

## **Opening remarks**

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**at the 29<sup>th</sup> session of UNCTAD's Intergovernmental Working Group of Experts  
on International Standards of Accounting and Reporting (ISAR)**

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Distinguished delegates,

Ladies and gentlemen,

It gives me great pleasure to welcome you to the twenty-ninth session of ISAR. As the DSG mentioned, this working group has a well-established history, and is often held up as a model for other United Nations working groups. At UNCTAD's thirteenth Ministerial Conference in Doha, in April earlier this year, member States again reaffirmed UNCTAD's mandate in this area and gave their support to the valuable contribution that accounting and reporting standards can make to investment and development.

Indeed, the work of this group is critically important to wider issues of investment, financial stability, and sustainable development. I would therefore like to begin with some broader context on today's international economic climate.

The global economy has not decisively recovered from the fallout of the financial crisis, and economic growth continues to be tepid, with many regions experiencing a renewed slowdown. The resurgence of economic uncertainty and the possibility of lower growth rates in nearly all major economies also create new risks for international investment flows. Despite growth in 2011, global foreign direct investment (FDI) flows still remained more than 20 per cent below their 2007 peak. UNCTAD's latest projections, published in this month's Global Investment Trends Monitor, now predict FDI to be slightly below US\$1.6 trillion in 2012, at best at the same level of 2011.

The potential of private investment to fuel a recovery in the world economy has not been effectively mobilized. Record levels of cash holdings among transnational corporations – more than US\$5 trillion worldwide – have so far not translated into sustained investment growth. Renewed instability in international

financial markets will continue to encourage cash holdings and other uses of cash for non-productive purposes such as paying dividends or reducing debt levels.

Today, the global economy is being shaped by a series of critical changes, not only in finance, but also by social and environmental challenges. The key factor for policymakers in addressing all these issues is investment, and how to set policies that can mobilize international investment and ensure that it contributes to sustainable development objectives.

What is the role of accounting and reporting in this broader context and how can it contribute to the mobilization and resurgence of international investment? As you well know, greater corporate transparency can enhance the predictability and stability of business transactions thereby creating a stronger enabling environment for investment. The financial and non-financial information provided in corporate reports forms the basic building blocks of economic data and broader social and environmental indicators. Policymakers, investors, and other stakeholders will determine their actions based on this information. When such information is absent or inadequate, these key stakeholders are “flying blind” and cannot accurately determine the risks and profitability of their decisions. The work of ISAR – of all of you in the room today – helps build stronger accounting infrastructure and ensures higher-quality corporate reporting across the full range of financial and non-financial subjects. This is critically important to the strategic investment decisions of firms and the long-term sustainable development of the world economy.

Chair and Distinguished Delegates,

Looked at in more detail, accounting and reporting makes an important contribution to sustainable development in a number of areas:

- Firstly, a sound accounting and corporate reporting infrastructure is a necessary component of a stable economy. In more transparent markets, investors and lenders tend to be less prone to panic and the sudden withdrawal of their investments or loans.
- Secondly, financial transparency is fundamental for the productive allocation of capital in an economy. Uncertainty, resulting from a lack of transparency,

equals risk; and risk is factored into the price of capital as higher rates of interest. Greater transparency therefore helps provide better access to finance for companies at lower rates of interest - and there is a growing volume of research documenting the positive contribution of accounting disclosure to reducing the costs of capital.

- And thirdly, better accounting and reporting provides policymakers and regulators with reliable information upon which to base policy decisions and regulations, in order to stimulate investment and facilitate economic development.

In addition to the role of accounting and reporting in building a stronger enabling framework for investment and fostering financial stability, it also plays an important role in addressing many environmental, social and corporate governance issues. For example, a critical element in the promotion of green growth strategies is the accurate and comparable corporate reporting of carbon emissions and other environmental impacts.

Last March, I had the pleasure to welcome many of you to a special meeting held on Climate Change Reporting. That meeting was requested by the 28<sup>th</sup> session of ISAR to examine, in more detail, the challenges of producing high-quality internationally harmonized sustainability reports. You will be addressing the outcomes of this Climate Change Reporting meeting this week, but I would like to briefly note that the meeting was an important step forward for international collaboration on this issue. It brought together UNCTAD, the OECD, the Climate Disclosure Standards Board, and the Global Reporting Initiative, along with other key stakeholders and standard setters. It also helped to move forward work on promoting a harmonized approach to climate change reporting among member States and providing fundamental tools to assist the work of the G20 in its efforts to promote ‘green growth’.

At that meeting in March, I promised participants that I would take the messages of that meeting with me to the Rio+20 Conference on Sustainable Development, held in Brazil last June. I’m pleased to report back that the Rio+20 conference, in their outcome document “The Future We Want”, singled out

sustainability reporting as a key issue, and called on all relevant stakeholders to work with the UN system to develop models for best practice and facilitate action on the implementation of sustainability reporting.<sup>1</sup> UNCTAD has been named as an implementing agency in this task and I encourage all of you, through ISAR, to work with us to contribute to this goal.

Facilitating action in this area has been extended to an ever widening dialogue with key stakeholders, for example stock exchanges. Since 2009, UNCTAD – with our other partners in the UN system – has been leading the Sustainable Stock Exchanges (SSE) Initiative in an effort to foster action on sustainability reporting. The SSE Initiative, building on the work of ISAR in the area of non-financial reporting, brings together stock exchange officials, capital market regulators, investors and corporate reporting experts. In Rio last June we held our third SSE Global Dialogue and brought in new voluntary commitments from leading stock exchanges around the world. The Nasdaq Stock Exchange, the Johannesburg Stock Exchange, the Bovespa exchange in Brazil, the Egyptian Exchange, the Istanbul Stock Exchange and the Bombay Stock Exchange, together representing nearly 10,000 companies, have all come forward to partner with us in the promotion of environmental social and governance good practices. While this is major step forward, much more work remains to be done, and we look forward to working through various ways and means, including ISAR to support the work of the Sustainable Stock Exchanges initiative.

Chair and Distinguished Delegates,

At the UNCTAD World Investment Forum, held in Qatar last April, a common theme expressed by Heads of State and CEOs was the need to not only recover from the current economic downturn, but to recover in a way that is more stable and sustainable going forward. Accounting and corporate reporting will play an increasingly important role in such a recovery and the future economic growth and development of the global economy. Towards this end, there are several ISAR-supported initiatives which both myself, and UNCTAD's Deputy Secretary-General, have highlighted in our introductions, such as the SSE initiative and the Accounting for Development Toolkit. We hope that ISAR can continue to innovate and support

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<sup>1</sup> The Future We Want. Paragraph 47.

developing countries and global economic stability through such initiatives and we therefore look forward to hearing the outcome of your deliberations this week.

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