



# Iran

## Pillar 1: Legal

Legal framework, objectives, and coordination with macroeconomic policies

### Principle 1

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

1.1. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.

1.2. The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.

NDFI was established under Article 84 of the Fifth Five Year Development Plan (Articles of Association (AoA)) as an independent entity. The state of I. R. Iran owns the assets. The objectives and responsibilities of various levels have been clarified in the AoA.

NDFI is operated by its Board of Executive Directors. Board of Trustees sets the strategies and policies while Supervisory Board oversees NDFI operations.

NDFI has an independent legal personality. Its three-tier management includes the Board of Trustees, Board of Executive Directors and Supervisory Board. The AoA, bylaws, contracts, structure and other documents are made public and posted on its website: [www.ndf.ir](http://www.ndf.ir).

<http://en.ndfi.ir/About-NDF/Articles-of-Association>

<http://en.ndfi.ir/About-NDF/By-Law>

### Principle 2

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

NDFI AoA stipulates that:

NDFI objective is to turn a portion of revenues originated from selling oil, gas, gas condensates and oil products into durable wealth and productive investments as well as conserving the share of future generations. In this direction, AoA and Bylaws clearly define the purpose and objectives, which are available

on NDFI website.

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### Principle 3

3. Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.

The developmental aspect of NDFI is achieved by strengthening the private sector, attracting foreign investment and supporting Iranian contractors abroad. NDFI is also tasked with investing overseas in money and capital markets. The only impact of NDFI in currency and financial market is through the amount of inflow and outflow of resources which are rebalanced by Central Bank of Iran. In addition, NDFI's economic department monitors the macroeconomic policies of Iran and makes sure that NDFI policies are not conflicting with the country's macroeconomic policies. It should be noted that the pertinent members of the board of trustees, including the Minister of Economic Affairs and Finance and Governor of Central Bank of Iran, ensure the fund's alignment with macroeconomic policies is achieved.

### Principle 4

4. There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

4.1. The source of SWF funding should be publicly disclosed.

4.2. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

AoA, Bylaws and parliament approvals, as well as Board approvals, clearly define the general arrangements regarding inflows and outflows, deposits, withdrawals and spending operations. All are available on the website.

NDFI's AoA states that at least 20% of revenues originated from selling oil, gas, gas condensates and oil products should go to NDFI. The figure increases by 3% annually. Parliament must approve any changes to this rule. The assets, inflows and outflows, loans and other financial activities are made public in a timely manner.

Based on AoA, Government has absolutely no access to NDFI resources. No financial facility is extended to the Government or state-owned firms. The balance sheet and financial statements are published in the official Gazette and a mass-circulation newspaper.

### Principle 5

5. The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

AoA requires the chairman of Board of Executive Directors to prepare reports on the assets, outflows and expenditures to be submitted to Parliament, Supervisory Board and Board of Trustees. Balance sheets and financial statements are published in Official Gazette and a mass-circulation newspaper.

## Pillar 2: Institutional

## Institutional Framework and Governance Structure.

### Principle 6

6. The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

NDFI was established as a separate statutory entity to turn oil and gas revenues into productive investments and conserve share of future generations. The Board of Trustees, as described in AoA, manages NDFI and oversees activities of Board of Executive Directors. Roles and responsibilities of the Board of Trustees and Board of Executive Directors have been clearly mentioned and level of responsibility and accountability clarified in AoA.

### Principle 7

7. The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

The Parliament has approved AoA and delegated levels of power, responsibility and accountability to the three Boards. Members of Board of Trustees include cabinet ministers, MPs, Attorney General, private sector representatives among others where appoints members of Board of Executive Directors for a period of five years. Timely reports are prepared and submitted to supervisory bodies, Parliament and Board of Trustees to keep NDFI on the right track. NDFI budget is approved by the Board of Trustees.

### Principle 8

8. The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.

Based on NDFI Articles of Association, the objective of NDFI is to turn a portion of revenues originated from selling oil, gas, gas condensates and oil products into durable wealth and productive investments as well as conserving the share of future generations of these oil and gas resources and oil products.

The Board of Trustees has a clear mandate and authority to manage the funds through the Board of Executive Directors. AoA determines who may sit on the Board of Trustees, and Executive Directors are determined through approval of Board of Trustees and appointed by the President (who is also Head of Board of Trustees). The Supervisory Board is comprised of the main three supervisory bodies of the state.

The management mandate is clearly defined by AoA where all the policies and operations are rooted. The board of executive directors has the competency to operationalize these policies through its organisational structure i.e. NDFI.

### Principle 9

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

NDFI strategies are proposed by the Board of Executive Directors and approved by Board of Trustees. Board of Executive Directors implements the strategy and is overseen by Board of Trustees and Supervisory Board. The Board of Executive Directors has the authority, with some limitations, to make investment and operational decisions, hire staff and so on, in line with constitutive laws and regulation.

NDFI was established as an independent legal entity in order to make its decisions based only on economic principles.

Investments are made on risk-adjusted, return based basis within or outside of the country. Members of the Board of Executive Directors are full-time employees without holding any other position or economic activity except teaching.

#### Principle 10

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

AoA requires the Board of Executive Directors to prepare balance sheets and financial statements to be approved by Board of Trustees. NDFI financial year is 21 March to 20 March.

The Board of Executive Directors prepares Financial reports and the Supervisory Board prepares oversight reports semi-annually to be submitted to Parliament and the Board of Trustees.

#### Principle 11

11. An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.

The Chairman of The Board of Executive Directors prepares performance reports on a quarterly basis to be submitted to the Board of Executive Directors. The Board of Executive Directors prepares financial reports and the Supervisory Board prepares oversight reports semi-annually to be submitted to Parliament and Board of Trustees.

The Head of State Audit Court is a member of the Supervisory Board (i.e. he oversees accounting and financial reporting standards).

#### Principle 12

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

The Supervisory Board is mandated with inspecting NDFI performance regarding compliance with statutory and regulatory criteria, AoA and NDFI objectives.

Statutory and regulatory criteria, including accounting and auditing standards, must be met.

Currently, the State Audit Organization (an independent body) audits the NDFI financial statements.

#### Principle 13

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

The three-tier structure of NDFI is in line with professional and ethical standards.

NDFI code of Ethics has been approved, disclosed on its website and must be observed.

<http://en.ndfi.ir/About-NDF/The-Investment-Ethics-of-the-NDFI>

#### Principle 14

14. Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.

The laws and regulations clearly explain the procedures for NDFI entering contracts with third parties. All transactions are based on legal, economic and financial grounds and, along with the manuals and bylaws, are available at [www.ndf.ir](http://www.ndf.ir).

Based on the objectives of NDFI, all economic activities are to achieve optimised risk-adjusted economic return.

#### Principle 15

15. SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.

NDFI Ethics underscore alignment of NDFI activities with the host countries' laws, rules and regulations.

The Investment Policy Statement (IPS for investing abroad) of NDFI ensures that external asset managers are fully aware of and in full compliance with the recipient country's laws and regulations.

#### Principle 16

16. The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.

NDFI's AoA clearly stipulates that NDFI assets are owned by the State and policy making, operational activities and supervisory oversight is done by NDFI's three Boards. Board of Trustees is comprised of cabinet members, the Attorney General, MPs and private-sector representatives. AoA was published in the Official Gazette and is available on NDFI website. Any changes to AoA and related laws and regulations are published in the Official Gazette and a newspaper of mass circulation.

<http://en.ndfi.ir/About-NDF/Articles-of-Association>

#### Principle 17

17. Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

NDFI inflow has been set by Parliament, i.e. 20% of oil and gas revenues, at the inception, with an incremental increase of 3% per annum up to the end of Fifth Five Year Development Plan (2011-2015). The Sixth Development Plan will set the annual increase thereafter. Relevant financial information including outflows and inflows are reported to Parliament, the Board of Trustees and the Supervisory Board, and are publicly disclosed.

#### Pillar 3: Investment

#### Principle 18

18. The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

18.1. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.

18.2. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

18.3. A description of the investment policy of the SWF should be publicly disclosed.

AoA sets the minimum rate of return of NDFI investments (not less than the return on Central Bank deposits). IPS states a minimum 4% rate of return with low risk, consistent with other, more conservative, sovereign wealth funds. Portfolio management strategies, risk tolerance and investment strategies are defined and set in IPS.

IPS determines investment policy which includes definition and limits of risk exposure. Use of derivatives is prohibited. At present, external asset managers make all cross-border investments.

Use of internal and external investment managers and the range of their activities and authority has been stated in the IPS. Investment managers' Selection process, oversight mechanism and assessing their performance has been stated in the IPS.

IPS describes NDFI investment policy and will be publicly disclosed once approved by the Board of Trustees.

## Principle 19

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.

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.

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

Investment decisions are made by NDFI Board of Trustees based on economic and financial grounds with the aim of maximising risk-adjusted return.

IPS deals with NDFI investments abroad. The goal is to maximise risk-adjusted return. The IPS and Ethics clearly stipulate the policies and investment considerations.

The domestic investments follow developmental objectives set by the parliament and/or Board of Trustees.

IPS and Ethics require the application of standards and principles for investments. For domestic and cross-border investments a conservative approach is adopted.

## Principle 20

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

One of the main goals of NDFI is to support and enhance private sector. NDFI does not compete with the private sector, but limits Government's access to oil and gas revenues to direct a portion of resources towards the private sector.

NDFI extends financial facilities to the private sector through agent banks and does not make direct investments in Iran. The private sector makes all the investments. NDFI does not have the power or tools to influence such investments inappropriately.

#### Principle 21

21. SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.

NDFI is not authorised to make direct investments within the country but provides financial facilities for the private sector, so it does not acquire ownership to exercise ownership rights.

Regarding cross-border investments: external managers make investments to maximise return.

#### Principle 22

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

22.1. The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

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

#### Principle 23

23. The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.

NDFI performance, financial statements and semi-annual reports are prepared and submitted to the Parliament and Board of Trustees. The Supervisory Board prepares its semi-annual reports to be submitted to the Parliament. The standards, rules and regulations are observed when preparing the reports.

#### Principle 24

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

Currently, NDFI does not have any process of regular review in place. It is on the agenda of the relevant department to draw up a manual and regulations. It will be in place as soon as it is approved by the Board of

Executive Directors.