



NORWEGIAN MINISTRY OF FINANCE

# The Santiago Principles (GAPP)

## Background and main points

*May 2010*

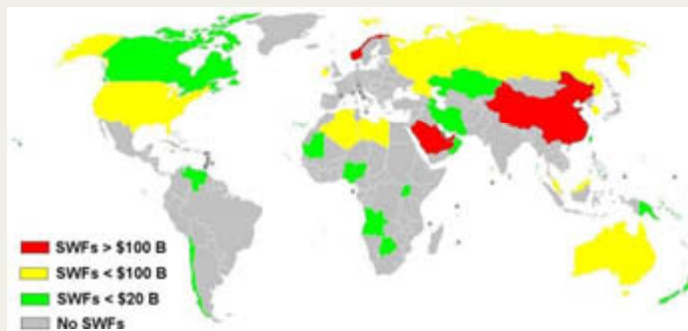
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## Topics

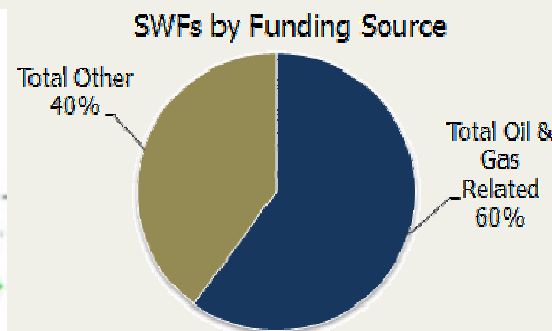
- The rise of the Sovereign Wealth Funds and the need for the Santiago principles (GAPP)
- Some key principles and their implications
- The GPFG and the Santiago principles

## 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



Source: Sovereign Wealthfund Institute (SWI) 2010



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

## 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

Ministry of Finance

- [www.government.no/en/dep/fin](http://www.government.no/en/dep/fin)

Government Pension Fund

- [www.government.no/gpf](http://www.government.no/gpf)

Norges Bank Investment Management

- [www.nbim.no](http://www.nbim.no)

Council on Ethics

- [www.etikkradet.no](http://www.etikkradet.no)