

GIPS AND THE ASIAN MARKET

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CFA Institute

AGENDA

- Global Market and Ethical Landscape
 - 2015 Global Market Sentiment Survey (GMSS)
 - 2015 Edelman Trust Barometer
- Restoring Investor Trust
 - Asset Manager Code of Professional Conduct (AMC)
 - Global Investment Performance Standards (GIPS)
- GIPS Adoption/Development in the Asia Pacific Region
 - China

**GLOBAL
MARKET
SENTIMENT
SURVEY
2015**

ABOUT THE SURVEY

The CFA Institute 2015 Global Market Sentiment Survey was created to seek input from CFA Institute members and to gather feedback on market sentiment, performance, and market integrity issues and to further our mission of promoting ethical and trustworthy investment markets.

METHODOLOGY

An online survey was conducted from 14 to 28 October 2014. All CFA Institute members globally (119,817) were invited to participate in the survey; 5,259 responded, for an overall response rate of 4% and a margin of error of $\pm 1.3\%$.

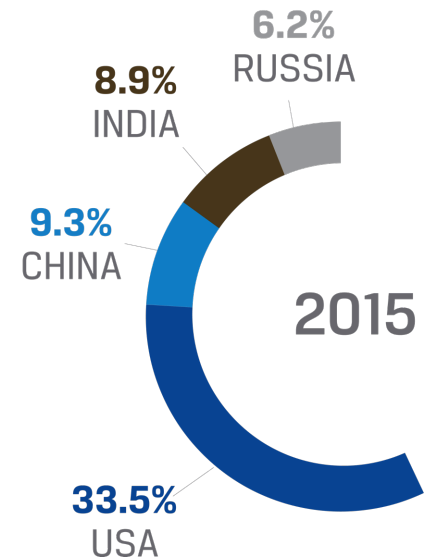
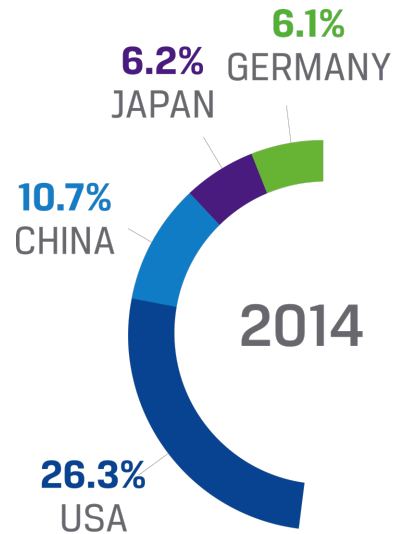
The CFA Institute Global Market Sentiment Survey is part of the Future of Finance initiative, a long-term global effort to shape a trustworthy, forward-thinking financial industry that better serves society. The initiative provides the tools to motivate and empower the world of finance to promote fairness, improved understanding, and personal integrity. Its success is driven by ongoing input from an advisory council of prominent global leaders and others in the financial community.

MARKET

PREDICTIONS

The United States and China remain the top picks for equity market performance in the coming year, as was the case in the 2014 survey.

Top Picks for Equity Market Performance:



ECONOMIC OUTLOOK

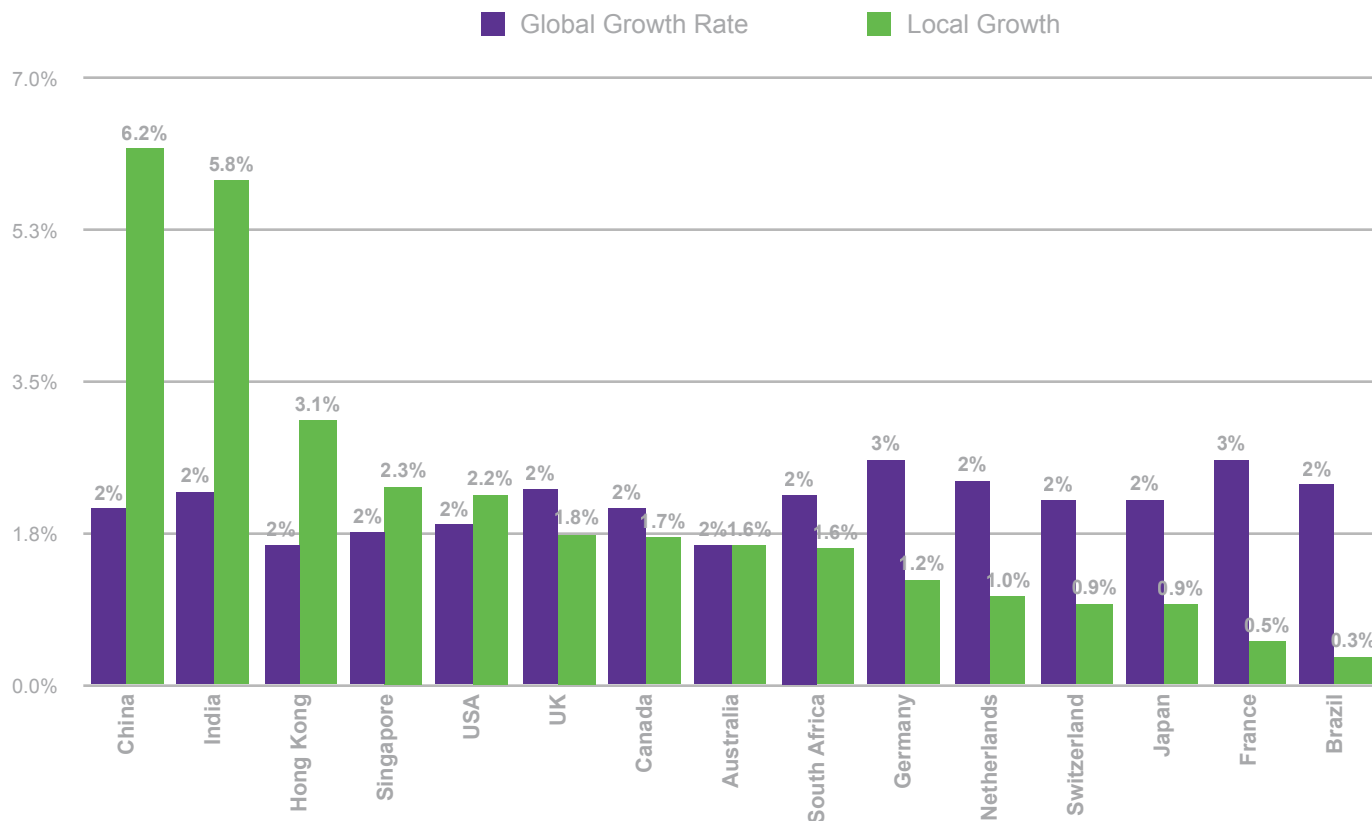
Investment professionals surveyed are cautious about prospects for global economic growth in 2015.

POSITIVE GLOBAL FACTORS:

CENTRAL BANK POLICIES,
JOB CREATION, AND
CONSUMPTION

2015 Expected Global and Local GDP Growth Rates

(Top 2 responses by market)



ECONOMIC OUTLOOK

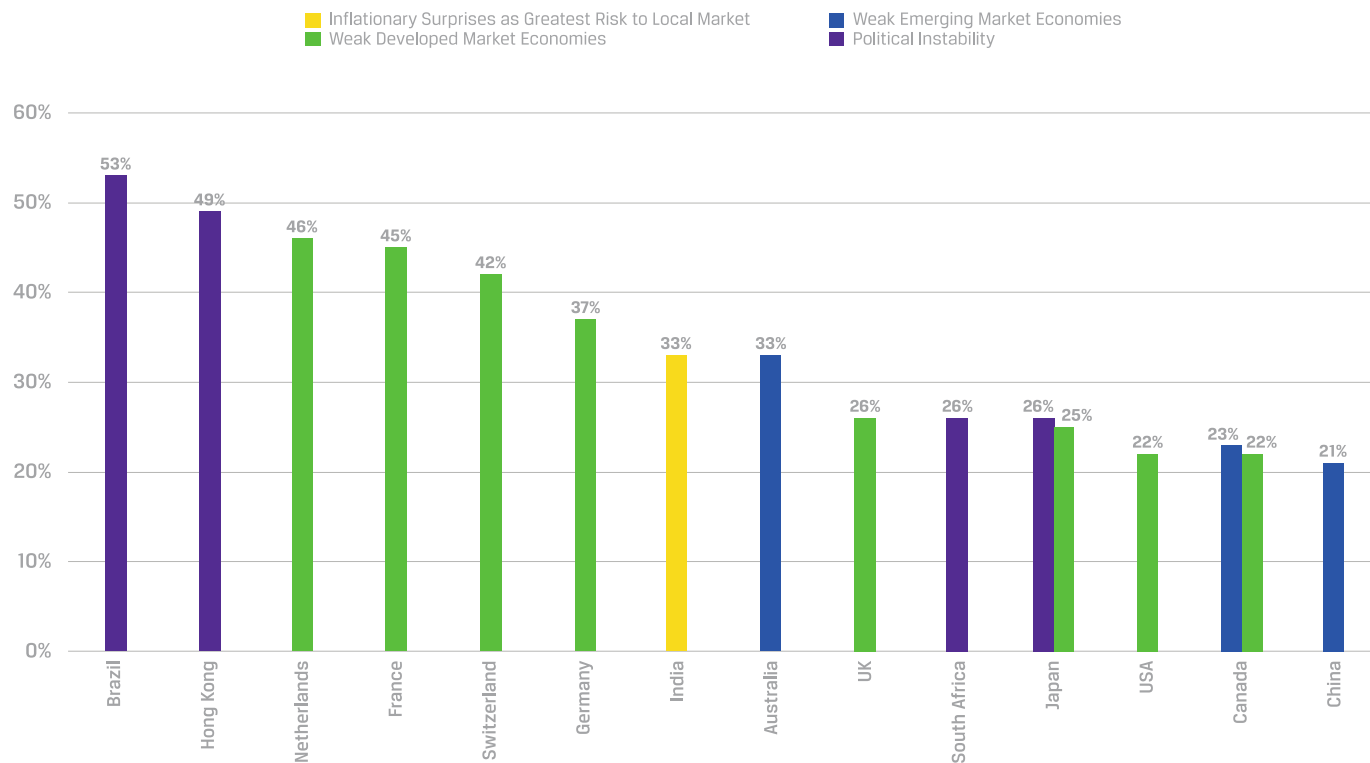
LOCAL RISKS

Of the CFA Institute members surveyed, 57% said that attempts by central banks to end quantitative easing will have a negative impact on their local market, down from 68% last year.

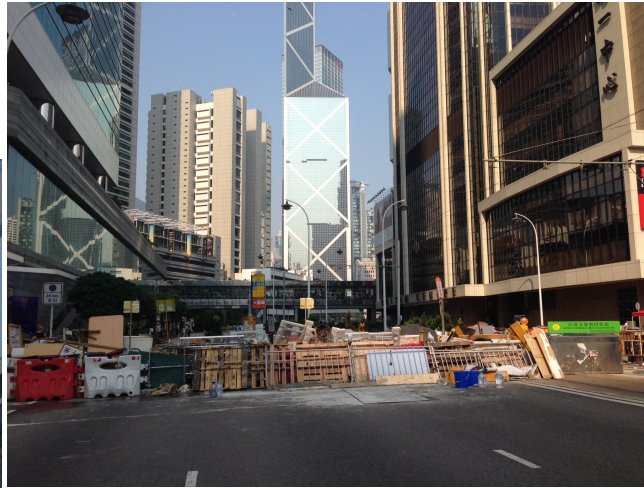
51% forecast the effect of energy prices caused by global unrest in Ukraine and the Middle East will negatively impact their local market.

Biggest Risk to Your Local Market in 2015

*Both responses shown when top choices are within margin of error.



HONG KONG: OCCUPY CENTRAL PROTEST 2014

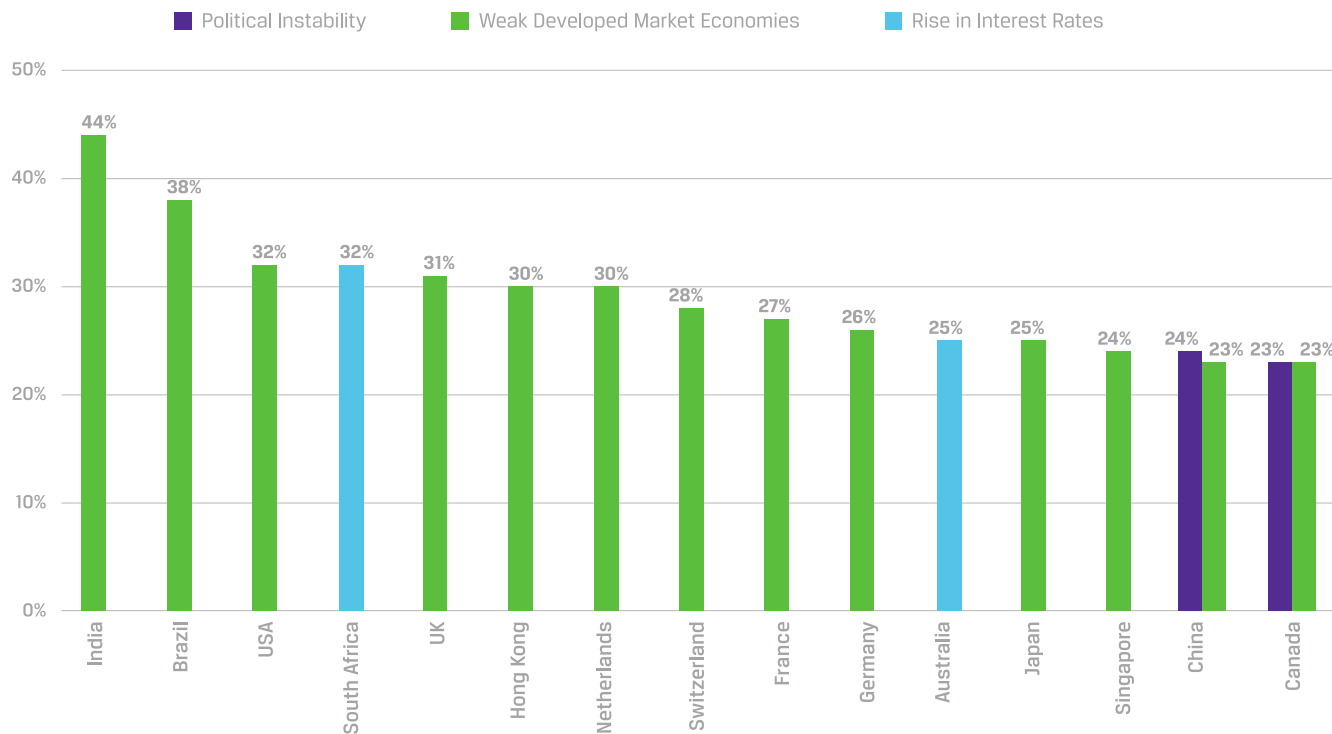


GLOBAL RISKS

Although the world economy is expected to grow, optimism is tempered by concerns about the potential for continued weakness in developed economies as well as the ongoing effects of political instability.

Biggest Risk to Global Markets in 2015

*Both responses shown when top choices are within margin of error.



3

EMPLOYMENT

PROSPECTS

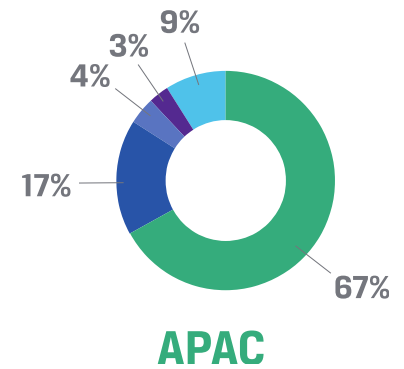
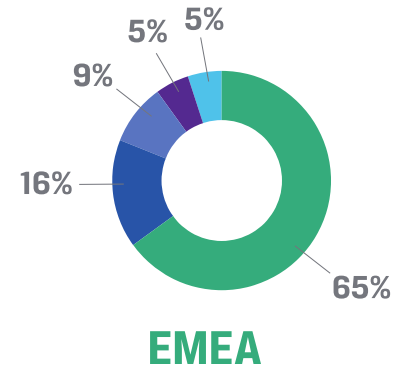
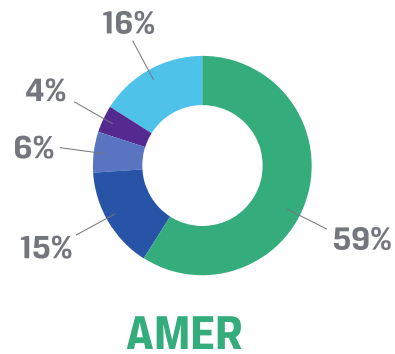
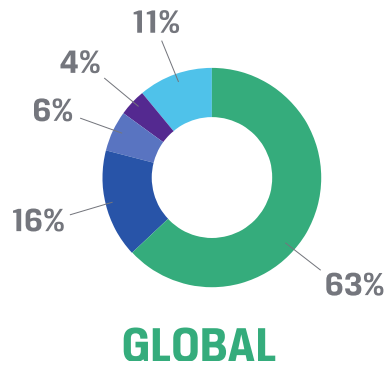
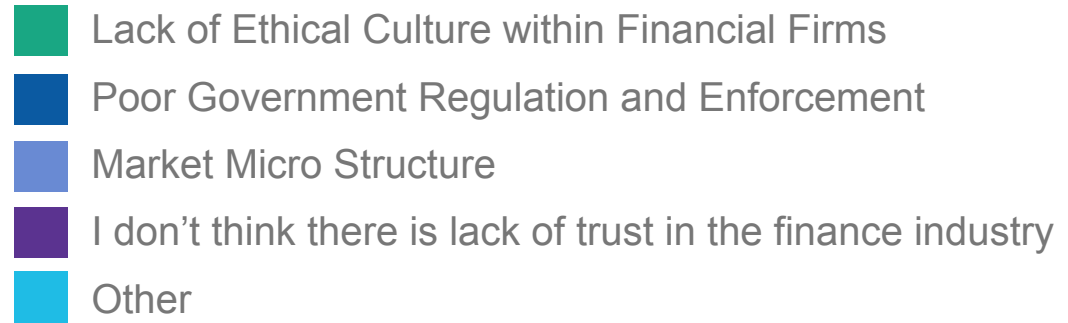
Opportunities for investment professionals in India and China brighten.



Factors Contributing Most to Lack of Trust in the Finance Industry

TRUST IN

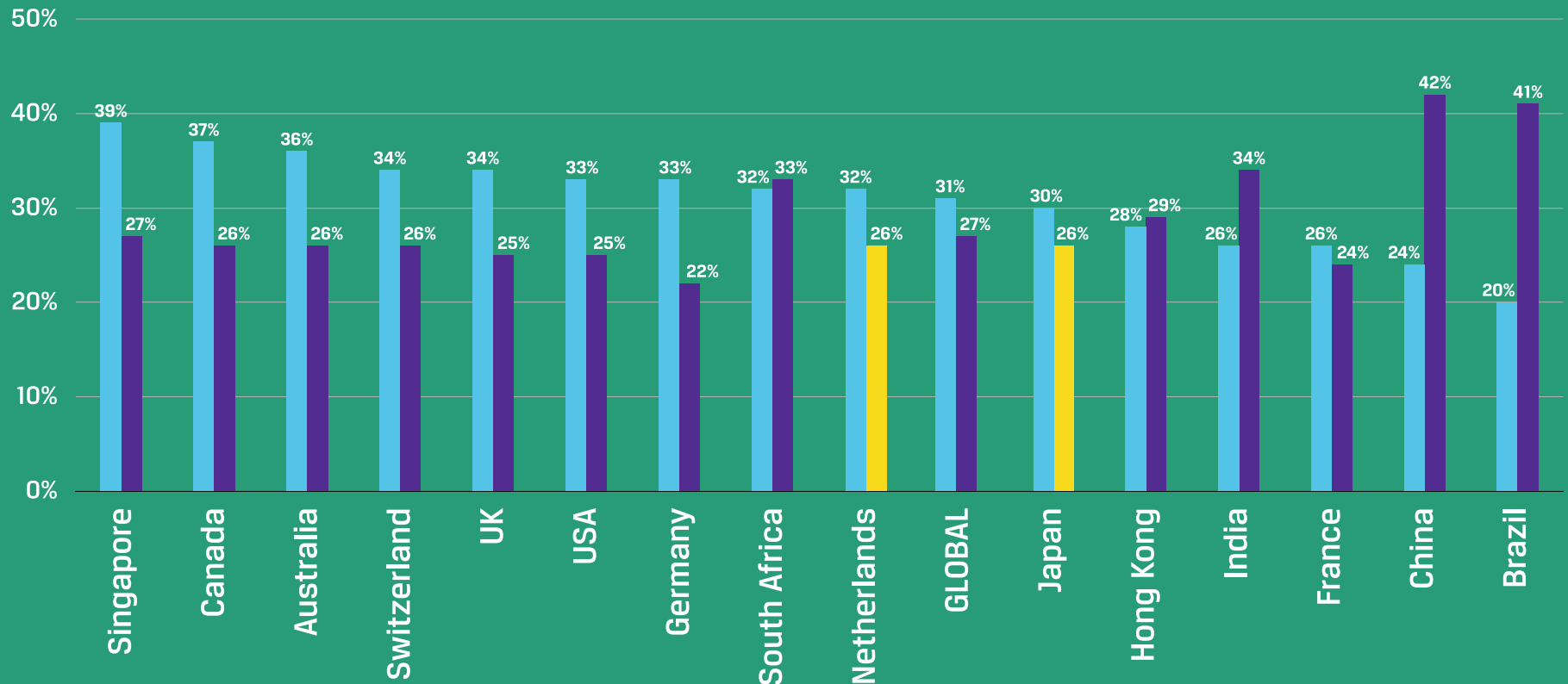
PRACTITIONERS



Firm-level Action Most Needed to Improve Investor Trust and Confidence

(Top 2 Responses by Market)

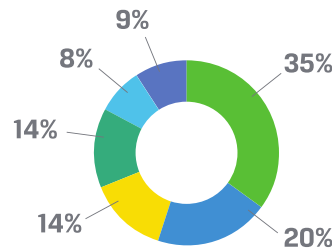
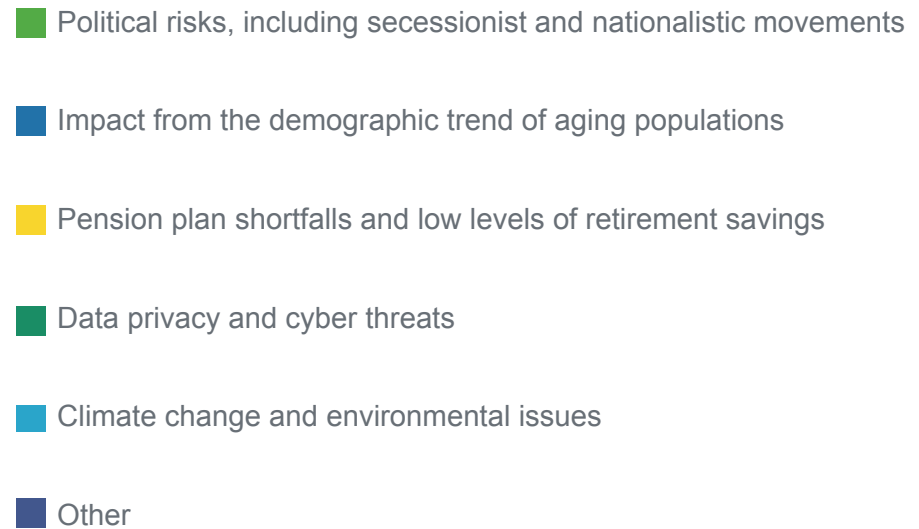
- Better Alignment of Compensation with Investor Objectives
- Increased Adherence to Ethical Codes & Standards
- Zero Tolerance Policy by Top Management for Ethical Breaches



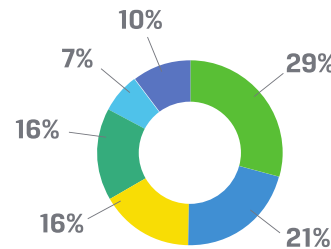
Most Underestimated Risk to Global Markets

28% OF MEMBERS HAVE A POSITIVE OUTLOOK ON MARKET INTEGRITY, UP FROM 21% IN 2014.

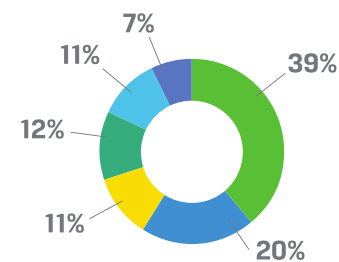
Members rank the most serious issues facing global markets as market fraud, such as insider trading (25%—similar to last year), and the integrity of financial reporting (24%).



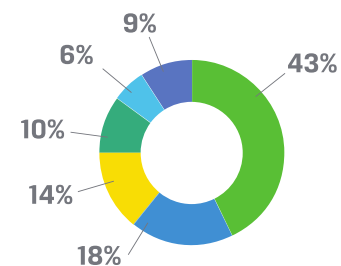
GLOBAL



AMER

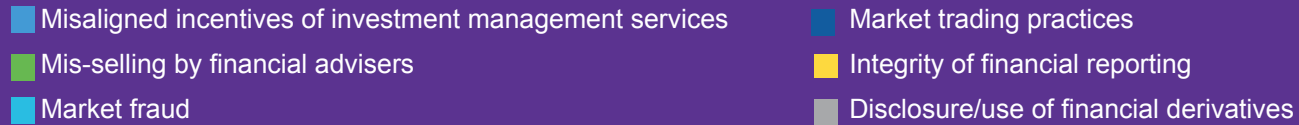


EMEA

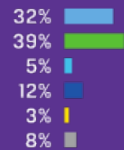


APAC

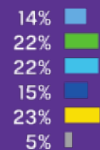
Ranking of Most Serious Ethical Issue Facing Local Market in Coming Year



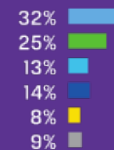
AUSTRALIA



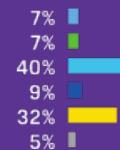
BRAZIL



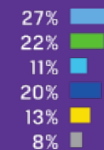
CANADA



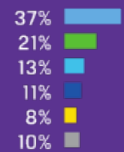
CHINA



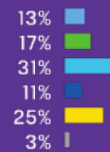
FRANCE



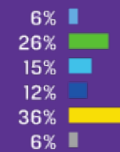
GERMANY



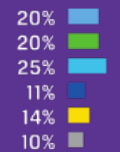
HONG KONG



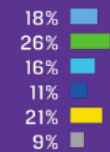
INDIA



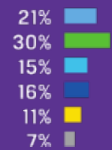
JAPAN



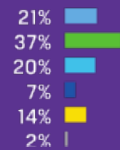
NETHERLANDS



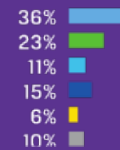
SINGAPORE



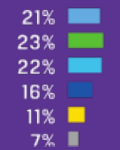
SOUTH AFRICA



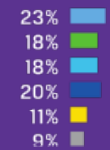
SWITZERLAND



UNITED KINGDOM



UNITED STATES



Note: Total percentage may not add up to 100% due to rounding

MARKET STRUCTURE

Globally Effective Risk Oversight Wanted.

Globally, 28% of members indicated that improved regulation and oversight of global systemic risk is the regulatory or industry action most needed in the coming year to help improve investor trust and market integrity.

REGULATORY REFORMS ARE NEEDED TO PREVENT FUTURE FINANCIAL CRISES

**68% cited need for better bank
board risk management**

**68% called for a requirement
that banks impair troubled
credit holdings on a more
consistent and timely basis**

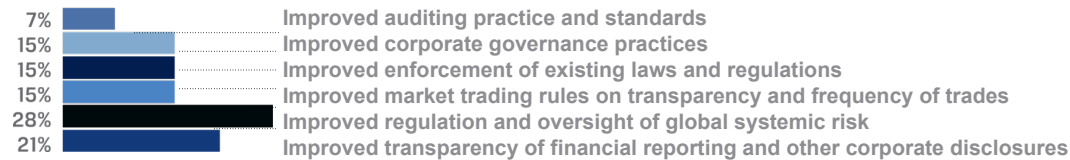
**67% cited increased
coordination of monitoring
systemic risk**

66% better risk disclosure

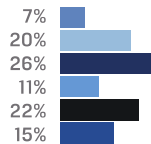
MARKET STRUCTURE

Regulatory or Industry Actions Most Needed in the Coming Year to Help Improve Investor Trust and Market Integrity

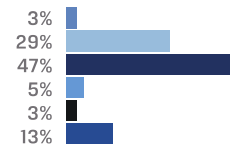
GLOBAL



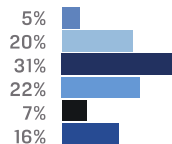
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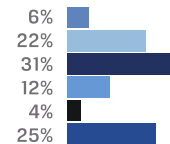
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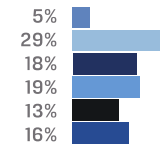
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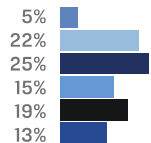
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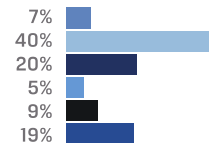
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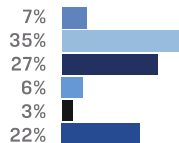
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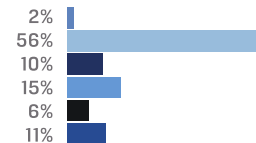
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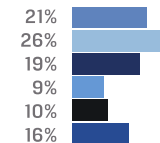
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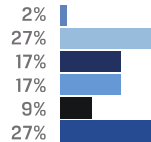
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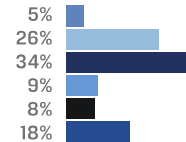
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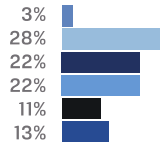
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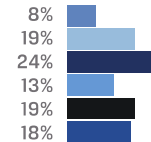
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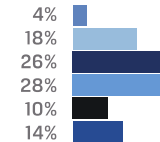
SWITZERLAND



UNITED KINGDOM



UNITED STATES



OUR FINDINGS SHOW THAT THE MOST IMPORTANT AREAS FOR REGULATORS TO ADDRESS ARE:

- Improved regulation and oversight of global systemic risk
- Improved transparency of financial reporting and other corporate disclosures globally
- Improved enforcement of existing laws and regulations at the local level
- Improved corporate governance practices locally

OUR FINDINGS SHOW THAT THE MOST IMPORTANT AREAS FOR FIRMS TO FOCUS ON ARE:

- Better alignment of compensation with investor objectives
- Zero-tolerance policy by top management for ethical breaches
- Increased adherence to ethical codes and standards

GMSS RESULTS IN LINE WITH THOSE IN THE 2015 EDELMAN TRUST BAROMETER

- When it comes to government regulation of the financial services industry, do you think that your government regulates business too much, not enough, or the right amount?
 - 54% => Not Enough Regulation
 - 15% => Too Much Regulation

The Edelman Trust Barometer's Informed public survey was based on 500 respondents in US & China and 200 in other countries; Ages 25-64; College-educated; in top 25% of household income per age group in each country; Report significant media consumption and engagement in business news and public policy.

EDELMAN TRUST BAROMETER'S 16 TRUST BUILDING KEY ATTRIBUTES

- **Integrity**

- Has ethical business practices
- Takes responsible actions to address an issue or crisis
- Has transparent and open business practices

- **Engagement**

- Listens to customer needs and feedback
- Treats employees well
- Places customers ahead of profits
- Communicates frequently and honestly on the state of its business

- **Products & Services**

- Offers high-quality products or services
- Is an innovator of new products, services or ideas

EDELMAN TRUST BAROMETER'S 16 TRUST BUILDING KEY ATTRIBUTES

- **Purpose**

- Works to protect and improve the environment
- Addresses society's needs in its everyday business
- Creates programs that positively impact the local community
- Partners with NGOs, government and 3rd parties to address societal needs

- **Operations**

- Has highly-regarded and widely-admired top leadership
- Ranks on a global list of top companies
- Delivers consistent financial returns to investors

Actions related to behavior are the most important to building investors' trust in investment managers

ACTIONS Shown: % Very Important



2013 Edelman/CFA Institute survey of 2,000+ investors: Investors rank the attribute “trusted to act in my best interest” as most important when making a decision to hire an investment manager

FIGURE 3: Investors were asked to indicate which attribute is most important when making a decision to hire an investment manager

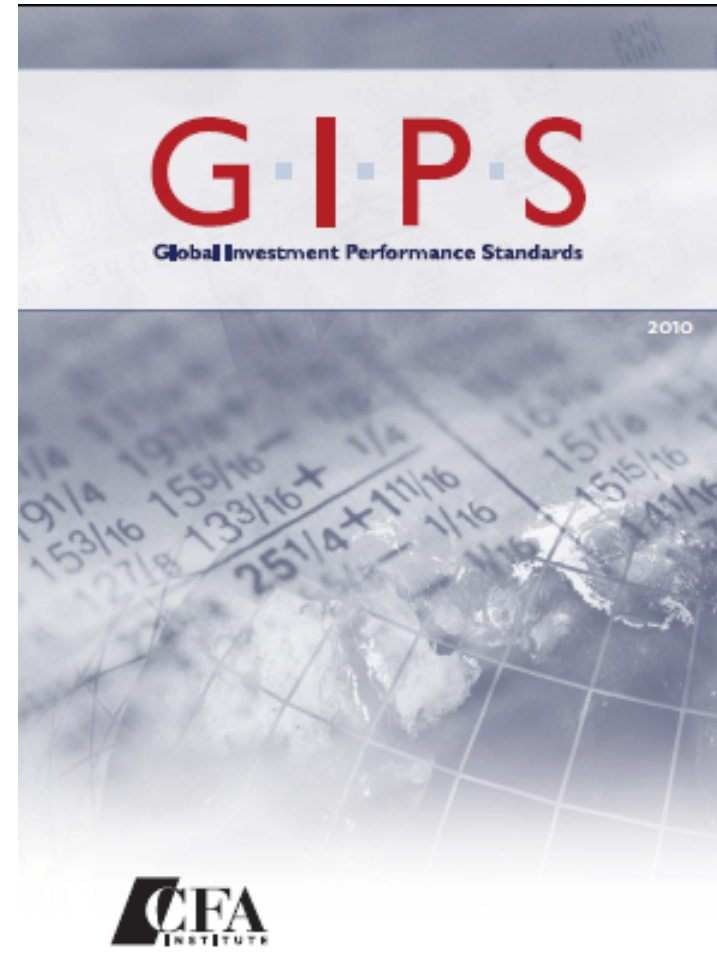


Question: Investors were asked to indicate which attribute in the above is most important when making a decision to hire an asset or investment manager.



RESTORING INVESTOR TRUST THE GIPS STANDARDS


- **Voluntary** ethical standards for **Fair Representation and Full Disclosure** of the calculation and presentation of investment performance



OBJECTIVES OF THE GIPS STANDARDS

Transparency

Consistency



Assessment
of the asset
manager's
performance

Disclosure

Comparability

BENEFITS OF AN INDUSTRY CREATED PERFORMANCE STANDARD

- Investment Firms:
 - Global passport
 - Self regulation and voluntary ethical commitment - “best practice” that promotes professionalism & discipline
 - Enhanced internal control & process

BENEFITS OF AN INDUSTRY CREATED PERFORMANCE STANDARD

- Prospective Investors:
 - Transparency and confidence
 - Comparability of global managers' performance results during selection
 - Consistency and reliability

GIPS ADOPTION/DEVELOPMENT IN THE ASIA PACIFIC REGION

- No official data on the total number of firms claiming GIPS compliance at this time but based on information from GIPS country sponsors and other reliable local resources such as verifications firms...
- Firms claiming GIPS compliance in:
 - all developed markets in the Asia Pacific region
 - Australia, Hong Kong, Japan, Korea, New Zealand, and Singapore
 - some developing markets in the Asia Pacific region
 - China, India, Pakistan, and Sri Lanka
- Relatively new country sponsors are working on promoting and raising awareness of the GIPS standards in markets where there is apparently no firm claiming GIPS compliance
 - Philippines and Thailand

GIPS ADOPTION/DEVELOPMENT IN CHINA

- General Market Statistics as of 31 December 2014
 - More than 6000 private equity, venture capital, and hedge fund firms = total AUM of CNY 3 trillion
 - Interest and inquiries from private equity and hedge fund firms
 - 96 fund management firms = total AUM of CNY 6.7 trillion
 - About 10 firms claim GIPS compliance based on verification firms
 - First firm adopted the GIPS standards in 2007

GIPS ADOPTION/DEVELOPMENT IN CHINA - A FUND MANAGER'S VIEW

- Why is GIPS compliance important to fund managers in China?
 - Improve internal control, policies and procedures
 - Composite definition helps keep portfolio managers remain within their intended and defined mandate
 - Enhance competitiveness and opportunity to access both domestic and foreign investors
 - Foreign fund-of-funds, QFII organizations, Social Security Fund (SSF), and China Investment Corporation (CIC)
 - "Global passport" to access foreign investors
 - Enable firms to better plan product developments and launches in medium-long term
 - Help firms in becoming more "global" and better integrated with the rest of the world

GIPS ADOPTION/DEVELOPMENT IN CHINA

- Recently one insurance assets management firm with over CNY 700 billion in assets claims GIPS compliance
- About 30 asset management firms managing insurance assets = more than CNY 8 trillion in AUM
- Why chose to become GIPS compliant?
 - No such performance standards in insurance business
 - Help internal control and organization of data & information
 - Help foreign investors understand its business & products
 - Enable conversations with domestic large public asset owners

GIPS ADOPTION/DEVELOPMENT IN CHINA- CHALLENGES

- Input data management & record keeping
- Domestic investors, other than the large institutional asset owners, have little or no awareness of the GIPS standards
- Some of the GIPS provisions may not be applicable or relevant to the less-matured, retail-oriented, Chinese market
 - Pooled Fund guidance statement currently being drafted will be very important
 - Implementation assistance guide will be very helpful

LATEST DEVELOPMENTS OF THE GIPS STANDARDS

- **Asset Owners** – *New guidance released in September 2014 and effective 1 January 2015*
- **Pooled Funds** – *in progress*
- **Risk** – *in progress*
- **Benchmark** – *in progress*
- **GIPS compliant firms implementation guide** – *in progress*
- **Overlay Strategies** – *in progress*
- **Verifiers Independence (update)** – *in progress*
- **Firm Notification** – *Effective 1 January 2015*

SELF-REGULATED GLOBAL STANDARDS FOR THE INDUSTRY BY THE INDUSTRY

WHAT YOU SHOULD KNOW ABOUT CHINA

- Long-term relationship building is essential
- Talk only about business - no politics (Taiwan, Tibet, etc.)
- Rising environmental concerns -> Environmental, Social, & Corporate Governance (ESG), pollution, etc.
- Recent government reform & corruption crackdown
 - China's commitment to a “new normal” of slower but more sustainable economic growth
 - more dependent on domestic consumption and services
 - Less waste and lavish spending



CFA Institute

Questions?

Email: annie.lo@cfainstitute.org

Thank you!