

**COMMITTEE ON FINANCIAL SERVICES  
SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL  
MONETARY POLICY, TRADE AND TECHNOLOGY  
U.S. HOUSE OF REPRESENTATIVES  
WASHINGTON, D.C. 20515**

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**Sovereign Wealth Funds:  
New Challenges from a Changing Landscape**

**Statement for the Record Submitted By  
Congressman Donald A. Manzullo  
Congressman Kenny Marchant**

Mr. Chairman: Thank you for holding this hearing today.

This Committee has thoughtfully examined the emergence of Sovereign Wealth Funds (SWFs) over the past year. We have heard testimony from SWFs which represent the “gold standard” of their genus, and learned a great deal about their activities and best practices.

However, policy-makers on both sides of the aisle have rightly raised important questions and concerns about SWFs, which need to be addressed. It is a fine line between introducing valuable foreign investment and providing the means to undermine our economic and financial stability.

As they grow into entities investing trillions of dollars internationally, SWFs carry the potential to disrupt or manipulate markets, particularly in cases where SWFs and their host nations use economic assets for political, strategic or other non-commercial purposes. Because SWFs and other state-owned enterprises can typically mobilize very large amounts of capital very quickly, often without transparency and shareholder accountability, they are likely to continue to pose a greater risk to otherwise efficient functioning markets.

We would like to remind our colleagues of the benefit and economic growth derived from direct foreign investment, even in the instance of foreign sovereign investment. In most instances, this is a welcome and positive phenomena. However, some SWFs and their governments have challenged U.S. national security interests and engaged in anti-free market practices such as fraud and contempt for the rule of law, which have harmed U.S. investors and may again cause them devastating financial losses. In particular, the Russian Government’s inappropriate use of corporate and capital resources to pursue its international strategic and political objectives, often with no regard for growth and return on investment, should be very alarming.

In October of last year, this Committee held a hearing on the Yukos affair, and we examined the Russian government conduct leading to U.S. investors losing approximately \$7 billion. Yukos was a publicly-traded energy company which was leading the Russian marketplace with the introduction of transparent financial reporting, accounting practices, and corporate governance.

Yukos was, at one point, preparing to voluntarily adopt Sarbanes-Oxley-like measures of financial control.

Unfortunately, we heard testimony which recounted how Yukos was re-nationalized by Russian authorities, and U.S. investors lost all \$7 billion of their equity investment. To this very day, Russian officials have not dealt with the inequity and disregard for the rule-of-law in dealing with affected U.S. investors.

In order for this Committee and other policymakers to have confidence in the economic intentions of a Russian SWF, Russian authorities are wise to respect the rule-of-law and the principle of fair-functioning markets. We are of the opinion this process should begin by asking the Russian authorities to respond in good-faith to the unjustly harmed U.S. investors in the Yukos affair. Otherwise, we need to examine what regulations can be adopted to minimize the risk of market manipulation and create accountability if it occurs.

We look forward to examining the issue in today's hearing and in the coming months of this Committee's work. Thank you.