



**Global Investment Performance Standards**

# **The GIPS® Standards Strategic Plan: an update**

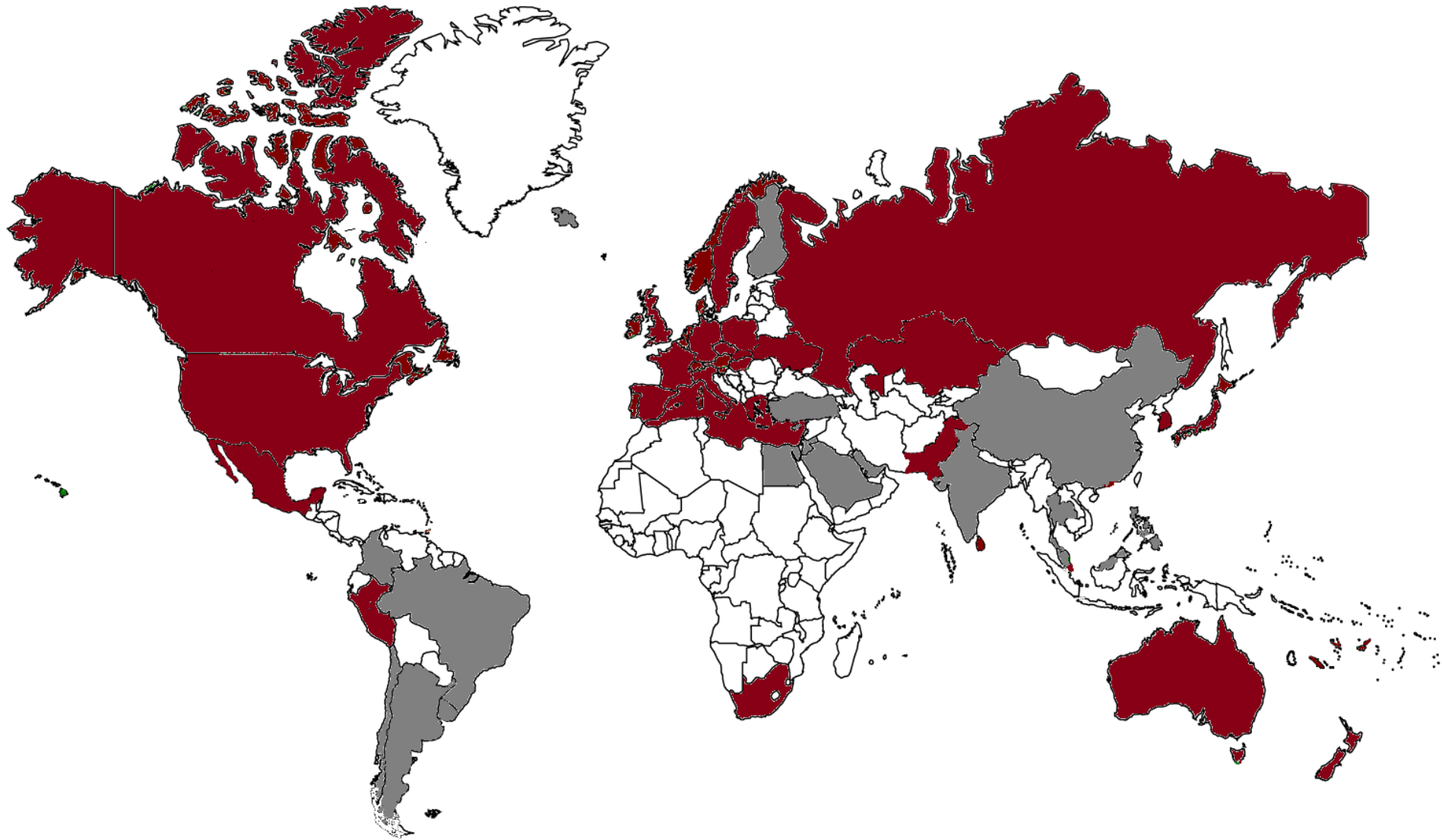
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**GIPS-Tag 2013  
GAMSC**

# Mission

To ensure that the GIPS standards are the premier performance standard globally and continue to represent best practice for the calculation and presentation of investment performance information.

# Status of GIPS Adoption

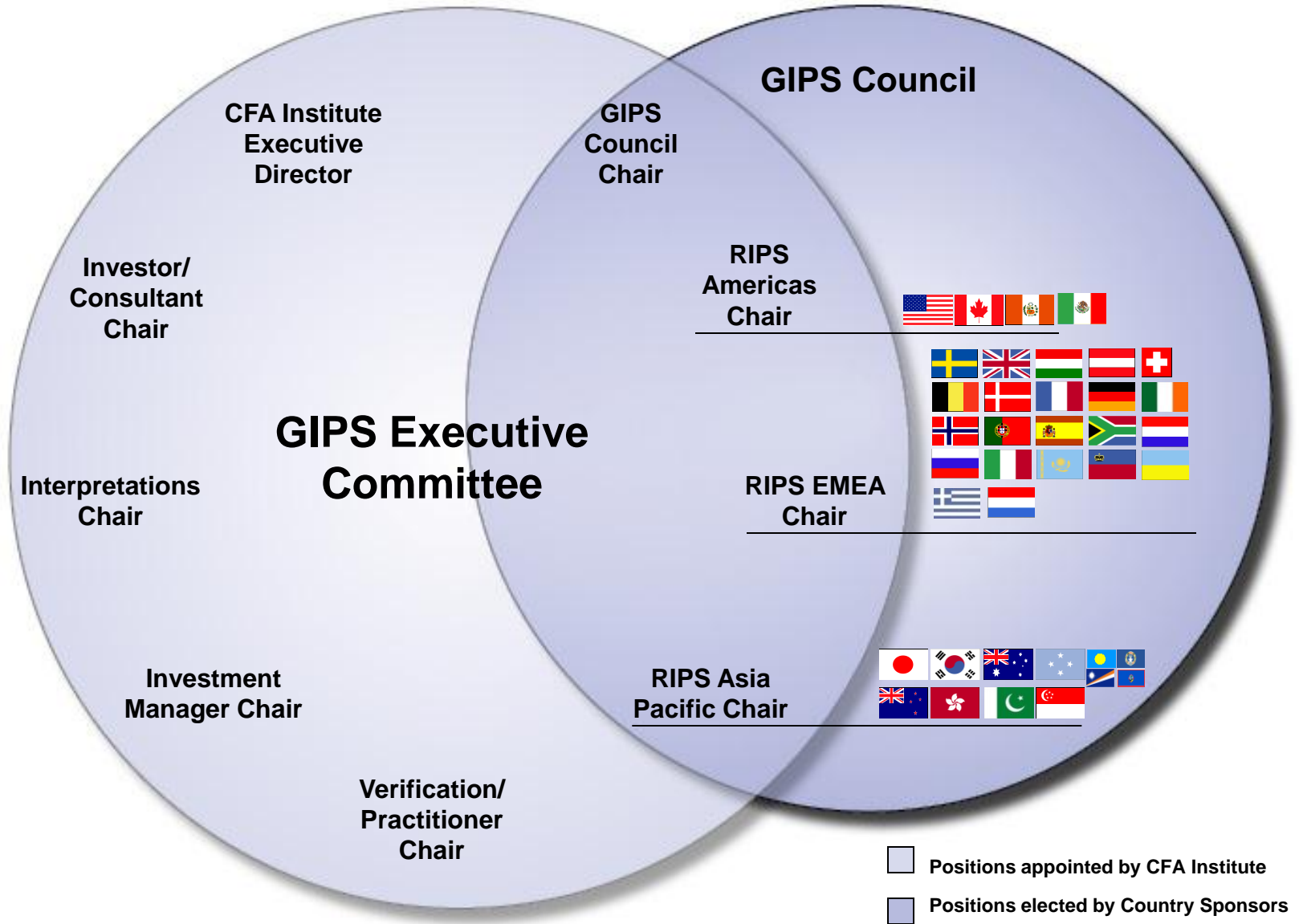


■ Countries that have adopted the GIPS® standards

■ Countries with interest in adopting the GIPS standards

Revised as of June 2012

# GIPS Governance Structure



# The GIPS Standards Strategic Plan

- **Evolve:** Develop interpretations and guidance on the application of the GIPS standards
- **Expand:** Add new content to the GIPS standards as needed
- **Engage:** Increase the involvement of investors and regulators
- **Evaluate:** Review governance structure and positioning
- **Extend:** Increase the depth and breadth of the reach of the GIPS standards, both geographically and by asset class/investment type
- **Educate:** Provide on-going educational materials and training

# Recent Developments

- Release of 3<sup>rd</sup> edition Handbook
- Alternative Investment Strategies and Structures
- Exposure Draft: Application of GIPS to Pension Funds, Endowments, Foundations and other similar entities.
- Guidance for firms on implementing GIPS in developing markets
- Develop Portability Guidance Statement
- Risk Guidance Statement
- EMEA RIPS Regulator Relations Working Group
- Engage Investors
- Pooled Fund Working Group
- Update Fees Guidance Statement
- Overlay strategies Working Group
- Investment Reporting Working Group
- Review Guidance Statement on Supplemental Information
- Updated web-site

# Key Changes in GIPS 2010

- Compliance Statement – 3 variations: Verified, Verified and Performance Examination, Not Verified.
- Fair Value – Report performance based on fair value.
- Risk Disclosures – Disclose sufficient information to allow a prospective client to understand the relevant risks of the composite strategy.
- Verification – Clarified in order to increase the understanding and consistency of verification.
- Standard Deviation – three-year annualized ex-post standard deviation of the composite and benchmark.
- Prospective Client – Expressed interest and qualifies.
- Benchmark Description – Disclose the benchmark description to include key features.

# Why Is Compliance Important to Alternative Investment Firms and Their Investors?

- Improved view of the firm's track record
  - Many alternative firms have started managing separate accounts
  - Current and potential investors can compare performance results between the hedge fund and any separate accounts following the same strategy
- Due diligence
  - GIPS-compliant hedge fund managers have adopted many best-practice policies and procedures that can reduce operational risk



# Why Is Compliance Important to Alternative Investment Firms and Their Investors?

- Consistency
  - Ensure the same standard of care is applied to the selection and review of alternative investment managers as that applied to traditional managers
- Transparency
  - The Standards provide for key data and disclosures to be provided to investors

# Guidance Statement for Entities that (typically) don't have prospective clients

- Formal title is Guidance Statement on the Application of the GIPS Standards to Pension Funds, Endowments, Foundations and other similar entities.
  - An entity that has discretion over a pool of assets
  - The asset allocation and choice of investments
  - Demonstrating GIPS Compliance to:
    - Members, legislative bodies, oversight boards, the general public
  - Following global industry standards for
    - Performance calculation and presentation, consistent, transparent, comparable
    - Establishing robust policies and procedures
    - Adopting the same standards that may be required of their own external managers.

# Pooled Fund Working Group

- Two purposes
  - Develop, create, propose guidance on applying GIPS to both retail and institutional pooled funds.
  - Recommend ways in which greater recognition for GIPS can be built within pooled fund market.
- Considerations
  - Compare global regulatory positions and how GIPS standards interact, conflict, and/or supplement regulation
  - Identify benefits of GIPS Compliance for pooled fund investors and managers
  - Identify and determine the treatment of issues specific to pooled funds including:
    - Net, gross and client returns, composite vs. fund, tax treatment, pooled fund expenses, appropriate risk measures.

# Pooled Fund Working Group

- To date:
  - PFWG comprised 13 volunteers, global representation
  - Advisory team of 23 additional volunteers
  - Matrix summarizing retail fund regulations produced
    - Differences to GIPS to be identified
  - Issues arising
    - Prospective client: minimum amount of information is what?
    - Are minimums equivalent?
    - Existing Client, GIPS does not specifically address
    - Books and records
    - Time periods and type of return
    - Impact of fees

# Update on Portability

- Compliant versus non-compliant
- Acquiring and the one acquired
- Composite specific
- Back history. How far back? 5, 10, Since inception?
- Expand / redefine an existing entity
  - Compare the data in the existing entity with
  - data required in a new entity
- Creating a continuous record
- Policies and Procedures: what is required

# Proposed Risk Guidance Statement

- New GS to address when and where it is appropriate, required and recommended for firms to include information related to risk.
- 5.A.2: all periods ending on or after 1/1/11 for each annual period end 3 year annualized ex-post standard deviation using monthly returns of both composite & benchmark.
- Additional 3-yr ex-post measure for both if standard deviation is considered not relevant or appropriate.
- 4.A.34 a. describe why ex-post standard deviation is not relevant or appropriate b. describe additional risk measure and why selected
- 4.A.33: If 36 monthly returns are not available, disclose
- 4.A.13 disclose presence, use, and extent of leverage, derivatives and short positions, if material, including a description of the frequency of use and characteristics of the instruments sufficient to identify risks.
- Recommendations 5.B.3-6

# Proposed Risk Guidance Statement

- GS proposes to address:
  - Qualitative descriptions of risk that relate to 4.A.3
  - Quantitative risk and risk adjusted return measures
  - Disclosure of risk-free rate
  - Consistency when presenting additional risk measure
- Ex-post measures are additional, ex-ante are Supplemental
- Determination of appropriate risk measures
- Record keeping requirements
- Synergies between those who maintain Risk Policy Documents or similar, and GIPS P & P
- Series of real world FAQ's

# Investment Reporting Working Group

- Creation of Investment Reporting Working Group outside GIPS, not part of GIPS.
- MUST address
  - Communication between preparer and user
  - Indicate minimum content for effective and transparent reporting
  - User preferences are reflected in the report contents
  - Fair representation and full disclosure is the basis for transparency
  - Applicable across many investment reporting scenarios
  - Ethical behavior is the core of the report, in construction and presentation



# Investment Reporting Working Group

- Structure: PRINCIPLES BASED
- Core elements
  - Policies, Procedures & Control Processes exist, followed and documented
  - Communication occurs between preparer and client / user
  - Client preferences determined, documented, updated
  - Transparency of investment results and risks
  - Disclosure of fees
  - Inclusion of IR Statement, indicates applicable client base.
- Recommendations
  - Specific to report styles and information provided
  - Where preparer cannot provide recommended information, disclose and explain alternative and reason.

# Resources

- The GIPS standards website:
  - Complete list of Guidance Statements
  - Q&A Database
  - Free webcasts
- The GIPS standards Handbook
- Helpdesk: [gips@cfainstitute.org](mailto:gips@cfainstitute.org)
- E-mail Alert List: [standards@cfainstitute.org](mailto:standards@cfainstitute.org)
- Twitter: [gipsstandards](https://twitter.com/gipsstandards)
- Certificate in Investment Performance Measurement (CIPM):  
[cfainstitute.org/cipm](http://cfainstitute.org/cipm)

[www.gipsstandards.org](http://www.gipsstandards.org)