004 and between 2015 and 2018.

	Number of patents
Bank of America Corporation	652
Trading Technologies International	645
Visa Inc.	608
Diebold Nixdorf, Inc.	597
International Business Machines Corporation	589
Mastercard Inc.	418
JPMorgan Chase & Co.	407
American Express Company	404
United Services Automobile Association	351
Intuit	310

Panel A: Most frequent assignees.

Panel B: Representation of small businesses.

Employment threshold	2000-04 patent applications	2015-18 patent applications
<250	2.4%	1.7%
<500	5.8%	2.1%
<1000	7.8%	3.2%

Panel C: Assignees with most influential	patents (with at least	t 200 finance patents):	Means using various
weighting schemes.			

Citation weights		Kogan et al. (2017	') weights	Kelly et al. (2021) weights	
		JP Morgan Chase			
Square, Inc.	3.50	& Co.	266.30	NCR Corporation	1.09
United Services					
Automobile		Bank of America		First Data	
Association	3.00	Corporation	108.28	Corporation	1.09
Visa Inc.	1.81	Visa Inc.	107.98	Microsoft	1.05

Table 5 (continued).

Panel D: Most rapidly declining finance patent assignees.

	Change in share
Unassigned	-6.1%
First Data Corporation	-2.4%
Goldman Sachs Group, Inc.	-1.5%
JPMorgan Chase & Co.	-1.4%
Fujitsu Limited	-1.3%
Hitachi, Ltd.	-1.3%
HP Inc.	-1.2%
International Business Machines Corporation	-1.2%
Oracle Corporation	-1.0%
Sony Corporation	-1.0%
Diebold Nixdorf, Inc.	-1.0%

Panel E: Most rapidly growing finance patentee assignees.

	Change in share
Bank of America Corporation	+6.1%
Square, Inc.	+4.3%
State Farm Mutual Automobile Insurance Company	+3.8%
Mastercard Inc.	+3.3%
PayPal Holdings, Inc.	+3.1%
Visa Inc.	+2.7%
Capital One Services, LLC	+2.2%
The Allstate Corporation	+1.5%
The Hartford Financial Services Group, Inc.	+1.1%
Wells Fargo & Company	+0.9%
United Services Automobile Association	+0.8%

Table 6. Consumer finance and process patents. The sample consists of all finance patents applied for between 2000 and 2018 and awarded by February 2019. Panel A reports correlations between (a) whether a patent involved consumer finance or was a process award and (b) patent characteristics. The construction of the consumer finance and process variables are described in the text. The rows look at their relationship with the application and award date, the assignee industry, and the interactions between these measures. Panel B presents OLS regression analyses. The dependent variables are the dummy variables denoting if the patents were consumer finance and process ones. The key independent variables are dummies for whether the patent was assigned to an information technology, payments, and other non-finance firm and for the time period of the application. In the second and fourth regressions, we add interactions between two time dummies and whether the patent was assigned to an information technology, payments, and other non-finance firm. We also include unreported controls for location and firm characteristics (see text for details). Robust standard errors in brackets; * denotes statistical significance at the 10% level; ** at the 5% level; and *** at the 1% level.

A. Correlations.

	Consumer Finance	Process
Mean	24.2%	46.6%
Correlation coefficient between patent type and		
Application date	0.021***	0.016**
Award date	0.017***	0.032***
Assignee in banking industry	0.004	-0.088***
Assignee in capital markets	-0.021***	-0.090***
Assignee in IT, payments, or other	0.016**	0.131***
Correlation of IT/payment/other assignee and date		
for patents of a given type		
Application date	-0.033**	-0.046***
Award date	-0.040**	-0.048***

B. Regression analyses.

	Consumer finance patent?		Process	patent?
	(1)	(2)	(3)	(4)
Assignee in IT, payments, or other	0.024***	0.141***	0.121***	0.116***
	[0.008]	[0.015]	[0.006]	[0.011]
IT/payment/other * Early application		-0.009		-0.021
		[0.027]		[0.020]
IT/payment/other * Late application		0.0001		-0.133***
		[0.033]		[0.044]
Observations	24,355	13,259	20,613	11,073
R-squared	0.001	0.016	0.038	0.050
Time FEs	Yes	Yes	Yes	Yes
Location FE	No	Yes	No	Yes
Assignee characteristics controls	No	Yes	No	Yes

Table 7. Finance patenting by U.S. urban area over time. The table presents the share of patenting by CSA for the ten CSAs with the most financial patents overall. The analysis uses patents applied for between 2000 and 2018 and awarded by February 2019. The table presents patents from the given CSA as a share of all financial patents, computed using patent counts, citation weights, and Kogan et al. (2017) weights. We assign patents based on the location of the first inventor.

	Patent Count			<u>Ci</u>	Citation Weighted			Kc	Kogan et al. Weighted			
	2000-	2005-	2010-	2015-	2000-	2005-	2010-	2015-	2000-	2005-	2010-	2015-
	04	09	14	18	04	09	14	18	04	09	14	18
San Jose-San Francisco-Oakland	8.5%	10.7%	15.7%	18.3%	11.5%	16.2%	21.3%	21.5%	8.4%	14.8%	25.0%	25.6%
New York-Newark	13.4%	11.6%	9.5%	5.7%	14.6%	7.8%	6.4%	5.7%	34.6%	19.8%	14.4%	5.7%
Chicago-Naperville	3.4%	6.2%	7.5%	3.9%	5.6%	5.8%	7.3%	3.0%	2.9%	4.5%	4.4%	4.4%
Washington-Baltimore-Arlington	4.0%	3.4%	3.2%	4.0%	4.7%	6.0%	3.3%	2.2%	3.1%	2.6%	1.4%	4.1%
Los Angeles-Long Beach	2.4%	2.1%	2.8%	1.8%	3.1%	2.8%	5.0%	3.7%	0.3%	0.9%	0.7%	0.9%
Cleveland-Akron-Canton	2.4%	2.8%	2.7%	1.7%	1.3%	1.8%	2.3%	0.7%	0.6%	0.5%	0.3%	0.3%
Atlanta-Athens-Clarke County	2.0%	2.6%	2.0%	2.8%	2.5%	3.7%	1.8%	1.3%	0.7%	1.4%	1.1%	2.1%
Seattle-Tacoma	1.9%	2.5%	2.3%	1.8%	2.0%	2.5%	2.5%	1.7%	1.8%	1.7%	2.4%	2.8%
Charlotte-Concord	0.3%	1.7%	2.3%	4.2%	0.4%	1.5%	3.2%	1.6%	0.4%	11.0%	8.7%	13.7%
Denver-Aurora	2.2%	2.0%	2.1%	1.3%	1.9%	1.4%	1.2%	0.5%	2.7%	1.2%	1.3%	0.6%

Table 8. OLS regression analyses of the impact of regulatory actions on financial patenting. The table uses observations at the CSA (121 CSAs with any financial patents applied between 2000 and 2015)-assignee industry (banks, other finance, payments, and IT/other)-patent type (banking, payments, and other) level, for a total of 1452 observations. The dependent variable is the number of patents in a given cell applied for between 2008 and 2015. The key independent variables are the measure of CSA-level regulatory activities from Buchak et al. (2018) interacted with assignee industry, as well as with patent type. All regressions include CSA fixed effects and controls for patent type and assignee industry. Only selected interactions are reported. Clustered standard errors (at the CSA level) are in brackets; * denotes statistical significance at the 10% level; ** at the 5% level; and *** at the 1% level.

		Patent count	
	(1)	(2)	(3)
Δ Capital Ratio x Bank Firms	-6.974**	. ,	
	[3.033]		
Δ Capital Ratio x Other Finance Firms	-6.227**		
	[2.933]		
Δ Capital Ratio x Payments Firms	-5.394**		
	[2.814]		
Δ Capital Ratio x Banking Type	-1.963**		
	[0.799]		
% MSR x Bank Firms		-7.643**	
		[3.317]	
% MSR x Other Finance Firms		-7.748**	
		[3.070]	
% MSR x Payments Firms		-7.846**	
		[3.186]	
% MSR x Banking Type		-2.283**	
		[0.890]	
% OTS x Bank Firms			-14.880***
			[4.650]
% OTS x Other Finance Firms			-14.038***
			[4.535]
% OTS x Payments Firms			-12.179***
			[4.376]
% OTS x Banking Type			-3.682**
			[1.465]
Observations	1,452	1,452	1,452
R-squared	0.468	0.472	0.479
CSA FEs	Yes	Yes	Yes
Patent type FEs	Yes	Yes	Yes
Assignee industry FEs	Yes	Yes	Yes
Data sample period	2008-2015	2008-2015	2008-2015
Test Equality of Coefficients (F Statistic Reporte	d)		
Interaction with Bank vs. IT/Other	5.29**	5.31**	10.24***
Interaction with Other Finance vs. IT/Other	4.51**	6.37**	9.58***
Interaction with Payments vs.IT/Other	3.67*	6.06**	7.75***
Interaction with Banking vs. Payment Type	4.51**	6.58**	6.31**

Table 9. OLS regression analyses of the impact of technological positioning on financial patenting. The table uses observations at the state-assignee industry (banks, other finance, payments, and IT/other)-patent type (banking, payments, and other)-application year (2008-18) level, for a total of 6,600 observations. The dependent variable is the number of patents in a given cell. The key independent variables are interactions between two different STSI technology indexes in a given state s in year t and assignee industry i. All regressions include fixed effects for time, state, patent type, and assignee industry. Only selected interactions are reported. Clustered standard errors (at the state-year level) are in brackets; * denotes statistical significance at the 10% level; ** at the 5% level; and *** at the 1% level.

	Patent count		
	(1)	(2)	
State Technology & Science Index x Payments Firms	0.048***		
	[0.017]		
State Technology & Science Index x IT/Other Firms	0.216***		
	[0.041]		
State Technology & Science Index x Payment Type	0.063***		
	[0.014]		
State Technology & Science Index x Other Type	0.065***		
	[0.014]		
Research & Development Inputs x Payments Firms		0.033***	
		[0.011]	
Research & Development Inputs x IT/Other Firms		0.129***	
		[0.028]	
Research & Development Inputs x Payment Type		0.040***	
		[0.010]	
Research & Development Inputs x Other Type		0.042***	
		[0.009]	
Observations	6 600	6 600	
R-squared	0 392	0 377	
Time FFs	Yes	Yes	
State FFs	Yes	Yes	
Patent type FEs	Yes	Yes	
Assignee industry FEs	Yes	Yes	
Data sample period	2008-18	2008-18	
Test, Equality of Coefficients (F Statistic Reported)			
Interaction with Payments vs. Bank	8.13***	8.37***	
Interaction with IT/Other vs. Bank	27.97***	22.12***	
Interaction with Payment vs. Banking Type	20.22***	17.38***	
Interaction with Other vs. Banking Type	22.21***	20.15***	

Table 10. Probit regression analyses of the shifting innovative location of banks and payment firms. Panel A analyzes the relationship between shifting innovative location and regulatory pressure, reporting the key coefficients for banks. The sample consists of continuing financial innovators (the firms with financial innovation activities before 2008 and after 2015). The dependent variable takes on a value of one if its modal location for innovation changes between 2000-2007 and 2008-2015, and zero otherwise. The independent variables in Panel A consist of dummies for the industry of the firm and controls for assignee characteristics (see text), as well as interactions between each industry dummy and three measures of the intensity of regulatory scrutiny in the original CSA where the firm was based using the data from Buchak et al. (2018). The observations are weighted by the number of patents filed by the firm between 2000 and 2007. Panel B analyzes the relationship between shifting innovative location and technological positioning, reporting the key coefficients for payment firms. The sample consists of continuing financial innovators (in this case, the firms that had financial patents applied before 2008, in all four periods between 2008 and 2016, and after 2016). The dependent variable takes on a value of one if its modal state for innovation changes between two successive periods (i.e., from 2007 and before to 2008-09, from 2008-09 to 2010-11, and so forth) ., and zero otherwise. The independent variables consist of dummies for the industry of the firm and time period and controls for assignee characteristics (see text), as well as interactions between each industry dummy and two technology indexes in the original state where the firm was based using the STSI data. The observations are weighted by the cumulative number of patents filed as of the end of each time period (see text). The tables report the marginal effects of interaction terms. Robust standard errors are in brackets; * denotes statistical significance at the 10% level; ** at the 5% level; and *** at the 1% level.

	Did firm switch CSAs after 2008?				
	(1)	(2)	(3)		
Original Δ Capital Ratio x Bank Firms	1.682***				
	[0.244]				
Original % MSR x Bank Firms		2.061***			
		[0.159]			
Original % OTS x Bank Firms			1.929***		
			[0.541]		
Number of observations	125	125	125		
Weighted observations	3,007	3,007	3,007		
Pseudo R-squared	0.149	0.359	0.195		
Assignee industry FEs	Yes	Yes	Yes		
Assignee characteristics controls	Yes	Yes	Yes		
Chi-squared	422.6	591.9	539.6		
p-value	0.000	0.000	0.000		
Test Equality of Marginal Effects (Chi-square Reported)					
Interaction with Other Finance vs. Bank	83.91***	125.26***	8.51***		
Interaction with Payments vs. Bank	47.45***	168.32***	12.71***		
Interaction with IT/Other vs. Bank	35.54***	61.79***	11.40***		

Panel A: Regulatory pressure and the shifting innovative location.

Table 10 (continued).

Panel B: Technological positioning and the shifting innovative location.

	Did firms switch modal state?			
	(1)	(2)		
State Technology & Science Index x Payments Firms	-0.307***			
	[0.006]			
Research & Development Inputs x Payments Firms		-0.234***		
		[0.006]		
Number of observations	260	260		
Weighted observations	18,421	18,421		
Pseudo R-squared	0.257	0.206		
Time FEs	Yes	Yes		
Assignee industry FEs	Yes	Yes		
Assignee characteristics controls	Yes	Yes		
Chi-squared	3783.5	3466.4		
p-value	0.000	0.000		
Test Equality of Marginal Effects (Chi-square Reported)				
Interaction with Other Finance vs. Payments	526***	368***		
Interaction with Bank vs. Payments	2410***	1500***		
Interaction with IT/Other vs. Payments	2410***	1500***		

Table 11. Academic citations. The sample consists of finance patents applied for between 2000 and 2018 and awarded by February 2019. Panel A presents the correlation coefficient between the grant date and the number of academic citations in these patents, the number of citations to business, economics, and finance journals, the number to "Top 3" finance journals, and the mean age of the citations in each patent (years between the article publication and patent application date), in aggregate and divided by patent assignee industry. Panel B reports the mean citation weight, the Kogan et al. (2017) weight, and the Kelly et al. (2021) weight for patents that do and do not cite any academic output, cite publications with an above-median impact factor, and cite publications of various types (all business, economics, and finance journals, all business, economics, and finance journals with an above-median impact factor, and "Top 3" finance journals). Panel C reports OLS regression analyses. The dependent variables are the citation weight and the Kogan et al. (2017) weight for each patent, and the key independent variables are the interaction between the number of academic citations and the patent application time period. The regressions control for time and location, as well as for assignee characteristics (see text for details). Robust standard errors are in brackets; * denotes statistical significance at the 10% level; ** at the 5% level; and *** at the 1% level.

	Academic	Bus/econ/	Тор З	Citation age
	citations	fin	citations	
		citations		
All finance patents	-0.013**	-0.031**	-0.027***	0.178**
By assignee industry				
Banking	-0.234***	-0.286***	-0.152***	0.169***
Other finance	0.005	-0.075***	-0.067***	0.160***
Payments	-0.093***	-0.009	-0.025	0.136***
IT/other	0.002	-0.005	-0.008	0.198***

Panel A: Correlations with grant dates

Panel B: Patent value and the presence of academic citations

	Mean, weighted		Mean, Ko	<u>Mean, Kogan et al.</u>		<u>Mean Kelly et al.</u>	
	<u>citations</u>		val	value		value	
	Yes	No	Yes	No	Yes	No	
Academic Citation(s)?	1.49	1.11***	59.9	50.2***	0.89	0.83***	
Citation(s) to High-Impact Factor	1.88	1.16***	69.1	51.7***	0.87	0.86	
Journals?							
Citation(s) to	1.38	1.22***	85.3	48.0***	0.90	0.85***	
Business/Economics/Finance							
Journals?							
Citation(s) to High-Impact	1.52	1.27**	96.6	52.2***	0.91	0.85**	
Bus/Econ/Fin Journals?							
Citation(s) to Top 3 Finance Journals?	1.30	1.25	184.2	52.1***	0.93	0.86***	

Table 11 (continued).

Panel C: Academic article citations and patent value over time.

	Weighted citations	Kogan et al. value
Academic Citations x 2000-04 Application Period	0.011***	1.029**
	[0.003]	[0.444]
Academic Citations x 2005-09 Application Period	0.022***	0.925***
	[0.005]	[0.298]
Academic Citations x 2010-14 Application Period	0.086***	0.363***
	[0.016]	[0.135]
Academic Citations x 2015-18 Application Period	0.555***	2.132*
	[0.168]	[1.107]
Observations	13,256	9,173
R-squared	0.100	0.302
Time FEs	Yes	Yes
Location FE	Yes	Yes
Assignee characteristics controls	Yes	Yes

Table 12. Measuring the private returns to financial and non-financial innovation. The table first presents a proxy for the private return on R&D, the Kogan/R&D ratio calculated directly using the ratio of the mean Kogan value of successful patents applied for by the firm in a given year and its R&D expenditures, both in millions of U.S. dollars. It also presents two measures of the (private) return on the social benefits from innovation, the elasticity of firm value to citations and the semielasticity of R&D through citations. In each case, the elasticity is evaluated at the mean with respect to one standard deviation change in CITES/PAT or R&D. It is estimated from equation (14), using the gamma estimates obtained in Table A-19 following the non-linear model in equation (13) (both equations in Appendix G). The number of observations in column (1), (2), and (3) is 2,808 from 246 firms, 1,440 from 107 firms, and 1,069 from 71 firms respectively for both financial and non-financial innovations.

	<u>F</u>	inancial Pa	<u>tents</u>	<u>No</u>	on-financial	Patents
	(1)	(2)	(3)	(1)	(2)	(3)
mean Kogan R&D	2.274	1.840	1.894	0.098	0.064	0.063
$\frac{\partial logQ}{\partial (CITES/PAT)}$	0.044	0.060	0.045	0.127	0.194	0.207
$\frac{\partial logQ}{\partial (CITES/PAT)} \frac{\partial (\frac{CITES}{PAT})}{\partial (R\&D)}$	0.377	0.207	0.139	8.422	13.582	11.545

Appendix A: Construction of Data for Economic Activity and Patenting Comparison

U.S. gross output

We from took annual gross revenue https://apps.bea.gov/iTable/index_industry_gdpIndy.cfm.³² To facilitate the comparison to the patent data by industry, we made two simplifying consolidations of the BEA industries. In particular, we aggregated (a) the three insurance-related BEA industries (all within NAICS codes 5341 and 5242), and (b) the BEA industry "Non-depository credit intermediation and related activities" (NAICS codes 5222 and 5223), which largely consists of payments companies, consumer finance firms, and non-bank banks, with three categories that consist largely of lessors: the consumer-facing auto finance firms (NAICS code 5321) and two commercial ones ("Commercial and industrial machinery and equipment rental and leasing" (5324) and "Lessors of nonfinancial intangible assets" (533)). We also renamed some of the adjusted BEA industries to make their nature clearer.

Adjusted BEA Industry	NAICS Codes	BEA Industry(ies)
Non-bank credit and	5222-23, 5321,	Non-depository credit intermediation and
payments	5324, 533	related activities; Automotive equipment
		rental and leasing; Commercial and
		industrial machinery and equipment rental
		and leasing; Lessors of nonfinancial
		intangible assets
Banks	521, 5221	Monetary authorities and depository credit
		intermediation
Investments and funds	5329	Other financial investment activities
Securities	5231-32	Securities and commodity contracts
intermediation		intermediation and brokerage
Insurance	5241-42	Direct life insurance carriers; Insurance
		carriers, except direct life insurance;
		Insurance agencies, brokerages, and related
		activities
Passive funds and trusts	525	Funds, trusts, and other financial vehicles
Accounting	5412	Accounting, tax preparation, bookkeeping,
		and payroll services

These changes are summarized in the table that follows.

U.S. value added

The data for value added use the same 405-industry scheme as above and are available only on a quinquennial basis. Thus, unlike the other series reported here, the value-added series presents activity in one particular year, not over the entire period.

³² To find the relevant data, we select "Access Underlying Detail Tables" in the "Additional information" section. These tables are at the very bottom of the Gross Output section and have "Detail Level" appended to the end of the table title.

The benchmark tables for 2007 and 2012 are updated by the BEA to ensure that they are conceptually consistent with each other. 2007 and 2012 data were found at <u>https://www.bea.gov/industry/input-output-accounts-data</u> under "Use Tables," in a sheet labelled as Use_SUT_Framework_2007_2012_DET.xls.

Historical benchmark tables, including 2002, use a slightly different variant of the industry scheme that has not been updated. To compute value added for 2002, we added three main subcomponents: compensation, taxes less subsidies, and gross operating surplus (the three "commodities" with codes V00100, V00200, and V00300). 2002 data are in a file labelled REV NAICSUseDetail 4-24-08.txt file (which is included in the download under "2002 Standard Make and Use Tables the detailed level" folder) at at https://www.bea.gov/industry/historical-benchmark-input-output-tables.

2017 data were taken from "Use Tables" for 2017 at <u>https://www.bea.gov/industry/input-output-accounts-data</u>. 2017 data uses the 71-industry scheme (2017 405-industry data were not scheduled to be released until late 2023.) In cases where some of the 405 industries were aggregated in the 2002 and 2017 data, we assigned value added to the individual BEA industries proportionate to the relative activity in the closest year with 405-industry level data (2007 and 2012).

Patenting by using industry

We assign the patents in the sample to industries based on the classification of patent types described in the paper. The following table shows the mapping we use between the BEA industries and the patent types, repeating the relevant NAICS codes for reference:

Adjusted BEA Industry	NAICS Codes	Patent Type
Non-bank credit and	5222-23, 5321,	Real estate; payments
payments	5324, 533	
Banks	521, 5221	Commercial banking; retail banking
Investments and funds	5329	Wealth management; currency;
		cryptocurrency; active funds
Securities	5231-32	Investment banking/exchanges
intermediation		
Insurance	5241-42	Insurance
Passive funds and trusts	525	Passive funds
Accounting	5412	Accounting

This mapping is inexact by necessity. In particular:

• Two patent type categories are cross-cutting, and do not lend themselves to assignment to a single category: communications and security. In these cases, we assigned the patents to other industries, using the same proportions as the industries that were jointly assigned to (a) communications and/or security on the one hand and (b) another industry or industries on the other. Because the composition of the industries changed over time, we did this calculation separately for patents applied for in the 2000-04, 2005-09, 2010-2014, and 2015-18 periods.

- The relatively few finance patents classified as real estate largely focused on securitization, so seemed best classified with non-bank credit.
- A number of patents classified under commercial and retail banking applied to credit analysis or repayment schemes in general, and thus could also be included under non-bank credit. This may have led to an undercount of non-bank credit patents.
- The very few currency-related patents related to portfolio management, corporate hedging, and liability management applications, and thus could be classified in multiple categories.

Appendix B: Major Judicial Decisions and Policy Changes Post-State Street that Affected Financial Patenting

Several important Supreme Court decisions revisited the validity of business method patents during the period studied in this paper (2000-2019). First, in *Bilski v. Kappos*, the Supreme Court affirmed a CAFC decision rejecting the patentability of a method for hedging against price risk in commodities trading but also rejected a *per se* exclusion against patenting business methods.³³ The decision also rejected the judicial standard by which the CAFC had assessed the patentability of business method patents, which injected uncertainty into questions about the validity of such patents.³⁴ The court's 2012 decision in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*,³⁵ while specifically determining that a method of giving a drug to a patient was not patentable subject matter, was seen as weakening the ability to patent abstract subject matter more generally.

Next, in June 2014, the Supreme Court ruled in *Alice Corp. v. CLS Bank* that Alice's patent for a computerized trading program that mitigated settlement risk and facilitated the exchange of financial obligations was invalid. The Court found the patent to be merely an abstract idea and thus ineligible for patent protection.³⁶ While the Court again made no categorical rejection of business methods or software, *Alice* amplified concerns over the extent of financial-related software patentability.

Patent law changes in 2011 also affected financial patenting. Specifically, the Leahy-Smith America Invents Act (P.L. 112-29) added a new method of post-grant review for "covered business methods" (CBMs), a provision which took was in effect between 2012 and 2020. This legislation was motivated by critics of the financial patents, summarized in Hunter (2004, Table 1), who questioned (a) the capabilities of the USPTO to process applications, (b) the validity of such patents in terms of obviousness and novelty, and (c) such patents' overall impact on innovation and competition.

In this context, a CBM is essentially a financial patent.³⁷ The provision was meant to stifle litigation over questionable patents by enabling alleged infringers being sued in district court to challenge patent validity in a less expensive forum with a faster timeline, before a board perceived as being more skeptical on questions of patentability. Practitioners suggest that while current attitudes towards granting finance patents are quite permissive within the USPTO, the Federal Circuit is taking a harder line on the validity of finance patents in their rulings.

³³"Section 101 similarly precludes a reading of the term 'process' that would categorically exclude business methods." See *Bilski v. Kappos*, 561 U.S. 593 (2010).

³⁴The *en banc* CAFC rejected its prior test for determining whether a claimed invention was a patentable "process" under 35 *U.S.C.* §101—i.e., whether the invention produced a "useful, concrete, and tangible result," as delineated in *State Street*—holding instead that a claimed process is patent eligible "if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing." See *In re Bilski*, 545 F.3d 943, 88 U.S.P.Q.2d 1385 (Fed. Cir. 2008).

³⁵ 566 U.S. 66 (2012).

³⁶In particular, the Supreme Court held that "an instruction to apply the abstract idea of intermediated settlement using some unspecified, generic computer is not 'enough' to transform the abstract idea into a patent-eligible invention." See *Alice Corp. v. CLS Bank Int'l* 573 U.S. 208 (2014).

³⁷ A covered business method patent is defined as "a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service...." 37 *C.F.R.* 42.301(a).

The ambiguities associated with finance patents in the U.S. have also manifested elsewhere. European patent law explicitly excludes methods of doing business and finance from patent protection. But given the complexity of the definitions, some finance patents appear to have made it past these categorical exclusions. Meanwhile, Japan has shifted from one of the most skeptical patent offices regarding business methods to a much more permissive one: its rejection rate for these patents, of which finance constitutes a considerable number, fell from 92% in 2000 to 34% in 2012 through 2014 (Japanese Patent Office, 2019).

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Hunter, III, Starling D. 2004. "Have Business Method Patents Gotten a Bum Rap? Some Empirical Evidence." *Journal of Information Technology Theory and Applications* 6 (1): 1–24.

Japanese Patent Office. 2019. "Recent Trends in Business-Related Inventions." https://www.jpo.go.jp/e/system/patent/gaiyo/recent_trends_biz_inv.html

Appendix C: Corporate Venture Capital Database Construction

We totaled the number and dollar volume of closed corporate venture investments in the United States, regardless of the nation of the investor, as reported by Capital IQ. We focused on the period between January 2000 and December 2019. We restricted the analysis to investments in firms classified in a primary industry class of Financials, Online Bill Payment Services, Internet Merchant Services, or Financial Services. We did not require that the companies in the corporate venture fund portfolios have (or ultimately be granted) financial patents, as many went bankrupt or were acquired before any patents issued.

Capital IQ's classification scheme allowed us to identify corporate venture investors. In particular, we included investments that Capital IQ declared as being by groups that Capital IQ classified as "corporate investments arms" and "financial institution investment arms." We then did extensive reviews using a wide variety sources³⁸ of the investment groups that had undertaken two or more investments in finance portfolio companies, to eliminate investors that we did not consider to be true corporate venture investors that were nonetheless in these categories.

In particular, we eliminated investments by:

- Traditional private equity and venture capital funds without a corporate sponsor,
- Publicly traded entities that operated largely as traditional investment funds (for example, Softbank),
- Family offices,
- Government- or non-profit affiliated bodies (e.g., International Finance Corporation, European Bank for Reconstruction and Development),
- Subsidiaries of financial institutions that primarily invested funds for third parties, rather than internally (for instance, Norwest Capital, Goldman Sachs Principal Investment Arm), and
- Corporate groups investing internal capital but with explicitly stated financial (as opposed to strategic) objectives (e.g., GE Capital).

Some smaller investment and merchant banks doing primarily financial investments (whether proprietary or for third third-party clients) doubtless slipped through these screens, potentially overstating the investment amounts. Groups that occasionally made strategic investments off their balance sheet without a formal program may have been undercounted.

Capital IQ, like most venture capital databases, did not provide a break-down of the amount of financing provided by each investor in each round, so we divided the total financing amount in each round by the number of investors, assuming each investor provided an equal amount of capital. We eliminated the largest 2% of investments, which appeared to be co-investments in buyouts that were accidentally included in the database. The industry assignments for the investors were based on the Capital IQ industry classifications and the authors' own research.

³⁸Sources used include lists of CVCs compiled by Global Corporate Venturing, CB Insights, and Crunchbase. We also manually checked Capital IQ database entries, web sites, media reports, and filings with the U.S. Securities and Exchange Commission

The computation of the share of total corporate venture capital investment was based on the data compiled above, the share of U.S. venture capital investment that was corporate venture capital computed by Akcigit et al. (2020) for the period between 2000 and 2016, and the estimates of total venture capital invested in the U.S. in those years by the National Venture Capital Association (<u>https://nvca.org/research/nvca-yearbook/</u>, which are based on PitchBook and Refinitiv VentureXpert data). For 2017 through 2019, we use National Venture Capital Association estimates of U.S. corporate venture capital activity.

Appendix D: Trade Secret Databases Construction

We undertook two analyses in Section 2.3 to address directly examine concerns about whether these decisions led to a shift away from relying on patents to protect financial innovations to trade secrets. This section provides additional details about these approaches.

The first followed the methodology in Hassan et al. (2019) and Bloom et al. (2021). To undertake the analysis, we looked at earning calls (ECs) of all publicly traded financial firms. We compiled all GVKEYs of what we considered to be finance firms that were publicly traded at any time between 2000 and 2018 and whose earning calls were included in the Refinitiv (formerly Thomson Reuters) database of earnings call transcripts.

To do so, we identified firms assigned in CapitalIQ to the GICS codes associated with Banks, Other Finance, and Payments firms, as defined in Section 3.2 of the paper. We did not examine the ECs of non-finance firms that may have pursued financial innovation, such as IT firms. This decision was made because (a) most references in conference calls to intellectual property were general in nature, and (b) we anticipated that in most cases, the bulk of the intellectual property owned by the non-finance firms would not be finance related (even if they were substantial financial innovators).

For these finance firms, we counted the number of earnings call transcripts in each quarter along several dimensions:

- 1. The cumulative count of earnings calls (ECs) involving these firms, and their average length in words.
- 2. The number of reports mentions in ECs of the following keywords, as well as the number of mentions:
 - a. "patent*"
 - b. "trade secre*" or "proprietary knowledge*" or "commercial confidential*" or "business confidential*" or "confidential business information" or "industry confidential*"

We also compiled the count of ECs where there were references to secrets but not trade secrecy (("secret*" or "secrec*") and NOT ("trade secre*")"). When we audited these cases, however, we found that almost none of them dealt with trade secrets. Rather, they were less relevant comments, such as "[we did] little to no marketing, so were a bit of a well-kept secret," "not assuming anything major from Victoria's Secret contracts going forward," and "it was not a secret sauce; it's blocking and tackling."

There were also a number of generic references to "intellectual property" in earnings calls that did not reference either patents or trade secrets explicitly (or the synonyms for trade secrets delineated above). In the majority of cases that we audited, these references were by firms that had been issued patents; in many cases, the firms appeared to be referring to these patents. But given the ambiguities, we did not count these cases in as either ones that referenced patents or trade secrets. We finally normalized the count of references in the finance calls to the patent- and trade secret-related keywords. To do so, we divided the count by the number of ECs by finance firms in that quarter and their average length in words, then multiplied by 1000.

The second analysis focused on federal litigation involving patents and trade secrets. The decision to focus on federal (and not state) court litigation reflected data availability. While services such as Lex Machina and Bloomberg Law have compiled federal filings for many years, the coverage of state court filings is at a much earlier stage. (For instance, Lex Machina did not introduce coverage of state cases until the introduction of Delaware state cases in 2018 and Houston and Los Angeles area state cases in 2020.³⁹)

This limited coverage posed concerns. Traditionally, patent cases have been heard in federal cases. (Some contractual disputes involving patents were, and still are, heard in state courts, but all questions revolving around patent validity must be resolved in Federal courts.) Trade secret cases, on the other hand, are heard in both state and federal courts. Prior to 2016, most misappropriation and trade secrets lawsuits could be filed in federal court only through a diversity provision (i.e., where a plaintiff and defendant were citizens of different states and the amount in dispute exceeded seventy-five thousand dollars) or if the plaintiff asserted a federal claim in addition to the state law trade secret claim. This limitation was relaxed in 2016. Signed into law on May 11, 2016, the Defend Trade Secrets Act (DTSA) allowed firms to litigate trade secret cases more generally in the federal courts, by extending the Economic Espionage Act of 1996 to criminalize trade secret misappropriations.

Practitioner accounts suggest that firms turned rapidly to the federal courts to adjudicate additional trade secret cases. The advantages of litigating trade secrets in the federal courts was summarized in one legal blog as follows:

Federal courts are accustomed to handling sophisticated civil litigation. They are experienced in dealing with complex discovery issues, including protective orders, and issues regarding expert witness testimony. Alongside this, federal courts readily grant meritorious motions for summary judgment. Further, as Congress noted when it enacted the DTSA, trade secret theft today is often not confined to a single state and trade secret cases often require swift action by courts across state lines to preserve evidence. Federal courts can be better equipped to provide such relief.⁴⁰

We identified federal trade secret litigation in two ways. First, we used the database of DTSArelated cases compiled by Professor Chris Seaman from Lex Machina and Bloomberg Law, who also downloaded the original complaints in these lawsuits. The database construction was described in Levine and Seaman (2018). We supplemented this list with a search of all non-DTSA related trade secret cases in the federal courts, which we identified using Lex Machina. For each supplemental case, we also obtained the original complaint. We reviewed

³⁹ Lex Machina, "Lex Machina Launches State Law Modules, Extending Its Groundbreaking Legal Analytics to State Courts in California and Texas," February 4, 2020, <u>https://lexmachina.com/media/press/lex-machina-launches-state-law-modules-in-california-and-texas/</u>.

⁴⁰ Holland & Knight, "The Impact of the New Federal Trade Secrets Act on Trade Secret Litigation: Holland and Knight Trade Secrets Blog," July 30, 2018, <u>https://www.hklaw.com/en/insights/publications/2018/07/the-impact-of-the-new-federal-trade-secrets-act-on</u>.
all the complaints, whether DTSA-related or not, for evidence whether (a) the case involved a true innovation, and not a dispute over client lists/contacts or sales materials (which may also be covered by trade secret protection),⁴¹ (b) one of the parties was a financial institution (defined as above), or, if not, whether the dispute was over some financial innovation.⁴² We downloaded from Lex Machina an indication of whether a patent claim was also asserted at some point in the litigation.

We wished to compare the volume of trade secret cases to patent ones. To do so, we used the Patent Litigation Dataset compiled by the USPTO Office of the Chief Economist and the University of San Diego Law School, which contains links between 81,350 unique district court cases filed during the period from 1963 to 2016 and the associated patent numbers (Schwartz, Sichelman, and Miller, 2019). We downloaded all litigation associated with the patents in our sample. We also downloaded from Lex Machina an indication as to whether a trade secret claim was also asserted at some point in the litigation.

Because we wished to focus on the period when the DTSA was active and patent litigation data available, we focused on lawsuits filed in the period from May 12 and December 31, 2016. We looked separately at the litigation involving finance patents and all other patent litigation, and trade secret cases about a financial innovation or another innovation. We found that the ratio of pure patent cases to trade secret ones for financial innovations was between 10.4 and 19.9 to 1. A similar pattern holds in non-finance cases: in fact, the ratios were almost twice as high.

	Finance	Other
DTSA cases	51	296
+Other Federal TS cases	57	399
=Total Federal TS cases	108	695
-Non-innovative TS cases (definition 1)	96	548
=Innovative TS cases (definition 1)	12	147
-Hybrid cases (TS + patent)	0	13
=Pure innovative TS cases (definition 1)	12	134
Total TS cases	108	695
-Non-innovative TS cases (definition 2)	101	619
=Innovative TS cases (definition 2)	7	76
-Hybrid cases (TS + patent)	0	11

⁴¹ More specifically, we identified cases that were unambiguously non-innovative in nature (where the theft/misappropriation was exclusively of customer contacts and marketing materials, which we refer to as definition 1) and ones that were likely non-innovative in nature (where the theft/misappropriation may have also included "software" or "samples," but no distinct claims are made that these materials contained information on novel products or processes, which we refer to as definition 2). In a small number of cases, we could not obtain information on the topic in dispute.

⁴² In about 10% of the cases, the original complaint was not available in Lex Machina or did not provide the information to assess item (a) in the list above. These were typically cases that were transferred to or from another district. In most cases, we are able to find the information in other case filings or in the docket of the companion case. In the case of two financial disputes, we are unable to assess whether they were innovative or not.

=Pure innovative TS cases (definition 1)	7	64
Patent cases	125	2692
-Hybrid cases (TS + patent)	0	30
=Pure patent cases	125	2662

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Schwartz, David L., Ted M Sichelman, and Richard Miller. 2019. "USPTO Patent Number and Case Code File Dataset Documentation." USPTO Economic Working Paper No. 2019-05, <u>https://ssrn.com/abstract=3507607</u>.

Appendix E: Financial Database Validation Analyses

This appendix describes a variety of exercises we completed to validate the quality of the data and our methodologies.

Auditing the Sorting between Finance and Non-Finance Patents

Within our initial sample, there were 66,534 patents assigned to CPC subclasses G06Q. Of these, 17,511 were assigned to CPC groups G06Q 20 or 40, and the remaining 47,023 to other groups. These patents were divided with random assignment, with 70% (45,174) of the patents as the training data, and 30% (19,360) patents as the testing data.

As is routine with machine learning models, after we estimated the model with the training data, we tested its accuracy using the testing data: that is, we used the testing data to quantify the extent to which the model successfully distinguished between patents that were actually in CPC groups G06Q 20 and 40 and those that were not. Our chosen model operated with about 90 percent sensitivity and specificity: that is, the true positive and true negative rates were both quite high.

Even so, the test set contained 1,426 patents (out of 14,106) that were not actually in CPC groups G06Q 20 and 40 that were predicted to be financial (false positives), and 526 patents in CPC groups G06Q 20 and 40 (out of 5,253) that were predicted to be non-financial (false negatives). (See the schematic below.) To determine whether these inaccuracies represented the performance limits of our model or suggested some noise in the primary CPC codes we used to classify patents, we had a research assistant audit a 10% random sample from each group of misclassifications (false positives and false negatives). He read the title and abstract (and more text if needed) and determined whether the patent is financial or not based on these descriptions.

		Negative	Positive	Total
Actual	Negative Negative (12,680)		False Positive (1,426)	Actual Negative (14,106)
	Positive	False Negative (526)	True Positive (4,727)	Actual Positive (5,253)

The research assistant found that 61 out of 143 (43 percent) allegedly false positives were actually financial patents, and that 39 out of 53 (74 percent) allegedly false negatives were actually not financial patents. In other words, of the patents not included in CPC groups G06Q 20 and 40 but predicted to be financial, 43% percent turned out to actually be financial upon an examination of the patent text itself. Similarly, of the patents included in CPC groups G06Q 20 and 40 but predicted to be not financial, 74% turned out to be not financial. These results broadly suggest some error in the classification for marginal patents—those patents for which a judgment call is difficult.

These results raised the concern that the initial classification of patents in the training and test sets based on CPC codes could be erroneous. To satisfy ourselves that this was not the case, and that the large inaccuracies only affected approximately 10 percent of the data (the marginal patents), we had the same research assistant do a similar audit for the "true positives" and "true negatives": those patents that the model correctly predicted were or were note in CPC groups 20 and 40. He found that 231 out of 254 (91%) true positives (patents with CPC codes in G06Q 20 or 40 and predicted to be financial by the model) were actually financial patents. He also found that only 4 out of 95 (96%) true negatives (patents not in G06Q 20 or 40 and predicted to be "not fintech" by the model) were financial in nature. These accuracy levels were much higher than the 43 and 74 percent accuracies found in samples of false positives and negatives, and suggested that the low levels of accuracy in those samples stemmed from the difficulty of determining whether the patent is financial or not, rather than from any major flaw in the CPC classifications.

We then used the model to identify financial patents with a primary subclass or group outside of G06Q, where we believed (after analyzing other common CPC codes for known financial patents) finance patents could be located. We did not generate a test set to evaluate the performance of our model when deployed to patents with a primary CPC subclass outside of G06Q. Instead, we had a research assistant audit small samples of patents that were predicted to be financial or not financial when we deployed the model on these supplemental subclasses. He found that 23 out of 67 (34%) patents identified as financial were actually financial, and that 51 out of 53 (96%) identified as not financial were actually not financial. For these patents, our model appeared to have high sensitivity but relatively poor specificity, a common problem.

This was expected because we did not include any financial patents with a primary CPC subclass outside of G06Q in the treatment group when we built and tested the machine learning model. Hence just like many other in many tests and applications, it is easier to precisely eliminate negative cases than identify positive ones. As a result, our list of financial patents should be considered a broad and perhaps over-inclusive sample of true financial patents.

Assessing an Alternative Assignment Method

We also explored whether an alternative approach using patents assigned to fintech firms would have generated better results. Using the lists mentioned above, we had a research assistant manually search Google patents to identify the standardized assignee names of known fintech firms in the underlying IFI Claims patent data. Through these searches, and additional web searches and examinations of patent filings, our assistant was able to identify common spellings of each firm and some of its publicly known subsidiaries.

Using this list of standardized firm names, we identified 1,065 patents assigned to known fintech firms. We found that only 32 percent of these patents ended up on our final list of financial patents using the methodology described above. Another research assistant audited a random sample of 101 of the patents assigned to known fintech firms that did not end up on our list. He found that only six of these patents were indeed financial. These results confirmed

our belief that using firm names to label financial patents would not be appropriate in this context.

Issues with Proper Assignee Names

After pulling over patent-level data from Derwent, we noticed that Derwent often carried the inventor or applicant over into the assignee field in many instances in which it was not appropriate to do so (i.e., when the inventors were not assignees in the raw USPTO data from IFI). We therefore audited a two percent sample of the financial patents with multiple assignees (a sample of 150 patents) by having research assistants categorize the nature of the discrepancies between Derwent data and raw patent data. We found that in most instances (136 out of 150), the data either agreed (and contained only inventors or corporate entities as assignees) or the data disagreed but Derwent simply appended the inventor names onto a list of true corporate assignees. In some instances (13 out of 150), the raw data contained no assignee but the Derwent data listed all the inventors, a result which is consistent with the pre-2012 rule vesting ownership in inventors in the absence of a written assignment (see Manual of Panel Examination Practice, 8th Edition, Section 301, 37 C.F.R. 3.1(I)).

Reflecting these findings, we purged all inventor names from the assignee field except when the only assignees were the inventors. In one instance (0.7 percent of the sample), in actuality the patent listed both the inventor and corporate entities as assignees. In this instance, our process caused a discrepancy by purging the individual inventor from the list of assignees. These incorrect corrections affected only a very small portion of the data set.

Capital IQ Identifier Issues

We were concerned that the Capital IQ identifiers used in our financial patent dataset might be associated with subsidiaries rather than the parent companies, despite our efforts to ensure matching to the ultimate parent company. By looking at the list of 2011 Systemically Important Financial Institutions (listed at the last page of <u>https://www.fsb.org/wpcontent/uploads/Policy-Measures-to-Address-Systemically-Important-Financial-Institutions.pdf</u>), we identified 1,611 patents with a first assignee among the SIFI list. After auditing this list, we found that 1,563 out of 1,611 SIFI patents (97 percent accuracy) were assigned to the correct parent companies. And if we only looked at the SIFIs who were awarded more than 20 patents (their granted patents covered 95% of all SIFI patents), the accuracy rate was further increased to 98.7% (1511 out of 1531 patents were correctly assigned).

We identified two reasons for the erroneous matching with subsidiaries instead of parent companies. First, the UVA dataset on which we heavily relied has some errors. For instance, the UVA dataset assigns separate identifiers for "Morgan Stanley Capital International Inc." and "Morgan Stanley," though all patents associated with these companies should be assigned to a single parent company identifier. Second, our fuzzy name matching efforts also had some errors. For example, we matched some patents to the subsidiary "Credit Suisse Securities (USA) LLC" instead of its parent "Credit Suisse."

In total, 5 SIFI patents were not assigned to any identifiers by either UVA dataset or fuzzy name matching method, and 43 SIFI patents were wrongly assigned to the subsidiaries rather

than their corporate parents. We did not see any time distribution differences among those problematic patents. In sum, though our analysis of the SIFI patents suggests that there were some errors in our dataset when it comes to matching patents with parent companies, they errors affected only a small percentage of the data and should not have affected the analysis materially.

Appendix F: CSA Database Construction

The U.S. Bureau of the Census has used varying definitions for urban areas over time and has periodically redrawn the boundaries of these regions. We attempted to be as consistent as possible in defining geographic regions, subject to the limitations of data availability.

First, we associated each patent to a local geography using the county FIPS of the first inventor, provided by Patentsview. We then matched county FIPS to 2013 CSA regions using Census/NBER crosswalk discussed in the text of the paper. We then aggregated simple and weighted patent counts to the CSA-year level using this mapping. Patents associated with counties outside of the 166 CSAs (we excluded the three CSAs in Puerto Rico) were collectively associated with an aggregate "Not a CSA Region." The 2013 CSAs include all major finance patenting hubs with the exception of Austin, Texas: the Census Bureau recognized the Austin-Round Rock-Marble Falls, TX CSA in the late 2000s and early 2010s, but then eliminated it after the criteria for selecting CSAs changed.

We similarly obtained from VentureXpert county-by-county data (and the associated FIPS code) for venture capital financings (both for all transactions and for finance transactions) between 2000 and 2018. We computed the number of deals and transaction volume using the 2013 mapping from counties to CSAs.

We then collected additional annual data about each CSA that existed in 2013, including: (1) total population, (2) total number of households, (3) median household income, (4) total adult (aged 25 or older) population, (5) total adult population with an education level of a bachelor's degree or higher, (6) the number of non-employer establishments in finance or insurance (NAICS 52), and (7) the number of employees in finance or insurance.

For census year 2000, the data were collected at the county level and aggregated to the CSAlevel using the Census/NBER crosswalk. For variables (1)-(2) and (4)-(7), the data were aggregated with simple summations. For median household income, the CSA-level value is a weighted mean of the county median incomes using county households as weights.

For non-decennial census years, these data were not available for the county level in most cases. Variables (1) through (5) above were reported annually for each CSA, however, in the American Community Survey. These data at the CSA level, however, had three limitations:

- The ACS data for 2001-04 (as well as 2000, which we did not use) was removed by the Census Bureau from its online servers due to reliability concerns.
- As noted above, the Census Bureau adds and sometimes removes urban areas from its list of CSAs. The ACS data were reported only for CSAs that were on the Census Bureau list at the time.
- The boundaries of CSAs may change over time.

As a result, for variables (1)-(5), we generally imputed missing values using a simple linear regression based on non-missing data in instances where the variable had two or more observations. If only one observation of a variable within a CSA was available, we attributed that value to all years in which the variable is missing, making the variable constant over time.

Variables (6)-(7) were taken from the quinquennial economic census from years 2002, 2007, 2012, and 2017. We generally imputed 2000 and 2001 observations in a CSA using the 2002 observation, and the 2018 observation using the 2017 observation. For years 2003-06, 2008-11, and 2013-16, we generally imputed missing values by fitting a linear regression using data from 2002, 2007, 2012, and 2017.

Appendix G: Returns Analysis

Before launching the analysis, we undertook a variety of preparatory steps. The 2019 version of the Kogan et al. extended data was used for the matching between patents awarded to public firms with the corresponding Kogan values. For each firm in every year from the application year of their first financial patent through 2018, we computed the total number of ultimately successful patent awards filed in that year, the total adjusted citations of those patents (adjusted by mean citation level for patents filed during the same application year by all firms), and the ratio of the mean Kogan value of these patents and R&D expenditure. We made these calculations separately for financial and non-financial patents. R&D expenditures were typically available only on a firm-year level, so we apportioned them based on the proportion of successful financial and non-financial patent applications for each firm in every year.

We then calculated the R&D stock, patent award stock, and citation-weighted patent stock as follows:

$$K_t = (1 - \delta)K_{t-1} + C_t$$
 (12)

with δ being the depreciation rate, set at 15% (following Hall, Jaffe, and Trajtenberg, 2005), C_t being the innovation measure at time t (i.e. R&D, patent applications, and citation-weighted filings), and K_t being the corresponding stock measure at time t.⁴³ The market value and book value of equity were calculated using raw data from Compustat.⁴⁴ In the end, our panel data used in the following analyses consisted of 2,808 observations at firm-year level from 246 firms.

Table A-19 gives the summary statistics of the key variables used in the analysis. From the table, it is clear that measures of innovation were highly positively skewed, as the means were much larger than the medians with large standard deviations. This pattern was consistent with the observations in Hall, Jaffe, and Trajtenberg (2005). The mean market-to-book value was 5.29, which is higher than the 1.73 in Hall, Jaffe, and Trajtenberg (2005). One possible reason was that Hall, Jaffe, and Trajtenberg (2005) uses firms in the manufacturing industry only, while our data sample covers all firms with at least one financial patent. The difference may also reflect the overall appreciation in the valuation of technology firms in recent years. In addition, the distribution of mean Kogan/R&D ratio was more skewed for financial patents, with a higher standard deviation, mean, and median. The mean Kogan/R&D ratio for financial patents is 2.27 and the median 0.60. Non-financial patents had a mean Kogan/R&D ratio of 0.10 on average and 0.02 at the median.

⁴³ We do not use observations prior to 2000 in calculating the stock measures.

⁴⁴ The market value was obtained using price times common shares outstanding at the end of fiscal year. The book value of equity was calculated as the book value of stockholders' equity, plus balance sheet deferred taxes and investment tax credits, minus the book value of preferred stock. If some of these variables were missing, book equity was calculated as the book value of assets minus total liabilities. This method of calculating the market (Q) and book values (q) of equity follows Fama and French (1992) and was slightly different from that used in Hall, Jaffe, and Trajtenberg (2005) because not all variables listed could be obtained from Compustat. We dropped observations with negative book value. This is because a negative book value and hence a negative market-to-book ratio gives a missing logarithmic result, which is omitted in the regression analysis described in estimating equation (13).

We then emulated Hall, Jaffe, and Trajtenberg (2005) and explored how Tobin's q is affected by the stocks of R&D, patents, and citation-weighted awards for financial and non-financial firms. Following Table 3 of that paper, Table A-20 gives the non-linear regression results using equation (13), but now examining financial and non-financial patents separately. This shows the market value of firms as a function of assets and the stock of R&D, patents, and citations:

$$logQ_{it} = logq_{t} + log\left(1 + \gamma_{1}^{Fin} \frac{R \& D_{it}^{Fin}}{A_{it}} + \gamma_{2}^{Fin} \frac{PAT_{it}^{Fin}}{R \& D_{it}^{Fin}} + \gamma_{3}^{Fin} \frac{CITES_{it}^{Fin}}{PAT_{it}^{Fin}} + \gamma_{1}^{Nonfin} \frac{R \& D_{it}^{Nonfin}}{A_{it}} + \gamma_{2}^{Nonfin} \frac{PAT_{it}^{Nonfin}}{R \& D_{it}^{Nonfin}} + \gamma_{3}^{Nonfin} \frac{CITES_{it}^{Nonfin}}{PAT_{it}^{Nonfin}}\right) + \varepsilon_{it}$$

$$(13)$$

Emulating column (2) in Table 3 of the Hall paper, we included dummy variables indicating whether financial or non-financial R&D expenditures in that year were zero and application year fixed effects. We report the results using firms with at least one, five, and ten financial patents applied between 2000 and 2018.

We then computed the elasticity of firm value to citation intensity. We calculated this in two ways. We first looked at the direct effect of citation intensity on firm value:

$$\frac{\partial logQ}{\partial (CITES^{Fin}/PAT^{Fin})} = \frac{\widehat{\gamma_3}^{Fin}}{1+\hat{X}}, \quad \frac{\partial logQ}{\partial (CITES^{Nonfin}/PAT^{Nonfin})} = \frac{\widehat{\gamma_3}^{Nonfin}}{1+\hat{X}} (14)$$

with

$$\hat{X} = \widehat{\gamma_1^{Fin}} \frac{R \& D^{Fin}}{A} + \widehat{\gamma_2^{Fin}} \frac{PAT^{Fin}}{R \& D^{Fin}} + \widehat{\gamma_3^{Fin}} \frac{CITES^{Fin}}{PAT^{Fin}} + \gamma_1 \widehat{Nonfin} \frac{R \& D^{Nonfin}}{A} + \gamma_2 \widehat{Nonfin} \frac{PAT^{Nonfin}}{R \& D^{Nonfin}} + \gamma_3 \widehat{Nonfin} \frac{CITES^{Nonfin}}{PAT^{Nonfin}} \tag{15}$$

Second, as described in the text, we looked at the change in market value with respect to change in R&D through the impact of R&D on mean citation intensity.

We examined the robustness of the results in Table 12 in several ways. The first of these was to address concerns about the measures of patent and citation stock by only evaluating yearly observations through 2013, in order to ensure that all patents have had sufficient time to garner citations. We also evaluated the semi-elasticities at the median, rather than the mean. We found the changes make little difference to the results.. Third, we reran the regressions, now using a common R&D measure in the regressions (rather than the imputed financial and non-financial amounts), but allowing the patent and citation measures to differ for financial and non-financial analyses. We again got similar results. Tables A-21 and A-22 summarize two such robustness analyses.

References Not Cited in the Paper

Fama, Eugene F., and Kenneth R. French, 1992. "The Cross-Section of Expected Stock Returns." *Journal of Finance* 47 (2): 427-465.

Figure A-1. Trends in Kogan et al. (2017) value and patent citations by cooperative patent classification (CPC) category and award year. We use all patents applied for between 2000 and 2018 and awarded by February 2019. There are nine main categories under the CPC scheme. We separate all of our finance patents and classify them into a new category. Panel A depicts the log of the top 5th percentile of Kogan et al. (2017) value by CPC category over time, and Panel B depicts the log of the top 5th percentile of patent citations (through October 2019) by CPC category over time.



Panel A: Top 5th percentile of Kogan et al. (2017) value over time, by patent's CPC category.

Panel B: Top 5th percentile of patent citations over time, by patent's CPC category.



Figure A-2. The extent of patent revision between application publication and award, over time. Panel A reports the change in the number of independent claims at the time of application publication and award, for finance and non-finance patents. Panel B reports the change in the length of the shortest independent claim at these two points, for finance and non-finance patents. The mean values are presented by year of award.





Panel B. Change in independent claim length.



Figure A-3. Financial patents supervised machine learning flow chart. The figure presents how we predict financial patents using supervised machine learning. First, the labeled patents (financial data and non-financial data) are divided into training data (70%) and test data (30%). Then the machine is trained using the training data. Then different ML models are compared and the best model is selected as our prediction model. Finally, the unlabeled supplemental patents are used as the input of the prediction model, and the predicted labels of these patents are obtained.



Figure A-4. Financial patents machine learning model architecture. The figure presents the structure of our final machine-learning model. Compared to the text-only model, the text-inventor model slightly decreases sensitivity from 91.3 to 89.9 percent (a drop of 1.4 percentage points), but significantly improves specificity from 85.3 to 90.0 percent (an increase of 4.7 percentage points). With about 90 percent sensitivity and specificity, respectively, we consider this model to be reliable and scalable for predictions.



Figure A-5. Fuzzy name matching between assignee names and Capital IQ names. This figure presents how we use a Levenshtein distance-based fuzzy name matching techniques to match the unmatched assignee names with 12 million firm names in the Capital IQ database. The Capital IQ database was divided into three subsets, with four million company names in each subset. After examining the data, we determine that matches in which the matching score is 0.95 or higher were so accurate that they could be adopted without further scrutiny. Similarly, matches with scores below 0.8 were so poor that they could be rejected outright. For matches with scores between 0.8 and 0.95, the results were inspected to determine which is appropriate. In the last step, the high confidence results are merged.



Figure A-6. An overview of the financial dataset construction procedure. The first step in our process was to obtain additional patent-level data on financial patents from Derwent. We obtained from Patentsview the patent assignee type and a host of other information. Then the assignee's Capital IQ ID was obtained from either the UVA dataset or fuzzy name matching with Capital IQ company names. The detailed Capital IQ data were merged using a crosswalk file. Finally, we used keywords to describe the patent.



Figure A-7. Decomposition of financial patenting. The charts depict the results of a regression analysis, where the dependent variable is the number of financial patents awarded in each year-assignee firm industry-patent type-inventor location cell. The charts depict the interactions between year and assignee industry (Panel A, relative to "IT and Other Industries") and inventor location (Panel B, relative to "Non-U.S. Inventors").



Panel A: Financial patenting by assignee industry

Panel B: Financial patenting by geography



Figure A-8. Banks' finance patenting share and the CSA's regulatory burden (measured using the three metrics used in Table 8). The x-axis reports the CSA-level regulatory burden between 2008 and 2015; the y-axis, the bank's share of finance patenting between 2008 and 2018 (calculated as the total number of finance patent applications by banks divided by the total number of finance patent applications by all kinds of firms).



Panel A: Change in bank capital ratio

Panel B: Mortgage servicing rights (MSR) percentage of Tier 1 capital



Figure A-8 (continued).



Panel C: Share of loan originations in 2008 that were within the purview of the Office of Thrift Supervision

Figure A-9. Payments firms' finance patenting share and a state's technological positioning (measured by two measures used in Table 9). The x-axis reports a given state's average technological positioning between 2008 and 2018 (calculated using average Overall Technology and R&D Input indices between 2008 and 2018 from the STSI data provided by Milken Institute); the y-axis, a given state's total share of finance patents from payment firms between 2008 and 2018 (calculated as the total number of finance patents by payment firms divided by the total number of finance patents by all kinds of firms).



Panel A: Overall technology index

Panel B: R&D input index



Figure A-10. Trends in patent citations to academic articles in finance patents. The figure presents the number of academic citations per finance patent over time, to publications in business, economics, and finance, information technology, and other fields, by application year, normalized by the number of academic citations in non-finance patents. Each series is set to 100 for applications in the year 2000.



Table A-1. The extent of patent revision between application publication and award. The table reports the number of independent claims at the time of the application publication and award, the length of the shortest independent claim at these two points, and the change in these measures for finance and non-finance patents. The sample consists of all patents applied for between 2000 and 2014, and issued by February 2019 with an original review by the USPTO. It reports as well the significance of t-tests of the equality of these measures for finance and non-finance patents. * denotes statistical significance at the 10% level; ** at the 5% level; and *** at the 1% level.

	Finance Patents	Non-Finance Patents
Application publication		
Count of independent claims	3.60	3.00***
Length of shortest independent claim	117.60	111.52**
Patent		
Count of independent claims	3.07	2.66***
Length of shortest independent claim	201.18	160.55***
Change, count of independent claims	-0.53	-0.33***
Change, length of shortest independent claim	83.58	49.04***
Count of patents	15,922	2,600,032

	Lerner (2002) sample	This sample
Number of patents:	445	24,255
Patent age:		
First Application Year	1968	2000
Last Application Year	1999	2018
First Award Year	1971	2001
Last Award Year	2000	2019
Median Application Year	1995	2009
Median Award Year	1998	2013
First inventor foreign:	13.9%	21.0%
First inventor U.S. location:		
East North Central	10.4%	14.1%
East South Central	0.3%	0.6%
Middle Atlantic	27.4%	16.7%
Mountain	4.2%	7.1%
New England	10.4%	7.3%
Pacific	23.0%	27.5%
South Atlantic	15.7%	15.4%
West North Central	2.6%	4.4%
West South Central	6.0%	6.9%
Assignee type:		
U.S. corporation	62.5%	81.3%
Foreign corporation	12.6%	17.4%
Individual	24.9%	8.7%
U.S. government	0.0%	0.1%
Foreign government	0.0%	0.0%
U.S. university	0.0%	0.2%
Foreign university	0.0%	0.1%
Assignee corporate type:		
Banking	18.5%	7.5%
Capital markets	18.5%	7.6%
Other finance	10.7%	8.6%
IT	33.8%	39.1%
Payments	3.9%	10.3%
Other	14.6%	26.9%
Mean impact:		
Citation weight	1.97	1.25
Kogan et al. weight	63.41	23.61
Kelly et al. weight	2.62	0.86

Table A-2. Comparison of the finance patent samples in Lerner (2002) and this paper. Information is derived from Patentsview, as well as the methodologies described in the paper.

Top 3 assignees:		
	Merrill Lynch	Bank of America
	Citigroup	Trading Technologies International
	Hitachi	Visa

Note: The assignment of patentee type differs slightly from Lerner (2002), as this classification is now based on USPTO reporting in Patentsview. The 2002 paper classified patents based on the author's own research. In particular, a small number of patents that were assigned to holding companies associated with a single inventor were classified in that paper as being individual patents, but by the USPTO (and Patentsview) as corporate ones.

Table A-3. List of keywords.

Accounting	Consumer Banking	Communications	Cryptocurrencies	vptocurrencies Currency		Investment Banking
Accounting	Bridge Finance	Broadcast	Altcoin	Currency Conversion	ETF	Asset Analysis
Accounts Payable	Commercial Loan	Broadcasts	Bitcoin	oin Exchange Rate		Asset Characterization
Accounts Receivable	Covenant	Communication	Blockchain	Blockchain Foreign Exchange		Bid Ask
Audit	Debtor Finance	Communications	Cryptocurrency	Cryptocurrency Forex		Bond
Auditor	Debtor in Possession	Message	Distributed Ledger	Swap	Private Equity	Call Option
Bookkeeper	Default		Initial Coin Offering		Venture Capital	Chinese Wall
Budget	Event	News Feed	Token			Derivative
Budgeting	Indicator Lending Rate	News Feeds				Dummy Order
Cash Flow	Interest Coverage					Gilt
Controller	Letter Of Credit					Hair Cut
FIFO	Line of Credit					Hidden Liquidity

Financial Controls	Material Adverse Change			Initial Public Offering
First in First Out	Sweep Account			Liquidity Pool
Forecasting	Term Loan			Liquidity Provider
Free Cash Flows	Zero Balance Account			Margin
GAAP				Moving Average
Generally Accepted Accounting Principles				Option
Gross Margin				Order Book
Information System				Price Level
Interest Coverage				Put Option
Inventory				Short Selling
Last In First Out				Trading Protocol
LIFO				Valuation
Net Present Value				

Net Working Capital			
Payable			
Payback			
Payroll Taxes			
Quick Ratio			
Working Capital			

Table A-3 (continued).

Insurance	Passive Funds	Payments	Real Estate	Retail Banking	Security	Wealth Management
Actuarial	Index Fund	Authorized	Appraisal	ATM	Authentic	Active Management
Auto Insurance	Passive Fund	Card Reader	Cap Rate	Automatic Teller Machine	Authenticate	Asset Allocation
Beneficiary		Cash Register	Closing Costs	Availability Policy	Authenticating	Asset Class
Catastrophe Bond		Contactless	Closing Fee	Balance Transfer	Biometric	Back-End Load
Catastrophe Loss		Credit Transaction	Conforming Loan	Certificate Of Deposit	Cipher	Benchmark
Claims Adjustment		Customer	Cumulative Loan To Value	Check	Ciphers	Capital Appreciation
Coinsurance		Debit Transaction	Deed	Checking	Credential	Capital Preservation
Crash		Interbank Fee	Delinquency	Credit Score	Cryptographic	Custodian
Disability		Keypad	Dual Agency	Direct Deposit	Decipher	Financial Industry Regulatory Authority
Driving Behavior		Kiosk	Easement	Direct Payroll Deposit	Decrypt	FINRA
Driving Environment		Merchant	Eminent Domain	Interbank Fee	Decryption	Front-End Load

Earned Premium	NFC	Escrow	Money Market	Detection	Individual Retirement Account
Home Insurance	Payment	Eviction	NOW Account	Encrypt	Prospecti
Homeowners Insurance	Point of Sale	Foreclosure	Online Banking	Encryption	Prospectus
Indemnity	POS	Home Equity	Overdraft	Fraud	Target Date Fund
Insurance Risk		Home Warranty	Passbook	Fraudulent	Tax Avoidance
Life Insurance		Jumbo Loan	Savings	Identifier	Tax Benefit
Life Settlement		Loan To Value	Student Loan	Identity	Tax Cost
Long-Term Care		Mortgage	Time Deposit	Public Key	Tax Deduction
Malpractice		Non- Conforming Loan	Withdrawal Fee	Secure Key	Wrap Fee
Reinsurance		Prepayment		Security	
Structured Settlement		Real Estate Investment Trust		Spoofing	
Term Insurance		Realtor		Symmetric Key	
Umbrella Liability		Refinancing		Theft	

Vehicle Damage		REIT	Token	
		Tax Lien	Verify	
		Title Search		
		Zoning		

	Abstract	First 100 Words of Background	Entirety of Background Section	Entirety of Patent Text
Patents Searched	24288	5062	2107	1030
Keywords Found:				
0	5062	2107	1030	345
1	9179	1891	321	11
2	6805	866	263	28
3	2606	166	244	70
4	555	30	120	122
5	74	2	64	140
6	6	0	53	146
7	1	0	9	115
8	0	0	3	42
9	0	0	0	8
10	0	0	0	3

Table A-4. Searching strategy for patent categorization. We search each section of the patent in sequence, for those patents without a keyword match in the earlier sections. We classify the remaining 345 patents without a keyword match through a manual review of the patent text.

Table A-5. Number of keywords found. The table reports the number of cases with zero, one, and more than one keywords, and the mean number of keywords found.

Patent Section Examined:	Total Search Space	# with 0 Keywords	# with 1 Keyword	# with >1 Keyword	Mean Keyword Count for >1 Cases
Abstract	24288	5062	9179	10047	2.39
First 100 Words of Background	5062	2107	1891	1064	2.22
Entirety of Background Section	2107	1030	321	756	3.26
Entirety of Patent Text	1030	345	11	674	5.30

Table A-6. Decomposition of financial patenting. The table presents results of a regression analysis of finance patenting, where the dependent variable is the number of financial patents awarded in each year-assignee industry-patent type-inventor location cell. The table reports the results of F-tests of the joint significance of the various sets of independent variables.

Set of Independent Variables	F-statistic	p-Value
Year Fixed Effects	34.47	0.000
Assignee Industry Fixed Effects	110.82	0.000
Patent Type Fixed Effects	17.00	0.000
Inventor Location Fixed Effect	216.67	0.000
Year * Assignee Industry Fixed Effects	6.43	0.000
Year * Patent Type Fixed Effects	1.37	0.081
Year * Inventor Location Fixed Effects	11.45	0.000

Table A-7. Keywords associated with finance patents that we designated as consumer-oriented.

401k or 401(k) Annuity or annuities ATM or teller machine Auto[mobile] insurance or car insurance Auto[mobile] loan College savings Credit card Credit report Credit score Customer Debit card Defined benefit Defined contribution e-Commerce **Financial adviser Financial literacy** Health insurance Home equity Homeowner's insurance Identity theft Individual Life insurance Lottery payment Medical loan or medical debt Mobile phone Mutual fund Payday loan Pension Prepaid card Policy holder or policyholder Renter's insurance Retail Retirement account Reverse mortgage Savings account Social security Student loan or student debt Unemployment insurance

Table A-8. Software patents. The construction of the software measure is described in the text. The rows present the mean of the software measure in the sample, the correlation of the software variable with the application and award date, the assignee industry, and interactions. * denotes statistical significance at the 10% level; ** at the 5% level; and *** at the 1% level.

Mean	86.5%			
Correlation coefficient between patent type and				
Application date	0.137***			
Award date	0.146***			
Assignee in banking industry	0.020**			
Assignee in capital markets	0.068***			
Assignee in IT, payments, or other	-0.071***			
Correlation of IT/payment/other assignee and date				
for software patents				
Application date	-0.024***			
Award date	-0.026***			
Table A-9. Financial patenting in three key regions. Panel A presents the characteristics of patents applied for in each five-year period in San Jose-San Francisco-Oakland CSA; Panel B in the New York-Newark CSA; and Panel C in the Charlotte-Concord CSA. The table presents for finance patents applied for between 2000 and 2018 and awarded by February 2019 the share of all finance patents applied for from the region, the share of all finance patents assigned to a CSA, and the share of all finance patents assigned to a firm of a given type. We define mid-sized firms as those where the firm's revenue in the application year was more than \$100 million but less than \$10 billion, and small and large firms similarly. We then run a regression using each CSA in each five-year period as an observation, with the patent share in a given five-year period as the dependent variable and independent variables controlling for the CSA, the time tend, the interaction of these two measures, and various demographic characteristics of the CSA in that period. The t-statistic is from the interaction term. All shares are computed using patent counts, citation weights, and Kogan et al. (2017) weights. We assign patents based on the location of the first inventor.

Table A-9 (continued).

Panel A: San Jose-San Francisco-Oakland, CA CSA.

	2000-04	2005-09	2010-14	2015-18	t-stat
Unweighted					
Share of all patenting	8.5%	10.7%	15.7%	18.3%	20.37
Share of all CSA patenting	14.2%	16.9%	23.2%	28.0%	22.01
Normalized by CSA patenting of that	<u>type</u>				
Small firms	19.5%	18.6%	21.4%	25.0%	4.11
Medium firms	18.2%	28.8%	34.0%	48.6%	16.00
Large firms	10.7%	11.0%	26.0%	22.9%	4.55
SIFIs	3.7%	3.6%	6.2%	6.4%	4.42
Banking industry	4.6%	3.3%	6.3%	6.6%	3.03
Other finance industry	8.1%	4.2%	6.5%	2.9%	-3.67
Payment industry	15.3%	39.0%	58.0%	63.9%	8.02
IT/other industry	16.1%	18.5%	22.3%	23.5%	8.93
Cite weighted					
Share of all patenting	11.5%	16.2%	21.3%	21.5%	5.66
Share of all CSA patenting	16.7%	23.4%	28.4%	29.6%	5.71
Normalized by CSA patenting of that	type				
Small firms	21.2%	24.9%	26.9%	20.9%	-0.10
Medium firms	21.3%	45.8%	49.5%	72.4%	12.73
Large firms	10.2%	14.2%	30.6%	11.4%	0.58
SIFIs	6.2%	7.1%	8.4%	15.7%	4.34
Banking industry	5.4%	5.6%	8.9%	14.5%	5.52
Other finance industry	9.4%	5.3%	4.2%	0.0%	-7.97
Payment industry	26.4%	60.5%	72.1%	76.8%	4.81
IT/other industry	17.8%	21.7%	24.0%	33.8%	7.87
Kogan weighted					
Share of all patenting	8.4%	14.8%	25.0%	25.6%	7.41
Share of all CSA patenting	10.7%	18.7%	32.6%	34.4%	8.64
Normalized by CSA patenting of that	<u>type</u>				
Small firms	33.9%	42.2%	16.7%	0.0%	-4.07
Medium firms	19.6%	55.5%	38.0%	42.1%	1.15
Large firms	8.1%	6.3%	31.7%	32.6%	6.32
SIFIS	6.4%	5.1%	13.0%	15.1%	6.28
Banking industry	9.2%	5.9%	13.9%	14.9%	3.57
Other finance industry	2.5%	1.9%	3.5%	0.4%	-1.06
<i>.</i> Payment industry	11.4%	72.7%	63.4%	64.6%	2.08
IT/other industry	32.6%	35.6%	58.5%	40.4%	1.46

Table A-9 (continued).

Panel B: New York-Newark CSA.

	2000-04	2005-09	2010-14	2015-18	t-stat
Unweighted					
Share of all patenting	13.4%	11.6%	9.5%	5.7%	-8.49
Share of all CSA patenting	22.4%	18.4%	14.2%	8.7%	-15.74
Normalized by CSA patenting of that ty	/pe				
Small firms	14.4%	16.5%	14.3%	25.0%	2.59
Medium firms	15.6%	11.6%	9.8%	6.2%	-14.46
Large firms	32.0%	23.2%	15.6%	5.6%	-33.64
SIFIS	63.3%	33.4%	24.1%	4.0%	-13.42
Banking industry	27.6%	18.0%	12.5%	6.0%	-22.74
Other finance industry	56.1%	46.2%	33.0%	4.4%	-7.71
Payment industry	11.1%	6.7%	6.8%	5.8%	-4.82
IT/other industry	16.7%	13.7%	11.6%	11.4%	-10.89
.,,					
Cite weighted					
Share of all patenting	14.6%	7.8%	6.4%	5.7%	-5.04
Share of all CSA patenting	21.3%	11.3%	8.5%	7.8%	-5.01
Normalized by CSA patenting of that ty	/pe				
Small firms	5.0%	6.5%	22.7%	42.5%	6.43
Medium firms	16.2%	6.5%	4.1%	6.0%	-3.11
Large firms	33.1%	12.3%	7.1%	1.7%	-5.86
SIFIS	50.8%	12.4%	7.1%	7.7%	-3.12
Banking industry	34.5%	12.3%	9.4%	14.7%	-2.13
Other finance industry	54.1%	33.8%	9.6%	0.0%	-14.64
Payment industry	17.0%	3.1%	3.2%	5.7%	-2.17
IT/other industry	16.0%	10.2%	9.6%	15.0%	-0.68
in other modely	10.070	10.270	5.670	13.070	0.00
Kogan weighted					
Share of all patenting	34.6%	19.8%	14.4%	5.7%	-12.87
Share of all CSA patenting	44.2%	25.0%	18.9%	7.7%	-12.09
Normalized by CSA patenting of that ty	/pe	_0.070	_0.070	,.	
Small firms	28.2%	10.5%	6.6%	0.0%	-7.50
Medium firms	14.9%	12.9%	18.1%	12.0%	-0.90
Large firms	52.0%	29.1%	18.9%	6.5%	-12.70
SIFIS	57.7%	30.7%	24.0%	5 5%	-12.63
Banking industry	34 5%	19.2%	16 3%	6.0%	-11 90
Other finance industry	77.9%	65.8%	52.1%	4.8%	-5.64
Payment industry	16.1%	8 4%	13.2%	7.6%	-3 33
IT/other industry	7.4%	5.3%	5.8%	18.3%	-1.89

Table A-9 (continued).

Panel C: Charlotte-Concord CSA.

	2000-04	2005-09	2010-14	2015-18	t-stat
Unweighted					
Share of all patenting	0.3%	1.7%	2.3%	4.2%	13.52
Share of all CSA patenting	0.5%	2.7%	3.3%	6.5%	11.76
Normalized by CSA patenting of that type	<u>)</u>				
Small firms	0.0%	0.0%	0.0%	0.0%	-0.55
Medium firms	0.0%	0.2%	0.4%	0.3%	0.68
Large firms	0.7%	10.0%	11.0%	16.9%	8.36
SIFIs	2.3%	27.0%	36.1%	54.9%	16.63
Banking industry	3.1%	25.3%	33.1%	52.2%	17.95
Other finance industry	0.4%	1.0%	0.3%	1.0%	-0.75
Payment industry	0.0%	0.0%	0.6%	0.6%	1.54
IT/other industry	0.3%	0.3%	0.3%	0.7%	0.77
Cite weighted					
Share of all patenting	0.4%	1.5%	3.2%	1.6%	1.32
Share of all CSA patenting	0.6%	2.2%	4.3%	2.3%	1.31
Normalized by CSA patenting of that type	<u>!</u>				
Small firms	0.0%	0.0%	0.0%	0.0%	-0.60
Medium firms	0.0%	0.0%	0.0%	0.0%	0.16
Large firms	1.2%	9.0%	6.9%	4.7%	0.59
SIFIs	3.8%	32.3%	43.7%	63.0%	14.73
Banking industry	4.5%	25.4%	38.1%	58.2%	35.36
Other finance industry	0.8%	0.8%	0.0%	0.0%	-2.42
Payment industry	0.0%	0.0%	0.0%	0.0%	0.24
IT/other industry	0.2%	0.1%	3.2%	0.4%	0.64
Kanan wainktad					
Kogan weightea Chara af all ratarting	0 40/	11.00/	0.70/	12 70/	4 4 5
Share of all patenting	0.4%	11.0%	8.7%	13.7%	4.15
Share of all CSA patenting	0.5%	13.9%	11.4%	18.3%	4.69
Normalized by CSA patenting of that type	<u> </u>	0.00/	0.00/	0.00/	0.05
Small firms	0.0%	0.0%	0.0%	0.0%	-0.25
Medium firms	0.0%	0.1%	3.8%	1.1%	1.33
Large firms	0.7%	18.5%	13.6%	22.8%	4.07
SIFIs	0.9%	22.9%	23.6%	39.5%	8.94
Banking industry	1.3%	26.8%	25.2%	39.2%	6.08
Other finance industry	0.0%	0.1%	0.0%	1.3%	0.32
Payment industry	0.0%	0.0%	3.3%	1.8%	2.31
IT/other industry	0.0%	0.0%	0.1%	0.1%	0.32

Table A-10. Financial patenting by U.S. region over time. The table presents the share of financial patenting by region for the nine U.S. Census regions. All analyses use patents applied for between 2000 and 2018 and awarded by February 2019. The table computes shares using patent counts, citation weights, and Kogan et al. (2017) weights. We assign patents based on the location of the first inventor.

	Patent Count			(Citation Weighted			K	Kogan et al. Weighted			
	2000-	2005-	2010-	2015-	2000-	2005-	2010-	2015-	2000-	2005-	2010-	2015-
	04	09	14	18	04	09	14	18	04	09	14	18
East North Central	8.2%	11.0%	13.0%	10.9%	9.2%	9.2%	13.6%	27.9%	4.7%	6.9%	6.2%	6.1%
East South Central	0.6%	0.6%	0.4%	0.3%	0.5%	0.6%	0.2%	0.2%	0.4%	0.2%	0.3%	0.1%
Middle Atlantic	15.6%	14.9%	12.0%	7.1%	16.4%	12.4%	13.7%	9.3%	42.4%	26.8%	19.3%	7.3%
Mountain	5.9%	5.9%	5.2%	5.3%	7.5%	5.8%	4.0%	2.8%	6.3%	5.6%	3.1%	2.7%
New England	6.4%	5.5%	6.0%	4.5%	6.5%	4.0%	4.0%	2.9%	4.7%	3.2%	3.9%	2.2%
Pacific	16.7%	19.2%	25.5%	26.9%	22.4%	27.4%	34.6%	32.6%	11.3%	19.0%	32.7%	33.5%
South Atlantic	11.2%	12.3%	11.7%	15.2%	12.5%	15.4%	11.8%	6.4%	15.1%	21.1%	16.9%	23.9%
West North Central	3.2%	4.0%	3.3%	3.3%	2.6%	4.0%	3.2%	1.0%	3.6%	4.8%	4.1%	7.2%
West South Central	5.4%	6.6%	4.8%	4.4%	5.6%	9.0%	5.5%	7.4%	5.8%	5.3%	2.8%	4.1%
Outside the US	26.8%	20.0%	18.1%	22.1%	16.8%	12.2%	9.4%	9.5%	5.7%	7.1%	10.7%	12.9%

Table A-11. OLS regression analyses of the impact of regulatory actions on financial patenting. Panel A uses observations at the state-industry (banks, other finance, payments, and IT/other)-patent type (banking, payments, and other)-application year (2000-18) level, for a total of 11,400 observations. The dependent variable is the number of patents in a given cell. The key independent variables are the count of number of banking enforcement actions in a given state in year t interacted with assignee industry and patent type. Panel B is similar to Panel A, but the dependent variable is the number of average citations of patents in a given cell. All regressions include fixed effects for time, state, patent type, and assignee industry. Only selected interactions are reported. Clustered standard errors (at the state-year level) are in brackets; * denotes statistical significance at the 10% level; ** at the 5% level; and *** at the 1% level.

		Patent count	
	Time t	Time t+1	Time t+2
Enforcement Actionst x Bank Firms	-0.471***	-0.491***	-0.497***
	[0.087]	[0.095]	[0.105]
Enforcement Actionst x Other Finance Firms	-0.378***	-0.391***	-0.397***
	[0.085]	[0.097]	[0.109]
Enforcement Actionst x Payments Firms	-0.393***	-0.404***	-0.397***
	[0.064]	[0.069]	[0.075]
Enforcement Actionst x Banking Type	-0.063**	-0.074**	-0.087**
	[0.031]	[0.035]	[0.038]
Enforcement Actionst x Other Type	-0.004	-0.000	0.001
	[0.008]	[0.008]	[0.008]
Observations	11,400	11,400	11,400
R-squared	0.423	0.431	0.434
Time FEs	Yes	Yes	Yes
State FEs	Yes	Yes	Yes
Patent type FEs	Yes	Yes	Yes
Assignee industry FEs	Yes	Yes	Yes
Data sample period	2000-2018	2000-2018	2000-2018
Test Equality of Coefficients (F Statistic Report	ed)		
Interaction with Bank vs. IT/Other	29.50***	26.84***	22.43***
Interaction with Other Finance vs. IT/Other	19.77***	16.19***	13.17***
Interaction with Payments vs. IT/Other	37.26***	34.38***	28.31***
Interaction with Banking vs. Payment Type	4.06**	4.57**	5.17**
Interaction with Other vs. Payment Type	0.21	0.00	0.02

Panel A: State formal enforcement actions and financial patenting.

Table A-11 (continued).

Panel B: State formal enforcement actions and financial patent quality.

	Patent quality				
	Time t	Time t+1	Time t+2		
Enforcement Actions _t x Banking Type	-0.006	-0.023	0.001		
	[0.019]	[0.019]	[0.017]		
Enforcement Actions _t x Other Type	0.027	-0.004	0.026		
	[0.031]	[0.030]	[0.031]		
Observations	11,400	11,400	11,400		
R-squared	0.158	0.159	0.160		
Time FEs	Yes	Yes	Yes		
State FEs	Yes	Yes	Yes		
Patent type FEs	Yes	Yes	Yes		
Assignee industry FEs	Yes	Yes	Yes		
Data sample period	2000-18	2000-18	2000-18		
Test Equality of Coefficients (F Statistic Reported)				
Interaction with Banking vs. Payment Type	0.10	1.47	0.00		
Interaction with Other vs. Payment Type	0.75	0.02	0.68		

Table A-12. OLS regression analyses of the impact of regulatory actions on financial patenting, by patent type in given industries. Panel A and Panel B are identical to those in Table 8 and Panel A of Table A-11, but with the addition of interactions between the banking and payments industry dummies and the patent type dummy. (The other finance and IT/other industry groupings are consolidated in this analysis.) Only selected interactions are reported. Clustered standard errors (at the CSA level (Panel A) and state-year level (Panel B)) are in brackets; * denotes statistical significance at the 10% level; ** at the 5% level; and *** at the 1% level.

		Patent count	
	(1)	(2)	(3)
Δ Capital Ratio x Banks x Banking Type	-2.754*		
	[1.479]		
Δ Capital Ratio x Payments x Payment Type	-0.061		
	[1.329]		
% MSR x Banks x Banking Type		-2.812*	
		[1.676]	
% MSR x Payments x Payment Type		-1.069	
		[1.818]	
% OTS x Banks x Banking Type			-5.129**
			[2.291]
% OTS x Payments x Payment Type			-0.030
			[2.926]
Observations	1,452	1,452	1,452
R-squared	0.466	0.466	0.467
CSA FEs	Yes	Yes	Yes
Patent type FEs	Yes	Yes	Yes
Assignee industry FEs	Yes	Yes	Yes
Assignee industry x Patent type FEs	Yes	Yes	Yes
Data Sample Period	2008-15	2008-15	2008-15

Panel A: CSA-Level regulatory burdens and financial patenting, by patent type in given industries.

Table A-12 (continued).

Panel B: State enforcement actions and financial patenting, by patent type in given industries.

	Patent count			
	Time t	Time t+1	<i>Time t+2</i>	
Enforcement Actions _t x Banks x Banking Type	-0.179***	-0.190***	-0.195***	
	[0.032]	[0.036]	[0.038]	
Enforcement Actionst x Payments x Payment Type	-0.035	-0.027	-0.011	
	[0.030]	[0.032]	[0.033]	
Observations	11,400	11,400	11,400	
R-squared	0.362	0.364	0.365	
Time FEs	Yes	Yes	Yes	
State FEs	Yes	Yes	Yes	
Patent type FEs	Yes	Yes	Yes	
Assignee industry FEs	Yes	Yes	Yes	
Assignee industry x Patent type FEs	Yes	Yes	Yes	
Data Sample Period	2000-18	2000-18	2000-18	

Table A-13. The impact of technological positioning on financial patenting. The table is similar to Table 9, but with the key independent variables being interactions between (a) the other four STSI technology indexes in a given state in year t and (b) assignee industry. All regressions include fixed effects for time, state, patent type, and assignee industry. Only selected interactions are reported. Clustered standard errors (at the state-year level) are in brackets; * denotes statistical significance at the 10% level; ** at the 5% level; and *** at the 1% level.

		Patent count					
	(1)	(2)	(3)	(4)			
Technology Concentration x Payments Firms	0.038***						
	[0.015]						
Technology Concentration x IT/Other Firms	0.179***						
	[0.035]						
Entrepreneurial Capacity x Payments Firms		0.047***					
		[0.017]					
Entrepreneurial Capacity x IT/Other Firms		0.240***					
		[0.041]	0 005**				
Technology Workforce x Payments Firms			0.035**				
			[0.014]				
Technology workforce x 11/Other Firms			[0.024]				
Human Canital Investment x Payments Firms			[0.054]	0 032***			
numan capital investment x rayments rinns				[0 009]			
Human Canital Investment x IT/Other Firms				0 109***			
				[0.024]			
				[0:02:1]			
Observations	6,600	6,600	6,600	6,600			
R-squared	0.395	0.402	0.390	0.362			
Time FEs	Yes	Yes	Yes	Yes			
State FEs	Yes	Yes	Yes	Yes			
Patent type FEs	Yes	Yes	Yes	Yes			
Assignee industry FEs	Yes	Yes	Yes	Yes			
Data sample period	2008-18	2008-18	2008-18	2008-18			
Test Equality of Coefficients (F Statistic Report	ed)						
Interaction with Payments vs. Bank	6.90***	7.12***	6.16**	12.23***			
Interaction with IT/Other vs. Bank	26.52***	33.94***	27.09***	20.87***			

Table A-14. Movement of financial patentees. Panel A reports the number of firms and the number of total patents awarded to these firms, divided into those that filed a successful financial patent application in 2000-04 but not 2015-18, those that did so in 2015-18 but not 2000-04, those that did so In both periods, and the subset that moved their modal location of patenting between these two periods. In Panel B, for the switchers only, the three largest (patent-weighted) departure and destination CSAs are also reported. We assign patents based on the location of the first inventor.

Panel A: Breakdown of firms and associated patents.

	Firms	Total patents
Firms that patented in 2000-04, but not in 2015-18	792	3876
Firms that patented in 2015-18, but not in 2000-04	306	1895
Firms that patented in 2000-04 and in 2015-18	129	11206
Of these, firms that shifted modal CSA	28	3640

Panel B: Departure and arrival city of switchers.

	Firms	Total patents
Three most frequently departed 2000-04 CSAs:		
New York-Newark, NY-NJ-CT-PA	9	2778
Denver-Aurora, CO	1	297
San Jose-San Francisco-Oakland, CA	3	188
Three most frequently arrived 2015-18 CSAs:		
Charlotte-Concord, NC-SC	1	652
Rochester-Austin, MN	1	589
Philadelphia-Camden, PA-NJ-MD-DE	1	407

Table A-15. Probit regression analysis of the determinants of the movement of financial patentees. The sample consists of 129 firms that filed financial patents in 2000-04 and 2015-18. The dependent variable is a dummy indicating if the firm shifted its modal CSA for patent application filed in these two periods. The independent variables include dummies for firm industry (payments is the omitted category), whether the firm is venture-backed or publicly traded (both as of the time of the first patent filing in the 2000-04 period), and whether its modal patenting location in 2000-04 were the New York or San Francisco CSAs, as well as the volume of finance venture capital investments in 2000 (in billions of U.S. dollars) in the modal CSA. The observations are weighted by the number of patents filed by the firm in 2000-04. Robust standard errors are in brackets; * denotes statistical significance at the 10% level; ** at the 5% level; and *** at the 1% level.

	Did the firm switch CSAs?				
Is firm a bank?	0.78***	-0.22*	0.40***		
	[0.15]	[0.12]	[0.14]		
Is firm other financial service?	-0.07	-1.23***	-0.61***		
	[0.13]	[0.14]	[0.16]		
Is firm IT or other?	-0.96***	-1.17***	-0.56***		
	[0.09]	[0.09]	[0.11]		
Is firm venture-backed?	-0.54	-0.46	-0.004		
	[0.49]	[0.56]	[0.49]		
Is firm publicly traded?	-0.35***	-1.08***	-0.99***		
	[0.08]	[0.10]	[0.10]		
Is modal patent in 2000-04 in NY CSA?		2.34***	2.05***		
		[0.10]	[0.10]		
Is modal patent in 2000-04 in SJ/SF CSA?		0.31***	-1.52***		
		[0.11]	[0.22]		
2000 Finance VC investments in modal CSA			1.84***		
			[0.22]		
Number of observations	129	129	129		
Weighted observations	2176	2176	2176		
p-Value, χ^2 -test	0.000	0.000	0.000		
Pseudo R ²	0.141	0.419	0.433		

Table A-16. Most frequently cited academic journals in finance patents. The table present the journals most frequently cited in finance patents applied for between 2000 and 2018 and awarded by February 2019. The prominent role of the *Journal of Animal Sciences* reflects the presence of one dozen patents that are continuations (or continuations-in-part) of a single application originally filed by Micro Beef Technologies, relating to an accounting system for cattle farms. Each of the patents cites an (almost identical) list of approximately 40 papers from the *Journal of Animal Science*.

Journal Name	Number of Citations
Communications of the ACM	1166
Journal of Finance	701
Journal of Animal Science	499
Financial Analysts Journal	381
IEEE Computer	347
Journal of Portfolio Management	288
Social Science Research Network	281
ABA Banking Journal	277
Computers & Security	246
IBM Systems Journal	238
IEEE Spectrum	216
Management Science	213
ACM Computing Surveys	206
Journal of Financial Economics	197

Table A-17. Number of academic citations in finance patents and all patents. The table presents the mean number of citations to academic output, the number in publications with an above-median impact factor, the number in publications of various types (all business, economics, and finance journals, all business, economics, and finance journals with an above-median impact factor, and "Top 3" finance journals), and the lag between article publication and patent application filing. The totals are reported for finance patents, all patents, and all patents in the 53 four-digit CPC patent classes in which universities most frequently filed patents. All analyses use patents applied for between 2000 and 2018 and awarded by February 2019. * denotes statistical significance of the differences in t-tests at the 10% level; ** at the 5% level; and *** at the 1% level.

	Financial	All Other	All Other Patents in
	Patents	Patents	Academic Classes
Total Citations	2.45	6.17***	10.36***
Total Citations to High-Impact Factor Journals	0.07	1.38***	2.53***
Total Citations to Business/Economics/Finance Journals	0.54	0.02***	0.02***
Total Citations to High-Impact Bus/Econ/Fin Journals	0.07	0.00***	0.00***
Total Citations to Top 3 Finance Journals	0.04	0.00***	0.00***
Article-Patent Application Lag (years)	9.38	10.50***	10.02***
Number of Observations	24,255	3,781,439	1,823.420

Table A-18. OLS regression analyses of academic citations and patent characteristics. The sample consists of all patents applied for between 2000 and 2018 and awarded by February 2019. The dependent variables are the number of academic citations in these patents, the number of citations to business, economics, and finance journals, the number to Top 3 finance journals, and the mean age of the citations in each patent (years between the article publication and patent application date). In Panel A, the key independent variables are dummies whether the patent is financial; in Panel B, the key independent variables are dummies whether the patent is financial, the assignee is a U.S. corporation, a foreign corporation, a U.S. university or another type, and the interactions between assignee type and the financial patent dummy (other assignees is the omitted category); and in Panel C, the key independent variables are dummies whether the patent is financial, the assignee is venture backed, and the interactions between the dummies. All regressions control for the time period and inventor location. Robust standard errors are in brackets; * denotes statistical significance at the 10% level; ** at the 5% level; and *** at the 1% level.

	Academic Citations	Bus/Econ/Fin Citations	Top 3 Citations	Citation Age
Panel A				
Financial patent	-8.15***	0.71***	0.07***	-0.63***
	[0.45]	[0.01]	[0.001]	[0.13]
Panel B				
Financial patent	-1.70	0.47***	0.04***	-2.63**
	[1.36]	[0.02]	[0.003]	[1.24]
U.S. corporation	5.98***	0.04***	0.0001	-1.63***
	[0.16]	[0.002]	[0.0003]	[0.10]
Foreign corporation	2.93***	0.02***	-0.0001	-2.42***
	[0.23]	[0.0004]	[0.0004]	[0.11]
U.S. university	44.83***	0.04***	0.0001	-1.36***
	[0.31]	[0.005]	[0.0006]	[0.11]
Financial * U.S. corporation	-6.11***	0.28***	0.043***	2.04
	[1.44]	[0.02]	[0.000]	[1.25]
Financial * Foreign corporation	-3.10	0.05	-0.01***	1.44
	[2.63]	[0.05]	[0.005]	[1.38]
Financial * U.S. university	-36.23***	0.37***	0.03***	2.59
	[7.41]	[0.13]	[0.01]	[1.86]
Panel C				
Financial patent	-8.06***	0.80***	0.08***	-0.36***
-	[0.52]	[0.01]	[0.0001]	[0.13]
Venture-backed firm	9.82***	0.02***	-0.0003	0.42***
	[0.21]	[0.004]	[0.0004]	[0.05]
Financial * Venture-backed	-8.67***	-0.02	0.05***	-3.78***
	[1.95]	[0.03]	[0.004]	[0.50]

Table A-19: Summary statistics for private return analysis. The table consists of 2,808 observations at firmyear level of 246 firms covering the period from the year of their first financial patent application through 2018. Market values and book values of equity, R&D expenditures, and Kogan values are in millions of U.S. dollars. R&D/A is the ratio of R&D stock and book value of equity. Patents/R&D is the ratio of patent stock and R&D stock. Citations/ patent is the ratio of citation stock and patent award stock. Mean Kogan/R&D is the ratio of mean Kogan value of successful patent applications in that year and the R&D expenditure of a firm in a particular year. The dummy variables indicating whether financial or non-financial R&D expenditure in that year for a particular firm is 0 are also reported. The mean, median, minimum, maximum and standard deviation in the data are reported for financial and non-financial patents separately.

	Mean	Median	Minimum	Maximum	Standard Deviation
Market value (\$M)	36,404.22	8,598.24	2.97	1,073,390.50	78,477.64
Book value (\$M)	13,922.05	2,775.00	0.79	241,948.00	29,210.92
Market-to-book value	5.29	2.58	0.18	2,027.99	41.72
Fin R&D stock (\$M)	32.06	5.00	0.03	1,045.76	83.96
Non-fin R&D stock (\$M)	4,577.11	813.77	0.23	78,639.42	8,792.22
Fin patent award stock	9.38	1.62	0.05	240.04	24.24
Non-fin patent award stock	1,677.26	299.91	0.32	39,774.17	3,578.09
Fin citation stock	15.84	1.73	0	625.03	47.79
Non-fin citation stock	1,649.97	327.37	0	34,640.07	3,361.69
Fin R&D/Assets	0.03	0	0	5.59	0.18
Non-fin R&D/Assets	1.11	0.37	0	717.81	13.99
Fin patents/R&D	1.00	0.40	0	113.36	4.51
Non-fin patents/R&D	0.87	0.32	0	107.54	4.01
Fin citation/patent	1.75	0.94	0	64.88	3.33
Non-fin citation/patent	1.46	1.01	0	36.98	2.07
Fin mean Kogan/R&D	2.27	0.60	0	82.20	6.17
Non-fin mean Kogan/R&D	0.10	0.02	0	18.43	0.57
D(Fin R&D = 0)	0.63	1.00	0	1	0.48
D(Non-fin R&D = 0)	0.09	0	0	1	0.29

Table A-20: The market value as a function of financial and non-financial R&D, patents, and citations, 2000 – 2018. The table presents the results of the estimation of a nonlinear model with the dependent variable log Tobin's q. The table presents the results from estimating equation (13) in Appendix G relating the market value of firms and innovation stocks from 2000 to 2018 using nonlinear least squares. In columns (1), (2), and (3), we report the results for firms with at least one, five, and ten financial patents applied from 2000 to 2018. For financial and non-financial patents, we include the following independent variables: R&D stock (million USD) over book value of equity (million USD); patent award stock over R&D stock (million USD); adjusted (for the mean citations in that application year) citationstock over patent award stock; applicationyear fixed effects; and dummy variables indicating whether financial and non-financial R&D expenditures in that year are zero for a particular firm. The number of observations in column (1), (2), and (3) are 2,808 from 246 firms, 1,440 from 107 firms, and 1,069 from 71 firms respectively. Heteroskedastic robust standard errors are reported in brackets. * denotes statistical significance at the 10% level; ** at the 5% level; and *** at the 1% level.

	(1)	(2)	(3)
R&D ^{Fin} /A	3.792***	7.806***	6.315***
	[0.683]	[1.537]	[1.539]
R&D ^{Nonfin} /A	0.438***	0.671***	0.736***
	[0.0623]	[0.130]	[0.150]
PAT ^{Fin} /R&D ^{Fin}	-0.0205***	-0.0231**	-0.0242**
	[0.00513]	[0.0100]	[0.00957]
PAT ^{Nonfin} /R&D ^{Nonfin}	0.0128*	0.00866	0.0136
	[0.00659]	[0.0121]	[0.0119]
CITES ^{Fin} /PAT ^{Fin}	0.0237***	0.0453***	0.0267***
	[0.00848]	[0.0149]	[0.00826]
CITES ^{Nonfin} /PAT ^{Nonfin}	0.110***	0.488***	0.428***
	[0.0227]	[0.0830]	[0.0896]
Observations	2,808	1,440	1,069
R-squared	0.248	0.322	0.317
Year FEs	Yes	Yes	Yes
D(Fin R&D = 0)	Yes	Yes	Yes
D(Non-fin R&D = 0)	Yes	Yes	Yes

Table A-21: Measuring the private returns to financial and non-financial innovation. The table presents two measures of the (private) return on social innovations, the elasticity of firm value to citations and the semi-elasticity of R&D through citations. The analysis is identical to that in Table 12, but in each case, only observations through 2013 are used (rather than 2018), to address concerns about the truncation of citation and patent counts.

	Financial Patents			Non-financial Patents		
	(1)	(2)	(3)	(1)	(2)	(3)
$\frac{\partial logQ}{\partial (CITES/PAT)}$	0.036	0.042	-0.011	0.135	0.236	0.240
$\frac{\partial logQ}{\partial (CITES/PAT)} \frac{\partial (\frac{CITES}{PAT})}{\partial (R\&D)}$	0.275	0.183	-0.101	10.934	9.664	12.414

Table A-22: Measuring the private returns to financial and non-financial innovation. The table presents two measures of the (private) return on social innovations, the elasticity of firm value to citations and the semi-elasticity of R&D through citations. The analysis is identical to that in Table 12, but in each case, the semi-elasticity is evaluated at the median rather than the mean.

	Financial Patents			Non-financial Patents		
	(1)	(2)	(3)	(1)	(2)	(3)
$\frac{\partial logQ}{\partial(CITES/PAT)}$	0.061	0.096	0.061	0.176	0.309	0.284
$\frac{\partial logQ}{\partial (CITES/PAT)} \frac{\partial (\frac{CITES}{PAT})}{\partial (R\&D)}$	0.523	0.330	0.191	11.696	21.618	15.846