



Santiago Principles Self-Assessment

China Investment Corporation

[Fund Details](#) ^[1] [Fund Website](#) ^[2] [Search Assessments](#) ^[3]

Pillar 1

Legal framework, objectives, and coordination with macroeconomic policies

Principle 1 Description:

1. The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).

1.1. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.

1.2. The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.

Principle 1 Implementation:

China Investment Corporation (CIC) is incorporated under the Company Law of the People's Republic of China as a wholly state-owned company. The legal basis and structure, as well as CIC's legal relationship with the Chinese government, are disclosed on CIC's website (www.china-inv.cn ^[4]) and in its Annual Reports.

Principle 2 Description:

The policy purpose of the SWF should be clearly defined and publicly disclosed.

Principle 2 Implementation:

The purpose of CIC is to diversify China's foreign exchange holdings and seek maximum returns for its shareholder within acceptable risk tolerance.

CIC's policy purpose is disclosed on its website and in its Annual Reports.

Principle 3 Description:

3. Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.

Principle 3 Implementation:

GAPP 3 is not applicable since CIC, as a financial investor, invests on a commercial basis in the overseas markets to seek maximum returns within acceptable risk tolerance.

Principle 4 Description:

4. There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

4.1. The source of SWF funding should be publicly disclosed.

4.2. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

Principle 4 Implementation:

CIC was capitalised with \$200 billion in reserves, purchased from the People's Bank of China in exchange for RMB 1,550 billion in government bonds issued by the Ministry of Finance. Income from CIC's investments is expected to provide dividend income to the shareholder to service the debt issued. In 2011, CIC International was established as a subsidiary of CIC to take over the entire overseas investment portfolio and mandate from CIC. Since its inception, an additional \$49 billion had been injected to CIC International.

This is publicly disclosed in CIC's Annual Reports.

Principle 5 Description:

5. The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

Principle 5 Implementation:

CIC reports its business operations, including its investment performance, to the owner on an annual basis and publicly discloses such information on its website and in its Annual Reports.

Pillar 2
Institutional Framework and Governance Structure

Principle 6 Description:

6. The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

Principle 6 Implementation:

Pursuant to the Company Law of China, CIC sets up its Board of Directors, Board of Supervisors and Executive Committee as three governing bodies, with well-defined responsibilities and effective checks and balances among the three.

CIC's Board of Directors is authorised to oversee the company's operations, evaluate its overall performance and make decisions on important matters in accord with its Articles of Association. Based on objectives and principles set by the State Council, the Board reviews and approves CIC's development strategies, operational guidelines and investment plans. It also decides on the implementation of corporate strategies, identifies major issues to report to the shareholder, appoints and removes senior executives and decides on or authorises the establishment of management bodies as necessary.

The Board of Supervisors is responsible for monitoring the performance of directors and executives in the execution of their duties as well as the effectiveness of supervisory procedures within CIC. Also in charge of the Department of Internal Audits, the Board of Supervisors selects external auditors and monitors CIC's accounting and financial functions.

Entrusted by the Board of Directors, CIC's Executive Committee translates Board of Directors' guidance into detailed strategies and oversees CIC's day-to-day operations. It has the authority to make required operating decisions, including those for basic rules, institutional adjustment, operating mechanisms, performance evaluation and remuneration.

Principle 7 Description:

7. The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

Principle 7 Implementation:

CIC's objective is set out by its owner, the State Council, in its Articles of Associates. The State Council exercises shareholder's rights on behalf of the State. The appointment and removal of a director shall be subject to the approval of the State Council. The Chairman of the Board of Supervisors shall be appointed by the State Council.

Principle 8 Description:

8. The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.

Principle 8 Implementation:

As mentioned above, CIC implements its corporate governance model to ensure well-defined responsibilities and effective checks and balances. CIC has also established a mechanism for scientific decision-making and authorisation, developed a sophisticated and diversified investment platform and put in place a comprehensive risk management system.

Principle 9 Description:

9. The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

Principle 9 Implementation:

According to the Articles of Association, CIC shall comply with applicable laws and regulations, appropriately bear the cost of the funds received from the government, enhance its operating results and establish effective corporate governance. It should make its business decisions independently and operate based on commercial grounds.

Principle 10 Description:

10. The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

Principle 10 Implementation:

CIC's accountability framework is clearly set out in its Articles of Associates including the defined division of work among the Board of Directors, Board of Supervisors and the Executive Committee. In terms of CIC's business operation, the Board of Directors is accountable to the owner, the State Council, while the Executive Committee is accountable to the Board of Directors. Also, the Board of Directors has put in place a comprehensive and well-defined set of standards to evaluate the performance of the Executive Committee.

Principle 11 Description:

11. An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.

Principle 11 Implementation:

From its inception, CIC prepares and discloses audited annual report annually. CIC's financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China. These accounting standards have substantially converged with the International Financial Reporting Standards (IFRS).

Principle 12 Description:

12. The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

Principle 12 Implementation:

Having been audited by independent auditors, CIC's financial statements represent a true and impartial view of the company's financial position, operating results and cash flows for the year ending 31 December. The audit is in accordance with the national auditing standard of the People's Republic of China.

Principle 13 Description:

13. Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.

Principle 13 Implementation:

As an important rule of the company and the foundation of its culture, CIC's Code of Conduct explains the basic principles of important matters and puts forward detailed requirements regarding the protection of the company's reputation, interests, assets and information. All employees shall comprehend, accept and follow the Code of Conduct upon joining CIC. Moreover, CIC also formulated the Guidelines on Preventing Conflicts of Interest to guide employees to identify and prevent the occurrence of conflicts of interest in performing his or her duties, to promote integrity and compliance at the workplace and manage ethics risks and reputation risk of the institution as a whole.

Principle 14 Description:

14. Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.

Principle 14 Implementation:

CIC's dealing with third parties is based on economic and financial grounds. Relevant rules and procedures of dealing with third parties for different strategies are clearly set out in CIC's Risk Management Guidelines.

Principle 15 Description:

15. SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.

Principle 15 Implementation:

CIC is a responsible investor, abiding by the laws and regulations of China and recipient countries and conscientiously fulfilling its corporate social responsibilities. To better identify, evaluate, manage and control legal and compliance risks, CIC conducts an in-depth analysis of major regulatory issues in recipient countries or regions.

Principle 16 Description:

16. The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.

Principle 16 Implementation:

The governance framework and objectives, as well as the operational independence from the Chinese Government, are publicly disclosed on CIC's website and in its Annual Reports.

Principle 17 Description:

17. Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

Principle 17 Implementation:

CIC invests on a commercial basis. Its objective is to seek maximum returns for its shareholder within acceptable risk tolerance. CIC is a financial investor and does not seek control of the companies in its portfolio.

CIC fosters a high degree of transparency, a practice appreciated by recipient countries or regions and business partners. Through its official website, annual report, spokespersons, press releases and other channels, CIC disclosed its corporate governance, investment strategy and philosophies, major investments activities, financial results and other key operational and management events.

Also, through interactions, CIC strengthens communications with governments, regulatory authorities, business entities and the general public to demonstrate its commitment to be a long-term financial investor and its practice of investing responsibly on a commercial basis. CIC endeavoured to foster an open, fair and non-discriminatory environment for international investment.

Pillar 3

Investment and Risk Management Framework

Principle 18 Description:

18. The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

18.1. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.

18.2. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

18.3. A description of the investment policy of the SWF should be publicly disclosed.

Principle 18 Implementation:

CIC follows clear and consistent principles and policies that reflect its defined objectives, risk tolerance, and investment strategy for its portfolio management and investment activities. CIC's investment strategy and management, as well as risk management, are publicly disclosed on its website and in its Annual Reports.

In CIC's Annual Reports, the investment principles and philosophies, investment decision-making, portfolio construction, investment activities, and investment management and support are addressed in investment strategy and management section. The risk management objective and approach, system and mechanism, and risk management outcomes are addressed in risk management section.

Principle 19 Description:

19. The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

19.1. If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.

19.2. The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

Principle 19 Implementation:

CIC is committed to being a prudent, professional and responsible institutional investor operating globally with a good reputation. It follows four underlying principles for its investment activities: CIC invests on a commercial basis. Its objective is to seek maximum returns for shareholder within acceptable risk tolerance. CIC is a financial investor and does not seek control of the companies in our portfolio. CIC is a responsible investor, abiding by the laws and regulations of China and recipient countries and conscientiously fulfilling its corporate social responsibilities. CIC pursues investments based on in-depth research within its asset allocation framework to ensure a prudent and disciplined decision-making process.

Principle 20 Description:

20. The SWF should not seek or take advantage of privileged information or inappropriate

influence by the broader government in competing with private entities.

Principle 20 Implementation:

CIC makes its business decisions independently and operates based on commercial grounds.

Principle 21 Description:

21. SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.

Principle 21 Implementation:

Following the common practice, CIC defines the general principles, management rules and requirements, division of responsibilities, and procedures of exercising shareholder ownership rights in its Corporate Actions and Proxy Voting Management to guide the exercise of its shareholder ownership rights. CIC's approach to exercise shareholder ownership rights is consistent with its investment principles as mentioned above and aims to protect and maximise its financial interests of its investments.

Principle 22 Description:

22. The SWF should have a framework that identifies, assesses, and manages the risks of its operations.

22.1. The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

22.2. The general approach to the SWF's risk management framework should be publicly disclosed.

Principle 22 Implementation:

CIC has a comprehensive risk classification and management system, involving the Executive Committee, Risk Management Committee and relevant departments to manage all kinds of risks including market, credit, operational, liquidity, strategy, legal, reputational and country risks.

CIC's comprehensive risk management is publicly disclosed on its website and in its Annual Reports.

Principle 23 Description:

23. The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined

principles or standards.

Principle 23 Implementation:

The assets and investment performance including the net annual return and net cumulative annualised return since inception of CIC's overseas portfolio are measured and reported to the State Council on an annual basis and is publicly disclosed on CIC's website and in its Annual Reports.

Principle 24 Description:

24. A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

Principle 24 Implementation:

CIC participated in the internal survey on institutional and operational practice including the implementation of Santiago Principles conducted by the IFSWF and plans to regularly review and publish self-assessment of its implementation of the GAPP.

Source URL (modified on 2017-02-21 11:12): <http://www.ifswf.org/assessment/cic>

Links

[1] <http://www.ifswf.org/node/461>

[2] [http://www.china-](http://www.china-inv.cn/wps/portal!/ut/p/a1/jZDBCoJAElafKGZaTe24aemaW4RlthdZInUhVwnp0NNnQkdX5zbwffwzPwjIQWj5VpXsVa)

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[3] <http://www.ifswf.org/assessments>

[4] <http://www.china-inv.cn>