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Report to the Committee on Banking, Housing, and Urban Affairs, U.S. Senate

September 2008

SOVEREIGN WEALTH FUNDS

Publicly Available Data on Sizes and Investments for Some Funds Are Limited

GAO-08-946

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Highlights

Highlights of GAO-08-946, a report to the Committee on Banking, Housing, and Urban Affairs, U.S. Senate

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Why GAO Did This Study

Sovereign wealth funds (SWF) are government-controlled funds that seek to invest in other countries. With new funds being created and many growing rapidly, some see these funds providing valuable capital to world markets, but others are concerned that the funds are not transparent and could be used to further national goals and potentially harm the countries where they invest.

GAO plans to issue a series of reports on various aspects of SWFs. This first report analyzed (1) the availability of publicly reported data from SWFs and others on their sizes and holdings internationally, and (2) the availability of publicly reported data from the U.S. government and other sources on SWFs' U.S. investments. GAO reviewed foreign government disclosures, Department of the Treasury (Treasury) and Department of Commerce (Commerce) reporting, and private researcher data to identify SWFs and their activities. GAO also analyzed information from international organizations and securities filings.

Treasury and Commerce commented that GAO's report provides timely and useful contributions to the SWF debate; SEC noted that U.S. securities requirements apply to all large investors, including SWFs.

Future GAO reports will address laws affecting SWF investments, SWF governance practices, and the potential impact of SWFs and U.S. options for addressing them.

To view the full product, including scope and methodology, click on GAO-08-946. For more information, contact Yvonne Jones at (202) 512-8678 or jonesy@gao.gov or Loren Yager (202) 512-4128 or yagerl@gao.gov.

What GAO Found

Limited information is publicly available from official government sources for some SWFs. While some have existed for decades, 28 of the 48 SWFs that GAO identified have been created since 2000, primarily in countries whose foreign exchange reserves are growing through oil revenues or trade export surpluses. GAO analysis showed that about 60 percent of these 48 SWFs publicly disclosed information about the size of their assets since the beginning of 2007, but only about 4 funds published detailed information about all their investments—and some countries specifically prohibit any disclosure of their SWF activities. Although the International Monetary Fund (IMF) currently collects data on countries' international financial flows, GAO found that only 13 countries separately reported their SWF holdings in public IMF documents. IMF plans to issue new reporting guidance in 2009 that asks countries to voluntarily report the size of their SWF holdings in their international statistics. While this could increase the transparency of SWFs, its success depends on the extent to which countries participate. In the absence of official national or international public reporting, much of the available information about the value of holdings for many SWFs is from estimates by private researchers who project funds sizes by adjusting any reported amounts to reflect likely reserve growth and asset market returns. For the funds GAO identified, officially reported data and researcher estimates indicated that the size of these 48 funds' total assets was from $2.7 trillion to $3.2 trillion. Some researchers expect these assets to continue to grow significantly.

U.S. government agencies and others collect and publicly report information on foreign investments in the United States, but these sources have limitations and the overall level of U.S. investments by SWFs cannot be specially identified. From surveys of U.S. financial institutions and others, Treasury and Commerce reported that foreign investors, including governments, private entities, and individuals, owned over $20 trillion of U.S. assets in 2007, but the amounts held by SWFs cannot be specifically identified from the reported data because either the agencies do not obtain specific investor identities or the agencies are precluded from disclosing individual investor information. GAO found that as many as 16 of the 48 SWFs reported some information on their U. S. investments. One reported all U.S. holdings, but others only identified a few specific investments or indicated that some of their total assets were invested in the United States. Some SWF investments can be identified in U.S. securities filings, under a requirement for disclosure of investments that result in aggregate beneficial ownership of greater than 5 percent of a voting class of certain equity securities. At least 8 SWFs have disclosed such investments since 1990. GAO analysis of a private financial research database identified SWF investments in U.S. companies totaling over $43 billion from January 2007 through June 2008, including SWF investments in U.S. financial institutions needing capital as a result of the 2007 subprime mortgage crisis. Additional U.S. reporting requirements would yield additional information for monitoring the U.S. activities of SWFs, although some U.S. officials have expressed concerns that they could also increase compliance costs for U.S. financial institutions and agencies and could potentially discourage SWFs from making investments in U.S. assets.

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Abbreviations

BEA	Bureau of Economic Analysis
CFIUS	Committee on Foreign Investment in the United States
FINSA	Foreign Investment and National Security Act
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
SEC	Securities and Exchange Commission
SWF	Sovereign wealth funds

United States Government Accountability Office
Washington, DC 20548

September 9, 2008

The Honorable Christopher J. Dodd
Chairman
The Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

Although the United States government has long welcomed foreign investment, at times acquisitions of American companies and assets by foreign entities have attracted a high level of public interest. Recently, increased attention has been given to the activities of sovereign wealth funds (SWF), which are pools of government funds invested in assets in other countries.[1] Some SWFs, such as those in certain Middle Eastern nations, have existed for decades, but others, such as those in China and Russia, have been formed recently. Funded through the sale of natural resources such as oil or through other trade surpluses, some SWFs have large and growing sums of money to invest.

Perspectives about SWF activities are mixed. Some observers see SWFs as having positive effects on markets because they are usually long-term, stable investors. Since August 2007, SWFs have made key investments into U.S. and European banks seeking capital as the result of disruptions in the subprime mortgage loan market. However, as large government-controlled investment funds, SWFs have also been criticized for the lack of transparency about their holdings and their investment strategies. Some market observers have also expressed concerns that SWFs could adversely affect asset prices by moving large amounts of funds into or out of countries or markets. Concerns have also been raised in congressional hearings and elsewhere that rather than making investments primarily to earn investment returns, as is generally the motivation of a private investor, some SWFs may instead invest their assets to achieve the noncommercial or political goals of their governments. Some observers note, however, that little evidence exists that SWFs have engaged or

[1]The investment of government assets may take various forms. For the purposes of this report, “sovereign wealth fund” and “fund” refer to a legal entity chartered by a government that holds and invests the government assets.

intend to engage in noncommercial behavior detrimental to another country's economy.[2]

Your letter asked us to examine a broad range of issues about SWFs. As agreed with your offices, we plan to address the issues raised in your request in a series of reports. In order to respond to questions raised about SWFs, having an understanding of how large they are and what investments they are making can be useful. Therefore, in this report we analyzed (1) the availability of data on the size of SWFs and their holdings internationally that have been publicly reported by SWFs, their governments, international organizations, or private sources and (2) the availability of published or reported data from the U.S. government or others on SWF investments in the United States. Further reports will examine the extent to which various laws address the ability of SWFs to invest in the United States, the disclosure and governance practices SWFs follow, and the potential impact of SWFs and options for addressing these for the United States.

Determining the availability of public data on the size of SWFs required that we first identify SWFs by reviewing the definitions and the lists of such funds that have been compiled by U.S. and international agencies, financial services firms, and private research organizations. Government officials and private researchers define SWFs in various ways.[3] Based on our research, we determined that the funds likely to be of the most interest to policymakers are those that

1. are government-chartered or government-sponsored investment vehicles;

[2]For certain foreign direct investments that raise national security considerations, the United States has a formal, interagency process known as the Committee on Foreign Investment in the United States (CFIUS). CFIUS is comprised of the heads of 16 government agencies or offices including the Department of Defense, the Department of Homeland Security, and the Department of State, with the Department of the Treasury serving as chair. CFIUS reviews, on a case-by-case basis, certain mergers, acquisitions, or takeovers that could result in foreign control of a U.S. business, some of which involve foreign government control. GAO has previously reported on CFIUS. See GAO, *Defense Trade: Enhancements to the Implementation of Exon-Florio Could Strengthen the Law's Effectiveness*, GAO-05-686 (Washington, D.C.: Sept 28, 2005). Also, see GAO, *Foreign Investment: Laws and Policies Regulating Foreign Investment in 10 Countries*, GAO-08-320 (Washington, D.C.: Feb. 28, 2008).

[3]For more information on key SWF definitions and their rationales, see app. IV. Naming conventions of the various SWFs can add to the lack of clarity. For example, some SWFs have "pension" in their names, yet they do not operate as pension funds.

2. invest some or all of their funds in assets other than sovereign debt outside the country that established them;

3. are funded through government transfers arising primarily from sovereign budget surpluses, trade surpluses, central bank currency reserves, or revenues from the commodity wealth of a country; and

4. are not actively functioning as a pension fund.

We excluded funds that act as pension funds—that is, that received contributions from or made benefit payments to individuals—because these funds generally have specific liabilities in the form of near-term to long-term obligations that other funds do not have. As of July 2008, we had identified 48 funds that met these characteristics (see app. II). For these funds, we attempted to identify any reported or published asset amounts from their official SWF or other government Web sites. When information was not available from these official government sources, we used International Monetary Fund (IMF) reports on countries' international financial positions. When neither of these was available, we used information compiled by private researchers. To identify SWF investments in the United States, we reviewed data on foreign investment collected and published by the Department of the Treasury (Treasury) and the Department of Commerce's (Commerce) Bureau of Economic Analysis (BEA). We also reviewed information on individual SWF investments from public filings made with the Securities and Exchange Commission (SEC) and data compiled by private database firms on financial transactions, including mergers and acquisitions, that are available for public subscription. For this report, we did not review information collected by the U.S. government about SWFs that may be part of nonpublic processes, such as the Committee on Foreign Investment in the United States (CFIUS) review process or filings with the Board of Governors of the Federal Reserve System in relation to banking law. We also did not review nonpublic information collected by IMF in connection with Article IV consultations. We interviewed officials from the Board of Governors of the Federal Reserve System, Commerce, the Department of Defense, the Federal Reserve Bank of New York, SEC, the Department of State, Treasury, and the U.S. Trade Representative. We also spoke with staff from private research organizations, investment banks, foreign investment funds, trade and investment associations, and others. For a complete description of our scope and methodology, see appendix I.

We conducted this performance audit from December 2007 through August 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

Official information published by national governments or international organizations on the size of assets, specific investments, and investment objectives was not available for some SWFs. Our analysis showed that about 60 percent of the 48 SWFs that we identified provided information about the size of their investment assets, since the beginning of 2007, through their Web sites, annual reports, or other publications. We found that about 77 percent publicly reported the purpose of their investment fund. Thirty of the funds disclosed some information about their investment activities. Twenty-one reported some information about their individual holdings, such as examples of companies in which they had invested, although only 4 provided disclosures of all their investments. Some countries specifically prohibit any public disclosure of their SWF activities. In addition, limited information was available from international financial organizations. For example, although IMF collects information from countries on their international financial flows, it does not require countries to give specific information on their SWFs. Countries can choose to include their SWF assets in their overall reserves, report them separately as external investment assets, or not provide any information on their SWF funds at all. Our analysis of publicly available IMF country consultation documents showed that only 13 countries separately disclosed the value of their SWF holdings to IMF. IMF officials told us that they expect to implement new reporting guidance in 2009 that would call for countries to voluntarily report their SWF holdings separately. The extent to which this increases the transparency of SWFs depends on how many countries provide additional information. Much of the available information about the value of SWF holdings for some funds has been developed by private sector researchers. According to these various sources, the reported or estimated size of the total assets held by the 48 funds that we identified is from $2.7 trillion to $3.2 trillion. Several researchers expect the assets in SWFs to continue to grow substantially, although some expect SWF growth to be more modest.

Although some U.S. government agencies and others collect and report public information on foreign investments in the United States, these sources have limitations and the overall level of U.S. investments by SWFs cannot be specifically identified. Treasury and BEA periodically survey U.S. financial institutions and others to publish aggregated information on foreign transactions in and foreign holdings of U.S. government and corporate securities and foreign ownership of U.S. businesses. According to the information they published, foreign investors—including governments, foreign private entities, and individuals—collectively owned over $20 trillion of U.S. assets in 2007, but the amounts held by SWFs cannot be determined from these data because of statutory and other limitations on the collection and public disclosure of information. We also found that 16 SWFs reported some information on their investments in the United States; some fully disclosed U.S. holdings, but others only noted a few specific investments or disclosed that a percentage of their portfolios included U.S. assets. Some specific SWF investments can be identified from reports publicly filed with SEC as required by the federal securities laws and from information published by private firms that monitor and compile data on financial transactions, such as mergers and acquisitions. For example, upon acquiring more than 5 percent of a voting class of certain equity securities, an investor is required to file an ownership disclosure with SEC and such reports are publicly available. According to an SEC analysis, eight investors it identified as SWFs completed 147 transactions from 1990 through 2008 in which they purchased a total of greater than 5 percent of a voting class of equity securities, requiring them to file a disclosure report. Also, we analyzed data from a financial research database and identified transactions totaling over $43 billion from January 2007 through June 2008 that included an SWF investing in a U.S. company. Although the SEC filings and private databases provide some data on individual SWF investments, they do not capture all SWF activities in the United States. For example, equity investments totaling 5 percent or less of a publicly held issuer generally are not reported to SEC by SWFs, and the private data collection firms may miss smaller investments. Expanding U.S. agencies' data collection requirements could provide policymakers with more information, but according to a U.S. official could also increase costs for financial institutions that provide information and increase data collection costs for agencies as well as potentially discourage SWFs from making investments in the United States.

We provided copies of this report to Treasury, Commerce, and SEC for their comments. In their letters, Treasury and Commerce indicated that our report provides timely, useful contributions to the debate about SWFs, and SEC reiterated that U.S. securities disclosure requirements that we discussed apply equally to SWFs and other large investors. Treasury, Commerce, and SEC also provided technical comments, which we incorporated into the report as appropriate.

Background

No one commonly accepted definition of SWFs exists, although the feature of a government-controlled or government-managed pool of assets is a part of most definitions. Government officials and private researchers use varying characteristics to categorize SWFs, and depending on the source and primary defining characteristic, different types of funds may be included or excluded. Definitions have been developed by Treasury, IMF, and private researchers. Some definitions include pension funds or investments made from foreign currency reserves maintained in central banks. An explanation of how we chose funds to include in our analysis is in appendix I.

Countries with SWFs Are Accumulating Large Foreign Currency Reserves

Countries that are major exporting nations or natural resource providers may accumulate large amounts of foreign currency reserves[4] through the sale of their manufactured goods or natural resources to other nations.[5] While all countries need some amount of foreign currency reserves to meet their international payment obligations, in some cases countries may accumulate currency reserves in excess of the amounts needed for current or future obligations. Some countries invest their foreign exchange reserves in assets such as the sovereign debt of other countries, including securities issued by Treasury to fund U.S. government operations. However, some countries have formed SWFs to invest a portion of their excess foreign currency reserves in assets likely to earn higher returns, such as the equity shares issued by foreign publicly traded companies.

Some countries with current account (a broad measure of international flows that includes trade balances) surpluses have created SWFs.[6] These include countries that are major exporters of commodities or natural resources, such as oil, as well as those, such as China, that are exporters of manufactured goods. In contrast, as the world's largest importer of goods and natural resources, the United States has run increasingly large current account deficits since the early 1990s. The current account deficit

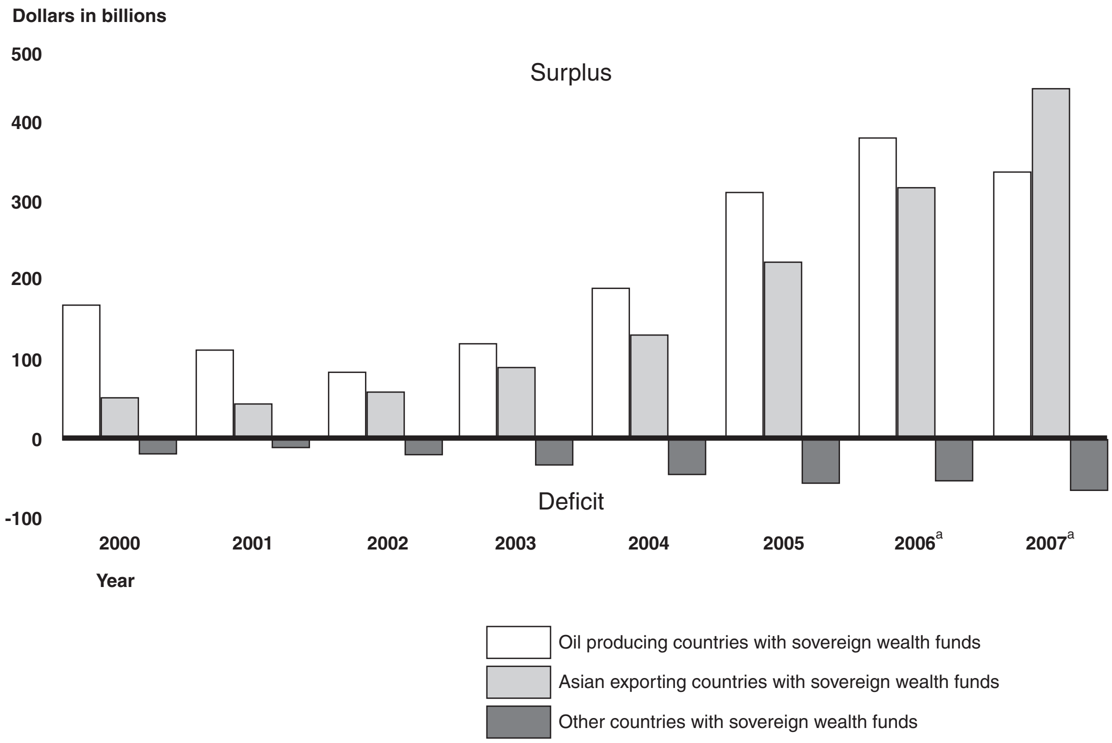
[4]International reserves are assets available for financing international payments that are controlled by finance ministries and central banks. Such reserves can be used to cushion an export shortfall or defend the home currency in a financial crisis. See Robert M. Kimmitt, "Public Footprints in Private Markets: Sovereign Wealth Funds and the World Economy," *Foreign Affairs*, vol. 87, no. 1 (2008).

[5]One major commodity, oil, is predominately priced in U.S. dollars.

[6]The current account balance is a summary measure of a country's net balance over a period of time with all other countries in the value of its trade of goods and services, income from returns on investments abroad, and unrequited transfers (such as foreign aid payments and workers' remittances). The balance of trade in goods and services is a subset of the current account balance.

of the United States was $731.2 billion[7] in 2007, whereas Asian countries with SWFs had a combined current account surplus of over $400 billion and oil-producing countries with SWFs had a combined surplus of about $338 billion (see fig. 1).

Figure 1: Current Account Balances of Foreign SWF Country Groups, 2000-2007



Source: International Monetary Fund, World Economic Outlook Database, October 2007.

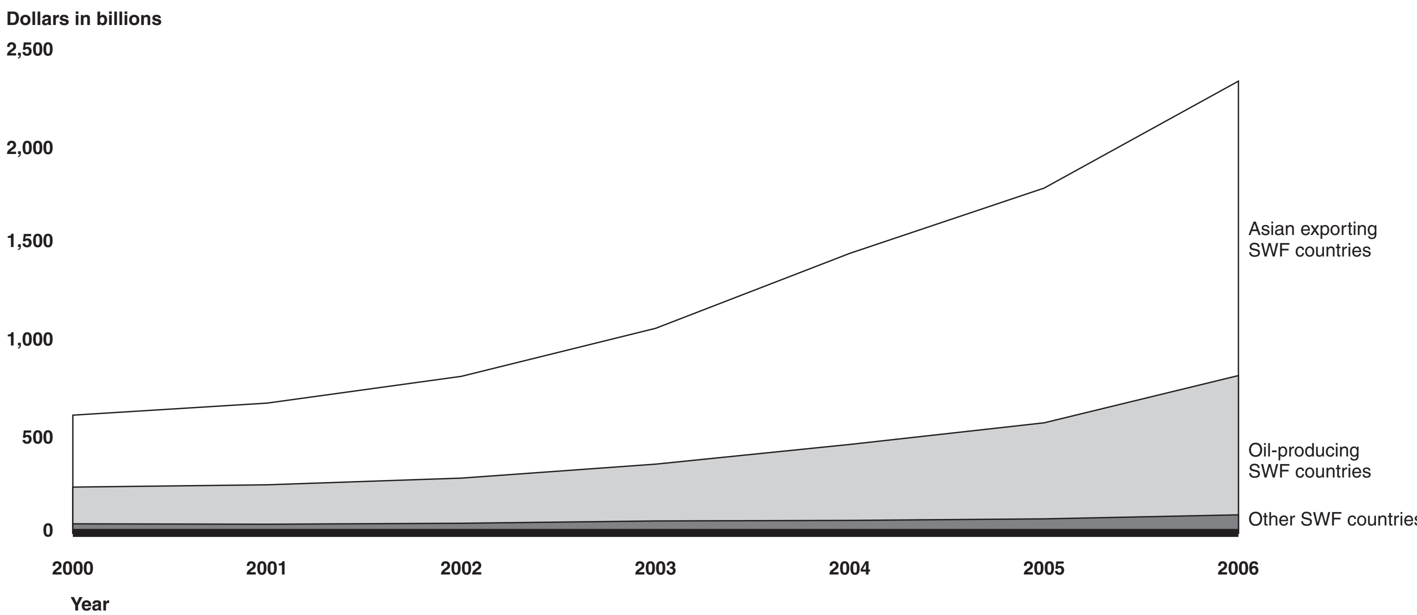
Notes: Oil-producing countries are Algeria, Angola, Azerbaijan, Bahrain, Brunei, Canada, Colombia, Gabon, Kazakhstan, Kuwait, Libya, Mauritania, Nigeria, Norway, Oman, Qatar, Russia, São Tomé and Príncipe, Sudan, Trinidad and Tobago, United Arab Emirates, and Venezuela. Asian exporting countries are China, Korea, Malaysia, Singapore, and Vietnam. Other SWF countries are Australia, Botswana, Chile, Ireland, Kiribati, and New Zealand.

[a]The 2006 and 2007 estimates are for select countries.

[7]The 2007 current account balance consisted, among other items, of a deficit in the balance of trade in goods of $815.4 billion and a surplus in the balance of trade in services—such as financial, insurance, transportation, and business services—of $106.9 billion.

These current account surpluses have led to a buildup of foreign currency reserves in some countries. Since 1995, currency reserves in industrial economies have more than doubled and currency reserves in developing economies have increased sevenfold. Foreign currency accumulation has been especially large among oil-producing countries and Asian countries with large trade surpluses, especially with the United States. China, Korea, Japan, and Russia hold the largest quantities of foreign currency reserves. Asian exporting countries' combined current account surpluses grew from $53 billion in 2000 to $443 billion in 2007. Currency reserves have accumulated in SWF countries (see fig. 2). The U.S. dollar accounted for slightly less than two-thirds of total central bank foreign reserve holdings of all countries as of the first quarter of 2008.

Figure 2: Foreign Exchange Reserves of SWF Countries (Excluding Gold), 2000-2006

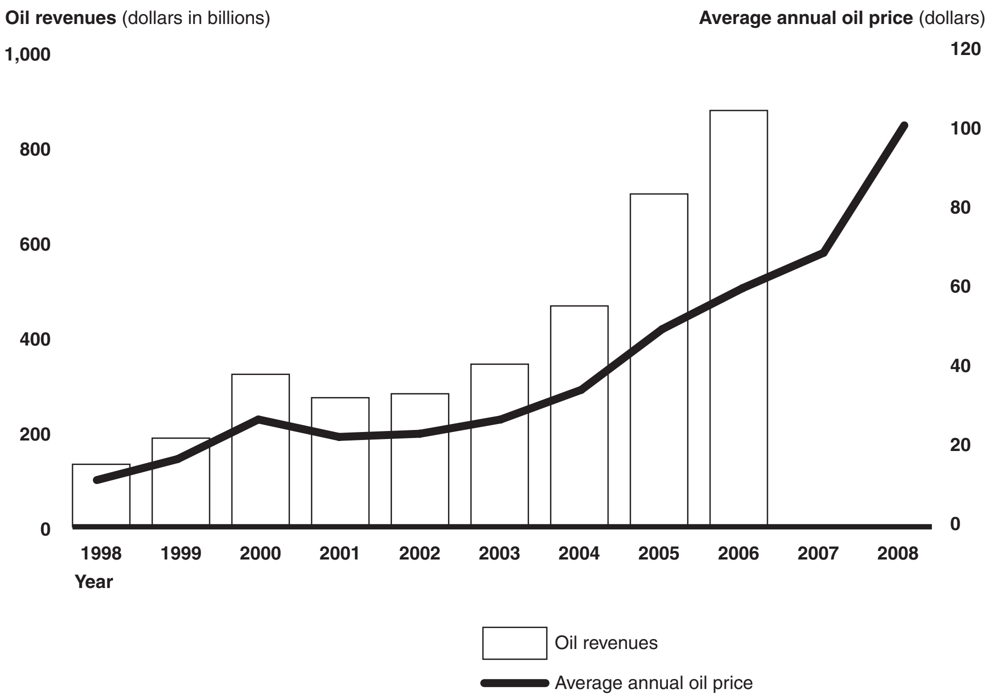


Source: International Monetary Fund, International Financial Statistics database, May 2008.

Notes: Oil-producing SWF countries are Algeria, Angola, Azerbaijan, Bahrain, Brunei, Canada, Colombia, Gabon, Kazakhstan, Kuwait, Libya, Mauritania, Nigeria, Norway, Oman, Qatar, Russia, São Tomé and Príncipe, Sudan, Trinidad and Tobago, United Arab Emirates, and Venezuela. Asian exporting countries are China, Korea, Malaysia, Singapore, and Vietnam. Other SWF countries are Australia, Botswana, Chile, Ireland, and New Zealand.

For oil-exporting countries with SWFs, which include some nations in the Middle East, as well as Norway and Russia, oil revenues remained relatively stable from 1992 to 1998. But in 1999, oil prices—as measured by the annual weighted world average price per barrel—began to rise (see fig. 3).[8] Consequently, oil revenues have increased 561 percent for the major exporting nations from 1992 to 2006, the year for which the latest data were available. These revenue increases have occurred as the price of oil per barrel has increased from $23 in January 2000 to well over $100 in the first half of 2008, including over $137 in July 2008.

Figure 3: Oil Revenues of Oil-Exporting SWF Countries, 1998-2006, and Annual Weighted World Average Price of Oil per Barrel, 1998-May 2008



Source: Energy Information Administration.

Notes: Oil-producing SWF Countries are Algeria, Angola, Azerbaijan, Bahrain, Brunei, Canada, Colombia, Gabon, Kazakhstan, Kuwait, Libya, Mauritania, Nigeria, Norway, Oman, Qatar, Russia, São Tomé and Príncipe, Sudan, Trinidad and Tobago, United Arab Emirates, and Venezuela.

As of July 2008, data on oil revenues were only available through 2006.

[8]The annual weighted world average price per barrel is calculated by averaging the week-ending price from each week during a particular year. See Department of Energy, Energy Information Administration, "World Crude Oil Prices," *Weekly Petroleum Status Report*, July 11, 2008, http://www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/weekly_petroleum_status_report/historical/2008/2008_07_16/wpsr_2008_07_16.html (accessed Aug. 20, 2008).

United States Reviews Some Foreign Investments

An interagency group is responsible for reviewing some foreign investment transactions in the United States. CFIUS, initially established by executive order in 1975, reviews some foreign investments in U.S. businesses, including some investments by SWFs.[9] Section 721 of the Defense Production Act authorizes the President to suspend or prohibit mergers, acquisitions, or takeovers that could result in foreign control of a U.S. business if the transaction threatens to impair national security.[10] The President delegated his section 721 authority to review individual transactions to CFIUS. CFIUS and its structure, role, process, and responsibilities were formally established in statute in July 2007 with the enactment of the Foreign Investment and National Security Act (FINSA). FINSA amends section 721 of the Defense Production Act to expand the illustrative list of factors to be considered in deciding which investments could affect national security and brings greater accountability to the CFIUS review process.[11] Under FINSA, foreign government-controlled transactions, including investments by SWFs, reviewed by CFIUS must be subjected to an additional 45-day investigation beyond the initial 30-day review, unless a determination is made by an official at the deputy secretary level that the investment will not impair national security.[12] CFIUS reviews transactions solely to determine their effect on national security, including factors such as the level of domestic production needed for projected national defense requirements and the capability and capacity of domestic industries to meet national defense requirements. If a transaction proceeds to a 45-day investigation after the initial 30-day review and national security concerns remain after the investigation, the President may suspend or prohibit a transaction. According to Treasury, for the vast majority of transactions, any national security concerns are resolved without needing to proceed to the President for a final decision. The law provides that only those transactions for which the President makes the final decision may be disclosed publicly.

[9]See Exec. Order No. 11,858, 3 C.F.R. 990 (1971-1975), as amended. President Ford established CFIUS and charged the interagency committee with primary responsibility within the executive branch for monitoring the impact of foreign investments in the United States.

[10]Defense Production Act, ch. 932, Title VII, § 721 (Sept. 8, 1950), as added by Pub. L. No. 100-418, Title V, § 5021, 102 Stat. 1425 (Aug. 23,1988) (codified, as amended, at 50 U.S.C. App. § 2170).

[11]See Pub. L. No. 110-418, § 3, 121 Stat. 246, 252 (July 26, 2007) (amending section 721 of the Defense Production Act).

[12]50 U.S.C. App. § 2170 (b)(as added by Pub. L. No. 110-418, § 2, 121 Stat. at 247-49).

Extent of Official Data from SWF Countries and Others on SWF Sizes and Investments Varies

Information about SWFs publicly reported by SWFs, the governments that control them, international organizations, and private researchers provides a limited picture of their size, investments, and other descriptive factors. Our analysis found that the amount and level of detail that SWFs and their governments report about their activities vary significantly, and international organizations that collect and publish various statistics about countries' finances do not consistently report on SWFs. As a result, some of the available information about the size of certain of these funds consists of estimates made by private researchers. Based on a combination of data or estimates from these various sources, SWFs currently hold assets estimated to be valued from $2.7 trillion to $3.2 trillion. Several researchers expect SWFs to grow substantially in the coming years.

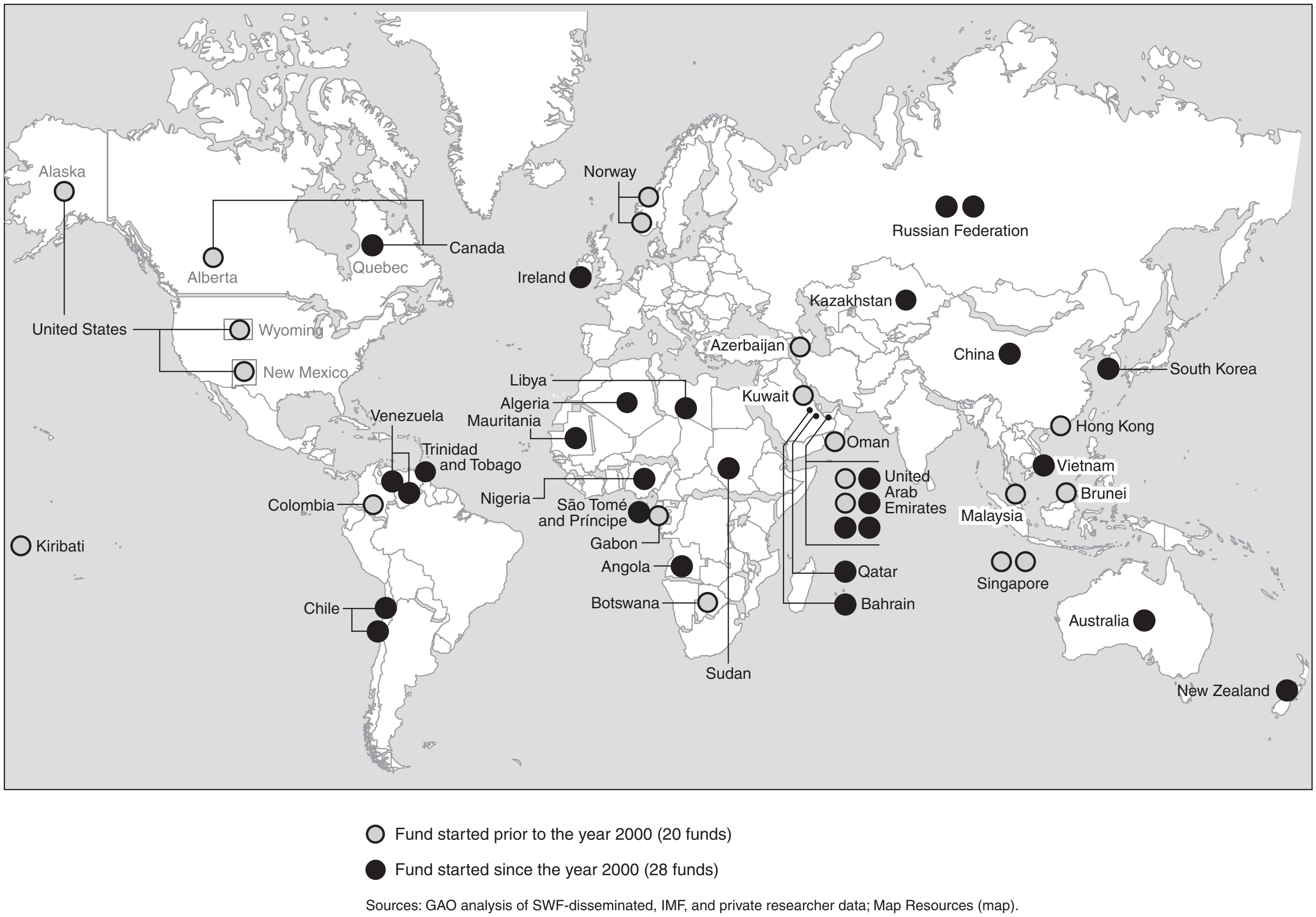
SWFs Exist in Most Regions of the World and Many Are Recently Created

In our analysis of the publicly available government sources and private researcher lists of SWFs, we identified 48 SWFs across 34 countries that met our criteria.[13] These include funds from most regions of the world. Of the 48 SWFs we identified, 13 were in the Asia and Pacific region. Ten were located in the Middle East, with the remaining 25 spread across Africa, North America, South America, the Caribbean, and Europe. Some countries, such as Singapore, the United Arab Emirates, and the Russian Federation, have more than one entity that can be considered an SWF.

Some SWFs have existed for many years, but recently a number of new funds have been created. For example, the Kuwait Investment Authority and the Kiribati Revenue Equalization Reserve Fund have existed since 1953 and 1956, respectively. The Kuwait Investment Authority was founded to invest the proceeds of natural resource wealth and provide for future generations in Kuwait, and the Kiribati Revenue Equalization Reserve Fund was formed to manage revenues from the sale of Kiribati's phosphate supply. However, since 2000, many commodity and trade-exporting countries have set up new SWFs. These funds have grown as a result of rising exports of commodities such as oil, whose prices have also risen. Of the 48 funds we identified, 28 have been established since 2000 and 20 of these can be classified as commodity funds that receive funds from selling commodities such as oil (see fig. 4).

[13]See app. I for a description of our criteria.

Figure 4: Locations and Inception Years of SWFs Relative to 2000



Sources: GAO analysis of SWF-disseminated, IMF, and private researcher data; Map Resources (map).

The Amount and Type of Information SWFs Report about Their Characteristics and Activities Vary by Fund

Based on our review of public disclosures from SWFs on government Web sites, we determined that the extent to and the level of detail at which SWFs publicly report information on their sizes, specific holdings, or investment objectives varied. Based on these reviews, we found that 29 of 48 funds publicly disclosed the value of assets since the beginning of 2007. According to documents published by the countries, 17 of these 29 report asset figures that are subject to an annual audit by either an international public accounting firm or by the country's national audit agency.[14] In total, 36 of the 48 funds provided publicly reported size estimates, though some date back to 2003. While most provided a specific value, 2 reported only a minimum value. Among the largest 20 funds, 13 publicly reported total assets. Of the funds in our analysis, 24 of 48 funds disseminated information on fund-specific sites and 21 used other government Web sites, such as those belonging to the finance ministry or central bank.[15]

Thirty funds reported at least some information on their investment activities. Of the largest 20 funds, 12 reported this information. Only 4 of the 48 funds fully disclose the names of all the entities in which they have invested. The level of detail reported by others' funds varied. For example, 21 funds reported information about some of their investments, such as the names of their significant investments, while others disclosed only the regional breakdown of their holdings or gave only general statements about the types of assets and sectors in which they invested or planned to invest. These assets usually included equities, bonds, real estate, or other alternative investments.

We found that about 77 percent of the 48 SWFs publicly reported the purpose of their funds, with 13 of the largest 20 funds doing so. In many cases, fund purposes included using the country's financial or natural resources to earn investment returns intended to benefit the country in various ways, including providing income for future generations, balancing the government's budget, or preserving foreign currency purchasing power.

The information publicly reported about SWFs varies in part because of different disclosure requirements across countries.[16] The nature, frequency, and content of any SWF information are reported at each country's discretion. Some countries may restrict the type of reporting that can be released. For example, according to documents published by the government of Kuwait, Kuwaiti law requires the Kuwait Investment

[14]One other fund that was recently established has not yet published the results of its first audit.

[15]Three funds do not disseminate information over Web sites. These include funds in Angola, Libya, and São Tomé and Príncipe. However, these funds do disseminate information through IMF.

[16]Information, observations, and conclusions regarding foreign laws mentioned in this report do not reflect our independent legal analysis but are based on our interviews and documentation available on SWF or foreign government Web sites.

Authority to submit a detailed report on its activities to the Kuwaiti government authorities, but prohibits it from disclosing this information to the public. In contrast, according to Norwegian government documents, Norwegian law requires that the country's SWF publicly release comprehensive and detailed information regarding its assets, objectives, and current holdings on a quarterly and annual basis. Some funds that are not required to disclose information have begun to do so voluntarily. For example, Temasek Holdings, an SWF located in Singapore, is not required by Singapore law to release financial performance reports, but it began doing so in 2004, according to a Temasek Holdings official. This official told us that each SWF operates in a different environment and must decide on the appropriate amount of transparency. The official said that since Temasek Holdings began publishing its annual review in 2004, it has disclosed more information each year.

The extent to which other large private classes of investors disclose information about their assets and investments also varies. For example, investors such as hedge funds and private equity funds that are not investment companies under U.S. securities laws have as their investors primarily institutions or high net worth individuals and are generally not required to publicly disclose information about their investment portfolios. In contrast, U.S. mutual funds are generally required to disclose certain information about their investment portfolios and portfolio transactions.[17] While some SWFs disclose holdings information, officials of other SWFs expressed concerns that disclosures could be used by other investors in ways that could reduce the funds' investment earnings.

International Organizations' Data Collections Do Not Generally Obtain Information on SWF Size or Investments

International organizations collect and publish various statistics about countries' finances, but report only limited information on SWFs. Until recently there has been a lack of guidance in macroeconomic statistical standards on the treatment of SWFs and no systematic review of whether the assets of these funds are included in the data reported. IMF officials have initiated an effort to increase the amount and specificity of SWF activities in IMF documents. Currently, IMF members are expected to disclose a range of fiscal and macroeconomic statistics, including countries' balance of payments and their international investment position, that are made public in various IMF reports and IMF's *World Economic Outlook* and *Global Financial Stability Report*. The data that countries report may include the level of reserves and the amount of

[17]See, generally 17 C.F.R. §§ 270.30b-2 and 270.30b1-5 (2008) and SEC Forms N-SAR and N-Q.

external assets they hold. However, the coverage of SWFs in these statistics is not uniform, not least because SWFs can be included in different accounts depending on specific statistical criteria. According to IMF staff, the countries themselves determine whether to include the value of their SWF assets in their reserve assets or separately as external assets. In some cases, countries do not report any information about their SWF. Further, some member countries do not submit data on their international investment position to IMF. Analyzing a selection of 21 countries with SWFs, IMF staff found that only 11 included the value of their SWFs' assets in either their balance of payments or international investment position data. IMF staff noted that members are not required to report the value of the SWF holdings as a separate line item and no member currently does so.[18]

In addition to information from required data reporting, IMF staff also collected some information about SWFs through their consultations with individual countries. IMF staff periodically hold policy discussions—called Article IV consultations from the section of the IMF rules that requires them—in member countries to monitor their economic developments and outlook and assess whether their policies promote domestic and external stability. According to IMF staff, Article IV staff reports are expected to focus strictly on those issues. We reviewed publicly available Article IV reports, or summary reports in several cases, for the 34 countries that we identified as having SWFs.[19] Based on this analysis, we found information about the size of a country's SWF in the Article IV reports or public summaries for 13 of these countries.[20] The extent of the information on SWFs publicly reported from the Article IV consultations varied, with some documents only noting that the country had such a fund and others providing the current level of assets in the SWF and country officials' expectations for growth of the SWF through revenues or fiscal transfer.

[18]This information is published in a report of the IMF Committee on Balance of Payments Statistics 07/06 (available at http://www.imf.org/external/pubs/ft/bop/2007/20.htm). The IMF Committee on Balance of Payments Statistics was established by IMF's Executive Board to improve the availability, consistency, and reliability of balance of payments and international investment position statistics worldwide and is supporting IMF's efforts to find out more about the treatment of SWFs in statistical data sets.

[19]IMF does not publicly release Article IV consultation reports if the member country requests that it not do so. For Bahrain, Brunei, and Malaysia, we reviewed the publicly available summaries of their Article IV consultation reports. In addition, Venezuela does not have a publicly available Article IV consultation report or summary.

[20]For 2 of the 34, the countries' SWF was established after the Article IV consultation.

IMF is implementing changes to its reporting that could expand the official data available on SWF activities. IMF officials have stated that collecting additional data on SWFs is important because of the fiscal, monetary, and economic policy impacts that the funds could have for IMF member countries and for the global economy, given their increasing prevalence and growth. IMF expects to implement new reporting guidance in 2009 that would call for countries to separately report their SWF holdings on a voluntary basis. While this is a positive development that could further expand the official information available, its success depends on the degree to which countries participate.

In addition, IMF is including guidance on how to properly classify SWF assets in its latest version of the balance of payments manual, which it expects to publish in late 2008. The current version of this manual was last updated in 1993 and does not address SWFs. In recognition of the growing number of SWFs, IMF officials told us that they began to address the methodological issues related to a definition of SWFs and SWF assets in 2005 and subsequently initiated an international consultation on the issue. IMF expects that this additional detail will provide an understanding of the location of SWF assets, which, depending on certain criteria, can be reported in either the reserve assets or the external accounts or in other accounts of a country's financial accounts data. IMF notes that this new reporting item will help to facilitate proper identification of SWFs and may contribute to greater transparency and to a better understanding of their impact on the country's external position and reserve assets. Treasury staff told us that they were involved in the group that considered these changes, and while the United States and some other countries would have preferred that the proposed SWF reporting be mandatory, the group chose the voluntary option.

In addition, IMF is facilitating and coordinating the work of the International Working Group of Sovereign Wealth Funds that is deliberating on a set of Generally Accepted Principles and Practices relating to sovereign wealth funds.[21] These are intended to set out a framework of sound operation for SWFs. The specific elements are likely

[21]IMF, in response to Group of Seven requests, has facilitated and coordinated multilateral discussions focused on developing best practices for SWFs. The international working group, including the United States, most recently met in July 2008 for deliberation, and has stated its goal of establishing voluntary principles and practices by October 2008. In September 2008, an IMF official announced that representatives from 26 SWF countries had reached preliminary agreement on a draft set of principles. For press releases of the International Working Group of Sovereign Wealth Funds, see http://www.iwg-swf.org/pr.htm.

to come from reviews of good SWF practices. These principles are also aimed at improving the understanding of SWFs in both their home countries and recipient countries.

Other organizations involved in monitoring international financial developments do not regularly report on SWF activities.[22] For example, the Organisation for Economic Co-operation and Development (OECD), an organization of 30 countries responsible for supporting global economic growth and trade, collects data on foreign direct investment inflows and outflows and national accounts information from its member countries and some selected nonmember countries. These data, however, do not specifically identify SWFs. Further, only 9 countries included in OECD's surveys are known to have SWFs. Many countries with SWFs are not members of OECD. A recent document from OECD indicates that it is using other publicly available sources of data to estimate the size and asset allocation of selected SWFs. Recognizing the growing importance of SWFs, Group of Seven finance ministers and central bank governors, including officials from Treasury, proposed that OECD develop investment policy guidelines for recipient countries of SWF investment. According to recent OECD publications, the organization is focusing its SWF work on these guidelines.

Private Researchers Have Collected Some Information on SWFs

Because not all SWFs disclose their activities publicly, information about the size of some SWFs comes from estimates published by private researchers, including investment bank researchers and nonprofit research and policy institutions. Though their methodologies and data sources vary, these researchers generally begin by reviewing publicly available data and statements from national authorities of SWF countries, press releases, and other research reports. In some cases, they use confidential data, such as information provided to their firms' trading staffs by SWF officials or private conversations with their firms' investment managers. However, they are usually prohibited from publicly disclosing the sources of information received confidentially. At least one researcher we spoke with also used certain IMF balance of payments and World Economic Outlook statistics as proxies for SWF outflows and

[22] Based on our review of publicly available information from the World Bank, we found that this organization is not collecting and reporting data on SWFs. Experts we spoke to with at IMF told us that the World Bank is not collecting SWF data. Also, searches of the Web sites of these organizations resulted largely in SWF-related news articles. We did not find information pertaining to current or future plans to collect SWF data or conduct other policy work on SWFs.

purchases. The researchers often make projections of the level of foreign reserves, commodity prices, amounts of transfers from reserves to the SWF, and the assumed rate of return for the fund to develop judgmental estimates of the current size of assets held by SWFs. These estimates have been published publicly by these researchers as part of their analysis of trends affecting world financial markets.

The researchers we spoke with acknowledged that the accuracy of their estimates is primarily limited by the sparse official data on SWFs. Researchers also cited other limitations, including difficulty in verifying underlying assumptions, such as the level of transfers from SWFs or the projected rates of return of the funds, and questionable accuracy and validity of data they use from secondary sources to support their models.

By analyzing the information reported by individual SWFs, IMF data, and private researchers' estimates, we found the total assets held by the 48 SWFs we identified are estimated to be from $2.7 trillion to $3.2 trillion (see app. II for the list of funds). Many of these estimates were published in the last year prior to the significant rise in oil prices in the first half of 2008. The largest funds held the majority of these assets, with the largest 20 funds representing almost 95 percent and the largest 10 having more than 80 percent of the total SWF assets. The largest 20 funds had assets estimated to range from $2.5 trillion to $3.0 trillion, as shown in figure 5.

Figure 5: Twenty Largest SWFs by Size of Reported or Estimated Assets

	Country	Fund name	Year of inception	Commodity	Noncommodity	Min	Max	Source
1	United Arab Emirates (Abu Dhabi)	Abu Dhabi Investment Authority	1976	●		625	875	▽
2	Norway	Government Pension Fund--Global	1990	●		372	372	□
3	Singapore	Government Investment Corporation	1981		●	215	330	▽
4	Kuwait	Kuwaiti Investment Authority	1953	●		213	250	▽
5	China	China Investment Corporation	2007		●	200	200	□
6	Hong Kong	Exchange Fund Investment Portfolio	1998		●	186	186	□
7	Russian Federation	Reserve Fund	2008	●		130	130	□
8	Singapore	Temasek Holdings	1974		●	108	108	□
9	United Arab Emirates (Dubai)	Investment Corporation of Dubai	2006	●		82	82	▽
10	Australia	Australian Government Future Fund	2006		●	58	58	□
11	Qatar	Qatar Investment Authority	2005	●		40	60	▽
12	Algeria	Revenue Regulation Fund	2000	●		46	46	□
13	Libya	Libyan Investment Authority	2006	●		40	40	○
14	United States (Alaska)	Alaska Permanent Fund	1976	●		38	38	□
15	Russian Federation	National Wealth Fund	2008	●		33	33	□
16	Brunei	Brunei Investment Authority	1983	●		30	35	▽
17	Ireland	National Pensions Reserve Fund	2001		●	31	31	□
18	Kazakhstan	National Fund	2000	●		26	26	□
19	Venezuela	National Development Fund	2005	●		21	21	□
20	Nigeria	Excess Crude Account	2004	●		17	17	□
						$2,532	**$2,959**	

Size of funds (dollars in billions): 0, 200, 400, 600, 800, 1,000

Range

Exact amount

Data source: □ National authority

▽ Private researcher

○ IMF

Source: GAO analysis of SWF-disseminated, IMF, and private researcher data.

Notes: These represent the largest of the funds that met our criteria for being an SWF. Asset sizes were reported or estimates were published from 2006 through July 2008. See app. II for a full listing of the 48 largest SWFs that met our criteria.

Total SWF Assets Are Currently Smaller Than Those Held by Other Large Investor Classes but Are Expected to Grow

Although SWFs have sizeable assets, their assets are a small portion of overall global assets and are less than the assets of several other large classes of investors. The estimated total size of the SWFs we identified, \$2.7 trillion to \$3.2 trillion, constituted about 1.6 percent of the estimated \$190 trillion of financial assets outstanding globally as of the end of 2006. The estimated SWF holdings we identified likely exceed those of hedge funds, which most researchers estimated to be about \$2 trillion. However, according to an estimate by the consulting firm McKinsey Global Institute, assets in pension funds (\$28.1 trillion) and mutual funds (\$26.2 trillion) exceed those of SWFs by a large margin.

SWF assets are expected to grow significantly in the future. SWFs are predicted to continue to grow significantly, to between \$5 trillion and \$13.4 trillion by 2017.[23] IMF staff estimated that in the next 5 years assets in SWFs will grow to between \$6 trillion and \$10 trillion. The variation in estimates largely reflects researchers' use of different methods and assumptions about future economic conditions. Though their methodologies varied, each of these researchers generally used several common factors, the most common being changes in oil prices. Several researchers stated that if oil prices rise higher than their projections, revenues going to oil-based SWFs will likely increase and the assets could grow beyond currently estimated levels. Other factors include growth in foreign exchange reserves, amount of transfers from surpluses to SWFs, persistence in trade imbalances, the rate of return or performance of an SWF, and variation in exchange rate regimes across SWF countries.

Public Information from the U.S. Government and Others on SWF Investments in U.S. Assets Is Limited

BEA and Treasury are charged with collecting and reporting information on foreign investment in the United States, but the extent to which SWFs have invested in U.S. assets is not readily identifiable from such data. Only a few SWFs reported specific information on their U.S. investments. Some individual SWF investments in U.S. assets can be identified from reports filed by investors and issuers as required by U.S. securities laws, but these filings would not necessarily reflect all such investments during any given time period. Further, some private data collection entities also report information on specific transactions by SWFs, but these also may not capture all activities.

[23]One research institute estimated that assets in SWFs will be as high as \$30 trillion by 2018.

U.S. Government Reports Aggregate Totals for Foreign Investment in the United States but Do Not Specifically Identify SWF Activities

Two U.S. agencies, Treasury and Commerce's BEA, collect and report aggregate information on foreign investment in the United States that includes SWF investments. To provide information to policymakers and to the public, Congress enacted the International Investment Survey Act of 1976 (subsequently broadened and redesignated as the International Investment and Trade in Services Survey Act [International Investment Survey Act]), which authorizes the collection and reporting of information on foreign investment in the United States.[24] The act requires that a benchmark survey of foreign direct investments and foreign portfolio investments in the United States be conducted at least once every 5 years.[25] Under this authority, BEA collects data on foreign direct investment in the United States, defined as the ownership of 10 percent or more of a business enterprise.[26] BEA collects the data on direct investment in the United States by both public and private foreign entities, which by definition would generally include SWFs, by surveying U.S. companies regarding foreign ownership.[27] The data are used to calculate U.S. economic accounts, including the U.S. international investment position data.

Treasury collects data on foreign portfolio investment in the United States, defined as foreign investments that are not foreign direct investments.[28] Treasury collects the data through surveys of U.S. financial institutions

[24]Pub. L. No. 94-472, 90 Stat. 2059 (Oct. 11, 1976) (codified, as amended, at 22 U.S.C. §§ 3101 – 3108). The President has delegated the authority granted under the International Investment Survey Act as it relates to the collection, analysis and reporting of information (1) to Treasury with respect to portfolio investment, and (2) to the Secretary of Commerce, who has redelegated it to BEA, with respect to foreign direct investment. See Exec. Order N. 11961, 3 C.F.R. 86 (1977), as amended.

[25]22 U.S.C. § 3103(b).

[26]See 15 C.F.R. pts. 801 and 806 (2007). BEA also collects information on international investments by U.S. persons abroad.

[27]See generally 15 C.F.R. pts. 806 (2007). In benchmark years—every 5 years—BEA surveys about 6,000 companies regarding foreign ownership; in nonbenchmark years, it surveys a smaller number. The last benchmark survey covered 2002 and the 2007 benchmark survey is in process.

[28]See 31 C.F.R. Parts 128 and 129 (2007). Other U.S. agencies may also obtain information on investments by foreign entities in certain U.S. assets, and such information may or may not be publicly available. For example, the Agricultural Foreign Investment Disclosure Act requires foreign investors that acquire, transfer, or hold an interest in U.S. agricultural land to report such holdings and transactions to the Secretary of Agriculture. See Pub. L. No. 95-460 (Oct. 14, 1978) (codified as amended at 7 U.S.C. §§ 3501 et seq.). We plan to discuss this and other laws that may require disclosure of individual foreign investment transactions in a subsequent report.

and others.[29] These surveys collect data on ownership of U.S. assets by foreign residents and foreign official institutions.[30] Officials from these agencies use these data in computing the U.S. balance of payments accounts and the U.S. international investment position and in the formulation of international economic and financial policies. The data are also used by agencies to provide aggregate information to the public on foreign portfolio investments, including reporting this information periodically in the monthly *Survey of Current Business*.

Data Collected by U.S. Agencies Show Considerable Foreign Investment in United States, but Do Not Identify SWF Activity

SWF investment holdings are included in the foreign investment data collected by Treasury and BEA, but cannot be specifically identified because of data collection limitations and restraints on revealing the identity of reporting persons and investors.[31] BEA's foreign direct investment data are published in the aggregate and do not identify the owner of the asset. BEA also aggregates the holdings of private and government entities for disclosure purposes. As a result, the extent to which SWFs have made investments of 10 percent or more in a U.S. business, while included as part of the foreign direct investment total, cannot be identified from these data.

Treasury's portfolio investment data collection and reporting separates foreign official portfolio investment holdings, which include most SWFs, from foreign private portfolio investment. However, the information that is reported to Treasury does not include the specific identity of the investing organization; thus the extent of SWF investment within the overall foreign official holdings data cannot be identified. In addition, Treasury officials reported that some SWF investments may be classified as private if the

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[29]Treasury's surveys are sent to commercial banks and other depository institutions, bank holding companies, securities brokers and dealers, custodians of securities, and nonbanking enterprises in the United States, including the U.S. branches, agencies, and subsidiaries of foreign-based banks and business enterprises. See, generally, 31 C.F.R. pts. 128 and 129 (2007).

[30]Foreign residents include individuals or entities with physical locations outside the United States and also international organizations and embassies located inside the United States. Foreign official institutions include central government entities, such as central banks, finance ministries, and government investment funds.

[31]Under section 5(c) of the International Investment Survey Act, only officials or employees designated to perform functions under the act are entitled to access to information obtained from filed reports. In addition, no person can compel the disclosure of any portion of a report filed under the act without the prior written consent of the person who maintained or furnished the report and without the prior written consent of any other person who may be identifiable from the information contained in the report. See 22 U.S.C. § 3104(c).

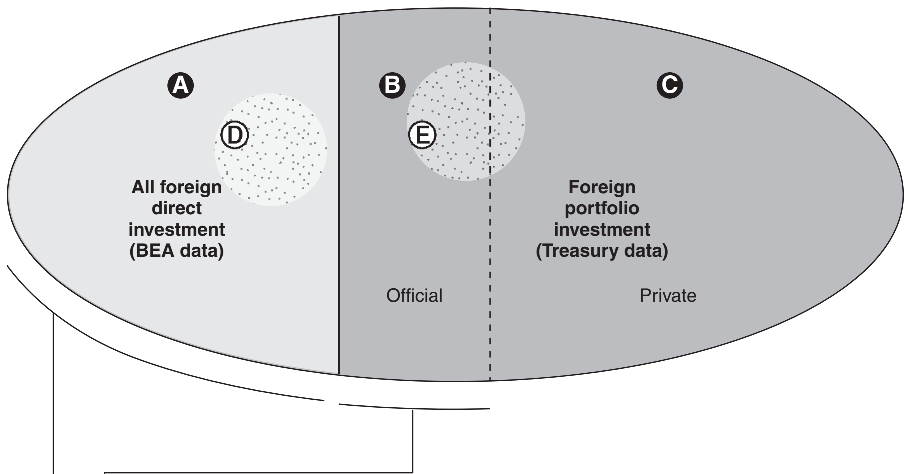
investments are made through private foreign intermediaries, such as investment banks, or if an SWF is operated on a subnational level, such as by a state or a province of a country, as those types of organizations are not included in Treasury's definition of official government institutions.

Both BEA and Treasury stated that the data published do not include the identity of specific investors and are aggregated to ensure compliance with the statutory requirement that collected information not be published or disclosed in a manner in which a reporting person can be identified.[32] Figure 6 illustrates how data on SWF investments are included but are not specifically identifiable in the data collected or reported by these agencies. The data BEA and Treasury collect include the total amount of foreign direct investment and the total amount of portfolio investment by foreign official institutions, but the extent of SWF investments in either category cannot be determined. The data collected on both direct and portfolio investments are used by BEA in computing the U.S. international investment position, published annually in its July issue of the *Survey of Current Business*.[33]

[32]Any person who willfully violates the confidentiality provisions of the International Investment Survey Act by making an unauthorized or improper disclosure of information furnished under the act is subject to a fine of up to $10,000, in addition to any other penalty imposed by law. 22 U.S.C. §3104(e).

[33]The data that include most SWF investment in the U.S. investment position are derived from BEA's data on foreign direct investment and Treasury's monthly and annual data on portfolio transactions and holdings of U.S. assets.

Figure 6: Illustration of Where Sovereign Wealth Fund Investments Are Reported in U.S. Foreign Investment Data



A Any government or private foreign investments that constitute 10% or more of a U.S. business enterprise.

B Any investments by foreign official institutions that constitute less than 10% of a U.S. business enterprise.

C Any investments by foreign private investors (e.g. Individuals, Institutions) that constitute less than 10% of a U.S. business enterprise.

D Any investments by SWFs that constitute 10% or more of a U.S. business enterprise – These investments are included in the aggregate data but not specifically identified as SWF investments.

E Any investments by SWFs that constitute less than 10% of a U.S. business enterprise – most classified as official. Examples where investments might be classified as private include (1) investment is made through foreign private intermediary or (2) SWF is operated on sub-national basis. These investments are included in the aggregate data but not specifically identified as SWF investments.

Excerpt of Table G.1 International Investment Position of the United States at year end

Line	Type of investment (in USD millions)	2000	2007[a]
24	**Foreign-owned assets in the United States (lines 25+26)................................**	**7,569,415**	**20,081,783**
25	Financial derivatives, gross negative fair value	--------	2,201,052
26	Foreign-owned assets in the United States, excluding financial derivatives (lines 27+34)	7,569,415	17,880,731
27	**Foreign official assets in the United States...**	**1,030,708**	**3,337,030**
28	U.S. Government securities	756,155	2,502,831
29	U.S. Treasury securities	639,796	1,697,365
30	Other	116,359	805,466
31	Other U.S. Government liabilities	19,316	24,024
32	U.S. liabilities reported by U.S. banks, not included elsewhere	153,403	405,707
33	Other foreign official assets	101,834	404,468
34	Other foreign assets	6,538,707	14,543,701
35	**Direct investment at current cost..**	**1,421,017**	**2,422,796**
36	U.S. Treasury securities	381,630	734,776
37	U.S. securities other than U.S. Treasury securities	2,623,014	6,132,438
38	Corporate and other bonds	1,068,566	3,299,325
39	Corporate stocks	1,554,448	2,833,113
40	U.S. currency	205,406	271,952
41	U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns	738,904	959,544
42	U.S. liabilities reported by U.S. banks, not included elsewhere	1,168,736	4,022,195
	Memoranda:		
43	Direct investment abroad at market value	2,694,014	5,147,952
44	Direct investment in the United States at market value	2,783,235	3,523,600

BEA's Survey of Current Business

Source: GAO analysis of BEA and Treasury Reporting.

[a]Preliminary.

The U.S. international investment position data show that foreign investors, including individuals, private entities, and government organizations, owned assets in the United States in 2007 valued at approximately $20.1 trillion.[34] As shown in figure 6, foreign direct investment, which includes all direct investments by SWFs, totaled $2.4 trillion in 2007 (shown in the line "Direct investment at current cost"). This is up from $1.4 trillion in 2000. Foreign official portfolio investment holdings, which include SWF investments, totaled $3.3 trillion in 2007 (shown in the line "Foreign official assets in the United States"). This is up from $1 trillion in 2000. BEA officials stated that within this total many of the SWF portfolio investment holdings are classified as "Other foreign official assets," since this subcategory reflects transactions by foreign official agencies in stocks and bonds of U.S. corporations and in bonds of state and local governments.[35] These reported holdings totaled roughly $404 billion in 2007. This shows an increase from $102 billion in 2000. To the extent that SWFs are invested in U.S. government securities, those holdings are included in the "U.S. Treasury securities" or "Other" subcategories of "U.S. government securities" under "Foreign official assets in the United States." Bank accounts or money market instruments held by SWFs are included in "U.S. liabilities reported by U.S. banks" under "Foreign official assets in the United States."

BEA and Treasury Data Show That Investment from Countries with SWFs and from Official Institutions Is Increasing

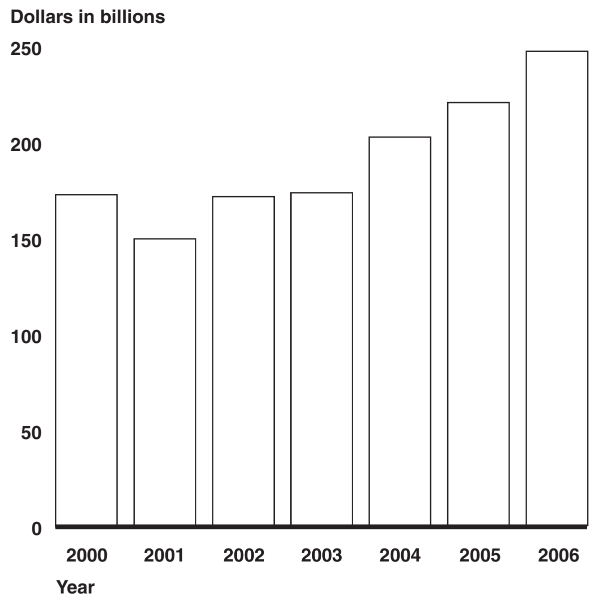
While BEA and Treasury data cannot be used to identify the total extent of SWF investment, these data show that the United States has been receiving more investment over time from countries with SWFs and from foreign official institutions. BEA data on foreign direct investment by country show an increase in foreign direct investment in the United States in recent years from countries with SWFs.[36] These investments would include those made by private individuals and businesses and by any government entities in those countries—including their SWFs. As figure 7 illustrates, foreign direct investment holdings from countries with SWFs have increased from $173 billion in 2000 to roughly $247 billion in 2006. Although the exact extent cannot be determined, some of this increase is likely from SWF investments.

[34] Data on international investment position in the United States at year-end for 2007 are preliminary as of the time of this report.

[35] These securities are long term, that is, they have no contractual maturities (stocks) or have maturities of more than 1 year.

[36] Country breakouts of foreign direct investment are reported on an historical (book) value basis. Entries are suppressed if the identity of an U.S. reporter would be revealed through reporting.

Figure 7: Foreign Direct Investment Holdings from SWF Countries, 2000-2006



Source: Bureau of Economic Analysis, March 2008.

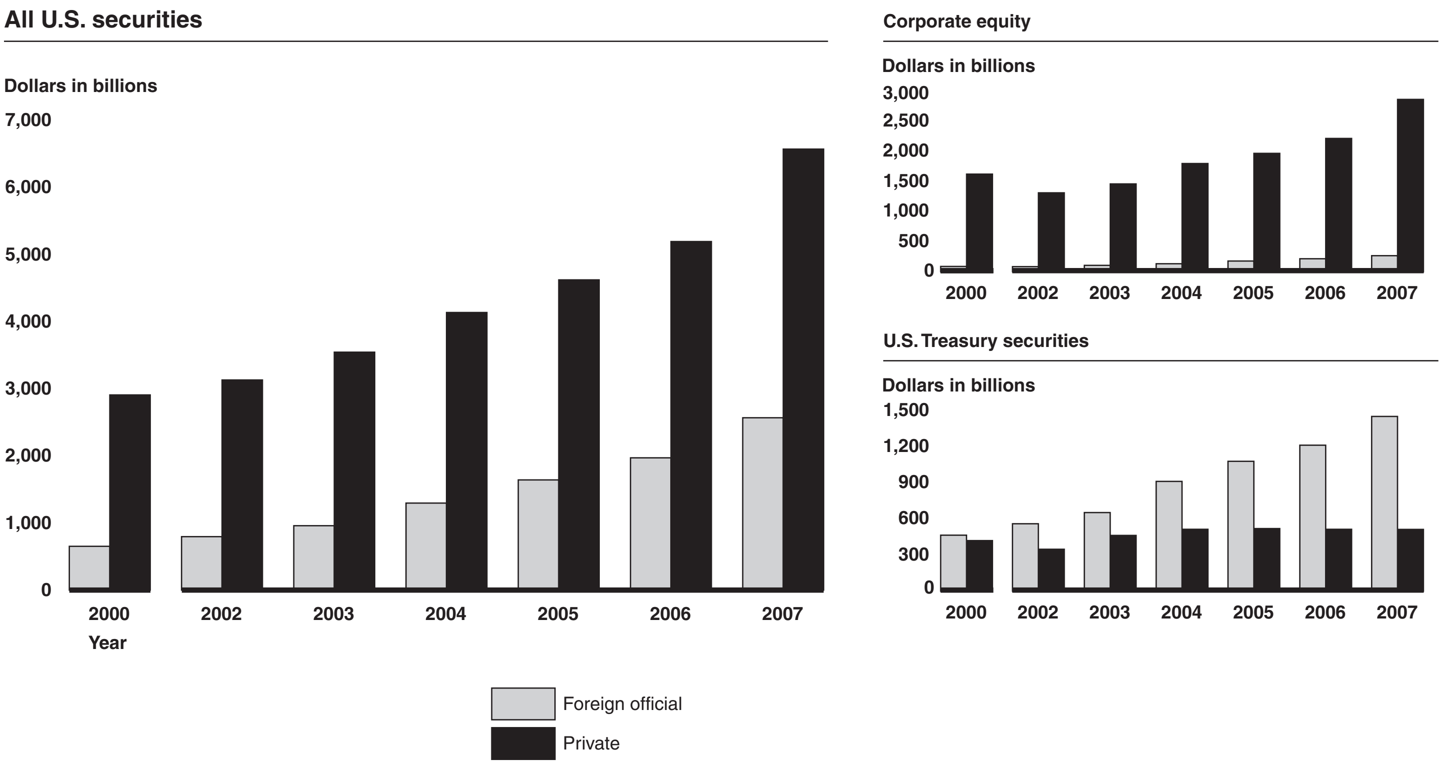
Notes: In some cases data are not released because of disclosure concerns. In these instances foreign direct investment values were imputed by GAO, for countries with significant direct investments in the United States. GAO's identified SWF countries: Azerbaijan, Canada, Gabon, Kazakhstan, Norway, Russia, Trinidad and Tobago, Venezuela, Bahrain, Kuwait, Oman, Qatar, United Arab Emirates, Australia, Chile, Ireland, New Zealand, China, Malaysia, Singapore, South Korea, and Vietnam.

Similarly, Treasury data show that portfolio investment from foreign official institutions, which could include SWFs, has increased in all asset classes, including equities. Treasury's portfolio investment by asset class data show that in 2007, approximately $9.1 trillion of all U.S. long-term securities were foreign owned, and of that, $2.6 trillion were held by official institutions.[37] The $2.6 trillion in foreign official securities holdings includes almost $1.5 trillion in U.S. Treasury debt and $0.3 trillion in U.S. equities. While official institutions owned only a small share of the total amount of foreign-owned U.S. equities, their investment has grown dramatically, increasing from $87 billion in 2000 to $266 billion in 2007. (See fig. 8.) Treasury officials reported that the recent rise in U.S. equity

[37]Treasury also reports portfolio investment by country, but aggregates both the foreign official and private investment data because in some countries only one organization may conduct international investing, thus any official institution data reported for such countries would reveal information about individual investors, which Treasury is legally prohibited from doing.

ownership by foreign official institutions in the United States may reflect investments from SWFs, since SWFs are intended as vehicles to diversify a country's reserves into alternative assets.

Figure 8: Foreign Portfolio Holdings of U.S. Securities



Source: Treasury International Capital System.

Notes: All U.S. securities includes long-term holdings of U.S. equities, marketable treasuries, U.S. government corporate and federally sponsored agency bonds, and corporate and municipal debt. Foreign official institutions include central banks, foreign finance ministries, as well as government investment funds and various other central government institutions. Treasury International Capital surveys for foreign holdings of U.S. assets were not conducted in 2001.

Adjustments to BEA and Treasury Collection Procedures May Not Result in Increased Disclosure and Would Entail Additional Costs

Although BEA and Treasury may be able to adjust their data collection activities to obtain more information about SWF investment, such changes may not result in more detailed public disclosure and will entail increased costs, according to agency officials. BEA officials told us that they may be able to use the information they currently collect to differentiate between foreign official and private owners of direct investment holdings in the data collected by utilizing the ultimate beneficial owner codes assigned to transactions in their surveys. They stated that they are considering reporting the information in this manner. This breakout would help to narrow the segment of foreign direct investment that contains SWF investments, but it would not identify SWF investment specifically since it would still combine SWF investments with other official government investments. Regarding portfolio investment, Treasury officials reported that while more detailed information would allow them to report SWF investment separately from that of other foreign official institutions, Treasury would be prohibited from releasing such information publicly in cases where it would make the foreign owners easily identifiable.[38] According to a Treasury official, some business groups advised Congress during the initial passage of the International Investment Survey Act that disclosure of their transactions and holdings in foreign countries would adversely affect their companies. If foreign companies in the United States share that view, then removing the disclosure restriction might make foreign investors less likely to invest in the United States, and they might seek investments in countries with less stringent disclosure requirements. In addition, the official said that collecting additional information on foreign investment would increase costs for Treasury as well as for reporting entities.[39] A representative of one financial institution that is a reporting entity told us that the institution would need to make changes to its internal reporting systems in order to provide more identifying information on investors, but the official could not estimate the total costs of doing so.

Some Information on Specific SWF Investments in the United States Is Available from SWF Disclosures and Private Sources

Some information on specific SWF investments in U.S. assets can be determined from disclosures made by SWFs themselves and from private data sources. A limited number of SWFs publicly disclose information about their investment activities in individual countries, including the United States. Based on our review of disclosures made on SWF or national government Web sites, we found that 16 of the 48 SWFs we identified provided some information on their investment activity in the United States. The amount of detail varied from a complete listing of all asset holdings of a fund to only information about how investments are allocated by location. For example, Norway's SWF publishes a complete list of its holdings, which indicated that as of year-end 2006, its fund held positions in over 1,000 U.S. companies, valued at over $110 million. In

[38]See 22 U.S.C. § 3104.

[39]See 22 U.S.C. § 3103(g), which requires that the President "give due regard to the costs incurred by persons supplying such information, as well as to the costs incurred by the Government."

contrast, the disclosures made by Kuwait's fund did not identify its investments, but stated that the fund invests in equities in the United States and Canada; the fund did not provide information on total asset size or dollar values or identify specific investments. One of Singapore's SWFs disclosed the identity of a few of its key holdings, including U.S.-based investments. Seven other funds also reported information on their investment holdings; however, none of these noted any U.S. investments.

Specific SWF Investments Are Disclosed in U.S. Securities Filings

Disclosure reports required to be filed with SEC by both investors and issuers of securities are a source of information on individual SWF transactions in the United States, but only for those transactions that meet certain thresholds. Any investor, including SWFs, upon acquiring beneficial ownership of greater than 5 percent of a voting class of an issuer's Section 12 registered equity securities, must file a statement of disclosure with SEC.[40] The information required on this statement includes

- identifying information, including citizenship;
- the securities being purchased and the issuer;
- the source and amount of funds used to purchase the securities;
- the purpose of the transaction;
- the number of shares acquired, and the percent of ownership that number reflects; and
- the identification of any contracts, arrangements, understandings, or relationships with respect to securities of the issuer.

When there are changes to the level of ownership or amount of securities held, the investor is generally required to file an amendment. Investors taking passive ownership stakes in the same equities, meaning they do not

[40]See Securities Exchange Act of 1934, § 13(d) and (g) [codified, as amended, at 15 U.S.C. § 77m(d) and (g)]; see also SEC Regulation 13D [codified at 17 C.F.R. §§ 240.13d-1 – 240.13d-102 (2007)]. Beneficial owners of greater than five percent of an outstanding class of equity securities registered pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934 are required to disclose the required information on a Schedule 13D. A Schedule 13D must be filed within 10 days of becoming a beneficial owner of greater than 5 percent of a voting class of Section 12 registered equity securities. Certain investors, however, may be eligible to file a short-form disclosure statement on Schedule 13G.

intend to exert any form of control, may qualify to file a less-detailed statement.[41]

SEC also requires disclosure for investors, including SWFs, whose beneficial ownership of a class of voting equity securities registered under Section 12(b) or 12(g) of the Securities Exchange Act of 1934 exceeds 10 percent. Under Section 16(a) of the Securities Exchange Act of 1934, within 10 calendar days of becoming a more than 10 percent beneficial owner, an investor must file an initial report disclosing the amount of the investor's beneficial ownership of any equity securities of the issuer, whether direct or indirect. In addition, for as long as investors remain more than 10 percent beneficial owners, they must file reports of changes in beneficial ownership with the SEC within two business days of the transaction resulting in the change in beneficial ownership. This requirement applies to sales and additional purchases of any equity securities of the same issuer.[42]

Certain beneficial ownership filings required under U.S. securities laws offer some information about SWF activities, but cannot be used to determine the full extent of SWF transactions in the United States. For example, any transaction involving a purchase resulting in total beneficial ownership of 5 percent or less of a voting class of an issuer's Section 12 registered equity securities would not have to be disclosed under the federal beneficial ownership reporting rules and otherwise may not necessarily have to be disclosed. Thus, the SEC data would most likely not include information on SWF investments under this threshold. In addition, although the filing of these reports is mandatory for all investors who meet the requirements, SEC staff told us that without conducting a specific inquiry, their ability to determine whether all qualifying investments have been disclosed, including any by an SWF, may be limited. To identify nonfilers, the SEC staff told us that they sometimes use sources such as public comments and media reports. SEC has not brought a public action against an SWF for violating these beneficial ownership reporting requirements. Finally, given that these filings are primarily used to disclose

[41]The less detailed filing is provided in the form of Schedule 13G. This disclosure statement is more abbreviated than Schedule 13D and generally is required to be filed in as few as 10 days following the acquisition or as many as 45 days after the end of the calendar year in which the investor became a beneficial owner of greater than 5 percent of a voting class of an issuer's Section 12 registered equity securities.

[42]Securities Exchange Act § 16(a) [codified as amended at 15 U.S.C. § 78p(a)]; 17 C.F.R. §§ 240.16a-1 *et seq*. The disclosure requirements of Section 16(a) also apply to officers and directors of the issuer of the subject securities.

ownership in the securities of specific issuers, the information is not compiled or reported by SEC in any aggregated format. Thus, identifying SWF transactions requires searching by issuer or SWF name, and SEC staff noted, for example, that identifying such transactions can be difficult because some SWF filers may have numerous subsidiaries under whose names they might file a report.

Information about some SWF investments in U.S. issuers can be identified in certain filings made under the federal securities laws. As a result of the recent interest in SWF activities, SEC staff analyzed such filings to identify transactions involving SWFs. To identify specific transactions, they searched for filings by known SWFs and also reviewed filings from countries with SWFs to identify SWF filings. According to their analysis, since 1990 eight different SWFs have reported to SEC ownership of over 5 percent, covering 147 transactions in 58 unique issuers. SEC staff told us that their analysis likely reflects only some of the SWF investments in U.S. issuers.

The federal securities laws also require U.S. public companies to file reports on their financial condition, which can also reveal data on some SWF investments in the United States below the greater than 5 percent threshold for investor disclosures. Companies with publicly traded securities are required to publicly disclose events they deem material to their operations or financial condition, such as the acquisition of assets or the resignation of officers.[43] In some cases, U.S. companies have made these filings to announce that they have received investments from an SWF, including investments that did not exceed the 5 percent threshold and require a beneficial ownership filing by the SWF. For example, Citigroup filed a report outlining a transaction involving an SWF investment that was below the 5 percent ownership stake but the SWF investment was still deemed material to the financial condition of the company. Some of the U.S. companies that recently received SWF investments also included information about these transactions in their annual reports.

[43]Under federal securities laws, public companies are required to disclose "on a rapid and current basis" material information regarding changes in their financial condition or operations. This is most often accomplished through the filing of a current report—known as Form 8-K—or included information in their annual report—Form 10-K.

Private Data Collection Entities Compile and Report Information on SWF Investments in the United States but Do Not Capture All Activity

Private data collection entities compile and report information on specific SWF transactions, including those captured by SEC filings, but do not capture all SWF transactions. A number of private firms collect and distribute information relating to financial transactions. For example, database companies, such as Dealogic and Thompson Reuters, collect information globally on financial transactions, including mergers and acquisitions, for users such as investment banks, rating agencies, and private researchers. To compile their databases, they use public filings (including SEC filings), press releases, news announcements, and shareholder lists, as well as information from relationships with large financial intermediaries, such as investment banks and attorneys. Therefore, information in these databases includes transactions that can be identified through SEC filings but also may include additional transactions that are not disclosed through U.S. securities laws but are identified in other ways, such as through company press statements or discussions with parties to the transaction. However, these data may not be complete, and the database companies cannot determine to what extent they capture all SWF transactions. For example, officials at these companies told us that they will most likely miss smaller transactions, consisting of acquisitions resulting in aggregate beneficial ownership of 5 percent or less, or unannounced relatively small dollar deals. Since many SWFs have historically taken noncontrolling interests in U.S. companies with total ownership often below 5 percent, the number of transactions not captured could be large. In addition, a transaction completed by a subsidiary of an SWF may not be identified as an SWF investment.

We reviewed the information collected by Dealogic on investments made by SWFs in foreign countries, otherwise known as cross-border transactions. Based on this, the United States has, since 2000, attracted the largest volume of cross-border SWF investment, with announced deals totaling approximately $48 billion. Roughly $43 billion of this value reflects investment since 2007, largely consisting of deals involving financial sector entities.[44] These deals comprised 8 of the top 10 announced SWF investments in the United States since 2000 (see table 1).[45]

[44]Some transactions included other investors that are not SWFs; however, their stake could not be identified.

[45]Similar information on these large investments in U.S. companies could also be found in SEC filings, either through filings made by the SWF as investor, where the investment resulted in the investor owning more than 5 percent of a class of the company's equity securities (Schedule 13D), or disclosed by the target company in filings required to announce a material event (Form 8-K).

Table 1: Top 10 Announced SWF Transactions in the United States (since 2007)

Announcement Date	Target	Acquirer	Deal Value $ (m)	Sector
17-Jan-08	Citigroup Inc (Not disclosed)	Government of Singapore Investment Corporation Pte Ltd; Capital Research Global Investors; Private Investor; Kuwait Investment Authority	$12,500.00	Financial
27-Nov-07	Citigroup Inc (4.9%)	Abu Dhabi Investment Authority	$7,500.00	Financial
14-Jan-08	Merrill Lynch & Co Inc (Not disclosed)	Kuwait Investment Authority; Korean Investment Fund Inc; Mizuho Financial Group Inc	$6,600.00	Financial
24-Dec-07	Merrill Lynch & Company Inc (13%)	Temasek Holdings (Pte) Ltd; Davis Selected Advisors LP	$6,200.00	Financial
19-Dec-07	Morgan Stanley & Company Inc (9.9%)	China Investment Corporation	$5,000.00	Financial
21-May-07	Blackstone Group LP (10%)	China Investment Corporation	$3,000.00	Financial
22-Aug-07	CityCenter Holdings LLC (50%)	Dubai World	$2,800.00	Real Estate
20-Sep-07	Carlyle Group Inc (7.5%)	Mubadala Development Company	$1,350.00	Financial
30-Oct-07	Och-Ziff Capital Management Group (9.9%)	Dubai International Capital LLC	$1,260.00	Financial
16-Nov-07	Advanced Micro Devices Inc - AMD (8.1%)	Mubadala Development Company	$622.00	Technology

Source: Dealogic.

Note: Dealogic's definition of SWFs includes some funds that we did not identify as SWFs, including Dubai International Capital, LLC.

These large SWF-led investments into financial sector entities came at a time when firms were facing large losses and asset write-downs due to the subprime mortgage crisis of 2007. The investments were seen as positive events by some market participants because they provided much-needed capital. (See app. III for a summary of some of these transactions.)

According to Dealogic, Switzerland, China, and the United Kingdom were also major targets of cross-border SWF investments since 2000 (see fig. 9).

Figure 9: Top Targets of SWF Investments Identified by Dealogic (2000-2008)

Recipient country	Total deal value (dollars in millions)
United States	$48,006.00
United Kingdom	16,115.53
Switzerland	12,121.82
China	11,738.43
France	4,449.79
Thailand	4,267.84
Indonesia	4,170.85
India	3,207.24
Japan	2,050.20
Turkey	1,921.00

Source: GAO analysis of Dealogic data.

Dealogic data also show that announced cross-border investments led by SWFs worldwide have risen dramatically since 2000, both in terms of number of deals and total dollar volume. (See fig. 10) Transactions targeting the United States have also risen sharply, due in part to favorable market conditions for foreign investors. In 2005, only one announced U.S. transaction totaling $50 million was reported by Dealogic.[46] In contrast, nine transactions were reported in 2007, totaling $28 billion. As of June 2008, four transactions in the United States have been announced for the year, totaling almost $20 billion. As shown in figure 10, global cross-border SWF investment increased from $429 million in 2000 to almost $53 billion in 2007.

[46]Dealogic reports no announced cross-border investments involving SWFs in the United States from 2000 through 2004.

Figure 10: Total Announced Cross-Border SWF Activity as Identified by Dealogic (2000-2008)

Year	Total number of deals	Total deal value (dollars in millions)
2000	6	$429.19
2001	4	51.51
2002	3	232.27
2003	7	1,087.44
2004	21	5,159.64
2005	32	8,188.06
2006	37	18,298.37
2007	41	52,935.24
2008	29	32,696.24

Source: GAO analysis of Dealogic data.

Note: The year 2008 covers all announced transactions as of June 1, 2008. Dealogic only reported transactions for 26 SWFs.

However, these transactions, which have totaled about $119 billion since 2000, represent a small portion of the overall reported assets of SWFs, which, as noted previously, were estimated to be from $2.7 trillion to $3.2 trillion. This illustrates how much of the investment held by SWFs is not generally identifiable in existing public sources, unless SWFs themselves disclose comprehensive data on their asset holdings.

Agency Comments

We requested comments on a draft of this report from Treasury, Commerce, and SEC. In a letter, Treasury's Deputy Assistant Secretary for International Monetary and Financial Policy indicated that our report was timely and valuable and underscored the importance of developing a better appreciation of the systemic role of SWFs, and also said that they generally agreed with the conclusions in the report. The Deputy Assistant Secretary's letter stated that Treasury has been a leader in the international community's efforts, including in the multi-lateral IMF-facilitated effort to develop generally accepted principles and practices for SWFs. Implementation of such practices will hopefully foster a significant increase in the information provided by SWFs. (Treasury's letter is reproduced in app. V.)

In Commerce's letter, the Undersecretary for Economic Affairs stated that our report was a useful and timely contribution to the existing literature on this highly debated and complex subject. (Commerce's letter is reproduced in app. VI.) In SEC's letter, the Director of the Office of International Affairs reiterated that the disclosure requirements under U.S. securities laws regarding concentrations and change of control transactions apply equally to SWFs and to other large investors. (SEC's letter is presented in app. VII.) Treasury, Commerce and SEC also provided technical comments, which we incorporated into the report as appropriate.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time we will send copies to other interested Members of Congress; the Secretaries of Treasury and Commerce; and the Commissioner of the SEC. We will also make copies available at no charge on the GAO website at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact either Yvonne Jones at (202) 512-8678 or JonesY@gao.gov, or Loren Yager at (202) 512-4128 or YagerL@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix VIII.

Yvonne D. Jones
Director, Financial Markets and Community Investment
and Community Investment

Loren Yager
Director, International Affairs
and Trade

Appendix I: Objectives, Scope, and Methodology

Our objectives in this report were to examine (1) the availability of data on the size of sovereign wealth funds (SWF) and their holdings internationally that have been publicly reported by SWFs, their governments, international organizations, or private organizations, and (2) the availability of reported data by the U.S. government and other sources on SWF investments in the United States. To identify SWFs and to develop criteria for selecting the funds to include in our analysis, we reviewed the definitions of SWF and the lists of such funds that have been compiled by U.S. and international agencies, financial services firms, and private researchers. The funds of most interest to policymakers were those that are separate pools of capital without underlying liabilities or obligations to make payments in the near term. SWFs have raised concerns over their potential to use their investments for non-economic purposes. As a result, we chose to include in our analysis those funds that (1) were government chartered or sponsored investment vehicles; (2) invested, in other than sovereign debt, some or all of their assets outside the country that established them; (3) were funded through transfers from their governments of funds arising primarily from sovereign budget surpluses, trade surpluses, central bank currency reserves, or revenues from the commodity wealth of the countries, and (4) were not currently functioning as pension funds receiving contributions from and making payments to individuals. We included government-chartered or government-sponsored entities that invest internationally because such entities raise concerns over whether the controlling government will use their funds to make investments to further national interests rather than to solely earn financial returns. Entities that are funded primarily through trade surpluses or natural resources wealth would also seem to be more vulnerable to pressure to make noneconomic investments than entities funded through employee contributions or other nonwindfall sources. We excluded internationally active pension funds that are receiving contributions from or making benefit payments to individuals as these funds generally have specific liabilities, unlike SWFs that are not encumbered by such near-term obligations, and thus are not as likely to make noneconomic investments. We also excluded investment funds that invested only in the sovereign debt of other nations. Such an investment strategy is an approach that central banks have traditionally taken and, although widely debated, has not generally raised control issues. SWF investments in the equity securities of commercial firms in other countries may be viewed as creating the potential for actions of a noncommercial nature that could be detrimental to another country's economy.

In order to determine our final list of SWFs, we independently examined each fund on a compiled list of unique funds that others claimed were SWFs. We verified that our above criteria were met using national authorities and International Monetary Fund (IMF) data sources. To begin our analysis, we reviewed lists of SWFs generated from seven different private data sources and IMF. These sources, included in publications from Deutsche Bank,[1] Goldman Sachs,[2] JPMorgan,[3] Morgan Stanley,[4] the Peterson Institute,[5] RGE Monitor,[6] Standard Chartered Bank,[7] and IMF,[8] were then used to prepare a comprehensive list of 258 possible SWFs. Since the names of the funds varied depending on the source, we manually matched the sources based on the fund name, inception year, and fund size to obtain a list of 81 unique funds.

After compiling the list of unique funds, we attempted to verify the extent to which the funds met our four criteria. We did this by having at least two analysts reach agreement on whether the criteria were met upon review of several data sources. We used official governmental source data, such as information from the country's central bank, finance ministry, or other government organization or from the fund's Web site. If official government source information was unavailable, we used the country's

[1]Steffen Kern "Sovereign Wealth Funds—State Investments on the Rise," *Deutsche Bank Research* (Frankfurt am Main, Germany: Sept. 10, 2007). Also available online at www.dbresearch.com (accessed Aug. 22, 2008).

[2]Jim O'Neill, Erik F. Nielsen, and Saleem Bahaj. "In Defense of Sovereign Wealth Funds," *GS Global Economics Research*, https://portal.gs.com (accessed May 21, 2008).

[3]David G. Fernandez David G. and Bernhard Eschweiler. "Sovereign Wealth Funds: A Bottom-up Primer." *JPMorgan Research* (Singapore: May 22, 2008).

[4]Stephen Jen, "Sovereign Wealth Funds and Official FX Reserves." *Morgan Stanley Research Global* (London: Sept. 14, 2006).

[5]Edwin M. Truman, "A Blueprint for Sovereign Wealth Fund Best Practices," *Policy Brief*, 08-3, Peterson Institute for International Economics (Washington, D.C.: April 2008). Also available online at http://www.petersoninstitute.org/publications/interstitial.cfm?ResearchID=902 (accessed Aug. 22, 2008).

[6]Brad Setser and Rachel Ziemba, *Understanding the New Financial Superpower—The Management of GCC Official Foreign Assets*, RGE Monitor (New York: December 2007). Also available online at http://www.cfr.org/publication/15206/understanding_the_new_financial_superpower_the_management_of_gcc_official_foreign_assets.html (accessed Aug. 22, 2008).

[7]Gerard Lyons, *State Capitalism: The Rise of Sovereign Wealth Funds*, Standard Chartered Bank (London: Oct. 15, 2007).

[8]Statistics Department of the International Monetary Fund, *Sovereign Wealth Fund and Reserve Assets: A Statistical Perspective*, Paper Presented at the Twentieth Meeting of the IMF Committee on Balance of Payments Statistics (Washington, D.C., Oct. 29 through Nov. 1, 2007).

Article IV consultation report or other documents reported to IMF as a secondary source. Those funds that did not meet any one of our four specified criteria were excluded from our analysis. In cases where we could verify some but not all of our criteria from national authority or IMF sources, we attempted to validate the remaining criteria using private or academic sources. Analyst judgment to include or exclude a fund was employed in some cases where all criteria could not be validated. Of the 48 funds selected for our analysis, we were able to verify all four criteria in 60 percent of cases. For all of the 48 funds we were able to verify two or more of our four criteria using a mix of various sources.

We encountered some limitations to our independent verification of national authorities' source data. These limitations include Web searches only being conducted in English, Web sites being under construction, and Web sites being incompletely translated from the original source language to English. In these cases, we located speakers of the languages in question and assisted them in conducting searches for SWF information on the national government Web sites in the country's language. If our team members who were knowledgeable of the foreign language found relevant information, we asked them to translate the information to English and provide us with a written copy. We used this translated information to verify our criteria for 10 funds. Languages needing translation were Arabic, French, Portuguese, and Spanish. If we found sources in English that were relevant for our purposes, we did not review the sources in their original languages.

To determine the availability of data on the size and other characteristics of SWFs that were reported by SWFs, their governments, international organizations, or private sources, we reviewed documents produced by SWFs and Web sites sponsored by SWFs. We also reviewed studies of SWFs done by investment banks and private research firms. For some recently established funds, we reported the initial capitalization of the fund if the market value of the fund was not available. We used a private researcher estimate for one fund that only reported a minimum value and for two funds where private researcher data appeared to be more recent than those of national authorities. We interviewed officials from two SWFs, investment banks, finance and trade associations, a private equity group, IMF, and others.

To determine the availability of data on SWF investments in the United States reported by the U.S. government and others, we reviewed the extent to which federal data collection efforts of the Departments of the Treasury (Treasury) and Commerce (Commerce) and the Securities and Exchange Commission (SEC) were able to report on SWF activities. We interviewed officials from Commerce and Treasury, SEC, the Federal Reserve Bank of New York, two financial data companies, a law firm, several private researchers, and other organizations.

We analyzed data on SWF cross-border transactions in the United States and other countries obtained from Dealogic, which designs, develops, and markets a suite of software, communications, and analytical products. We assessed the procedures that Dealogic uses to collect and analyze data and determined that the data were sufficiently reliable for our purposes. To identify the transactions, we worked with Dealogic to develop a query that would extract all transactions with an SWF as the acquirer of the asset and where the asset resided in a country other than that of the SWF. However, Dealogic does not capture all SWF transactions. Because of its reliance on public filings, news releases, and relationships with investment banks, Dealogic may not capture low-value transactions that are not reported publicly. We also reviewed public filings, obtained through SEC's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) database, of selected U.S. companies that received major SWF investments in 2007 and 2008. Because acquisitions resulting in total beneficial ownership of 5 percent or less of a voting class of a Section 12 registered equity security will not be reported to SEC, these data sources capture only a proportion of the total U.S. SWF investments.

We also spoke with officials from the Board of Governors of the Federal Reserve System, Commerce, the Department of Defense, the Department of State, the Federal Reserve Bank of New York, Treasury, IMF, SEC, and the U.S. Trade Representative. We attended hearings on SWFs before the Senate Committee on Banking, Housing, and Urban Affairs, the Senate Committee on Foreign Relations, the House Committee on Foreign Affairs, and the House Committee on Financial Services, the Joint Economic Committee, and the U.S.-China Economic and Security Review Commission. We met with officials representing investment funds or SWFs from Dubai, Norway, and Singapore. To better understand the context behind SWFs, we interviewed industry and trade associations, a legal expert, investment banks, private researchers, and others who have experience in international finance, trade, and foreign investment issues.

We conducted this performance audit from December 2007 through August 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

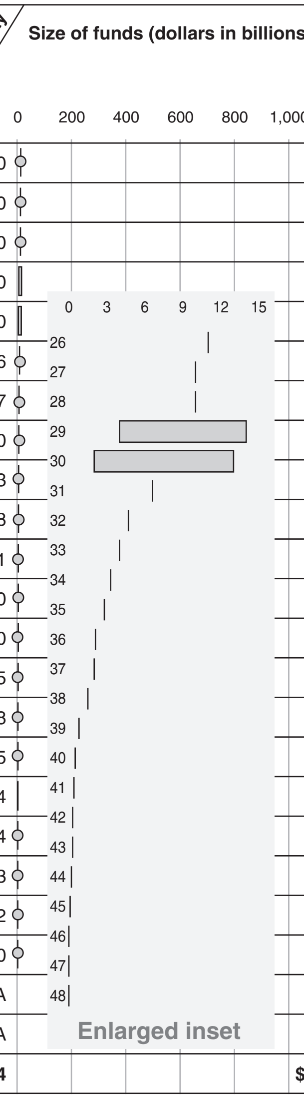
Appendix II: SWFs Meeting GAO Criteria

	Country	Fund name	Year of inception	Commodity	Noncommodity	Size of funds (dollars in billions) Min	Max	Source	Reported or publication date
1	United Arab Emirates (Abu Dhabi)	Abu Dhabi Investment Authority	1976	●		625	875	▽	10/15/07; 1/1/08
2	Norway	Government Pension Fund--Global	1990	●		372	372	□	12/31/07
3	Singapore	Government Investment Corporation	1981		●	215	330	▽	5/21/08; 1/1/08
4	Kuwait	Kuwait Investment Authority (KIA)	1953	●		213	250	▽	4/1/08; 1/1/08
5	China	China Investment Corporation	2007		●	200	200	□	9/1/07
6	Hong Kong	Exchange Fund Investment Portfolio	1998		●	186	186	□	1/31/08
7	Russian Federation	Reserve Fund	2008	●		130	130	□	7/1/08
8	Singapore	Temasek Holdings	1974		●	108	108	□	3/31/07
9	United Arab Emirates (Dubai)	Investment Corporation of Dubai	2006	●		82	82	▽	4/1/08
10	Australia	Australian Government Future Fund	2006		●	58	58	□	4/30/08
11	Qatar	Qatar Investment Authority	2005	●		40	60	▽	9/10/07; 4/1/08
12	Algeria	Revenue Regulation Fund	2000	●		46	46	□	10/31/07
13	Libya	Libyan Investment Authority	2006	●		40	40	○	2007
14	United States (Alaska)	Alaska Permanent Fund	1976	●		38	38	□	6/30/07
15	Russian Federation	National Wealth Fund	2008	●		33	33	□	7/1/08
16	Brunei	Brunei Investment Authority	1983	●		30	35	▽	5/22/08; 4/1/08
17	Ireland	National Pensions Reserve Fund	2001		●	31	31	□	3/31/08
18	Kazakhstan	National Fund	2000	●		26	26	□	6/1/08
19	Venezuela	National Development Fund	2005	●		21	21	□	6/30/08
20	Nigeria	Excess Crude Account	2004	●		17	17	□	2006
21	Chile	Economic and Social Stabilization Fund	2006	●		17	17	□	4/1/08
22	Canada (Alberta)	Alberta Heritage Savings Trust Fund	1976	●		17	17	□	3/31/08
23	Malaysia	Khazanah Nasional BHD	1993		●	16	16	□	5/31/08
24	South Korea	Korea Investment Corporation	2005		●	16	16	□	12/31/07
25	United Arab Emirates (Abu Dhabi)	International Petroleum Investment Company	1984	●		12	12	▽	4/1/08

Range
Exact amount

Data source: □ National Authority
▽ Private researcher
○ IMF

Country	Fund name	Year of inception	Commodity	Noncommodity	Min	Max	Source	Reported or publication date
26 New Zealand	New Zealand Superannuation Fund	2001		●	11.0	11.0	□	4/30/08
27 United Arab Emirates (Abu Dhabi)	Mubadala Development Company	2002	●		10.0	10.0	□	7/1/08
28 Bahrain	Mumtalakat Bahrain Investments	2006	●		10.0	10.0	□	2007
29 United Arab Emirates (Dubai)	Istithmar World	2003		●	4.0	14.0	▽	5/21/08; 12/1/07
30 Oman	State General Reserve Fund	1980	●		2.0	13.0	▽	1/1/08; 4/1/08
31 Botswana	Pula Fund	1993	●		6.6	6.6	□	12/31/07
32 United States (New Mexico)	Severance Tax Permanent Fund (New Mexico)	1973		●	4.7	4.7	□	6/30/07
33 United States (Wyoming)	Permanent Mineral Trust Fund (Wyoming)	1974	●		4.0	4.0	□	12/31/07
34 Azerbaijan	State Oil Fund	1999	●		3.3	3.3	□	4/1/08
35 Norway	Government Petrolem Insurance Fund	1983	●		2.8	2.8	□	3/31/08
36 Colombia	Oil Stabilization Fund	1995	●		2.1	2.1	□	2006
37 Vietnam	State Capital Investment Corporation	2005		●	2.0	2.0	▽	5/22/08
38 Trinidad and Tobago	Heritage and Stabilization Fund	2000	●		2.0	2.0	□	5/8/08
39 Chile	Chile Pension Reserves Fund	2006	●		1.5	1.5	□	4/30/08
40 Venezuela	Macroeconomic Stabilization Fund	2003	●		0.8	0.8	□	12/31/07
41 Canada	Fond des Generations (Quebec)	2006		●	0.5	0.5	□	3/31/07
42 Gabon	Fund for Future Generations	1998	●		0.4	0.5	▽	4/1/08; 5/22/08
43 Kiribati	Revenue Equalization Reserve Fund	1956	●		0.4	0.4	□	2003
44 Sudan	Oil Revenue Stabilization Account	2002	●		0.3	0.3	□	5/8/08
45 Mauritania	National Fund for Hydrocarbon Reserves	2006	●		0.2	0.2	□	12/31/06
46 São Tomé and Príncipe	National Oil Account	2004	●		0.0	0.0	○	9/1/06
47 Angola	Reserve Fund for Oil	2007	●		NA	NA	NA	NA
48 United Arab Emirates (Dubai)	DIFC Investments	2006	●		NA	NA	NA	NA
					$2,704	$3,153		



Source: GAO analysis of SWF-disseminated, IMF, and private researcher data.

Notes: National authority data contain information from fund-specific and government Web sites. The asset sizes of these funds were as of various dates from 2003 through July 1, 2008.

The IMF data contain information from Article IV consultation reports, IMF staff reports, and a memorandum of understanding. The date range for the IMF data is from September 2006 through 2007.

Private researcher data contain information from reports from Deutsche Bank, Goldman Sachs, JPMorgan, Morgan Stanley, the Peterson Institute, Standard Chartered Bank, and RGE Monitor. The publication dates for these reports range from September 10, 2007 through May 22, 2008.

For Gabon, Singapore, and Vietnam, private researcher estimates were used instead of the national authority sources because the private researchers appeared to provide more up-to-date estimates of the size of the funds. São Tomé and Príncipe had a balance of $100 million as of September 1, 2006. We report a zero balance due to rounding.

Appendix III: Summary of SWF Investments in Financial Institutions

In 2007 and early 2008, SWFs, in conjunction with other investors, supplied almost $43 billion of capital to major financial firms in the United States. Citigroup was the major recipient of capital, receiving $20 billion in late 2007 and early 2008. The other recipients were Merrill Lynch, Morgan Stanley, the Blackstone Group, and the Carlyle Group. Below is a timeline of these transactions and their history.

Table 2: SWF Investments in Financial Institutions

Announcement date	Nature of announcement	Description
5/20/2007	Blackstone Group announces a $3 billion deal with the China Investment Corporation.	In addition to raising capital through their IPO, the Blackstone Group sold to the China Investment Corporation 101,334,234 non-voting common units at a purchase price of $29.605 per unit on 6/27/2007. The price was set to be 95.5 percent of the initial public offering price. The number of shares issued was restricted so that the fund's ownership interest would not exceed 10 percent at the time of the transaction. The fund is required to hold the common stock units for at least four years. Concurrently with this transaction, Blackstone raised an additional $4 billion in capital with a public offering.
9/20/2007	Carlyle Group announces a $1.35 billion deal with the Mubadala Development Company.	As part of adding to their capital base and expanding their business, the Carlyle Group entered a deal with the United Arab Emirate's Mubadala Development Company for $1.35 billion. This transaction granted the Mubadala Development Company a 7.5 percent ownership percentage in the Carlyle Group. The ownership stake was based on both parties' agreed-upon $20 billion valuation of the firm with a liquidity discount of 10%. The rest of the firm's owners consist of the Managing Directors at Carlyle and CalPERS, the California Public Employees Retirement Systems, which owns approximately 5 percent.
11/26/2007	Citigroup announces a $7.5 billion deal with the Abu Dhabi Investment Authority.	As part of strengthening their capital base and expanding their participation in alternative investments and emerging markets financial services areas, Citigroup entered into a deal with the Abu Dhabi Authority for $7.5 billion worth of Upper DECS equity units The Equity Units consist of four series of trust preferred securities and four series of forward purchase contracts to acquire Citigroup common stock. Each Equity Unit will pay a fixed annual rate of 11 percent, payable quarterly, consisting of a payment on each series of trust preferred securities and a contract payment on the purchase contracts. The common stock purchase contracts will settle on dates ranging from March 15, 2010 to September 15, 2011 (Citigroup 10-K, p. 111). In conjunction with this transaction, the SWF agreed not to own more than a 4.9 percent ownership interest in Citigroup. In addition, they are prohibited from selling their equity units until December 3, 2009.

Announcement date	Nature of announcement	Description
12/19/2007	Morgan Stanley announces a $5.579 billion deal with China Investment Corporation.	Morgan Stanley entered into a transaction with the China Investment Corp. for $5.579 billion of equity units. The equity units consist of an undivided beneficial ownership interest in three series of trust preferred securities. The interest rate on the equity units is 9 percent. China Investment Corp.'s ownership percentage is restricted to 9.9 percent.
12/24/2007	Merrill Lynch announces a $6.2 billion deal with Temasek Holdings and Davis Selected Advisors.	As part of raising capital in order to strengthen the firm's balance sheet, Merrill Lynch entered into a deal with Singapore's Temasek Holdings and the United States' Davis Selected Advisors for $5 billion and $1.2 billion respectively. Temasek Holdings initially purchased 91.7 million shares of common stock for $48 per share and then exercised its option to purchase at additional $600 million in common stock at the same price. According to the agreement, Temasek's ownership position was required to be less than 10 percent for a specified period of time. Meanwhile, Davis Selected Advisors purchased 25 million shares at $48.
1/15/2008	Citigroup announces a $12.5 billion deal with the Government of Singapore Investment Corp, the Kuwait Investment Authority, Capital Research Global Investors, and other private investors.	In order to strengthen its capital base to allow it to refocus on earnings and earnings growth, Citigroup issued a $12.5 billion private offering of 7 percent, Non-Cumulative Convertible Preferred Securities. There is a six month restriction on the sale of the preferred stock.
1/15/2008	Merrill Lynch announces a $6.6 billion deal with the Korean Investment Corporation, Kuwait Investment Authority, Mizuho Corporate Bank, and other private investors.	As part of raising capital to strengthen its balance sheet and increase its strategic opportunities around the world, Merrill Lynch entered into a deal with a series of investors to sell an aggregate of 66,000 shares of newly issued 9 percent Non-Voting Mandatory Convertible Non-Cumulative Preferred Stock. The investors are prohibited from selling the stock for 1 year after the transaction close.

Source: GAO analysis of SEC filings and company press releases.

Appendix IV: Definitions and Lists of SWFs

Some government organizations, an international financial institution, investment banks, and private research organizations have published reports on SWFs that offer explicit definitions of SWFs or lists of SWFs. Those that propose definitions of SWFs have not come up with one commonly accepted definition. Varying characteristics—ownership, governance, funding sources, and investment strategies, among others—are used to characterize SWFs and include or exclude funds from SWF lists.[1]

Treasury defines SWFs as government investment vehicles funded by foreign exchange assets that are managed separately from official reserves. They seek higher rates of return and may be invested in a wider range of asset classes than traditional reserves. Treasury says that SWFs generally fall into two categories based on the source of their foreign exchange assets: commodity and noncommodity funds. Treasury has not released a list of SWFs.[2]

IMF defines SWFs as government-owned investment funds set up for a variety of macroeconomic purposes. They are commonly funded by the transfer of foreign exchange assets that are invested long term and overseas. SWFs are a heterogeneous group and may serve multiple, overlapping, and changing objectives over time: as stabilization funds to insulate the budget and economy against commodity price swings; as savings funds for future generations; as reserve investment corporations established to increase the return on reserves; as development funds to help fund socioeconomic projects or promote industrial policies; or as contingent pension reserve funds to provide for unspecified pension liabilities on the government's balance sheet. IMF researchers have published a list of SWFs. This relatively broad definition allows for inclusion of a Saudi Arabian investment fund managed from the central bank.

Some investment bank reports have offered definitions of SWFs. One states that SWFs are broadly defined as special government asset management vehicles that invest public funds in a wide range of financial instruments. Unlike central banks, which focus more on liquidity and safekeeping of foreign reserves, most SWFs have the mandate to enhance

[1] Naming conventions of the various SWFs can add to the lack of clarity. For example, some have "pension" in their names, yet they do not operate as pension funds.

[2] Department of the Treasury, "Sovereign Wealth Funds," in *Report to Congress on International Economic and Exchange Rate Policies* (Washington, D.C.: June 2007).

returns and are allowed to invest in riskier asset classes, including equity and alternative assets, such as private equity, property, hedge funds, and commodities. This bank does publish a list of SWFs. It says that it is not always easy to differentiate between pure SWFs and other forms of public funds, such as conventional public sector pension funds or state-owned enterprises.[3] Another investment bank defines SWFs as having five characteristics: (1) sovereign, (2) high foreign currency exposure, (3) no explicit liabilities, (4) high-risk tolerance, and (5) long investment horizon. Similar to SWFs are official reserves and sovereign pension funds.[4] Another investment bank says that SWFs are vehicles owned by states that hold, manage, or administer public funds and invest them in a wider range of assets of various kinds. SWFs are mainly derived from excess liquidity in the public sector stemming from government fiscal surpluses or from official reserves at central banks. They are of two types—either stabilization funds to even out budgetary and fiscal policies of a country or intergenerational funds that are stores of wealth for future generations. SWFs are different from pension funds, hedge funds, and private equity funds. SWFs are not privately owned. This investment bank researcher does offer a list of SWFs.[5]

Some non-investment-bank private researcher reports have offered definitions of SWFs. One researcher says that SWFs are a separate pool of government owned or government-controlled assets that include some international assets. The broadest definition of an SWF is a collection of government-owned or government-controlled assets. Narrower definitions may exclude government financial or nonfinancial corporations, purely domestic assets, foreign exchange reserves, assets owned or controlled by subnational governmental units, or some or all government pension funds. This researcher includes all government pension and nonpension funds to the extent that they manage marketable assets. This researcher does publish a list of SWFs.[6] Another private research group defines an SWF as meeting three criteria: (1) it is owned by a sovereign government; (2) it is managed separately from funds administered by the sovereign

[3]David G. Fernandez and Barnhard Eschweiler, "Sovereign Wealth Funds: A Bottom-up Primer," *JPMorgan Research* (Singapore: May 22, 2008).

[4]Stephen Jen, "Currencies: The Definition of a Sovereign Wealth Fund," *Morgan Stanley Research Global* (London: Oct. 25, 2007).

[5]Kern, "Sovereign Wealth Funds—State Investments on the Rise."

[6]Edwin M. Truman, "The Rise of Sovereign Wealth Funds: Impacts on U.S. Foreign Policy and Economic Interests," *Testimony* (Washington, D.C.: May 21, 2008).

government's central bank, ministry of finance, or treasury; and (3) it invests in a portfolio of financial assets of different classes and risk profiles, including bonds, stocks, property, and alternative instruments, with a significant portion of its assets under management invested in higher-risk asset classes in foreign countries. This researcher thinks of SWFs as part of a continuum of sovereign government investment vehicles that runs along a spectrum of financial risk, from central banks as the most conservative and risk averse, to traditional pension funds, to special government funds, to SWFs, and finally to state-owned enterprises, which are the least liquid and are the highest-risk investments. This research group publishes a list of SWFs.[7]

[7]William Mirachy et al., *Assessing the Risks: The Behavior of Sovereign Wealth Funds in the Global Economy*, (Cambridge, Mass: Monitor Group, June 2008).

Appendix V: Comments from the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20020

August 15, 2008

Ms. Yvonne D. Jones
Director, Financial Markets and Community Investment
Government Accountability Office

Dear Ms. Jones:

Thank you for the opportunity to comment on GAO's recent report entitled "Sovereign Wealth Funds: Publicly Available Data on Sizes and Investments for Some Funds are Limited."

As the report highlights, sovereign wealth funds (SWFs) represent a large and rapidly growing stock of government-controlled assets, with significant implications for the functioning of the international financial system. Thus, the Treasury Department has been actively engaged on the macroeconomic, financial market, and investment policy issues raised by SWFs for nearly two years. The GAO's stock-taking exercise looking at available data on SWFs—including both size of assets under management and individual SWF investments—is both timely and valuable and underscores the importance of developing a better appreciation of the systemic role of SWFs. We welcome the exercise and we generally agree with the conclusions reached in this report.

Sovereign wealth funds and recipient countries have a common interest in preserving an open global investment climate and a smoothly functioning international financial system. This requires strong cooperation on both sides of the investment relationship. As government-controlled entities seeking to benefit from healthy global markets, SWFs have a strong stake in, and responsibility for, international financial stability. Recipient countries benefit from open investment and have a responsibility to maintain openness. In particular, foreign investment in the United States strengthens our economy, improves productivity, creates good jobs, and spurs healthy competition. With these objectives in mind, the Treasury Department has been a leader of the international community's efforts.

As a cornerstone of our policy response, Treasury proposed, and strongly supports, the multilateral effort of the IMF-facilitated International Working Group of SWFs (IWG) to develop a set of Generally Accepted Principles and Practices for SWFs (GAPP). Implementation of the GAPP by SWFs will foster a significant increase in the provision of information by SWFs on their institutional and operational practices. It will also promote sound practices in key areas such as institutional arrangements, governance, and investment and risk management structure, which will in turn help maintain an open and stable investment climate globally. This multilateral effort was strongly reinforced by Secretary Paulson's agreement with Singapore and Abu Dhabi in March 2008 on policy principles for SWFs and countries receiving SWF investment.

The Treasury Department also strongly supports the OECD's work to identify investment policy principles that should guide recipient country policies toward SWF investment. The open investment principles articulated by the OECD—non-discrimination, transparency, predictability, accountability, and proportionality—are fully consistent with the longstanding U.S. open investment policy. The OECD's work in this area, taken together with the GAPP, demonstrates that preserving an open global investment climate requires the commitment of both SWFs and the countries that receive their investment.

We appreciate GAO's analysis and contribution to this topic, and look forward to continued work with Congress on the important issue of sovereign wealth funds.

Sincerely,

Mark Sobel

Mark Sobel
Deputy Assistant Secretary
International Monetary and Financial Policy

Appendix VI: Comments from the Department of Commerce

UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for Economic Affairs
Washington, D.C. 20230

Dr. Loren Yager
Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Dr. Yager:

Thank you for the opportunity to comment on the draft Government Accountability Office (GAO) report entitled *Sovereign Wealth Funds: Publicly Available Data on Sizes and Investments for Some Funds Are Limited.*

I find that the report is a useful and timely contribution to the existing literature on this highly debated and complex subject. I have enclosed comments from the Bureau of Economic Analysis relevant to Commerce's efforts referenced in the draft report.

Sincerely,

Cynthia A. Glassman

Cynthia A. Glassman

Enclosure

ECONOMICS AND STATISTICS ADMINISTRATION

Appendix VII: Comments from the U.S. Securities and Exchange Commission

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF
INTERNATIONAL
AFFAIRS

August 20, 2008

Yvonne D. Jones
Director
Financial Markets and Community Investment
US Government Accountability Office
441 G Street, NW
Room #2440B
Washington, DC 20548

Dear Ms. Jones:

Thank you for your e-mail dated 1 August 2008 and the opportunity to comment on the draft report being prepared by GAO entitled *Sovereign Wealth Funds: Publicly Available Data on Sizes and Investments for Some Funds are Limited* (GAO 08-946). Attached for your review are our technical comments to the draft report.

As you know, during the preparation of the draft report, we had the opportunity to meet with you and other members of your office to discuss the SEC's disclosure requirements that may apply to Sovereign Wealth Funds ("SWFs"). In that connection, it is worth reiterating that, in general, disclosure requirements under US securities laws regarding concentrations and change of control transactions apply equally to SWFs and to other large investors.

We appreciate the opportunity to provide comments on the draft report. If you have any questions, please contact me at (202) 551- 6690.

With best regards,

Ethiopis Tafara
Director

Appendix VIII: GAO Contacts and Staff Acknowledgments

GAO Contacts

Yvonne D. Jones, (202) 512-8678 or jonesy@gao.gov
Loren Yager, (202) 512-4128 or yagerl@gao.gov

Acknowledgments

In addition to the contacts named above, Cody Goebel, Assistant Director; Celia Thomas, Assistant Director; Patrick Dynes; Nina Horowitz; Richard Krashevski; Jessica Mailey ; Michael Maslowski; Marc Molino; Omyra Ramsingh; and Jeremy Schwartz made major contributions to this report.

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