

SWFs move to increase transparency

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The Santiago Principles are being implemented and likely to make Sovereign Wealth Funds more acceptable to third-party governments.

In recent years, Sovereign Wealth Funds (SWFs) have become subject to an ongoing debate about the benefits they present to the global capital markets and whether they outweigh their perceived risks, as is often argued by the protectionists.

The apprehension surrounding SWFs emerges largely due to the perceived lack of transparency and disclosure by these state-owned investment vehicles. Protectionist governments believe their investment activities are politically motivated and driven by the desire to acquire strategic assets resulting in an imbalance in power in the economy of the recipient country i.e. intervention in recipient country fiscal policy.

Understanding the ultimate objectives and motives of these funds is fundamental. SWFs investment strategies vary widely; some are used as shields to protect local economies against market volatility, currency fluctuations and inflation. These are usually referred to as stabilisation funds while others are used as a means to diversify natural wealth, and to reduce concentration risk. Irrespective of the nature and form of these funds, however, they all share a common interest – to maximise profit returns.

Improving understanding

The International Working Group (IWG) of Sovereign Wealth Funds has recognised the need for transparency and disclosure by SWFs, through a set of principles and practices known as the Santiago Principles, which aim to ease market concerns. Finalised in September 2008, the framework will improve understanding of the investments' objectives, practices and governance. It will also provide a certain degree of comfort over the SWF investment process, from both an economic and financial perspective.

Implementation begins

While the principles are voluntary, SWFs are starting to implement them. As these principles become more refined and publicised, protectionist governments are likely to demand full compliance before SWFs are allowed to make investments. This should serve to reduce scepticism among the protectionists, help stabilise the global financial system and allow for the free inflow and outflow of capital between economies.



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