

## **Regulatory Reforms, Investment Regimes and Outlook for Institutional Investors: A Recipient's Point of View**

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Remarks by OECD Deputy Secretary General Mr. Richard Boucher.

- First, let me thank the Forum and China Investment Corporation for the invitation. It's a pleasure to find myself among so much money as well as public policy issues.
- We have a very productive history together, the International Forum of Sovereign Wealth Funds and the OECD.
- Your Santiago principles and our OECD Guidance from 2008 were created together to balance the desire for flows of capital with legitimate restrictions demanded by governments.
- Simply put: recipient countries want to balance the opportunities of sovereign capital flows with the responsibilities that you take on as managers of this capital.
- Capital flows play a critical role in the recovery, but also face new questions since the financial crisis. We need to address these issues together as we promote recovery.
- Rapid movements of capital, regulatory arbitrage and capital imbalances were factors leading up to the crisis. Countries are trying to deal with these issues through new regulations and restrictive measures.
- Recovery is clearly underway in most countries, surging ahead in others. But recovery is fragile, and there remain significant downside risks: commodity prices, the events in Japan, public debt , balancing growth and inflation in China, etc.
- The first thing we all want to do is to promote open capital flows in the recovery.
- Open capital flows can provide capital for development, recycle imbalances and provide opportunity to people with new ideas and products.
- Together with the World Trade Organization and the UN Conference on Trade and Development we monitor protectionist pressures, including on investment flows, for the G-20.
- Our upcoming monitoring report shows indeed that G20 countries continue to take liberalisation measures, but at a slower pace. In contrast, the frequency of restrictive investment measures is increasing.
- Crisis-related policies are being dismantled, but they have reinforced the role of governments in influencing investment flows.
- In addition, capital controls are becoming increasingly common. How are they to be

applied? When are they appropriate?

- Our basic framework to open capital flows over the long term, the Codes of Liberalisation of Capital Movements, recognizes restrictions and regulation is appropriate in some cases, but they require all adherents to ratchet up, not level down, to open progressively over time.
- While the Codes recognize that capital controls can play a role either as a last resort or as temporary measures in specific circumstances, it promotes the principles of transparency, non-discrimination, proportionality and accountability.
- We are currently working with the G20 to open the Code to adherence by non-OECD countries. Our Council discussed this in Paris and has agreed to open them.
- The second big issue we want to address together is fair market access for sovereign wealth funds in the face of legitimate national security concerns.

ü The OECD Guidance on Recipient Country Policies towards Sovereign Wealth Funds from 2008 is based on general investment principles of liberalisation.

ü It recognises that governments can take actions to protect national security, but calls for restraint.

ü It asks them to take restrictive action in conformity with fundamental principles of: non-discrimination; transparency; regulatory proportionality; and, last but not least, accountability.

- Our Guidance is absolutely complementary to your Santiago Principles, indeed transparency and accountability on both the corporate and government side go hand-in-hand.
- Now, everyone doesn't always follow our guidelines and they're not perfect for every circumstance. No big surprise here.
- We monitor observance of these basic principles through our Investment Committee, where new investment issues have been debated, where panic reactions were abated, and where legitimate security concerns are examined.
- More particularly our Freedom of Investment Roundtables were launched precisely to help governments deal with rising investment protectionism.
- At these roundtables, fifty governments raise issues, compare performance, question each other and seek better policy options.
- The basic goal is to ensure everyone follows the principles of open investment, corporate standards and transparent restrictions.
- You are welcome to join us, indeed we hope you and others in your governments interested in investment flows will join us.

- The next Freedom of Investment Roundtable is in early October and will focus on institutions for resolving disputes between international investors and host governments.
- In addition, as part of the process, there is a mechanism to register specific complaints.
- The China Investment Corporation was the first entity to use this mechanism. That experience and others more recently are helping us make it even better.
- Finally, let's talk about the basic issue of investor and corporate responsibility. The Santiago Guidelines are based on a premise that sovereign wealth funds will act like corporate entities. But, one has to ask, how should corporations behave?
- Well, we've just completed a year long negotiation with a broad-range of governments, civil-society and business groups to update the Guidelines for Multinational Enterprises.
- In addition to existing responsibilities of corporations as good citizens, there are new chapters on business and human rights. They also provide for a new, modern approach to corporate responsibility in the supply chain, and are equipped with clearer and stronger implementation procedures, notably on mediation of disputes.
- I commend these guidelines to you for your own corporate systems and for those in whom you might be investing.
- This kind of broader message from sovereign wealth funds, particularly in such areas as social responsibility, anti-corruption and environmental protection, would help to boost trust in capital flows and investments. We also believe that limiting your potential legal liabilities in these areas can enhance financial performance.
- So, let me conclude: we are with you on cooperation and open markets. We are with you in building transparency and accountability in government policies, especially national security limitations, and in strengthening corporate responsibility.
- Please join us to continue to work together to reinforce this cooperation.