



Update on the GIPS standards

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Upcoming Guidance

- The GIPS standards Handbook, 3rd edition
- Guidance Statement on Alternative Strategies and Structures
- Guidance Statement on Risk
- Guidance on applying the GIPS standards to pension plans
- Guidance on pooled funds

Pooled Funds

- Research underway regarding how to apply the GIPS standards to pooled funds
- Benefits to investors
- Clarity for asset managers
- Issues:
 - Definition of the firm
 - Inclusion of pooled funds in composites
 - Gross-of-fees and net-of-fees
 - Prospective clients
 - Reporting requirements

Risk and Return

- Return = $(EMV - BMV) / BMV$ – the percentage gained or lost for a specific period
- Risk = deviation from expected outcome, differences in exposures, “bets”, Beta >1, variability,...
- Risk/Return Tradeoff
- “Performance” = return (what was gained or lost) and risk (what bets were taken to achieve the return)
- How did the manager perform?

Risk and the GIPS Standards

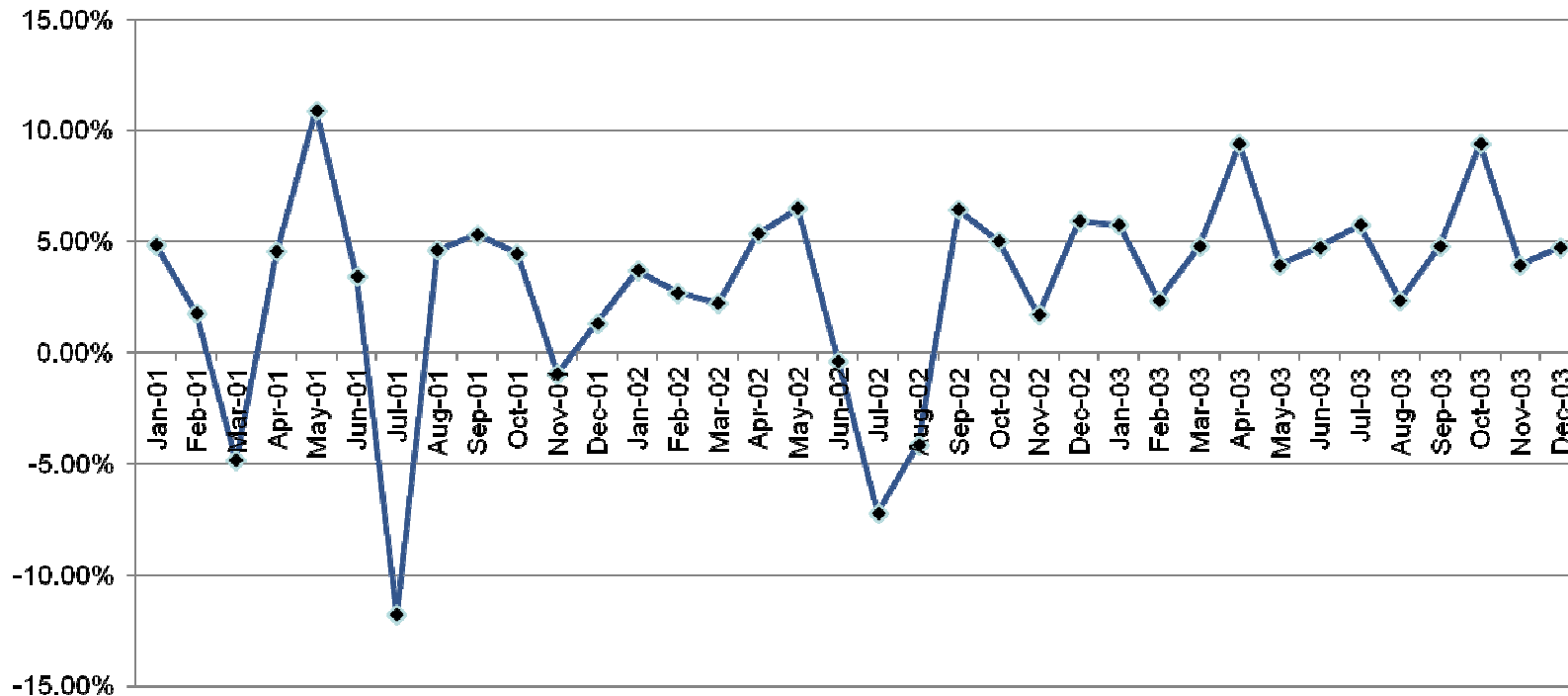
- How has the manager performed?
- The GIPS standards offer comparability and consistency of returns. Why not risk too?
- The challenge of standardizing risk...many have tried.
- The need for comparability

Why Standard Deviation?

- Is standard deviation a measure of risk?
- Problems with standard deviation
 - Skewness
 - Kurtosis
 - Fat tails
- Advantages to standard deviation
 - Relatively well understood
 - Easy to calculate
 - Comparability
- Is it appropriate for every strategy?

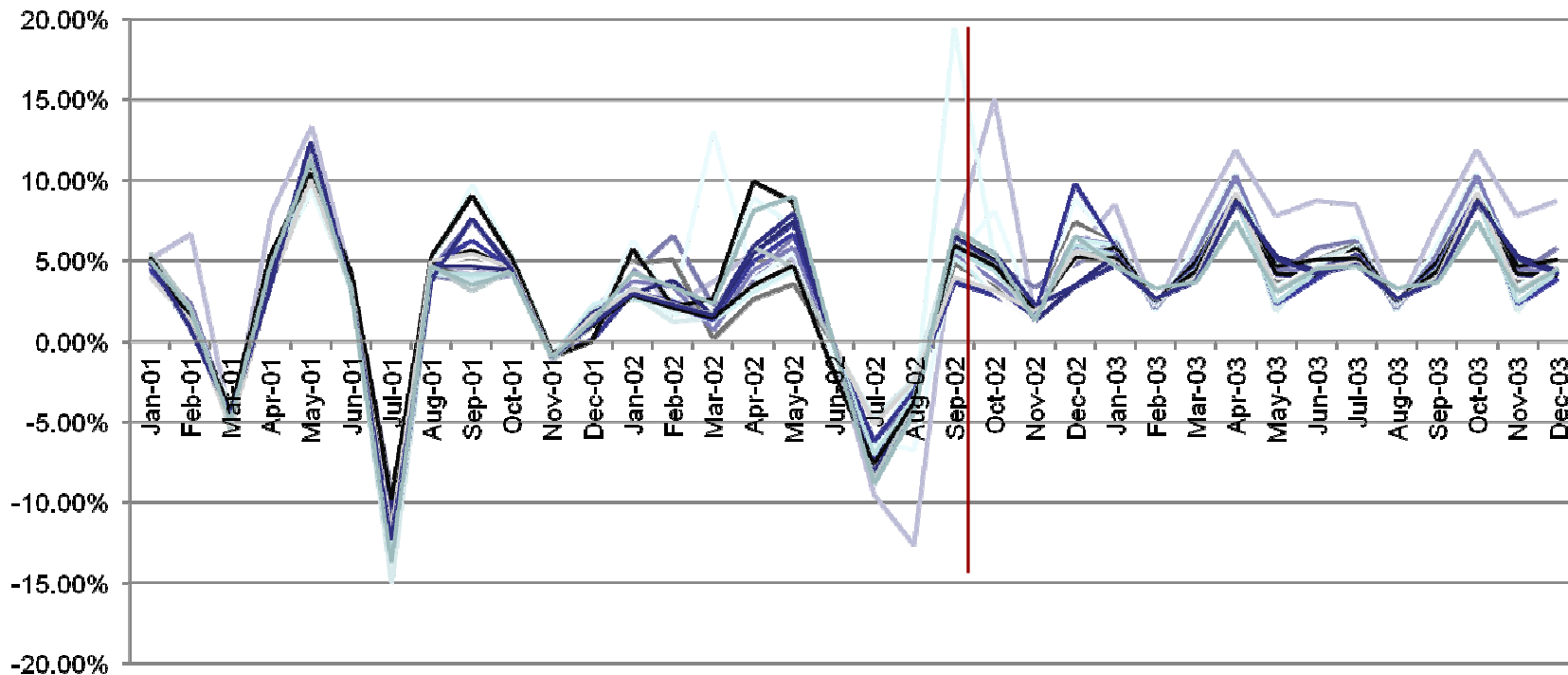
Internal vs. External Standard Deviation

- External Standard Deviation: Variability of prior 36 monthly composite returns.



Internal vs. External Standard Deviation

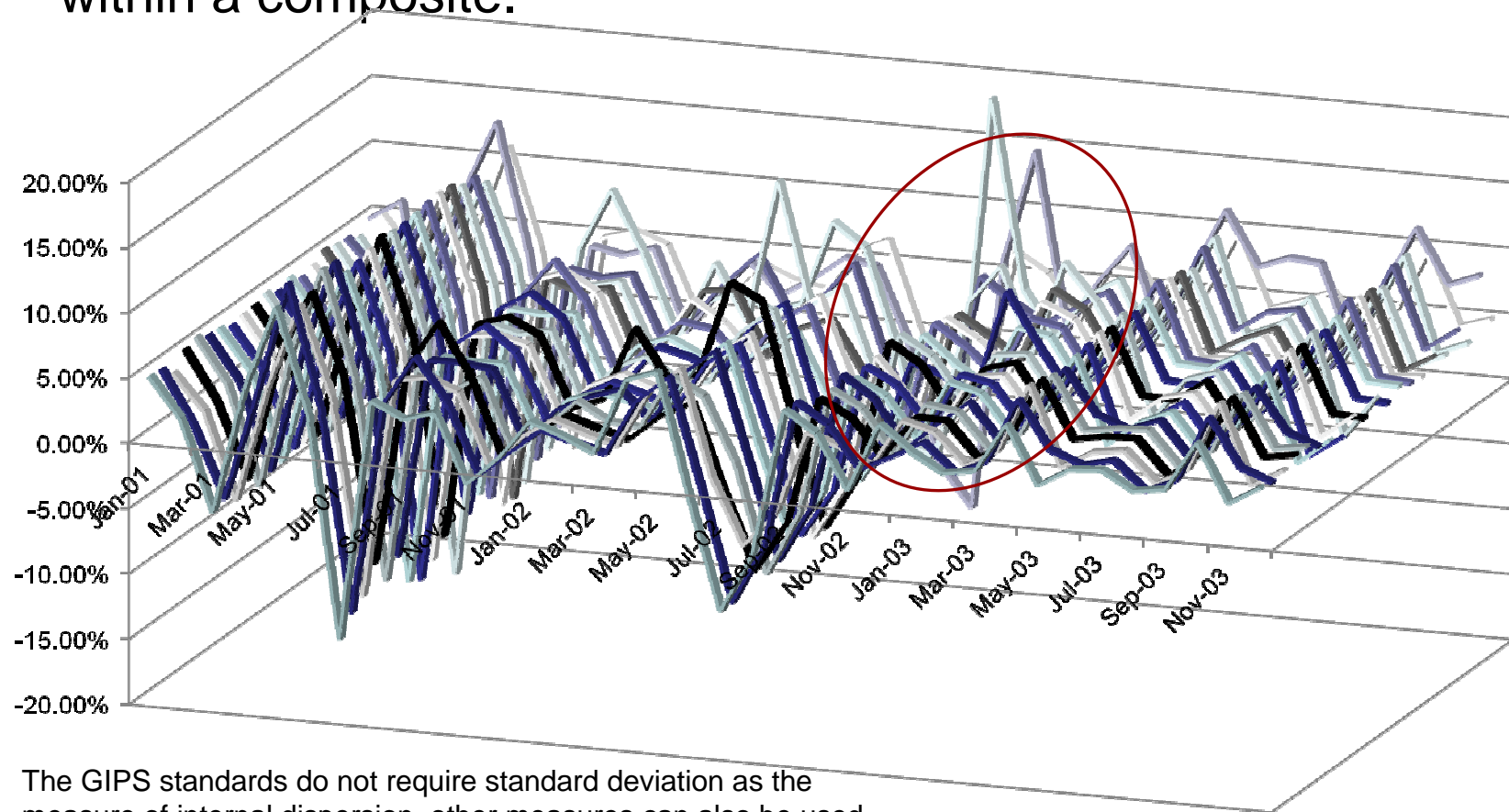
- Internal Standard Deviation: variability of portfolio returns within a composite.



The GIPS standards do not require standard deviation as the measure of internal dispersion, other measures can also be used.

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Looking Ahead

- Future of risk in the GIPS standards
 - Risk guidance
 - Risk adjusted returns?
 - Other risk metrics (VaR, downside risk, etc.)
 - Coordination with Open Protocol?