



Santiago Principles Self-Assessment

The Heritage and Stabilization Fund

[Fund Details](#) ^[1] [Fund Website](#) ^[2] [Search Assessments](#) ^[3]

Pillar 1

Legal framework, objectives, and coordination with macroeconomic policies

Principle 1 Description:

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.

Principle 1 Implementation:

The legal framework for the Heritage and Stabilisation Fund (HSF) is publicly disclosed in the Heritage and Stabilisation Fund Act, 2007 (HSF Act). The HSF Act outlines the purpose of the HSF and the conditions for deposit to and withdrawal from the Fund.

The Act defines the roles and responsibilities of the Board of Governors of the HSF in addition to the role of the Central Bank.

Principle 2 Description:

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

Principle 2 Implementation:

The purpose of the HSF is clearly articulated in the HSF Act as follows: (a) to cushion the

impact on or sustain public expenditure capacity during periods of revenue downturn whether caused by a fall in prices of crude oil or natural gas; (b) to generate an alternate stream of income so as to support public expenditure capacity as a result of revenue downturn caused by the depletion of non-renewable petroleum resources; and (c) provide a heritage for future generations of citizens of Trinidad and Tobago, from savings and investment income derived from the excess of petroleum revenues.

Principle 3 Description:

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.

Principle 3 Implementation:

The Heritage and Stabilisation Fund is not invested domestically so its investment activities do not have any significant direct domestic macroeconomic implications. However, the stabilisation objective of the Fund which is to cushion the impact of severe shortfalls in revenue during periods of depressed petroleum prices allows for the Ministry of Finance to take decisions regarding the timing and amount of funds to be withdrawn from the HSF. These decisions can significantly impact domestic macroeconomic conditions. Co-ordination with the fiscal and monetary authority is facilitated on an ongoing basis primarily through the HSF Board which is comprised of at least one representative from the Central Bank and one representative from the Ministry of Finance.

Principle 4 Description:

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.

Principle 4 Implementation:

Policies, rules, procedures and/or arrangements on the HSF's funding, withdrawal and spending are disclosed in the HSF Act. The specific withdrawal and spending rules are articulated in sections 13 through 15 of the Act and the source of funding is stipulated in section 12.

Principle 5 Description:

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.

Principle 5 Implementation:

The Central Bank of Trinidad & Tobago reports to the Board of Governors of the HSF on various aspects of the Fund, including providing statistical data.

Pillar 2

Institutional Framework and Governance Structure

Principle 6 Description:

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.

Principle 6 Implementation:

In accordance with the HSF Act, the Board of Governors comprises five members. The responsibility for the management of the Fund was delegated to the Central Bank of Trinidad and Tobago, which acts as agent for and on behalf of the Heritage and Stabilisation Fund. The role of the Central Bank of Trinidad and Tobago is further detailed in the HSF Act and an Instrument of Delegation.

Principle 7 Description:

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.

Principle 7 Implementation:

The objectives of the Fund are set out in the HSF Act, which also outlines the process for the appointment of the Board of Governors for the Fund.

Principle 8 Description:

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.

Principle 8 Implementation:

Section 9 of the HSF Act gives the Board of Governors the authority to determine the governance structure and the operational and investment guidelines of the Fund. It also entrusts the Board with the responsibility for the management of the Fund in addition to requiring that the Board perform the requisite duties to carry out the purposes of the Fund. The HSF Act also requires that the Board be comprised of persons with proved competence in specific areas of expertise.

Principle 9 Description:

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

Principle 9 Implementation:

In accordance with the Act, the Central Bank of Trinidad and Tobago has been delegated the responsibility to manage the HSF by the Board of Governors. The Bank has outsourced the investment management of the Fund to external asset managers. The responsibilities of all parties are clearly defined in Investment Management Agreements as well as the Instrument of Delegation.

Principle 10 Description:

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

Principle 10 Implementation:

The accountability framework for the HSF is clearly defined in the HSF Act, the Instrument of Delegation, the Operational and Investment Policy and Investment Management Agreements.

Principle 11 Description:

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.

Principle 11 Implementation:

As required by the HSF Act, the Central Bank of Trinidad and Tobago prepares and submits to the Board of Governors, an annual report and the financial statements of the HSF, two months after the end of the financial year. These are prepared in accordance with recognized accounting standards.

Principle 12 Description:

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.

Principle 12 Implementation:

The HSF's financial statements are audited annually by the Auditor General of Trinidad and Tobago.

Principle 13 Description:

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.

Principle 13 Implementation:

Professional and ethical standards of conduct for employees of the Central Bank, which has responsibility for the day to day management of the Fund, are formally defined in the Bank's internal policies.

Principle 14 Description:

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.

Principle 14 Implementation:

Third party arrangements are generally contracted by the Central Bank and as such are subject to the Bank's procurement policies and procedures.

Principle 15 Description:

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.

Principle 15 Implementation:

The HSF through its external manager programme invests in countries outside of Trinidad and Tobago, some of which include the United States, Europe and Japan. The agreements between external asset managers and the HSF place a requirement on the managers to comply with all legal and regulatory requirements applicable to the conduct of business on behalf of the HSF.

Principle 16 Description:

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.

Principle 16 Implementation:

The governance framework and objectives of the HSF are documented in the enabling legislation; The operational independence of the management of the Fund by the Central Bank is documented in the Instrument of Delegation; both documents are publicly available

Principle 17 Description:

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.

Principle 17 Implementation:

The overall size of the HSF, its absolute and relative returns and the asset class mix are disclosed via publicly available quarterly reports. The Fund's annual reports which are also made public, contain further information about the accounting of the HSF.

Pillar 3

Investment and Risk Management Framework

Principle 18 Description:

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.

Principle 18 Implementation:

While the overall investment objective of the Fund is publicly stated, the investment policy of the HSF is not publicly disclosed.

Principle 19 Description:

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.

Principle 19 Implementation:

The investment guidelines of the HSF, stipulates return objective over a specific period. A risk budget is included in the guidelines, which speaks to targeted tracking errors for each asset class mandate. Investment decisions are based solely on economic and financial grounds and on a day to day basis are made by external investment managers. These managers are subject to regulatory scrutiny in the markets in which they operate and as such employ sound asset management principles.

Principle 20 Description:

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

Principle 20 Implementation:

The Fund does not compete with local private entities as it invests strictly in the international financial markets.

Principle 21 Description:

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.

Principle 21 Implementation:

The HSF's policies prohibit having a material interest in any single legal entity.

The HSF's policy for casting votes in ownership and/or proxy ballots is not publicly disclosed, but is guided by the objective to ensure the best interest of the Fund.

Principle 22 Description:

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 22 Implementation:

The Central Bank of Trinidad and Tobago is responsible for the day to day risk management and monitoring of the HSF portfolio. To execute this responsibility, the

Bank receives an array of reports from the external managers and the custodian of the HSF. The Bank also has in place a sound governance structure that exercises oversight authority on the Bank's execution of Agency functions as Manager of the Heritage and Stabilisation Fund by; reviewing performance, compliance and internal controls; reviewing Quarterly, Annual, External Manager Appraisal and Strategic Asset Allocation Reports prepared by the Bank in accordance with the Operational and Investment Policy of the HSF; and ongoing availability to address any issues.

In addition reports are periodically delivered by the Bank to the Board of Governors of the HSF.

Principle 23 Description:

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.

Principle 23 Implementation:

Reports on the assets and investment performance of the Fund are provided on a regular basis to the Board of Governors.

Principle 24 Description:

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

Principle 24 Implementation:

The HSF currently does not have a formalized process to review the implementation of the GAPP but will work towards developing a procedure to regularly review the framework.

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