

KIA: Success, Transparency & Accountability

Case Study Topic: KIA's relationship with our owners, within the framework of Kuwait's domestic legislative framework.

Opening Statement

The Kuwait Investment Authority (KIA) is the oldest Sovereign Wealth Fund (SWF) in the world. KIA traces its roots to the Kuwait Investment Board established in 1953, eight years before Kuwait's independence. In 1982, under Law No. 47, KIA was created as an autonomous governmental body responsible for the management of the country's assets. Throughout its history, KIA has served to convert a volatile commodity revenue stream into a diversified portfolio of uncorrelated financial investments.



KIA is responsible for the management of Kuwait's General Reserve Fund (GRF) and its Future Generations Fund (FGF), as well as other funds entrusted to it by the Minister of Finance for and on behalf of the State of Kuwait. The GRF is the main treasurer for the Government and receives all revenues (including all oil revenues) from which all State budgetary expenditures are paid. The FGF was established in 1976 and receives a minimum of 10% of all State revenues as well as 10% of the net income of GRF on an annual basis.

KIA aims to achieve a long-term investment return on the financial reserves entrusted to it by the State of Kuwait by investing on a commercial basis in the global financial markets. Doing so provides a long-term economic alternative to oil reserves, which will enable Kuwait's future generations to face the uncertainties ahead with greater confidence.

KIA is accountable to the people of Kuwait, whom we report to via their elected representatives, the members of the parliament of the National Assembly. I can say, proudly and confidently, that KIA has one of the strongest governance structures in the industry based on our system of accountability and reporting, clear mandate, strong audit framework, and active parliamentary oversight. I am frequently requested to appear before various Parliamentary Committees in addition to appearing before the full Parliament during discussions on KIA's budget and performance. I believe that checks and balances are very important and that Kuwait's Parliament plays a vital and critical role in this aspect.

Voluntary Endorsement of the Santiago Principles

KIA contributed to the creation of, and is an initial signatory to the Santiago Principles. SWFs met in Kuwait City on April 5-6th 2009, where the KIA was able to lead and meet other SWFs from around the world, and work together to reach a consensus and sign the *Kuwait Declaration*¹. This led to the establishment of the International Forum of Sovereign Wealth Funds (IFSWF), which enshrined the practice of voluntary implementation and endorsement of the Santiago Principles. I consider the formation of IFSWF via the "Kuwait Declaration" such an important accomplishment that this case study will be on the aspects of KIA's relationship with our owners, within the framework of Kuwait's domestic legislative framework.

¹ The full text of the *Kuwait Declaration*, outlining the purpose and mandate of IFSWF, can be found on IFSWF's website: <http://www.ifswf.org/santiago-principles-landing/kuwait-declaration>.

KIA supports the Santiago Principles and the work of IFSWF in several ways. KIA publishes its Santiago Principles self-assessment on its website, within the section on KIA's governance structure. KIA also participates actively in IFSWF's member working groups on sovereign wealth funds' Governance and Purpose and in the Risk Management and Investment subcommittees. KIA also participates in the IFSWF annual meeting. Doing so supports the vision established in the *Kuwait Declaration*: that SWFs can learn from one another, jointly develop best practices, and improve cooperation within the global investment community. KIA's participation in these efforts helps to maintain a stable global financial system, and supports full compliance with all the applicable regulatory and disclosure requirements.

KIA pursues corporate governance activities based on industry best practices and the highest international standards of shareholder responsibility. SWFs are important participants in the international monetary and financial systems whose activities help promote growth, prosperity, economic development and financial stability. Through the Santiago Principles, KIA and its peers are able to align themselves with best practices for the operation of SWFs.

KIA's relationship with its owners, within the framework of Kuwait's domestic legislative framework

KIA's investments are completely transparent to the State of Kuwait, which is responsible for protecting the interests of KIA's beneficiaries, the citizens of Kuwait. As such, KIA benefits from high levels of regulation and oversight domestically. KIA regularly provides reports to the Minister of Finance, who is the ex-officio Chairman of the Board of Directors of the KIA; the Council of Ministers; the National Assembly; and to the independent State Audit Bureau. KIA also provides periodic reports to the Board of Directors and to the Executive Committee on various aspects of KIA's investments and performances. Senior representatives of KIA report periodically to the National Assembly's various committees to discuss any issues raised by the State Audit Bureau.

KIA is an independent public authority managed by its Board of Directors. The Board has complete independence in its decision making process. Kuwait's State Audit Bureau sends a detailed report on all aspects of KIA's activities to Kuwait's Parliament every six months.

By law, KIA's Board consists of members from:

- The Minister of Finance (Chair) – Ex-officio
- The Minister of Oil – Ex-officio
- The Governor of the Central Bank of Kuwait – Ex-officio
- The Under Secretary of the Minister of Finance – Ex-officio
- And five other Kuwaiti Nationals from the private sector appointed by Amiri Decree

At least three of the private sector appointees may not hold any other public office.

KIA's strong corporate governance structure is based on a comprehensive system of checks and balances² with responsible oversight as follows:

- Board of Directors
- Executive Committee of the Board
- Audit Committee of the Board

² KIA's organizational chart can be found on its website:
<http://www.kia.gov.kw/en/PublishingImages/testd2.png>

- Oversight by the Council of Ministers (Cabinet)
- Oversight by the National Assembly (Parliament)
- Review by various National Assembly Committees:
 - Finance and Economic Committee
 - Closing Accounts and Budget Committee
 - Public Funds Protection Committee
 - Complaints Committee
- Onsite placement of government auditors (State Audit Bureau)
- Two international leading firms of external auditors (KPMG and Ernst & Young)
- Independent internal audit reporting directly to the Chairman (Minister of Finance)

Kuwait's Parliament, the National Assembly, is the most active and oldest in the region. All Kuwaiti citizens 21 or older freely elect their chosen representative resulting in a legislative body of 50 members of Parliament. The elected representatives of the National Assembly are regularly informed, at least annually, of KIA's investments and investment performance.

In 2005, an external global leading consultant undertook a comprehensive review of KIA's strategy. The purpose was to ensure that KIA aligns itself to industry best practices in all aspects of asset and investment management. The results affirmed that KIA has one of the best corporate governance structures within its peer group and industry. A similar exercise took place 10 years later through another external consultant to reexamine KIA's governance structure, which yet again reaffirmed KIA's application of global best practices.

History³ has shown that all of KIA's investments are made on a pure commercial basis with no political bias, with the aim of maximizing returns without taking a controlling interest in investee entities. KIA has been a stable and responsible shareholder and owner based on commonly acceptable international standards for shareholders. KIA always complies with all regulations and laws domestically and in investment recipient countries. Throughout KIA's more than 63 year history, SWFs, including the KIA, have acted responsibly during difficult financial times and will continue to be responsible investors and shareholders in global markets.

Continued Excellence

KIA will continue to cooperate and excel through a healthy environment of checks and balances by complying with domestic laws and continuing to be transparent with the owners of the KIA, the citizens of Kuwait through our National Assembly. KIA strongly advocates the voluntary application of the Santiago Principles, within domestic legal framework, and will continue to play a leading role in IFSWF by working together with our SWF peers, promoting issues of common interest, and supporting the continued development and implementation of best practices for SWFs.

³ More details on KIA's history can be found on it's website: www.kia.gov.kw