The Chinese SWF(s)

Yann Marin

Head of the Markets and Financial Stability Bureau
Banque de France

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Is there one or several Chinese SWF?

Academic literature devoted to sovereign fund analysis often considers that the People’s Republic of China has several sovereign funds:
- the *State Administration of Foreign Exchange* (SAFE);
- the *SAFE Investment Company*;
- the *National Social Security Fund* (NSSF);
- the *China Development Bank* (CDB);
- and the *China Investment Corporation* (CIC).
Is there one or several Chinese SWF?

Considering the definition of sovereign funds as provided by the International Monetary Fund (IMF) and used in the Santiago Principles, China only has one entity fulfilling all criteria: the CIC.

According to the Santiago Principles, the sovereign funds are indeed “special purpose investment funds or arrangements, owned by the general government. Created by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets. The SWFs are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports.” “General government” refers to both central government and subnational government.
The Genesis of the CIC

• Three years of political struggle
• Harsh negotiation about the technicalities
• Governance shared by the Ministry of Finance and the People’s Bank of China
• The capital is shared between domestic and international investments
• International investments focused at first on financial entities in the United States (2007)
The CIC has been strongly hit by the crisis

- Huge potential losses on the initial investments
- Profits are driven by domestic investments
- Difficulties with the public opinion with the 5 bn USD loss in the Reserve Primary Fund
- Change in strategy towards emerging markets and commodities companies.
Rapid lack of funds

Figure 2: Global Investment Portfolio Distribution (December 31)

2010
- Cash Funds and Others 4%
- Equities 48%
- Fixed Income Securities 27%
- Alternative Investments 21%

2009
- Cash Funds and Others 32%
- Equities 36%
- Fixed Income Securities 26%
- Alternative Investments 6%

Note: Alternative Investments include private equity funds, hedge funds and etc.

Source: CIC 2010 Annual Report
Rapid lack of funds

Figure 3: Diversified Fixed Income Securities by Type (December 31, 2010)

- Government Agency Bond 9%
- Government Bond 38%
- Asset-backed Securities 12%
- Corporate Bond 32%
- Other Structured Products 9%
Rapid lack of funds

Figure 4: Distribution of Diversified Equities by Region (December 31, 2010)

- North America: 41.9%
- Asia Pacific: 29.8%
- Europe: 21.7%
- Latin America: 5.4%
- Africa: 1.2%
Rapid lack of funds

Figure 5: Distribution of Diversified Equities by Business Sector (December 31, 2010)

- Financials: 17%
- Energy: 13%
- Materials: 12%
- Information Technology: 10%
- Industrials: 10%
- Consumer Discretionary: 10%
- Consumer Staples: 9%
- Health Care: 6%
- Real Estate: 5%
- Telecommunications Services: 4%
- Utilities: 3%
- Others: 1%
Rapid lack of funds

### Consolidated Balance Sheets
As of December 31
(Amount in millions of US dollars)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and deposits</td>
<td>14,480</td>
<td>18,622</td>
</tr>
<tr>
<td>Financial assets at fair value through profit or loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash management products</td>
<td>3,458</td>
<td>20,673</td>
</tr>
<tr>
<td>Equities</td>
<td>65,645</td>
<td>39,828</td>
</tr>
<tr>
<td>Fixed income securities</td>
<td>34,932</td>
<td>25,383</td>
</tr>
<tr>
<td>Alternative investments</td>
<td>29,274</td>
<td>7,430</td>
</tr>
<tr>
<td><strong>Total financial assets at fair value through profit or loss</strong></td>
<td>133,389</td>
<td>93,314</td>
</tr>
<tr>
<td>Receivables and prepayments</td>
<td>4,210</td>
<td>3,067</td>
</tr>
<tr>
<td>Available-for-sale investments</td>
<td>113</td>
<td>–</td>
</tr>
<tr>
<td>Held-to-maturity investments</td>
<td>2,000</td>
<td>14,424</td>
</tr>
<tr>
<td>Long-term equity investments*</td>
<td>253,340</td>
<td>201,409</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>1,046</td>
<td>962</td>
</tr>
<tr>
<td>Other assets</td>
<td>1,081</td>
<td>596</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>409,579</td>
<td>332,394</td>
</tr>
</tbody>
</table>

* Principally comprised of investments by Central Hütin

### Consolidated Balance Sheets (continued)
As of December 31
(Amount in millions of US dollars)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial liabilities at fair value through profit or loss</td>
<td>2,637</td>
<td>4,057</td>
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<tr>
<td>Bonds payable*</td>
<td>16,609</td>
<td>–</td>
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<tr>
<td>Deferred tax liabilities</td>
<td>3,772</td>
<td>1,575</td>
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<tr>
<td>Other liabilities</td>
<td>12,259</td>
<td>6,752</td>
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<tr>
<td><strong>Total liabilities</strong></td>
<td>35,277</td>
<td>12,384</td>
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<tr>
<td>Owner's equity:</td>
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<td></td>
</tr>
<tr>
<td>Owner's capital</td>
<td>200,000</td>
<td>200,000</td>
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<tr>
<td>Capital reserves and others</td>
<td>174,302</td>
<td>120,010</td>
</tr>
<tr>
<td><strong>Total owner's equity</strong></td>
<td>374,302</td>
<td>320,010</td>
</tr>
<tr>
<td><strong>Total liabilities and owner's equity</strong></td>
<td>409,579</td>
<td>332,394</td>
</tr>
</tbody>
</table>

* Represent bonds issued by Central Hütin
Reform of the CIC: still debated

- Creation of an international advisory committee
- Separation of CIC and Central Huijin?
- Increase in capital? April 2012: + 50 bn USD

- International debate: the CIC threat or opportunity?
Thank you for your attention

Q&A