

**Joint UNCTAD IFAC meeting on Corporate Governance in the
Wake of the Financial Crisis: Linking Governance, Strategy
and Sustainability**

12 October 2010

Opening Remarks

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

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Excellencies,
Distinguished experts,
Ladies and gentlemen,

It is a pleasure to welcome you all to this special meeting on Corporate Governance in the Wake of the Financial Crisis; it is also an honour for UNCTAD to partner with the International Federation of Accountants in the organisation of this timely dialogue. The topic of corporate governance has been on UNCTAD's agenda since its tenth quadrennial conference (in Bangkok in February 2000), where member States requested UNCTAD to promote improved practices in this area. In the wake of the financial crisis, UN member States have undertaken various actions to strengthen their corporate governance regulatory frameworks in order to promote economic stability and investor confidence. Today UNCTAD and IFAC have gathered leading experts here to share perspectives on the corporate governance-related causes and remedies of the global financial crisis and how they could be addressed to help to avoid such shocks in the future. This meeting is intended to inform ongoing reform efforts and to update ourselves on the work of major organisations active in this rapidly evolving area.

Ladies and gentlemen,

The global financial situation has heightened the importance of corporate governance in the past year. Today's dialogue highlights the connections between the broader wave of macro prudential measures taken following the

financial crisis and recent reforms focused on corporate governance and disclosure.

The global financial crisis brought the international financial system to a grinding halt: the sudden withdrawal of global liquidity led to a catastrophic downturn in the global economy, which was only arrested by the swift and coordinated intervention of governments on a giant scale. The impact of the crisis has been colossal. UNCTAD's analysis of the causes of the global financial crisis points to regulatory weaknesses at the national and international levels, but also to poor corporate governance practices as implicated in the risk management standards prevailing in many large financial institutions. It is increasingly recognized that many of these governance weaknesses also apply to companies in other industries. Consequently, ongoing corporate governance reforms in many jurisdictions apply not only to the financial sector but to companies in other sectors as well.

These reforms are critically important because the global economy relies upon the stable functioning of large corporations. When governance mechanisms such as risk management do not work properly, the impacts can be felt around the world. In nearly all countries today ordinary people continue to experience the very real impact of the financial crisis. Unemployment, lost savings, and financial insecurity: these are the experiences of people who, up to now, had little or no say in how banks were governed, yet who suffer as a consequence of failed corporate governance. The link between corporate governance and a broader range of stakeholders has never been more clear.

The financial crisis has pushed to the top of the agenda a number of questions about key functions of corporate governance, particularly in the areas of risk management and executive compensation. The G20 has recognized that one of the causes of the financial crisis was the poorly designed executive compensation packages that lead to excessive risk taking. At their summit in Pittsburgh last

year, leaders of the G20 called for stricter rules for risk-taking, improved corporate governance mechanisms that align compensation with long-term performance, and greater transparency in corporate governance.¹

Over the course of this meeting, there will be much discussion of the linkages between the financial crisis and accounting and corporate governance issues. As we focus on strengthening our resilience to further financial crises, we should also think about another threat: climate change. As the Stiglitz Commission on the Financial and Economic Crisis highlighted in its report last year, we can no longer separate the economy from ecology. Yet, to assess the level of threat and the contribution of economic activity to green house gas emissions, accurate measurement and transparent reporting standards will be critical. This is an area where accountants have a key role to play in ensuring that policy makers, companies and other stakeholders have a single standard to report climate change emissions. It is also an area where corporate governance mechanisms are critically important. As we discussed in UNCTAD's 2010 World Investment Report, there are a number of challenges with regulatory mechanisms focused on such issues as carbon-leakage. This is where shareholders and other stakeholders, making use of effective corporate governance mechanisms, could play a strong role in overseeing corporate activities to avoid future crisis.

Ladies and gentlemen,

The relationship between governance, sustainable business, and long-term strategic considerations has been on full display in the financial crisis. Today there is a renewed call for a more stakeholder-oriented ethic in the global corporate governance debate. Indeed, some countries have already employed these very concepts. In the case of Germany, for example, management and supervisory boards are now accountable, not just to shareholders, but to 'stakeholders'. In South Africa, under the guidance of our keynote speaker today

¹ Para 13, Pittsburgh G20 Leaders Summit

Prof. Mervyn King, 'stakeholder relationship governance' and sustainability reporting are now responsibilities of boards of directors.

This emerging focus on a broader range of stakeholders strengthens existing trends towards a more sustainable and development friendly approach to corporate governance and international investment. UNCTAD supports these efforts and recognizes the critical role accountants play in furthering more transparent, responsible and sustainable markets.

Ladies and gentlemen,

I wish you a very productive dialogue and look forward to the outcome of your deliberations.