

# The origin of Santiago Principles<sup>®</sup>

*Experiences from the past;  
guidance for the future*



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## FOREWORD

**Since 2007, sovereign wealth funds have been recognised as important participants in the international monetary and financial system. Today, it is hard to avoid the headlines their activities attract.** Sovereign wealth funds' investments are both beneficial and critical to international markets. For that purpose, it is important to continue to demonstrate – to home and recipient countries, and the international financial markets – that sovereign wealth funds have robust and independent governance and their investments are made on an economic and financial basis. The development of the Generally Accepted Principles and Practices (GAPP), known as the Santiago Principles®, and the International Forum of Sovereign Wealth Funds (IFSWF) in 2008 and 2009 played a key role in shaping the perception of these institutions by providing support for the institutional framework, governance, and investment operations.

The IFSWF believes that the occasion of the tenth anniversary of the promulgation of the Santiago Principles® is an opportune moment to reflect on the genesis of the Principles and what they have come to mean to its expanding and increasingly diverse membership in an intellectually rigorous and balanced manner.

The first part of this publication aims to aid the understanding of why, over a decade ago, multilateral institutions, major economies and sovereign wealth funds believed the Santiago Principles® were necessary. For the first time, some of the most important players in the process have contributed to a unique, first-hand narrative of the process underlying their creation.

In the second part, members of the IFSWF explain how they view the application and value of the Santiago Principles® for the first time. These sovereign wealth funds apply, or intend to apply, the Principles on a voluntary basis, each of which is subject to home country laws, regulations, requirements and obligations. IFSWF members endorse and apply the Santiago Principles® as a progressive, principles-based approach to governance, rather than a rules-based system that can be measured to make direct comparison between institutions. Member funds believe that such an approach does not accurately describe the incredible diversity and global nature of sovereign wealth funds.

To encourage well-informed intellectual debate, the IFSWF asked Edwin Truman, Senior Fellow at the Peterson Institute for International Economics, to provide an independent perspective on the success of the IFSWF in promoting transparency among sovereign wealth funds and his views on the next steps that the Forum should take. Mr Truman takes a contrasting approach to that of IFSWF member institutions. However, the IFSWF believes that his views are an informed contribution to the debate, given his involvement in the US policy dialogue around sovereign wealth funds a decade ago and his established reputation as one of the most respected commentators on the subject.

The IFSWF hopes that this publication provides valuable context for any analysis of the Santiago Principles® and how they are applied by sovereign wealth funds. We also hope that it will enhance public understanding of the origins and the work of the IFSWF.

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# 1

*How the  
Santiago Principles<sup>®</sup>  
were written*

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At a news conference on 11 October 2008 during the annual meetings of the International Monetary Fund (IMF) and World Bank Group, HE Hamad al Suwaidi, co-chairman of the IMF-convened International Working Group of Sovereign Wealth Funds (IWG), formally introduced the Generally Accepted Principles and Practices (GAPP) or Santiago Principles® with the assertion that:

*“We believe that this document will in both home and recipient countries improve the understanding of the objectives, structures, and governance arrangements of [sovereign wealth funds] SWFs; enhance the understanding of SWFs as economically and financially oriented entities; and help maintain an open and stable investment climate.”*

The press conference capped an intensive year of organisation, study, coordination, and negotiation, bringing together representatives of multilateral institutions, major economies, and sovereign investors to define a baseline of SWF governing principles and practices centred on “transparent and sound governance structure[s]... compliance with applicable regulatory and disclosure requirements... [investment] on the basis of economic and financial risk and return-related considerations, and...[maintenance of] a stable global financial system and [the] free flow of capital and investment”.<sup>1</sup>

Within six months the work of the International Working Group would be reinforced with the establishment of the International Forum of Sovereign Wealth Funds (IFSWF) in Kuwait City. The members intended the IFSWF to be a voluntary organisation of sovereign funds that would “meet, exchange views on issues of common interest, and facilitate an understanding of the Santiago Principles® and SWF activities.”<sup>2</sup>

October 2018 will mark 10 years since that founding press conference and the endorsement of the Santiago Principles® by member funds. During this time, the “Principles” or GAPP have remained unaltered even as the work of sovereign funds globally has advanced, the number of SWFs has increased, and the membership of the IFSWF has expanded. Ten years of hindsight offers considerable scope for reflection, but also risks losing the original focus and intent of the Principles. To this end, the IFSWF and its members, thought it was an appropriate time to re-examine the earliest days of the Santiago Principles® to draw experiences from the drafting process, and seek guidance for our current and future work.

To understand the context and motivations for the GAPP we combined documentary analysis with interviews of key decision-makers who participated in various stages of early framing and later drafting of the GAPP. We believe this is the first such undertaking with broad access to and engagement by senior government officials and fund representatives. We would like to thank all our interviewees:

- **Abu Dhabi Investment Authority (ADIA):** HE Hamad al Hurr al Suwaidi, now the Chairman of Abu Dhabi Accountability Authority
- **China Investment Corporation (CIC):** Mr Jin Liqun, the then Chairman of the Board of Supervisors of the CIC, and now President of the Asian Infrastructure Investment Bank
- **Future Fund (Australia):** Mr David Murray
- **GIC (then Government of Singapore Investment Corporation):** Ms Deanna Ong and Ms Wong Ai Chiat
- **International Monetary Fund (IMF):** Mr Udaibir Das and Mr Jukka Pihlman, now of Standard Chartered Bank
- **Kuwait Investment Authority (KIA):** Dr Mahmoud AA Mahmoud and Mr Ahmad Bastaki
- **Peterson Institute for International Economics:** Mr Edwin Truman
- **US Department of the Treasury:** Mr Clay Lowery, now Managing Director at Rock Creek Global Advisors.

The interviews were conducted bilaterally over a period of six months based on a common base of questions that were developed through preliminary research of relevant documentation. Interviewees were asked to reflect *from a personal perspective* on their role in the process, as well as to share observations on the process itself. They did not self-select, nor did they engage in any level of mutual coordination prior to the interviews. This, combined with a very high degree of consistency across the interviews, offered considerable robustness to our conclusions.

<sup>1</sup> Simon Willson, “IMF Survey online IMF Survey: Wealth Funds Group Publishes 24-Point Voluntary Principles”, October 15, 2008, accessed at <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sonew101508bg>

<sup>2</sup> See <http://www.ifswf.org/santiago-principles-landing/kuwait-declaration>

Much of the professional, journalistic, and academic commentary on the origins of the Santiago Principles® attributes their establishment to concerns over the substantial build-up in net foreign assets and foreign currency reserve assets mainly by commodity based and export-centric economies, accentuated by an accelerating pace of new SWF creation. Our research generally supports these basic conclusions. However, the depths of the interviews allowed us to shed new light on the stages and key elements of the drafting process. For example, among the interviewees, there was a consensus that the first initiatives to understand the accumulation of foreign currency assets through state investment funds were undertaken by the IMF from 2005 to identify and track of foreign official holdings not otherwise reported as official reserves. This work was conducted in rather technical fashion with an expressed focus on improving the accuracy of balance of payments data and the impact of asset allocation strategies on the stability of global capital markets. The central challenge identified by this work was the continuing ability of the IMF to conduct regular balance of payments surveillance analysis on factors effecting the macroeconomic stability of member countries. It was in this context that issues related to the transparency of external sector data and official reserves assets were first raised.

A second theme to emerge from the interviews was the concerns raised by the increasingly strident protectionist sentiments expressed in the US and Europe between 2005 and 2009. This anxiety, in fact, motivated the US Treasury Department's earliest initiative related to developing a set of "best practices". One result was Treasury's mobilisation of Singapore's GIC and ADIA to craft a baseline set of principles and to later play a key role as the IWG carried out its tasks. Our interviewees described the Treasury's role as constructive, but they noted that it did not seek to influence the drafting of the Santiago Principles®.

A further impetus for the establishment of the GAPP was the accelerated uptick in the creation of new funds, particularly those in China, Russia, Korea, and Australia. Specifically, the IMF was closely monitoring China's sizable build-up of its foreign reserve base and the establishment of the CIC, within China's relatively restricted exchange-rate management.

## **All interviewees acknowledged that the wide diversity of funds and individual participants comprising the IWG was challenging. It was also working to a very tight deadline: the October 2008 Annual Meeting of the IMF and World Bank Group.**

The goals of the IWG were to present the GAPP to the International Monetary and Financial Committee, the IMF's key policy-guiding body, when it convened on 11 October in Washington DC and to publish it after that meeting. The work of the IWG between April and October 2008, was also conducted against the evolving backdrop of the global financial crisis. Notwithstanding, the participants accepted the urgency of their deadline such that the financial crisis itself was neither an impetus, nor accelerant to its work.

Several interviewees noted that the IWG meetings were dominated by diversity and the differences of ownership, organisational structure, and institutional mandate of the participating institutions. In fact, some pointed out that many funds involved in the drafting process were entirely unaware of the objective – or in some cases the very existence – of peers. The diversity required considerable ongoing efforts to ensure that the purpose of each fund was properly understood throughout the IWG. As a result, promoting effective dialogue required extensive coordination and continued attention by the small IMF staff team that was facilitating the IWG sessions. All interviewees emphasised the high level of consensus-building among participants despite clear differences in objectives and outlook, stressing that member commitment to their collective objective was based upon a relationship of mutual trust. Also, as early as the IWG sessions, members had begun to explore the establishment of a standing group of sovereign wealth funds to carry forward their work.

## Into the crisis

In January 2007, the S&P 500 index was approaching 1,800, with asset-price appreciation reflecting markets buoyed by strong global liquidity. Commodity prices – particularly oil – enjoyed strong performance, rebounding from lows of \$18 per barrel in 1998 to well over \$100 during the next decade.

This rise in oil prices, coupled with a desire of Asian governments to maintain greater liquidity buffers and rebuild their economies after the region's 1997 financial crisis, had contributed to greater than three-times increase in the aggregate level of global foreign exchange reserves. As reserve assets accumulated, the opportunity costs of maintaining outsized liquidity buffers increased significantly. Given the experience of the Asian financial crisis, the resulting build-up of foreign assets by 2005 caused multilateral financial institutions and governments of major economies whose debt these institutions held, to raise questions about their scale, how fast they were growing, where they were housed – if not in central banks – and how they were managed.

The IMF also became increasingly aware of the growing importance of SWFs to the international financial system, which was being manifested in a substantial increase in cross-border investment by government-linked institutions, including state-owned enterprises. This activity contributed directly to increased global capital flows and had potential asset-price implications. The Fund linked these trends to the rapid accumulation of foreign currency assets by some countries, and to shifts in asset allocation patterns of state investment in international capital markets.<sup>3</sup> Consequently, in 2005 the IMF began to enhance its surveillance of official institutions and central banks deploying national foreign currency assets. This work continued into 2007 and expanded to include issues of transparency, including data collection and statistical analysis related to the size and scale of investment of foreign currency assets.<sup>4</sup>

<sup>3</sup> Interview with Udaibir Das

<sup>4</sup> Ibid

Among countries attracting sovereign investment, the rise in official cross-border investment flows, particularly by government-linked entities in sensitive sectors, such as energy and infrastructure, raised immediate concerns related to national security interests. The US was particularly concerned due to several large projects targeted in the US in 2005 and 2006, including China National Offshore Oil Corporation's (CNOOC) bid for US oil company Unocal, as well as Dubai Ports World's purchase of the UK's P&O and its contracts to manage US port assets. Both transactions were pursued against a backdrop of growing concerns over national security risks related to such foreign direct investment. CNOOC's bid was shelved, while DP World sold its contracts to American International Group's asset management division, Global Investment Group, due to heavy scrutiny from the Congress over the work of the Committee on Foreign Investment in the United States (CFIUS). Nonetheless, both cases highlight the polarisation of views between Congress and the Bush Administration, as Bush's Treasury team rose to the defence of welcoming foreign investment against advancing protectionist sentiments.<sup>5</sup>

<sup>5</sup> Interviews with Clay Lowery and Edwin Truman



## GIC, ADIA collaborate

The US Treasury Department was becoming increasingly alarmed by the political reaction to foreign acquisitions by foreign government-linked entities, accentuated by the Dubai Ports World incident. In June 2007 Acting Under-Secretary of Treasury for International Affairs, Clay Lowery, concretely addressed the role of sovereign funds in the international financial system at the Federal Reserve Bank of San Francisco. His remarks were motivated by the sharp acceleration in the accumulation of foreign assets, accompanied by concerns that reserves may well be understated because they generally do not include the assets of sovereign wealth funds. Due to this dramatic increase in cross-border holdings, Lowery and the Treasury were especially worried that financial protectionism could reduce the openness of the international investment regime.

Lowery's comments clearly reflected the essence of the IMF's parallel work to define both the scope of foreign assets and the aggregate size of official reserves and SWF assets, with particular attention to potential impacts on global financial market stability. A second key concern raised by Lowery was that the expanding size of these funds coupled with negative perceptions of investment policies and operating methods might fuel financial protectionism and, therefore, inhibit future foreign investment by sovereigns in recipient countries.

Lowery commented that the reaction to the Dubai Ports World incident “was an absolute storm of protest...and undermined a lot of what the United States was trying to do [to be] welcoming of foreign investment. We had not anticipated the backlash... We [did] not want a frightened reaction to sovereign wealth funds. Because of that, we tried to be very public”.

*“We felt we needed to show we were getting ahead [of the issue]. Our concern was: Government-owned investment vehicles could potentially raise concerns about direct investments [in the US] ... but [also] about portfolio investment... We needed to do something more.”<sup>6</sup>*

To address these concerns, Lowery proposed three elements of a policy agenda in his speech. The first was to develop a set of best practices for SWFs through a joint task force. The second was to focus on the root issues that cause official reserve accumulation. The third focused on national securities regulators and emphasised the need to treat SWFs as they would any large institutional investor: to “maintain mechanisms to review foreign direct investment in a manner that preserves national security without creating unnecessary and counterproductive barriers.”<sup>7</sup> Furthermore, the US Treasury decided to reach out to GIC and ADIA in 2007 to encourage their support for drafting a statement of principles related to sovereign investment that captured the key points for both institutions and the countries in which they invested.<sup>8</sup>

*“Let’s work with them to come up with ideas about... principles and how to bring other countries [into the process]”<sup>9</sup>, recalled Lowery.*

GIC and ADIA were targeted because each fund maintained a strong financial orientation, and both maintained a regular dialogue with Treasury.<sup>10</sup> Although ADIA was unaware of parallel efforts by the IMF to document and catalogue official assets, the fund had become more sensitive to the growing public awareness and concern about state-sponsored cross-border investment. Abu Dhabi was particularly concerned that the countries in which SWFs invested would misunderstand the objectives of SWFs and potentially impose new regulations or restrictions. As HE Hamad al Suwaidi explained: “We regularly met with the US Treasury and with GIC at investment forums. This topic [of partnering with GIC to create a set of best practices] was brought up in one of the regular meetings with the US Treasury. Because we and GIC were some of the most established SWFs, we thought by developing best practice principles then perhaps host countries would be more comfortable with the objectives of the SWFs.”<sup>11</sup>

<sup>6</sup> Interview with Lowery

<sup>7</sup> Remarks by Acting Under Secretary for International Affairs Clay Lowery on Sovereign Wealth Funds and the International Financial System, 21 June 2007 accessed at <https://www.treasury.gov/press-center/press-releases/Pages/hp471.aspx>

<sup>8</sup> Interview with Lowery

<sup>9</sup> Ibid

<sup>10</sup> Interviews with Deanna Ong and Wong Ai Chiat, Lowery, and H.E. al Suwaidi

<sup>11</sup> Interview with al Suwaidi

The three institutions worked throughout 2007 on the preparation of a core set of policy principles related to the practices of both sovereign wealth funds and those of host countries. In parallel, the Treasury pursued a separate and ongoing dialogue with the multilateral institutions, including the IMF, the World Bank, and the OECD to encourage their participation and support.<sup>12</sup>

In addition, international economic experts also joined in the global policy discussion. In August, 2007, for example, Edwin Truman, Senior Fellow at the Peterson Institute for International Economics, published a detailed policy brief echoing many of Lowery's themes and calling for an international standard for a wide range of investment activities by governments from reserves to pension management, including the investment activities of all manner of SWFs.<sup>13</sup> The objective was to increase transparency, accountability, and predictability with the broader goal of enhancing the financial stability in home countries and internationally.<sup>14</sup>

The US Treasury's outreach and wider recruitment efforts coalesced in October 2007, when the department hosted a dinner that included the finance ministers of the G7, the heads of the IMF, the OECD, and the World Bank, as well as finance ministers and heads of sovereign wealth funds from seven countries – China, Kuwait, Norway, Russia, Singapore, South Korea and the United Arab Emirates – as well as the central bank of Saudi Arabia. The following day the International Monetary and Financial Committee of the IMF,<sup>15</sup> citing “the importance of resisting protectionism and maintaining an open global financial system”, endorsed “the work by the IMF to analyze issues for investors and recipients of [sovereign investment] flows, including a dialogue on identifying best practices”,<sup>16</sup> and encouraged IMF participation in this initiative. At the same time, the OECD accelerated its own work on developing best practices for host country investment regimes.<sup>17</sup>

Writing in the January/February 2008 issue of Foreign Affairs, Deputy Secretary of the US Treasury, Robert Kimmitt, offered insights into the US Treasury's policy position with respect to SWF investment in late 2007 and early 2008, while presenting the rationale for Treasury's efforts to promote drafting and adoption of best practice guidelines. In historical context, Kimmitt's comments were not only consistent with those made earlier by Lowery,<sup>18</sup> but also reflected the ongoing work of the Treasury with GIC and ADIA.

Kimmitt's position was grounded in two key points. The first was “that SWFs are... large enough to be systemically significant” and, second, that they were “likely to grow larger overtime in both absolute and relative terms.” Kimmitt traced these scale and growth issues to the role of sovereign investment funds in facilitating foreign-reserve accumulation and more broadly governments' ability to manage exchange rates. While he acknowledged certain benefits of SWFs as long-term strategic investors, he accented the issue of scale or size by emphasising the risks to global markets caused by concentrated, opaque positions. “A sudden shift by sovereign wealth funds in illiquid markets can cause price volatility”, he noted, stressing further that “since many sovereign wealth funds disclose little of their investment policies, mere rumour of sovereign shifts may cause the private sector to react.”<sup>19</sup>

<sup>12</sup> Interviews with Ong and Wong and Lowery

<sup>13</sup> This brief was the public release of a paper first delivered at a US Treasury-hosted G20 working group on commodities in May 2007

<sup>14</sup> Edwin M. Truman, “Sovereign Wealth Funds: The Need for Greater Transparency and Accountability”, The Peterson Institute for International Economics, August 2007 accessed at <https://piie.com/sites/default/files/publications/pb/pb07-6.pdf>

<sup>15</sup> The IMFC “reports to the IMF Board of Governors on the supervision and management of the international monetary and financial system, including on responses to unfolding events that may disrupt the system.” See <http://www.imf.org/en/About/Factsheets/A-Guide-to-Committees-Groups-and-Clubs#IC>

<sup>16</sup> Communique IMFC, October 2007

<sup>17</sup> Robert M. Kimmitt, “Public Footprints in Private Markets: Sovereign Wealth Funds and the World Economy”, Foreign Affairs, January/February 2008. This connection to the IMF and related timing was also reiterated by Udaibir Das

<sup>18</sup> Interview with Lowery

<sup>19</sup> Kimmitt, op. cit.

With respect to host countries, Kimmitt raised cautions of government-linked entities “taking active control of private firms” and, in the case of the US, linking the issue specifically to the oversight mandate of CFIUS. Reasserting a strategic objective of the Bush administration, Kimmitt urged recipient countries to “take care to do no harm”, and support cross-border investment, the benefits of which would be proportional to the extent such investment was “economically driven”.<sup>20</sup>

<sup>20</sup> Ibid

Strategically, the Treasury, through Kimmitt, used the Foreign Affairs platform to float a core set of basic principles, applicable to both SWFs and recipient countries, that in large part would be later reflected in Treasury’s collaborative work with the GIC and ADIA.<sup>21</sup> First, recipient countries should be open to and tolerant of international investment, “regardless of whether the investor holds a controlling interest in national firms”. Second, recipient countries should uphold openness in regulatory frameworks. Within those frameworks they should also respect investor decisions. Lastly, recipient countries should treat all investors equally and not impose discriminatory tax and regulatory policies on foreign entities.

Similarly, Kimmitt identified five policy principles to be followed by SWFs. First, that sovereign investment be commercially motivated. Second, sovereign wealth funds should present themselves as world-class institutions with integrity. Third, SWFs should compete fairly with the private sector and not assume any unfair competitive advantage, including financing acquisitions at below market rates. Fourth, SWFs must promote international financial stability and, during periods of stress, communicate effectively with the official sector to address “financial market issues”. Finally, SWFs must respect host country rules and comply with, and be subject to, all applicable regulations related to financial disclosures. Thus, through the Foreign Affairs piece, the US Treasury set the stage for the follow-on work of compiling two sets of voluntary, multilateral best practices to provide and improved framework for SWFs and the recipients of their investments”.<sup>22</sup>

The Treasury Department believed that the OECD was the best equipped entity to identify best practices for recipient countries, noting that these countries have a responsibility to maintain openness. It also endorsed the IMF’s active involvement in identifying SWF best practices by drawing on its experience and “building on existing best practices for the management of foreign exchange reserves”.

On 20 March 2008, nine core principles agreed by GIC, ADIA, and Treasury were released.<sup>23</sup> These bore a resemblance to those proposed by Kimmitt three months previously, though not verbatim. The accompanying press release acknowledged the work which was then underway in the IMF and the OECD to develop “voluntary best practices for SWFs and inward investment regimes for government-controlled investment in recipient countries, respectively”. The three parties identified in this work incentives for both SWFs and host countries to hold themselves to “high standards” and expressed the hope that the IMF and OECD could build on their work.

<sup>21</sup> See “Treasury Reaches Agreement on Principles for Sovereign Wealth Fund Investment with Singapore and Abu Dhabi” accessed at <https://www.treasury.gov/press-center/press-releases/Pages/hp881.aspx>

<sup>22</sup> Kimmitt, op. cit.

<sup>23</sup> “Treasury Reaches Agreement...”, op. cit.

## An international working group is established

From mid-2007 until the spring of 2008, technical work of what would become the Santiago Principles® proceeded at a rapid pace.<sup>24</sup> As the global financial crisis progressed, global liquidity contracted. The S&P peaked in Oct 2007, then began a precipitous decline, placing the capital reserves of most global banks in severe jeopardy. The crisis preoccupied the global financial leadership, including that of participant funds. The last quarter of 2007 saw a series of large investments by SWFs in the global financial sector. These continued into the first half of 2008. The multilaterals and Treasury openly acknowledged these contributions to back-stopping bank capital. Yet, some sovereign funds were confounded by the seemingly paradoxical stance of promoting and welcoming sovereign investment in distressed sectors, whilst demanding funds invest strictly on commercially viable terms.<sup>25</sup>

The preparatory work of the IMF and the preliminary drafting efforts by GIC, ADIA, and the US Treasury was formally handed over to sovereign wealth funds with the formation of the International Working Group of Sovereign Wealth Funds (IWG). The Group was established on 30 April and 1 May 2008, in Washington, DC at a meeting of SWFs from 26 countries and would later meet on two subsequent occasions in Singapore and Chile. Governance protocols were established and carefully followed, including those related to the nomination and election of the chairs.<sup>26</sup> At the initial meeting the chairs were voted and seated: HE Hamad Al Hurr Al Suwaidi, Undersecretary of Abu Dhabi Finance Department, and Jaime Caruana, Director of the Monetary and Capital Markets Department of the IMF.<sup>27</sup>

*“Because we felt that host countries might misunderstand the objectives of SWFs, we were concerned that this could lead to more regulation that would prevent us from being a successful long-term investor,” recalled HE Hamad al Suwaidi on what motivated ADIA’s active involvement in the IWG.<sup>28</sup>*

Recipient countries also participated in the work of the IWG, but our interviewees reported that they were not directly involved in drafting. Rather, they were called in during separate sessions to collect their views.<sup>29</sup> The US, of course, had seats at both tables as the Alaska Permanent Fund Corporation formally participated as a fund member of the IWG. But, by its own admission, Treasury – after initiating the process – tried to allow the chairs to lead the proceedings and took on more of a supportive and collaborative role once the IWG and SWFs assumed responsibility for drafting the GAPP.<sup>30</sup>

The IWG established three subcommittees to carry out the detailed work going forward.<sup>31</sup> These were chaired by David Murray, Chairman of Australia’s Future Fund Board of Guardians and tasked with technical drafting. The subcommittees also met on three occasions in Oslo, Singapore, and Santiago. The IWG leveraged an IMF staff-commissioned SWF survey on current structures and practices in their work and drew from established global principles and practices related to official reserves management and institutional investment.<sup>32</sup>

From the outset, the IWG kept a keen focus on the deadline of October 2008 as its members engaged in intense negotiations and drafting during the period between May and August 2008.

<sup>24</sup> For background, see various IMF publications, including for example “Investment Funds”, Issues Paper (RESTEG) # 5, December 2005, “The Statistical Work on Sovereign Wealth Funds”, BOPCOM-08/19, “Sovereign Wealth Funds and Reserve Assets: A Statistical Perspective”, November 2007, and “Sovereign Wealth Funds: A Work Agenda”, February 2008

<sup>25</sup> For example, notes submitted by Murray

<sup>26</sup> Interview with al Suwaidi

<sup>27</sup> Santiago Principles®. Accessed at [http://www.ifswf.org/sites/default/files/santiagoprinciples\\_0\\_0.pdf](http://www.ifswf.org/sites/default/files/santiagoprinciples_0_0.pdf)

<sup>28</sup> Interview with al Suwaidi

<sup>31</sup> Notes submitted by Murray

<sup>32</sup> Ibid

## The GAPP emerge

Our interviewees suggested that the considerable impetus for the drafting process of the GAPP came from the confluence of several issues, the most important of which was the negative reaction in the US to the Dubai Ports World incident, which, it was feared, might lead to governments imposing restrictions on SWFs' ability to invest overseas.<sup>33</sup> Specifically, some SWFs were concerned that negative sentiment might lead to the perception that they needed to be "monitored and regulated", to ensure that they were investing solely on financial grounds without political involvement in investment decision-making.<sup>34</sup>

Additionally, the on-going financial crisis heightened the perception that sovereign investment could potentially destabilise the global economy, even though the real investment activities of several SWFs appeared to suggest otherwise. Ultimately, the crisis was to play a subtle role in the drafting process,<sup>35</sup> without direct and immediate influence. The SWFs involved were certainly aware of the crisis as it created both investment opportunities and risks. However, in the moment, the crisis informed expedition, rather than content.<sup>36</sup>

*Thus, notes David Murray, "[a]s the work progressed [participants] could see the merit in pushing back against the threat of discrimination against SWFs"<sup>37</sup>, and so the process of reconciling fund motivations, positions, and goals continued progressively, organised, encouraged, and facilitated by the IMF staff and IWG leadership.<sup>38</sup>*

That said, although the IWG recognised the value of the GAPP process, as David Murray noted, "[a]t first many members, particularly those that had been established for a long time, were resentful that they should even be asked to submit to such a process."<sup>39</sup> Similarly, Jin Liqun recalled that some funds thought sovereign investment should not be a concern for the international financial system as so many had existed and operated seamlessly for very long time.

The diverse nature of the IWG's 26 participating countries could have made the proceedings of the initial meetings overly protracted. However, the leadership ensured that the drafting of the GAPP followed a robust process and focused on the October 2008 deadline, ensuring that the subcommittees and the participants were responsible for completing the process.<sup>40</sup> The subcommittees provided good detail on the operations of their members, which further deepened mutual understanding and promoted more effective knowledge-sharing. Three tracks were defined, and participant funds met together to resolve differences. Cross-fund distinctions were recognised and acknowledged, especially when viewpoints frequently differed, particularly on contentious issues such as the extent and exact nature of transparency and disclosure. Nonetheless, consistent efforts were made to ensure the work of the subcommittees remained collaborative to arrive at consensus language for each GAPP.<sup>41</sup>

There were several critical points of contention on matters of substance amongst IWG members. These included agreement on appropriate *standards* and the relationship between *standards* and institutional credibility. Jin noted that the developing countries represented in the IWG were intensely interested in the principles and standards discussed, but concerned about their ability to agree to and meet standards proposed by their developed-country counterparts.<sup>42</sup> Broader issues of transparency and disclosure, particularly as these applied to existing domestic reporting and regulatory regimes, were also important.<sup>43</sup> In some respects, the latter were accentuated by the launch of CIC.<sup>44</sup> Consequently, China itself recognised the need to reconcile views on transparency by maintaining a keen focus on standards.<sup>45</sup>

Reflecting on the 30 April to 1 May 2008 Washington meeting, the KIA described the discussions as centred on the notion of "self-regulation" or self-oversight and, especially in the first day, reflecting a strong and continuing lack of consensus. By the second day, progress had been made on three critical points: The Principles must be voluntary; they would be characterised as "general" principles as against "best" practices; and, most importantly, they were subordinate to domestic regulatory requirements.

<sup>33</sup> Interviews with Mahmoud and Bastaki and al Suwaidi

<sup>34</sup> Interview with Mahmoud and Bastaki. Further to this point, the KIA noted its agreement to participate was catalysed after it received a request from the governing body of the IMF

<sup>35</sup> Interview with Jin Liqun

<sup>36</sup> Interview with al Suwaidi

<sup>37</sup> Notes submitted by Murray

<sup>38</sup> Interview with Jin

<sup>39</sup> Notes submitted by Murray

<sup>40</sup> Interview with al Suwaidi

<sup>41</sup> Interview with Ong and Wong

<sup>42</sup> Interview with Jin

<sup>43</sup> Interviews with Jin and Mahmoud and Bastaki

<sup>44</sup> Interview with Jin

<sup>45</sup> Ibid. Notwithstanding, according to Jin, even after the GAPP were adopted, there has been a continuing concern about certain SWF investments among recipient governments related specifically to national security that slows investment functions for both CIC and for some GCC funds

Reflecting on the 30 April to 1 May 2008 Washington meeting, the KIA described the discussions as centred on the notion of “self-regulation” or self-oversight and, especially in the first day, reflecting a strong and continuing *lack of consensus*.

By the second day, progress had been made on three critical points: The Principles must be voluntary; they would be characterised as “general” principles as against “best” practices; and, most importantly, they were subordinate to domestic regulatory requirements.<sup>46</sup>

<sup>46</sup> Interview with Mahmoud and Bastaki and notes submitted by Murray  
The latter emphasized the importance of voluntarism to the GAPP

Consistently, all interviewees acknowledged that the issue of transparency was especially troublesome to resolve,<sup>47</sup> largely because it was nested in broader issues of disclosure, provisions of each fund's founding charter, domestic regulations, and the hierarchical relationship of the GAPP and the home country regulatory regime. A satisfactory outcome required considerable reconciliation among the participants to define a meaningful baseline of transparency, but also the information that would ultimately be left to the discretion of each member fund.<sup>48</sup> These discussions continued at subsequent meetings of the IWG and subcommittees sought to first resolve, then refine the GAPP that had expanded from the nine original principles formulated by GIC, ADIA, and the US Treasury to 24. Particularly important to resolve was the status of the GAPP with respect to the charter of each fund and the domestic regulations that governed the operations and reporting of the fund.

*David Murray of Australia's Future Fund accentuated the “voluntary nature (to protect sovereignty)” of the GAPP, as well as that they represent a “‘complete’ structure...[i.e.] that it would be highly unlikely that any fund adopting all the principles could be working in any way other than on a normal commercial basis.” Thus, what would become contentious would be “anything which detracted from the voluntary nature of the principles and the primacy of home country laws”.*<sup>49</sup>

<sup>47</sup> We note here the interview with Jin as one such example  
<sup>48</sup> Interview with Ong and Wong  
<sup>49</sup> Notes submitted by Murray

For example, the KIA found it difficult to reconcile asset disclosures and how and why it was important to monitor the investment decision-making of SWFs. KIA is governed by Law 47 of 1982, which states that “the employees of the Authority or any of those participating in any form in its activities, may not disclose data or information about their work or the position of the invested assets, without a written permission from the Chairman of the Board [the Finance Minister]”, and so was unable to comply with any GAPP that required public disclosure of total assets or its investment strategy. Rather KIA could make a public declaration that it is audited and reports to its owners, who themselves have exclusive oversight of the fund's activities.<sup>50</sup>

<sup>50</sup> Interview with Mahmoud and Bastaki  
<sup>52</sup> Ibid  
<sup>53</sup> Ibid  
<sup>53</sup> Ibid

To resolve the issues of transparency and disclosure, KIA proposed that SWFs under the GAPP uphold its provisions if doing so did not contravene domestic laws. This established the precedent that an SWF's charter and any applicable domestic laws and regulations would prevail over the GAPP. The KIA viewed this issue as a critical barrier for itself and other participant funds and identified it as the most difficult to resolve, so much so that failure to do so would have jeopardised or otherwise significantly detracted from the final draft of the principles.<sup>51</sup> Two days of discussion and drafting resulted in agreement that established the GAPP as voluntary and subordinate to domestic laws governing the funds.<sup>52</sup> Reflecting on this process, Mr. Bastaki of the KIA noted:

*“The Santiago Principles® is more of a comfort document for recipient countries to be reassured that what we do will be done responsibly. However, it is voluntary. We have considerably greater oversight [in Kuwait] than [implied] by the Santiago Principles®. The domestic laws of Kuwait are more stringent than the Santiago Principles®, so we consider [them] to be secondary.”*<sup>53</sup>

As the intensive work of the IWG began to wind down in August 2008, the global financial crisis was about to enter a new phase. The 158-year old New York investment bank Lehman Brothers filed for bankruptcy protection on 15 September 2008, triggering a 300 basis-point spike in interbank lending rates, accelerating a host of financial sector consolidations, and driving extreme volatility in global financial markets. With the work of the IWG completed by its appointed deadline, HE Mr Al Suwaidi prepared to draw its proceedings to a close. For ADIA, His Excellency now reflects, “the International Working Group was an important platform to be involved in. There were diverse institutions engaged in the working group. We wanted to find a common ground that would also be acceptable to the host countries. The challenge was to get the group to agree on a framework in a short period of time. This was the first time that SWFs were brought together to discuss their objectives and future...

We wanted to meet the deadline of the IMF Meetings in October 2008. All institutions felt a responsibility to meet this objective. We were comfortable at the end of the process that we were able to produce a robust set of principles that was also acceptable to the host countries.”<sup>54</sup>

<sup>54</sup> Interview with al Suwaidi

## Towards the future

The postscript to the IWG proceedings was the establishment of an independent member organisation and secretariat that would facilitate understanding of the Santiago Principles® and their application, including on operational and technical matters.<sup>55</sup> While the functions of a secretariat were initially performed by the IMF, the KIA stressed the importance of independence, particularly from formal IMF supervision or its perception. Through its leadership, SWFs met in Kuwait and signed the Kuwait Declaration of 6 April 2009, formally establishing the IFSWF and its independent secretariat. In the intervening years, SWFs have grown steadily in number and have adopted a wider range of mandates. Through their investment activities, they are now more deeply integrated as partners into both domestic and global capital markets. They are also participating in increasing numbers in the work of the IFSWF as members.

The Santiago Principles® were drafted amidst the backdrop of the most severe financial crisis in multiple generations. Calls for greater transparency reflected genuine concerns by several governments about the potentially destabilising effects of obscure, large-scale capital movements and whether they needed to guard against them by imposing tighter controls on cross-border flows. Yet, in parallel, many of the Principles’ drafters were engaged in large-scale investment programmes that provided stability for the distressed global banking sector. In fact, the roots of the Santiago Principles® were planted to support and advance a platform for global investment through open markets, based upon common practices of investment governance as *good public policy*. These goals – high standards of investment governance, open capital markets, global financial stability – remain the foundation on which the Santiago Principles® can inform and motivate future enhancements to global regimes of investment governance. As David Murray notes, “[T]hey have become a tool for policy making in many countries and a guide to public and private investment offices.”<sup>56</sup>

*The KIA accentuated this point: “Being a member of the IFSWF has pulled everyone up to higher standards and the Santiago Principles® have added significant value in achieving this goal.”<sup>57</sup>*

<sup>55</sup> See the Kuwait Declaration accessed at <http://www.ifswf.org/santiago-principles-landing/kuwait-declaration>

<sup>56</sup> Notes submitted by Murray

<sup>57</sup> Interview with Mahmoud and Bastaki





*What are the  
Santiago Principles<sup>®</sup>?*<sup>58</sup>

<sup>58</sup> The IFSWF wishes to thank representatives from the following sovereign wealth funds for their input into this paper in 2017: Bank of Botswana, China Investment Corporation, Chile Ministry of Finance, GIC, Kuwait Investment Authority, Palestine Investment Fund, Samruk-Kazyna and State Oil Fund of Azerbaijan.

Sovereign wealth funds have been active in global financial markets for more than half a century. In the early 2000s, high commodity prices and favourable balances-of-trade increased surpluses of resource-rich and export-oriented countries. The role of SWFs expanded to diversify their holdings of foreign reserves. By 2007, a climate of rising protectionism drew attention to the growth of central bank and SWF assets. Public discourse raised questions about the role of sovereign wealth funds in international finance, theorising that they could be used by their governments as a way of wielding influence over companies and markets.

By 2008, sovereign wealth funds had become acutely aware that this idea was exerting a powerful hold on the collective imagination of public and private financial actors, government and multilateral institutions. Early that year, a constructive dialogue started between the governments of countries receiving sovereign wealth fund investment and those owning the funds. After extensive dialogue and information sharing, that included representation from the World Bank and the International Monetary Fund, 26 SWFs – the International Working Group of SWFs – established a set of Generally Accepted Principles and Practices (GAPP) that was intended to guide SWFs as responsible financial institutions.

In September 2008, the International Working Group met in Santiago, Chile, to finalise the Principles, which have since become known as the Santiago Principles®.

Following an April 2009 meeting in Kuwait City, the Working Group was formally organised as the International Forum of Sovereign Wealth Funds (IFSWF) – a voluntary organisation of SWFs whose members agreed to “uphold, in all material respects, the Santiago Principles®” under the Kuwait Declaration.

## Intent of the Santiago Principles®

The primary objective of the Santiago Principles® – still paramount for the IFSWF today – is to help maintain the free flow of capital and investment needed for a stable global financial system.

By applying the Santiago Principles®, IFSWF members seek to achieve this goal by demonstrating their commitment to professional, independent, and commercially orientated investment management as they seek, on a voluntary basis, to fulfill the mandates set for them by their owners. The Santiago Principles® set out fundamental principles and practices for sound and transparent sovereign wealth fund governance, grounded in professional investment industry standards for operational controls, risk management, and accountability. Importantly, the act of voluntarily implementing the Santiago Principles® enables a sovereign wealth fund to assure governments of recipient countries that it will comply with all applicable regulatory and disclosure requirements required of all international investors in those markets.

## Applying the Santiago Principles®

In the decade since the Santiago Principles® were first drafted, the membership of the IFSWF has grown and has become significantly more diverse. Its founding members were large, established funds, the clear majority of which had either a savings stabilisation and/or foreign exchange holdings diversification mandate. Today, the Forum is an expansive group of large and small funds with a wide range of remits, encompassing investment strategies from the most global and liquid and to the most local and highly illiquid.

Applying the Santiago Principles® in practice is a dynamic process that must accommodate local legal structures and traditions. In fact, ongoing monitoring and review is hard-baked into the Santiago Principles®, through the implementation of Principle 24. For these reasons, the IFSWF advises caution in attempts to compare and order the implementation experiences of SWFs. Resulting measures often abstract, oversimplify, or mask the unique organisational, institutional, and cultural challenges that each member faces.

IFSWF members commit to implementing the Santiago Principles® over time as a process, as required by the members' agreement. The IFSWF Board assesses each new applicant for membership based upon their progress in applying the Santiago Principles® at the time of application. The Board also requires an extended commitment by the applicant to explore new ways to further incorporate the Principles into their governance and operational structures.

Each member begins the process of implementing the Santiago Principles® from their own unique starting point, depending on their history and legacy structures and subject to their mandate. Consequently, the path to implementation will not be the same for every member. Nevertheless, all members aspire to establish the best possible governance, accountability, and operational methods to enable them to fulfil their mandates in the best interest of their owners and national citizenry – their ultimate stakeholders.

A key role of the IFSWF is to be an organisation that supports members in their own process of implementing the Santiago Principles®. The Forum does this by facilitating knowledge- and experience-sharing opportunities, but also through member workshops and other continuing activities of the Secretariat. The Forum's members can act as a sounding board that can offer new members guidance from their own experiences.

Thus, the membership of the IFSWF view the Santiago Principles® not as “rules”, or some basis for a scoreboard, but rather as guiding principles and practices to be applied according to local institutional structures to progressively enhance and improve sovereign wealth fund investment governance in accord with global professional standards.

## Self-assessment: a window onto applying the Santiago Principles®

The IFSWF – working with the membership – has sought to address some of the challenges of applying the Santiago Principles®. For example, the IFSWF has changed its assessment procedures, moving from a quantitative approach to a structured methodology that accommodates the diversity of member implementations and allows for contextualised measures of progress.

The Forum has also expanded its publication of information on member self-assessments. Currently, the IFSWF publishes case studies of implementing the Santiago Principles® based on members' self-assessments, as well as 31 members' self-assessments of Santiago Principles® implementations on its website. This is an increase from 15 members who originally prepared case studies on their implementation experiences. The self-assessment documents offer a unique window into the implementation process from the perspective of each member and provide primary information on members for recipient countries, analysts and other practitioners, and scholars.

In 2018, the IFSWF has further enhanced the self-assessment process by providing members with a set of guidelines to assist in their preparatory work. These advisory principles are intended for use by both new and existing members and are designed to facilitate self-assessment reviews and communication of relevant practices vis-à-vis the Santiago Principles®.

Moving forward, the Forum is committed to the on-going support of members in their self-assessments to extend and improve the implementation of the Santiago Principles® within their organisations.

## Beyond the membership

The IFSWF believes that the Santiago Principles® are primarily a tool to assist members to become better long-term investors. The Forum nevertheless acknowledges that the Santiago Principles® are also important to non-members – recipient country governments, investment partners, lenders, etc – because they can serve to establish the professional credentials for the members with whom they engage.

Recent legal commentary has increasingly drawn parallels between the Santiago Principles®, and the organisational role of the IFSWF, and other frameworks of international financial regulation affected through the adoption of principles and practices. Such interpretations of the Santiago Principles® can extend their scope beyond that of the original intent of the Principles' authors.

**The IFSWF respects the diversity and independence of its membership and is committed to fulfilling the original purposes of the Santiago Principles®.**

As such, the Forum will continue to improve communications about its initiatives, assist members in applying the Santiago Principles® to their organisations, and support them in integrating the Principles into their governance and investment-management processes. In so doing, the IFSWF seeks to reinforce the confidence in the global community of SWF stakeholders as responsible investment partners.



*Perspective:  
sovereign wealth funds:  
Building on a decade  
of progress*

## Edwin M. Truman\*

*Non-resident Senior Fellow,  
Peterson Institute for  
International Economics*

More than a decade ago, Andrew Rozanov (2005) coined the term sovereign wealth fund (SWF) to describe a diverse group of government-owned or controlled investment institutions. At the time, these vehicles were viewed as universally opaque. Policymakers in host countries were wary of their motivations. Today, many SWFs are more transparent and, consequently, less distrusted. Their formulation of the Santiago Principles®, or Generally Accepted Principles and Practices of SWFs, and the efforts of the International Forum of SWFs (IFSWF) to promote adherence to the Principles have contributed importantly to this improved environment. In my opinion, however, the Forum must extend that progress.

I believe that the Forum should further promote transparency of SWFs by expanding its membership and updating the Santiago Principles®. The Forum also is well placed to build on its diverse membership to address not only the public good aspects of SWF investments, but also challenges to the international financial system.

\* The views expressed in this note are those of the author and do not necessarily represent the views of the International Forum of Sovereign Wealth Funds. In preparing this note, I have benefitted from comments from Victoria Barbary, Anna Gelpern, Adrian Mazarei, Nicolas Veron, and Steve Weisman. None should be held responsible for the views expressed.

## Background

Truman (2010, 121-24) describes the establishment of the International Working Group (IWG) of SWFs that formulated the Santiago Principles® released on 11 October 2008. Their release was overshadowed by the global financial crisis, which was then entering its virulent phase. The IWG expeditiously produced a consensus document on a complex set of subjects. The group had to balance the interests of both SWF home countries and countries that are host to their investments and to recognize that the governance arrangements in each home country. Hence, the domestic political framework under which each fund operates differs. Likewise, the host countries differed in their orientation.

**This diversity contributed to the positive result of the group's deliberations. Multilateral financial diplomacy worked!**

I sought to advance the transparency of SWF and, later, the process that led to the Santiago Principles® by developing a prototype scoreboard of the transparency and accountability of 33 SWFs in 2007 and a more fully developed scoreboard for 37 funds in early 2008. Subsequently, successive editions of the scoreboard have tracked the progress of SWFs with respect to their transparency and accountability and I have been able to assess indirectly the role of the Santiago Principles® and the IFSWF in promoting this progress (Truman 2008, Truman 2010, Bagnall and Truman 2013, and Stone and Truman 2016).

**Table 1** presents the scores of SWFs on the four scoreboards. In the first, 33 funds scored an average of 51%. In the fourth, 60 funds scored 62% on average – a modest but non-trivial increase. The increase in the average score of the 33 funds first scored for 2007 is somewhat larger (16 percentage points). Half of the increase occurred in the period before the Santiago Principles® were promulgated, suggesting the positive influence of the Principles and of the concerns in both home and host countries that stimulate the drafting. Most of the remaining improvement was between 2012 and 2015, a period in which the IFSWF arguably has become more active in promoting self-assessments by its member funds, though also a period in which external pressures on SWF transparency receded somewhat.

**Table 2** focuses on the scores of members of the IFSWF. **Table 3** presents the scores of non-members of the Forum. On average, members record higher scores than the non-members, but the range of scores is similar and shows a similar pattern of increases in average scores between the 2007 and 2009 scoreboards and the 2012 and 2015 scoreboards. This suggests the possibility of an indirect influence of the pressures that gave rise to the Santiago Principles® in the first period and, perhaps, the increased influence of the IFSWF in the later period.

**Table 1: Progression of scores of all SWFs: 2007-2015**

Number of funds	Scoreboard				Percentage point change from 2007, 2009, or 2012 score to 2015 score
	2007	2009	2012	2015	
<b>33 funds</b>	51	58	59	67	16
<b>40 funds</b> (of which 7 new funds)		56 46	57 48	66 61	10 15
<b>45 funds</b> (of which 5 new funds)			53 21	63 39	10 18
<b>60 funds</b> (of which 15 new funds)				62 56	N/A N/A

Source: Stone and Truman (2016)  
N/A: not applicable

**Table 2: Progression of scores of IFSWF-member SWFs: 2007-2015**

Number of funds	Scoreboard				Percentage point change from 2007, 2009, or 2012 score to 2015 score
	2007	2009	2012	2015	
<b>22 funds</b>	56	63	64	74	18
<b>23 funds</b> (of which 1 new funds)		64 80	65 82	75 88	11 8
<b>25 funds</b> (of which 2 new funds)			60 10	72 45	12 35
<b>32 funds</b> (of which 7 new funds)				68 54	N/A N/A

Source: Stone and Truman (2016)  
N/A: not applicable

**Table 3: Progression of scores of non-IFSWF-member SWFs: 2007-2015**

Number of funds	Scoreboard				Percentage point change from 2007, 2009, or 2012 score to 2015 score
	2007	2009	2012	2015	
<b>11 funds</b>	41	48	48	54	13
<b>17 funds</b> (of which 6 new funds)		45 41	45 41	55 56	10 15
<b>20 funds</b> (of which 3 new funds)			42 26	52 39	10 13
<b>28 funds</b> (of which 8 new funds)				54 58	N/A N/A

Source: Stone and Truman (2016)  
N/A: not applicable

The positive influence of the Forum and the Santiago Principles® is suggested by the fact that after Malaysia's Khazanah Nasional Berhad joined the Forum in 2014 its score rose 6 percentage points, from 55% to 61%. More impressive is the fact that the score of Nigeria's Sovereign Investment Authority, which also joined in 2014, jumped from 18 to 76%. The increase in 2015 in the average score of the two new funds first scored in 2012 is attributable to Angola's fund whose score rose from 15 to 67%. Russia's National Welfare and Reserve Fund is no longer a member of the IFSWF, but the Russia Direct Investment Fund joined in 2014. In the 2015 scoreboard, the former scored 49% and the latter scored only 36%. Bahrain's Mumtalakat and Equatorial Guinea's Fund for Future Generations also are no longer members of the IFSWF. Their scores were respectively below the average and substantially below the average for non-members of the Forum.

Membership in the IFSWF is only one possible explanation of the higher scores of members on the SWF scoreboard. I hypothesised, analysing the 2015 scoreboard (Truman 2017), that membership in the IFSWF has exerted peer pressure on SWFs to record higher scores and by extension to adhere more firmly to the Santiago Principles®. Two other potential sources of pressure may be from both external and internal stakeholders. In my analysis, I found a significant positive influence of IFSWF membership, a weak influence of my proxy variable for external pressures, and the strongest influence from internal pressures. This result is both unsurprising and reassuring. It is not surprising because the transparency of a country's SWF and its resulting accountability are most relevant to the citizens of its home country. They care most about its activities and have the strongest need to know about them. It is reassuring that internal pressure was statistically significant. However, a considerable amount of the variation in scores remained unexplained, reflecting the diversity of the funds themselves and their home countries.

## Towards more progress

It is difficult to imagine the SWF space today without the Santiago Principles® and the IFSWF. However, the Forum should not rest on its laurels. It should increase its attention to SWF transparency and its membership. At the same time, the Forum is positioned to take advantage of its unique, diverse membership to address important global issues.



**Transparency and membership**

I believe that the first transparency issue for the IFSWF to address is expansion of the large SWFs among its members. The estimated assets of the 60 SWFs scored in Stone and Truman (2016, table 1) were \$5.8 trillion.<sup>59</sup>

However, more than 40% of those assets were held by SWFs that are not members of the IFSWF. Several of the non-member funds with estimated assets in 2016 of more than \$100 billion had high scores on the 2015 SWF scoreboard: Norway's Government Pension Fund-Global (98%), Singapore's Temasek Holdings (76%), and Hong Kong's Exchange Fund (68%).

Norway was a member of the IWG that formulated the Santiago Principles<sup>®</sup> and a founding member of the IFSWF but withdrew in 2016. The reason stated by the then State Secretary of the Norwegian Ministry of Finance, Tom Vamraak, was:

It is important for the Norwegian government to encourage and ensure transparency about the management of sovereign wealth funds, including objectives, governance framework, investments and risk management. The IFSWF has not met our expectations as an organization with sufficiently strong progress in the implementation of these principles. Therefore, we decided to discontinue our membership in the organization in 2016. (Wall Street Journal, 18 January 2017)

This implicit indictment of the IFSWF is troubling. Outsiders do not know the entire story. Nevertheless, the Forum should place high priority on encouraging Norway to re-join.

Temasek Holdings also was also a member of the IWG that formulated the Principles and a founding member the Forum. It withdrew, I have been told, because its management from the start did not regard it as a SWF but the then-government of Singapore, its sole owner, insisted that it participate. In the meantime, the Forum has welcomed several new members that are similar holding companies, some exclusively domestic in their orientation. The definition of a SWF has never been fully agreed by all experts or all institutions involved with them or following them.<sup>60</sup> In my view, this implicit stretching of the definition by the Forum is welcome. Transparency is not just for SWFs narrowly defined.<sup>61</sup> I believe the Forum should invite Temasek to re-join.<sup>62</sup>

Three other large funds with estimated 2016 assets of more than \$100 billion that are not members of the Forum have 2015 lower scores are: the Abu Dhabi Investment Council (30%), the Investment Corporation of Dubai (54%), and Russia's National Welfare and Reserve Fund (49%). The first two SWFs have been since merged into the Mubadala Investment Company which had a higher score in the 2015 scoreboard (65%) than either of the two other funds but is not a member of the Forum – see below. In my view, the National Welfare and Reserve Fund of Russia should be asked to re-join the Forum. And the investment arm of China's State Administration of Foreign Exchange, the Saudi Arabian Monetary Agency's similar sub-unit that manages the foreign holdings of the Kingdom, and Saudi Arabia's Public Investment Fund should be asked to join.<sup>63</sup>

<sup>59</sup> Foreign assets were estimated at \$4.1 trillion

<sup>60</sup> In my work, I originally focused on funds that invested at least in part abroad because they were the principal focus of international concerns. In principle, I see no reason to exclude all government pension funds as SWFs rather than just pension reserve funds. In fact, I did not distinguish in my earlier work. The truth is that in 2007-08 the governments and managers of what we now call or are called by the IFSWF "sovereign wealth funds" woke up one day and discovered that they had joined a club to which they had not applied. One reading of the definition of a SWF in the Santiago Principles<sup>®</sup> is that it does not include funds that manage a portion of a country's foreign exchange reserves. In my scoreboards, I credit any funds whose assets are separate from the country's reserves, but I also include such funds in my universe of SWFs. The Sovereign Wealth Fund Institute, for one, uses an expanded SWF definition and the Official Monetary and Financial Institutions Forum does as well

<sup>61</sup> In Truman (2007, 7) I argued, "The international investment activities of governments have achieved a sufficient scale and scope that a strong case can be made for a collective effort to establish an internationally agreed standard to guide the management by governments of their cross-border investments. The standard should apply to the gamut of international investment activities of governments, starting with traditional foreign exchange reserves and extending to stabilization funds, non-renewable resource funds, sovereign wealth funds, government-owned or controlled entities such as pension funds, investment holding companies, and miscellaneous international assets." Applying the principle that they are managing the people's money, transparency should be the standard for domestic investment vehicles of governments as well

<sup>62</sup> The Forum should also invite Bahrain's Mumtalakat and Equatorial Guinea's Fund for Future Generations to re-join if the funds can commit themselves to embrace the Santiago Principles<sup>®</sup>

<sup>63</sup> The Sovereign Wealth Fund Institute (<https://www.swfinstitute.org/sovereign-wealth-fund-rankings/>) estimates the assets of the last three funds at \$441 billion, \$494 billion, and \$250 billion respectively. In 2016 they did not provide enough public information about their activities to be included in the 2015 SWF scoreboard

The fact that some of these funds are not members of the IFSWF, I consider, points to a second transparency issue. It would further the Forum's mission to encourage countries with multiple SWFs to have all their funds join the Forum. Alternatively, the Forum could use its category of associate membership for these funds for this purpose if that status went along with a strong presumption of their formal adherence to the Santiago Principles®.

The third issue that I think is important is the revision or updating of the Santiago Principles® themselves after 10 years of experience with them. This would be a natural evolution that is often followed, at least in principle, by other international organizations. It would be advantageous for the Forum to conduct a thorough review and revision of the Principles. Alternatively, a group of member funds might declare that they will adhere to enhanced standards, for example with respect to the public disclosure of financial information, Principle 17.<sup>64</sup> From the perspective of the SWF scoreboard, this principle is in the greatest need of expansion and updating. Principle 17 corresponds to four elements of the SWF scoreboard and another three similar elements are missing entirely from the Principles (Truman 2010, appendix 6A): returns of the fund, categories of investments, use of benchmarks, and location of investments are explicit or implicit in Principle 17 while the size of the fund, specific investments, and currency composition of investments should be in any expanded definition. Six members of the IFSWF report on all seven elements, and three others report on six of them.<sup>65</sup> I believe that the revision of the Principles or adherence to an advanced standard by some members of the IFSWF should be possible.

<sup>64</sup> Principle 17 states "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"

<sup>65</sup> In the former group are the funds of Australia, Azerbaijan, Canada, Chile, New Zealand, Timor-Leste, and the Alaska Fund. In the latter group are the funds of Ireland, Korea, and Palestine

### Global financial issues

IFSWF member countries have very different political systems, institutional arrangements, and approaches to economic governance. Given this diversity, the formulation of the Santiago Principles® was a distinct success. It would be valuable for the Forum to expand its horizons to address in its deliberations and public statements global public policy issues, such as climate change and host-country investment policies. Some of these issues have been discussed at annual meetings of the IFSWF or in working groups, but the Forum itself has disclosed few details of those deliberations. IFSWF press releases tend to be very terse.

The most important global economic public good today is dealing with both the mitigation of adaptation to climate change. On 6 July 2018, a group of SWFs (the One Planet SWF Working Group) announced agreement on The One Planet SWF Framework (One Planet Sovereign Wealth Fund Working Group, 2018). The Framework follows the structure of the Santiago Principles® with three basic principles (Alignment, Ownership, and Integration) and 12 sub-principles. Like the Santiago Principles® all the elements in the Framework are voluntary and, to a greater extent in the case of the Principles, the elements of the Framework are more aspirational than operational.

The six SWF founders of the working group are the Abu Dhabi Investment Authority, Kuwait Investment Authority, New Zealand Superannuation Fund, Norges Bank Investment Management (of Norway's SWF), Public Investment Fund of Saudi Arabia, and Qatar Investment Authority. Although the IFSWF has embraced this initiative, two of the six founder SWFs are from non-member countries (Norway and Saudi Arabia) and the Qatar SWF had one of the lowest scores of IFSWF members on the 2015 SWF scoreboard (44%). Nevertheless, this is a potentially important initiative if, an important "if," transparency and accountability follow.<sup>66</sup>

With respect to host-country investment policies, as another example of a global financial issue, the funds and home countries that are members of the IFSWF are aware and concerned about the recent trend toward tighter investment regimes covering foreign official investments not only in the United States but also elsewhere. However, this outside observer has not detected any renewed effort of the Forum or its members to sit down with the host countries to SWF investments and discuss current concerns and how to address them in order not to face unilateral, national legislative changes in investment regimes, which would not be in the global public interest.

<sup>66</sup> The Framework (Principle 1.3) calls on SWFs to report on their approaches to climate change and report on their approach "as relevant," which is at best a weak call for transparency and accountability

## Conclusion

Over the past decade the Santiago Principles® and the International Forum of SWFs have made substantial contributions to the transparency and accountability of many sovereign wealth funds.

However, I believe that it is imperative for the Forum to extend that progress in the years ahead with respect to both the transparency of SWFs and pro-actively engaging on issues of importance to SWFs as well as to the international financial system.

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*Generally Accepted  
Principles and Practices —  
the Santiago Principles<sup>®</sup>*

In furtherance of the “Objective and Purpose,” the IWG members either have implemented or intend to implement the following principles and practices, on a voluntary basis, each of which is subject to home country laws, regulations, requirements and obligations. This paragraph is an integral part of the GAPP.

**GAPP 1. Principle**

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

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

*GAPP 1.2. Subprinciple.* 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.

**GAPP 2. Principle**

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

**GAPP 3. Principle**

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.

**GAPP 4. Principle**

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.

*GAPP 4.1. Subprinciple.* The source of SWF funding should be publicly disclosed.

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

**GAPP 5. Principle**

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.

**GAPP 6. Principle**

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.

**GAPP 7. Principle**

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.

**GAPP 8. Principle**

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.

**GAPP 9. Principle**

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

**GAPP 10. Principle**

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

**GAPP 11. Principle**

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.

**GAPP 12. Principle**

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

**GAPP 13. Principle**

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

**GAPP 14. Principle**

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.

**GAPP 15. Principle**

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.

**GAPP 16. Principle**

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.

**GAPP 17. Principle**

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.

**GAPP 18. Principle**

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.

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

*GAPP 18.2. Subprinciple.* 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.

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

**GAPP 19. Principle**

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.

*GAPP 19.1. Subprinciple.* 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.

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

**GAPP 20. Principle**

The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

**GAPP 21. Principle**

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.

**GAPP 22. Principle**

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

*GAPP 22.1. Subprinciple.* 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.

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

**GAPP 23. Principle**

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.

**GAPP 24. Principle**

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

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