

## **Appendix: Sovereign Wealth Funds**

Global cross-border assets of the official sector continue to rise at a rapid pace. Total foreign assets held by sovereigns have grown to roughly \$10 trillion, including about \$7 trillion in international reserves (including gold) and an estimated \$2 – 3 trillion in sovereign wealth funds (SWFs). The IMF projects that foreign assets under the management of SWFs will reach \$6 – 10 trillion by 2013.

The Department of the Treasury, in coordination with other U.S. Government agencies, is working to shape an appropriate international policy response to financial market and investment issues raised by sovereign wealth funds. This appendix highlights several important policy achievements since the last SWF update in December 2007.<sup>1</sup>

### **Policy Principles for SWFs and Countries Receiving SWF Investment**

On March 19, 2008, Treasury Secretary Paulson reached agreement with officials from Abu Dhabi and Singapore on a set of policy principles for SWFs and countries receiving SWF investment. The principles are intended to support the processes underway in the International Monetary Fund (IMF) and Organization for Economic Cooperation and Development (OECD) to develop voluntary best practices for SWFs and inward investment regimes for government-controlled investment in recipient countries. International agreement on a set of voluntary best practices will create a strong incentive among SWFs and investment-recipient countries to hold themselves to high standards.

*Policy principles for SWFs include:*

1. SWF investment decisions should be based solely on commercial grounds, rather than to advance, directly or indirectly, the geopolitical goals of the controlling government. SWFs should make this statement formally as part of their basic investment management policies.
2. Greater information disclosure by SWFs, in areas such as purpose, investment objectives, institutional arrangements, and financial information – particularly asset allocation, benchmarks, and rates of return over appropriate historical periods – can help reduce uncertainty in financial markets and build trust in recipient countries.
3. SWFs should have in place strong governance structures, internal controls, and operational and risk management systems.
4. SWFs and the private sector should compete fairly.
5. SWFs should respect host-country rules by complying with all applicable regulatory and disclosure requirements of the countries in which they invest.

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<sup>1</sup> See Appendix 2: Sovereign Wealth Funds, Semiannual Report on International Economic and Exchange Rate Policies, December 2007, <http://www.treas.gov/offices/international-affairs/economic-exchange-rates/pdf/Dec-2007Appendix2.pdf>

*Policy principles for countries receiving SWF investment include:*

1. Countries receiving SWF investment should not erect protectionist barriers to portfolio or foreign direct investment.
2. Recipient countries should ensure predictable investment frameworks. Inward investment rules should be publicly available, clearly articulated, predictable, and supported by strong and consistent rule of law.
3. Recipient countries should not discriminate among investors. Inward investment policies should treat like-situated investors equally.
4. Recipient countries should respect investor decisions by being as unintrusive as possible, rather than seeking to direct SWF investment. Any restrictions imposed on investments for national security reasons should be proportional to genuine national security risks raised by the transaction.

### **IMF Executive Board Discussion of SWFs**

On March 21, 2008, in response to G-7 Finance Ministers and guidance from the International Monetary and Financial Committee (IMFC) – a ministerial level advisory committee to the IMF – the IMF Executive Board held its first policy discussion of SWFs and endorsed an IMF work plan to prepare voluntary best practices for SWFs by the time of the IMF Annual Meetings in October 2008. The Public Information Notice summarizing the Board’s assessment noted that “best practices would improve the functioning of both existing and prospective SWFs, and – equally important – would contribute to an open global financial system and help preserve markets for foreign investment.” The Board also provided guidance on the content of best practices, indicating that best practices would be expected to focus on governance, institutional and risk management arrangements, investment policies, and transparency.<sup>2</sup>

### **First Meeting of the International Working Group of SWFs**

On April 30-May 1, 2008, representatives from 25 SWF countries met at the IMF in Washington, D.C. and formed an International Working Group of SWFs (IWG).<sup>3</sup> The IWG selected as its co-chairs the Director of IMF’s Monetary and Capital Markets Department and a senior representative of the Abu Dhabi Investment Authority (ADIA). At this first meeting, the IWG exchanged views with recipient countries, the OECD, and European Commission on issues surrounding SWFs. The IWG agreed to prepare by the time of the IMF’s Annual Meetings in

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<sup>2</sup> See IMF Public Information Notice No. 08/41, “IMF Executive Board discusses a Work Agenda on Sovereign Wealth Funds” <http://www.imf.org/external/np/sec/pn/2008/pn0841.htm>

<sup>3</sup> IWG member countries are: Australia, Azerbaijan, Bahrain, Botswana, Canada, Chile, China, Equatorial Guinea, Iran, Ireland, South Korea, Kuwait, Libya, Mexico, New Zealand, Norway, Qatar, Russia, Singapore, Timor-Leste, Trinidad & Tobago, the United Arab Emirates, the United States, and Vietnam. Saudi Arabia, the OECD, and the World Bank will participate as permanent observers.

2008 a set of SWF principles that properly reflects SWF investment practices and objectives. The IWG's work will draw upon existing principles and practices that may be applicable to the institutional and operational practices of SWFs with a view to maintain an open and stable international financial system.

### **OECD Investment Committee Work**

In response to a rise in investment protectionism and the need to maintain open markets, a separate dialogue has been underway in the OECD Investment Committee on investment policy issues with regard to SWFs, building on the discussions on Freedom of Investment, National Security, and "Strategic" Industries. The United States, along with other OECD member countries, urged the OECD to identify best practices for countries that receive foreign government-controlled investment, including from SWFs. On April 9, 2008, as an initial step, the OECD published an OECD Investment Committee report on "Sovereign Wealth Funds and Recipient Country Policies." The report provides guidance for recipient country policies toward SWF investment, drawing on key OECD investment policy principles of transparency, predictability, proportionality, and accountability.

The Treasury Department will continue its work on sovereign wealth funds through analysis, monitoring, bilateral outreach, and multilateral efforts to ensure the United States addresses legitimate areas of concern and remains welcoming of foreign investment.

The Treasury Department will continue to keep Congress closely informed of important developments in our policy response to SWFs, both through staff briefings and formal testimony such as Under Secretary David McCormick's testimonies on November 14, 2007, before the Senate Committee on Banking, Housing, and Urban Affairs;<sup>4</sup> on February 13, 2008, before the Joint Economic Committee;<sup>5</sup> and on March 5, 2008, before the House Financial Services Committee;<sup>6</sup> and Deputy Assistant Secretary Robert Dohner's testimony on February 7, 2008, before the U.S.-China Economic and Security Review Commission.<sup>7</sup>

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<sup>4</sup> <http://www.treas.gov/press/releases/hp681.htm>

<sup>5</sup> <http://www.treas.gov/press/releases/hp823.htm>

<sup>6</sup> <http://www.treas.gov/press/releases/hp861.htm>

<sup>7</sup> <http://www.ustreas.gov/press/releases/hp873.htm>