

Qatar - Qatar Investment Authority

Implementing Santiago Principles - Introductory Remarks

Qatar Investment Authority (QIA) started its operations in early 2006, after an Emiri Decision, clearly stating the Authority's legal framework and governance structure, in June 2005.

From the beginning, legal and governance frameworks were clearly defined in order to support QIA's initial investment strategy focused on domestic equity and regional investments and a significant allocation to external managers globally.

QIA's commitment to transparency and governance is translated in its early, complete support to the establishment of IFSWF and the definition of Santiago Principles.

Moreover, QIA is a founding member of the International Working Group and was among the group of Sovereign Wealth Funds drafting the IFSWF constitution and establishing the forum. The same early support was provided in the case of Santiago Principles: QIA was one of few members drafting the initial and final versions of the Santiago principles and a proactive supporter of its implementation. In 2008, the QIA Board adopted 8 main policies governing the QIA work. In addition to that a number of Procedures were issued. QIA employees were instructed to comply with these policies. From the outset QIA has regularly provided the Owner (the Supreme Council for Economic Affairs and Investment) with annual reports.

In 2009, as a result of the Financial Crisis, the Board of QIA conducted a 6-month review and decided to actively pursue a Direct Investment Strategy, focused on public and private assets.

During this phase additional elements of the Santiago Principles were rolled out:

- Compliance mechanisms related to direct investments in third parties
- Stronger audit processes
- Additional reporting

Since then, QIA continued its investment strategy by formalizing its Investment Execution and Control Functions. In 2011, a separate Capital Markets department was set up to execute all public markets transactions and Internal Audit Departments were created to expand the role of control functions whereas the Risk Department was created at the inception of QIA.

Specific Board committees (Investment, Risk and Audit) were set up to further enhance the owner's oversight on QIA activities.

This case study is an illustration of the current implementation of the three pillars constituting the Santiago Principles.

Pillar I: Legal Framework, Objectives and Coordination with Macroeconomic Policies

Legal Framework

The QIA was established by Emiri Decision No. (22) of 2005 of the State of Qatar (the “**QIA Constitution**”). As such, QIA is a specially-created statutory entity, wholly-owned by the State of Qatar, with a Board of Directors, a chairman, vice chairman, a chief executive officer, and an executive management team.

QIA reports to the Supreme Council for Economic Affairs and Investments (SCEAI) by law, the highest decision making body concerning Energy, Investment and Economy in Qatar. The SCEAI, which is Chaired by His Highness the Emir, approves investment strategy, assigns funds and approves the budget as well as certain QIA Regulations such as Tender Regulations and HR Regulations. SCEAI members are appointed by His Highness the Emir, and currently the members are:

- His Highness the Emir (Chairman)
- Prime Minister (Vice Chairman)
- Minister of Energy and Industry
- Minister of Finance
- Minister of Economy and Trade
- Governor of the Central Bank
- Economic Adviser to the Emiri Diwan
- Representative of QIA (CEO)
- Representative of Development Bank (CEO)

Objectives

QIA’s mission was defined in Article 5 of the “QIA Constitution”, aimed at:

“... developing, investing and managing the State reserve funds and other property assigned to it by the Supreme Council [of Economic Affairs and Investment of the State of Qatar] in accordance with the policies, plans and programs approved by the Supreme Council.”

Since commencement of operations in 2006, QIA mandate was to invest internationally in order to strengthen the country’s economy by diversifying into new asset classes outside Qatar.

Role and objectives in Qatar

QIA also plays an important role in the domestic economy, through its listed and unlisted subsidiaries and holdings in Qatar. Significant domestic, non-natural resource related assets were assigned to QIA with the objective of improving the oversight and coordination.

QIA actively contributes to the development of national human capital in Qatar. Several internal and external programs have been launched, including CFA, LLM and MBA sponsorship, and secondments to leading international institutions and other investment training programs.

QIA role in local macro economy

QIA’s investments are transparent to its owner, QIA financial statements and policies are regularly reviewed by the concerned authorities. For this reason quarterly reports are submitted to QIA Board of Directors and annual reports are submitted by QIA Board to the Supreme Council for Economic Affairs and Investment (‘SCEAI’). These reports include:

- full disclosure of total assets

- aggregated information by asset classes
- currency exposures

QIA is playing a big role in local macro economy through its ownership of the biggest local companies.

Pillar II: Institutional Framework and Governance Structure

Institutional Framework

QIA is the Saving Fund of the State of Qatar, and therefore benefits from significant positive cash flow and has no immediate liabilities. The nature of the Fund has been confirmed again in 2013, after the appointment of the new SCEAI and QIA Boards.

Since commencement of operations in 2006, QIA was assigned fiscal surpluses from the State of Qatar for this purpose.

As a saving fund of the State of Qatar, there have been no withdrawals of assets by the government of the State of Qatar and we do not anticipate any withdrawal during the coming 20 years.

QIA is an attentive shareholder and will usually exercise its voting rights. It is represented at meetings of shareholders of companies in which it has a significant investment. In this regard QIA is motivated only by the responsibilities flowing from the discharge of its Mission strictly within economic and financial objectives and criteria.

Accountability framework

Accountability framework and the separation between Owner, the Government and operational management were defined in key decisions and policies (QIA constitution, “Mission, Values and Governance” policy).

The following is an extract from the QIA policy, “Mission, Values and Governance,” adopted by the QIA Board of Directors on 15/09/2008

Governance

- Implementation of QIA’s mission is the responsibility of the QIA Board, which is appointed by His Highness the Emir.
- The QIA Board has established the framework for QIA’s operations through appropriate policies, including (but not limited to) investment policies, risk management policies and a Code of Conduct.
- The QIA Board provides strategic guidance for QIA and monitors QIA executive management.
- The QIA Chief Executive Officer, together with the management team, is responsible for the day-to-day management of QIA.
- Business decisions are the sole responsibility of the QIA Board and QIA’s executive management. Qatar’s government does not interfere in QIA’s investment, divestment or other business decisions.
- The State Audit Bureau monitors and audits QIA’s accounts and reports directly to His Highness the Emir of the State of Qatar.

Board of Directors

The governing body of QIA is its Board of Directors, which is responsible for implementing investment strategies, delegating responsibilities, appointing and removing the SWF management.

Pursuant to Article (7) of the QIA Constitution, QIA “*shall be managed by a Board of Directors which shall consist of a Chairman and Deputy Chairman and a number of members to be appointed by the Decision of the Emir ...*”

Currently QIA Board of directors is chaired by His Highness the Emir and comprises the following members:

- Sh. Abdullah Bin Hamad Bin Khalifa Al Thani (Vice Chairman), Chairman of Emiri Diwan
- Ali Sharef Al Emadi, Minister of Finance
- Sh. Ahmed Bin Jassim Bin Mohammed Al Thani, Minister of Business and Trade
- Sh. Abdullah Bin Saoud Al Thani, Governor of Central Bank
- Dr. Hussain Al Abdulla, Independent

QIA, through its Board of Directors, has all powers and competencies necessary to achieve its mission by:

- proposing the investment policies for the State reserve and implementing them;
- designing and monitoring investment programs;
- buying and selling securities, assets and currencies;
- establishing investment companies;
- concluding contracts and taking all necessary legal actions;
- proposing draft laws and regulations concerning the State reserve; and
- representing the State of Qatar in all local, regional and international bodies concerning the investment of the State reserve

As regards compliance, in fact QIA had been complying with main GAPP Santiago Principles even before these principles were issued, for QIA Board adopted a number of policies which reflect the essence of these principles in 2008.

Further significant improvements towards compliance with GAPP have been implemented since 2013. QIA Board role was further clarified and focused on investment philosophy, policy, and management oversight. It sets limits and guidelines.

The QIA Board has charged its executive management team with the responsibility and the authorities to execute and oversee investment strategies.

Executive management

The executive management team of QIA, chaired by the CEO, acts with operational independence within the context of its overall strategy, without external interference or further direction.

In 2013 the Board appointed a new CEO, who has full independence from the Government and the Political leadership of the State of Qatar, further ensuring full separation between investment decisions made by QIA and political will and policies issued by the Government. The CEO has a number of responsibilities which are outlined in the Emiri Decision No 22 of 2005, namely, to ‘implement and manage the Authority’s technical, administrative, financial and legal affairs’ and in particular the following:

- Buying and selling stocks, bonds, bill notes and other securities issuing in or outside the State in accordance with the standards and limits determined by the Board.
- Buying and selling real estates in full or by sharing with others and investing in real estates.
- Linking up cash deposits of all types in the banks and financial institutions in the State or abroad.
- Establishing investment portfolios in various investment markets and managing them or delegating the management responsibility to banks or financial institutions.
- Buying and selling foreign currencies.
- Buying and selling gold and precious metals.
- Preparing the studies and recommendations concerning the Authority's activity.
- Preparing a report on the Authority's activity during the fiscal year and its financial status.
- Proposing the draft regulations for the Authority.
- Preparing the annual budget proposal and the closing account of the Authority.
- Following up the investment developments in the world, and issuing directions to the concerned departments to respond quickly to such developments.
- Assuming general supervision over the departments belonging to it and revising the annual plan for financial and direct investments and ensuring that it complies with the strategy and the general policy of the Authority.
- Carrying out any other works assigned to it by the Board.

Internal policies

Some of the most relevant policies in relation to governance and compliance were approved and rolled out already in 2008:

- Policy on Policies and Procedures
- QIA Group Governance Standards
- Code of Conduct
- Compliance Policy
- Anti-Money Laundering Policy
- Legal Policy
- Accounting Policy

Investment Compliance

Article 16 of QIA's Constitution prohibits QIA's Chairman, any member of QIA's Board, QIA's Chief Executive Officer, or any of QIA's officers, from having any personal interest, direct or indirect, in the contracts concluded with or for the account of QIA or the enterprises carried out by it.

QIA complies with all public disclosures for regulatory compliance purposes. Furthermore, full disclosure and transparency is ensured towards the Supreme Council of Economic Affairs and Investment and relevant Government entities.

QIA respects host country rules and regulations and fully adheres to specific disclosure and other regulatory requirements. Legal and Compliance Departments oversee this function.

It is the policy of QIA to comply with all laws and regulations applicable in the State of Qatar as well as in all jurisdictions in which it conducts business. QIA is committed to establishing and maintaining a reputation as an investment organization pursuing excellence in corporate governance and operating at all times to the highest standards of professional conduct.

QIA is subject to a large number of rules and regulations, both domestically and in the international jurisdictions in which it operates. Such laws and regulations include, but are not limited to, rules against money laundering, investment restrictions, exchange rules, tax regulations, foreign exchange regulations, anti-trust regulations, regulations relating to political contributions, company law and international sanctions and embargoes. Some laws and regulations will be more relevant for direct investments, others for investing in traded securities or in funds.

Auditing

QIA consistently issues to the SCEAI, a consolidated annual report and consolidated financial statements in accordance with international and national accounting standards.

QIA's annual consolidated financial statements are prepared in accordance to the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

Business operations and consolidated financial statements of QIA are audited by the State Audit Bureau of Qatar. Independent auditors, both external and internal, annually and consistently audit in accordance with recognized international and national auditing standards. Moreover, QIA has an internal Audit Department as well as a Board Audit Committee.

Ethical standards

Current practice entails that all QIA's governing bodies, corporate officers and employees are required to behave and operate following 5 guiding values:

- Integrity: To apply the highest ethical, moral and professional standards of conduct in each of their undertakings.
- Mission focus: QIA has a noble mission on behalf of the Qatari people. In executing day-to-day responsibilities, QIA management and employees are firmly focused on this mission.
- Entrepreneurialism: QIA believes in the power of entrepreneurialism, and it continues to encourage initiative and a flexible approach even as the organization grows and institutionalizes.
- Excellence: QIA strives for excellence in all aspects of its undertakings.
- Respect for people: QIA recognizes that people are its most valuable asset, and the organization seeks to create a respectful workplace free of harassment or intimidation.

Third parties dealings

QIA's investment strategy is based on its responsibility to generate a strong and sustainable return for the State of Qatar, within the boundaries of an investment mandate based on purely economic and financial grounds and a long-term investment time horizon.

As a consequence, QIA deals with third parties solely on economic and financial grounds. QIA has a strong set of anti-money laundering, anti-corruption, anti-bribery policies in place. The same policies also have to be enforced by QIA counterparties in the context of direct transactions.

Specific tender process and a Tender Committee, in-line with the Qatari Tender Law, were defined and set up to ensure full transparency and remove any potential conflict of interest in dealing with external service providers and suppliers.

Pillar III: Investment and Risk Management Framework

Investment strategy

QIA seeks to achieve long-term investment returns without exposing itself to undue levels of risk.

The Authority is committed to pursuing its strategic investment mandate based purely on economic and financial objectives. No part of QIA's strategic investment mandate, or its execution, is motivated by considerations of political nature.

QIA does not include other factors in its investment execution and management processes. Where it is possible, within QIA's overall economic and financial strategy, QIA will include considerations of an environmental and/or humanitarian nature.

Investments are managed with a blend of internal and external investment management resources.

QIA utilizes its internal investment management resources in areas where it has recognized expertise; otherwise it will use external investment management resources. In cases where external managers are employed, they are selected based on their financial performance and creditworthiness.

QIA manages its assets and delegated investment managers with diligence and care. Each investment decision is considered in the context of the overall portfolio, as part of the overall investment strategy to incorporate a reasonable risk and return in line with the fund's mission and investment objectives, and not in isolation.

QIA has detailed procedures on selection, engagement and operational monitoring of external investment managers. Due diligence process for evaluating a potential manager involves qualitative, quantitative and operational considerations.

Formal periodic performance updates are routinely required from all external fund managers. Positions are closely monitored.

Risk Management

The Risk Department was created at the same time the QIA was established.

Risk management practices at QIA have been expanded to cover all aspects of financial and operational risks and to adhere to high standards of risk management.

The Risk Management, Legal and Compliance departments review progress and compliance with the Santiago principles on an annual basis. QIA also participated in the 2011 and 2013 surveys organized by IFSWF.

Reporting

The CEO provides regular reports to the QIA Board, covering various activities of the Authority.

On an annual basis, QIA provides the SCEAI detailed performance reports, along with the consolidated annual report and consolidated audited financial statements. Performance reports show performance returns, analysed and benchmarked using various methodologies, including by asset class, by peer group, by sector, by portfolio, etc.

Conclusions and way forward

QIA remains fully committed to further implementing and improving the application of Santiago Principles.

Several initiatives were launched during the life span of QIA in order to further strengthen QIA Governance.

In the last few years, significant changes were introduced, which have positively impacted the Governance and the Strategy of QIA:

- QIA mandate was reviewed to reflect the increasing size of the Fund. In particular, characteristics of QIA as “The Saving Fund of the State of Qatar,” were more closely defined in terms of funding, investment and withdrawal strategy.
- A new 20-30 year plan for QIA was defined, in-line with the Qatar National Vision 2030
- Definition of Long term funding plan and corresponding performance targets and limits.
- Improvements to QIA Governance and Organization in adherence to Santiago Principles followed.

In additions to the General Policies issued by the Board of Director, several policies, processes and procedures were issued across the Authority by the CEO to ensure the soundness and integrity of QIA’s operations, including: Code of Conduct Procedure, Know Your Counterparty Procedure, Contract Execution Procedure, Legal Department Record Retention Procedure, SPEs Establishment Procedure, Information Barriers Procedure, Dealing Prohibition Procedure.

QIA Investment policies and strategies are guided by the fund target size and returns that were agreed upon by the governing bodies. Adequate risk budget and risk appetite are, defined on the basis of the investment strategy and the target fund size. Specific risks, like liquidity risk, are stress tested by internal and external parties in order to ensure full understanding of the impact of different scenarios on QIA investment policy and strategies.