

# INTERNATIONAL WORKING GROUP OF SOVEREIGN WEALTH FUNDS

Statement by H.E. Hamad Al Hurr Al-Suwaidi

Co-chair, International Working Group of Sovereign Wealth Funds

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Thank you Mr. Chairman, I am honored to stand before you today on behalf of the International Working Group of Sovereign Wealth Funds or IWG, and it is my pleasure to report that we have reached consensus on a voluntary set of generally accepted principles and practices.

The International Working Group was established shortly after your Spring Meeting by senior SWF officials from 23 member countries with SWFs. In addition, permanent observers comprised 3 other countries, the World Bank and the OECD. We convened to develop and identify a set of principles that properly reflects the investment practices and objectives of SWFs.

When our group met for the first time only five months ago, the prospect of reaching a high standard consensus seemed a daunting challenge given the diversity of our backgrounds, institutional governance frameworks, and management practices. Yet, from the outset, there was agreement that the developing criticisms in the media and in certain recipient countries, questioning the investment objectives and practices of SWFs, deserved a collective response so as to preserve the benefits of an open and stable global financial system.

The IWG's work since its first meeting has been intense, and I am pleased to present to you today the Generally Accepted Principles and Practices for Sovereign Wealth Funds (the GAPP), or the "Santiago Principles", as we have agreed to call them.

The Santiago Principles were drafted by a subgroup of the IWG. The principles have undergone numerous rounds of discussions, reviews and revisions by the

whole IWG with considerable input from a number of recipient countries. To the credit of all involved, we managed to reach a consensus on the principles in a mere four months.

I would like to take this opportunity to express my gratitude in particular to the drafting group chair, David Murray, the Chairman of the Australian Future Fund, for his leadership and perseverance, and to his drafting group members and all the IWG members for their tireless efforts.

I would also like to thank the governments of the IWG member countries for their full support of the process; the governments of Norway, Singapore, and Chile who generously hosted our meetings; the recipient countries for their support, keen interest in our work, and invaluable inputs; the IMF Executive Board for their feedback, which we will take into account in our work going forward; my esteemed co-chair, Jaime Caruana, for his invaluable guidance and calm and collected demeanour; and of course the IMF staff for facilitating and coordinating the process. The tireless efforts and support of each of these parties have combined to ensure that we can present this final document to you today.

### **The Santiago Principles**

The Santiago Principles are composed of 24 principles, which cover three key areas of SWF operations: (i) the legal, institutional, and macroeconomic setting; (ii) governance and accountability arrangements; and (iii) investment policies and risk management. These principles apply to Sovereign Wealth Funds, which we define as:

- special purpose investment funds or arrangements;
- owned by the general government;
- created for macroeconomic purposes;
- holding, managing or administering assets to achieve financial objectives; and
- employing investment strategies that include investing in foreign financial assets.

The main purpose of the Santiago Principles is to set out a framework for the sound operation of Sovereign Wealth Funds that promotes operational independence in investment decisions, transparency and accountability. We believe that this document will in both home and recipient countries:

- improve the understanding of the objectives, structures, and governance arrangements of SWFs;
- enhance the understanding of SWFs as economically and financially oriented entities; and
- help maintain an open and stable investment climate.

In our work, we drew upon concepts and practices that are applicable to SWF activities and are already in use, such as relevant IMF and OECD guidelines and standards, and voluntary guidelines developed by large institutional investors in the private sector. We also benefited from an IMF survey of the IWG members on the current operational and institutional practices of the SWFs, which was recently published on the website of the IWG.

The Santiago Principles reflect the overarching objectives for Sovereign Wealth Funds that were agreed on during our first meeting:

- i.) to help maintain a stable global financial system and free flow of capital and investment;
- ii.) to comply with all applicable regulatory and disclosure requirements in the countries in which they invest;
- iii.) to invest on the basis of economic and financial risk and return-related considerations; and
- iv.) to have in place a transparent and sound governance structure that provides for adequate operational controls, risk management, and accountability.

With these agreed guiding principles, we then focused our efforts on addressing concerns regarding sovereign cross-border investments and providing reassurance

to recipient countries about SWFs' institutional governance structures and the basis of their investment decision making.

Accountability and transparency are key elements of the Santiago Principles. The IWG members have affirmed their commitment to openness and disclosure to the owners of the SWFs, and also to provide information to recipient country regulators and make disclosures as applicable under local laws and regulations. The IWG members have also agreed to publish relevant financial information that demonstrates the economic and financial orientation of SWFs' investment operations.

Recognizing the difficulty that some newly established SWFs may encounter in implementing the GAPP, the IWG has included a provision allowing them a transition period to be able to fully embrace all the principles and practices, especially those relating to public disclosure of agreed financial information. Interestingly, we can already see the influence of the IWG process, as some of the IWG members have developed more comprehensive websites informing the public about their activities and publishing more information, including through annual reports.

It is important to stress again that the GAPP is a voluntary and consensus-based document, which all members of the IWG support and either adhere to, or aspire to implement. It is our belief that recently established SWFs can benefit from the Santiago Principles in terms of strengthening their own practices as they establish and operationalize their funds. More generally, the Santiago Principles can be expected to provide a framework so that SWFs' investment decisions are based on professional principles and in accordance with their investment policy objectives.

In terms of implementation, it is intended that each SWF will engage in a process of regular review of the implementation of the principles within the scope of the GAPP provisions. IWG members are encouraged to produce self-assessments of their practices in relation to the Santiago Principles that allow a judgment to be made on whether they are fulfilled. Each individual SWF or its owner has the discretion to choose to publish the assessment, which we think would also help to enhance the trust in recipient countries and therefore contribute to the stability of the global financial system.

Obviously, institutional investors worldwide have been affected by the current financial market turmoil. Hence, it is important for the SWFs and their managers not only to demonstrate that they maintain robust risk management frameworks, but also show that their performance continues to reflect their investment strategies and objectives in these difficult times. This is needed to instill confidence at home and continue to support financial stability globally.

Therefore, through the implementation of the Santiago Principles, we seek to ensure that the international investment environment will remain open and our capital can continue to be put to use when it is most needed, thereby helping to maintain the much needed free flow of capital and investment.

### **The role of recipient countries**

The product that you have before you has not been created in a vacuum. Throughout the process, we maintained an active dialogue with the OECD, the World Bank, and a number of recipient countries to ensure that their concerns were well understood. They were invited to each of our meetings to express views on our work. They received a full draft of the GAPP prior to the third IWG meeting and were invited to comment on it. At that meeting there was a frank exchange of views as the SWFs were keen to ensure that recipient countries fully appreciated the need to preserve the competitive dynamic by not putting them at a disadvantage compared to other institutional investors. At the same time, the views of the recipient countries were helpful in ensuring that the GAPP would be appropriately responsive. Accordingly, we believe that the Santiago Principles should mitigate their concerns about the motives and potential investments of Sovereign Wealth Funds.

Thus, in the Santiago Principles, there are provisions confirming the IWG's expectations that recipient countries will not subject the SWFs to discriminatory measures to which other foreign or domestic investors in similar circumstances are not subjected. We trust the recipient countries will support these provisions.

In this regard, we are pleased that the OECD has moved along with the IWG process in preparing its guidance for recipient countries, has welcomed IWG representatives at its most recent roundtable on October 8 and has sought areas of

mutual interest with them. We look forward to Mr. Gurría's report on the final review by the OECD investment committee regarding the guidelines for recipient countries.

### **Future of the IWG and the Santiago Principles**

Going forward, the IWG members recognize that several aspects of the Santiago Principles could benefit from further study and work. For example, studying the potential risks to SWF investment operations and balance sheets and similar other technical issues of common interest would be desirable.

Also, the IWG membership could consider as an ongoing activity exploring the possibility of collecting and providing aggregated information of the activities of SWFs on a regular basis, as was done in the instance of the IMF survey that I mentioned earlier.

Accordingly, the IWG has agreed to explore the establishment of a Standing Group of Sovereign Wealth Funds that will facilitate such work, and thus a "Formation Committee" has been created to determine its terms of reference, constitution and organizational structure, which will be submitted to the IWG for approval.

As I already noted, the IMF played a key role as a facilitator and coordinator of the IWG's work. As we express our appreciation for the Fund staff's professional role and hard work and consider the future of the IWG, we look forward to the Formation Committee's work and on going cooperation with the IMF to ensure that the future activities of the IWG and issues pertaining to SWFs continue to be carried out in a multilateral context.

### **Conclusion**

In conclusion, I would like to reiterate my thanks to all my colleagues for this great effort among such a diverse group of countries and institutions. This has resulted in a joint set of voluntary principles and practices agreed on a consensus basis in only four months and thus our original IWG terms of reference objectives have been accomplished in full. This is a significant achievement.

The Santiago Principles are a significant step forward in formalizing the principles and practices of SWFs. Yet, since the international investment climate will continue to change, we think it essential that the IWG remain together following this phase and keep the Santiago Principles under review and examination, including how they are being implemented. This will provide a mechanism via which new issues relating to the SWFs could be examined and developed as required.

Thank you.