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Outlook: Santiago Principles

The Santiago Principles: what's next?

The following contains some thoughts about what next for the Santiago Principles. It appears that the public debate on SWF transparency and good governance has faded away. An implicit and tacit understanding has been reached that as long SWFs remain rather quiet investors, recipients are not going to ask them to further improve their transparency and governance performance. This equilibrium is acceptable for the time being to most concerned.

It is, however, exposed to the risk that the implementation of the Santiago Principles remains unfinished business. A substantial number of SWFs still have not reached satisfactory levels of disclosure. Though most signatories have disclosed self-assessments on their implementation of the Principles, often the quality of these assessments leaves substantial room for improvement. We assume that our compliance ratings, documented in GeoEconomica's Santiago Compliance Index 2014, would remain largely unchanged today if we updated it based on more rigorous evaluations. This observation appears to echo the remarks of the Chair of the International Forum of Sovereign Wealth Funds (IFSWF) and CEO of the New Zealand Superannuation Fund, Adrian Orr, at the IFSWF's Annual Meeting 2015 in Milan, where he warned not to fall short of making the Principles meaningful and that the "IFSWF is not an acronym for poor practice to hide behind."

Of course, the SWF community can decide to simply live with the risk that this "unfinished business" poses. But as Adrian Orr highlighted, it might at some stage result in the loss of initiative and ownership of the narrative about the very purpose of SWFs. In consequence, such a risk event might trigger another round of more profound regulatory uncertainty for SWFs.

To deal more proactively with that risk, the SWF community could take mitigating steps. The following points offer themselves for further action:

- 1) Obviously, materially improve disclosure practices across many of the Santiago Principles' signatories. Most signatories with a low Santiago compliance rating still have not made key documents, such as the legal basis of the entity (really basic, but not consistently done), articles of association, investment mandates, investment

policies, and relevant financial information (for example in form of an audited financial income statement and balance sheet) accessible to the public. Of course, this is not a new thought, but a concern consistently voiced over the past years.

- 2) Improve the quality of the Santiago compliance self-assessments. For the time being, the quality of many self-assessments provided by the signatories of the Principles is unconvincing. They often remain generic and unspecific. Note that all of GeoEconomica's Santiago Compliance Assessments are based on a much deeper level of detail. Detailed high-quality assessments help identify important contradictions, and would support signatories to develop higher quality of disclosure.
- 3) Even better, proactively seek out third-party Santiago compliance verification. As long as Santiago compliance assessments are based on self-evaluation, their credibility remains limited, in particular when a fund's overall commitment to a more proactive disclosure policy is patchy. We would assume that funds who are fairly confident about their compliance with the Santiago Principles should take the lead with third-party verification, not least to demonstrate their interest in moving the Principles and the process that supports them substantially forward.
- 4) Finally, move the Principles to a new level entirely, by engaging regulators of recipient countries more proactively in the process. In Milan, Peter Costello, Chairman of the Australian Future Fund Board of Guardians, called for "countries that receive inward investment to recognize and acknowledge SWFs that comply with the Santiago Principles as suitable and beneficial investors". That statement was spot-on. One would hope that the recipients would respond constructively to that suggestion. For the time being, no distinctions along the lines of Peter Costello's arguments have been made. It is not in the mandate of the IFSWF to formally promote such an initiative, but it is important to explore the possibilities.

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