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**Testimony of Douglas Rediker
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Before the
Joint Economic Committee, United States Congress
“Do Sovereign Wealth Funds Make the U.S. Economy Stronger
Or Pose National Security Risks?”
February 13, 2008**

Thank you Mr. Chairman, Madam Vice Chair and members of this committee for the honor of addressing you today.

By way of introduction, I spent most of the last seventeen years working as an investment banker and private equity investor based primarily in London, England. This experience, I believe, gives me a somewhat different perspective on Sovereign Wealth Funds and the role that they play in today's international capital markets. Currently, I co-direct the Global Strategic Finance Initiative at the New America Foundation. The New America Foundation is a non-profit, post-partisan public policy institute in Washington D.C.

Over the past several months, few issues in international finance have generated as much discussion and comment as have Sovereign Wealth Funds. I commend you and your colleagues for the informed and balanced views that you have expressed and the questions that you have posed on this important subject.

As a general matter, I believe that both the U.S. and global economies are strengthened through open markets. Overall, economic health is bolstered and fortified by the free flow of investment capital and increased liquidity that open markets provide. As significant providers of capital to these markets, Sovereign Wealth Funds have thus far been a positive influence in U.S. and global markets. Most recently, significant capital injections by Sovereign Wealth Funds in several major financial institutions have been a stabilizing force, potentially averting a significant market downturn at a time of high market uncertainty and volatility.

Capital flow from Sovereign Wealth Funds benefits U.S. investors, companies and workers not only in those specific cases involving investments in our financial services sector, but more broadly, as increased liquidity results in higher stock and asset prices and lower risk premiums, especially of riskier, less liquid assets. A recent estimate quantified the potential gross capital inflows from Sovereign



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Wealth Funds over the next five years to global equities at \$1 trillion and \$1.5 trillion to global debt markets, increasing to \$3.1 trillion and \$4.6 trillion respectively over the next decade.¹

While I believe that continued investment by Sovereign Wealth Funds should be encouraged, I also believe that the nature of this investment on this scale warrants continued oversight by Congress. Your vigilance should ensure the continued competitiveness and smooth functioning of our financial markets, while also protecting both our national security and the integrity of these markets.

It is to this Committee's credit and to others in the U.S. Congress and the Administration that when compared with other industrialized nations, the United States' national security interests and financial market integrity are relatively well regulated. Last year's revised CFIUS/FINSA legislation, as well as existing provisions under U.S. Securities and Exchange, Antitrust, Export Control, and other similar legislation and regulation, protect and regulate both our national security interests and potential acquisition targets from improper takeover approaches or material investments from foreign state investors.

There are, however, areas that could benefit from some improvement. In particular, I believe that the U.S. Government should continue to support calls for increased disclosure and transparency of asset mix, investment guidelines, currency composition and geographic diversification by Sovereign Wealth Funds. Such increased disclosure would benefit the markets in many ways and could calm suspicions borne of lack of information. Increased transparency would be more likely to alert the market to concentration issues and potential contagion risks.

While increased disclosure and transparency is in everyone's interest, I would not recommend making disclosure a *mandatory* pre-requisite for investment in our markets. To do so, would likely be counterproductive and ineffective. I believe that any insistence on transparency should be part of a broader code of best practice, adopted in a collaborative effort by Sovereign Wealth Funds and the IMF, motivated by a collective desire for financial stability and smooth functioning of the markets. Sovereign Wealth Funds may further welcome the opportunity to judge their own returns against relevant indices and their peer group, as well as by the opportunity to demonstrate that they are investing in a manner consistent with the best interests of the people of the countries they govern.

Within the U.S., I believe that the investment environment for Sovereign Wealth Funds should be clear and predictable. Regulations regarding when a CFIUS review is warranted should be as express and explicit as possible. For example, I suggest that regulatory guidance be provided regarding the interpretation of control as opposed to that of the more amorphous concept of influence.

¹ Steffen Kern, Deutsche Bank, September 10, 2007



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In my years in investment banking and capital markets, one of the most compelling lessons I learned was that investors abhor uncertainty. Uncertainty discourages investment by injecting unquantifiable risk into an investment decision. I believe that it is imperative that Sovereign Wealth Funds and other foreign investors understand that their investment is welcome in the United States. Furthermore, investors should know precisely on what terms they are welcome.

If a Sovereign Wealth Fund complies with all relevant laws and regulations and then is subject to unforeseen scrutiny or delay, their investment decision will be negatively affected. To ensure that the U.S. maintains its role as the most open, transparent and welcoming capital market in the world, the U.S. should not discourage any investment made in compliance with the law.

Over the past several years, international capital markets have transitioned away from US domination to being truly global in scope and leadership. Sovereign Wealth Funds are but one manifestation of the past decade's shift towards a truly multi-polar global financial marketplace - a marketplace where the sources, intermediation and destination of capital and financial expertise outside the U.S. have grown at a tremendous pace.

Competing centers of global finance and capital now exist not only in Europe, but also in Asia and the Middle East. Those who seek alternatives to invest in, and trade through, US financial markets now have multiple options to choose from.

When addressing the issue of Sovereign Wealth Funds, it is imperative that this Committee take into account crucial issues of national and economic security, financial market integrity as well as the continued competitiveness of our capital markets.

In that context, I believe that professionally managed Sovereign Wealth Funds, like other foreign investors, should be encouraged to invest in the U.S. in virtually all asset classes. The U.S. Treasury has made it a priority to ensure that the United States continues to be the most attractive place in the world to invest and should be applauded for this effort. As a complement to this effort, we should ensure that we spell out unambiguous "rules of the game" for all investors – domestic and international. Assuming they abide by those rules, Sovereign Wealth Funds, which today represent perhaps \$3 trillion of investment capital, should be welcomed as a major part of that effort.

Thank you.