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Global Investment Performance Standards (GIPS®) And the Role of APAFS as a GIPS Sponsor

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Outline

- GIPS Standards
 - evolution of GIPS
 - why have standards?
 - key requirements
- Status of GIPS Adoption Worldwide
- Governance Framework
 - GIPS Executive Committee, Council and RIPS
- Country Sponsors
 - focus on Asia Pacific Region
 - the role of APAFS as a GIPS Sponsor

1. GIPS Standards

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: 1st GIPS adopted by AIMR Board and published

2000-04: IPC subcommittees formed to develop GIPS further

2004: proposed revised version of GIPS released for public comment

2005: CFA Institute Board adopt revised GIPS standards

2006: new governance structure for GIPS

- GIPS Executive Committee, Council and Regional Investment Performance Subcommittees (RIPS) are formed
- 1st meetings of EC, Council and RIPS (3) in Rome last June

Why are standards necessary?

- Perceived questionable practices
 - Back testing and model portfolios
 - Portable performance and survivorship bias
 - Self selection or representative account/period ('cherry picking')
- International comparability
 - Conflicting or lack of standards in some countries

GIPS objectives:

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

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

Key requirements of GIPS

Fundamentals of compliance

- GIPS standards must be applied on a firm-wide basis (0.A.1)
- Firms must include the performance of assets assigned to a sub-advisor in a composite provided the firm has discretion over the selection of the sub-advisor (0.A.4)
- Firms must document, in writing, their policies and procedures used in establishing and maintaining compliance (0.A.6)
- Firms must meet all the requirements of GIPS standards (0.A.8)
- Firms must make every reasonable effort to provide a compliant presentation to all prospective clients (0.A.11)
- Firms must provide a composite list and composite description to any prospective client that makes such a request (0.A.12)

Key requirements of GIPS (cont'd)

Input data & calculation methodology

- All data necessary to support firm's compliance must be captured and maintained (1.A.1)
- Portfolio valuations must be based on market values (1.A.2)
- Portfolios must be valued at least monthly since 2001 (1.A.3)
- Total return, incl. realised and unrealised gains and losses plus income, must be used (2.A.1)
- Time-weighted rates of return must be used and periodic returns must be geometrically linked (2.A.2)
- Returns from cash and cash equivalents held in portfolios must be included in total return calculations (2.A.4)
- Firms must calculate composite returns by asset weighting the individual portfolio returns at least quarterly (2.A.6)

Key requirements of GIPS (cont'd)

Composite construction and maintenance

COMPOSITE = central/key concept of GIPS

- aggregation of individual portfolios representing a similar investment mandate, objective, or strategy
- All actual, fee-paying, discretionary portfolios must be included in at least one composite (3.A.1)
- Composites must include new portfolios on a timely and consistent basis after the portfolio comes under management (3.A.3)
- Terminated portfolios must be included in the history of the composites up to the last full measurement period under management (3.A.4)
- Portfolios are not permitted to be switched from one composite to another unless documented changes in client guidelines or the redefinition of the composite make it appropriate (3.A.5)

Key requirements of GIPS (cont'd)

Disclosures

There are 26 disclosure requirements

- Firms must disclose the definition of "Firm" used to determine the total firm assets and firm-wide compliance (4.A.1)
- Firms must disclose the availability of a complete list and description of all of the firm's composites (4.A.2)
- Firms must disclose the presence, use, and extent of leverage or derivatives (if material), including a sufficient description of the use, frequency, and characteristics of the instruments to identify risks (4.A.5)
- Firms must clearly label returns as gross-of-fees or net-of-fees (4.A.6)
- Firms must disclose the appropriate fee schedule (4.A.12)
- Firms must disclose the composite creation date (4.A.24)

Key requirements of GIPS (cont'd)

Presentations

- The following must be reported for each composite presented: (5.A.1)
 - a. at least five years (or since firm or composite inception) performance that is GIPS compliant
 - b. annual returns for all years
 - c. the number of portfolios and amount of assets in the composite
 - d. a measure of dispersion of individual portfolio returns for each annual period
- Firms may link non-GIPS-compliant returns to their compliant history so long as the Firms meet the disclosure requirements for noncompliant performance and only compliant returns are presented for periods after 1 January 2000 (5.A.2)
- The total return for the benchmark that reflects the investment strategy or mandate represented by the composite must also be presented (5.A.6)

2. Status of GIPS Adoption Worldwide

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

So far 26 countries have endorsed GIPS (approved Sponsors):

CVGs

AIPS (Australia)
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
Micronesia*

*counted as 1 country

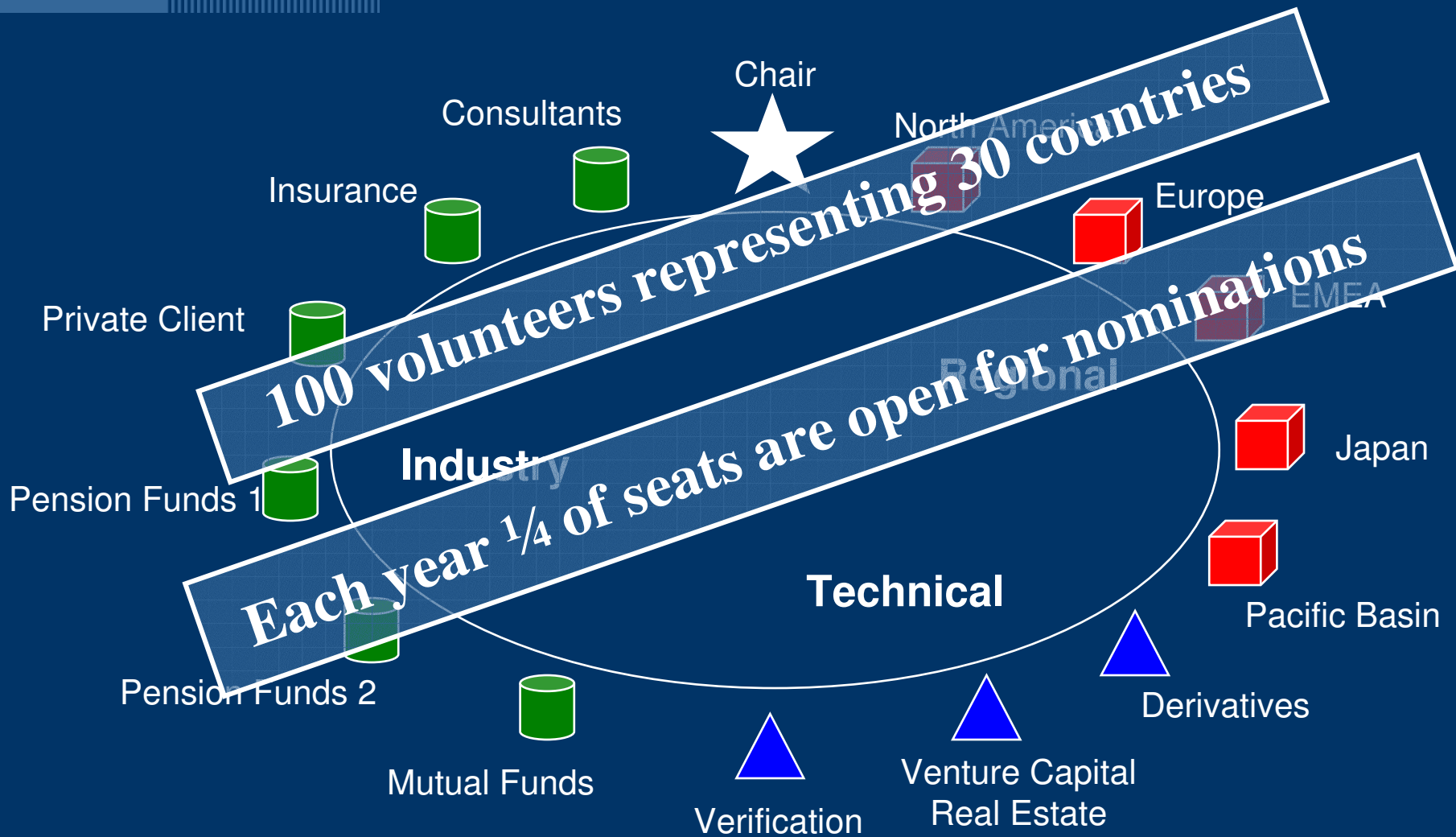
Global convergence

One brand: GIPS

- Global convergence
 - expected to be achieved by the end of 2006
 - GIPS will then become a truly global Standard
 - 18 countries either have already replaced or are in the process of replacing their existing CVG (or TG) with the GIPS standards
 - all CVGs are expected to disappear and be replaced by the GIPS standards
 - some TGs (translations of GIPS) will remain necessary (e.g. France) and hopefully new ones will emerge in other countries (e.g. China, etc)
- One brand
 - aim is to create a single brand for GIPS worldwide

3. Governance Framework EC, Council & RIPS

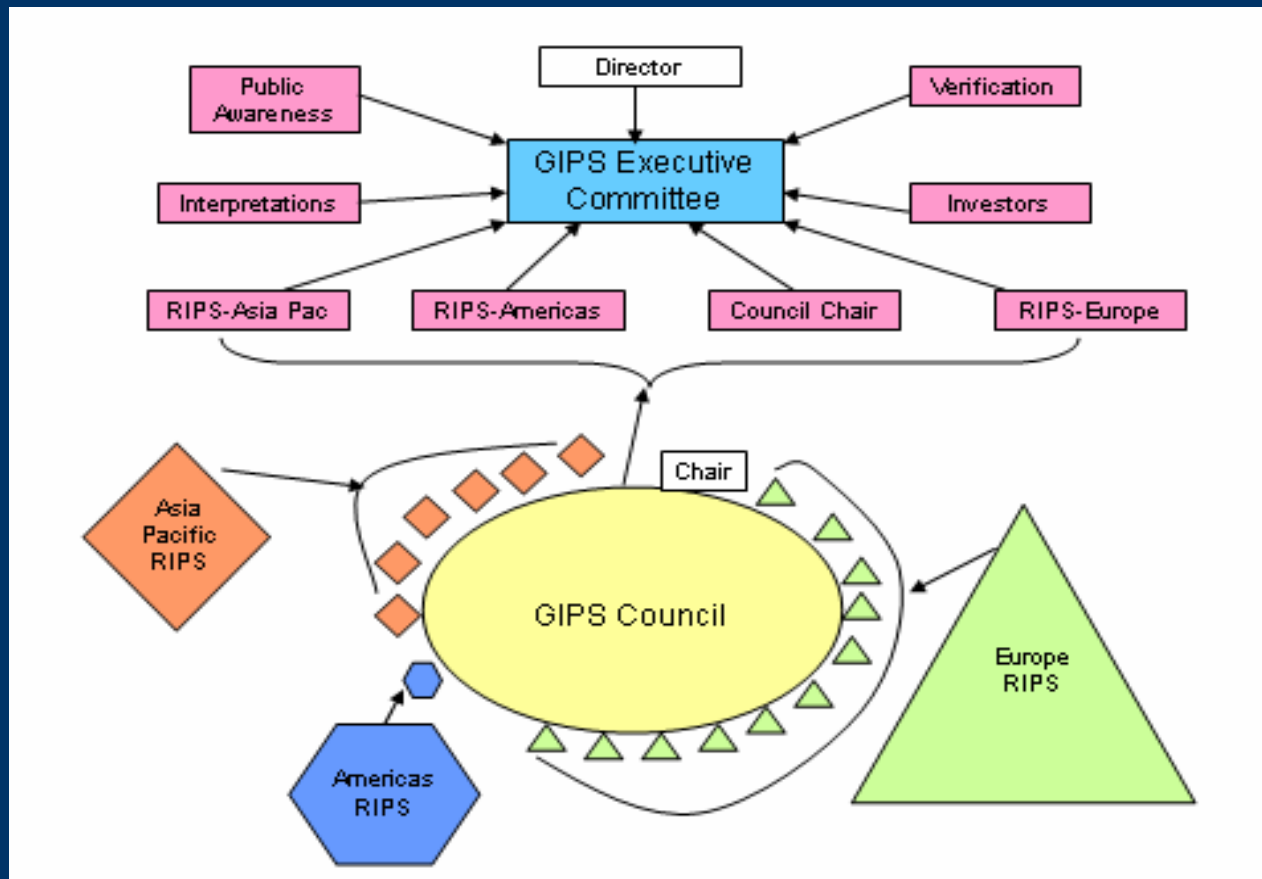
Old framework IPC



New framework

RIPS, Council & Executive Committee

A much bigger role for Country Sponsors (100% of Council and 4/9th of EC)



Governance framework

EC, Council and RIPS

- GIPS Executive Committee (EC)
 - replaced the IPC
 - a committee of the CFA Centre for Financial Market Integrity (CFA Institute)
 - 4 elected Country Sponsor representatives
 - GIPS Council Chair + 3 Regional Chairs
 - 4 CFA Institute Board appointed industry stakeholder representatives
 - Interpretations + Investor/Consultant + Investment manager + Verifier/practitioner
- GIPS Council
 - new forum exclusively for Country Sponsors (CS)
 - 26 CS seats + an elected Council Chair and 3 Regional (RIPS) Chairs
- RIPS
 - 3 Regional Investment Performance Subcommittees (RIPS), each with an elected Chair by the Country Sponsors in the Region

GIPS Executive Committee and the role of CFA Institute

- EC is a standing committee of the CFA Centre for Financial Market Integrity (CFA Centre) of CFA Institute
- Activities of EC will be monitored by CFA Centre and be subject to the oversight of the CFA Institute Board of Governors
- EC serves as the decision-making body responsible for the development and implementation of GIPS standards worldwide
- CFA Centre responsibilities include acting as GIPS Secretariat and:
 - Oversee the administration, marketing and communication associated with the development and promotion of GIPS
 - Provide ongoing staffing & financial resources to support the EC and its subcommittees' initiatives
 - Maintain and staff a Helpdesk to respond to industry inquiries
 - Build awareness of GIPS as a global standard

GIPS Council

A new forum

- In order to serve as the effective decision-making authority for the GIPS standards, the EC created the GIPS Council (as a standing subcommittee of the EC) and other EC Subcommittees, as well as the three RIPS to facilitate the involvement of all Country Sponsors and key stakeholders in the ongoing development of the Standards
- GIPS Council objectives include:
 - ensure that all Country Sponsors' views, issues, concerns, and ideas are provided equal opportunity for discussion and are represented to the EC
 - stimulate interest and support for the GIPS standards by communicating the benefits of the GIPS principles and encourage investment management firms to comply
 - promote the establishment of an effective and consistent verification service throughout the regions

The 3 RIPS

Regional focus

- RIPS are regional subcommittees of the GIPS Council
- Each (3) represents the interests of the countries within its region
 - RIPS Americas
 - RIPS Asia Pacific
 - RIPS EMEA (Europe, Middle East & Africa)
- Envisaged that the three RIPS will each:
 - provide a regional forum for Country Sponsors to share and collaborate
 - discuss, agree on and formulate regional positions on new provisions and guidance to be represented at the Council and subsequently at the EC
 - discuss, agree on and propose new areas, provisions and guidance for consideration by the Council (and subsequently the EC, when applicable)
 - have the ability to create working groups to support and promote RIPS work

RIPS model

Asia Pacific coming on board nicely

- Europe as a region has had an active regional committee for many years
- RIPS predecessor for Europe (known as the EIPC) has met regularly in the past without any CFA Institute funding
 - many technical subcommittees (or Working Groups) with over 100 volunteers involved
- Currently 18 countries with GIPS sponsors represented in RIPS EMEA
- RIPS Americas still has only one member who sponsors US & Canada
 - North America Investment Performance Committee (NZIPC) is very active & knowledgeable (there are many volunteers with many years of practical experience)
- RIPS Asia Pacific :
 - has met for the 1st time in Rome last June (in person)
 - next meeting is next week on 15 November (by conference call)
 - currently has six 'countries' represented (i.e. 7 members with chair as 7th)
 - no regional subcommittees yet (but volunteers on EC subcommittees)



4. Country Sponsors

Focus on Asia Pacific

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 and RIPS)
 - 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

Worldwide

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

GIPS Country Sponsors

Worldwide (continued)

Ireland

Irish Association of Investment Managers

Italy

Italian Investment Performance Committee (5 bodies)

Japan

The Security Analysts Association of Japan

Luxembourg

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

Micronesia

Asia Pacific Association for Fiduciary Studies

Netherlands

Beroepsvereniging van Beleggingsdeskundigen

New Zealand

CFA Society of New Zealand

Norway

The Norwegian Society of Financial Analysts

GIPS Country Sponsors

Worldwide (continued)

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

Typical organisation acting as Country Sponsor

Based on experience to date

- Local society of investment professionals
 - whether local society is affiliated to CFA Institute (e.g. New Zealand, Hong Kong) or not (e.g. Japan: SAAJ)
- Local association of fund managers (e.g. Australia, Singapore)
- Local association of institutional investors (e.g. UK, Belgium, Micronesia?)
- Local regulator or monetary authority (e.g. Switzerland)
- Some countries have more than one sponsor
 - Austria, Denmark, France, Luxembourg
 - typically, one or more local society plus another organisation:
 - e.g. Denmark: two local societies, incl. CFA affiliated society
 - e.g. Germany: three local bodies joined to form a committee

Australia

P Group

- 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)
- Australian Investment Performance Standards (AIPS)
 - a Country Version of GIPS (CVG)
 - adopted in July 2002
- 60% of local firms are estimated to be in compliance as at July 2004

Japan

SAAJ

- Country Sponsor: 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

CFA Society

- 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
- CFA Society of New Zealand became the Country Sponsor in 2003
- Today still not a single local firm in compliance with GIPS!
- Why? what are the stumbling blocks?
 - industry not regulated
 - no local association of fund managers
 - no peer or client pressure to comply
 - cost of compliance

Hong Kong and Singapore

HKSFSA and IMAS

Hong Kong:

- GIPS Conference on 26 February 2005
- IPC meeting in Hong Kong on 3 March 2005
- Preliminary discussions with HKSFSA on local sponsorship
- HKSFSA (a CFA Society) became the local sponsor in April 2005

Singapore:

- Investment Management Association of Singapore (IMAS) also became a Country Sponsor in April 2005

Micronesia

Latest entry

- APAFS endorsed by EC as GIPS Sponsor in May 2006
- Members of APAFS include local legislative bodies, institutional investment funds and investment related service firms
- APAFS intends to mount a coordinated educational campaign to promote GIPS in Micronesia
 - program of 6th Annual PRIC is a good example
- Micronesia region
 - Republic of Palau (ROP)
 - Republic of the Marshall Islands (RMI)
 - Federated States of Micronesia (FSM)
 - Commonwealth of the Northern Marianas Islands (CNMI)
 - Territory of Guam (Guam)

Next Country Sponsors?

Based on my visits in Region so far

Philippines

Association of Investment Professionals of Manila (CFA Philippines)?
Financial Executives Institute of the Philippines (FINEX)?
Trust Officers Association of the Philippines?

Korea

Asset Management Association Korea (AMAK)?
Korea Certified Investment Analysts Association?
Korea Society of CFA Institute?

Malaysia

Malaysian Association of Asset Managers?
Malaysian Society of Financial Analysts?

Indonesia

Indonesian Society of Investment Professionals?
Jakarta Stock Exchange?

Thailand

Thai Society of Financial Analysts?
Stock Exchange of Thailand?

+ *China* & *India*??

For more information on GIPS

Contact APAFS, CFA Institute or visit websites

- Investment Performance Standards Policy Group of CFA Centre
 - www.cfainstitute.org/centre/ips/index.html
- Status of adoption of GIPS at country level
 - www.cfainstitute.org/centre/ips/gips/gipsbycountry.html
- GIPS standards
 - www.cfainstitute.org/centre/ips/gips/pdf/GIPS_2006.pdf
- Interpretation library (includes all the Q&As to date)
 - www.cfainstitute.org/centre/ips/gips/library.html
- To subscribe to a bi-monthly e-mail service
 - www.cfainstitute.org/centre/ips/email_alert.html

Want more?

- write to GIPS@cfainstitute.org (GIPS Helpdesk) with your questions
- 2006 **GIPS Handbook** for purchase (311 pages, US\$40)

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Thank You Questions?

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