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Sovereign Wealth Funds: The Need for Greater Transparency and Accountability

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Sovereign wealth funds are the latest topic de jour in international finance. Over the past half dozen years, governments around the world, primarily in emerging-market economies, have accumulated rapidly a vast amount of international assets in the form of reserves and other holdings. The scope and scale of these activities raise profound questions about the structure and stability of the international financial system in the first decade of the 21st century.

This policy brief provides an overview of this trend in governmental asset holdings and outlines some of the basic issues it raises for the international financial system. The size of official holdings of cross-border assets is often unknown to the citizens of the countries involved as well as to market participants.[1] Strategies for managing those assets in many cases are at best vague, offering little guidance to the managers. In other cases, the strategies may be known to the managers but not to the general public. Actual or rumored changes in asset allocations have the potential to disrupt international financial markets. The fact that governments own these assets raises the potential that their management will be guided by political, rather than economic and financial, considerations or that the economic and financial considerations are motivated by support for national champions (if a country accumulates excess oil reserves and invests them in foreign energy projects, this looks like exploitation of economic power not diversification). Consequently, host-country jurisdictions are under increasing pressure to limit the scope of such investments, raising the specter of political confrontation and financial protectionism.[2]

Against this background, I present a framework for thinking about these issues. I make the case for a quantum increase in transparency and accountability with respect to the management of sovereign wealth funds and other official holdings of cross-border assets. I then outline a proposal for an international standard to manage this activity while minimizing collateral damage.

SOVEREIGN WEALTH FUNDS: THE ISSUES

In the broadest terms, increased international investment activities of governments in managing their foreign exchange reserves and other forms of international assets reflect trends in globalization and diversification. Over the past two decades at least, total global cross-border investments have expanded at a more rapid rate than international trade in goods and services,

1. In some cases even the size of international reserve holdings is not known or the published numbers are suspect.

2. The *Financial Times* on July 13 reported that the German government is considering new legislation to block state-controlled foreign investments. It also reported that German Chancellor Angela Merkel has referred explicitly to the growing holdings of sovereign wealth funds as a source of this concern. The *Financial Times* on July 20 reported "the European Commission has launched an inquiry into whether vast state-controlled investment funds from Russia, China and the Middle East threaten the continent's single market." Views within Europe are not uniform. The *Financial Times* carried two editorials on the topic during the week of July 23. During the same week, the *Wall Street Journal* had a lead story, and the *Washington Post* published an opinion piece by Steven Pearlstein on the subject.

which in turn has expanded at almost twice the rate of global GDP. From 2001 to 2006, global GDP at current prices and exchange rates increased 53 percent, and global trade in goods and services increased 93 percent.[3] Over a slightly earlier five-year period that, in the wake of the Asian financial crisis, was less conducive to rapid expansion of cross-border investments (1999–2004), the increase in international investment (foreign assets plus liabilities) was about 175 percent.[4]

These broad trends reflect the increased integration of the global economy as well as a process of portfolio diversification that has had the effect of loosening the "home bias" in individual, institutional, and governmental investment portfolios. The reduction of home bias has facilitated the financing of global imbalances with consequences that are as yet unknown at the same time that it has contributed to more balanced global asset portfolios.

Large cross-border holdings in official hands are at sharp variance with today's market-based global economy and financial system ....

At least until recently, emerging-market and other developing countries have not shared in these trends. Over the past two decades, the expansion of cross-border investments (assets plus liabilities) of nonindustrial countries has only slightly exceeded their combined GDP growth rate. It was at about the same rate as their (rapid) growth in trade in goods and services (Lane and Milesi-Ferretti 2006). This pattern has changed.

Total official foreign exchange reserves are more than $5 trillion. The net increase has been 140 percent over the past five years. Recorded holdings of nonindustrial countries have reached $3.5 trillion, a net increase of 180 percent over the period. This total understates the increase in official holdings of foreign assets because a portion of the accumulation has been redirected into stabilization funds, nonrenewable resource funds, sovereign wealth funds, or similar vehicles.

Official holdings of international assets in addition to official reserves can be estimated between $1.5 trillion and $2.5 trillion.[5] However, accurate figures are unavailable because many countries do not publish comprehensive information on their holdings of foreign assets.[6] In some cases, there is double counting with official foreign exchange reserves, holdings include assets in domestic currency, or holdings are parked in foreign investments pending their use for domestic development purposes. Table 1 provides information on 20 funds of 18 countries with estimated holdings in sovereign wealth funds, or their equivalent, of at least $10 billion. The total is about $2 trillion.[7]

Ten of the 18 countries listed in table 1 hold gross foreign exchange reserves of at least $30 billion.[8] However, as shown in table 2, many of the 30 holders of foreign exchange reserves in excess of that figure have not yet established sovereign wealth funds or their equivalent, and many of those that have done so could shift much larger amounts into such entities, for example, China, Russia, Korea, Singapore, and Malaysia among the top ten holders of foreign exchange reserves. Moreover, countries are broadening the type of assets in which they are investing their foreign exchange reserves, and nothing prevents them from managing their reserves as sovereign wealth funds are managed.[9] Finally, some governments distinguish between their reserve assets and other international holdings of the government or the monetary authorities. For example, the Saudi Arabian Monetary Authority (SAMA) reported that its foreign exchange assets were $23.2 billion as of April 2007. For the same date, SAMA reported additional holdings on its balance sheet of $184 billion in investment in foreign securities and $31 billion in deposits with foreign banks and reported as memorandum items investment in foreign securities by independent organizations of $51 billion. Thus, Saudi Arabia can be said to have at least $235 billion in international investments by the government outside of its foreign exchange holdings without having formally set up a sovereign wealth fund or its equivalent.[10]

3. International Monetary Fund (IMF), *World Economic Outlook* database, April 2007.

4. This estimate is based on Lane and Milesi-Ferretti (2006). As a partial check, for the United States the growth in nominal GDP from 1999 to 2004 was 18 percent, US trade in goods and services expanded 33 percent, and the increase in US international investment (foreign assets plus liabilities) was 42 percent.

5. Jen (2007) has estimated the high-end figure for the end of 2007.

6. Countries generally publish information on their reserve holdings, but often even that information is incomplete.

7. In addition to the 20 funds of 18 countries listed in table 1, 12 active funds of 12 countries can be identified with about $30 billion in combined holdings.

8. Foreign exchange holdings of the United Arab Emirates, Kuwait, Kazakhstan, and Venezuela exceed $20 billion, but they are not large enough to be listed among the top 30 holders in table 2.

9. The IMF's fifth *Balance of Payments Manual* defines reserves as "external assets that are readily available to and controlled by monetary authorities for direct financing of payments imbalances, for indirectly regulating the magnitudes of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes." While some might interpret this definition as excluding certain types of assets from foreign exchange reserves, countries follow a range of different practices. The reserves template of the IMF's special data dissemination standard is intended to provide increased disclosure about the nature of the assets countries report as their foreign exchange reserves.

10. Table 1 also does not list Dubai Holding. Dubai is one of the United Arab

Table 1 Large sovereign wealth funds

Country	Name	Date established	Current size[a] (billions of US dollars)
United Arab Emirates	Abu Dhabi Investment Authority	1976	500 to 875[e]
Singapore	Government of Singapore Investment Corporation	1981	100 to 330[er]
Norway	Government Pension Fund–Global	1990	308
Kuwait	Future Generations Fund	1976	174
Russia	Stabilization Fund of the Russian Federation	2004	122
Singapore	Temasek Holdings[b]	1974	108
China	Central Huijin Investment Company[b]	2003	66[e]
Qatar	Qatar Investment Authority	2005	50[e]
Algeria	Revenue Regulation Fund	2000	43
Australia	Future Fund[b]	2006	42
United States	Alaska Permanent Fund[b]	1976	40
Kuwait	General Reserve Fund	1960	39
Brunei	Brunei Investment Agency	1983	30[e]
Korea	Korea Investment Corporation	2005	20[r]
Malaysia	Khazanah Nasional[b]	1993	18
Kazakhstan	National Oil Fund	2000	18
Venezuela	National Development Fund[c]	2005	15
Canada	Alberta Heritage Savings Trust Fund[b]	1976	14
Iran	Oil Stabilization Fund	2000	12[e]
New Zealand	Superannuation Fund[b]	2001	10
Total[d]			2,032

e = estimate, r = some or all assets are included in reserves

a. Data are from the end of 2006 or the most recent date available.
b. A portion of the holdings is in domestic assets.
c. A portion of these holdings is intended for domestic investment.
d. Total uses the midpoint of the range of estimates.

By contrast with industrial countries, governments of nonindustrial countries are more actively involved in their countries' international investments. The governments of India, China, Thailand, Indonesia, Korea, and Malaysia controlled, on the basis of conservative estimates, at least 60 percent of their countries' cross-border investments as of the end of 2005. The comparable figure for the United States was 2.5 percent, and even for Norway, with its huge sovereign wealth fund, the figure was only 45 percent.[11] Large cross-border holdings in official hands are at sharp variance with today's general conception of a market-based global economy

Emirates. Little information is published about the size and investments of Dubai Holding. Most regard it as a private investment vehicle of the ruling family of Dubai. China's Central Huijin Investment Company, which has been used to recaptialize state-owned banks in China, is listed, but it should not be confused with China's proposed state foreign exchange investment company.

11. For most of these countries these estimates for 2005 are based on data in IMF, *International Financial Statistics*. They include reserve assets (including assets other than foreign exchange) plus other investments by monetary authorities or the general government, where these subcategories of other investments are reported separately. However, according to the IMF's fifth *Balance of Payments Manual*, countries' official holdings of foreign equity and debt securities other than as reserves assets should be reported along with private holdings of each category of assets. This presumably is the case, but the public-private split is not provided. For Norway, the figure in the text is reserves plus the reported holdings of Norway's Government Pension Fund–Global as of the end of 2005. By way of historical comparison, in 1976 the US government's share of US international assets was only 19.5 percent; it declined to 15.8 percent in 1986, 6.1 percent in 1996, and 2.3 percent in 2006. The source of the estimates for the United States is Bureau of Economic Analysis, US Department of Commerce, *US Net International Investment Position at Yearend 2006*, June 2007. The US figures combine US official reserve assets and other US federal government assets; they do not include government holdings of international assets at the subfederal level, for example, by state pension funds.

Table 2 Foreign exchange reserves

Country	**Current size**[a] (billions of US dollars)
China[b]	1,202
Japan	888
Russia[b]	330
Korea[b]	243[s]
India	192
Singapore[b]	137[s]
Hong Kong	135
Brazil	109
Malaysia[b]	89
Algeria[b]	83
Mexico	75
Thailand	69
Turkey	67
Libya	64
Norway[b]	56
Australia[b]	55
Poland	48
Indonesia	45
Nigeria	43
United Kingdom	42
France	42
United States[b]	42
European Central Bank	40
Germany	38
Canada[b]	38
Switzerland	37
Argentina	35
Czech Republic	31
Denmark	31
Israel	30
Subtotal	4,339
World total	5,183

s = some or all holdings are included in sovereign wealth funds.

a. Data are from the end of March 2007 or the most recent date available.

b. Has one or more sovereign wealth fund listed in table 1.

Source: International Monetary Fund, *International Financial Statistics*, 2007.

and financial system in which decision making is largely in the hands of numerous private agents pursuing commercial objectives.

Governments manage their international investments using a continuum of institutional mechanisms. At one end are traditional international reserves managed by central banks and/or finance ministries, where considerations of liquidity and low risk normally are paramount.

Further along the continuum are stabilization funds accumulated from "excess" revenues from commodity exports in particular. Stabilization funds may invest in a slightly wider range of assets, but considerations of liquidity and low risk still predominate because, by design, stabilization funds may be drawn upon when commodity prices decline. They are designed primarily to achieve medium-term macroeconomic stabilization objectives, including the sterilization of the domestic economic and financial effects of surges in export earnings.

Toward the other end of the spectrum are sovereign wealth funds, which generally have longer-term investment objectives and, therefore, may hold an even broader array of assets. In addition, many governments own, manage, or sponsor domestic entities such as banks or corporations or groups of such entities through holding companies that have investments in other countries, including direct, controlling ownership interests.

In practice, each of these mechanisms may involve elements of reserve management, stabilization, and the transfer of wealth across generations. This mixture of motivations reinforces the case for considering sovereign wealth funds in a broader context of the external investment activities of governments. The official sector accumulates foreign assets as a result of purchases on the foreign exchange market, government external borrowing, the operation of entities that directly or indirectly generate foreign exchange earnings for the government, or more rarely as part of the implementation of a sophisticated policy of intergenerational wealth transfer that may involve all three types of activities. Even if the foreign assets are not ultimately recorded as foreign exchange reserves, they often pass through those accounts.

Governmental foreign investment activities have many similarities in their objectives, management, and motivations with activities of private-sector entities. In particular, the objectives and activities of some sovereign wealth funds do not differ significantly from those of pension funds found in the private or public sector or investments by firms that manage private portfolios of assets that serve comparable purposes.

It is clear that official holdings of foreign assets are growing rapidly as a result of governmental policies as well as the magic of compound interest even at low yields. Consequently, the management of these assets has become a major focus of national and international economic and financial policy because of their size, their lack of transparency, their potential to disrupt financial markets, and the risk that political objectives might influence their management.

Once a government has accumulated foreign exchange resources beyond what it believes is necessary to cover its presumptive short-term needs, which may well not be a precise figure, it has to decide how to manage its holdings. These international investment activities of governments, in turn, derive from and are influenced by a number of distinct policy perspectives. They interact with a government's foreign and domestic debt-management policies with respect to the stocks of assets and liabilities and the resulting net positions. They also interact with policies directed in the short run at managing fiscal positions, growth, inflation, capital flows, and exchange rates. In particular, governments may attempt to sterilize the monetary impact of the accumulation of external assets by issuing domestic debt. Sterilization brings into play the issue of net return on cross-border investments, which may be negative. In addition, even if sterilization is technically 100 percent, the overall effects of the accumulation of foreign assets on the macroeconomy may not be negligible because, for example, short-term assets can be liquidated to finance current consumption, and longer-term assets can be collateralized to finance investment and consumption.

Among the policy issues that arise are the capacity of the economy to absorb foreign resources efficiently, the growth rate of the economy, its inflation rate, and matters involving investment policies and intergenerational equity. To what extent should the current population benefit, to what extent should future generations benefit, and how should the two be linked through the funding of pension systems?[12]

Issues of growth and development arise with respect to the management of international assets in traditional industrial countries like Norway, Canada, and Australia, as well as in economies that more recently have reached high levels of income per capita such as Singapore. However, such issues are more salient in developing and emerging-market economies where the demand for, and the presumptive social return on, investment at home exceeds the likely return on investment abroad regardless of the nature of that investment.[13]

The challenge is that once a country has accumulated a substantial portfolio of foreign assets (based on some metric such as a percentage of GDP, months of imports of goods and services, or years of external debt service) it is not easy to put the stock of those assets to work at home for developmental purposes. To do so, a country not only has to stop accumulating foreign assets but also has to convert some or all of the accumulated stock back into domestic currency in effect reversing the economic policies that initially led to their accumulation, which may or may not be appropriate to the country's circumstances. Borrowing domestically against foreign assets or using them to support the capital positions of domestic entities is also problematic for some of the same reasons. In addition, such a policy raises issues of risk sharing within the government accounts and with the private sector associated with currency mismatches.

Management of official holdings of foreign assets has become a major focus of national and international economic and financial policy because of their size, their lack of transparency, their potential to disrupt financial markets, and the risk that political objectives might influence their management.

Similarly, a case has been made that foreign exchange reserves or other accumulations of sovereign wealth should not be invested in industrial countries that, in principle, should have ample savings to finance domestic investment. Some argue that the financial resources instead should be invested in domestic or foreign assets within the region.[14] However, if all countries in the region are in current account surplus, accumulating net investments abroad, recycling surpluses from country A to country B and from country B to country A does not produce any new investment in either country A or country B. Ultimately, the destination of the net flow must be external to the region though in the process returns may be enhanced or redistributed.

In the case of stabilization funds, which are designed in part to facilitate countercyclical fiscal policies, the challenges

12. In this discussion, I set to one side important issues of intertemporal budget policy and what institutional mechanisms are preferable in addressing these issues. My primary focus is on the government's management of its holdings of external assets (and implicitly of its external liabilities) regardless of how or why they were accumulated.

13. This statement should be qualified to recognize that there is a case for international diversification of asset holdings independent of the relative rates of return on those assets.

14. This argument is part of the rationale for the development of so-called Asian Bond Funds. The rest of the rationale is to promote the development of domestic capital market infrastructure, which might in time contribute to increased domestic investment.

are somewhat different. The technical, financial, and political issues involve reaching agreement on what is the trend and what is the cycle. The same issues arise with respect to sovereign wealth funds, including those derived from the export of nonrenewable resources, in the form of how much of the return on and, potentially, the principal amount of those assets should be used to cover current government expenditures or compensate for revenue shortfalls. The evaluation of these considerations changes over time for reasons sound and less sound in terms of economics and finance.

...important issues of international economic and financial policy cooperation come into play with respect to the management of sovereign wealth funds, including importantly maintaining the openness of economies and financial systems to cross-border investments.

Nevertheless, a government with a substantial (and potentially growing) stock of foreign assets in excess of its likely immediate needs to use them has an implicit or explicit investment strategy. The case for an explicit strategy is stronger the larger the holdings, in part to guide and protect those executing the strategy.

It is dangerous to oversimplify the choices involved in choosing an investment strategy. The choice is not just a matter of trading higher long-term expected returns for increased risk. For example, the return on US treasury bills is low, but that statement does not provide much guidance about what is the most appropriate alternative investment. A strategy of buying and holding foreign equities may generate higher expected returns over the medium term, but it may not be appropriate for a country that wants to generate a smooth stream of returns from its foreign investments, possibly to cover fiscal deficits.

Thus, the optimal strategy for a government with respect to the management of its external assets depends on its broader economic policy objectives. In part as a consequence, any investment strategy raises issues of accountability and transparency.

A government's decisions with respect to the management of its international investments may affect at least four groups:

- The citizens of the country have an interest in how their government manages the collective assets of their country, and those interests are varied. Citizens differ in their rates of time preference. They may favor more or less government involvement in private financial markets. They may have different views on what types of investments will generate the best returns or on the prudential and ethical standards the government should employ in its international investment activities.
- The government itself has its own distinct policy interests. They may be financial. They may relate to the government's interpretation of its objectives and responsibilities. They may be purely economic or may be affected by political considerations, international or domestic.
- Financial-market participants abroad as well as at home are not indifferent to how governments manage their international investments, in particular when those investments may be large, and changes in their allocation may affect the behavior of international and domestic financial markets. Those interests may not be uniform or perfectly aligned with those of the investing government or its citizens. For some market participants, the major consideration may be market efficiency. Others may seek to benefit by assisting governments in managing their international assets. A third group may seek to exploit inside information. For both of the last two subgroups, issues arise of actual or potential conflicts of interest.
- Finally, foreign investments by governments, by definition, affect not only market participants generally but also the interests of the authorities and citizens in the jurisdictions in which the investments are made. For example, investment activities must conform to the host country's laws and regulations. The authorities of those countries are concerned about the integrity, stability, and efficiency of their financial markets. Moreover, investments by foreign governments may influence the structure, level, and volatility of prices, yields, and exchange rates. In some cases, the host-country government and its citizens may be skeptical of a broad role for government in managing a foreign country's international investments, at best, and concerned about its underlying motives, at worst.

Thus, important issues of international economic and financial policy cooperation come into play with respect to the management of sovereign wealth funds, including importantly maintaining the openness of economies and financial systems to cross-border investments.

THE CASE FOR INCREASED TRANSPARENCY AND ACCOUNTABILITY

Governments have, and will continue to manage, international investments. In some cases, governments have been thrust into this position as the result of the unintended consequences of other policies, for example, maintaining a pegged exchange rate in the face of rising current account surpluses and/or inflows of foreign capital, as in the cases of China, Russia, Saudi Arabia, and Singapore. In other cases, governments find themselves there by design, for example, managing intergenerational transfers of wealth, as in the case of Norway.

Nevertheless, as the revised US legislation governing the Committee on Foreign Investment in the United States, which focuses on the role of investments by governments, and the discussion of similar legislation in Germany and elsewhere in Europe illustrate, many governments and their citizens are uncomfortable and suspicious of the role of foreign governments in their large-scale international investments. The revision in US law was fueled by controversies surrounding the proposed takeover of Unocal by the state-owned China National Offshore Oil Corporation (CNOOC) in 2005 and the proposed acquisition of the Peninsular and Oriental Steam Navigation Company by Dubai Ports World, a company owned and controlled by the government of the United Arab Emirates (see Graham and Marchick 2006). In Germany, Chancellor Angela Merkel's parliamentary leader Volker Kauder stated, "This is about protecting important industrial sectors from the political influence of other states." However, another government official said, "This is not about industrial policy" (*Financial Times*, July 13, 2007).

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What should be done? The international investment activities of governments have achieved a sufficient scale and scope that a strong case can be made for a collective effort to establish an internationally agreed standard to guide the management by governments of their cross-border investments. The standard should apply to the gamut of international investment activities of governments, starting with traditional foreign exchange reserves and extending to stabilization funds, nonrenewable resource funds, sovereign wealth funds, government-owned or controlled entities such as pension funds, investment holding companies, and miscellaneous international assets.

The international standard on government cross-border investments by sovereign wealth funds and other entities should cover at least the following four topics:

- *Objectives and Investment Strategy.* The standard should establish the presumption that the international investment activities of governments are based on clearly stated policy objectives, including how the funds are incorporated into the investment mechanism (or entity), how earnings and/or principal should be spent or redeployed, what types of assets are included in portfolios, how the assets should be managed, where the responsibilities for their management lie, what investment and risk-management strategies should be followed, and how these elements can be changed. At the same time, it makes no economic or political sense to think that an investment strategy should be etched in stone although principles of sound public policy suggest that it should not be modified frequently or capriciously.
- *Governance.* The standard should set out clearly the role of the government and the managers of the investment mechanism, what entity sets the policies, how those policies are executed, and the accountability arrangements. To the extent that the international investment mechanism is making anything other than passive investments in financial assets (deposits, notes, bonds, and nonvoting shares), guidelines for corporate governance should be enunciated and followed. Responsibility for ensuring compliance with those guidelines should be clearly established. In some countries, there may also be a desire to have guidelines or a process to deal with ethical issues, for example, types of activities or circumstances in which investments should not be made, as has been done for Norway's Government Pension Fund–Global.
- *Transparency.* The operations of the investment mechanisms should be as transparent as possible. Transparency promotes horizontal accountability among the interested parties and stakeholders (domestic and international) as well as vertical accountability within the policy process. In practice, transparency should involve at least annual reports and preferably quarterly reports. It would be desirable to have substantial quantitative disclosure about investment strategies, outcomes, and the nature and location of actual investments. It would also be desirable to subject the activities of investment mechanisms to published, independent audits.
- *Behavior.* Depending on the type of mechanism, its size, and the scope of its activities, it would be desirable to establish behavioral guidelines with respect to its manage-

ment. For example, the behavioral guidelines might cover the scale and rapidity with which the entity adjusts its portfolio. They might also create the presumption of consultation with the relevant countries with respect to the allocation among assets denominated in different currencies or located in different countries.[15]

The basic case for the proposed approach rests on two major considerations: accountability and protection.

- *Accountability* involves the citizens of the home country, the citizens of the host country (who may distrust the motives of the foreign government), and the international financial community in general, including other participants in global financial markets.
- *Protection* is relevant to the managers of the investment entity. The broader the investment strategy of the entity in terms of the risk-reward tradeoff, the more likely it is that losses will be made from time to time along with higher overall returns. The aim is to prevent misunderstandings or worse. It is also relevant to other participants in financial markets who do not want to be side-swiped by the actions of governments. Finally, it is relevant to the government of the *home* country that wants to have maximum freedom to pursue profitable investment opportunities without the risk of intervention by the government or broader political forces in the *host* country, for example, in the form of financial protectionism.

Governments are understandably concerned about not compromising their room to maneuver in managing their international investments. They want to protect their sovereignty, confidentiality, and capacity to make "strategic" investments. However, once a government seeks to operate outside its national borders, then it no longer is "sovereign" in most respects. Indeed, in most jurisdictions, sovereign immunity does not apply to foreign governments' commercial activities. A government that operates outside its own borders or via mechanisms that directly affect other markets and economies has a responsibility to seek cooperative solutions. Such solutions may involve less confidentiality than the government would like, but similar de facto and de jure constraints exist within most jurisdictions for private-sector investors.

Governments also may be concerned that their activities not be micromanaged, in particular to the extent that the effect is to raise costs and lower net returns on investments. These considerations strengthen the case for operating under a generally accepted standard for such activities.

15. The IMF's recently revised decision (IMF 2007a) on members' policies under Article IV governing exchange rate arrangements includes, as did the 1977 decision, the principle that "Members should take into account in their intervention policies the interests of other members, including those of the countries in whose currencies they intervene."

The outlines of this proposal are not revolutionary. Most would regard them as common sense. Moreover, while it is not universal practice, an increasing number of official entities with significant stakes in national or global financial markets provide substantial amounts of information in various formats to other market participants.

For example, under the reserves template of the International Monetary Fund's special data dissemination standard (SDDS), at least 26 holders of foreign exchange reserves disclose at least once a year the detailed currency composition of their reserves.[16] A number of countries also disclose

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separately or in addition substantial information about asset composition of their reserve holdings and/or reserve management strategies as part of their participation in the SDDS or national policy.[17]

In addition, a small but growing number of sovereign wealth funds (broadly defined to include stabilization funds, renewable resource funds, and government investment holding companies) now provide their citizens, the market, and the general public, including outside the country, with information on the objectives, investment strategies, and

16. The reserves template of the SDDS requires that participants disclose the currency composition of their reserves in terms of those held in the four SDR currencies (the US dollar, euro, yen, and pound sterling) as a group and all other currencies as a second group. Sixty of 65 countries comply with the requirement. The reserves template recommends, but does not require, a further breakdown of the currency composition of reserves, and 26 holders do so, including New Zealand, which is not a participant in the SDDS. As of April 2007, the holdings of these disclosers totaled $738 billion or almost 14 percent of total foreign exchange reserves as of that date.

17. See Truman and Wong (2006) for details as of mid-2006; since then three entities have joined the group of disclosers.

results of their management of these entities. For example, Norway's Government Pension Fund–Global provides the general public with extensive information on its investment strategy and investment results on a quarterly basis, including month-by-month returns, and annually provides information on its holdings of the bonds and equities of individual countries and corporations. Temasek Holdings, Singapore's holding company founded in 1974, recently began publishing an annual report containing considerable detail on its investments, but its sister institution the Government of Singapore Investment Corporation founded in 1981 has yet to publish regularly information about the size and nature of its holdings. In July 2007, the Kuwait Investment Authority for the first time revealed its total holdings are $213 billion ($174 billion in Kuwait's Future Generations Fund and $39 billion in its General Reserve Fund), which is about half the size of the estimate by the Institute of International Finance (2007).[18]

The question is how best to build upon these trends. In the first instance, governments have to reach a consensus. However, these are not purely sovereign decisions and can become a source of economic, financial, or political conflict. The global community, private as well as public, has an interest in what governments decide.

Best practice in this area could continue to evolve in an ad hoc manner in response to domestic and international pressures. Alternatively, a group of governments could together establish a standard for sovereign wealth funds and similar vehicles. They might ask the IMF or World Bank to assist them in this effort. Alternatively the Fund and/or the Bank could take an initiative.[19]

18. The estimate of the Institute of International Finance included all foreign assets; reported reserves were $20 billion as of April 2007.

19. US Treasury Acting Undersecretary Clay Lowery (2007) proposed that the Fund and Bank develop best practices for sovereign wealth funds. He also stressed the importance of informal consultations on foreign asset accumulation, the need for national governments to ensure that mechanisms to review foreign direct investment preserve national security without creating unnecessary and counterproductive barriers, and the responsibilities of the US government in this regard. In connection with the last point, Lowery reported that US Treasury Deputy Secretary Robert M. Kimmitt had "been traveling in Beijing and Moscow meeting with government officials and business leaders to promote open investment policies and to gain clarity on their new investment laws and to better understand the nature and investment priorities of their soon to be established sovereign wealth funds. The message delivered clearly to the Deputy Secretary from officials in both countries is that the funds would focus primarily on portfolio investments such as corporate bonds and equities. When asked about the possibility of foreign direct investment acquisitions, officials in both countries indicated that is not in their current planning but if such an opportunity arose in the future, it would be in non-sensitive sectors." Truman (2007) a few weeks earlier argued that the Fund has a positive, potential role with respect to developing best practice standards with regard to all cross-border investments by governments. IMF (2007b) contains many of the basic components of a useful framework in the context of the management of revenues from resources and the IMF's code of good practices on fiscal transparency.

The clear goal of any such effort would be to contribute not only to financial stability in the countries directly involved but also to international financial stability as a whole by increasing the transparency, accountability, and predictability of the operations of governments in managing their international investments and discharging their obligations to current and future generations.

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