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"ECM, SILICON VALLEY AND CROWDFUNDING: A POTPOURRI OF RANDOM THOUGHTS"

Discussions with Loo Choon Chiaw, Managing Partner of Loo & Partners LLP

ALB: The year is ending, how did the equity capital market in Asia Pacific region perform in 2014?

LCC: According to Dealogic, the total volume of equity capital market (ECM) transactions in Asia (ex Japan) in the first three quarters of 2014 stood at USD188.5bn (it is noteworthy that 60% thereof comprised PRC ECM), which represented a 47% increase in the amount raised during the same period in 2013. Southeast Asia ECM has not performed well. It merely recorded a total amount of USD16.8bn in the first nine months this year, which represented a 32% drop from the same period last year. Similarly, the Singapore ECM did poorly. It recorded a mere USD11.7bn, representing a decrease of 31.4% from the same period last year.

ALB: What, in your views, were the reasons for the underperformance of the ECM in Singapore this year?

LCC: Investor sentiments have been affected by the uncertainties surrounding the market and the probability of an interest rates hike, relatively high transaction costs, low liquidity, the absence of any mega transaction, the de-listings of several reputable and sizeable mid-cap companies, for instance, CapitaMalls Asia, the shopping mall operating arm of CapitalLand, Southeast Asia's biggest property developer, were all factors contributing to the poor performance of the ECM in Singapore this year.

ALB: With last year's penny stock scandal and the recent three-hour trading outage caused by a power failure at the SGX data centre, one must be forgiven for asking whether the SGX

could still be regarded as a serious player in the region. May we have your views please?

LCC: As an international exchange with more than 40% of its listed companies originating from abroad, the SGX will always be a relevant player. Learning from the unfortunate penny stock scandal, the Monetary Authority of Singapore (MAS) and the SGX have commissioned an extensive review of the securities market structure and practices, with new initiatives to be implemented in the light of the review, including the imposition of new requirements, such as, the minimum trading price of at least SGD0.20 for mainboard stocks, the minimum collateral requirements of 5% for securities trading, the short position reporting requirements, the issuance of an industry guideline on trading restrictions imposed by securities intermediaries, and the empowerment of the SGX with a wider range of sanctions for breaches of listing rules. In response to the three-hour trading outage, the SGX immediately established a board-level inquiry committee to oversee investigations in ascertaining the cause thereof. These prompt and decisive actions demonstrate the seriousness of the SGX in remaining a relevant player in the region and the strong support which it has received from the MAS. One hopes that the measures which I have highlighted coupled with the other initiatives taken by the SGX, including the proposed trading linkage between the SGX and the Taiwan Exchange, the establishment of a direct listing framework which will allow eligible PRC companies to list directly on the SGX (similar to the H-Share listing on the Hong Kong Exchange), the streamlining of the rules for secondary-listed companies

with a view to attract more international companies to the SGX, and the proposed establishment of an equity crowdfunding platform for early-stage companies (to enable them to raise capital without having to undergo the costly process of listing), will, when fully implemented, collectively enhance the position of the SGX as a serious player in the region.

ALB: Please tell us more about crowdfunding.

LCC: Basically, crowdfunding is an internet platform through which businesses may raise funds from the public. In our present context, the funding may take the form of equity (which will involve sale of securities) or debts (which will involve making of loans). This new funding method's emergence was a direct response to funding difficulties faced by startups during the 2008 financial crisis. In less than six years, crowdfunding has spread across the developed world, and is now attracting considerable interest in the developing world. Although the crowdfunding market is regarded as still in its infancy, its potential is enormous. As an illustration and according to the WorldBank Report 2013, crowdfunding raised approximately USD2.7bn in 2012 on a global basis.

ALB: What are the potential risks of crowdfunding?

LCC: Every investment, in any form, comes with risks. The phrase 'nothing ventured, nothing gained' sums it up. However, crowdfunding by its very nature comes with risks not ordinarily present in plain-vanilla investments. It cries out for regulatory protection and investor education.

ALB: Singapore aims to become Asia's Silicon Valley. Do you think this is possible?

LCC: As a serious regional player, Singapore must aim high. However, I do not think that it should set its goal so high as to unduly pressurise itself. Many places in Asia, eg. the PRC, Korea, Taiwan and India are abound with entrepreneurs. Singapore should perhaps aim to be the Silicon Valley of Southeast Asia for starters. Only after it has achieved this goal should it set the higher goal to become the Silicon Valley of Asia. It will

not be easy to achieve this goal in the light of so many other strong players in Asia. It should nevertheless take comfort in the following words of Lao Tsu, the ancient Chinese sage: "the journey of a thousand miles begins with the first step" < 老子 : 千里之行 , 始于足下 > . The journey should start now!

ALB: Has the Singapore Government been supportive?

LCC: Absolutely! Over the years, the Singapore Government has implemented many measures to enhance Singapore's position.

For instance: under the Action Community for Entrepreneurship (ACE) Startups Scheme, eligible startups are given a startup grant of up to SGD50,000 (approximately, USD38,000) on a matching basis by the government, namely, the relevant entrepreneur must put his money where his mouth is and show that he is confident of his own venture; under the Industry Track for A*STAR scholar, after a scholar (namely, one who has excelled in his academic studies) satisfied the employment criteria imposed by A*STAR Research Institute, a government research agency that oversees 18 R&D entities, the scholar after serving the institute for two years could opt for a number of career paths, one of which is to work in the private sector. While this scheme does not provide funding, it aims to provide a crucial pool of talents for startups; under the Early Stage Venture Fund (ESVF) Scheme, a programme run by the National Research Foundation (NRF), venture capital firms will partner the NRF in investing in startups by matching them on a one-to-one basis; under the JTC LaunchPad @ one-north initiative, which is managed by the JTC Corporation, a government agency, and guided by ACE, a startup cluster has been located in a building known as Block 71. The cluster aims to be home to investors, incubators, accelerators, and other startup support services providers, the closest thing to Silicon Valley that Singapore has.

ALB: What makes entrepreneurs thrive?

LCC: Entrepreneurs need to be nurtured and funding support (not government subsidies) must be given to young startups in their early stage of developments.

Entrepreneurs and the business ventures which they create cannot exist in *vacuo*.

Entrepreneurs will thrive only if there is a strong and conducive entrepreneurial ecosystem within and through which entrepreneurial ideas can flourish, entrepreneurs can network and compete, business mentors and business rookies can meet, academics and practitioners can exchange ideas. In "Fostering a Startup and Innovation Ecosystem", a discussion paper commissioned by UpGlobal, a non-profit organisation in entrepreneurship, the authors identified five ingredients that help to foster a successful entrepreneurial ecosystem, namely, talents (the existence of a talent pool and innovative workforce in support of business growth), density (the existence of physical hubs and clusters for all stakeholders to network in close proximity), culture (where entrepreneurs are held up as role models and the acceptance of failure as an integral part of the learning process), capital (where there is adequate access to capital) and regulatory environment (where the government is pro-business and provides a regulatory framework that supports entrepreneurs).

ALB: How does Singapore fare as regards the five ingredients?

LCC: Singapore fares well in four out of the five ingredients, namely, for talent, density, capital and regulatory environment. To foster a strong and entrepreneurial ecosystem, Singapore needs to work harder on the culture ingredient. Singapore's population comprises predominantly ethnic Chinese. Traditionally, the Chinese do not hold businessmen (or merchants) in high regard. Merchants were viewed with distrust. Thus, in ancient Chinese society, the hierarchy of professions or callings in descending order was as follows: scholars, farmers, artisans and merchants < 士农工商 > . Scholars occupied the top (and merchants were placed at the end) of the ranking. Singapore needs to do more to promote and hold up more successful entrepreneurs with integrity as role models for the young. Society in general, and in particular teachers and parents, should help inculcate in children that there is always a second chance and failures (when one has given his best) are acceptable.