



# AN INTRODUCTION TO THE STANDARDS

2016



# WHY WERE PERFORMANCE STANDARDS NECESSARY?

- Lack of reporting consistency
  - Back testing
  - Performance Record Portability
  - Model portfolios
  - Survivorship
  - Representative portfolio
- Lack of industry-wide comparability
- Lack of regulatory guidance
  - Self-regulation of the industry

# WHAT ARE THE GLOBAL INVESTMENT PERFORMANCE STANDARDS?

Voluntary standards governing the calculation and presentation of investment performance based on the ethical principles of fair representation and full disclosure.

## GIPS MISSION STATEMENT

Promote ethics and integrity and instill trust through the use of the Global Investment Performance Standards by achieving:

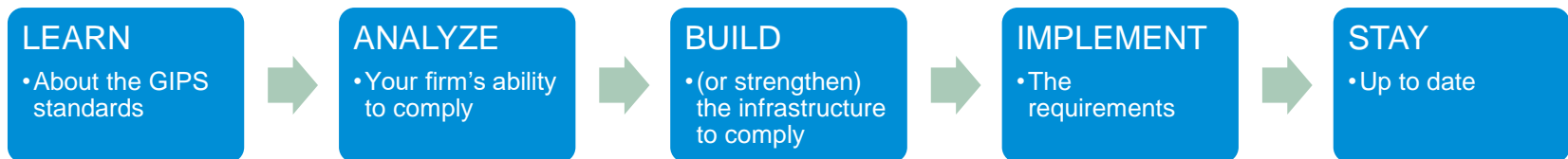
- universal demand for compliance by asset owners,
- universal adoption by asset managers, and
- universal support from regulators

for the ultimate benefit of the global investment community.

# OBJECTIVES

- Ensure accurate and consistent data
- Obtain worldwide acceptance of a single standard for calculating and presenting performance
- Promote fair, global competition among investment firms
- Promote industry self-regulation on a global basis
- Promote investor interests and instill investor confidence

# BASICS OF BECOMING COMPLIANT



# PROVISIONS OF GIPS STANDARDS

0. Fundamentals of Compliance
  1. Input Data
  2. Calculation Methodology
  3. Composite Construction
  4. Disclosure
  5. Presentation and Reporting
  6. Real Estate
  7. Private Equity
  8. Wrap Fee/Separately Managed Accounts (SMA) Portfolios

**The GIPS standards must be applied on a firm-wide basis.**

# CURRENT GUIDANCE STATEMENTS

- Asset Owners
- Alternative Investment Strategies and Structures
- Calculation Methodology
- Composite Definition
- Definition of Firm
- Error Correction
- Fees
- Impact of Euro Conversion
- Performance Examinations
- Performance Record Portability
- Private Equity
- Real Estate
- Recordkeeping Requirements
- Treatment of Carve-Outs
- Treatment of Significant Cash Flows
- Use of Supplemental Information
- Verification
- Verifier Independence
- Wrap Fee/ Separately Managed Accounts

# WHAT IS A COMPLIANT PRESENTATION?

**Sample 1 Investment Firm  
Balanced Growth Composite  
1 January 2002 through 31 December 2011**

Year	Composite Gross Return (%)	Composite Net Return (%)	Custom Benchmark Return (%)	Composite 3-Yr St Dev (%)	Benchmark 3-Yr St Dev (%)	Number of Portfolios	Internal Dispersion (%)	Composite Assets (\$ M)	Firm Assets (\$ M)
2002	-10.5	-11.4	-11.8			31	4.5	165	236
2003	16.3	15.1	13.2			34	2.0	235	346
2004	7.5	6.4	8.9			38	5.7	344	529
2005	1.8	0.8	0.3			45	2.8	445	695
2006	11.2	10.1	12.2			48	3.1	520	839
2007	6.1	5.0	7.1			49	2.8	505	1,014
2008	-21.3	-22.1	-24.9			44	2.9	475	964
2009	16.5	15.3	14.7			47	3.1	493	983
2010	10.6	9.5	13.0			51	3.5	549	1,114
2011	2.7	1.7	0.4	7.1	7.4	54	2.5	575	1,236

**Sample 1 Investment Firm claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sample 1 Investment Firm has been independently verified for the periods 1 January 2000 through 31 December 2010. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.**

# VERIFICATION

- Verification is the review of an investment management firm's performance measurement policies and procedures by an independent third party, testing:
  - That the firm complies with all the composite construction requirements of the GIPS standards on a firm-wide basis
  - That the firm's policies and procedures are designed to calculate and present performance results in compliance with the GIPS standards
- Applies to entire firm – not specific composites
- Firms report that verification not only provides a marketing advantage, but improves the firm's internal policies and procedures



# IMPLEMENTATION ASSISTANCE PAPER

1. Introduction that provides brief overview of why firms should comply with the GIPS standards
2. A step-by-step approach to achieving compliance
3. Case study of a mutual fund company in an emerging economy that recently claimed compliance with the GIPS standards

For a copy, please visit the GIPS website at:

[http://www.gipsstandards.org/compliance/Documents/assistance\\_to\\_firms\\_considering\\_gips.pdf](http://www.gipsstandards.org/compliance/Documents/assistance_to_firms_considering_gips.pdf)

# WHO BENEFITS FROM THE GIPS STANDARDS?

- Investors
  - Plan sponsors
  - High-net-worth investors
  - Retail investors
- Investment Managers
  - Including equity, fixed income, hedge fund, private equity, and real estate investment management firms

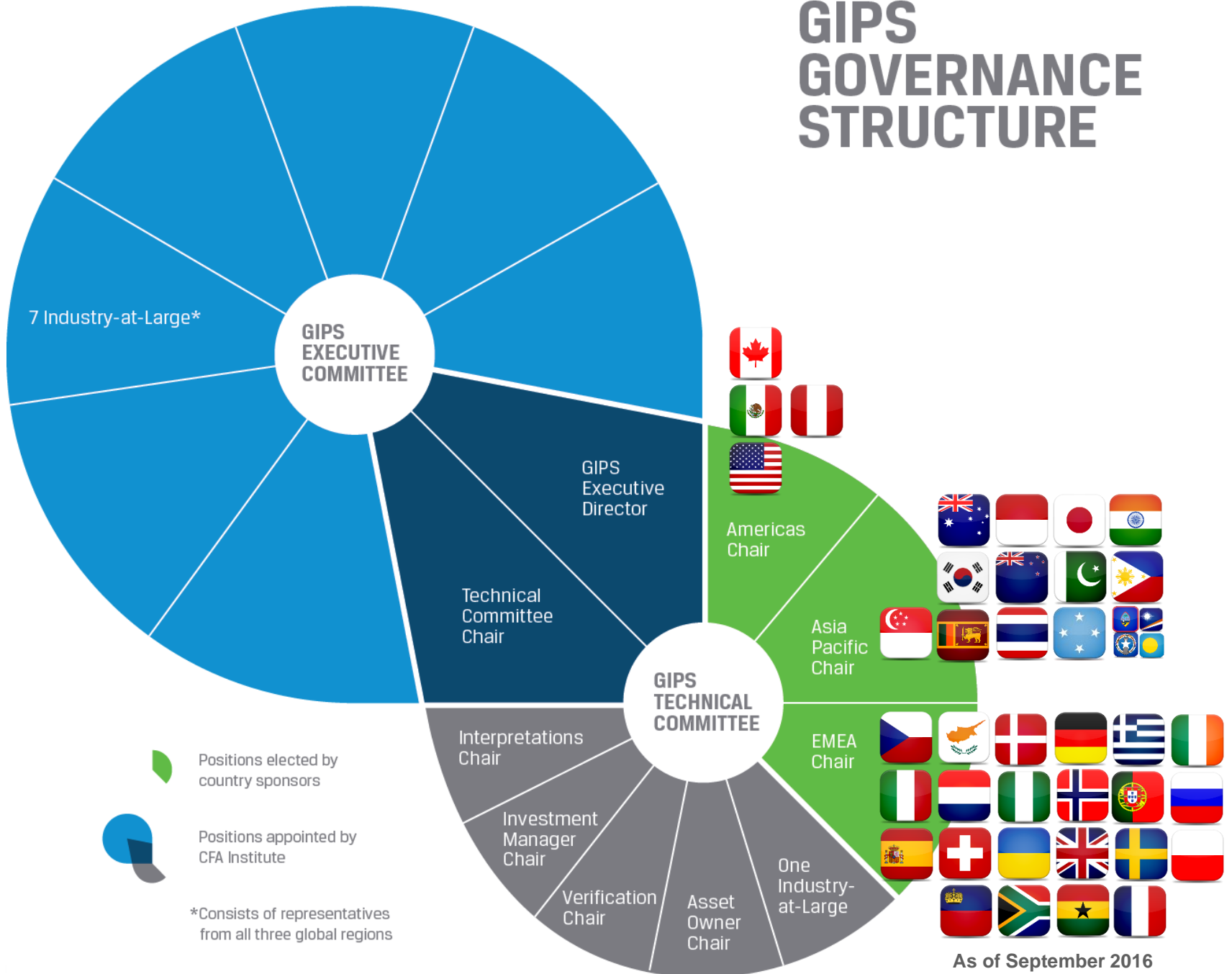
# BENEFIT TO INVESTORS

- Enhanced ability to compare performance between firms and strategies
- Consistency in calculation and presentation of performance results, such as frequency of valuation, treatment of large cash flows, and handling of accruals
- Full disclosure of important details on performance data presented, such as fees, composite construction criteria, dispersion of returns, etc.

# BENEFIT TO INVESTMENT MANAGERS

- Firms recognized for adherence to industry best practice
- Strengthened internal processes and controls; improved risk management
- Introduces transparency to the performance presentation and generates an improved view of the track record
- Market has determined that it wishes to embrace the GIPS standards

# GIPS GOVERNANCE STRUCTURE



# EVOLUTIONARY APPROACH OF THE GIPS STANDARDS

1. Extending the scope of the GIPS standards to adequately address:
  - Additional investment vehicles and strategies (e.g., private equity, hedge funds)
  - Technical areas (e.g., fees, derivatives)
2. Evolving the standards:
  - By providing on-going guidance and interpretations
  - By reviewing the entire contents of the GIPS standards periodically
3. Endorsing translations of the GIPS standards and partnering with GIPS Country Sponsors

# 2016 GOALS AND OBJECTIVES

- Develop interpretations and guidance on the application of the GIPS standards
  - Finalize Guidance Statement on Broadly Distributed Pooled Funds
  - Update Guidance Statement on Application of the GIPS Standards to Asset Owners
  - Update Guidance Statement on Verifier Independence
  - Update Guidance Statement on the Use of Supplemental Information
  - Update Guidance Statement on Performance Record Portability
- Develop guidance on the risk-related provisions
- Develop guidance on overlay asset Strategies
- Begin development of additional guidance for benchmark-related provisions
- Begin development of guidance that would expand the use of Internal Rates of Return (IRR)

# RESOURCES

- The GIPS standards website:
  - Complete list of Guidance Statements
  - Q&A Database
  - Free webcasts
  - Disclosure Guide Matrix
  - Implementation Assistance Paper
- The GIPS standards Handbook
- Helpdesk: [gips@cfainstitute.org](mailto:gips@cfainstitute.org)
- Firm Registration Questions: [gipscompliance@cfainstitute.org](mailto:gipscompliance@cfainstitute.org)
- E-mail Alert List: [standards@cfainstitute.org](mailto:standards@cfainstitute.org)
- Twitter: [gipsstandards](https://twitter.com/gipsstandards)

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