



The Norwegian Government Pension Fund Norway's adherence with the Santiago principles



The Santiago Principles or Generally Accepted Principles and Practices (GAPP) are an initiative of the International Forum of Sovereign Wealth Funds (IFSWF). The Principles recognise that it is important for SWFs to demonstrate to their home countries and domestic stakeholders, to the countries in which they are invested and to the international financial markets in general that they are properly established and that their investments are made on an economic and financial basis.

The Principles are underpinned by the following guiding objectives for SWFs:

1. To help maintain a stable global financial system and free flow of capital and investment;
2. To comply with all applicable regulatory and disclosure requirements in the countries in which the SWFs invest;
3. To make investments on the basis of economic and financial considerations related to risk and return; and
4. To have in place a transparent and sound governance structure that provides for adequate operational controls, risk management and accountability.

In line with the GAPP, the Norwegian Ministry of Finance has reviewed the Government Pension Fund Norway's (GPFN's) adherence with the principles. As the GPFN is not a legal entity in itself, the Ministry has reviewed the legal and operational superstructure related to the management of the Fund.

In the review, key sources of information are highlighted for each principle. On the aggregate level the Ministry would like to draw the reader's attention to the following two formative documents to which reference is made throughout:

- The Government Pension Fund Act (GPFA):
<http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/the-guidelines-for-the-management-of-the.html?id=434605>
- The Management Mandate for the Government Pension Fund Norway (the mandate):
<http://www.ftf.no/images/Marketing/Rammeverk/Management%20mandate%20for%20the%20Government%20Pension%20Fund%20Norway%202011.pdf>

GAPP Principle 1	Other comments
<p>The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).</p> <ul style="list-style-type: none"> - GAPP 1.1 Subprinciple The legal framework for the SWF should ensure the legal soundness of the SWF and its transactions. - GAPP 1.2 Subprinciple The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and the other state bodies, should be publicly disclosed. 	<p>Status: Implemented</p>
<p>The Government Pension Fund Norway is not a separate legal entity. The legal framework of the GPFN is established by the Government Pension Fund Act (GPFA). This describes the Fund's legal basis and structure. In the GPFA, Parliament has given the Ministry of Finance responsibility for managing the Fund.</p> <p>In practice, the Ministry has been allocated a role similar to that of an asset owner. The act requires the operational management to be carried out by Folketrygdfondet (a separate company established by special statute, wholly owned by the Ministry of Finance).</p> <p>The GPFA requires the Ministry to stipulate further regulations for how the management is to be implemented. The Ministry has reported to the Norwegian Storting (Parliament) on the more detailed division of responsibility between the Ministry, as owner, and Folketrygdfondet, as manager, which has been established. The Ministry has established a mandate for Folketrygdfondet's management of the Fund.</p>	<p>Sources: GPFA, FTA.</p>

GAPP Principle 2	Other comments
<p>The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p>Status: Implemented</p>
<p>The purpose of the Government Pension Fund is to support government savings to finance the pension expenditure of the National Insurance Scheme and long-term considerations in the spending of government petroleum revenues. The purpose is decreed in the Government Pension Fund Act.</p>	<p>Sources: GPFA (Especially §1)</p>

GAPP Principle 3	Other comments
<p>Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.</p>	<p>Status: Implemented</p>
<p>The income of the GPFN, and the process for transfers to and from the Fund, are established in the Pension Fund Act. The income of the GPFN is the return generated by the Fund. The basic capital of the GPFN originates primarily from surpluses in the national insurance accounts after the introduction of the National Insurance Scheme in 1967 and until the late 1970s. The return on the assets of the GPFN is not transferred to the Treasury, but is added to the Fund on an ongoing basis. Consequently, there are no transfers between the fiscal budget and the GPFN. Neither are there any transfers of capital between the Government Pension Fund Global (GPFG) and the GPFN. The capital in the Government Pension Fund may only be used for transfers to the central government budget pursuant to a resolution by the Storting.</p>	<p>Sources: GPFA (Especially §3, 4 and 5)</p>

GAPP Principle 4	Other comments
<p>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.</p> <ul style="list-style-type: none"> - GAPP 4.1 Subprinciple The source of SWF funding should be publicly disclosed. - GAPP 4.2 Subprinciple The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed. 	<p>Status: Implemented</p>
<p>The legislation related to funding, withdrawal and spending of the GPFN is publicly available and determined by the Government Pension Fund Act. The rules are consistent with the Fund's macroeconomic purpose to support government savings to finance the pension expenditure of the Norwegian national insurance scheme (NNIS). The capital in the Government Pension Fund may only be used for transfers to the central government budget pursuant to a resolution by the Storting (Norwegian Parliament). The transfers to the Fund were made between 1967 and the late 1970s as a result of early surpluses linked to the introduction of the NNIS, cf. comment to GAPP Principle 3.</p>	<p>Sources: GPFA, Report no. 24 to the Storting (2006 – 2007) mandate.</p>

GAPP Principle 5	Other comments
<p>The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.</p>	<p>Status: Implemented</p>
<p>Folketrygdfondet currently reports on the results of the Fund biannually (and from 2012 quarterly). The reports cover performance, risk and costs and are published on the asset manager's website, www.ftf.no. There is a clear focus on contribution to added value in operational management. The asset manager also publishes biannual listings of all investments, both equities and fixed income. The market value of the Fund is part of the central government accounts. All relevant data on the Fund's return and assets are included in the central government accounts.</p>	<p>Sources: Mandate, FTA.</p>

GAPP Principle 6	Other comments
<p>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</p>	<p>Status: Implemented</p>
<p>Norway's Parliament established the Fund's regulatory framework with the GPFA. The Ministry of Finance has formal responsibility for the Fund's management and acts as the Fund's owner. The operational management is handled by Folketrygdfondet. The Ministry has also issued a mandate for the Fund's management. It stipulates the terms for the Fund's investments through regulations and supplementary provisions. The mandate specifies that Folketrygdfondet shall make investment decisions independently of the Ministry (section 1-1 (3)).</p>	<p>Sources: GPFA, mandate.</p>

GAPP Principle 7	Other comments
<p>The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.</p>	<p>Status: Implemented</p>
<p>See response to principle 1 for the overall objective of the Fund. See response to principle 6 for more information about the division of labour between the Ministry and Folketrygdfondet with regards to the management of the GPFN. The provisions relating to Folketrygdfondet's board and the Ministry's supervisory function are determined by the FTA and the GPFA. Folketrygdfondet is organised with a Board of Directors appointed by the Ministry of Finance.</p>	<p>Sources: GPFA, FTA, Report to Parliament no. 10 (2009-2010), mandate.</p>

GAPP Principle 8	Other comments
<p>The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.</p>	<p>Status: Implemented</p>
<p>See also response on page 8. The authority of the governing bodies is dictated by in various government legislation and regulations discussed elsewhere in this document. The Ministry's mandate to the board of Folketrygdfondet seeks to ensure that the manager acts in the best interests of the Fund, and covers, inter alia, the management objective, strategic benchmark, responsible investments, reporting standards, risk management, costs, reporting and relationship between owner and manager.</p> <p>Folketrygdfondet's Board of Directors is responsible for the operational management of the Fund and has supplemented the Ministry's mandate through the establishment of principles for risk management and internal control as well as further risk limits which are additional to the Ministry of Finance's mandate. The Board of Directors has delegated the responsibility for implementing the principles for risk management and internal control to the Managing Director. The Board of Directors receives reports on the fund management's returns, risks, compliance and internal control and reviews significant policies at least yearly.</p>	<p>Sources: GPFA, mandate.</p>

GAPP Principle 9	Other comments
<p>The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.</p>	<p>Status: Implemented</p>
<p>The operational manager, Folketrygdfondet, is independent of the Ministry of Finance, and free to implement the Fund's strategies within the mandate set by the Ministry. See reply to earlier principles for more details.</p>	<p>Sources: GPFA, mandate.</p>

GAPP Principle 10	Other comments
<p>The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.</p>	<p>Status: Implemented</p>
<p>The accountability framework is stipulated in various legal documents. The Auditor General is responsible for the supervision of the Ministry of Finance's work. The Board of Directors at Folketrygdfondet is responsible to the Ministry of Finance for the management of the Fund. Folketrygdfondet's independent Internal Auditor shall on behalf of the Board of Directors ensure that there is adequate and effective risk management in Folketrygdfondet and appropriate and satisfactory internal control. The Internal Auditor shall make independent and objective statements and provide advice concerning improvements in the management and control systems. The Ministry of Finance reports annually to the Norwegian Parliament on the management of the Fund.</p>	<p>Sources:</p>

GAPP Principle 11	Other comments
<p>An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognised international or national accounting standards in a consistent manner.</p>	<p>Status: Implemented</p>
<p>The financial statements are regulated by the Regulation relating to annual accounts for Folketrygdfondet.</p> <p>The mandate states what other information the reports should include. The reports shall be based on the greatest possible degree of openness by the management within the limits defined by a sound conduct of the management assignment. The reports shall consist of a descriptive part and extracts from Folketrygdfondet's accounts concerning the management of the Fund, and they shall be adopted in accordance with the current accounting regulations for Folketrygdfondet. The descriptive part shall include a true and fair summary of the performance of the Fund, management costs, management strategies, creation of value in the operative management and relevant risk in the investment management, including utilisation of the limits defined in the mandate. In addition, an account shall be given of the organisation of the investment management in Folketrygdfondet.</p>	<p>Sources: Regulation relating to annual accounts for Folketrygdfondet, mandate</p>

GAPP Principle 12	Other comments
<p>The SWF's operations and financial statements should be audited annually in accordance with recognised international or national auditing standards in a consistent manner.</p>	<p>Status: Implemented</p>
<p>The FTA states that Folketrygdfondet's auditor is elected by the Ministry of Finance. The financial statements are regulated by the Regulation relating to annual accounts for Folketrygdfondet. The auditing standard is Norwegian GAAP.</p>	

GAPP Principle 13	Other comments
<p>Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.</p>	<p>Status: Implemented</p>
<p>The Ministry has established and published clear ethical standards for all its employees. These include principles of transparency, objectivity and independence, as well as restrictions on transactions in financial instruments. Professional standards are as a rule defined at the point of employment.</p> <p>Folketrygdfondet has established clear, ethical and professional standards and it has laid down ethical rules for its employees including rules on advance approval and reporting requirements on transactions in financial instruments.</p>	

GAPP Principle 14	Other comments
<p>Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.</p>	<p>Status: Implemented</p>
<p>The Fund currently does not employ external managers. Folketrygdfondet may however make use of external managers and outsource operational functions as long as risk management and internal control considerations are attended to. According to the mandate from the Ministry of Finance, Folketrygdfondet shall, as far as possible, remain in compliance with the Regulations relating to Risk Management and Internal Control.</p>	<p>Sources: Mandate, § 1-4.</p>

GAPP Principle 15	Other comments
<p>SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.</p>	<p>Status: Implemented</p>
<p>Folketrygdfondet primarily invests in Norway, although a minor part of the Fund is invested in the Nordic countries. In the Nordic portfolio, Folketrygdfondet's legal department and the portfolio manager ensure compliance with the investment and voting policies of Folketrygdfondet.</p>	

GAPP Principle 16	Other comments
<p>The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.</p>	<p>Status: Implemented</p>
<p>The governance framework is transparent and publicly disclosed. Both the overall framework and objective is stipulated by Parliament and laid down in legislation (FTA, GPFA). More specific elements of the division of responsibilities between owner and manager are set out in the mandate. The mandate specifies that Folketrygdfondet shall make investment decisions independently of the Ministry (section 1-1 (3)). The owner presents an annual report to Parliament on the management of the fund. In addition to presenting the financial results of the fund, this report includes a thorough discussion of investment strategy and beliefs. The report also reports to Parliament on the Ministry's governance and supervision of the fund. The report is publicly available (see http://www.regjeringen.no/en/dep/fin/dok/regpubl/stmeld/2009-2010/Report-No-10-to-the-Storting.html?id=599455).</p>	<p>Sources: FTA, GPFA, mandate, annual report to parliament</p>

GAPP Principle 17	Other comments
<p>Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.</p>	<p>Status: Implemented</p>
<p>The manager reports to the owner biannually. These reports are public. Relevant financial information is also included in the government budget and the government accounts.</p>	<p>Sources: Regulation relating to annual accounts for Folketrygd-fondet, mandate</p>

GAPP Principle 18	Other comments
<p>The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.</p> <ul style="list-style-type: none"> - GAPP 18.1 Subprinciple The investment policy should guide the SWF's financial risk exposures and the possible use of leverage. - GAPP 18.2 Subprinciple The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored. - GAPP 18.3 Subprinciple A description of the investment policy of the SWF should be publicly disclosed. 	<p>Status: Implemented</p>
<p>The basis for the investment policy is laid down in the GPFA. The annual report to Parliament reports on the development of the fund strategy. The investment strategy is based on fundamental beliefs of how the financial markets work and the special characteristics of the Fund. The strategy is operationalised in the mandate set by the Ministry. The mandate addresses objectives, risk tolerance and investment strategy. Folketrygdfondet's objective is to maximise long-term return, subject to the specified risk limits. The Ministry reports yearly on the management of the Fund to the Storting. The mandate also covers provisions on risk exposure, leverage, benchmark and outsourcing. Folketrygdfondet has published further information about its active management strategies and approach to risk management. Folketrygdfondet does not currently employ external managers.</p>	<p>Sources: GPFA, mandate, various reports to Parliament (see for example ch. 2 in Report no. 10 (2009-2010)), Folketrygd-fondet's Annual Report for 2010, documents on Folketrygd-fondet and Ministry's website.</p>

GAPP Principle 19	Other comments
<p>The SWF's investment decisions should aim to maximise risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.</p> <p>- GAPP 19.1 Subprinciple If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.</p> <p>- GAPP 19.2 Subprinciple The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.</p>	<p>Status: Implemented</p>
<p>See response to principle 18. The Ministry has put in place guidelines for observation and exclusion from the Fund's investment universe outside Norway. <i>The guidelines are publicly available.</i> Active ownership shall be based on the UN Global Compact, the OECD Guidelines on Corporate Governance and the OECD Guidelines for Multinational Enterprises. According to the mandate, Folketrygdfondet shall have internal guidelines for its exercise of ownership rights that indicate how these principles are integrated. Folketrygdfondet has also published a set of ownership principles to ensure transparency and predictability in how it manages the ownership rights of the fund.</p>	<p>Sources: Guidelines for exclusion and observation, mandate, various documents on Folketrygdfondet's website.</p>

GAPP Principle 20	Other comments
<p>The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p>Status: Implemented</p>
<p>The Fund is managed by a separate asset manager. The division of roles between the Ministry of Finance and Folketrygdfondet means that Folketrygdfondet is not privy to any privileged information from the broader government. Folketrygdfondet makes investment decisions based on publicly available information. In cases where Folketrygdfondet as an investor or potential investor receives privileged information, both legal and internal guidelines are adhered to in order to ensure that (i) such information is not abused in investment decisions and (ii) confidentiality is complied with.</p>	

GAPP Principle 21	Other comments
<p>SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.</p>	<p>Status: Implemented</p>
<p>See also response to principle 19. The rationale for the exercise of ownership is described in the mandate. It is the manager's aim to vote at all annual general meetings. The asset manager has also published specific principles within areas considered very financially relevant. For more details see:</p> <ul style="list-style-type: none"> • http://www.folketrygdfondet.no/en/c-229-Principles-relating-to-remuneration-models.aspx • http://www.folketrygdfondet.no/en/c-227-Ethical-principles-relating-to-the-investment-activities.aspx 	<p>Sources: Mandate, various documents on Folketrygd- fondet website.</p>

GAPP Principle 22	Other comments
<p>The SWF should have a framework that identifies, assesses, and manages the risks of its operations.</p> <p>- GAPP 22.1 Subprinciple The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</p> <p>- GAPP 22.2 Subprinciple The general approach to the SWF's risk management framework should be publicly disclosed.</p>	<p>Status: Implemented</p>
<p>See also response to principle 10 and 18.</p> <p>According to guidelines established by the Board of Directors of Folketrygdfondet, the risk management framework shall be based on "Enterprise Risk Management – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Board of Directors has also established principles for management of operational risk, and the framework for risk management includes procedures for risk identification, assessment and monitoring. If a particular risk factor falls outside the risk tolerance level, further action will be taken to mitigate or avoid the risk.</p> <p>The Board of Directors' principles for risk management and internal control will be made publicly available by the end of 2011.</p> <p>The owner is supervised by the Office of the Auditor General.</p>	<p>Sources: Mandate, various documents on Folketrygd-fondet's website.</p>

GAPP Principle 23	Other comments
<p>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.</p>	<p>Status: Implemented</p>
<p>Performance is measured according to GPS and reported to the owner quarterly. The benchmarks are described in detail in the mandate. The benchmarks and reporting requirements ensure that the management follows the overall asset allocation (including available instruments) and risk limits as determined by the owner.</p>	<p>Sources: Mandate.</p>

GAPP Principle 24	Other comments
<p>A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p>Status: Implemented</p>
<p>The Ministry is satisfied that the Fund operates in adherence with the GAPP. The Ministry will continue to work with the IFSWF in its further development of the principles. The Ministry will update this self-assessment if and when required by any changes to the GAPP or the Fund management.</p>	

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