



*2013 Report on the International Forum of Sovereign
Wealth Funds (IFSWF) Members' Experiences in the
Application of the Santiago Principles*

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EXECUTIVE SUMMARY

This report summarizes the experiences of Members of the International Forum of Sovereign Wealth Funds (IFSWF), in implementing the Santiago Principles (SP) in 2013.

The report is based on an online self-assessment tool developed by IFSWF to observe Members' implementation of the Generally Accepted Principles and Practices (GAPP), formulated in the SP. A similar report was prepared in 2011, which is available at www.ifswf.org. The 2013 findings serve as a basis for comparison on progress, and also meets the following dual purpose:

- Facilitating a process of regular review on the membership implementation of the Santiago Principles (as required by GAPP 24); and
- Providing a platform for the sharing of knowledge among the membership and other stakeholders.

I. KEY FINDINGS OF THE REPORT

The 2013 Report specifically focused on identifying the IFSWF members' current status and future plans in implementing the SP, noting that the process of adherence to the SP is an on-going process. The key findings of the Report are:

- 21 of the 25 members (84 percent) of IFSWF responded to the 2013 Survey (compared to 76 percent of members in 2011);
- 13 of the 21 respondents have fully implemented all 24 GAPPs of the Santiago Principles (compared to 10 members in 2011);
- On average, 86 percent of the 24 GAPPs have been fully implemented, which is unchanged from 2011;
- Generally, there is a high degree of compliance with GAPPs 1-5 addressing the legal framework, objectives and coordination with macroeconomic policies;
- Institutional framework and governance structure are largely consistent with GAPPs 6-9, and accountability frameworks have improved (GAPPs 10-17); and
- More members are developing their investment and risk management framework to contribute to financial stability and meet generally agreed asset management practice (GAPPs 18-24).

Table 1 compares changes from 2011 to 2013 in the number of members fully observing each GAPP.¹

Table 1. Improvements in GAPP Implementation between 2011 and 2013

GAPP 1	+2	GAPP 13	+7
GAPP 2	+2	GAPP 14	+4
GAPP 3	0	GAPP 15	+4
GAPP 4	+3	GAPP 16	+1
GAPP 5	+2	GAPP 17	+1
GAPP 6	+1	GAPP 18	+1
GAPP 7	0	GAPP 19	+5
GAPP 8	+4	GAPP 20	+5
GAPP 9	+3	GAPP 21	+7
GAPP 10	0	GAPP 22	+1
GAPP 11	+3	GAPP 23	+4
GAPP 12	+6	GAPP 24	+2

Notably, more members have increased observance of:

- Financial statements meeting international standards (GAPP 12);
- Having professional and ethical standards in place (GAPP 13);
- Disclosure of information supporting the fact that the member invest to maximize risk-adjusted financial returns (GAPP 19);
- Nonusage of privileged information or inappropriate influence (GAPP 20); and
- Exercise of ownership rights (GAPP 21).

These positive developments are encouraging, especially since the membership is not a uniform group, and there are relevant cases, where a specific GAPP may not be applicable given the members circumstances.

II. DETAILED FINDINGS OF THE REPORT

A. Legal Framework, Objectives, and Coordination with Macroeconomic Policies

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

¹ Appendix I provides a summary of the 24 GAPPs in the SP. Appendix II provides details, in percentage terms, of the observance of each GAPP in 2011 and 2013.

Though there are significant differences in IFSWF members' legal structure, most members (95 percent) have publically disclosed a legal framework and mandate to manage their assets. Members typically enshrine the objectives of the SWF in relevant legislation or operate according to the Articles of Association approved by Parliament. Some members incorporated a public limited company under local legal requirements and ownership of the Ministry of Finance. When respondents indicated partial implementation, this was because the SWF was not directly segregated from (for instance) the international reserves managed by the central bank.

GAPP 2: *The policy purpose of the SWF should be clearly defined and publicly disclosed.*

Most members (95 percent) have clearly defined and publically disclosed policy objectives (GAPP 2). Only one member indicated partial implementation of this principle, as there is no policy document explicitly stating the purpose of the SWF; nonetheless, the member suggests that it is implicit in the legal framework. Typically, policy objectives are defined in legislation and are publically available in annual reports and on members' websites.

GAPP 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.*

About half of respondents (55 percent) have regular meetings on policy coordination with the relevant monetary and fiscal authorities regarding the overall macroeconomic policies. As there was less clarity about the exact interpretation of this GAPP, a third of respondents indicated that this principle is not applicable to their circumstances. It is observed that it is important to draw a clear distinction between the strategic and operational level. While, the need for macroeconomic coordination at the strategic level—where the objectives and purpose is formulated—is evident, the operational independence of the SWF in meeting its set objectives should not be jeopardized.

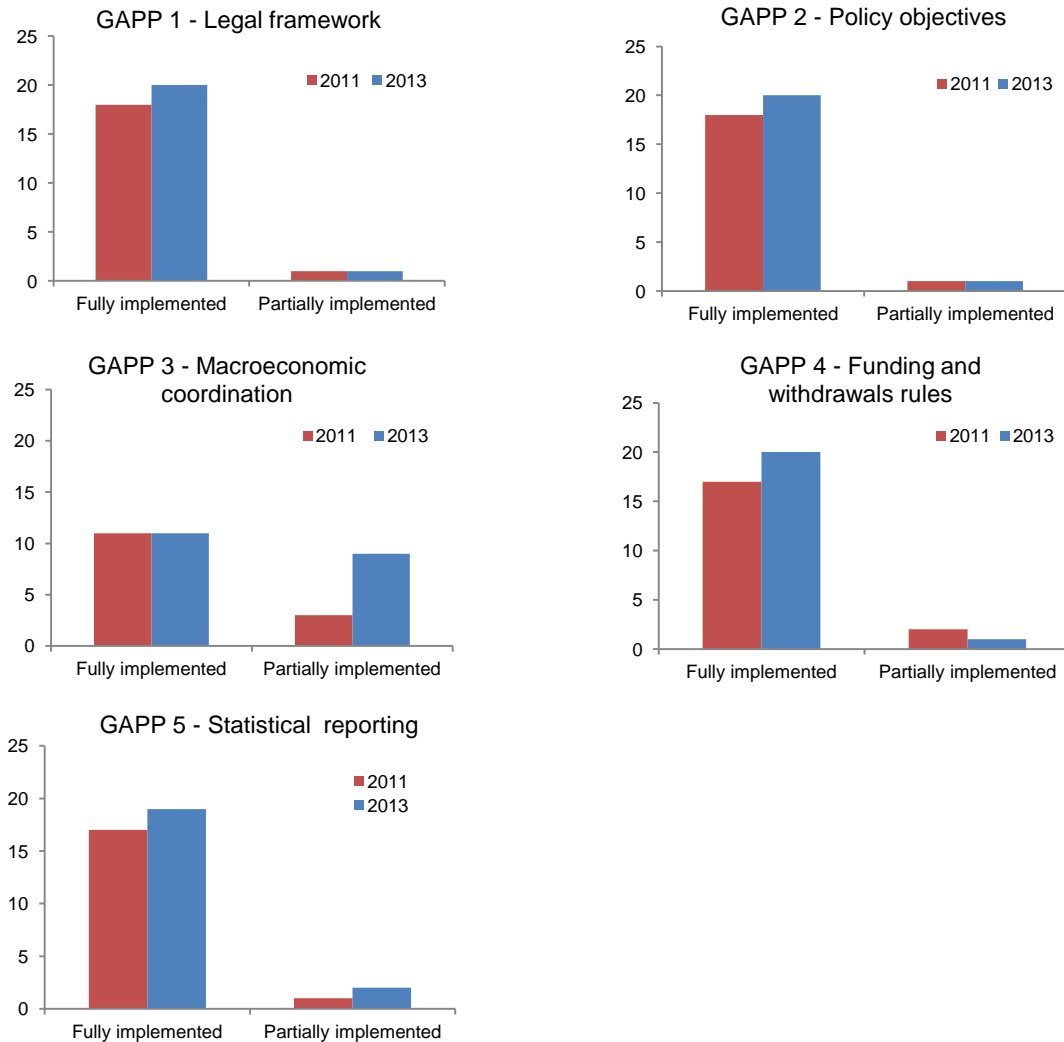
GAPP 4: *There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.*

Most respondents (95 percent) have clear funding and withdrawals rules relating to their policy objectives.

GAPP 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.*

The majority of respondent (90 percent) continue to provide relevant information to their owner on the operations of their funds. One member modified its implementation to partial compliance, disclosing some legal constraints that limit its ability to share some information.

Figure 1. Response Comparisons between 2011 and 2013 (GAPP 1–5)



B. Institutional Framework and Governance Structure

GAPP 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.*

Most respondents (90 percent) have a clear allocation and separation of role and responsibilities within the governance framework. One member indicated that the optimal

division of roles and responsibilities between owner and manager would be reassessed to accommodate the SWF's evolving asset allocation.

GAPP 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.*

For the majority of the respondents (86 percent), the owner determines the objectives of the fund, appoint members of the governing bodies, and oversee the members' activities. Among respondents with partial implementation, the SWF may be part of the central bank balance sheet, where the central bank operates independently. In another case, the SWF was managed by an institution, where the management structure was such that the SWF owner was not the only one that appoints the members of the governing bodies.

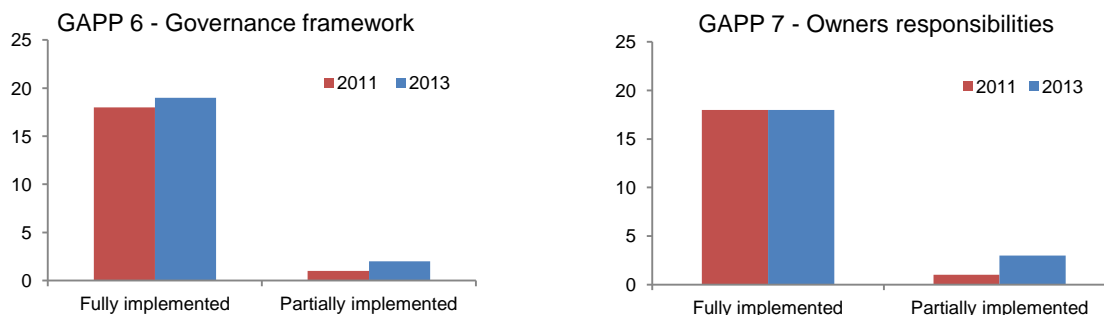
GAPP 8: *The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.*

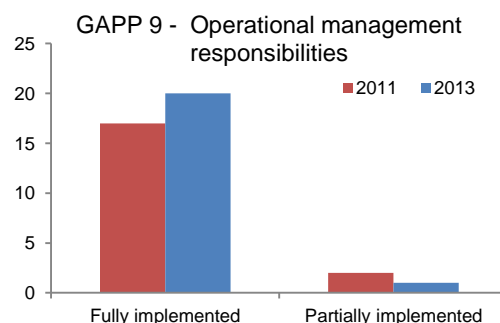
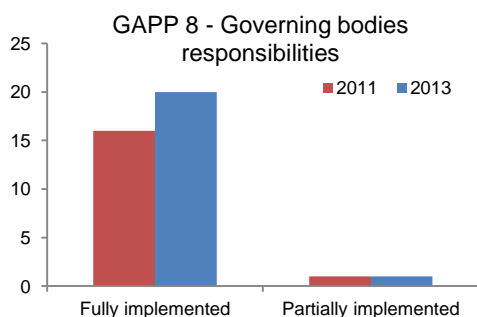
Nearly all of respondents (95 percent) report full implementation and have a clearly defined responsibility for executing the assigned investment mandate with access to competent staff. However, in some instances capacity gaps continue to be a challenge, as local talents may be difficult to source in some countries.

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

Nearly all respondents (95 percent) have clear responsibilities for its operational management in implementing the investment strategies. One member reported an improvement from partial compliance in 2011 to full compliance in 2013. On the other hand, another member indicated that it had not implemented this principle and had no plan to do so, as its SWF was a trust account within the Ministry of Finance used to offset reductions in oil and non-oil tax revenues.

Figure 2. GAPP Response Comparisons between 2011 and 2013 (GAPP 6–9)





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

Most members (90 percent) are in observance and have clearly defined accountability frameworks. Among the few respondents stating partial observance, the perception was either that the existing framework (within the central bank) was appropriate, or, the SWF simply followed the same principles used in the federal public sector.

GAPP 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.*

Most respondents (95 percent) prepare an annual report along with the financial statements. The exception was the special case of the trust fund with the Ministry of Finance, where the activities of the SWF is published along the Quarterly Reports on Public Finances and Public Debt in the member country.

GAPP 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.*

All respondents prepare audited financial statements that meet international accounting standards.

GAPP 13: *Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing bodies, management, and staff.*

Most funds (86 percent) publish professional and ethical standards to members of the governing bodies, management and staff. Typically, a code of conduct is adopted to ensure compliance. Some members apply similar ethical standards as may be found within the Ministry of Finance.

GAPP 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.*

This principle is observed by 90 percent of the respondents. Two members reported partial compliance, including the special case with the trust account, where this issue was not applicable.

GAPP 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.*

In terms of compliance with regulatory requirements in recipient countries, most respondents (90 percent) are in full observance. The partial observance relate to the trust account and another member that used third-party sources to observe applicable regulatory and disclosure requirements.

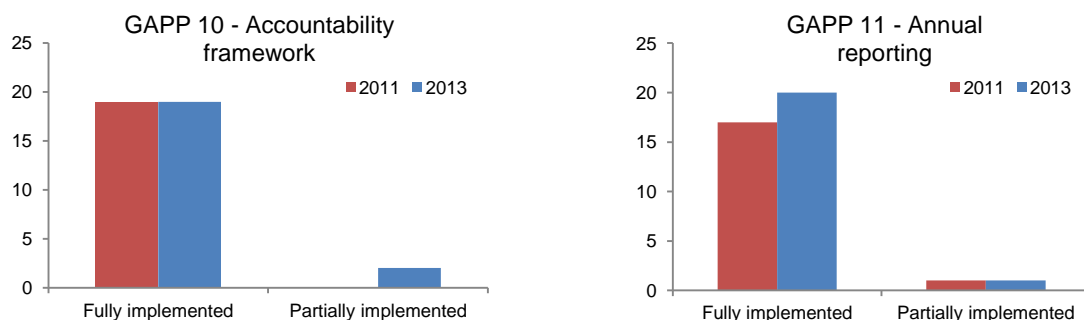
GAPP 16: *The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.*

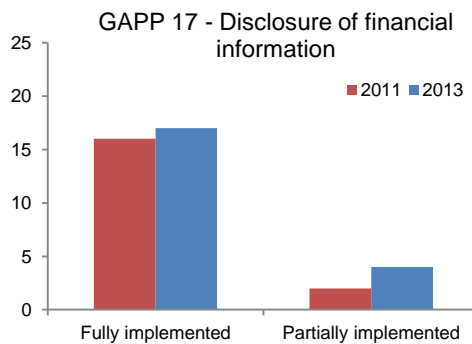
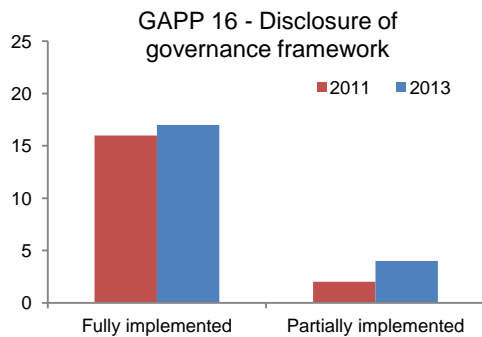
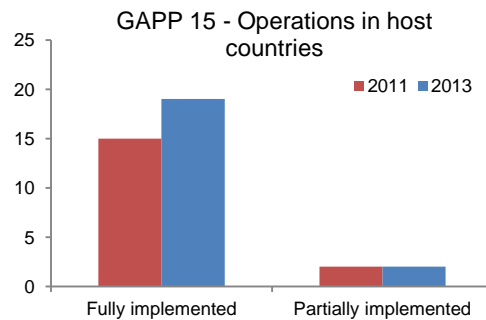
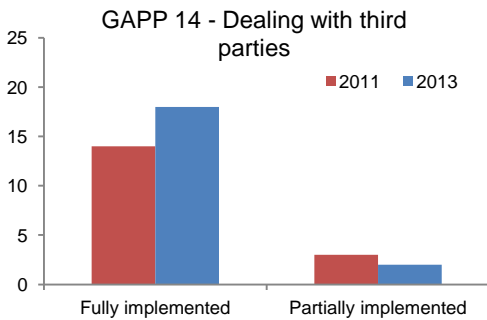
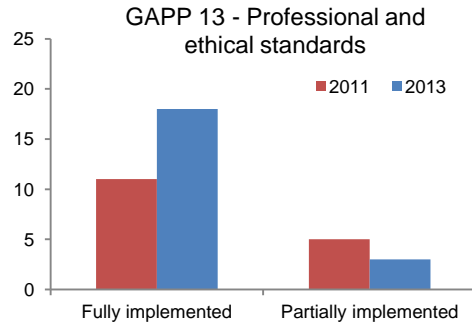
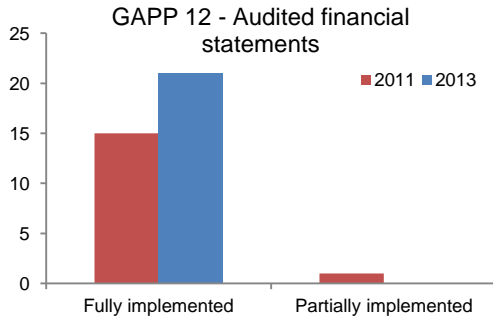
The majority of respondents (81 percent) have a publically disclosed governance framework and objectives, with two respondents partially implementing this principle. The two members in partial observance include the trust fund and a member that applied the governance framework of the country's central bank.

GAPP 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.*

To enhance trust in recipient countries and financial markets, all respondents disclose relevant information to demonstrate that their investment decisions are based on economic and financial considerations. While most respondents (86 percent) state full compliance, some respondents (14 percent) report partial implementation of his principle. Explanations include that publication is not required by legislation in one case and another member highlighted that the Board have not made such a decision.

Figure 3. GAPP Response Comparisons between 2011 and 2013 (GAPP 10–17)





C. Investment and Risk Management

GAPP 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 bodies, and be based on sound portfolio management principles.*

The majority of members' investment policies (80 percent) continue to be consistent with their defined objectives and risk tolerance. While this issue is not relevant to some (e.g., the trust account with the Ministry of Finance discussed earlier), other respondents indicate partial observance without providing detailed explanation.

GAPP 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*

Nearly all members (95 percent) – except the trust account – aim to maximize long-term risk-adjusted return consistent with their stated investment policies. Also, the respondents manage assets consistent with what is generally accepted as sound asset management principles.

GAPP 20: *The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.*

86 percent of respondents have fully implemented this principle, while 14 percent indicate that they are planning to implement the requirements in full. Clearly, no institution would deal on material nonpublic information, as this is illegal. One member clarified that this GAPP does not apply, as it invests passively solely in indices and would not receive any privileged information.

GAPP 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.*

Members continue to develop their general approach to exercise shareholder ownership rights, which is a highly topical issue. 76 percent of respondents have fully implemented this GAPP. Some members have instructions to their external fund managers to invest on economic grounds, or simply in favor of the SWF, as an interim approach until their policy has been fully established.

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

The majority of respondents (76 percent) have well-defined risk management frameworks to identify, assess, and manage risks. Among the members not in observance, respondents are currently focused on putting in place strong frameworks for risk management.

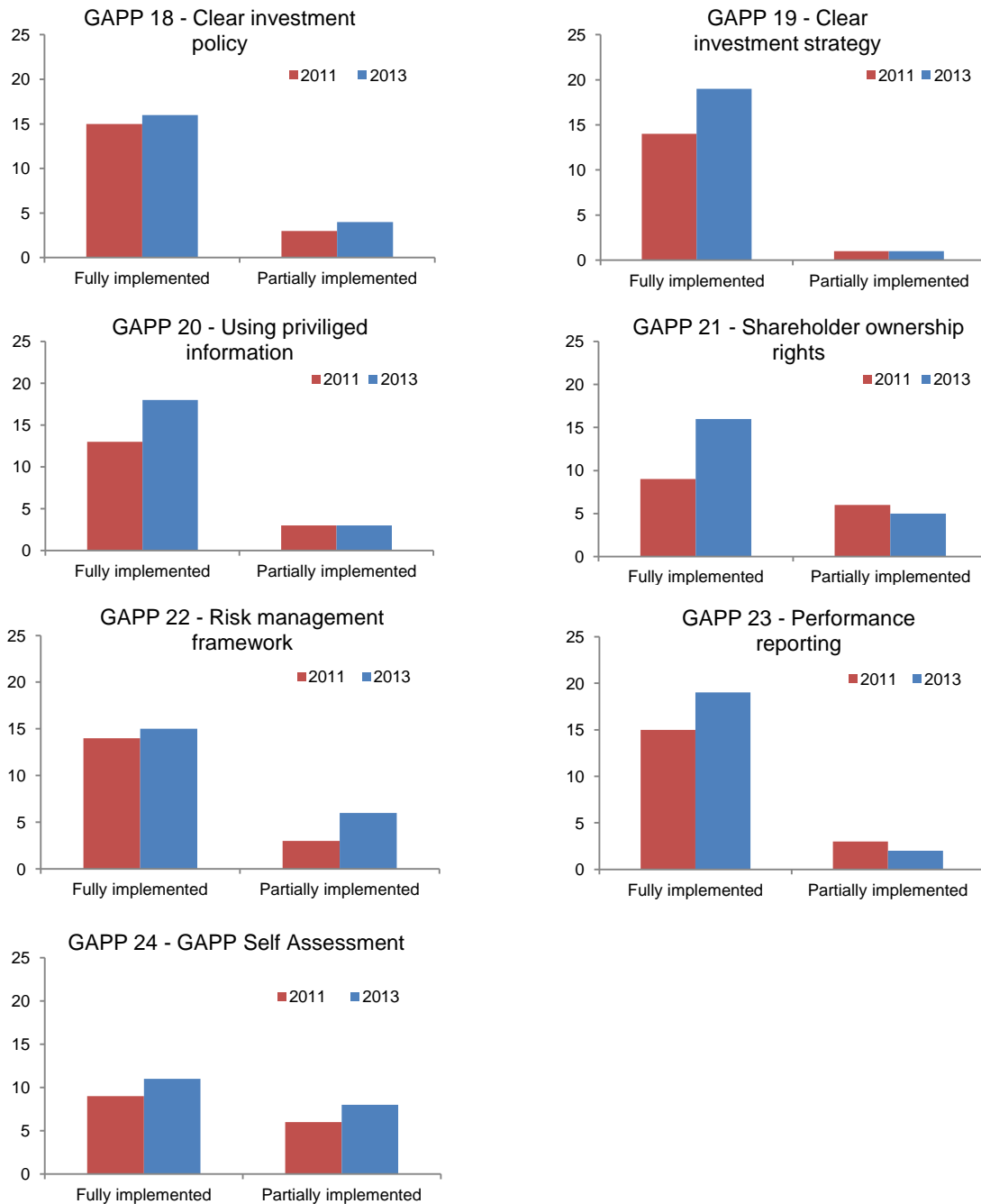
GAPP 23: *The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.*

Most respondents (90 percent) measure investment performance against set benchmarks. The two respondents not reporting full implementation include the trust account (discussed earlier) and another member that did not provide further details.

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

More than half of respondents (58 percent) carry out a regular review of their implementation of the SP. In itself, responding to this Survey works towards observance of GAPP 24. Thus, the fact that 21 of the 25 members (84 percent) of IFSWF responded to the 2013 Survey is positive.

Figure 4. GAPP Response Comparisons between 2011 and 2013 (GAPP 18–24)



III. CHALLENGES

The major, although inevitable, challenge to this Report is that it rests on Members' self-assessment of their own observance to the SP. However, it should be noted that GAPP 24 stipulates: “a *process of regular review of the implementation of the GAPP should be engaged in by, or on behalf of, the SWF*”. Thus, implementation of GAPP 24 is left at the discretion of each member. The intention is to ensure that full observance of SP is the ultimate goal post for members to reach.

It is also recognized that responses are uneven and, at times, could be more detailed, both in terms of how full observance of a specific GAPP has been implemented and the rationale behind the partial observance. More granularities on how members have actually implemented the SP would improve the scope for analysis, knowledge-sharing and networking among Members. Also, a response rate of 100 percent is a desirable target given the importance of the SP.

IV. CONCLUSION

This report summarizes the experiences of Members of the International Forum of Sovereign Wealth Funds (IFSWF), in implementing the Santiago Principles (SP) in 2013 and compares to a similar report prepared in 2011. It is positive to note that more members (84 percent) have responded in 2013 compared to 76 percent in 2011.

To ensure the continued success of the SP, and further the objectives of the Forum, it is advisable that more granularities are provided. This can be accomplished not only by providing more detail via the online tool, but also by members volunteering to provide relevant case studies of how they have implemented the GAPPs listed in the SP.

Case studies would assist existing members in terms of gaining practical insights to how other members are implementing the SP. It will also assist in setting the standard for prospective members of the Forum looking to establish a SWF in line with generally accepted international practice in this field. In this regard, a rich resource is already available on member websites and in annual reports. The Secretariat will assist Members in 2014 in compiling relevant case studies.

The key recommendations of this report are that:

- Members continue to adhere to the SP and should all provide their responses through the online self-assessment tool;
- The next Report on the Application of SP is intended to be prepared in 2015;
- More elaboration in the future should be provided to facilitate a deep understanding of how members actually implement the SP; and

- Case studies could be submitted on a voluntary basis to guide existing and prospect members on how to meet the international best practice in observing the SP. This would also allow stakeholders, in general, a deeper insight into, and understanding of, IFSWF Members observe the SP.

APPENDIX I. SANTIAGO PRINCIPLES²**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 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 Sub-principle: The source of SWF funding should be publicly disclosed.
- GAPP 4.2 Sub-principle: 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.

² <http://www.iwg-swf.org/pubs/eng/santiagoprinciples.pdf>

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 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 bodies, 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 bodies, and be based on sound portfolio management principles.

- GAPP 18.1 Sub-principle: The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.
- GAPP 18.2 Sub-principle: 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 Sub-principle: 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 Sub-principle: 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 Sub-principle: 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 Sub-principle: 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 Sub-principle: 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.

APPENDIX II. IFSWF 2013 RESULTS COMPARED TO 2011

	Full Implementation of GAPP (Percent of Members Reporting)		Partial Implementation of GAPP (Percent of Members Reporting)	
	2013	2011	2013	2011
GAPP 1	95	95	5	5
GAPP 2	95	95	5	5
GAPP 3	55	79	45	21
GAPP 4	95	89	5	11
GAPP 5	90	94	10	6
GAPP 6	90	95	10	5
GAPP 7	86	95	14	5
GAPP 8	95	94	5	6
GAPP 9	95	89	5	11
GAPP 10	90	100	10	0
GAPP 11	95	94	5	6
GAPP 12	100	94	0	6
GAPP 13	86	69	14	31
GAPP 14	90	82	10	18
GAPP 15	90	88	10	12
GAPP 16	81	89	19	11
GAPP 17	81	89	19	11
GAPP 18	80	83	20	17
GAPP 19	95	93	5	7
GAPP 20	86	81	14	19
GAPP 21	76	60	24	40
GAPP 22	71	82	29	18
GAPP 23	90	83	10	17
GAPP 24	58	60	42	40
Average	86	86	14	14

Source: 2013 Report of IFSWF members experiences in the application of the SP.

Note: 21 of 25 (84 percent) of members replied to the 2013 Survey. This compares with 19 of 25 (76 percent) of members replying in 2011.

APPENDIX III. ACKNOWLEDGEMENT

The 2013 Report was prepared based in co-operation between Sub-Committee 1, the IFSWF Secretariat and the contributing members (in alphabetical order by last name).

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