The Santiago Principles (GAPP)
Background and main points

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Topics

• The rise of the Sovereign Wealth Funds and the need for the Santiago principles (GAPP)

• Some key principles and their implications

• The GPFG and the Santiago principles
Emerging global concerns about the rise of sovereign wealth funds (SWFs)

- Most SWFs were established in the last decades
- SWFs are a global phenomenon. But with some notable exceptions primarily established in resource rich countries

According to SWI there is now roughly $4,000bn in SWFs. Morgan Stanley has estimated that this figure may increase to $12,000bn by 2015.

"Recipient countries" expressed concerns about the origin, financial goal and transparency of the management of SWFs

Source: Sovereign Wealthfund Institute (SWI) 2010
Some background on the multilateral processes

Two parallel processes
- OECD: Recipient countries
- IMF: Investor countries

The IMF-process
- International Working Group of SWF
- Heterogeneous group of funds (political and cultural background, purpose, institutional arrangements, age, size, investment philosophy)
- Meetings and drafting May-September 2008
- Santiago Principles published in October 2008
- Work continues in newly established International Forum of Sovereign Wealth Funds
The GAPP can be divided into 3 main areas of concern

1. Legal framework, objectives, and coordination with macroeconomic policies
2. Institutional framework and governance structure
3. Investment and risk management framework
The principles address key concerns raised in the public debate on Sovereign Wealth Funds

- The common enemy of investors and recipient countries alike
  - Protectionism, discrimination and less open investment climate
- The guiding purpose of the principles is to
  - have in place a transparent and sound governance structure that provides for adequate operational controls, risk management and accountability;
  - ensure compliance with applicable regulatory and disclosure requirements in the countries in which SWFs invest;
  - ensure SWFs invest on the basis of economic and financial risk and return-related considerations; and
  - help maintain a stable global financial system and free flow of capital and investment.
- The principles serve an important purpose in terms of improving the global understanding of and attitudes to SWFs
Key issues

- The principles demonstrate that the SWF are properly set up and investments are made purely on an economic and financial basis.
- While they are only two years old, the principles are mainly based on widely held notions of how a sophisticated investor should operate.
- Help improve understanding of SWFs, thus contributing to stability of the global financial system, reducing protectionist pressures, and help maintain open investment climate.
- A positive step forward, particularly given short time and very differing starting points of the various funds. The GPFG will report regularly on compliance with the principles.
- Transparency – not only financial info, but also clarity of purpose and sound governance structures with clear division of responsibilities.
Some key principles

**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 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.”
Some key principles continued

**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.”

**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 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.”
Norway’s sovereign wealth fund

- Oil funds have an important role
  - A sensible management of oil-producing countries’ petroleum wealth in well functioning financial markets is in everyone’s interest

- The Norwegian fund is a tool for:
  - Long-term management of the petroleum wealth
  - Short and medium term stabilization

- GAPP – related key issues:
  - Aim: Maximize financial returns
  - Financial investor with non-strategic holdings. Avg holding = 1%
  - Separation of roles between owner and operational manager
  - High degree of transparency to build public support
  - Guidelines for responsible investment that are transparent and predictable, based on internationally recognized standards (UN Global Compact, OECD Principles of Corporate Governance, OECD Guidelines for Multinational Enterprises)
Conclusion

- There is a continuing global focus on the growth of the SWFs
- The GAPP serve an important purpose in terms of improving the global understanding of and attitudes to SWFs
- The implementation of the principles represents a clear target for signatory funds
- The principles are only valuable if they are seen as credible by external stakeholders
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Links

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