

SPEECH BY MR S ISWARAN, MINISTER OF STATE FOR TRADE AND INDUSTRY, AT SINGAPORE VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION ANNUAL DINNER, 27 SEPTEMBER 2006, 7.45 PM AT THE SINGAPORE MARRIOTT HOTEL, GRAND BALLROOM

Mr. Kelvin Chan, Chairman, Singapore Venture Capital and Private Equity Association

Distinguished Guests

Ladies and gentlemen

OPENING REMARKS

1. Good Evening. It gives me great pleasure to be here with you tonight at the Annual Dinner of the Singapore Venture Capital and Private Equity Association.

2. Since its formation in 1992, the Singapore Venture Capital and Private Equity Association has played a pivotal role in bringing together international and local venture capital and private equity firms to help promote the growth of this sector in Singapore and the region.

3. Through the efforts of SVCA, your members and partners, there are today more than 160 VC firms in Singapore managing cumulative funds of over S\$17 billion. The types of funds being

managed in Singapore have also grown in diversity, spanning all stages of growth, from seed and pre-IPO to mezzanine and buyout funds.

VENTURE CAPITAL

4. Venture Capital has traditionally provided not only critical financing, but also much needed business expertise for young and growing companies. This role takes an added significance in today's context as the pool of entrepreneurs, in Singapore and Asia, continues to grow with new business ideas and models, with innovative products and services.

5. The *2006 Global Venture Capital Survey* released earlier this month by *Deloitte & Touche* highlighted that venture capitalists worldwide are looking to expand their global focus with the booming economies of China and India being the primary destinations for future investment opportunities. China and India continue to be magnets for the flow of VC and Private Equity funds, notwithstanding challenges such as regulatory uncertainty and soaring valuations. Their sheer market size, breadth and depth

of opportunities and perceived growth potential are key explanatory factors

6. This poses a significant challenge for VC and Private Equity Funds based in Singapore. Your Limited Partners will no doubt query you on your China or India strategy. You will inevitably be compared with counterparts who are based in Shanghai or Bangalore who are deemed to be closer to target markets. Equally, potential investee companies will want to establish the value you can add versus funds from the US or Europe.

7. Singapore-based VC and Private Equity funds must respond to this challenge by differentiating themselves and establishing a unique value proposition. There are several dimensions to this. The first is Singapore's status as a business and financial hub for ASEAN. Whilst ASEAN may not be as exciting as China and India, it remains a large market of 500 million and an attractive base for a range of industries, particularly manufacturing.

8. Secondly, Singapore can and does serve as a nexus for the flow of business activities from China to India and vice versa, as well as from both these markets into ASEAN.

9. Thirdly, Singapore offers a trusted and favourable business environment. Singapore's strengths are not just in its high quality workforce, attractive tax policies and excellent infrastructure, but also our fair regulations, sound financial markets and strong connections to the region and the world. Out of the 175 countries surveyed in the World Bank's "*Doing Business 2007*" report released on 6th September 2006, Singapore was ranked as the easiest place to do business. These are attractive attributes, particularly for businesses that are rich in intellectual property.

10. Our VC and PE funds can and must leverage off these and other strengths to present a compelling value proposition to LPs and investee companies.

11. The *2006 Global Venture Capital Survey* also notes that as VCs expand globally, there will be a trend towards greater international interdependence with VCs forming strategic alliances and informal networks around the world. The reason is that the largest perceived barrier to international growth is a lack of local knowledge or expertise. Singapore based VCs are well-placed to be an important part of this global network.

M&A ACTIVITY

12. This year is looking to be another banner year for mergers and acquisitions. *Thomson Financials'* 2006 second quarter *Mergers and Acquisitions Review* reports that M&A volume in the first half of 2006 jumped to US\$1.8 trillion, a 44% increase from the US\$1.3 trillion recorded during the same period last year.

13. According to the Transaction Services group of *PriceWaterhouseCoopers*, M&A activity remains at a six year high, buoyed by record cash levels of cash at corporations and private equity firms, plentiful financing and historically low levels of troubled commercial debt.

14. *PriceWaterhouseCoopers* also notes that what's different about the M&A market, compared with that of the late '90s, is private equity's increased involvement, particularly on big, complex transactions. As these large funds, many with big overhangs of uninvested capital, perfect consortium bidding, they can do deals of virtually any size. And they are using all available

tools and structures to get superior returns for investors - minority investments and step acquisitions as well as full buy-outs.

ANNOUNCEMENT: M&A REGIME

15. As a small and open economy, Singapore's markets are generally quite concentrated and market rationalization is necessary to reap economies of scale and scope. M&As are thus part and parcel of commercial life in Singapore. We must be mindful however, that such Mergers & Acquisitions do not impair the overall competitiveness of our economy.

16. Ensuring competition has been a fundamental tenet of Singapore's economic policies. Our commitment to free trade, openness to foreign investments and a stable macro-economic environment attest to this conviction and have contributed to Singapore's success in the global economy.

17. Indeed, Singapore is ranked the third most competitive economy globally by the *Institute of Management Development* (IMD) in its *2006 World Competitiveness Yearbook*. The World Economic Forum has rated Singapore the fifth most competitive

economy globally, and the most competitive in Asia. These accolades should spur us to maintain if not enhance our economic competitiveness, especially if we want to develop Singapore into a more entrepreneurial economy.

18. One step in that direction was the enactment of the *Competition Act* in late 2004. The aim was to encourage companies to compete based on the quality of their goods and services, rather than by collusion or coercion, encouraging companies to be more resourceful, innovative and responsive to consumer needs. Consumers would enjoy more choices, lower prices, and better products and services. The economy as a whole would benefit from greater productivity gains and more efficient resource allocation. This will also provide a business environment which is more conducive to start-ups and entrepreneurship.

19. The *Act* was implemented in phases to give both the Competition Commission of Singapore and businesses time to gear up. On 1 January 2005, the *Competition Commission of Singapore* (CCS) was set up. A year later (on 1 January 2006), two of the three prohibitions, on anti-competitive agreements and abuse of a dominant position, came into force.

20. The third and remaining prohibition focuses on mergers that substantially lessen competition in Singapore. Firms can merge to create or reinforce a dominant position, making it easier to drive out competitors from the market. The merger can also make it easier for the firms remaining in the market to collude and enter into anti-competitive agreements. Mergers that substantially lessen competition and have no off-setting efficiencies will be prohibited. The objective is not to have competition for competition's sake, but rather to ensure and sustain our overall competitiveness as an economy with choice and benefits for Singaporeans.

21. The Ministry of Trade and Industry has previously indicated that provisions relating to mergers would likely come into force after 1 Jan 2007. Tonight, I wish to take this opportunity to announce that the merger provisions under the Competition Act will come into effect from 1 July 2007.

22. CCS will be seeking feedback on its proposals to enhance the merger regime. I will touch on a few key assets here.

Notification of completed or anticipated mergers

23. At present, the Competition Act provides only for the voluntary notification of completed mergers by the merger parties for CCS' views on whether the merger is anti-competitive. Feedback received from industry and the legal fraternity is that the notification system should be extended to anticipated mergers, i.e. mergers which have not been completed. CCS' views on the effects of anticipated mergers will provide the merging parties with greater certainty and enable them to avoid the significant costs of unravelling a completed merger which might be deemed to be anti-competitive.

Acceptance of commitments

24. The Act also does not currently provide for the CCS to accept commitments. Commitments are binding agreements made between a competition authority and the merger parties. They arise when the authority has a reasonable basis for believing that a merger will be or is anti-competitive. Commitments enable the authority to allow a merger to proceed on condition that parties undertake specific actions to address the competition concerns identified, thereby speeding up the merger clearance process.

Notification procedures

25. Another area of review involves the notification procedures. As not all notified mergers will raise competition concerns, the CCS is considering a 2-phase review approach. Such a system can allow relatively straightforward mergers to be cleared quickly, with the more complex mergers proceeding onto a second phase for a more detailed review. This is similar to the approach adopted by competition authorities in other jurisdictions.

26. Some of these proposals will require an amendment to the Competition Act. To ensure that the views of interested parties are considered before the merger framework and amendments to the Act are finalised, CCS will hold a public consultation exercise, scheduled to commence on 20 Oct 2006, to gather feedback. As part of the consultation exercise, the CCS will be conducting two briefings cum dialogue sessions with various business groups to explain the proposals in greater detail and to obtain their feedback on the proposed changes and CCS' draft merger guidelines. CCS will release more details on the public consultation exercise at a later juncture.

27. CCS plans to issue its final guidelines for the mergers regime next year. The guidelines will provide businesses with greater clarity on how CCS will interpret and enforce the mergers provisions. CCS will also conduct outreach programmes to raise public awareness of the new merger regime, especially among businesses. It aims to provide sufficient time for businesses to transition to the new regime before its commencement on 1 July 2007.

28. With the commencement of the merger regime in July 2007, the framework of our competition law will be complete. It will in turn contribute to a more competitive environment that allows enterprises to thrive. Against that backdrop and our other strengths as a business and financial hub, I am optimistic that the VC and PE industry in Singapore will continue to grow and succeed.

CONCLUDING REMARKS

29. On this note, I wish to commend SVCA for all the good work it has done to support the development of the VC industry in Singapore. I wish all of you many profitable years ahead.

30. Thank you and have an enjoyable evening.

