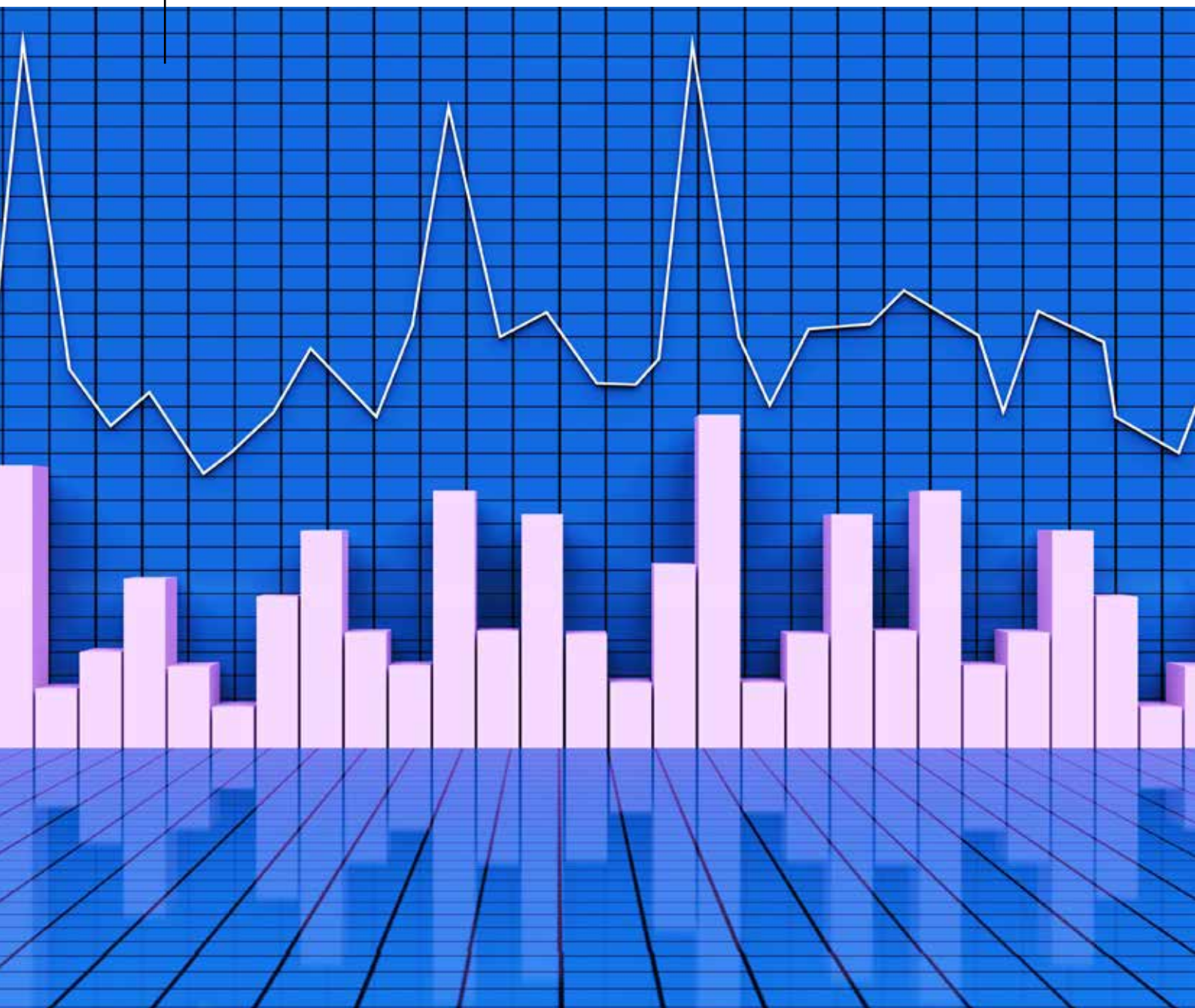




Norwegian Ministry of Finance

The Norwegian Government Pension Fund Global's adherence to the Santiago principles

September 2015



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 GAPP 24, the Norwegian Ministry of Finance has reviewed the Government Pension Fund Global's (GPFG's) adherence to the principles. The GPFG does not constitute a separate legal entity. The Ministry has, thus, reviewed the legal and operational superstructure related to the management of the Fund.

This self-assessment documents the adherence of the GPFG to the Santiago Principles.

Key sources of information are highlighted for each principle. On the aggregate level the Ministry would like to draw the attention to the following formative documents, to which reference is made throughout:

The Government Pension Fund Act (GPFA):

<https://www.regjeringen.no/contentassets/9d68c55c272c41e99f0bf45d24397d8c/governmentpensionfundact.pdf>

The Norges Bank Act (NBA):

<https://www.regjeringen.no/contentassets/9d68c55c272c41e99f0bf45d24397d8c/norgesbankact.pdf>

The Management Mandate for the Government Pension Fund Global (GPFG mandate):

<https://www.regjeringen.no/globalassets/upload/fin/statens-pensjonsfond/gpfg-management-mandate-14-april-2015.pdf>

Guidelines for Observation and Exclusion from the Government Pension Fund Global:

<https://www.regjeringen.no/globalassets/upload/fin/statens-pensjonsfond/guidelines-for-observation-and-exclusion-14-april-2015.pdf>

Regulation on risk management and internal control at Norges Bank (Regulation on RM & IC):

https://www.regjeringen.no/contentassets/1fa63fa5e0fb48558c06f7c505c7f443/regulation_risk_management_norgesbank.pdf

Regulation on financial reporting at Norges Bank (Regulation on FR, in Norwegian only):

<https://lovdata.no/dokument/SF/forskrift/2011-01-01-1>

Further information on the Fund and the sources referred to in this self-assessment are available on the Ministry and Norges Bank websites:

- Ministry of Finance website:
www.government.no/gpf
www.government.no/gpfg
- Norges Bank website:
www.nbim.no/en
www.norges-bank.no/en

GAPP Principle 1

The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).

- **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.*

Status: Implemented

The Government Pension Fund Global (GPFG) is not a separate legal entity and does not have its own executive board or administrative staff, but is the name of a separate bank account in Norges Bank. The legal framework of the GPFG is laid down by the Government Pension Fund Act (GPFA), which describes the legal basis and structure of the Fund. The Norwegian Parliament (the Storting) has accorded the Ministry of Finance formal responsibility for managing the Fund. The management objective is to maximise the return

on the Fund after costs as measured in an international currency basket, within a moderate level of risk.

In practice, the Ministry has been assigned a role similar to that of an asset owner. The operational management is carried out by Norges Bank (the central bank of Norway). The legal framework of Norges Bank is decreed in the Norges Bank Act (NBA).

The GPFA authorizes the Ministry to lay down further regulations on the management of the Fund. The Ministry has issued such provisions in a separate management mandate to Norges Bank. The mandate describes the general investment framework for the Fund and stipulates requirements with regard to risk management, reporting and responsible investment practices. Within the limits set by the Ministry, Norges Bank shall strive to achieve the highest possible return net of costs.

Sources: GPFA, NBA.

GAPP Principle 2

The policy purpose of the SWF should be clearly defined and publicly disclosed.

Status: Implemented

The Government Pension Fund comprises the Government Pension Fund Global (GPFG) and the Government Pension Fund Norway (GPFN). 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.

Source: GPFA (Especially §1)

GAPP Principle 3

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.

Status: Implemented

The income to the GPFG and the process for funding and withdrawal are outlined in the Government Pension Fund Act (GPFA). Income to the Fund comprises net cash flows from petroleum activities, which are transferred from the central government budget, the net results of financial transactions associated with petroleum activities and the return on Fund capital.

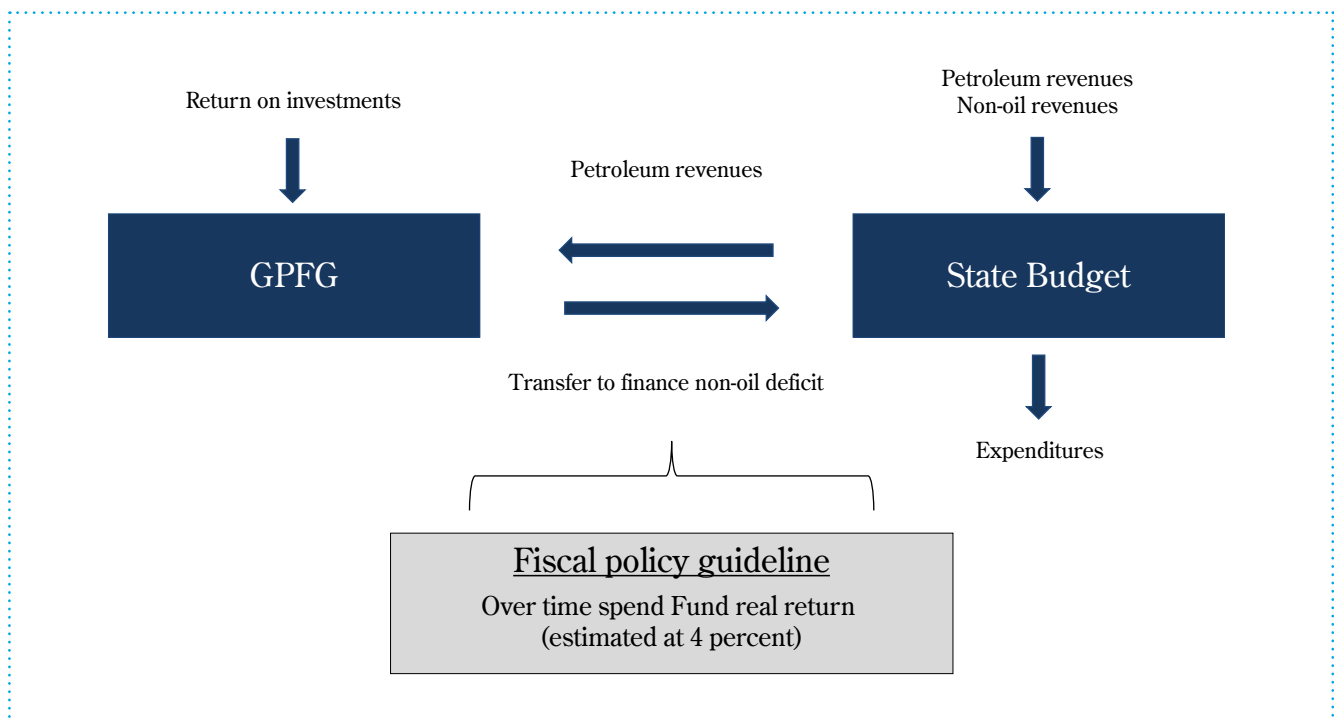
The capital in the GPFG may only be used for transfers to the central government budget pursuant to a resolution passed by the Storting. Such transfers cover the oil-adjusted budget deficit; as such deficit is estimated in the newly balanced budget. Economic policy follows a fiscal policy guideline, which states that spending of petroleum revenues over the central government budgets, should over time equal the expected real rate of

return on the Fund. The expected long-term real rate of return is estimated at 4 percent. The guideline for economic policy is flexible, allowing for government spending over the national budget to be contingent upon prevailing economic conditions.

The fiscal policy guideline supports preservation of wealth over time, thus serving to safeguard welfare for future generations. Whilst the capital of the Fund can only be spent once, the real return may fund a permanently higher level of government expenditure. The fiscal policy guideline supports the long time horizon of the Fund.

The Fund is not earmarked for specific purposes and is invested outside Norway only. The allocation of capital to the Fund forms part of a transparent and integrated budget process. As long as the State does not accumulate debt by borrowing to fund expenditure, accrual of capital in the GPFG will reflect true financial savings on part of the State.

Sources: GPFA (Especially §§ 3, 4 and 5) and Ministry website



GAPP Principle 4

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.

- **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.*

Status: Implemented

The rules for funding and withdrawal are decreed in the Government Pension Fund Act and disclosed in the publications related to the central government budgets and accounts. The rules are consistent with the macroeconomic purpose of the Fund to support

general government savings and long-term considerations in the spending of Norwegian petroleum revenues. Additional data on funding and withdrawals are presented in the National Accounts, chapter three. This document is available in Norwegian only.

Furthermore, Norway is EITI (Extractive Industries Transparency Initiative) compliant, please refer to;

- <https://www.regjeringen.no/en/sub/eiti---extractive-industries-tranparency/oil-releated-industry/id633625/>
- http://www.eiti.no/files/2015/02/2014_EITI_rapport_engelsk_for_2013.pdf

Sources: *GPPFA, Report to Parliament 29 (2000-2001), GPPG mandate.*

GAPP Principle 5

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.

Status: Implemented

Norges Bank reports on the results of the Fund on a quarterly basis. The quarterly and annual reports include figures on, inter alia, Fund performance, market value, risk and management costs and are publis-

hed on the website of Norges Bank. In addition, Norges Bank publishes live estimates of net asset value (NAV) of the Fund on the NBIM website.

All relevant data on the return on the Fund and assets under management are included in the central government accounts.

Sources: *GPPG mandate, Regulation on FR*

GAPP Principle 6

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.

Status: Implemented

The Norwegian parliament has laid down the regulatory framework for the management of the Fund in the Government Pension Fund Act (GPFA). The Ministry of Finance holds the formal responsibility for the management of the Fund and acts as the asset owner. The Ministry has issued general investment guidelines in a separate management mandate to Norges Bank. The Executive Board of Norges Bank has in turn delegated the operational management to a separate asset management unit within the bank, Norges Bank Investment Management (NBIM). Norges Bank has published separate documents on its internal governance.

The management mandate specifies that Norges Bank shall make investment decisions and exercise ownership rights independently of the Ministry of Finance (GPFG mandate section 1-1 (3)).

The Ministry has also issued Guidelines for Observation and Exclusion from the GPFG. Such guidelines are in place to reduce the risk of the Fund being invested in companies deemed in serious violation of fundamental ethical norms. Consequently, these are ethically motivated criteria. The guidelines specify the process for observation or exclusion of individual companies. Norges Bank receives recommendations on exclusion, observation or readmittance of companies from a separate Council on Ethics established by the Ministry. The final decision rests with the Executive Board of Norges Bank.

Sources: GPFA, GPFG mandate, Guidelines for Observation and Exclusion, Norges Bank website.

The Storting (The Norwegian Parliament)

Government Pension Fund Act

The Ministry of Finance

Management mandate
Guidelines for observation and exclusion

Executive Board of Norges Bank

Executive Board Principles
Investment mandate to NBIM
NBIM CEO job description

Norges Bank Investment Management (NBIM)

Policies
CEO delegates investment mandates and job descriptions

GAPP Principle 7

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.

Status: Implemented

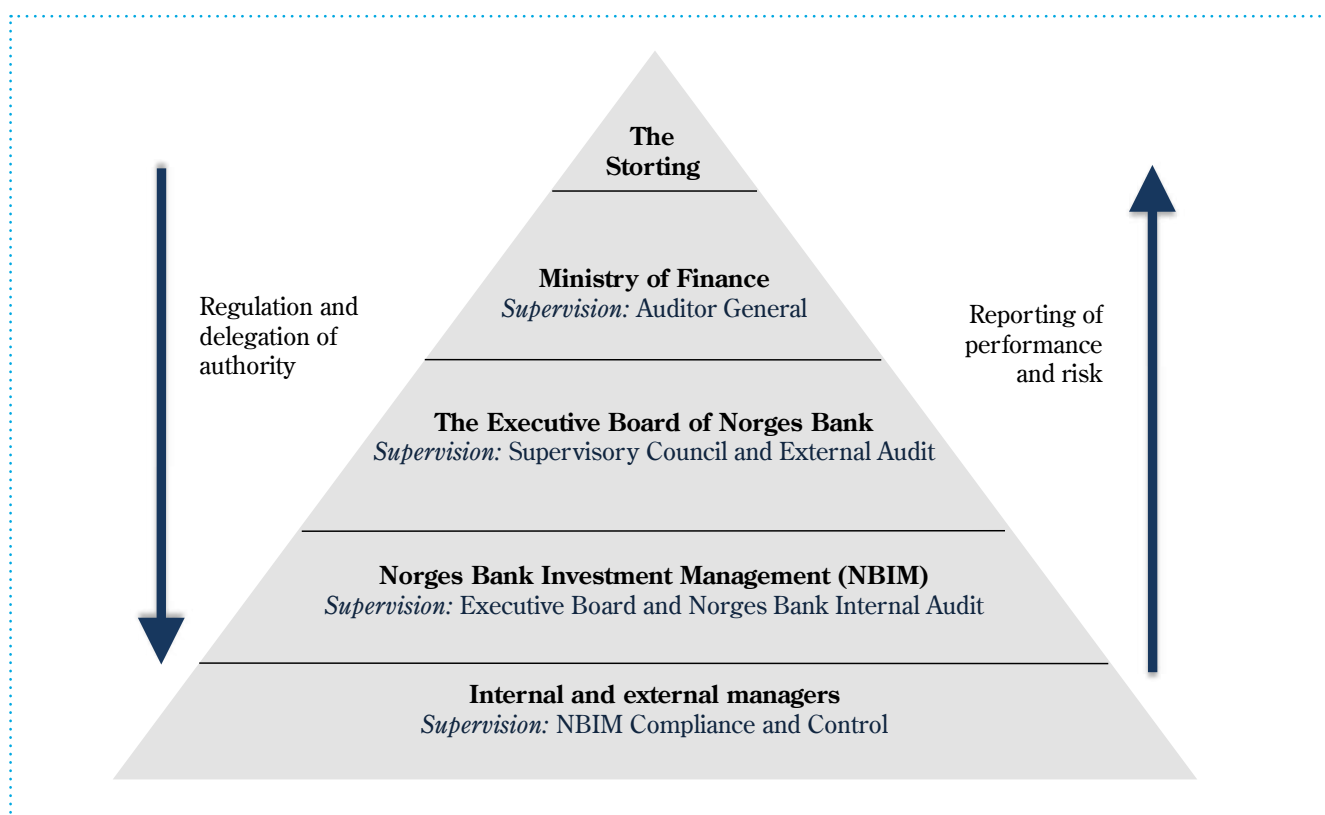
The hierarchy of regulation, supervision and reporting in GPFG is outlined in the figure below. For information on the overall objective of the GPFG and division of roles and responsibilities between the Ministry and Norges Bank, see response to principle 1 and 6, respectively. Objectives have been set and appropriate supervisory functions established at all levels of the hierarchy. Provisions on the Ministry supervision of the GPFG are decreed in the NBA and GPFA, and further specified in the management mandate to Norges Bank.

The management of the GPFG is based on a governance structure in which the Storting, the Ministry of Finance, Norges Bank's executive board and Norges

Bank Investment Management (NBIM) have different roles and responsibilities.

Important decisions pertaining to the overall level of risk in the Fund shall be anchored with the Storting. The Ministry adopts, based on the deliberations of the Storting, a general investment framework and provisions for the asset management. An effort has been made to achieve the appropriate balance by requiring decisions of material importance to the risk level of the Fund to be submitted to the Storting prior to implementation, whilst the management mandate to Norges Bank is more generally framed and based on principles. The provisions issued by the Ministry are supplemented by more detailed limits and regulations at the various decision-making levels in the management chain. The governance model implies all-in-all a highly detailed regulation of the management of the Government Pension Fund Global.

Sources: GPFA, NBA, Report to Parliament no. 10 (2009-2010), GPFG mandate.



GAPP Principle 8

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.

Status: Implemented

See also response to principle 7. The authority of the governing bodies is decreed in various government legislation and regulations discussed elsewhere in this document. The management mandate from the Ministry to the Executive Board of Norges Bank seeks to ensure that the manager acts in the best interests of the Fund, and covers, inter alia, the management objective, strategic benchmark index and corresponding risk limits, responsible investment practices, risk management, costs and reporting requirements. The management mandate also establishes the division of roles and responsibilities between the asset owner (the Ministry) and the operational manager (Norges Bank).

The Executive Board of Norges Bank has established a separate unit – Norges Bank Investment Management (NBIM) – responsible for the execution of the Fund management. The Executive Board has issued supplementary regulations including principles for risk management in investment management and mandate and position instructions for the Executive Director of NBIM. The Executive Director of NBIM is responsible for setting more detailed internal and external regulations and mandates for operational execution. Norges Bank's Executive Board is subject to supervision from the Parliament-appointed Supervisory Council, which also appoints the Bank's external auditor.

The Supervisory Council reports annually to Parliament on its supervision.

Sources: GPFA, NBA, GPFG mandate.

GAPP Principle 9

The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

Status: Implemented

The Ministry has issued a mandate to Norges Bank for the operational management of GPFG with clearly defined responsibilities. Norges Bank executes its investment decisions independently of the Ministry. See reply to principle 6, 7 and 8 for more details.

Sources: GPFA, NBA, mandate.

GAPP Principle 10

The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

Status: Implemented

The accountability framework is laid out in the following legal documents: GPFA, NBA, GPFG mandate, Regulation on RM & IC and Regulation on FR. The Auditor General is responsible for the supervision of the Ministry of Finance's work. The Norges Bank's Supervisory Board and its selected external auditor are responsible for the supervision of the Executive Board at Norges Bank. The bank's Internal Audit department shall on behalf of the Executive Board ensure that there is adequate and effective risk management in the Bank and appropriate and satisfactory internal control. The

Internal Audit shall make independent and objective statements and provide advice concerning improvements in the management and control systems. The internal supervisory function at NBIM is carried out by the Compliance and Control Unit, which has authority to report independently to the Executive Board when required. Furthermore, the mandate requires Norges Bank to report quarterly on the Fund management.

The mandate stipulates requirements for such reporting. The Ministry of Finance reports to the Norwegian Parliament on the management of the Fund annually. The annual white paper to Parliament on the Fund management is available on the Ministry website.

Sources: GPFA, NBA, GPFG mandate, Regulation on RM & IC, Regulation on FR

GAPP Principle 11

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.

Status: Implemented

The financial statements are regulated by the Regulation on Financial Reporting. Fund accounts are reported in accordance with IFRS.

The mandate states minimum requirements as to the contents of quarterly and annual reports. The reports shall be based on the greatest possible degree of transparency within the limits defined by a sound execution of the management assignment. The reports shall consist of a descriptive part and extracts from the

Bank's accounts concerning the management of the Fund, and they shall be adopted in accordance with the current accounting regulations for Norges Bank. The descriptive part shall include a true and fair summary of the performance of the Fund, management costs, management strategies, creation of value by the operative management and relevant risk within 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. The Bank is to report on its responsible investment activities, including the integration of responsible investment into management activities, use of various measures and the effect of ownership efforts.

Sources: GPFG mandate, Regulation on FR.

GAPP Principle 12

The SWF's operations and financial statements should be audited annually in accordance with recognised international or national auditing standards in a consistent manner.

Status: Implemented

The Supervisory Council of Norges Bank appoints the external auditor. The central bank is currently being audited by Deloitte, which was chosen as the auditor based on a competitive tendering process.

Source: NBA, Regulation on FR

GAPP Principle 13

Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.

Status: Implemented

The Ministry has established and published clear ethical standards for all 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. Norges Bank has set clear ethical and professional standards, has laid down ethical rules for its employees as well as a conduct of business principles.

Source: Norges Bank and Ministry website

GAPP Principle 14

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.

Status: Implemented

The relationship with outsourcing providers and external managers is defined in the mandate. The regulation on risk management and internal control at Norges Bank states that Norges Bank bears the responsibility for risk management and internal control in relation to outsourced operations. This responsibility shall be established in a written agreement. The agreement shall ensure that the governing bodies of Norges Bank

are entitled to inspect and monitor outsourced operations. Norges Bank shall ensure that there is adequate expertise within the organisation to manage the outsourcing agreement(s).

Furthermore, the mandate makes clear that all dealings with third parties shall be in accordance with the economic interests of the Fund. The asset manager shall establish internal policies in accordance with the mandate and other legal requirements, including regulations on risk management and internal control. The governing bodies of the asset manager monitor compliance accordingly.

Sources: GPF mandate, Regulation on RM & IC.

GAPP Principle 15

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.

Status: Implemented

NBIM has established a Compliance and Control (CC) unit which is charged with ensuring compliance with all applicable regulatory and disclosure requirements. NBIM seeks to build a comprehensive picture of all applicable rules through active dialogue with national

regulators and other relevant authorities as well as from a wide range of information sources. The compliance risks associated with rules and regulations are managed and mitigated through a wide range of activities including comprehensive employee training as well as extensive reporting. A formal relationship has been established with the appropriate authorities in countries hosting local NBIM offices. The CC unit may report material risks and conflicts of interest issues directly to the Executive Board when required.

Source: Norges Bank website

GAPP Principle 16

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.

Status: Implemented

The governance framework is transparent and publicly disclosed. Both the overall framework and objective are set by Parliament and laid out in legislation. More specific elements of the division of responsibilities between owner and manager are set out in the mandate. The mandate specifies that Norges Bank

shall make investment decisions independently of the Ministry. The Ministry presents an annual report to Parliament (white paper) on the management of the Fund. In addition to presenting the financial results of the fund, the report includes a thorough discussion of investment beliefs and investment strategy. The report to Parliament also provides an account of the governance and supervision of the Fund. The report is publicly available on the Ministry website.

Sources: NBA, GPFA, GPFM mandate, Ministry website

GAPP Principle 17

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.

Status: Implemented

Norges Bank reports to the Ministry on a quarterly basis. The reports are public. Financial information is included in the notes to the annual report of Norges Bank. Relevant financial information is also included in the central government budget and the government accounts.

Sources: GPFM mandate, Regulation on FR.

GAPP Principle 18

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.

- **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.*

Status: Implemented

The basis for the investment policy is decreed in the GPFA. The annual white paper to Parliament reports

on the development of the Fund strategy. The investment strategy is founded on fundamental investment beliefs and the distinctive characteristics of the Fund, and is developed based on comprehensive professional assessments. The strategy is operationalised in the mandate set by the Ministry. The mandate specifies objectives, risk tolerance and investment strategy. The objective of the asset manager is to maximise long-term return net of costs subject to the given risk limits. The mandate also covers provisions on risk exposures, leverage, benchmark and outsourcing. Norges Bank has published additional information about its investment strategy, approach to risk management and the investment mandate issued to the Chief Executive Officer of NBIM.

Sources: *GPFA, GPFG mandate, Norges Bank and Ministry website.*

GAPP Principle 19

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.

- **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.*
- **GAPP 19.2 Subprinciple** *The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.*

Status: Implemented

See response to principle 18. The Ministry has issued Guidelines for Observation and Exclusion from the Government Pension Fund Global based on ethically motivated criteria. The guidelines specify the process

for observation and exclusion of individual companies from the GPFG portfolio. Norges Bank receives recommendations on exclusion, observation or readmittance of companies from a Council on Ethics established by the Ministry. The final decision rests with the Executive Board of Norges Bank. The guidelines are publicly available.

The management mandate to Norges Bank requires a broad set of principles for responsible management of the GPFG investment portfolio to be established. The mandate further stipulates that the principles be based on the UN Global Compact, the OECD Guidelines on Corporate Governance and the OECD Guidelines for Multinational Enterprises.

Sources: *Guidelines for exclusion and observation, GPFG mandate, Norges Bank website.*

GAPP Principle 20

The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

Status: Implemented

The GPFG is invested outside of Norway only. The management unit within the central bank, NBIM, has no access to any privileged information from the broader government. Within Norges Bank, there are barriers between the different departments to ensure

that NBIM activities are clearly separated from the rest of the Central Bank activities. Furthermore, Norges Bank's internal guidelines specify that the Executive Director of NBIM is not to take part in discussions with the management of Norges Bank concerning other countries' monetary policy or international organisations' assessments of such issues. This restriction is part of the job description for the Executive Director of NBIM.

Source: Norges Bank website

GAPP Principle 21

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.

Status: Implemented

See also response to principle 19. NBIM has established a set of voting principles based on the Fund's strategy for responsible investment and NBIM's policy as a responsible investor. The principles help ensure that voting decisions are consistent and in keeping

with the Fund's long-term strategy. NBIM aims to vote at all general meetings of companies the Fund is invested in. Voting instructions are made public one business day after the general meeting has concluded. Furthermore, NBIM publishes voting intentions prior to annual shareholder meetings for selected companies and certain fundamental issues viewed as of particular importance. Voting records are disclosed in full on the manager website.

NBIM has prepared documents outlining investor expectations towards companies within its focus areas children's rights, climate change risk management and water management.

Sources: GPFG mandate, Norges Bank website.

GAPP Principle 22

The SWF should have a framework that identifies, assesses, and manages the risks of its operations.

- **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.*
- **GAPP 22.2 Subprinciple** *The general approach to the SWF's risk management framework should be publicly disclosed.*

Status: Implemented

See also response to principle 18. The governing bodies of Norges Bank are responsible for monitoring the effectiveness of the risk management framework. The Bank's Internal Audit shall on behalf of the Executive Board ensure that there is adequate and effective risk management in the Bank and appropriate and satisfactory internal control. Internal Audit shall make independent and objective statements and provide advice concerning improvements in the management and control systems. The Executive Board of Norges Bank is supervised by the Parliament appointed Supervisory Council which also appoints the external auditor. In addition, the Ministry of Finance is supervised by the Office of the Auditor General.

Sources: *GPFM mandate, Ministry and Norges Bank website.*

GAPP Principle 23

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.

Status: Implemented

Fund performance is measured according to GIPS and reported to the owner on a quarterly basis. The benchmark indices are described in detail in the management mandate to Norges Bank.

Sources: *GPFM mandate, Regulation on FR, GIPS compliance reports published on www.nbim.no/en*

GAPP Principle 24

A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

Status: Implemented

The Ministry emphasises that the Fund operates in adherence to the GAPP. This self-assessment will be updated when required by amendments to the GAPP or changes in the Fund management.
