

SPEECH BY MS INDRANEE RAJAH, MINISTER IN THE PRIME MINISTER'S OFFICE AND SECOND MINISTER FOR FINANCE AND NATIONAL DEVELOPMENT AT THE LAUNCH OF THE INTERNATIONAL VALUATION STANDARDS COUNCIL (IVSC) ASIA IN SINGAPORE, WEDNESDAY, 6 JUL 2022, 10:05AM

Mrs Lim Hwee Hua, Deputy Chair of the Board of Trustees, International Valuation Standards Council (IVSC)

Mr Nicholas Talbot, Chief Executive Officer, IVSC

Distinguished guests

Ladies and gentlemen

2. It is a very great pleasure to join all of you this morning for the launch of the IVSC Asia Office – right here in Singapore.
 - a. I would like to thank IVSC for kindly inviting me to witness the launch.
3. We are honoured that IVSC has chosen Singapore as its first base outside Europe and the launchpad for its activities in Asia.
 - a. This new set up is a testament to the strong partnership that Singapore and IVSC have forged over the years, and our shared goal to promote greater consistency and professionalism in the valuation profession.
 - b. This launch marks a new milestone in Singapore's growth as an Intangible Assets hub.

Rise of Intangible Assets and the Importance of its Valuation

4. Intangible assets, in the form of patents, trademarks, brand image, software, are a major driver of business growth in today's economy. And its importance will only grow in the years to come, as the global economy becomes more digital, more innovative, and more connected than ever before.

- a. If we look at the top 10 Fortune 500 companies 30 years ago, they were all firms with significant tangible assets – General Motors, Ford, IBM, General Electric.
 - b. But the top companies today are all firms with significant intangible assets – Apple, Microsoft, Amazon, Alphabet.
 - c. In fact, over the past 30 years, the share of intangible asset market value among S&P 500 companies has increased from about 60% in the 1990s to about 90%¹ today.
 - d. This shows how critical intangible assets have become to business competition.
5. And as the economic centre of gravity shifts towards Asia, we are also seeing a similar trend in this part of the world.
- a. Today, the Southeast Asia region is home to about 50 unicorns², and the internet economy is expected to reach US\$1 trillion by 2030³.
 - b. Southeast Asia was traditionally a tangible-asset led economy, focusing on real estate and shipping. But it has now transformed to a more intangible-asset based economy, with growing e-commerce and fintech businesses.
 - c. SEA’s technological boom has also fuelled record mergers and acquisitions (M&A). One of the biggest deals was the US\$18 billion merger between Gojek – a ride-hailing giant and Tokopedia – an e-commerce market leader. Demand for M&A will likely continue to rise, and valuation is critical to ensure that intangibles are fairly valued, so that they can be accurately reflected in their market value during deals.
 - d. The same trend can be seen in other parts of Asia. For example, Japanese companies like Panasonic and Sony are now owning more intangible assets than fixed tangible assets.
6. However, one of the biggest challenges faced by such companies is how to value their intangible assets.
- a. American poet, Dale Carnegie once wrote of the value of a smile in this way: “it costs nothing, but creates much”.
 - b. And to some extent, this quote captures the essence of the challenges of valuing intangibles – they are hard to define, hard to measure, yet are

¹ Source: Ocean Tomo Intellectual Capital Equity.

² Source: Dealstreet Asia.

³ Source: e-Conomy SEA 2021 Report by Google, Temasek and Bain & Company.

critically important to creating value for businesses. To complicate matters, the value of a smile to one person may differ from the value of that same smile to another person. That is the challenge with intangible assets.

7. This is why most intangible assets today are not recognised on balance sheets. Companies tend to only disclose intangible value gained through acquisition, as there is an actual dollar figure tied to it, but leave out the value of intangible assets developed by the companies themselves.
8. As a result, there is a sizable gap between the actual intangible asset value compared to what is disclosed.
 - a. Take Microsoft for example: while it was estimated to have an intangible value of nearly US\$2 trillion in 2021, Microsoft's disclosed intangible value is only US\$58 billion⁴, which is about 3% of its estimated total intangible value.
9. Systematic undervaluation of intangible assets can be a serious impediment to growth. It can result in unnecessarily higher financing cost, under-investments in innovation and damage to long-term value.
10. And that is why IVSC plays such a critical role.
 - a. Establishing international valuation standards provides an important guide for valuation professionals worldwide. It ensures consistency and credibility in valuations, which also enables comparison across different companies.
 - b. Having clear and comparable valuation standards will support the functioning of capital markets. With an established framework, financial institutions may be more willing to consider the value of intangible assets in their assessment. This could open companies up to new funding sources and potentially drive better pricing.
11. Right-pricing and protecting intangible assets can also lead to tangible value to firms.
 - a. Take Blackberry for example. So for those of us who are old enough, do you remember the time when Blackberry was a market leader in the smartphone market?
 - b. But with the advent of the Apple iPhone and other smartphones, Blackberry lost most of its market share to other smartphone brands.

⁴ Source: Brand Finance Global Intangible Finance Tracker.

- c. Fortunately, Blackberry recognised the value of its intangible assets and built up its mobile and messaging patent assets over the years.
 - d. Earlier this year, Blackberry entered a deal to sell off its non-core patents for US\$600 million. This would help to generate additional cashflow for the company to invest in its cybersecurity solutions, which is now their core business.
12. This example shows that in today's innovation-driven economy, intangible assets will be increasingly important to companies in developing their competitive advantage. The ability to reliably value these critical assets can help companies effectively unlock their value and secure new sources of capital and use them for growth.

Deepen partnership between Singapore and IVSC

13. As a business hub, Singapore recognises the importance of valuation, particularly for intangible assets, to facilitate related transactions and business activities.
14. As part of the Singapore Intellectual Property Strategy 2030 (SIPS 2030) masterplan launched last year, we have set up working groups to advance standards and guidelines to engender credible intangible asset valuation, as well as a disclosure framework for intangibles assets.
15. We are targeting to launch a consultation on the draft disclosure framework with the wider industry by year end. I encourage all of you to provide your feedback then.
16. Besides developing valuation guidelines and disclosure frameworks, Singapore is also working to build up a core of professional valuers to support the growing demand for valuation.
- a. In 2016, the Institute of Valuers and Appraisers Singapore (IVAS), an institute under the Singapore Accountancy Commission (SAC) launched the Chartered Valuer and Appraiser (CVA) programme. The programme is benchmarked against International Valuation Standards by the IVSC, to train individuals in valuation concepts and application. We are in the midst of reviewing the CVA programme to align with IVSC's latest international valuation standards, and have started rolling out the refreshed programme since January this year.
17. With the establishment of the IVSC Asia Office in Singapore, I look forward to greater partnership between IVSC, IVAS, SAC and Intellectual Property Office of Singapore (IPOS) to advance our SIPS 2030 goals.
- a. I understand that there are already exciting plans in the works to organise masterclasses and webinars on valuation related topics

targeted at Asian markets, as well as roundtables for industry practitioners and stakeholders to share new thinking and ideas.

- b. Such events will be extremely useful in raising awareness of the valuation practice, building consensus around standards and methodologies, and uplifting the valuation profession, both locally and regionally.
18. To conclude, business and intangible asset valuation will continue to be a key activity in the corporate environment. The demand for business valuation services will grow further, and professionals with appropriate skills and exposure to valuation concepts will be highly sought after.
 19. I encourage our industry professionals present here today, to share with your industry counterparts more about business valuation, keep pace with developments in the valuation space and tap on these exciting opportunities ahead.
 20. Thank you all very much.

=== END ===