



**Introductory Remarks by
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**House Financial Services Subcommittee on Capital Markets, Insurance,
and Government Sponsored Enterprises, and Subcommittee on
Domestic and International Monetary Policy, Trade, and Technology**

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Chairs Kanjorski and Gutierrez, Ranking Members Pryce and Paul, Members of the subcommittees, thank you for inviting me to participate in this panel.

With regard to the issue of Sovereign Wealth Funds, we recognize that policy makers around the world are trying to balance the requirement of openness towards foreign investment, and the need to preserve national security.

Through this lens one can readily see the challenges posed by Sovereign funds with trillions of dollars of capital at their disposal, but little in the way of transparency, clarity of mandate, or public accountability.

I am pleased to appear before you today to share the CPP Investment Board's perspective on these matters.

Although we have the word “Canada” in our name and were created by an Act of Parliament, the CPP Investment Board is not in any way a sovereign organization and is not a “Sovereign Wealth Fund”. You were kind to note this fact in your invitation letter, which recognized that the CPPIB “is not a Sovereign Wealth Fund” but rather an “independent public pension fund [that] is technically owned by a foreign government but is also independent from government.”

This is so for a number of reasons, but most simply because we do not manage government assets, nor are we controlled by any government. Indeed, the assets we manage belong to 17 million working Canadians and are strictly segregated from government funds.

Nonetheless, we have a perspective on the central issues of transparency and accountability that may be of interest to the Committee.

At the heart of the Sovereign Funds issue is the question of political control and the potential that Sovereign Funds may be used in support of national or political – rather than economic -- goals.

The governance model of the CPP Investment Board is instructive in this regard because it was specifically designed to protect against political interference, while maintaining a high degree of accountability.

We have provided a written statement that expands on how these concepts are realized in our governance model. For now, let me note the following points:

The CPP Investment Board was created to help sustain the Canada Pension Plan by investing those funds not needed to pay current benefits. Our mandate, enshrined in law, is to achieve “**a maximum rate of return without undue risk of loss.**”

Management of the CPPIB reports not to government, but to an independent board of highly qualified directors.

The board of directors, not government, approves investment policies, determines with management the organization's strategic direction and makes critical operational decisions such as hiring the Chief Executive Officer and determining executive compensation.

The CEO, in turn, hires and leads the management team, including the investment professionals who make portfolio decisions within investment policies agreed to by the board of directors.

To be clear:

- We do not submit our investment strategy or business plans for government approval;
- We do not have government officials sitting on our board;

- We do not submit our compensation policies or pay levels for government approval; and,
- Our Code of Conduct stipulates that any attempt by government to influence our investment decisions, hiring practices or procurement must be reported to the Chair or the CEO, who will take appropriate action;

It is, in short, a familiar private sector model, but with public accountability.

Accountability is achieved principally through transparency.

Our legislation requires a high level of transparency via audits, special examinations, and public meetings. Our board and management have voluntarily raised transparency to an even higher level.

For example, we report our results on the same basis as most Canadian public companies, including the presentation of independently audited financial statements. We post our investment policy and objectives on our website as well as a full list of our public- and private-equity, real estate and infrastructure holdings.

In short, we believe that it is possible to provide a very high degree of transparency without compromising our proprietary investment insights.

We believe that elements of Canada's blueprint could help address some of the concerns raised about Sovereign Wealth Funds today.

These concerns can be alleviated to a great degree if such funds clearly articulate their investment objectives and governance structure and embrace a degree of transparency sufficient to enable others to measure their actions against their stated objectives.

In response to the emergence of SWFs as active direct investors of significant scale, we are seeing calls for new protectionist legislation which could have negative consequences for the free flow of capital.

It seems to us that the challenge for policymakers is to properly balance the desire for foreign investment with the need for security and transparency. We submit a key to success can be found by looking beyond labels to examine the underlying characteristics of these large pools of capital according to some of the criteria I have outlined today.

Thank you.