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POLICY BRIEF

26-19 It Is Time to Revisit the Santiago Principles on Sovereign Wealth Funds

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Twenty years ago, rapidly growing sovereign wealth funds (SWFs) attracted considerable international attention. The assets of these investment vehicles were controlled by the governments of countries that, in many cases, were outside the circle of major industrial countries, which raised concerns that their investments might be politically motivated. In response, representatives of 26 SWFs and some of the major host countries to their investments met in Santiago, Chile, in 2008 and promulgated the Santiago Principles, a set of voluntary guidelines for SWF governance and operation. This timely initiative successfully dampened many of the concerns about SWF investment activities at the time.

These guidelines, however, have not been updated since 2008, despite increasing geopolitical fragmentation, increasing risks of politicization of SWFs' investments and restrictions on international capital flows, rising financial risks, and the need for SWFs to improve accountability to their populations. Urgent

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revisions are needed, as SWFs today manage an estimated $14 trillion in assets in a very different global economy and investment climate.

The Santiago Principles should be revised and made more demanding to help address old and new anxieties about SWFs. This Policy Brief outlines the main new challenges to the operations of SWFs, suggests some of the areas of desirable change to the principles, and offers some strategies for revising them. Among our chief recommendations, SWFs should commit to:

- Disclosing more clearly their risk management policies, procedures, and practices.
- Disclosing their approach toward investment decisions that are directed in whole or in part at noneconomic considerations.
- Publishing external audits by independent, outside experts.
- Assessing the financial risks of climate change for their portfolios and revealing more about how their investments do or do not contribute to reducing the global threat of climate change.

BACKGROUND

When SWFs grabbed widespread attention 20 years ago, the main concern was that they would act in the political interests of the funds' owners rather than on a commercial basis. Fears that SWFs had poor internal governance and, thus, could destabilize international financial markets were also expressed. SWFs had been around for many decades, but the main new sources of concern at the time were that many were owned by oil-producing countries and their rise coincided with the emergence of China as a global investor.

Under the aegis of the International Monetary Fund (IMF), the principal SWFs and major countries hosting their investments painstakingly but expeditiously developed a framework to address those worries. The result was the Santiago Principles, also known as Generally Accepted Principles and Practices (GAPP) for SWFs (Das, Mazarei, and van der Hoorn 2010).

The 24 voluntary guidelines set norms for the legal structures of SWFs and their governance, for compliance with the regulatory

and disclosure requirements of the countries in which they operate, for ensuring the SWFs operated on a commercial basis, and for sound risk management practices (IWG 2008). Agreement on the Santiago Principles helped calm protectionist pressures in the countries hosting SWF investments and to support the free movement of global capital investment.

The IMF had served as the secretariat for the negotiation and preparation of the Santiago Principles (Das, Mazarei, and van der Hoorn 2010). In 2009 23 of the SWFs that had participated in drafting the principles formed the International Forum of Sovereign Wealth Funds (IFSWF) to share their experience and promote understanding of the principles.[1]

Since the adoption of the Santiago Principles in 2008, the governance and transparency of SWFs have improved as tracked through a scoreboard developed by one of us (Edwin Truman) and coauthors at the Peterson Institute for International Economics (PIIE). The first full PIIE scoreboard was released in April 2008 (Truman 2008), the second in September 2010 (Truman 2010), the third in August 2013 (Bagnall and Truman 2013), the fourth in 2016 (Stone and Truman 2016), and the fifth in 2021 (Maire et al. 2021a). The latest PIIE scoreboard, published in 2021 using 2019 data, showed that the average score for the 31 SWFs that were included in each scoreboard rose from 55 out of 100 in 2007 (Truman 2008) to 72 in 2019 (Maire et al. 2021a).[2]

Compared with the PIIE scoreboard using 2015 data (Stone and Truman 2016), the scoreboard using 2019 data (Maire et al. 2021a) found some improvements in average scores for clarity of governance and publication of quarterly reports and audits.

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1 The IFSWF conducts self-assessments of its members' implementation of the Santiago Principles and has issued reports and held discussions about emerging issues relevant to the SWFs such as the energy transition and cybersecurity. The IFSWF is the registered holder of the Santiago Principles trademark.

2 The PIIE scoreboard is based on publicly available information. The scoreboard has 33 equally weighted elements that are scored between zero and one in quarter-point increments. The sum is divided by 33 and multiplied by 100.

However, the scoreboard revealed shortfalls and unevenness in the implementation of some of the components of the Santiago Principles such as disclosure of the location of investments. A handful of funds did not even report the size of their investment portfolios.[3]

The 10 SWFs of the Gulf Cooperation Council (GCC) countries[4] included in the 2019 PIIE scoreboard received noticeably lower scores on average on the clarity of their governance structures and their transparency and accountability than the other 54 funds scored (Maire et al. 2021b). However, several of the GCC funds had dramatically improved their scores since the first scoreboard including three of the largest: Mubadala, the Kuwait Investment Authority, and the Abu Dhabi Investment Authority.

Despite this progress, in recent years some observers have called for the Santiago Principles to be revised in light of new global environmental and social issues, changes in global financial markets, and shortfalls in the implementation of the principles by some SWFs (see Truman 2018 and Global SWF 2023). In addition, the global economic and geopolitical context in which SWFs operate has changed substantially.

GLOBAL ECONOMIC, FINANCIAL, AND GEOPOLITICAL CHANGE

In the nearly two decades since the Santiago Principles were first adopted, global financial markets and economies have evolved substantially. Those changes have transpired against the backdrop of a dramatic increase in geopolitical tensions.

3 It is reasonable to assume that average scores of SWFs have improved further over the past five years. For example, the average score of 49 funds assessed on both the 2026 Governance, Sustainability, and Resilience (GSR) Scoreboard of Global SWF (Global SWF 2026) and the 2020 GSR Scoreboard (Lopez 2020) that were also included in the 2019 PIIE Scoreboard (Maire et al. 2021a) increased from 50 to 69 out of 100. Moreover, the correlation between the GSR 2026 and the PIIE 2019 scores remains significant at 44 percent in 2026 compared with 75 percent in 2020.

4 The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

Assets under management of SWFs have risen from an estimated $3 trillion in 2007 to an estimated $14 trillion at present.[5] The markets in which they operate have also become more complex. There are more activist private equity firms and other nonbank financial intermediaries, and fintech has increasingly become an investment tool. The global investment space has also changed with the focus on AI and data centers.

These changes pose greater risks to economic and financial stability. In the context of current concerns in global bond and equity markets—including the US Treasury market—rapid portfolio shifts, such as drawdowns by SWFs of commodity-exporting countries, could threaten market stability. In this connection, the Norwegian SWF's decision to trim its holding of US Treasuries is noteworthy.

In addition, the SWFs of countries that produce hydrocarbons need to diversify their economies and expand their nonoil sectors because of the risks to their economies from climate change and decarbonization pressures. They, therefore, have been spending a larger share of their assets on domestic investments.[6] With increasing pressures for decarbonization, net zero commitments, and economic diversification, SWFs' investments may risk becoming less motivated by commercial considerations and more driven by political imperatives. Growing domestic orientation of the SWFs

5 The source for the 2007 estimate is Truman (2008). For 2026, Global SWF (https://globalswf.com) estimates total SWF assets at $16 trillion. But we calculate about $14 trillion by adding the assets of Alberta Heritage Savings Trust Fund from its website (C$32 billion as of March 31, 2026), which Global SWF omitted, and subtracting US$2 trillion that Global SWF attributed to China's State Administration of Foreign Exchange (SAFE). Although a portion of China's foreign exchange reserves is invested in nontraditional assets, we believe the $2.0 trillion estimate for SAFE is implausibly high at about two-thirds of China's total foreign exchange reserves (US$3.4 trillion as of August 2026). Both the 2009 and 2026 estimates include all government investment institutions that classify themselves as SWFs or are classified as SWFs by an external entity with the exception of SAFE.

6 Some countries have established SWFs that focus on domestic diversification alongside those that invest abroad.

underscores the importance of strengthening and adhering to the principles to improve transparency and accountability of SWFs to their domestic stakeholders.

Even more significant are ongoing geopolitical shifts, which have led to a resurgence of protectionism, renewed use of tariffs, efforts to derisk global value chains, a greater emphasis on industrial policies, and the risk of sanctions on SWF assets. These trends are expanding the role of the state not just in the countries that have SWFs but also in host countries. To cite one example, the United States has been considering establishing an SWF to help achieve strategic goals such as reducing vulnerabilities in global value chains it relies on.[7] Such US-government-sponsored investments are likely to be motivated by reasons beyond the purely commercial. Simply put, SWFs are likely to increasingly become—and be seen to have become—instruments for achieving political ends, including in host countries.

An example of politics dominating commercial considerations is the 2013 purchase by Russia's National Wealth Fund of a Ukrainian Eurobond contrary to its own investment guidelines.[8] Another example is the 2021 investment by Saudi Arabia's Public Investment Fund (PIF) in Jared Kushner's Affinity Partners. The investment decision was made by Crown Prince Mohammed bin Salman despite PIF's concerns about the commercial merits of the investment. The Israel-US war with Iran and its spread to the GCC countries will likely alter GCC SWFs' investments to focus on domestic reconstruction and defense rather than diversification (Auclair and Mazarei 2026).

7 In principle, such an SWF could be funded from budget resources (such as tax revenues and tariffs), market borrowing, and the transfer of existing US government assets, or a combination of these resources.

8 The National Wealth Fund's investment guidelines required that it invest in bonds that had a credit rating, which Ukraine did not have (IMF 2015). Russia later sued Ukraine when Ukraine defaulted on that Eurobond.

With geopolitics increasingly shaping SWF investment decisions, shortcomings in the implementation of the Santiago Principles by GCC SWFs have become more pronounced.[9] Geopolitical tensions are also prompting SWFs to diversify risks by shifting the location of their investments to regions such as East Asia. This type of diversification includes efforts to derisk global value chains in strategic sectors such as in critical minerals, petrochemicals, and defense. These changes will alter global capital flows, potentially posing new financial stability risks.

THE WAY FORWARD

The IFSWF, the guardian of the Santiago Principles, could and should call for and organize their updating. However, that approach suffers from several weaknesses.

First, several key SWFs, including those of Chile, Norway, and Singapore's Temasek, have for various reasons left the forum, reducing its legitimacy.[10] These three former members of the IFSWF have combined assets under management of $2.7 trillion.[11] Moreover, with a few recent exceptions, the IFSWF includes only one member fund per country.[12] As of October 2026, the IFSWF has 39 full members and eight associate members, controlling

9 The 2021 PIIE assessment of the implementation of the Santiago Principles by GCC SWFs showed that they scored lower than other groups of SWFs, especially with regard to clarity of legal frameworks and procedures for changing the structure of the fund, disclosure of information, and publication of annual reports and audits (Maire et al. 2021b).

10 Chile left the IFSWF due to the budget cost of membership (IFSWF 2018a), Norway left because it believed that the IFSWF had not met its expectations about progress in the implementation of the principles, and Temasek indicated it never considered itself an SWF (IFSWF 2018b).

11 See footnote 5.

12 The UAE has three SWFs that are members of the IFSWF. Indonesia and Malaysia are each represented by one full and one associate member. In the United States, at least five states, including Alaska, have SWFs. Alaska's fund is the largest and best known and the only member of the IFSWF.

about 60 percent of the estimated $14 trillion in assets under management of SWFs.[13]

Second, the IFSWF can represent only the interests of its limited subset of members and not the interests of countries that host their investments.

Third, the IFSWF has had more than a decade to initiate consideration of revisions to the Santiago Principles and has not taken advantage of that opportunity.

Fourth, many of the self-assessments by its members lack credibility. They often fail to reflect the diversity of practice found in other assessments, such as the PIIE scoreboard or the Governance, Sustainability, and Resilience (GSR) Scoreboard of Global SWF, or to aspire to improvement.

For example, Senegal's FONSIS (Fonds Souverain d'Investissements Stratégiques) and Morocco's Ithmar Capital post self-assessments on the IFSWF website. FONSIS received a score of 53 on the 2019 PIIE scoreboard, 22 percent below the mean score for IFSWF members in 2019, and 48 and 40 on the 2020 and 2026 GSR scoreboards, respectively, 2 and 35 percent below the respective mean scores because the mean score had increased and the FONSIS score declined. Ithmar received a score of 47 on the 2019 PIIE scoreboard, 31 percent below the mean, and 20 and 24 on the 2020 and 2026 GSR scoreboards, respectively, 59 and 61 percent below the respective means. Both SWFs also scored substantially below their counterpart funds on the transparency and accountability elements of the PIIE Scoreboard.

On the other hand, India's National Investment and Infrastructure Fund (not a member of the IFSWF) and Saudi Arabia's Public Investment Fund (a member) both scored below the mean on the 2019 PIIE scoreboard by 9 and 43 percent, respectively, and below the mean on the 2021 GSR scoreboard. They substantially raised their scores on the 2026 GSR scoreboard to 49 and 56 percent

13 According to the IFSWF, associate members are primarily institutions that are in the process of establishing SWFs or governments considering developing an SWF. They include Ethiopian Investment Holdings, Brazil's Forum de Fundos Soberanos Brasileros, and India's National Investment and Infrastructure Fund.

above the mean, respectively. Scores of SWFs improve for various reasons. For example, the fund managers may be responding to public opinion at home.

Those qualifications aside, the IFSWF leadership and representative set of its members should be part of a credible review and revision of the Santiago Principles. Several approaches should be considered.

A A selected group of IFSWF member institutions plus two or more large SWFs that are not or no longer members plus representatives of a geographically diverse set of key host countries could convene a process to revisit the principles. Use of the IMF as an independent secretariat would be desirable.

B Approach A except with a self-selected group of IFSWF member institutions rather than a group selected by the IFSWF itself. This coalition-of-the-willing approach might produce an enhanced set of principles to which other SWFs might aspire. This approach might allow a quicker and more readily acceptable set of changes to the principles.

C Consideration might also be given to a G20 mandate for and organization of a review and revision of the principles.

SOME SUGGESTED CHANGES

The Santiago Principles should be revised and made more demanding to help address longstanding and emerging concerns about SWFs. For example, only seven of the 24 Santiago Principles address investment activities of SWFs.

The revised principles, however, must strike a balance. Principles that are too demanding will discourage SWFs from adopting them or prompt home countries to find more convenient vehicles to conduct their investments. It is difficult to move beyond the voluntary nature of the principles and force SWFs to comply with binding standards like those governing bank supervision or prevention of money laundering and financing of terrorism. Nevertheless, governments of SWF home countries should recognize that countries that host their investments may require a level of compliance with SWF standards or their equivalent to allow investment in their jurisdictions. The Santiago Principles

should also include a section on the treatment SWFs may expect from host countries, provided SWF investment activities broadly comply with the principles. The SWFs should expect transparent, objective, and nondiscriminatory treatment from countries hosting their investments.

Transparency and Disclosure

Transparency and disclosure are among the areas that deserve attention. The revised principles should commit SWFs to disclosing the following more clearly:

1. Their approach toward investment decisions that are directed in whole or in part at noneconomic considerations. GAPP Principle 19 now calls for investments aimed at maximizing returns and disclosure when they are subject to other considerations.[14] The revised principle should encourage SWFs to specify those noneconomic considerations, including ethical considerations.
2. Their mandates with respect to activities directed toward domestic economic diversification, supply-chain derisking, and management of geopolitical risks and related considerations (GAPP Principles 1, 2, 17, 18, and 19).
3. Information on investment returns, categories of investments, use of benchmarks, and the location of investments (GAPP Principle 17). Many SWFs already disclose some or all of this information, but disclosure remains uneven.
4. Their voting decisions in enterprises in which they have invested (GAPP Principle 21) and their investment relations with nonbank financial intermediaries and private equity firms (GAPP Principles 18 and 19).

Enhanced transparency and disclosure will be a step toward attenuating concerns about the noncommercial nature of their investments and the relationship between the SWF and its owners.

14 GAPP Principle 19: The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds. GAPP Subprinciple 19.1: If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.

Risk Management

The 2008 Santiago Principles are not specific enough about SWFs' risk management policies, procedures, and practices. Subprinciple 22.2 calls for public disclosure only of the SWF's risk management framework. This principle should be expanded and made more operational. For example, the revised principles should require SWFs to disclose (1) whether they use credit ratings, (2) information on investment categories, including location and currency composition of major investments, and (3) policies governing investment portfolio changes to limit the risk of financial-market disruption.

External Audits

Publication of external audits facilitates reliable assessments of SWFs' compliance with their own procedures to ensure financial soundness (GAPP Principles 12 and 13). Such audits increase the transparency of investment decisions to outside observers, helping detect instances in which political inference may have affected investment decisions, thereby reducing the risk of such interference. Audits should be conducted by independent external, not internal, experts; made publicly available; and preferably published quarterly.

Climate Change

Climate change is both a mounting global financial risk and a key driver of diversification efforts in SWF home countries dependent on hydrocarbon exports. At a minimum, SWFs should be expected to assess climate-related financial risks to their portfolios and reveal more about how their investments do or do not contribute to mitigating climate change. Some may argue that such topics go beyond the scope of SWF disclosure, but eight years ago, a group of SWFs helped establish the One Planet SWF Framework. Currently 18 SWFs are part of this effort, including 15 funds that are also members of the IFSWF.

CONCLUSION

The Santiago Principles have played a critical role in strengthening the governance and transparency of SWFs. They also helped ease concerns about SWFs before 2008 and supported the smooth

functioning of global financial markets. Yet the global financial landscape has changed significantly over the past 20 years. To remain credible and effective, the Santiago Principles should be updated to reflect these changes and address the risks SWFs pose both to their home economies and to the international financial system. Bolstering the substance and implementation of the principles is also crucial to promote stronger accountability of SWFs to their domestic populations.

The case for reform is compelling, but the path forward is challenging.

First, the business of managing an SWF has become more complex in the current global environment, requiring the principles to provide more practical guidance and cover a wider range of governance, transparency, and risk management issues than they do at present. Second, the geopolitical environment has become more polarized, making multilateral agreement harder to achieve. This complicates efforts to update a framework that depends on voluntary international cooperation.

These obstacles, however, are precisely why revisiting the principles is urgent. Geopolitical fragmentation and rising protectionist pressures threaten to restrict the free flow of global capital. At the same time, the financial and political risks associated with SWFs may be increasing. Stronger standards for transparency, governance, and risk management of SWFs would help mitigate those risks, reinforce their reputations as stable long-term investors, and improve accountability to domestic populations. Updating the Santiago Principles would do more than just modernize an important framework. It would help preserve the legitimacy of SWFs and support the resilience of the international financial system.

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