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Comparative Analysis on Reforms of Commodity Stabilization Funds in Latin America:
Case Studies on Chile and Mexico

라틴아메리카 국가들의 상품안정화 펀드 개혁
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Abstract

Comparative Analysis on Reforms of Commodity Stabilization Funds in Latin America: Case Studies on Chile and Mexico

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This thesis is to analyze the two Commodity Stabilization Fund (CSF) reforms of Chile and Mexico with institutional approach. CSF is a type of SWF sourced from commodity exports and mostly used by resource abundant countries in order to stabilize the owning countries macroeconomic situation. Many Latin American countries also introduced CSF to minimize the volatility of their economy and overcome the Resource Curse, a paradox that resource abundant countries have difficulty in achieving economic development due to their abundant resource.

Previous studies on CSFs agreed that CSF does contribute to its original goal of macroeconomic stabilization but the quality of institutions of the CSF is much more important to make it more effective. In this context, this thesis uses an

international agreement on the behaviors of Sovereign Wealth Fund, the Generally Accepted Principles and Practices which is also called as “Santiago Principles” as an analytic framework. The basic methodology is to compare changes in institutions before and after the reform described in the official documents of each CSF.

The result revealed that CSF reforms of Chile and Mexico shared some commonalities in showing great improvement in terms of transparency while staggering in independence of the fund and in protection of shareholders´ rights. More importantly, however, they showed contradictions in most and least improved parts of new institutions. Investment strategy and risk management part was one of the most improved ones and accountability was hardly improved in Chilean reform while in Mexican one, it was one of the least improved part. On contrary, accountability was least improved part for Chilean Copper CSF while it was one of the most improved part for Mexican one.

This contradiction is mainly originated from the different development stages and policy objectives of each fund. Chilean CSF has long history and greater size of asset and investment while Mexican one is relatively young and small. Also, the main objective of the Chilean reform was to legalize its CSF while Mexican CSF reform was a part or Energy Reform of Mexico focusing more on receiving investment rather than doing investment abroad. As a result, Mexico focus more on incoming investment amending accountability while Chile also emphasized investing abroad establishing investment and risk management strategies.

Some policy implications are drawn that those CSFs should have strong drive to lead institutions to actual performances taking long term view. Also, the GAPP should have stronger binding power and try to be more concrete with consideration of member countries' situations. Further studies may focus on the investment of CSFs since the importance of the CSFs and SWFs is rapidly increasing in FTAs including TPP agreement.

Keywords: Commodity Stabilization Fund, Santiago Principles (GAPP), Sovereign Wealth Fund, volatility, Resource Curse, Latin America

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I. Introduction

Resource Curse means a paradox that resource abundant countries' development is hampered due to their abundant resource. There are mainly two explanations for this paradox. One is investment concentration on the industry related to that resource, which suppresses the opportunities to develop other sectors. The other reason is too much dependence on that resource resulting in huge volatility that those countries are exposed to great risks to be influenced by fluctuation of world resource market price and exchange rate. This phenomenon can be easily found in many countries including Netherland which earned the name of "Dutch disease" matching the first explanation. Many Latin American countries (LACs) such as Venezuela, Bolivia, and Peru also provide real examples of this phenomenon. In case of those countries, they show both explanations of unbalanced development and volatility problems. Especially, they have been volatile for their economic dependence on the income from exportation of primary commodity, which hinder economic development and create a vicious circle of underdevelopment like a curse.

To overcome this curse, various instruments and policies have been designed and implemented. Commodity stabilization fund (CSF) was introduced as a prescription for those resource abundant countries to reduce volatility and to manage macroeconomic stability. It was first invented by Kuwait in 1953 and spread to other countries. As a result, some of those resource abundant countries showed successful outcomes. Norway is an exemplary case to show that resource curse can be prevented. Among LACs, several countries have implemented to reduce volatility and improve stability of their economy: Chile (copper), Mexico (oil), Venezuela (oil) and so on. Chile is one of the best CSF managing countries

in the world for its high transparency and accountability while Venezuela is one of the worst ones. Meanwhile, Mexico has just reformed its oil stabilization fund benchmarking Norwegian CSF, the best CSF in the world. Considering that Chile also reformed its fund in 2006 and improved the mechanism, it will be meaningful to analyze these two reforms to analyze the development of commodity stabilization funds.

In this context, this paper tries to analyze the development of CSFs in Latin America. To clarify what "development of CSFs" means, emphasis on transparency and institutions made by international agreements, the Generally Accepted Principles and Practices (GAPP) which is also called the "Santiago Principles" will be applied as main criteria. Since the analysis begins with the assumption that CSF is helpful for macroeconomic stabilization of the country, I will review first the discussion in the academy about volatility and CSFs to provide rationales and experimental evidences of this assumption. Then I will explain the setting of this paper and analyze the GAPP to make use of it as an analytic framework. After all these settings done, I will elaborate a little bit more on CSFs in LACs and do the case study on the reform of CSF in Mexico. Finally, some policy implications for other resource abundant countries will be drawn from the analysis.

II. Literature Review

1. Effectiveness of CSF

In Academia, there have been vigorous studies by scholars on CSFs. Some analysts argue that it may not be the best option to make use of those fund assets in order to cover the demand for liquidity and, instead, issuing debt can be a better strategy (Kunzel, Lu, Petrova, & Pihlman, 2011). But generally, the necessity of these kinds of fund to overcome the resource curse is widely recognized.

When it comes to evaluation of the existing CSFs, however, there is no widely agreed criterion to evaluate and investigate to diagnose success and failure of CSFs. Many researchers have been trying to provide empirical evidences of effectiveness of those funds but each uses his/her own evaluation framework. Fasano (2000) did a research on natural resource funds in five countries (Norway, Chile, Venezuela, Kuwait, Omen and Alaska). He chose "fiscal policy outcome" as a proxy variable to check success of those funds and investigated fiscal situation of each government changes with existence of CSF from the time when it was first implemented in that country. He concluded that the fund's effects on fiscal management may be different depending on fund's owner and goals: while SFs strengthen the fiscal policy by separating expenditure from the revenue availability, they cannot substitute sound fiscal management. Ossowski (2008) also used various fiscal policy related indicators as dependent variables in his research on all oil producing countries from 1992 to 2005 and emphasized the importance of government institutions' quality to overcome "voracity effect" in his conclusion. However, CSFs take just a small part of government finance that just seeing statistical changes may overestimate the effects of CSFs.

On the other hand, Davis (2001) chose government expenditure and existence of CSF as dependent and independent variables respectively with the conclusion that accountability and transparency is more important than just establishing CSFs. Furthermore, recent studies have been focused on the volatility itself and made a proxy to measure the volatility of government expenditure or social spending to reduce pro-cyclicality (Sugawara, 2014). This variety is mainly due to different purposes of each country's CSF and the problem of sovereignty, but through its development of discussion on effectiveness of CSFs, a commonality can be found that CSFs do have positive effects on managing macroeconomic stabilization. Thus, this paper is based on the assumption that the CSFs do have effectiveness on its objectives to stabilize macroeconomic indices and focusing more on the institutional improvements of them through their reforms.

2. "Quality" of CSFs: Institutions, Transparency, Accountability and Governance

As it can be seen in the previous part, many reports and articles have emphasized the importance of transparency and accountability in managing CSFs. Reflecting this, some researchers tried to find out "good practices" of their management, governance and operation.

On one side, scholars endeavored to make those abstract concepts measurable and evaluable since institutional elements are very ambiguous and hardly visualized. The most well-known index is Linaburg-Maduell Transparency Index (LMTI) that International Sovereign Wealth Fund (ISWF), a private institution that provides specialized researches and analyses on SWFs, utilizes as

well (Linaburg, 2009). As its name implies, LMTI was designed by Lindaburg and Maduell and measures transparency of SWFs. However, it targets transparency for general public that it is too simple and easily fails to include complete elements of SWF transparency. Truman (2007) also developed and introduced the "Scoreboard" which he keeps updating as well to measure transparency and accountability of SWFs (Bagnall & Truman, 2013). The Scoreboard is based on the 24 GAPP criteria (see Appendix 1) that it consists of 25 yes or no questions of 4 categories: structure (8 questions), governance (4), transparency and accountability (12), and behavior (1). Each question counts point 1 so the total possible point is 25. However, quantifying institution can look over important differences of institutions of CSFs.

[Table 1] Composition of Scoreboard developed by Truman (2007)

Structure	**Accountability and Transparency**
Objective stated	Categories of investments
Changes in structure	Mandates identified
Investment strategy	Size of fund
Source of funding	Returns of fund
Use of fund earnings	Location of investments
Integrated with policies	Specific investments
Separate from international reserves	Currency composition
	Annual reports
	Quarterly reports
	Regular audits
	Published audits
	Independent audits
Governance	**Behavior**
Role of government	Portfolio adjustment
Role of managers	
Guidelines for corporate responsibility	
Ethical investment guidelines	

On the other hand, qualitative analyses on the institutional aspects of funds are quite rare. Case studies done by Fasano (2000) were focused on finding out the objective and saving/spending rules of each fund but it didn't proceed to broaden its scope to other relevant institutions or governance mechanism such as governance framework, transparency and accountability. Ossowski (2008) provided both quantitative and qualitative analysis. He analyzed oil producing countries' practices at cross country level, which made easier to review various good instruments of those countries. Due to this provision of variety, however, it is hard to grasp the complete picture of a CSF with good practices.

In conclusion, there needs to conduct qualitative studies which look the overview of the good practices of a CSF. For this, a report recently published by the IFSWF (2014) can be a good example. The report provides SWF case studies of 15 member countries of IFSWF including Chile's FEES and Pension Reserve Fund. It analyzes SWFs in the view of GAPP as a criteria and provides a successful diagnosis for each fund. Taking this report as an example, this paper also tries to use GAPP as a criteria to compare the CSFs before and after their reforms and this will be elaborated in the "Research Methodology" part in the next chapter.

3. CSFs in Latin American Countries

Many LACs are resource abundant countries and have been real examples of resource curse showing great economic volatility as mentioned earlier part of this paper. Thus many of them have made efforts to stabilize their macroeconomic status including CSFs. As shown in the following table, LACs have introduced and also retracted CSFs.

In 2000s, the entrance of China to the world market provoked commodity price boom from which LACs benefited a lot. Nevertheless, economic crisis in 2008 and European financial crisis from 2010 resulted in contraction of world demand and collapse of world price. In this process of up and down, the effectiveness of macroeconomic instruments was shown to be varied depending on its "quality" (Sinnott, Nash, & De la Torre, 2010). For example, a case study on Chile and Mexican CSFs done by Sinnott et al. (2010) maintained that Chile and Mexico have been using CSFs as an instrument to reduce the negative influence from volatility of prices on government expenditure by smoothing it when the incomes from its abundant resources are volatile and unpredictable by the economic cycle. As governments' expenditure on social assistance need to be smoothed across time in a countercyclical forms in order to save the revenues until "bad times." For this, policy instruments such as CSFs accompanying social safety nets can be effective in enlarging social spending in face of an economic crisis.

[Table 2] CSFs in LACs

Country	**Stabilization Fund**	**Established**	**Abolished**	**Source**
Chile	Economic and Social Stabilization Fund	1985	Reformed in 2006	Copper
Colombia	Oil Stabilization Fund (FAEP)	1995		Oil
Ecuador	Oil Stabilization Fund (FEP)	1999	2007	Oil
	Fund for Stabilization, Social and Productive Investment, and Reduction of Public Debt (FEIREP)	2002	2005	Oil
	Savings and Contingency Fund (FAC)	2005	2008	Oil
Mexico	Oil Revenues Stabilization Fund of Mexico	2000	Reformed in 2013	Oil
Peru	Fiscal Stabilization Fund (FEF)	1999		Non-oil

Venezuela, RB	Macroeconomic Stabilization Fund (FIEM)	1998	Oil

This list is made by the author based on Bagattini (2011), Sugawara (2014) and SWFI (2015)

Research objects in previous studies on LAC's CSFs are mostly the Chilean copper fund case, which is evaluated as an exemplary case as seen by those literature mentioned so far. Especially after its reform in 2006, which helped to accomplish a great improvement of its quality. Another interesting, but not analyzed case of CSF reform is Mexican oil fund reform as a part of Energy Reform in 2013, which can also be an interesting case to compare with the Chilean case.

III. Research Methodology

Previous studies on CSFs in LACs have been concentrated on Chilean case appraising its successful management of national credibility and macroeconomic indicators (Céspedes, Parrado, & Velasco, 2014; IFSWF, 2011). This is mainly due to lack of enough data and information of other governments' CSFs. To discover more profound factors to improve the "quality" of CSFs, however, it is necessary to inspect thoroughly institutions and mechanism rather than quantified data as emphasized in the second part of the literature review.

In this context, this paper is aiming at analyzing CSFs in LACs with institutional approach. Since whether CSF is really effective or not has already been proven by previous studies, I assume here that CSFs do contribute to manage macroeconomic stabilization reducing volatility. It has been found that CSFs have effects but the effectiveness varies depending on the institution, governance, etc. Considering all, this paper concentrates on analyzing and comparing these institutional gaps among countries to find out rooms to be improved instead of reproving existence of effectiveness of CSFs.

However, it is not easy to define whether it is good or not by inspecting just the institution of a CSF since there is no comparing group. On the other hand, it will also be a problem to apply results from cross country analysis to a country as each country has its own specificities. Considering these, comparing before and after the efforts to make improvement of the policy in a country can be a good instrument to achieve this goal. For example, Chile reformed its fiscal policy related to its copper fund in 2006 and comparing before and after this reform can help us to find out how different institutions can have different impacts on its effectiveness. Mexico is another new example of this case as it reformed its oil

fund and newly implement CSF from this year. When it comes to my analytic framework, Santiago Principles, which will be analyzed in the following chapter, will be used.

In conclusion, the objective of this paper is to compare reforms of CSFs in two LACs: Chile and Mexico in the view of Generally Accepted Practice and Principles (GAPP), an international agreement on the SWFs' behaviors, which I will explain further in the following chapter. Thus, basically it will be based on the qualitative analysis of GAPP and comparative in-depth case studies. Research questions are:

[RQ1] How different are the Chilean CSFs before and after its reform?

[RQ2] How different are the Mexican CSFs before and after its reform?

[RQ3] What and why the differences can be found in the two reforms?

[RQ4] What are the strengths and weaknesses of GAPP as a SWF guideline?

The main literature which this paper is based on is legislations and official document before Structural Adjustment Loan program report of 1985 since the introduction of the fund was originated from the advice from this program. On the other hand, the new CSF of Chile, Economic and Social Stabilization Fund (FEES), was established in the Chilean domestic legislations. The main piece of these documents is the Fiscal Responsibility Law (FRL) in 2006 and the Decree with Force of Law (DFL) Nº 1 issued by the Finance Ministry in 2006.

Meanwhile, the old Mexican CSF, the Oil Revenues Stabilization Fund, is based on the Federal Law on Budget and Treasury Responsibility (LFPRH) which can be found in the Diario Oficial Federal (DOF). The new CSF, Mexican Oil Stabilization and Development Fund (FMP) is based on the relevant pieces of laws. The most important one is the Law of Mexican Oil Fund for stabilization and development (LFMPED). All those documents are accessible through official webpage of the Congress of each state and in case of FMP, they are all uploaded on its own official webpage. In the following chapter, I will elaborate more our subject of analysis-CSFs-, analytic tool-GAPP- and the relationship between them.

IV. Santiago Principles (GAPP) and CSF

1. Sovereign Wealth Funds and CSFs

To understand CSF, it is necessary to learn about Sovereign Wealth Funds (SWFs) first. According to the definition suggested by the International Working Group (IWG), which was established to analyze key issues for stakeholders of SWF and agree on its best practices, SWFs are "special purpose investment funds or arrangements, owned by the general government" (IWG, 2008a).

Each SWF differs by its own objectives and other factors such as its regime, decision making system, culture, etc. SWFs can be classified into four different categories by the policy purposes of the fund: stabilization funds, savings funds, pension reserve funds, or reserve investment corporations (Kunzel et al., 2011). Also, SWFs can be categorized into two different types by its source of income: one is government revenue or surplus from commodity exports and the other is from other government resources such as balance of payments surpluses, official foreign currency operations, the proceeds of privatizations and/or fiscal surpluses (IWG, 2008a). CSF is the first case, which is sourced from commodity exports related income and mostly used by resource abundant countries.

Sovereign Wealth Fund (SWF) has been a constant topic to be analyzed for many investors as well as for policy makers and scholars. Being a "fund", SWF has both source and destination of its assets being main objects to study so far. There are two big areas of SWF studies: one considers SWF as an instrument to manage national wealth of a country while the other regards it as global capital. Due to this double-sidedness, inclusive sight is required to make good quality of SWFs.

2. Santiago Principles

SWFs have been growing rapidly in the world capital market in terms of its size and its influence on the host country. Global movements of capital including SWFs have been dramatically increased while SWFs have accumulated their capital as time goes by. As a result, concerns about SWFs' investment behaviors also increased. Those concerns are originated from the characteristics due to the ownership of the SWFs. SWFs are possessed by states, political and diplomatic abuses of SWFs are one of the main concerns Also, SWFs are usually closely associated with state owned enterprises (SOEs), which may harm fair competitions as they may take advantages of accessibility to closed information.

Reflecting these anticipations and worries, there is now increasing demands and efforts for transparency and accountability of SWFs. One of the efforts can be found in the international trade agreements which are dealing with regulations on SOEs and SWFs such as Trans Pacific Partnership agreement (TPP) and US-Singapore Free Trade Agreements (FTA). Especially, the issue of fair competition is related to the two most fundamental principles of international trade laws, the principle of Most Favored Nations and that of National Treatment as they may take advantages of closed information of its government. In case of TPP, for instance, its final draft has a separate chapter specialized in SOEs and at the end of the document, the Annex 17-E includes regulations on SWFs of Singapore in detail such as SWFs as an exception for the principle of non-discriminatory treatment ("Trans-Pacific Partnership," 2015). Given that the TPP is expected to be a "template" of other future bi- and multi-lateral FTAs (Hsu, 2015), the necessity to consider SWFs as an important interest party of cross border investment activities.

Another international effort was made by OECD which provides a guideline e for SWFs through the "OECD Guidance on Sovereign Wealth Funds" which can be accessible on its website. The main idea is to provide some policy recommendations to recipient countries in dealing with SWFs and other government-controlled investment entities. The guidance views that the SWFs can be a good source for development considering its long-term behaviors and stability in spite of skeptical and suggests that the those countries receiving SWFs' investment should get rid of protectionist barriers against SWFs while SWFs also should be sound, credible, and most importantly, independent from non-economic issues such as political matters (OECD, 2008).

The Santiago Principles also began as one of these efforts. In 2008, countries agreed to establish a global entity to monitor their behaviors named International Working Group of Sovereign Wealth Funds (IWG) whose name is now changed as International Forum of Sovereign Wealth Funds (IFSWF). 26 IMF member countries joined IWG and in their third meeting in Santiago (Chile), they agreed on the GAPP to support sound institutional framework, governance, and investment operations of SWFs. IWG and GAPP also issue reports to improve understanding of SWFs not only home countries but also recipient countries "to contribute to stabilize global financial system, reduce protectionist pressures, and maintain an open and stable investment climate." (IWG, 2008b)

GAPP consists of 24 principles some of which have two or more subprinciples, which can be divided into four categories:

- Legal Framework, Objectives, and Coordination with Macroeconomic Policies (GAPP 1~5)
- Institutional Framework and Governance (GAPP 6~17)

- Investment and Risk Management Framework. (GAPP 18~23)
- Implementation of GAPP (GAPP 24)

GAPP specified institutions and governance issues which had been discussed to be clear and transparent by providing comprehensively concrete components of each area. Moreover, since GAPP was initiated, IWG (now IFSWF) provided a report every other year on implementation and compliance of its member states, which strengthen its own effectiveness as a global guideline. In addition to this, GAPP has a function as an international standard and guideline in diagnosing SWFs. For this reason, many researchers and analysts have vehemently been analyzing and diagnosing SWFs in the world based on the criteria GAPP suggests

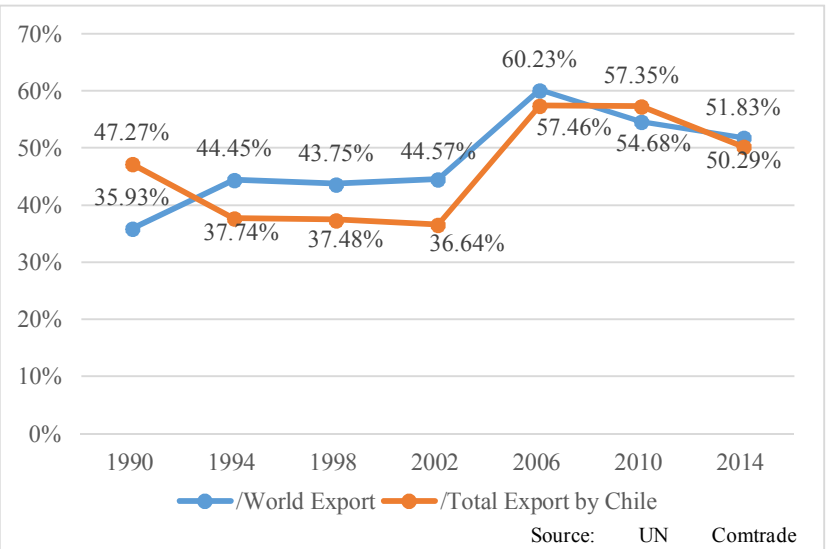
In conclusion, the Santiago Principles is viewed to be appropriate criteria to inspect the institutional improvements of CSFs in this paper. IFSWF (2014) recently published a study on 15 SWFs including Chile's Economic and Social Stabilization Fund (ESSF) taking the GAPP as main criteria. However, it is static analysis that it does not reflect changes in each SWF. Thus, this paper will try dynamic analysis to include these changes by reforms and provide policy implications. It is also expected that this application to the cases can provide implications not only for CSFs in other countries but also for GAPP itself to be an appropriate guideline for SWFs.

V. Stabilization Funds in Latin America

1. Case 1 – Chile

Chile is a country frecuently mentioned as an exemplary case of neoliberal economic policies. In 1980s, Chile was also suffering from the public debt crisis like other LACs and finally asked International Monetary Fund (IMF) and World Bank for loan and got a prescription of Structural Adjustment Loan program (SAL), which has been evaluated as a successful policy package. The first Chilean CSF was originated from this policy packages. Though it is one of those countries with highest incomes among LACs, Chilean economy is still highly dependent on priamry material exportation: Copper accounts more than 50 % of its total exportation in 2013 and Chilean copper has been increasing and accounts around 35% of world copper market in 2014. Thus, Chile keeps trying to reduce its volatility and reformed its copper fund in 2006.

[Graph 1] Chilean Copper in Domestic and World Market (1990~2014)



1) Copper Income Compensation Fund

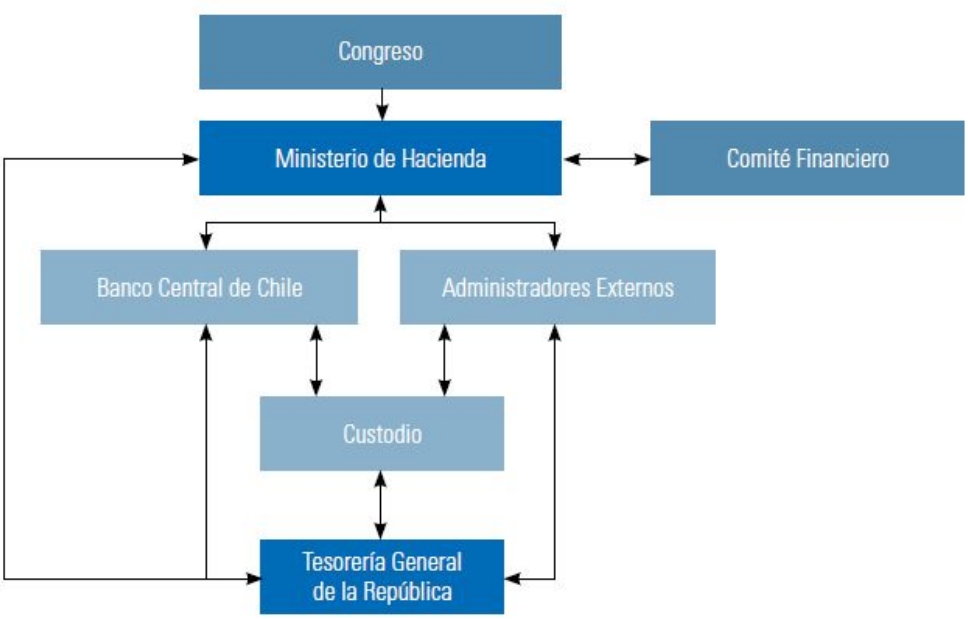
Chile established Copper Income Compensation Fund (FCC: Fondo de la Compensación de los Ingresos del Cobre) in 1988 to stabilize the value of its national currency and government revenues in the face of copper's influence. The FCC was established based on a framework recommended by the IMF package. The relevant documents contain its application to the revenues from the CODELCO (Corporación del Cobre de Chile), a state-owned copper company of Chile. Also, mechanism of its operations are included such as its saving and spending rules. The Central Bank of Chile (CBC) took charge of the management of the fund. The difference between the long term copper price range annually estimated by the authorities decides whether to save or spend. (Fasano, 2000) However, FCC was not based on its domestic legislations without mentioning its accountability, responsibilities and other elements for its quality. More details and profound analyses will be provided later after analyzing the reformed fund, which I will explain in the following part.

2) Economic and Social Stabilization Fund

The Economic and Social Stabilization Fund (FEES: Fondo para Estabilización Económico y Social) was established in 2006 with an innovative legislation for transparency of fiscal authority of Chile: the Fiscal Responsibility Law (FRL). The FRL also covers institutional framework of the FEES as can be seen in the Figure 1. The Article 12 of the Act provides the institutional framework for investment management of fiscal resources, empowering the Minister of Finance to define what is done directly through the General Treasury

of the Republic (TGR), which prompted management the Central Bank of Chile (CBC) or contracted to external managers. In turn, the Minister of Finance, through Decree No. 1,383, 2006, appointed the Central Bank to ensure, prior approval of the Bank Council, the administration of the resources of the two funds as fiscal agent. The decree in turn established the general framework for the various activities assigned to the Central Bank for the management of these resources.

In addition, Decree No. 1,618, 2012, at the request of the Central Bank, mandates that general framework for separate from the scope of management of the bank was changed portfolios of shares and corporate bonds of FEES whose management had previously been delegated by the CBC on external managers. The Decree No. 621 of the Ministry, the Finance Committee, an advisory body to the Minister of Finance on investment FEES, was established.



[Figure 1] Institutional Structure of FEES
(Source: Ministry of Finance of Chile)

3) Changes from the Reform

There was huge transformation through the CSF reform of Chile in 2006. The Annex 2 shows one by one application of each principle of GAPP and each CSF. The following is GAPP analysis to see these changes more in detail.

- **[GAPP 1~5] Legal Framework, Objectives, and Coordination with Macroeconomic Policies**

One of the most remarkable ones is its legitimacy. The FCC was not created by Chilean domestic legislation but by a loan agreement Nº 2,625 of World Bank in 1985. The agreement explains the fund "as a mechanism to ensure, through budget adjustment" and suggests implementing it in an experimental basis in the first year. However, as it can be found in the new legislation of Chile to recast the fund as the FEES, there has been no separate legislation to deal with the FCC. In 2006, Chile introduced the FRL which establishes the saving and management norms and institutional framework of government revenues, permitting the creation of the FEES. In 2006, the Decree with Force of Law (DFL) Nº 1 established the FEES with many other decrees to manage and operate it to improve its transparency and governance. This evolution of legal basis is described in the GAPP 1 in the Appendix 2.

Another significant amendment can be found in its openness of CSF's funding, withdrawal, and spending operation policies in accordance with the GAPP 4. The biggest change is that the FEES has now norms which rule withdrawals of

the fund while the FCC does not provide much advice on it. According to the Art. 5 of the DFL Nº 1, the Minister of Finance has the authority regarding the timing and amount of withdrawals. The relevant information should be open to the public and to spend this resource, it needs approval by the Congress.

The GAPP 5 also showed much improvement in that the Ministry of Finance uploads all norms, legislations, reports, statistics and other studies related to FEES on its webpage, which FCC did not have. The FCC also had reporting system and provides statistics in the online as the loan agreement Nº 2,625 of World Bank in 1985 mandates and the quarterly balance in the FCC account will be reviewed every six months in the context of the SAL. The statistical data on annual basis of the FCC is also publicly open online. However, the data only included total deposits, total withdrawals and total balance of the fund and other activities such as investment or withdrawals by purpose of the spending.

[Table 3] GAPP Analysis of FCC and FEES (GAPP 1~5)

I. Legal framework, objectives, and coordination with macroeconomic policies		
FCC	GAPP	FEES (IFSWF, 2015)[1]
The FCC was created by a loan agreement Nº 2,625 of World Bank in 1985. The agreement is accessible on the website of the World Bank.[2]	GAPP 1. The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s). GAPP 1.1. Subprinciple. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions. GAPP 1.2. Subprinciple. 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.	The FEES rests on domestic laws and decrees were published in the Diario Oficial (Official Gazette) The most important piece of legislation is the Fiscal Responsibility Law (FRL) which sets out the norms and institutional framework for the saving and management of fiscal resources. The FRL permitted the creation of the FEES established under Decree with Force of Law (DFL) Nº 1 issued by the Finance Ministry in 2006.
The policy purpose of the FCC is clearly defined and publicly disclosed in the agreement as "to alleviate the impact of copper prices fluctuations on the Treasury	GAPP 2. The policy purpose of the SWF should be clearly defined and publicly disclosed.	The purpose of the FEES is established in the FRL and DFL Nº 1[3] and its policy objectives are clearly set out in the annual report prepared by the Finance Ministry.[4]

[1] This entire column is based on the IFSWF report of 15 GAPP member countries' case study. In the report, Chile was included and already analyzed according to the GAPP criteria. It is a valuable material to compare the report with the results of my FCC research based on GAPP analysis that here I summarized the report and brought it with citation.

[2] http://documents.worldbank.org/curated/en/1985/10/741913/chile-structural-adjustment-loan-project

[3] www.hacienda.cl/fondos-soberanos/legislacion.html

[4] www.hacienda.cl/english/sovereign-wealth-funds.html

and the Chilean economy, thereby providing assurances for exporters of products other than copper.”		The objective of the fund is to finance the fiscal deficits during periods of low growth and/or low copper prices.
The coordination of activities is well organized with the role distribution of the FCC, CBC, the Treasury and CODELCO. (The role assignment is described in the GAPP 6.)	GAPP 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 Finance Ministry decides withdrawal and its timing since it could affect the peso-dollar exchange rate. In a bid to minimize this impact, withdrawals have been coordinated with other fiscal and monetary authorities and made using a system of auctions based on a scheduled timeline. This mechanism provides for enough public information to minimize its market impact.
The funding mechanism is in the agreement in detail. Formulas and conditions were provided to save the copper income from CODELCO. Regarding withdrawal rules, however, it does NOT provide enough criteria. Also, the document is available only in the website of World Bank rather than that of Chilean government.	GAPP 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. GAPP 4.1. Subprinciple. The source of SWF funding should be publicly disclosed. GAPP 4.2. Subprinciple. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.	The rules for contributions to the SWFs are clearly established in the FRL while the uses to which it can be put are established in the FRL and DFL Nº 1 as part of its legal framework. Legislation authorizes the Minister of Finance to define the timing and the amount of withdrawals, and then publicly disclose this information. However, fiscal expenditures must be approved by Congress. Contributions and withdrawals as well as the expenses of the fund are publicly disclosed in its monthly, quarterly and annual reports.

According to the agreement, the quarterly balance in the FCC account will be reviewed every six months in the context of the Structural Adjustment Loan program. The statistical data on annual basis of the FCC is publicly disclosed.[5] However, the data only include total deposits, total withdrawals and total balance of the fund and other activities such as investment or withdrawals by purpose of the spending.	GAPP 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.	The CBC and external managers prepare daily and monthly reports on the state of the fund and the performance of its investments. These reports are supplied to staff of the Finance Ministry and to the General Treasury of the Republic (GTR). The CBC and Finance Ministry also publish quarterly and annual reports about the return on the fund's investments, its size, contributions, withdrawals and its portfolio composition. All are available on the website. The Financial Committee prepares its own annual report about its activities and recommendations, which is presented to the Finance Minister, the Finance Commissions of both houses of Congress and the Joint Budget Commission of Congress.

[5] https://www.tesoreria.cl/portal/portalInfo/info/activos_pasivos/CFCOMPICU.html

- **[GAPP 6~17] Institutional Framework and Governance**

When it comes to the governance framework mandated by GAPP 6, the FCC does NOT have very clear one. The loan agreement only describes the deposits which is in the CBC without mentioning the issue of its management and operation governance framework. On the other hand, the FEES has very clear and detailed description of its institutional framework based on numerous domestic legislations as mentioned above. The FRL provides the most important clarifications of the responsibilities of each agent. For example, the Ministry of Finance is responsible to decide management and investment policies and to establish guidelines regarding investment providing available policy instruments like investment limits and derivatives. The CBC is the Fiscal Agent controlling operations of the fixed portfolios of the government revenues as well as bank deposits. External managers manage the equity portfolios for FEES according to the investment guidelines. The General Treasury of the Republic (the "GTR") takes charge of the fund's accounting, preparing the financial statements and the like.

Also, the GAPP 7's procedure to select governing bodies' members is now more transparent and clearly described by domestic laws. For example, the FRL clarifies the main goals of the FEES defining the Ministry of Finance as the main responsible entity for the governance and decision-making regarding management and investment policies of the fund. The members of the Financial Committee are appointed by the Minister of Finance in consistent with the requirements mandated by the Supreme Decree N° 621 issued in 2007.

[Table 4] GAPP Analysis of FCC and FEES (GAPP 5~7)

II. Institutional Framework and Governance Structure		
FCC	GAPP	FEES (IFSWF, 2015)
The agreement assigns responsibilities of each interested organizations such as FCC, CBC, CODELCO and so on providing explanations on its mechanism.[6] Regarding monitoring, however, it only describes reporting system between FCC and World bank without mentioning internal system.	GAPP 6. Principle 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.	The FRL specifies that the fund is the property of the State of Chile and that the GTR is the bearer of the resources. It clarifies the division of role of the fund.[7]
The appointment and its procedures to select members of governing bod(ies) of the FCC is NOT specifically mentioned in the official document regarding the fund.	GAPP 7. Principle 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 Finance Minister is appointed by the President of the Republic while the members of the Financial Committee are appointed by the Finance Minister according to the Supreme Decree N° 621 issued in 2007 by the Finance Ministry.

[6] The FCC is a Treasury deposit incorporated into the international reserves of the Central Bank of Chile (CBC). The deposit will obtain its resources from the surpluses transferred to the Treasury from CODELCO in accordance with the specified formula and conditions in the corresponding document.

[7] Under this law, the Finance Minister is responsible for deciding how the fund is managed and its investment policies. The CBC is a Fiscal Agent responsible for the operational management of the sovereign fixed income portfolios. External managers has responsibility to manage the equity portfolios for FEES invested according to the guidelines prepared by the Finance Ministry. The custodian bank is responsible for custody of securities and also provides a number of middle-office services such as monitoring compliance with investment limits, calculating each manager's performance and preparing financial and accounting reports on the fund. Finance Ministry staff monitors the CBC's and external managers' performance and investment strategy using information provided by the custodian bank and by the managers themselves, and prepares monthly, quarterly and annual reports on the basis of information provided by the custodian bank. In addition, Finance Ministry's staff acts as the Financial Committee's Secretariat and provides support in all tasks related to the fund's investment policies. The GTR is responsible for the fund's accounting, for preparing its audited financial statements, and for its incorporation into Chile's national accounts. As of April 2014, GTR is also responsible for monitoring compliance with the fund's investment guidelines, validating external managers' fees, and other back office tasks. (IFSWF, 2014)

When it comes to the governance body members' commitment to seek the best interests of the fund as mandated by GAPP 8, however, both FCC and FEES have no mentioning. The IFSWF report (2014) explains that the relevant entities are all public ones that they pursuit the goal of the public interests but there is no way to prove this coherence between public interests, which might be distorted by the government officers and the goal of the fund.

Likewise, the independent management of the funds of GAPP 9 is not achieved by the two funds, either. In case of FEIP, although the deposit is operated in accordance with the formulas and principles that the loan agreement suggested, some elements depend on the government or CODELCO. For instance, the loan agreement advised to set a price range of the copper called "band" and to put or withdraw depending on the gap between the expected price and the actual price of copper. However, this range may be revised considering the "economic situation," which was not clarified that government can have influence on determination of this change. When it comes to the investment, there is no clear criteria and this hindered the FCC to be a source for the national development. Rather, both funds clearly explain that the management is under the ruling of the CBC and the Ministry of Finance.

Regarding accountability, the FCC also had its own reporting system but only limited information, the quarterly balance of the fund was provided (GAPP 10 and 11). On the other hand, FEES has more comprehensive and more frequent reporting and auditing system mandated by the Art.12 of the FRL and Art.7 of DFL Nº 1. As a result, internal accountability can be seen as improved. Those internal accountability mechanism is aligned by several domestic laws such as the Supreme Decree N° 1.383 which defines the obligations of the CBS regarding the

Ministry of Finance and the Art. 7 of the Supreme Decree N° 621 ruling the Financial Committee

[Table 5] GAPP Analysis of FCC and FEES (GAPP 8~17)

II. Institutional Framework and Governance Structure		
FCC	GAPP	FEES (IFSWF, 2015)
There is NO information on the governance or the governing body members of the fund.	GAPP 8. Principle 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.	NO information is found in the official documents.
The deposit is operated in accordance with the formulas and principles that the loan agreement suggested. However, some variables of the formula are decided by the government or CODELCO.	GAPP 9. Principle The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.	The CBC and external managers buy and sell instruments and make other operational decisions within the parameters by the Finance Ministry in the investment guidelines for the fund.
According to the loan agreement Nº 2,625 of World Bank in 1985, the quarterly balance in the FCC account will be reviewed every six months in the context of the SAL program.	GAPP 10. Principle The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.	Couples of domestic legislations including Art.12 of the FRL and Art.7 of DFL Nº 1 describes the accountability of each agent in detail.[8]

[8] Art.12 of the FRL and Art.7 of DFL Nº regulates that "the Finance Ministry must present to the Finance Commissions of Congress and to the Joint Budget Commission of Congress monthly and quarterly reports about the funds." Under the modification of the Supreme Decree N° 1.383, the CBC is accountable to the Finance Minister for the operational management of the sovereign fixed income portfolios and bank deposits of the fund and provides the Finance Ministry with daily, monthly, quarterly and annual reports about the portfolios under their management, and the services provided by the custodian. The external managers are accountable to the Finance Ministry for the operational management of the portfolios that they manage and provide the Finance Ministry with daily and monthly reports about the portfolios under their management. The Finance Ministry is responsible for oversight and investment policy definition and decides how they should be managed. (IFSWF, 2015)

The Financial Committee is an advisory body and is accountable for its obligations as established in Supreme Decree N° 621. Under Art.7 of this Decree, it must present an annual report on its work to the Finance Minister and send a copy of this report to the Finance Commissions of Congress and to the Joint Budget Commission of Congress. In addition, the Comptroller General's Office, an autonomous body, is responsible for auditing public-sector finances and, therefore, the FEES. (IFSWF, 2015)

According to the loan agreement Nº 2,625 of World Bank in 1985, the quarterly balance in the FCC account will be reviewed every six months in the context of the Structural Adjustment Loan program.	GAPP 11. Principle 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 Finance Ministry prepares an annual report on the funds using the information supplied by the CBC, the external managers, and the custodian bank. This report includes financial information and is publicly available. As of 2011 the GTR prepares the financial statements, which are included in the annual report by the Finance Ministry.
The Program Performance Audit Report by the World Bank provided auditing of the SAP in Chile. However, this audit report is not specified to the FCC nor on regular time basis.	GAPP 12. Principle 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 funds' operations are audited by internal CBC auditors. As of 2011 the GTR prepares the financial statements according to IFRS, which are independently audited in keeping with Chilean auditing standards.
There is NO mentioning the issue of professional and ethical standards of the individuals associated with the fund in the official documents or reports regarding the FCC.	GAPP 13. Principle 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 authorities and staff involved in work relating to FEES are subject to legally established ethical norms such as the principle of probity. In addition, the CBC has defined professional and ethical standards (www.bcentral.cl/transparencia/pdf/Manual_probidad/Manualdeprobidad.pdf). Members of the Financial Committee are subject to the ethical norms of the Decree. Finance Ministry staff and advisors involved in the funds' management have internally adopted a code of ethics (http://www.hacienda.cl/fondossoberanos/codigo-de-etica.html).

There is NO mentioning the issue of the fund's dealing with third parties in the official documents or reports regarding the FCC.	GAPP 14. Principle 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 Finance Ministry has rules and procedures that define the steps to be followed in acquiring or hiring services from third parties and the CBC and GTR also have a series of clearly defined rules and procedures for these situations.
There is NO mentioning the issue of investment behaviors of the fund in the host countries in the official documents or reports regarding the FCC.	GAPP 15. Principle 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.	The procedures established by the CBC and external managers aim to ensure that the operations and activities of the fund are implemented in accordance with the applicable regulatory and disclosure requirements of host countries.
There is NO mentioning the issue of the governance framework of the fund in the official documents or reports regarding the FCC.	GAPP 16. Principle 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.	The operational framework for management by the CBC is defined in Supreme Decree N° 1.383. This Decree ant its modification were published in the Diario Oficial, which are available on the official webpage mentioned above.
The financial information provided by the FCC is only on a quarterly base including income and expenditure of the fund. This information was reviewed by the SAL program of the World Bank and publicly disclosed on the webpage. (https://www.tesoreria.cl/portal/portalInfo/info/activos_pasivos/AdminTesoro.html?RUT=0&DV=0)	GAPP 17. Principle 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.	The size of the fund, its absolute returns and the countries where its assets are invested are reported on a monthly and quarterly basis. The annual report of the fund contains additional financial information. All these reports are available on the funds' website.

and the Ministry of Finance. External accountability, however, is quite ambiguous. While financial status of FCC had to be reported to the IMF, the FEES does not have any external supervisor.

Meanwhile, the assurances of integrity of operation (GAPP 13~17) of the fund showed a great improvement considering that the FCC did not have any mentioning regarding those requirements that the GAPP principles suggest while FEES satisfies all of them.

- **[GAPP 18~23] Investment and Risk Management Framework**

Another great improvement in the reform is that the rules for the new CSF now, though not completely, covers issues of investing resources of the fund while those of FCC did not. The FEEC has clear investment policies in consistency with the objectives of the fund (GAPP 18~21), settling frameworks to manage risks of their portfolios operated by the CBC and the external managers (GAPP 22 and 23).

- **[GAPP 24] Implementation of GAPP**

The GAPP was established in 2008 while the FCC was created in 1987 and integrated into the FEES in 2006 that it was impossible for FCC to have rules for the implementation of the GAPP. In case of FEES, it was established in 2006 but has been amended if it is necessary. As Chile joined IFSWF, the Ministry of Finance conducts a self-evaluation of the GAPP implementation every other year on its official webpage.

[Table 6] GAPP Analysis of FCC and FEES (GAPP 18~24)

III. Investment and Risk Management Framework		
FCC	GAPP	FEES (IFSWF, 2015)
The agreement does NOT mention anything regarding the investment and expenditure of the fund's resources.	GAPP 18. Principle 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. GAPP 18.1. Subprinciple. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage. GAPP 18.2. Subprinciple. 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. GAPP 18.3. Subprinciple. A description of the investment policy of the SWF should be publicly disclosed.	The investment policies in force for the FEES are consistent with its objectives and risk tolerances. Leveraging is not permitted while the use of derivatives is permitted only for currency hedging purposes or for gaining exposure to some part of the benchmark. In general, external managers shall be hired through a selection process carried out by the CBC, according to its internal policies and procedures. Up to now, external managers have only been used for those asset classes where the CBC lacks the expertise. The scope of external managers' responsibilities and activities is set forth in the corresponding investment guidelines as well as their monitoring by the custodian bank, the Finance Ministry and the GTR. (www.hacienda.cl/fondos-soberanos.html).
There is NO mentioning the issue of investment in the official documents or reports regarding the FCC.	GAPP 19. Principle 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 19.1. Subprinciple. If investment	The CBC and external managers implement investment decisions autonomously based only on economic and financial grounds and according to a passive investment approach. The funds' investment policies and guidelines are established by the Finance Ministry,

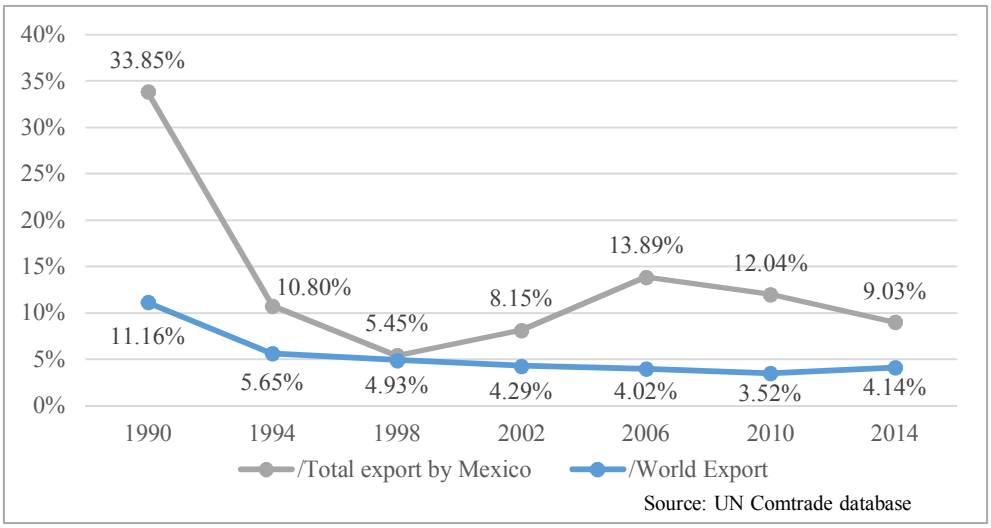
	decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed. GAPP 19.2. Subprinciple. The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.	taking into account the opinion of the Financial Committee.
There is NO mentioning the issue of fairness in competition with private entities in the official documents or reports regarding the FCC.	GAPP 20. Principle The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.	Investment decisions are implemented independently by the CBC and external managers who apply standards and operating procedures that meet high probity standards. The members of the Financial Committee must do so using only public information.
There is NO mentioning the issue of shareholders in the official documents or reports regarding the FCC.	GAPP 21. Principle 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.	The FEES invested in equities for the first time in 2013. Nonetheless, given that the fund is invested with a passive approach and that the size of the investments is small relative to each instrument's size in the benchmark, the Finance Ministry decided to follow a neutral approach for exercising ownership rights. However, in the legislations, there is no specific mentioning of this issue.
There is NO mentioning the issue of	GAPP 22. Principle	The different bodies that comprise the

management of risks in the official documents or reports regarding the FCC.	The SWF should have a framework that identifies, assesses, and manages the risks of its operations. GAPP 22.1. Subprinciple. 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. GAPP 22.2. Subprinciple. The general approach to the SWF's risk management framework should be publicly disclosed.	FEES organizational structure have procedures and controls in place that constitute a proper framework for managing the risks. The annual report prepared by the Finance Ministry includes a description of the main risks. The investment guidelines defined by the Finance Ministry determine the funds' maximum permitted exposure to the main risks arising from investment of their assets.
There is NO mentioning the issue of investment performance in the official document or reports regarding the FCC.	GAPP 23. Principle 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.	The returns are reported in absolute terms and relative to the benchmark. The CBC, external managers and the custodian bank report to the Finance Ministry the returns. The latter informs them to the Financial Committee and the public.
The GAPP was established in 2008 while the FCC was created in 1987 and integrated into the FEES in 2006 that it was impossible for FCC to have rules for the implementation of the GAPP.	GAPP 24. Principle A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.	A self-assessment of compliance with the Santiago Principles is carried every two years. www.hacienda.cl/english/sovereign-wealth-funds/goodgovernance-practices-santiago.html.

2. Case 2 - Mexico

Crude oil accounts for around 11% of total export of Mexico, which represents 3.3 % of the world crude petroleum market (data from OEC), making it the 10th world oil producer in 2013. Mexico revised the Art. 27 of its constitution and empowered the state-owned company, PEMEX to dominate petroleum industry in 1938. Since this revision, PEMEX has long been dominating the domestic market and accounts around one third of government revenue has also been suspected to be corrupted and inefficient that its competitiveness has been seriously deteriorated. All things considered, the current president of Mexico, Peña Nieto pushed to reform Mexican energy sector with the Mexico Energy Reform, which is intended to open its domestic energy production market to foreign investors. At last, in December 2013, this constitutional reform of energy was approved by the congress. The oil stabilization fund of Mexico was also included as a part of the energy reform.

[Graph 2] Mexican Oil in Domestic and World Market (1990~2014)



1) Oil Revenues Stabilization Fund

Information of the Oil Revenues Stabilization Fund (FEIP: Fondo de Estabilización de los Ingresos Petroleros) can be found on the webpage of IFSWF.[9] Comparing with its reputation, the FEIP regulations are quite complete to manage a CSF. The most important legislation is the Agreement for establishment of the regulations and operations of the Oil Income Stabilization Fund in the 11th section of the constitution. Generally, the act mentions issues of transparency that it is responsible for submiting reports on income and expenditure of the FEC every three months to the Congress (Diario Oficial 2007 Art. 7.1); and it will be established in the applicable laws (Art. 7.2).

However, the FEIP had been blamed for having three endemic problems overall. The very first problem is from the failure of actual implementation of the legislations. Too little amount of oil revenues was being transferred to the fund reserve comparing with that that the law mandates. The 40 percent of the "revenue generated by prices of oil over a Congress-set reference price" was supposed to be saved in the fund but the actual amount was 33 percent in 2001, and the target figure was lowered by the Congress in 2003 to 25 percent (NRGI). Cervera, an economist specialized in Mexican and Chilean economy, argued that if Mexican fund had stored 5 percent of its GDP of previous year, it would have made "a huge difference" to Mexican economy (Gould, 2015).

Another problem is related to the weak trust in the institutions. The Congress of Mexico would change relevant legislations, which reduced the credibility and

[9] http://www.apartados.hacienda.gob.mx/ifswf/feip.html

accountability of the fund. For instance, FEIP was included in its budget in 2002, which infringes the existing rules for withdrawals of the fund at that time. Spending rules of the fund were frequently revised by the managing authority, the Ministry of Finance as well.

Last problem originates from defects of the legislations. For instance, the FEIP failed to save oil revenues mainly due to the lack of long term goal and little incentives to make use of it as a saving reserve as oil price kept increasing due to the commodity boom in 2000s (NRGI). In this context, the new FMP was necessary to complement such limitations of the old Mexican CSF.

2) Mexican Oil Stabilization and Development Fund (FMP)

The Mexican Oil Stabilization and Development Fund (FMP: Fondo Mexicano del Petróleo para la Estabilización y el Desarrollo) has launched as a chapter of the Energy Reform of Mexico (Ramírez de la O, 2014). Its main goal is to receive, administer, invest and distribute the revenues derived from the agreements and contracts to produce and invest in Mexican oil. The key legislation of FMP is the Act of Mexican Oil Stabilization and Development Fund (LFMPED: Ley del Fondo Mexicano del Petróleo para la Estabilización y el Desarrollo), which consists of five chapters. Each chapter covers each element of the fund: (1) general provisions, (2) the Committee, (3) its operations, (4) transparency and information of its operation and (5) responsabilities and sanctions. Basically, the source of income is from the payments to the government made by oil producing companies in Mexico for granting a Contract for Exploration and Extraction of Hydrocarbons through a bidding process. The income and investment products derived from

resources of FMP when the Reserve Fund is greater than 3% of GDP the previous year, the resource is allocated to where appropriate, to infrastructure investment for national development; in projects to improve connectivity and so on.

3) Changes from the Reform

The details of the GAPP analysis on Mexican CSF reform is attached as an appendix. The responsible legislation of FMP is four times longer than that of FEIP and included many details that the FEIP didn't consider.

- **[GAPP 1~5] Legal Framework, Objectives, and Coordination with Macroeconomic Policies**

The legal basis (GAPP 1) of the FEIP is much simpler than that of the FMP. The act of agreement mentioned before is almost the only legislation regarding FEIP, and it does not include alignment with other legislations. Also, according to the preamble of the act of FEIP, the fund should be inconsistent with the budget approved by the Congress of Mexico while in LMFMP, the power of the Congress is much weaker than the Central Bank of Mexico and SHCP as clarified in the Art.5 Ch.2 that the fund is under the two organizations but cannot be abated by them.

When it comes to the CSF objective (GAPP 2), the FEIP also disclosed its goal by the Federal Law on Budget and Treasury Responsibility which clarifies that the objective of the FEIP is to compensate damages in tax revenues. As pointed out previously, this policy objective is short sighted. The new FMP succeeded in complementing this limitation. According to the LFMPED Art. 1, the objective of FMP is to "receive, administer, invest and distribute the revenues derived from the

[Table 7] GAPP Analysis of FEIP and FMP (GAPP 1~5)

FEIP	GAPP	FMP
Legal framework, objectives, and coordination with macroeconomic policies		
The Diario Oficial Federal ("DOF") mandates regulations on FEIP. Legally, its transaction and structure are soundly established. However, actual management was not consistent with the rulings. Those regulations can be found in the webpage of DOF but it is only in the form of legal documents that the accessibility for the general public is low.	GAPP 1. The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s). GAPP 1.1. Subprinciple. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions. GAPP 1.2. Subprinciple. 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.	It is based on various constitutions and laws which are publicly opened to the general public through its official website in an easily understandable form. (http://www.fmped.org.mx/normas/) The main legislation is LFMPED. The LFMPED clarifies that the fund is under the Secretariat of Finance and Public Credit (SHCP) inside of the Central Bank of Mexico but cannot be abated by them. (Art.5 Ch.2 of LFMPED)
The Federal Law on Budget and Treasury Responsibility ("LFPRH") clarifies that the objective of the FEIP is to compensate damages in tax revenues. The FEIP was established in order to manage risks in response to the decreases of the observed price of petroleum, which used to result in sudden cuts of government expenditure in the late 1990s. The fund aimed at reducing its effects on social spending from oil revenues.	GAPP 2. The policy purpose of the SWF should be clearly defined and publicly disclosed.	LFMPED Art. 1 clarifies that the objective of FMP is to "receive, administer, invest and distribute the revenues derived from the agreements and contracts" in the Article 27 of constitution which mandates Mexican energy sector. This information is publicly disclosed on the official webpage mentioned before.

According to the "Rules of Operation of the Stabilization Fund of the Oil Revenues", the purpose of the Fund is to minimize its influence on the government's social spending and the national economy when oil revenue declines when movements in the exchange rate of the peso against the dollar of the United States occur with respect to what the Revenue Act of the Federation contains, to foster the conditions that cover planned spending in the Budget of Expenditures of the corresponding Federation.	GAPP 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.	Art. 17 mandates to find a diversification of risk aligned with the macroeconomic policy of the country by a composition portfolio in financial assets such as government bonds, inflation-indexed government bonds, corporate bonds and stocks, among others.
When government revenues are smaller than the originally planned ones for any shocks on macro economy, the fund can be resources to reduce volatility, allowing public financing to remain at the originally envisaged level. This mechanism help the Fiscal Budget to be spent according to what it was planned. The income of the fund is from a special levy on the gap between the actual and expected oil income. Also, the level of oil production determines the upper limit. In the webpage of IFSWF which explains Mexico's CSF, it is described that "the fund can compensate for a decrease in estimated income from the levies of the related fiscal year derived from a lower observed oil price, using up to 50 percent of the	GAPP 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. GAPP 4.1. Subprinciple. The source of SWF funding should be publicly disclosed. GAPP 4.2. Subprinciple. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.	Art. 4 of the Chapter I of LFMPED clarifies that the source of the fund consists of three elements: income from agreements and contracts referred in the Art. 1 of LFMPED, investment products derived from resources of FMP, and donations or any type of contribution from any legal person CAPÍTULO III mandates its operations including its arrangements, funding, withdrawal and spending. Those relevant legal documents can be found without difficulty on its official website. When the Reserve Fund is greater than 3% of GDP the previous year, the allocation of resources to the following areas: the fund for universal pension system ; to finance investment projects; fund an investment

accumulated resources at the end of the previous the fiscal year for that purpose. The operation of the Fund and the allocation of resources are audited by the Superior Auditor of the Federation, and reports are sent to Congress on a quarterly basis.”		vehicle specializing in oil projects, coordinated by the Ministry of Energy and, where appropriate, to infrastructure investment for national development; and scholarships for university students and graduate; as well as for the regional development. The necessary resources of oil revenues for the government to cover its budget remain at 4.7% of GDP. These resources include transfers to municipalities adjacent to the border or coastline for which are physically carried departure of hydrocarbons.
The quarterly balance, revenues and expenses of the fund are published in the quarterly reports on Public Finances and Public Debt, which are available in the SHCP web site.	GAPP 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.	The website also provides statistics such as transactions, the volume of inflow by its original source, investment and spending, etc. in a monthly basis.

*The content of this table is based on the material which can be found in the official webpage and documents of each fund that some wordings were not paraphrased in order not to harm its original legal meanings. The first column is based on the official webpage of Finance Ministry of Mexico (www.apartados.hacienda.gob.mex) and other legal documents with citation and the third column is based on the information described in the official webpage of FMP (www.fmped.org.mx) and other relevant reports and legislations.

agreements and contracts" in the Art. 27 of constitution which mandates Mexican energy sector.

The most important change, however, is improvement of transparency and accountability of the CSF as the GAPP 4 and 5 mandate. The FMP has now its own official webpage where general public can get access to legal framework, objectives and alignment with other policies as well as statistical data, reports and all relevant legislations and regulations for their own. This is a huge evolution considering that FEIP only has one page in the Ministry of Finance of Mexico (SHCP: Secretaría de Hacienda y Crédito Público) homepage and its statistical data and reports were so scattered in the website that it took much time for those who are concerned to find them out. Also, FMP considers not only the possibility but also the convenience of the access to the information. Its norms, regulations and other policies are well organized so that general public as well as lawyers and officers can understand what those professional descriptions mean.

In addition, the new regulations deal with transparency in a separated chapter while the old ones just provide mentionings just once in the legal document as a criterion of its operation in accordance with the suggestions approved by the congress. Also, its reporting of proceedings is not for general public but for the congress. The FEIP regulations mention issues of transparency: it is responsible for submiting reports on income and expenditure of the FEC every three months to the Congress (Diario Oficial 2007 Art. 7.1); and it will be established in the applicable disposition (Art. 7.2). However, it does not consider transparency to other stakeholders.

- **[GAPP 6~17] Institutional Framework and Governance**

Also, the types of the financial information of the fund are more varied and copious than before as can be seen in the GAPP 10. While FEIP used to provide only the data on income and expenditure, FMP webpage also updates information on allocations for Exploration and Extraction of Hydrocarbons, costs associated with operation and management, and salaries for the employees.

The requirements and procedures to appoint members of the governance are also open to the general public as mandated by the GAPP 13. FEIP legislation described the characteristics of the SWF's governing body members, which is the Technical Committee composed of the SHCP officers. But criteria for the quality of them such as professional and ethical standards was not clearly defined. Meanwhile, LMPED Art 9 describes the requirements of the independent members of the Committee as they should be appointed on account of their experience, capability and professional prestige considering whether they could perform their functions without conflict of interest. Regarding the procedures of the appointment, it also mandates in the Art.7 that the committee designate an internal comptroller to examine and advise the functions of the executive coordinator, and the appointment of the Executive Coordinator is at the proposal of the Governor of the Bank of Mexico, and the approval of the proposal of the Executive Coordinator's work plan.

Accountability of the FMP also shows great advancement. To begin with, the responsibilities of the Committee are much more clearly and specifically written in the LMPED, which is in accordance with the GAPP 9. FEIP legislation only explained that the responsible entity for the structure of governance and decision-making of the fund is the "Technical Committee." According to it, the Committee has responsibilities to authorize the amount of resources from the Fund in order to

[Table 8] GAPP Analysis of FEIP and FMP (GAPP 6~10)

II. Institutional Framework and Governance Structure		
FEIP	GAPP	FMP
The administration of the resources contributed to the Fund is by the Trust created for this purpose by the Secretariat, in its capacity as sole trustee of the central public administration. The governance of the fund is not independent since it belongs to the SHCP, a government department.	GAPP 6. Principle 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.	It is constituted by the Secretariat of Finance and Public Credit (SHCP as a founder of the trust) in the Mexican Central Bank, as trustee Art. 25 The Committee members will be held responsible in the exercise of their functions when estimable cause damage or injury in money to the Federal Treasury, under the terms of Title V of the Law on Control and Accountability of the Federation.
The objective is settled by the government as mentioned before. However, the procedures of the appointing members of its governing bodies are not clearly defined by the legislation.	GAPP 7. Principle 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.	(Art.7) The executive coordinator takes charge of managing the fund and informing its performance to the committee. The committee designate an internal comptroller to examine and advise the functions of the executive coordinator. The appointment of the Executive Coordinator, at the proposal of the Governor of the Bank of Mexico, and the approval of the proposal of the Executive Coordinator of the work plan, the annual report and the proposed operating expenses for the year concerned in order to meet the goal of the MPF.
The governing body of the fund is	GAPP 8. Principle	The governing body of the FMP is the

Technical Committee, which consists of officers of the Ministry of Finance (SHCP).[10]	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.	Committee[11] and the LFMPED clarifies the minimum requirements and obligations of them.
	GAPP 9. Principle The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.	The Committee is made of four independent members and three representatives from the Central Bank of Mexico or other relevant public offices.
The report on the operation of the Fund and the allocation of resources are to be sent to Congress on a quarterly basis.	GAPP 10. Principle The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.	The Art.19 of LFMPED mandates the fund to publish quarterly reports, financial status, amount of transference, and payment for the trustees and marketers in the electronically available form at least thirty days ahead of approval of the Committee.

[10] The Fund's decisions are undertaken by a Technical Committee, which is responsible for the Fund's governance structure, and is formed by officers of the Ministry of Finance. The Most important responsibilities of the body is to authorize the amount of resources which, if any, are withdrawn from the Fund to compensate for a reduction in oil and non-oil tax revenues with respect to those included in the Revenue Bill of the current fiscal year. These withdrawals must be consistent with the guidelines established in the Federal Budget and Fiscal Responsibility Law. Also, they are also obliged to authorize the acquisition of financial instruments for hedging oil-price risks.

[11] The Committee shall have the following powers:

1) Determining by the affirmative vote of at least five of its members a) investment policy, b) risk management strategies, c) operation rules, d) appointment of the Executive Coordinator, at the proposal of the Governor of the Bank of Mexico, e) approval, on a proposal by the Executive Coordinator of the work plan, annual report as well as the operating budget for the year
2) Establish policies and guidelines under which the trustee perform operations.
3) To approve the proposal of the Executive Coordinator, the guidelines for opening accounts and subaccounts in the Bank of Mexico, transfers to the Federal Treasury, the long-term savings and investments.
4) To recommend to spend its capital when the Reserve Fund is more than 3% of GDP in previous year.
5) To appoint the Secretary and Deputy Secretary of the Committee, and
6) To approve the audited financial statements by the external auditor, to report to the Executive Coordinator and, where appropriate, to make observations.

complement the government incomes which is smaller comparing with those of the Revenue Bill expected in that fiscal year. Also, they are obliged to authorize hedging instruments against the risk from price changes of the natural resources in the world market (IFSWF).

In addition, information on external audit is also included in the LMPED, which is consistent with the GAPP 12. The LMPED Art.21 describe the powers and obligations that the auditor shall have. The auditor may examine and determine the financial statements of the FMP, and review accounting and other related documentation. The auditor can also review compliance with the obligations under the Contracts for Exploration and Extraction of Hydrocarbons the Hydrocarbons Law concerns, as well as actions taken by the competent authorities in his administration, analyzing whether recruitment procedures and considerations agreed obey maximize national income, based on the circumstances observed at the time of determination. And the external auditor is required to send to the President and the Congress a copy of the reports and results of that review conducted pursuant to the provisions of this Article and to submit to the Committee.

Finally, the accountability of the Committee is also regulated by the legislation. For example, in the row of GAPP 10, the Art.19 of LFMPED mandates the fund to publish quarterly reports, financial status, amount of transference, and payment for the trustees and marketers in the electronically available form at least thirty days ahead of approval of the Committee. Meanwhile, the FEIP legislation also required the Committee to submit quarterly reports, but it did not mention any guidelines for the submission itself. By providing regulations on the accountability system, the institutionally described accountability is now more strongly driven to the actual implementation.

[Table 9] GAPP Analysis of FEIP and FMP (GAPP 11~17)

II. Institutional Framework and Governance Structure		
FEIP	GAPP	FMP
The quarterly balance, revenues and expenses of the fund are published in the quarterly reports on Public Finances and Public Debt, which are available in the SHCP web site.	GAPP 11. Principle 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.	On the website, quarterly and monthly reports are uploaded. A report includes its financial status, performance of the management and operation of the fund.
The operation of the Fund and the allocation of resources are audited by the Superior Auditor of the Federation, and reports are sent to Congress on a quarterly basis.	GAPP 12. Principle The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.	Art.21 describes that the auditor shall have the broadest power to examine and determine the financial statements of the FMP, and to review accounting and other related documentation.[12]
The characteristics of the SWF's governing body members, which is the Technical Committee formed by officers of the Ministry of Finance (SHCP). But criteria for the quality of them such as professional and ethical standards is not clearly defined.	GAPP 13. Principle Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.	Art 9 clarifies the requirements of the independent members of the Committee. They should be appointed on account of their experience, capability and professional prestige considering whether they could perform their functions without conflict of interest.
The rulings only describes that the third	GAPP 14. Principle	The operation rules of the Technical

[12] The auditor can review compliance with the obligations under the contracts for exploration and extraction of hydrocarbons. Hydrocarbons Law concerns, as well as actions taken by the competent authorities, analyzing whether recruitment procedures and considerations agreed to maximize national income, based on the circumstances observed at the time of determination. The external auditor must send to the President and the Congress a copy of the reports and results of that review conducted pursuant to the provisions of this Article and to submit to the Committee.

parties must observe their obligations in matters of profits.	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.	Committee mandates that the policies on debt cancellation are responsibility of the third parties.[13]
The legislations and rules for the fund is NOT mentioning the consistency of its operation with those of the host countries.	GAPP 15. Principle SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure of the countries in which they operate.	The legislations and rules for the fund is NOT mentioning the consistency of its operation with those of the host countries.
Whether the fund is operational independent or not is not referred in the legislation.	GAPP 16. Principle 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.	The Art. 5 reads that the FMP, "public trust constituted by the State Secretariat of Finance and Public Credit, as trustee, the Bank of Mexico, as fiduciary institution, is part of the Federation and not be considered parastatal." The information is publicly disclosed on the website.
Only do the quarterly reports include the financial information of the fund which does NOT include investment performance.	GAPP 17. Principle 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.	The financial information of the FMP is accessible on the website in the form of monthly and quarterly reports of the fund. Also, the website provides relevant statistics of the fund's operation.

[13] The "Norms and General Principles of the current budget and physical investment of the Central Bank of Mexico" and "Amendment to the guidelines for the preparation and presentation of the costs, expenses and investments; the procurement of goods and services contracts and assignments; accounting and financial verification of contracts, and royalties updating contracts and the right to extract hydrocarbons (published in the Official Gazette on July 6, 2015)" also settled rules in dealing with third parties for the sake of national interests that can be applied the operation of the FMP indirectly.

- **[GAPP 18~23] Investment and Risk Management Framework**

However, there are still many elements to be improved. In particular, legislations of both FEIP and FMP do not cover much about investment activities of the fund, which are covered by GAPP 18~23. The former mandates that "the investment policy of the Fund is set by a Technical Committee, which aims at an adequate level of liquidity required for the purpose of the Fund and a reasonable rate of return with a minimum risk level." As it is shown, however, it does not provide any concrete criteria or practices of investment. On the other hand, LFMPED directly provides responsible members with directions to keep the national confidentiality related to the fund.

This issue can also be considered with the independency of the operation and management of the funds. While GAPP 9 suggests that the operation and management should be independent, both funds belong to the SHCP of Mexico that the FMP is operated and managed not in an independent way, either. The owner of the fund is Mexican government and investment strategies and relationship with other government source is highly related to the sovereignty and national confidentiality. This fact makes it difficult to open investment information of the fund and, as a result, to make the FMP totally independent as its independency from other government institutions may invade its sovereignty and the genuine purposes of its establishment and its function of macroeconomic stabilization. It is also because the FMP is more focusing on saving income from oil and spending for the government financing rather than profits from investment.

[Table 10] GAPP Analysis of FEIP and FMP (GAPP 18~24)

III. Investment and Risk Management Framework		
FEIP	GAPP	FMP
The investment policy of the Fund is set by a Technical Committee, which aims at an adequate level of liquidity required for the purpose of the Fund and a reasonable rate of return with a minimum risk level. The Technical Committee is composed of representatives of the Ministry of Finance.	GAPP 18. Principle 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. GAPP 18.1. Subprinciple. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage. GAPP 18.2. Subprinciple. 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. GAPP 18.3. Subprinciple. A description of the investment policy of the SWF should be publicly disclosed.	The main legal piece related to the risk diversification is mainly dealt in the Art. 17 of LFMPED, which is publicly disclosed on its official website.[14]

[14] The Art. 17 mandates the fund to find a diversification of risk aligned with the macroeconomic policy of the country by a composition portfolio in financial assets such as government bonds, inflation-indexed government bonds, corporate bonds and stocks, among others, to comply with the investment policies determined the committee.

The Art.17 also mandates that the investment policy and risk management for the Reserve Fund should contemplate to seek the maximum return on investment with an appropriate level of risk; to find a diversification of risk aligned with the macroeconomic policy of the country by a composition portfolio in financial assets such as government bonds, inflation-indexed government bonds, corporate bonds and stocks, among others, to comply with the investment policies determined the committee; to establish exposure limits by asset type, countries, regions and economic sectors; to leveraging long-term nature of savings to avoid the risks associated with the volatility of markets in the short term and to capture a prize in return in the long term; to consider a portfolio of reference for evaluating the performance of the Reserve Fund, where appropriate, to consider the use of derivatives for the sole purpose of facilitating the implementation of investment policies and risk management.

The FEIP does NOT clarify any objectives to maximize risk-adjusted financial returns and its consistency with its investment policy. It focuses on the saving of the resources rather than investment of the resources.	GAPP 19. Principle 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 19.1. Subprinciple. 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. GAPP 19.2. Subprinciple. The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.	Art. 17 Leveraging long-term nature of savings to avoid the risks associated with the volatility of markets in the short term and to capture a prize in return in the long term; A proposal of the fund's trustee, the investment policy in financial assets methods to be observed in decisions of each investment that it must make regarding the long-term savings. For this, The Technical Committee shall establish general guidelines and parameters as well as assessment methodologies on the corresponding investments and, within the eligible investment assets, they must understand a wide range of selected order to increase performance and protect the Reserve Fund instruments, as defined in the Act Fund , inherent risk of adverse events in the national economy.
There is NO mentioning of the issue of misusage of government influence in the official document. Though it is not clear whether there was any similar behavior in the FEIP's investing performance, this vacancy may foment such comportment.	GAPP 20. Principle The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.	The chapter four mandates transparency of the funds in all aspects and the Art 20. suggests some exceptions as national confidentialities. This may be interpreted that the fund does NOT guarantee fare competition and information usage.
The regulations on the operation and management of the fund does NOT	GAPP 21. Principle SWFs view shareholder ownership rights as	The new legislation does NOT mention shareholder ownership in investing its

consider the shareholders' ownership.	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.	resources.
The consideration of the risk in investing FEIP's resources is NOT described in the official document.	GAPP 22. Principle The SWF should have a framework that identifies, assesses, and manages the risks of its operations. GAPP 22.1. Subprinciple. 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. GAPP 22.2. Subprinciple. The general approach to the SWF's risk management framework should be publicly disclosed.	The risk management strategies identified in Art.8 that "The risk management strategy that the trustee must observe in relation to the respective investments and, inter alia, is referred to changes in the value of the corresponding portfolio of such investments" Art. 17 Consider a portfolio of reference for evaluating the performance Art.21 The external auditor of the Banco de Mexico contracted by the Secretary of Finance and Public Credit in accordance with Article 50 of the Law of the Bank of Mexico will also serve as external auditor of the Mexican Petroleum Fund.
"The Fund can also use resources to invest in financial instruments to adequately hedge the volatility of oil prices for any given	GAPP 23. Principle The assets and investment performance (absolute and relative to benchmarks, if	The Art. 19 mandates that the quarterly reports should be electronically available and contain activities and financial

fiscal year." However, there is no criterion or guideline for the investment. The quarterly report does not include investment part. It is inferred that it is because the fund itself is mainly for the saving rather than investing aggressively.	any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.	situation of the fund, the amount of transference, the amount of trustee fees paid by Central Bank of Mexico, the amount of covered expenditure to marketers.
Mexico is a member of IFSWF, but it has NEVER submitted any review reports on the performance of GAPP implementation of the fund.	GAPP 24. Principle A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.	The new legislation does NOT mention reviewing GAPP implementation of the fund though Mexico is a member of IFSWF.

- **Implementation of GAPP (GAPP 24)**

When it comes to the implementation of GAPP, both FEIP and FMP do not have any mentioning in their official documents. It is quite strange considering that Mexico is also a member country of the IFSWF and the FMP is really recently created and may have considerations on the validity and necessity to observe those principles. Even the FEIP also had chance to amend its rules after the GAPP initiated for around five years. One possible reasoning may be that it is also due to the worries and concerns of encroachment of sovereignty and independence of the CSFs. However, the genuine rationales are to be investigated more.

In conclusion, FMP showed much improvement in transparency and accountability while the openness of investment strategies and its independence are still in a trap. It is true that the GAPP is based on long term viewpoint and it is too early for FMP to accept those high standards required by GAPP. However, Mexican general people as well as foreign investors are worried about the risk and efficiency of the FMP (Campos, 2014). Considering this demands of transparency of investment from its people, it is expected that the transparency of investment strategies may also become more important issue to deal with for the Mexican government when the Mexican CSF accumulates enough amount of asset to invest more vigorously.

3. Comparative Analysis of Two Reforms

Through these case studies and comparisons, some commonalities are found. Both Chilean and Mexican CSF reforms showed great improvement overall. Transparency [GAPP 1~5] was improved most especially by increasing the amount

and types of the statistical data, financial information and other reports through official websites. On the other hand, however, regarding independent management [GAPP 9] and protection of the ownership rights of their shareholders [GAPP 21], the two reforms still remained the same.

The two reforms showed some differences as well. The biggest difference is that investing policies and risk management instruments are introduced in Chilean reform while Mexican one still does not provide concrete information on it. Meanwhile, Chilean reform is now lingering in improving its accountability system while Mexico made a great advance in the same field.

Lastly, and most interestingly, the GAPP principle 24, the implementation of GAPP was different. Chilean reform was before the creation of the GAPP while Mexican one was done after five years of its initiation, which seems that it would have been more convenient for Mexico to make consistency of the new rules with the GAPP. However, the reality was quite different from what expected. New CSF laws of Mexico does not mention the self-reporting system nor even the mere GAPP. On the other hand, FEES of Chile has been amended so far little by little to reflect this international guidelines and also mentions its observance of the GAPP in its own domestic legislations. This implies that the timeline of the reform cannot be the most important influencing factor for GAPP implementation.

Then what can explain such differences between the two reforms? There can be many reasons but here, three major rationales are suggested. In first place, it can be due to the different development stage each fund is situated since "[n]ewly formed SWFs may have different optimal sets of factor exposures from more established SWFs." (Ang, 2010) This difference can be shown as in the table below comparing FEES with FMP. The history of Chilean CSF is twice as long as that of

Mexican one, with more than six times bigger assets. Similarly, the base effect also can be considered. For example, as Chile has a good reputation in governance and institutionalization, the old legitimation was already good enough in terms of accountability, which explains that as there was little room to be improved, it was one of the least improved parts. On contrary, the old version of Mexican CSF had been considered to have poor accountability and transparency, these two elements represented the most improved parts in the reform. The size of investment also supports this idea. As Chilean CSF is now an important investor in global capital market by providing great amount of investment, it is more urgent and necessary for Chile to settle ruling and institutions for its investment to gain credibility from host countries and third parties. In case of Mexico, however, the amount of investment of its CSF is too small that investment and risk management may not be the most important issue to improve.

This also can be explained by the different policy objectives of the reform. When it comes to the Energy Reform of Mexico, the reform focuses more on "inflow" of resource investment from foreign countries rather than "outflow" of investment of the fund itself. As a result, the Mexican fund emphasized transparency and accountability of the fund to get investment instead of settle its own investment and risk management strategies to make use of their capital. Likewise, Chilean reform which can be represented as the establishment of the FRL, its main objective is not mentioned but the contents of it imply that the reform was proceeded in order to institutionalize Chile's existing fiscal instruments, FCC, with the basis of its domestic legislations.

4. Policy Implications

So far, I have reviewed institutional changes for the reforms of CSF in two Latin American countries. Some policy implications can be drawn from this comparive analysis for both CSFs and GAPP.

For CSFs, it was seen in the Mexican FEIP case that rules legitimated in laws themselves may not lead to the actual performance. For example, the accountability framework in GAPP 10, FEIP also had the ruling to submit the quarterly reports to the Congress but the FMP mentions the deadline and the format of the reports, enabling the accountability system to be more reliable and realizable. This implies that rules for the rules are required so that those institutions can be led to be implemented actually.

In addition, it is necessary to open investment strategies, to make the consistency of behaviors of the fund, and to guarantee the property rights of their clients. It may look somewhat hasty for those SWF owners. Nevertheless, it is clear, taking long term view, that this will ultimately help them to grow by getting credentials from other countries and being able to engage in more investment activities as Chile did.

In case of the GAPP, it showed several limitations. First of all, rooms to be interpreted depending on the development stage of the fund are required. International guidelines sometimes are too ideal to be applied to common countries. Secondly, it does not have any binding power as it clarifies in its official document that GAPP is "on a voluntary basis, each of which is subject to home country laws, regulations, requirements and obligations" (IWG, 2008b). In detail, for example, GAPP 24 which mandates the monitoring of the implementation of the Santiago Principles describes that "[t]he implementation can be verified through self-

assessment performed by the SWF along with its owner, or other mechanisms such as third-party verification as determined by the SWF or its owner or governing body(ies)."(IWG, 2008a) This leads to one of the most important drawbacks of GAPP by overestimating member countries' performance. (Bagnall & Truman, 2011)

Another limitation of GAPP is that it is too abstract without providing any concrete desirable level or size of budget, funding, spending, etc. Several examples can be found in the document: GAPP 1.1 requires SWF to assure "Legal soundness" but the criteria to judge whether a SWF is legally sound or not are not described; GAPP 1.2 mandates disclosure of "key features" of legal basis and structure of SWFs but does not mention what those features mean; in GAPP 5, "[T]he relevant" statistical data is required to be informed on a "timely" basis; and GAPP 13 demands for clarifying and informing "Professional and ethical" standards.

Lastly, the Santiago Principles fails to be comprehensive in that it does not consider external institutional elements. Mehrpouya (2015) criticized that previous studies on GAPP only considered elements at domestic level. According to him, SWFs involve not only the SWFs governments but also many other interested parties that it is necessary to view SWFs in the international scope. Thus, he did an empirical analysis including various stakeholders of the funds such as professional bodies and accounting firm, United States Treasury, international organizations, SWF countries and recipient country representatives. Also, he argues that two types of demanders of accountability: one is general public who has right to know how their tax and common wealth is being managed and the other is actors in the market such as investors, recipient countries of the investment of SWF, international organizations, and so on.

Still, these limitations are somewhat inevitable. The weak binding power and ambiguity are originated from the problem of SWF ownership. Since SWFs belong to their government, SWFs may be closely related to national security and sovereignty that demanding concrete and unified standards may encroach its autonomy. Also, applying bigger picture as Mehpouya suggested may fail to analyze accountability in the view of the original purpose of them. In his study, he asserted that accountability for the public should also be considered, but he actually takes investors' perspective rather than that of strategic policy makers for the macroeconomic stabilization and national development.

These findings can be helpful to amend or reform CSFs in other CSF operating countries including some LACs such as Colombia and Venezuela. CSF has been introduced by many resource rich countries but the original goals have hardly been achieved. In case of Colombian oil fund, oil stabilization fund (FAEP: Fondo de Ahorro y Estabilización Petrolera), its existence is not clear. In the legal and official documents and reports describes the funds, but data is not opened to the public and even some online press covered the fund as a dead and failed fiscal instrument.[15]

Venezuela's Macroeconomic Stabilization Investment Fund (FIEM: Fondo de Inversión para la Estabilización Macroeconómica) may be the worst scenario in the world CSF history. It was established in 1998, but it was almost discarded from 2003 due to the political regime change. During a couple of decades, the country did not need to care much about oil revenues due to the commodity boom in 2000s.

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[15] See http://www.dinero.com/opinion/columnistas/articulo/opinion-sobre-puede-pasar-economia-colombiana-2015/213208 and http://www.eluniversal.com.co/opinion/columnas/el-fondo-de-ahorro-y-estabilizacion-petrolera.

However, the plummeted oil price in recent 5 years is now forcing the government to reinforce the management of oil income and spending. Above all, from its own experience, it should consider legitimizing rules to regulate and control the rules by conferring power and authority to the independent entity to monitor and audit the fund. Like most CSFs are investing in foreign assets, Venezuelan CSF also needs to improve its credibility to be welcomed by its investing countries. And for this improvement of foreign credibility and accountability, the GAPP and the experience of Chile and Mexico will be able to provide a good guideline to achieve comprehensive improvement in its reform.

VI. Conclusion

This paper offers a comprehensive and in-depth study on CSFs in Latin America. It analyzes CSF reforms of Chile and Mexico in accordance based on the GAPP as an institutional guideline which is internationally agreed.

The result revealed that that CSF reforms of Chile and Mexico shared some commonalities in showing great improvement in terms of transparency while staggering in independence of the fund and in protection of shareholders´ rights. More importantly, however, they showed contradictions in most and least improved parts of new institutions. Investment strategy and risk management part was one of the most improved ones and accountability was hardly improved in Chilean reform while in Mexican one, it was one of the least improved part. On contrary, accountability was least improved part for Chilean Copper CSF while it was one of the most improved part for Mexican one.

This contradiction is mainly originated from the different development stages and policy objectives of each fund. Chilean CSF has long history and greater size of asset and investment while Mexican one is relatively young and small. Also, the main objective of the Chilean reform was to legalize its CSF while Mexican CSF reform was a part or Energy Reform of Mexico focusing more on receiving investment rather than doing investment abroad. As a result, Mexico focus more on incoming investment amending accountability while Chile also emphasized investing abroad establishing investment and risk management strategies.

Some policy implications are drawn that those CSFs should have strong drive to lead institutions to actual performances taking long term view. Also, the GAPP should have stronger binding power and try to be more concrete with

consideration of member countries' situations. This will help to diagnose the strength and limitations of each CSF reform and ultimately to amend it in a desirable way.

Of course, this thesis also includes some limitations. Since it uses institutional approach, other external factors could not be considered profoundly. In that it was seen in the Mexican FEIP case that rules legitimated in laws themselves may not lead to the actual performance, other external factors should be complemented and more deeply analyzed to comprehend CSF reforms in a more integrated and comprehensive manner.

In this context, future studies can be done in a more inclusive form combining institutional factors with the other external conditions. As SWFs are getting more and more importance as emerging global investing capital, and those two countries are leading developing countries in FTA and international trades, it will be appropriate to broaden the scope of the analysis to the foreign direct investment and global financial system.

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국문초록

본 논문은 칠레와 멕시코의 상품안정화국부펀드 개혁을 제도적으로 접근하여 분석한다. 상품안정화국부펀드는 상품수출로부터 오는 수입으로 자본을 조달하는 국부펀드의 일종으로, 주로 자원부국들이 자국의 거시경제 안정화 수단으로 활용된다. 많은 중남미 국가들도 자국 경제의 변동성을 최소화하고 자원의 저주를 극복하고자 상품안정화국부펀드를 도입했다.

기존 연구들은 상품안정화국부펀드가 거시경제 안정화라는 본래의 목적을 달성하는데 기여한다는 점은 인정하지만 그 효과성을 위해서는 펀드의 설립 자체보다는 기반제도의 질이 더 중요하다고 강조한다. 본 논문은 이러한 흐름을 고려하여 산티아고 원칙이라 불리우는 국부펀드 행태에 관한 국제적 합의를 연구분석틀로 채택하여 각 상품안정화국부펀드의 공식 문서들에서 발견되는 개혁 전후의 제도적 차이점을 비교한다.

결론적으로 칠레와 멕시코의 상품안정화국부펀드는 투명성에 있어서 큰 발전을 이룬 반면 펀드의 독립성과 주주 권리의 보호 면에서는 정체되어 있다는 공통점을 보였다. 그러나 더 중요한 점은 이 두 개혁의 가장 많이 개선된 부분과 가장 정체된 부분이 상반된 양상으로 나타난다는 점이다. 투자전략 및 위험관리 부분은 칠레 개혁에서 가장 많이 개선된 부분이었던 반면, 멕시코 개혁에서는 가장 덜 개선된 부분이었다. 반대로, 멕시코 개혁에서 가장 많이 개선된 책임성은 칠레 개혁에서는 가장 덜 개선된 부분이었다. 이러한 대조적 양상은 각 펀드의 발전단계와 정책 목적의 차이에서 비롯된 것으로 보인다. 칠레 상품안정화국부펀드는 긴 역사와 큰 규모의 자산과 투자를 보유한 반면, 멕시코는 상대적으로 역사가 짧고 규모도 작다. 또한, 칠레개혁의 주 목적은 상품안정화국부펀드의 법제화였던 반면 멕시코 상품안정화펀드 개혁은 해외투자를 하기보다는 받는 것에 초점을

맞춘 에너지 개혁의 일부였다. 그 결과 멕시코는 해외투자 유입에 집중하여 책임성 개선에 힘쓴 반면, 칠레는 투자 및 위험관리 전략 수립도 강조한 것이다.

이러한 비교분석 과정에서 상품안정화국부펀드는 제도가 실제 이행으로 연결될 수 있는 강한 동력이 필요하며, 보다 장기적 관점을 취해야 한다는 정책적 시사점도 도출할 수 있었다. 또한, 산티아고 원칙은 보다 구속력을 갖고 각 회원국의 특수성을 고려하여 조금 더 구체적이어야 할 필요가 있음을 확인할 수 있었다. FTA나 TPP 조약 등 국제무역과 투자협상에 있어서 상품안정화국부펀드와 기타 국부펀드의 중요성이 급속히 증가함을 고려할 때, 국부펀드의 투자행태에 초점을 맞춘 연구가 향후 필요할 것으로 보인다.

주요어: 상품안정화국부펀드, 국부펀드, 산티아고 원칙, 자원의 저주, 라틴아메리카, 변동성,

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