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# **Global Investment Performance Standards (GIPS®)** Evolution to date and challenges ahead

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# Outline

- GIPS Standards
  - brief history
  - why have them?
  - core ethical principles
  - key provisions
- Status of GIPS Adoption Worldwide
- Governance Framework
  - situation to date (IPC)
  - new GIPS Council and Executive
  - increasing role of country sponsors
- Asia Pacific Region
  - country sponsors to date
  - the challenges ahead
  - is there a role for APAFS?

# 1. GIPS Standards

# Brief history

- AIMR Code of Ethics and Standards of Professional Conduct (1962)
- Investment Performance Standards
  - AIMR-PPS® (1993)
  - GIPS® (1999)
- Evolution of GIPS
  - 1995: committee formed and funded by AIMR to develop GIPS
  - 1995-98: committee meets, debates and creates standards
    - a truly global industry initiative (over 20 countries involved)
  - 1998: proposed GIPS released to public for comment
  - 1999: final GIPS adopted by AIMR Board and published
  - 1999: Investment Performance Council (IPC) formed
  - 2000-03: IPC subcommittees formed to develop GIPS further
  - 2004: proposed revised version of GIPS released for public comment
  - February 2005: CFA Institute Board of Governors adopt revised GIPS standards
  - Nov-Dec 2005: new GIPS Council and Executive Committee being formed

# Why are standards necessary?

- Perceived questionable practices
  - Back testing
  - Model portfolios
  - Portable performance
  - Survivorship bias
  - Self selection or representative account/period ('cherry picking')
- International comparability
  - Conflicting standards in some countries
  - Lack of standards or commonality in some countries

# Perceived questionable practices

## Solved with GIPS Standards

- Model or back tested results not permitted
- Performance record is owned by the **firm**
- Terminated accounts' history must stay with firm
- Remove account subjectivity ('cherry picking')– firm must include **all** fee paying accounts in compliant presentations
- Remove time subjectivity – must report **annual** returns

# GIPS objectives

- To obtain worldwide acceptance of standards for calculating & presenting results
- To ensure accurate and consistent data
- To promote fair, global competition among investment firms
- To promote industry self-regulation on a global basis

# Key requirements of GIPS

Within firm (as defined):

- All fee-paying discretionary portfolios included in at least one (as appropriate) composite
- Minimum 5 years of compliant performance or since inception, if less
- Reasonable policies, consistently applied for defining, creating and maintaining composites
- All composite presentations with all required elements and disclosures maintained and up-to-date (year-end)

## Some of the basics

New ones are effective from 1 January 2006

- All data necessary to support firm's compliance must be captured (1.A.1)
- Portfolio valuations must be based on market values (1.A.2)
- Total return, incl. realised and unrealised gains, must be used (2.A.1)
- Time-weighted rates of return must be used (2.A.2)
- At least five years (or since firm or composite inception) performance that is GIPS compliant must be presented (5.A.1(a))
- Must provide a compliant presentation to all prospective clients (New)
- Must provide a list and description of composites if requested (New)

# Extending the scope of GIPS

## Recently finalised additional principles

- **Real Estate** Provisions and guidelines for their interpretation (incl. a glossary)
- **Private Equity** Provisions and guidelines for their interpretation (incl. a glossary)
- **Fees** Provisions and guidelines for their interpretation (incl. a glossary)

NOTE: all of above are now part of revised GIPS standards and are effective from 1 January 2006

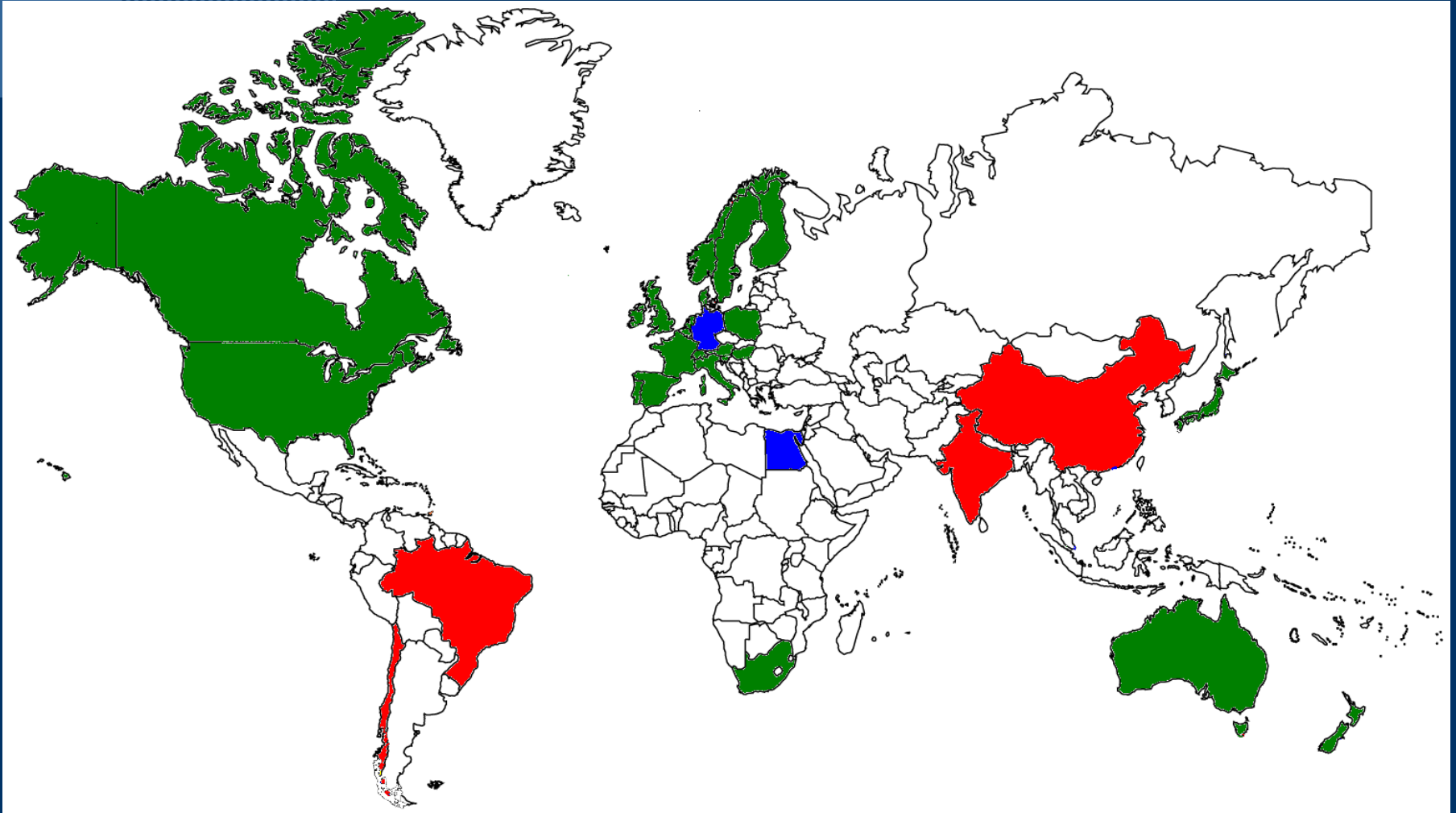
# IPC evolutionary approach

## 3-pronged approach used to date

1. Endorsing Translations of GIPS (TGs) and Country Versions of GIPS (CVGs)
  - and acknowledging new Country Sponsors of GIPS (in English)
2. Extending the scope of the Standards to adequately address:
  1. additional asset classes
  2. technical areas
3. Evolving the Standards:
  1. by providing *ongoing* guidance and interpretations (GIPS Library)
  2. by revising the whole contents of GIPS *periodically* (2005 = 1<sup>st</sup> time)

## **2. Status of GIPS Adoption** Worldwide

# Status of GIPS Adoption



- Countries that have received IPC endorsement (GIPS, TG or CVG)
- Countries intending to sponsor GIPS
- Countries to target for GIPS Education

# The Goal

To have all countries adopt GIPS® as the standard for investment firms to present historical investment performance



*The Global Passport*



# Global endorsement

Countries that have already adopted GIPS principles

IPC-Endorsed CVGs, TGs & GIPS (in English):

## CVGs

AIPS (Australia)  
GIPS (Egypt)  
GIPS (Ireland)  
IPPS (Italy)  
SAAJ-IPS (Japan)  
SA-IPS (South Africa)  
SPPS (Switzerland)  
UKIPS (UK)  
AIMR-PPS (US &  
Canada)

## TGs

GIPS (Austria)  
GIPS (Denmark)  
GIPS (France)  
GIPS (Hungary)  
VBA-PPS (Netherlands)  
GIPS (Norway)  
GIPS (Poland)  
GIPS (Spain)

## GIPS (In English)

New Zealand  
Portugal  
Belgium  
Luxembourg  
Sweden  
Germany  
Hong Kong  
Singapore

# Global convergence

## One brand

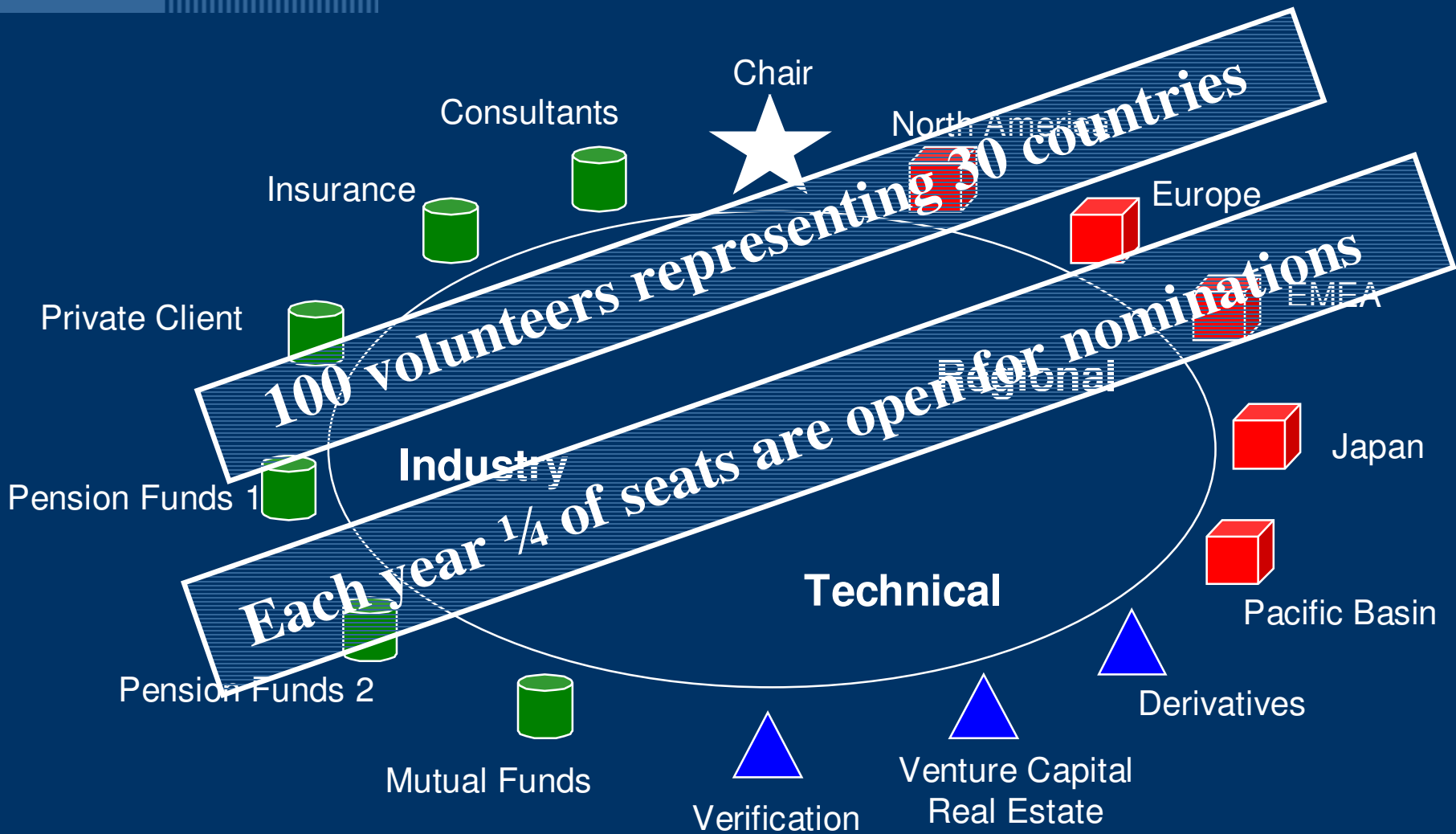
- Global convergence
  - will now be achieved fully by 1 January 2006
  - GIPS will then become a truly global Standard
  - 19 countries are in the process of replacing their existing CVG (or TG) with the new and revised GIPS (in English) before the end of 2005
  - all CVGs will disappear and be replaced by the revised GIPS standards
  - some TGs (translations of GIPS) will remain necessary (e.g. France) and hopefully new ones emerge in other countries (e.g. China, etc)
  
- One brand
  - discussions between CFA Institute (owner) and country sponsors
  - country sponsors now better represented under new governance
  - aim is to create a single brand for GIPS

# **3. Governance Framework**

## Old and New

# IPC representation

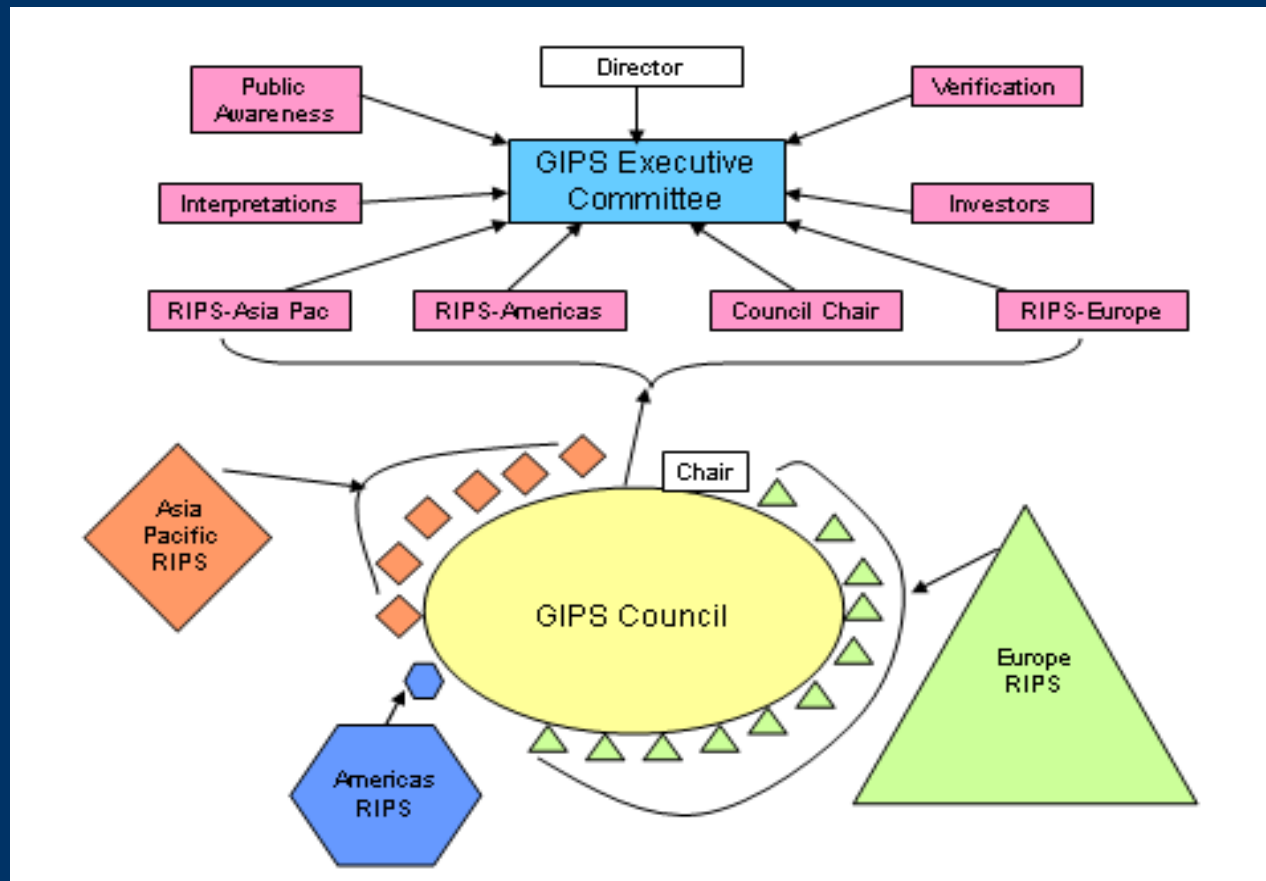
## Framework to date



# GIPS Council & Executive Committee

New framework from now on

A much bigger role for country sponsors (100% of Council and 4/9<sup>th</sup> of EC)



# The role of country sponsors

## Key to GIPS success

- Provide link between local stakeholders and ROW
- Promulgate local compliance with GIPS standards
- Maintain local integrity of the Standards
- Interface with other country sponsors (GIPS Council)
- Participate in the ongoing evolution of GIPS (Executive Committee)

and...

- Foster good relations and effective communications with local regulators
- Encourage regulators to recognise the benefits of voluntary compliance with 'global best practice'

# GIPS country sponsors

## **Australia**

Performance Analyst Group of Australia

## **Austria**

Österreichischen Verreinigung für Finanzanalyse und Anlageberatung and Vereinigung Österreichischer Investmentgesellschaften

## **Belgium**

Belgian Association for Pension Institutions

## **Denmark**

The Danish Society of Investment Professionals and the Danish society of Financial Analysts

## **France**

Societe Francaise des Analystes Financiers and Association Francaise de la Gestion Financiere

## **Hong Kong\***

The Hong Kong Society of Financial Analysts (\*SAR of China)

## **Germany**

German Asset Management Standards Committee (3 bodies)

## **Hungary**

Hungarian Society of Investment Professionals

## **Ireland**

Irish Association of Investment Managers

## **Italy**

Italian Investment Performance Committee

## **Japan**

The Security Analysts Association of Japan

## **Luxembourg**

Association Luxembourgeoise des Fonds d'Investissement and Association and Luxembourgeoise des gestionnaires de portefeuilles et analystes financiers

# GIPS country sponsors (continued...)

## ***Netherlands***

Beroepsvereniging van Beleggingsdeskundigen

## ***New Zealand***

CFA Society of New Zealand

## ***Norway***

The Norwegian Society of Financial Analysts

## ***Poland***

Polski Komitet Wyników Inwestycyjnych

## ***Portugal***

Associação Portuguesa de Analistas Financeiros

## ***Singapore***

Investment Management Association of Singapore

## ***Spain***

CFA Society of Spain

## ***South Africa***

Investment Management Association of South Africa

## ***Sweden***

Swedish Society of Financial Analysts

## ***Switzerland***

Swiss Bankers Association

## ***United Kingdom***

National Association of Pension Funds Ltd

## ***United States and Canada***

CFA Institute

## **4. Asia Pacific Region**

### Country Sponsors

# Australia

- Australian Investment Performance Standards (AIPS)
  - a Country Version of GIPS (CVG)
  - adopted in July 2002
- Performance Analyst Group (P Group) is the Country Sponsor
  - an investment forum of the Investment & Financial Association of Australia (IFSA)
  - IFSA members are strongly encouraged to comply with AIPS as the Standards (a CVG) represent best practice (but compliance is not mandatory)
- 60% of local firms are estimated to be in compliance as at July 2004

# Japan

- Securities Analysts Association of Japan (SAAJ)
  - started drafting a standard in 1995
  - released standard in 1999
  - changed to a CVG in 2003 (SAAJ-IPS)
- SAAJ-IPS Committee
  - promotes and administers the SAAJ-IPS standard in Japan
  - translates IPC Guidance Statements (GSs) in Japanese
  - organises seminars and conferences on GIPS/SAAJ-IPS
- 51 firms claim compliance with SAAJ-IPS (incl. 28 local firms)
  - 14 other firms claim compliance with AIMR-PPS and 2 with GIPS

# New Zealand

- Working Group formed in 1997 to ensure New Zealand would be able to comply with standards being developed
- All local investment firms agreed in 2000 that GIPS are the best standards for the industry to adopt
- New Zealand Society of Investment Professionals (*now called CFA Society of New Zealand*) became the Country Sponsor of GIPS in 2003
- Today still not a single local firm in compliance with GIPS!
- Why? what's the problem?
  - no regulation of or local association of fund managers
  - no peer or client pressure to comply
  - cost

# **Hong Kong and Singapore**

## New sponsors (2005)

### **Hong Kong:**

- GIPS Conference on 26 February 2005
- IPC meeting in Hong Kong on 3 March 2005
- Preliminary discussions with HKSFA on local sponsorship
- HKSFA endorsed by IPC as local sponsor in April 2005

### **Singapore:**

- Investment Management Association of Singapore endorsed by IPC in April 2005

# Typical organisation for country sponsor

- Local society of investment professionals
  - in Japan: SAAJ
  - more typically CFA Institute member society (e.g. New Zealand, HK)
- Local regulator or monetary authority (e.g. Switzerland)
- Local association of fund managers (e.g. Australia, Singapore)
- Local association of institutional investors (e.g. UK)
- Some countries have more than one sponsor
  - Austria, Denmark, France, Luxembourg
  - typically, local society plus
  - in Denmark: two local societies, incl. CFA member society
  - In Germany: three local bodies joined to form a committee

# Establishment of regional subcommittees

## Europe set the example

- Europe already had standards in 2000 and EFFAS already had a committee on Investment Performance Standards (the EIPC)
- EIPC has been well represented on the IPC with the primary member of the Europe regional seat also Chair of EIPC
- EIPC represents 20 countries in Europe
  - already 19 have Country Sponsors
  - meets regularly without CFA Institute funding
  - many technical subcommittees (Working Groups)
  - over 100 volunteers involved

# Establishment of RIPS

## Asia Pacific

- GIPS Council Constitution allows for the creation of Regional Investment Performance Subcommittees (RIPS) of the Council
- Europe already has a RIPS (the EIPC)
- Country sponsors in the Asia Pacific Region are *currently in the process* of forming the first RIPS for Asia Pacific
  - Currently five countries represented (sponsors)
  - I was elected to serve as first Chair (effective from next year)
  - SAAJ (Japan) offered to provide secretarial services to the committee
  - Hong Kong office/staff of CFA Institute to assist in recruiting volunteers

# Need more country sponsors

## Asia Pacific

### ***Indonesia***

Indonesian Society of Investment Professionals?  
Jakarta Stock Exchange?

### ***Malaysia***

Malaysian Society of Financial Analysts?

### ***Philippines***

Association of Investment Professionals, Manila?  
Trust Officers Association of Philippines?

### ***Thailand***

Thai Society of Financial Analysts?  
Stock Exchange of Thailand?

### ***...Pacific Islands?***

Asia Pacific Association for Fiduciary Studies?

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