



Santiago Principles Self-Assessment

Libyan Investment Authority

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— **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:

The legal framework of the Libyan Investment Authority (LIA) is preserved by Law No. 13 on the reorganization of the Libyan Investment Authority. In relation to some of the issues, which were not included in the above-mentioned law, we can refer to Law No. 23 of 2010 on commercial activity which is a reference point to be followed for such cases, and Law No 12 of 2010 on labour relations and other related legislations.

1.1. All transactions and dealings of the LIA are sound and valid by virtue of the application of its law and internal regulations. The LIA always follows the laws and regulations, in force, to ensure that there is no legal infraction or breach, which could negatively affect the overall performance of the LIA or open the field for those looking for the creation of legal stubbornness.

1.2. The legal basis of the LIA is disclosed on the LIA website, which provides a transparent and honest description of the relationship of the LIA with other government entities. For example, the LIA deals with the Audit bureau, the Administrative Control Authority, the Libyan Central Bank, and other relevant institutions and bodies.

Principle 2 Description:

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

Principle 2 Implementation:

The policy purpose is disclosed on LIA's website in Law 13. Article 5 states that LIA aims to invest the Investment Fund abroad on financial grounds to support the public treasury and local economic development, for the benefit of future generations and to mitigate the impact of income and other State revenues fluctuations. Upon the approval of the General People's Committee, the Authority may also invest part of the Investment Fund domestically.

Likewise, law No. 13, which regulates LIA's work, grants the LIA powers to clearly draw up policies that insures the achievement of its purposes which includes generating a diversified source of wealth for the future generations in Libya through investing on a

global level with a sustainable and long-term vision.

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:

The LIA carries out its local activities through the Libyan Local Investment Development Fund, one of its subsidiaries. National laws, including the Libyan code of criminal procedure, Article 2 and 3 of Law No. 19 of 2013 on the reorganisation of the audit office and

Article 24 and 26 of Law No. 20 of 2013 on establishing the administrative control Authority. regulate the relationship between the LIA and the Libyan financial authorities.

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:

The sources of funding is outlined by Article 15 of Law 13 of 2010. These include:

- Any cash funds and assets in kind allocated to it;
- Any general budget surplus that may be allocated yearly as permitted by the budget law;
- Proceeds generated from the Authority's activities; and
- Any sums allocated by the State.
- LIA may also obtain loans domestically and internationally.

In addition, Article 16 of Law 13 states that LIA also owns ^[4], surplus oil revenues, the Long-Term Investment Portfolio, the Libya-Africa Investment Portfolio, the Libyan Foreign Investment Company and the Oil Investment Company.

4.1 The source of funding is publicly disclosed on the website, most recently in its 2019 valuation of its assets carried out by the Big Four Auditor Deloitte.

4.2 The government cannot withdraw assets from the LIA as it has its own legal personality and financial autonomy and it cannot, in any way, spend on behalf of the Government.

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:

Statistical data related to the LIA is reported to the Libyan council of Ministers on an annual basis. Also, the supervisory authorities in Libya are also provided with this data, and these authorities, according to their legal competence, are able to obtain statistical data of the LIA at any time at their request (Article 9 of Law No. 13 of 2010). [5]

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:

Law No. 13 of 2010 regulating the LIA, constitutes the basic framework for governance within the LIA, as it separates the authorities and defines the respective powers of all levels within the LIA. In addition, the LIA's strategy focuses on enhancing governance and transparency in the management of its assets.

For example, the LIA, as the General Assembly of its owned companies, has amended the Statutes of these companies to reinforce governance and transparency frameworks within these companies and their portfolios.

Also, the LIA has adopted a set of Charters as a guide of governance by virtue of which enhance the system of internal control and governance within the LIA, as follows:

1. The Board of Directors Charter, defines the responsibilities and powers of the Board of Directors and strengthens the LIA's internal and external control system.
2. The Charter of the Governance Committee of LIA's Board of Directors, to strengthen the practices of good governance within LIA's Board of Directors.

3. The Charter of the Audit Committee of LIA's Board of Directors, in the context of LIA's endeavor to strengthen control mechanisms.

4. The Charter of the Investment Committee of LIA's Board of Directors, which defines the mechanism of this committee's work, is a part of LIA's efforts to enhance governance and transparency in the work of the Board of Directors of the LIA.

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:

The LIA is not owned by the Government of the State or the Ministry of Finance, or the Central Bank of the country. Instead, its assets are owned by the Libyan people.

A Board of Trustees represents the Libyan people. It is chaired by the Secretary of the General People's Committee, and includes the committee secretaries of the people's committees of planning, finance, economy and trade, as well as the Governor of the Bank of Libya and independent experts appointed by the government.

The board of trustees must meet at least once every three months. And is responsible for appointing the LIA's board of directors, which must have practical experience and scientific competence in investment and money management. (Article 10 of Law No. 13). The board of Trustees also monitors the performance of the board of directors the management of its duties (Article 7 of Law No. 13) and may invite the Chairman and or members of the board of directors to attend its meetings to discuss any issues (Article 8 of Law No. 13).

The Board of Trustees also appoints the fund's auditors and approves the budget. It can also appoint independent committees to advise the Board of Directors on their investment decisions. It also approves the investment strategy and asset allocation.

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:

Article 7 of Law 13 of 2010 provides the Board of Trustees with the responsibility of overseeing LIA and ensuring that it meets its policy purpose, as outlined in Principle 2.

The Board of Trustees appoints the Board of Directors, whose responsibilities are clearly set out in Law 13 and include:

- Defining the investment and reinvestment policies, strategies, criteria of the Investment

Fund

- Appointing service providers, including banks and asset managers, and defining their mandates
- Ensuring that investment decisions are aligned with the policies and strategies approved by the Board of Trustees
- Approving investment and divestment decisions
- Managing the risk of the investment fund
- Approving the plans developed by the Executive Director or the committees formed for the investment and reinvestment of the Investment Funds
- Preparing the fund's financial statements and approving the fund's annual report
- Overseeing the performance of the investment portfolio and ensure that they achieve the stated objectives
- Approving the articles of associating of wholly owned subsidiaries and ensuring they are in line with relevant legislation as well as nominating board directors to subsidiary companies.
- Establishing branches and offices of the fund at home and abroad and appointing their staff
- Appointing the executive director and other staff in consultation with the Board of Trustees, define the organisational structure and send it to the Board of Trustees for approval
- Issuing the fund's regulations

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:

The LIA always strives to achieve this goal and it is evident in the strategy of the LIA, but the asset-freezing orders limit this, as Law No. (13) regulates the mechanisms of implementing the instructions of the Board of Directors supervising the executive management and it is the guarantor for its good performance.

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:

Law No. 13 of 2010 includes a clear and specific framework for accountability of LIA's operations, and the Policies pursued within the LIA clarify clear foundations and frameworks for the accountability of the operational processes.

In addition to the Law's emphasis on the framework of the accountability, Law 13 of 2010 clearly and unambiguously clarifies that all the LIA's operations are subject to the subsequent review and audit by the national control authorities, which are; the Libyan Audit Bureau and the Administrative Control Authority, and the consequent responsibility of each employee in the LIA regarding his actions and decisions taken at work (Articles 19, 20 of Law No. 13 of 2010).

Also, the Libyan legislation in force constitutes the main reference for the accountability of the LIA's operations.

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:

The LIA closes its initial final accounts annually and prepares a standalone financial statement up to 2019, using the equity method of accounting for its investments because some subsidiary companies do not use international financial reporting standards as the basis for the preparation of their financial statements. Currently, LIA is preparing its financial statements for 2020 on a consolidated basis in accordance with 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:

The LIA has contracted with (E&Y) to assess the 2019 standalone financial statements to be audited. Also, the LIA is in the stage of appointing a Group Auditor for LIA and its subsidiaries from 2020 in parallel to having the accounts for 2020 on a consolidated basis.

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:

The rules and ethics of the profession are defined by the LIA Code of Conduct. [6]

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:

The approved Procurement Policy of the LIA determines the frameworks for dealing with third parties to implement the operational purposes necessary for the work of the LIA, according to clear and effective procedures that achieve the LIA's economic and financial interests and within transparent procedures.

Also, there is an independent Bids Committee in the LIA which operates according to an approved Policy and within transparent procedures that take into account the LIA's economic, financial, and administrative interests.

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:

This rule is already applied in all the investments of the LIA.

The LIA has concluded advisory, technical, and legal contracts with international companies in order to protect these investments as well as to avoid any violations likely to affect these assets, and to block the way for those looking for legal controversy.

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:

Law No. 13 of 2010 clearly defines the roles and responsibilities of the Board of Trustees and the Board of Directors and empowers them to carry these out. Additionally, the law includes of exceptions and powers granted to the LIA to enhance its independence from the owner and other state entities in order to facilitate its operations, including exemption from local taxes and other local laws that might impede the work of the Authority.

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:

The LIA seeks to disclose its data through several channels, including its website. However, the non-completion of reviewing and approving the data prevented its compliance with this item. LIA is planning to publish an AUP report which was carried out by EY as a confirmation of the data on the 2019 standalone financial statements, this type of report is similar to an audit report excluding the auditor's opinion.

The most recent LIA annual report published in 2019, and is available [online in Arabic](#) [7].

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:

LIA is already subject to these rules as required by its establishing law, regulations, and meetings of the Board of Directors and Board of trustees. However, the LIA lacks detailed governing regulations likely to activate the role of the Risks department, and its relationships with executive, legislative, and international entities alike.

18.1. The assets of the LIA are frozen and there is no need to adopt such policies now. It is not in the policies of the LIA to use financial leverage. However, the LIA seeks to benefit from the period of freezing for adopting the regulations that guarantee the protection of its assets with the aim of raising its preparedness for any resolutions to be issued by the international community.

18.2. The asset-freezing orders prevent internal and external investment managers from working to ensure the success of LIA's current investments, as those orders made the management of these frozen funds and assets very difficult and almost impossible. Also, asset-freezing orders have caused a negative impact to the LIA's assets where it had

incurred significant losses in some countries. Currently, there is difficulty in monitoring the performance of external managers.

18.3. The investment policy is clarified in the LIA Law, and it is available on its official website as follows:

1. Development of the national economy.
2. Improvement of returns to support the revenues of the Treasury.
3. Securing funds for future generations.

<https://lia.ly/our-investment-platform/> [8]

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:

As a result of the asset-freezing imposed on the LIA at the present time and for about eleven years now, LIA has not been able to take investment decisions and measures that would enable it to obtain an appropriate interest rate lower than the market price.

19.1. Basically, investment decisions are not subject to any non-financial and non-economic considerations, and this is axiomatic, whereby the purpose of the establishment of the LIA, as described in its establishment law, is to invest money for profit. However, the equities portfolio is divided into two sections;

- A strategic stock portfolio in which the purchase process was previously politically driven, and it has the highest cost.
- A non-strategic stock portfolio in which the purchase process is carried out by conducting studies and making appropriate decisions.

19.2. LIA applies sound asset management principles. Its investment policy is based on three principles: ensuring the future of the coming generations; achieving the best financial returns to improve the long-term resilience of the Libyan economy; and contribute to efforts to develop and diversify the Libyan economy through sustainable investments.

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:

The LIA has its corporate (legal) personality and its financial autonomy and it does not engage in such negotiations. Especially that since most of its investments are abroad and has no relationship with the Libyan government.

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:

The LIA manages its assets and exercise all ownership rights over them.

Article 11 of Law 13 of 2010 provides the Board of Directors with the responsibility of exercising ownership rights over its subsidiary companies.

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:

The risk framework is ready and is currently being implemented by the Risk Department and across departments in the LIA. The Risk Policy is in the process of approval by the Board of Directors of the LIA.

The LIA operates a three-line of defence model of risk management which is disclosed on LIA's website: Risk Management - Libyan Investment Authority (lia.ly)

22.1 The risk framework includes all guidelines that ensure managing and monitoring of risks to the levels specified in the LIA Risk Appetite Statement (RAS), and a business continuity plan (BCP) is ready and is in periodic monitoring and testing.

22.2 General outline of the Risk Management framework is publicly disclosed on LIA's web

page and other media outlets, and work is in the progress of more detailed disclosure upon full approval by the board of directors.

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:

Work in progress taking into account the asset-freezing imposed on the LIA. Currently, the performance of some assets represented in equities and bonds is being measured and compared with international indicators.

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:

This is LIA's second self-assessment of implementing the Santiago Principles and it will be conducted every three years.

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Links

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