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WELCOME REMARKS FOR THE LATIN AMERICAN CORPORATE GOVERNANCE ROUNDTABLE

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- Welcome to the 2013 meeting of the Latin American Corporate Governance Roundtable.

- I am delighted to see more than 120 participants gathered here today from 12 Latin American countries, including Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Mexico, Nicaragua, Panama and Peru, as well as participants from the United States, the United Kingdom, Spain, Turkey and my own country, Italy. Such diverse participation, I believe, is ideal for discussing and addressing the challenges we will be considering over the next two days.

- Before turning to these specific challenges, I wish to thank the Quito Stock Exchange and the Ecuadorian Corporate Governance Institute for generously hosting this meeting; the government of Spain for its financial support for the OECD's work in Latin America; and Ecuador's company's superintendency for their institutional support. Thank you also for the additional sponsorship by the CAF Latin American Development Bank, IFC and Ecuador's Governance.

- As the agenda notes, this meeting comes at a critical moment in the global economy.

- The financial crisis, with its economic and social effects, put policy makers under pressure. Unconventional approaches are required because the traditional ones failed or at least seem to be ineffective.

- This is true also in corporate governance, and two questions have to be answered:
    a) Did corporate governance play a role in contributing to the financial crisis?
    b) How can corporate governance contribute to overcome the financial crisis?

- The role of corporate governance failure has been explored by the OECD Committee on Corporate Governance. Since the very beginning of the turmoil the CGC considered what was happening as a challenge:
    a) A challenge to the OECD Principles as the international standard in the area of corporate governance accepted globally and adopted by the FSB and other main international bodies.
    b) But, more generally, a challenge to the traditional culture on corporate governance based on the experiences of developed economies and sophisticated financial markets.

- On the basis of a fast track report on the "corporate governance lessons from the financial crisis", we concluded that:
    a) While certain rules and regulations can be improved, this is not the main problem.
    b) It is much more important to establish a review process that identifies issues and new developments that may cause problems down the line: To look around the corner, to detect new trends, to raise awareness and to help share information about how potential problems can be avoided.

- Along these lines the Committee approved a report on corporate governance and the financial crisis which identifies a set of recommendations and emerging good practices in the areas more affected by the financial crisis. These recommendations now stand as a commentary for a better implementation of the OECD Principles.

- But what is much more important now, when we are still facing the consequences of what has become the biggest economic crisis from the so called 29's crisis of the last century, is the second question:

    - How can corporate governance contribute to overcome the financial crisis?
    - Is it sufficient to strengthen corporate governance rules as was done after the corporate scandals wave?
    - As reality changes, more of the same is not necessarily the way ahead.
    - And in the area of corporate governance we have seen some important changes that may impact the efficiency of current policies and may call for new approaches.

- The policy objective in corporate governance is to facilitate the meeting between savers and corporations. To make sure that savers can put their money to productive use and that companies get access to risk capital for innovation, growth and job creation. In other words, to make sure that the investment chain, from savers to companies, works efficiently (minimizing costs and rents) and fairly (minimizing risks of expropriation).

- The investment chain can have several stages with a number of different categories of intermediaries, and it increasingly does.

- Corporate governance rules have an impact at every stage of the investment chain.

- Most of the rules are related to making equity markets work. These are currently undergoing fundamental changes in two respects:
    a) Structural changes in terms of:
        - Ownership (reconcentration of ownership in the hands of institutional investment intermediaries: new and unexplored agency costs between record owners and beneficial owners).

   - Market fragmentation and trading practices (new trading venues, dark pools, algorithmic trading, high frequency trading: poor price discovery).
   - Investment strategies (indexing, exchange-traded funds: reduced incentives to active and engaged ownership).
   - Type of investors (private equity and hedge fund: extensive use of financial innovation for decoupling of economic and voting ownership).

b) A regression in the role of the equity markets:
   - In developed markets prevalence of going private (delistings and low levels of new companies). Since 2002, an annual average of 2 000 companies have delisted from stock exchanges, which means that almost 40% of the listed companies delisted over the last ten years in most markets. Small and medium sized companies have disappeared from the IPO markets. And markets are not providing equity capital to listed small and medium sized companies anymore: stock exchanges are becoming a closed, old boys club. Adverse selection can move them into "markets for lemons".

   - While we observe an increase in IPO activities in some emerging markets, mainly China but also in Latin America, (many SOEs and family controlled companies go listed) emerging economies' corporations are still highly dependent on short-term bank lending for financing long-term business investment.

- There are several explanations for the trends in global IPO markets and we know that cyclical factors play an important role.

- However, changes in market structures and trading practices have also raised concerns that the complexity of today's equity markets, weaknesses in the price discovery process and an unlevel playing field among investors erode investors' confidence in the markets and undermines the willingness of entrepreneurs and growth companies to use equity markets.

- Additionally, declining long-term focus in favour of short-term trade decreases the analyst coverage for SMEs and therefore their visibility in the market, which further erodes their willingness to enter stock exchanges.

- Taken together, these changes have changed the conditions for corporate governance in profound ways. And the OECD is at the cutting edge of understanding the implications and responding to how regulations can remain relevant and effective in this new environment.

- So we have focused on building a solid analytical and factual basis before embarking on the review of the principles which will start in 2014.

- For all the reasons described, the revision of the principles is an ambitious task. It requires a new approach to take into consideration the structural changes I briefly described before, and to address the economic challenges they raise for policy makers.

- The committee aims to review the principles through an inclusive and informed process.

- For this to happen, we will make use of the output of the thematic peer reviews. Before the revision process we will have finalised peer reviews on 6 key areas:
    a) Board practices
    b) Board election
    c) Institutional investors
    d) Related party transactions
    e) Risk governance
    f) Public and private enforcement.

- We will take inputs from the project on corporate governance, value creation and growth. This project started last year with an exploratory seminar in Istanbul where the conceptual basis of the project was identified and discussed with the support of distinguished academics, practitioners and regulators coming from all over the world. The next steps of this project, which will run over two years, will aim to translate the new conceptual basis into policy options.

- A substantial part of this project will focus on the description and analysis of corporate governance in emerging markets in order to understand the characteristics of corporate governance arrangements in some of today's fastest growing economies. On this basis, the project will seek to provide a set of corporate governance public policy priorities which will improve the savers' confidence in the functioning of the equity market and corporations' willingness to enter into the public equity market. It would also suggest how to promote shareholders' incentives to exercise corporate governance in long-term prospect of the corporations.

- But to revise the principles we will also make use of the substantial analysis produced in the Committee's extensive regional and country programmes on corporate governance in Asia and Latin America but also in the Middle East and North Africa, South Africa and Eurasia regions.

- In this framework, this meeting in Quito reflects an important step in the OECD's preparations to revise the *OECD Principles* in a way that ensures its global relevance and usefulness as an instrument which may help countries to facilitate corporate access to finance and to help spur innovation and economic growth.

- For the OECD, this meeting provides an opportunity to better understand a region which has been growing rapidly over the last decade, including what corporate governance steps have helped to contribute to that growth, and what obstacles have impeded its growth.

- For all of you, we hope that the Roundtable offers an opportunity to explore and better understand how you can further improve your own corporate governance frameworks to best support sustainable economic growth.

- The different sessions on the agenda are well-tailored to the specific challenges and characteristics of this region, but are also of wider interest to us all. These include a first session taking stock of the key overall developments in equity markets in the region; additional sessions focused on corporate governance challenges related to SMEs, SOEs, corporate groups, and the use of corporate governance indices; and finally on the 2nd day a focus on the issues of curbing abusive related party transactions and on the role of institutional investors.

- I look forward to your discussions and the ongoing contributions of this Roundtable to both the OECD's reflections and to Latin America's progress, and hope that this may serve as an inspiration for further improvements of corporate governance in the region. Thank you.