

The CPP Fund and CPP Investment Board are not Sovereign Wealth Funds

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Recently, the Abu Dhabi Investment Authority paid \$7.5 billion to acquire a 4.9% stake in Citigroup. This deal is the latest in a series of transactions that has seen state-controlled funds acquire large stakes or even entire companies in sensitive industries such as financial services, transportation, infrastructure and energy. As the Wall Street Journal wrote on November 28, “The sensitivity of the Citi deal underscores the fraught dynamic now in play between the estimated \$7 trillion of state-owned investment pools, their often high-profile targets, and the governments that regulate the investments.”

Some, including the Sovereign Wealth Funds (SWFs), maintain that their passive, long-term investments provide liquidity and stability to the markets. Others, notably governments in the host countries of target institutions, are less sanguine. Their concern is that these government-controlled funds will use their financial clout in the pursuit of non-commercial economic, political or national security objectives.

If these fears cause countries to raise broad protectionist barriers, access to international investment opportunities could be curtailed. This would penalize return-driven national pension funds such as the CPP Investment Board even though they exhibit none of the characteristics that are feared. At stake for the CPP Investment Board would be its ability to compete for global investments if it is incorrectly categorized as a sovereign fund.

We believe that policymakers can facilitate clarity when dealing with a broad range of pools of capital by looking beyond the labels of “Sovereign Wealth Funds” or “Sovereign Funds” to examine the underlying characteristics of each fund. This would allow public policy decisions to be based on facts, not labels.

Neither the Canada Pension Plan nor the CPP Investment Board, which manages the assets of the CPP, meet the definition of a Sovereign Fund. As examples, we do not manage government money, our assets are segregated from government funds, we do not receive “top-ups” through tax revenues, and management reports to an independent Board of Directors, not governments.

The CPP Investment Board has participated in various international forums, most recently at the Organization for Economic Cooperation and Development in Paris last week, to explain why the CPP Investment Board is not a Sovereign Wealth Fund and to discuss its unique governance structure – elements of which can offer important ideas in the current debate about SWFs.

The CPP Investment Board was created as part of the CPP reforms of the mid-nineties. These reforms have been a remarkable achievement for Canada. In 1996, the CPP was facing a looming pension funding crisis and its collapse was inevitable. Today, CPP Fund assets total more than \$120 billion and Canada’s Chief Actuary has projected that the Fund will be sustainable throughout the 75-year period covered by his most recent report. The foundation for this success is a governance model that strikes a careful and

effective balance between an arm's-length relationship with governments and significant accountability.

The twin principles of clarity of purpose and transparency, enshrined in the CPP Investment Board's legislation, can offer a potential path through the protectionist thicket for those Sovereign Wealth Funds that are able to pursue such a course.

Clarity and transparency are the means by which investments can be measured, motives can be verified, confidence can be built and trust can be earned. These constitute an important world currency, and without them, suspicion will persist and pressure for protectionism will increase.

So how does the CPP Investment Board model achieve clarity of purpose and transparency and what measures are in place to protect this?

- We have a singular, "investment only" mandate which can only be changed through a formula similar to what is required to amend Canada's constitution;
- No level of government is involved in any way in investment decisions and all major decisions, including the hiring of the CEO and executive compensation, belong to the Board of Directors; and
- Directors are appointed by a nominating process that itself is a model of independent governance.

With regard to transparency, policymakers ensured that a very high level of transparency was built into our legislation. The CPP Investment Board has voluntarily raised transparency to an even higher level by adopting a rigorous disclosure policy that states Canadians have the right to know how the CPP Fund is invested. The power and effectiveness of this policy has served us well.

These elements of our governance framework clearly separate us from organizations that are the focus of the Sovereign Wealth Fund debate. To ensure this distinction is made, policymakers must go beyond labels to assess the objectives, governance and actions of these pools of capital when responding to pressures for protectionism.