8th European Corporate Governance Conference

Stockholm, 3 December, 2009

Welcome address
Hans Dalborg, Chairman, Swedish Corporate Governance Board

Distinguished participants, Ladies and Gentlemen!

Welcome to the 8th European Corporate Governance Conference.

It is my honour to welcome you to this important conference on behalf of the Swedish Corporate Governance Board and the European Corporate Governance Institute and our generous sponsors who made this event possible.

We are glad and impressed that this conference has attracted such an interest, such great speakers and so many and so distinguished participants.

Please allow me to extend an especially warm welcome to all speakers and moderators. I am convinced that you have prepared interventions that will enlighten us and guide us towards wise conclusions.

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We meet at a time when darkness prevails at these latitudes. Nevertheless, most welcome to Stockholm.

Darkness dominates the economy too. Value destruction - at least depreciation from earlier levels - is recorded not in millions or billions but in trillions of Euro or US $.

We will conduct our discussions when businesses struggle, when families are hit by unemployment still on the rise, when Governments face with increasing debts and when economic output is back at the levels of 3 - 5 years ago.

Yet, the timing of this conference is excellent. We do se some light in the economic forecasts. After a year of shrinking economies, forecasters give us reason to expect growth in Europe in 2010.
The time is right to look "beyond the crisis" and to take on "the new challenges for corporate governance".

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After enormous rescue operations by governments and central banks, overwhelming challenges confront of us - overwhelming but not insurmountable:

- Governments in many countries have assumed control, even ownership, of major financial institutions and other industries. What are the long term implications of this for the market economy as a whole?

- Bonuses have been seen as one of the causes of the crisis. Should remuneration be regulated for top-level executives in all listed companies and for specialists in the financial sector dealing with risk?

- We will soon hear news from the 2009 European Commission study on the implementation and the effectiveness of corporate governance regulation in the European Union. What can we learn from that? And what can we teach each other?

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This conference is about corporate governance in general, but, also, about governance of financial institutions in particular.

A personal note might be permitted.

I have spent my professional life in the financial sector. This industry has been seen as the main culprit, sometimes the single cause, of the economic crisis of the last two years.

Critics have more often than not seen the sector as a homogenous one. Every bank is any bank. It has become almost a given that systematic and individual failures that led to the financial crisis are commonplace and generic to the sector.

Now I am the Chairman of the largest bank in Northern Europe. Nordea has in the last two years been able to get financing at reasonable price in global financial markets. It has increased lending to large and small corporations across the Nordic region. It has posted lower credit losses than analysts have expected. It has continued to grow and to report strong profits.

Central banks kept the system running for everybody when funding dried up for many. This general intervention benefited all banks, Nordea included.

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From this position, please allow me also to make some more general observations.

We have experienced a true depression, the worst global economic crisis since the 1930's.

Governments and central banks have intervened to prevent runs on banks, to stimulate the economy through fiscal and credit policies and to make liquidity abundantly available.

In the 1930's there was initial overreaction by governments and central banks in the wrong direction. This time, that lesson was learned.

Secondly, this has been an economic crisis caused by at least three factors: (1) fundamental global imbalances, (2) an emerging recession and (3) a financial crisis caused by those imbalances and by bad governance and bad managemer in a number of financial institutions.

The financial crisis undoubtedly had its origin in the US mortgage institutions and investment banks and spread to most other markets.

And where there was failure in the financial system - all parts of the system failed, not only corporate governance. We must recognize that public policy as well as regulation and supervision were inadequate. It also needs to be admitted that when individual institutions failed, so did their auditors and the rating agencies.

A third observation to keep in mind is that many financial institutions that were affected by the crisis did not cause the crisis. As trust evaporated throughout the system when toxic products lost their value and no one knew who owned them all banks were hit.

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Some preliminary conclusions may be drawn from these observations.

We should make the effort to fully understand what needs to be changed and how that can be done. This conference may serve as an example.

A second conclusion is this: correct mistakes across the board where there was failure:

This obviously concerns corporate governance including remuneration practices and risk management at financial institutions that most probably did not understand the consequences of the packaging of high risk credits into new presumed "safe" instruments or investments in such products.

This also includes corrections concerning other players, such as:

- economic research that could very well have warned of fatal imbalances in the global economy and bubbles in many markets, especially the US,
- economic policy - fiscal by governments and monetary by central banks - that could have been far less focusse on low interest rates and lending and spending,
- regulation that allowed investment banks to be leveraged about 50 times,
- supervision that did not see the poison in toxic products,
- auditing that did not react enough against bad governance and bad risk management, and, finally,
- rating agencies, who for too long gave high grades to low grade products and institutions.

In addition: let us learn from those banks who did not fail and the countries that were not severely affected by the financial crisis.

For example, what can the US learn from Canada?

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When improving governance of all corporations, especially banks, the one single most important perspective is to "clean the staircase from the top".

Strong Boards accountable to shareholders is a recipe for better management and less uncontrolled risk taking. Research, reported in the annual report of the Swedish Corporate Governance Board, indicates what we intuitively know: we can expect better strategies and management when owners play a strong role.

Furthermore, Boards should be knowledgeable of the industry and the full Board should be involved in the formulation of corporate strategy, risk policies and risk control.

A further principle to observe is that of strict order in credit portfolios.

As to remuneration policies there are two aspects to be taken into account.

One is that of trust. If we want the general public - and legislators - to place trust in large corporations, the price is responsibility. Irresponsible compensation levels and practices erode trust for all of us that depend on a continuous licence to operate.

The other aspect of remuneration is that of risk. Compensation systems should be risk tested.

Good governance, prudent management, ambitious risk management and cautious incentive systems can balance individual greed.

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As for regulation of the financial sector, the principle of "level playing field", so strongly advocated by G20, is of the greatest importance if we want to avoid market distortions.

For financial institutions, capital bases should be sufficient to withstand bad governance and incompetence of management. We should rather discuss how we can avoid bank failures than how to pick up the pieces when they fal apart.

Furthermore, proprietary trading should be analyzed from a regulatory point of view. And regulators and supervisors should have a say in the introduction of new very complex products.

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Ladies and Gentlemen!

Finally, when analysing why Lehman Brothers imploded, the simplest piece of advice to all of us in business might be this: stay within in the limits of your own brain.

And when looking back at the macro economic factors behind the crisis, the best advice to governments and central banks is probably this: always prick the bubbles!

Thank you all for coming to this important gathering. And let all of us place special thanks to those who organized it.

Thank you for your attention - let's go to work.