



CFA Institute[®]
Global Investment
Performance Standards

Introduction to the GIPS[®] Standards

Increasing Transparency and Trust



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A brief overview of the Global Investment Performance Standards (GIPS®)

The GIPS standards are ethical standards for calculating and presenting investment performance based on the principles of fair representation and full disclosure. They are voluntary industry standards that provide transparency and global comparability in a world where regulations and market practices differ significantly from jurisdiction to jurisdiction.

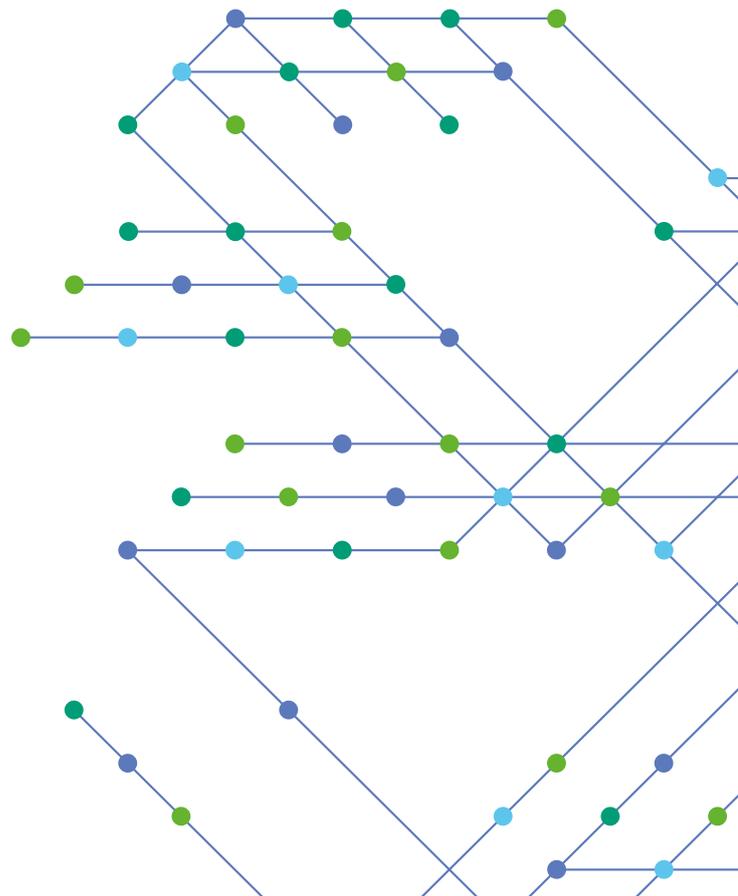
The GIPS standards are developed, maintained, and promoted through the collaboration of individual volunteers from the investment community, CFA Institute, and GIPS Standards Sponsors in over 40 markets. CFA Institute is a global not-for-profit association of investment professionals with the mission of leading the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. GIPS Standards Sponsors help identify technical needs and encourage adoption in their local markets. They provide an important link between their local markets and the GIPS standards governing bodies.

There are two types of entities that comply with the GIPS standards – investment management firms and asset owners. Firms comply with the GIPS standards to fulfill their ethical duties of full disclosure and fair presentation, to advance fair competitive practices within the industry, and to respond to the demands of prospective clients and prospective investors for accurate and comparable performance. Asset owners comply with the GIPS standards to present a transparent and complete picture of investment performance to their oversight bodies who need the information to make well-informed allocation decisions.

The GIPS standards recommend that firms and asset owners be verified. Verification is a process by which an independent third-party verification firm conducts testing of a firm on a firm-wide basis, or an asset owner on an asset owner-wide basis, in accordance with the required verification procedures of the GIPS standards. Verification provides assurance on whether the firm's or asset owner's policies and procedures related to composite, pooled fund, and total pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide or asset owner-wide basis.

The 2020 edition of the GIPS standards has three chapters: 1) GIPS Standards for Firms, 2) GIPS Standards for Asset Owners, and 3) GIPS Standards for Verifiers. Firms and asset owners must comply with all applicable requirements of the GIPS standards, including any Guidance Statements, interpretations, and Questions & Answers (Q&As) published by CFA Institute and the GIPS standards governing bodies.

The GIPS standards are globally accepted and considered industry best practice for investment performance reporting and presentation.



The practical challenges of investment performance calculation and presentation

Investment performance calculation is the quantitative measurement of the profit or loss earned on an investment. Investment performance presentation, or reporting, is the display and communication of investment performance calculations.

Investment performance is relevant to every investment and to every investor. It is important to the evaluation of progress against objectives, the selection of managers, and the calculation of incentives. Performance measurement provides feedback to understand whether an investment decision was good or bad. It is a fundamental part of all investing.

There are many reasons to calculate investment performance, and numerous methodologies have been developed. In some cases, one measurement method may be noticeably better than another. In other cases, there may be multiple valid measures and the choice is a matter of convention. Just as there are many choices for performance calculation, there are many choices for performance presentation.

This situation poses problems for both buyers and sellers of investment management services. When performance calculation and presentation are inconsistent, it is difficult for buyers to compare performance among sellers and for sellers to compete on an equal basis. When performance calculation and presentation are insufficient, it is difficult for buyers to determine if the information provided is a fair representation of actual historical results.

When performance calculation and presentation are inconsistent, it is difficult for buyers to compare performance among sellers and for sellers to compete on an equal basis.

Prior to the GIPS standards, the investment community had great difficulty making meaningful comparisons based on accurate investment performance data. Several performance measurement practices hindered the comparability of performance returns from one firm to another, while others called into question the accuracy and credibility of performance reporting overall. Misleading practices included:

- Representative accounts: selecting a top-performing portfolio to represent the firm's overall investment results for a specific mandate.
- Survivorship bias: presenting a performance history that excludes portfolios whose poor performance was weak enough to result in termination of the firm.
- Varying time periods: Presenting performance for a selected time period during which the mandate produced excellent returns or out-performed its benchmark – making comparison with other firms' results difficult or impossible.

Making a valid comparison of investment performance among even the most ethical investment management firms can be problematic. For example, a pension fund seeking to hire an investment management firm might receive proposals from several firms, all using different methodologies to calculate their results.

Some regulators have established rules for investment calculation and presentation, but this has not completely solved the problems described above. First, regulations do not exist in every market. Second, the regulations that do exist typically apply only to the performance of pooled funds. And third, regulations between markets are not consistent. Regulation alone has proven to be insufficient – especially for institutional investors and managers participating in global markets.

The global reach of the GIPS Standards

The CFA Institute Global Investment Performance Standards (GIPS®) are globally accepted and considered industry best practice for investment performance reporting and presentation. Adopted by organizations around the world, the GIPS standards have been implemented by most of the top asset management firms. As of 30 June 2020:

Over **1,800** organizations claim compliance with the GIPS standards

48 markets have organizations that claim compliance with the GIPS standards

24 of the **top 25** investment managers claim compliance with the GIPS standards, for all or part of their business

The GIPS standards have been continuously maintained by CFA Institute working jointly with individual volunteers for over **20** years

Source: Cerulli Associates

Global acceptance

Andorra	Germany	Norway
Austria	Ireland	Portugal
Belgium	Italy	Spain
Denmark	Liechtenstein	Sweden
Finland	Luxembourg	Switzerland
France	Netherlands	United Kingdom

Bangladesh	Korea	Sri Lanka
China	Malaysia	Taiwan
Hong Kong SAR	Philippines	Thailand
Japan	Singapore	

Bahrain
India
Jordan
Oman
Pakistan
Saudi Arabia
United Arab Emirates



The GIPS standards:

A global solution developed by investment professionals

The GIPS standards establish a standardized, industry-wide approach for investment firms to follow when calculating and presenting their historical investment results to prospective clients and investors, as well as for asset owners calculating and presenting historical investment results to oversight bodies.

The GIPS standards ensure fair representation and full disclosure of investment performance. These principles lead firms and asset owners to avoid misrepresentations of performance and to communicate all relevant information that prospective clients and investors and oversight bodies should know in order to evaluate past results.

The objectives of the GIPS standards are as follows:

-  Promote investor interests and instill investor confidence.
-  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.

The GIPS standards are used to calculate and present the performance of investments in any asset class, or combination of asset classes, including cash, equity, fixed income, real estate, commodities, and derivatives. They are applicable to public and private investments, including private equity and private debt. They are applicable to segregated accounts, broad distribution pooled funds like mutual funds and UCITs, and limited distribution pooled funds like hedge funds and limited partnerships.

In addition to requirements related to input data, valuation, and calculation, the GIPS standards have requirements for the presentations provided to prospective clients, prospective investors, and asset owner oversight bodies. A GIPS Report is a presentation that contains all of the information required by the GIPS standards and that may also include recommended information or supplemental information. There are three types of GIPS Reports – GIPS Composite Reports, GIPS Pooled Fund Reports, and GIPS Asset Owner Reports. A GIPS Report is the mechanism that provides transparency and comparability to those interested in the historical performance of the firm or asset owner.

The GIPS standards are developed, maintained, and promoted through the collaboration of individual volunteers from the investment community, CFA Institute, and GIPS Standards Sponsors in over 40 markets. The individual volunteers provide technical expertise from the perspective of asset owners, consultants, investment managers, and service providers in local markets. CFA Institute provides the staff and funding to develop, maintain, and promote the GIPS standards. The GIPS Standards Sponsors help identify technical needs and encourage adoption in their local markets. All proposed changes to the GIPS standards are released first as exposure drafts for public comments. Along with the GIPS standards governing bodies, CFA Institute jointly approves the issuance of the GIPS standards, ensuring they meet the highest ethical standards.

The GIPS Standards for Firms

In the GIPS standards, a firm must be defined as an investment firm, subsidiary, or division held out to the public as a distinct business entity. A distinct business entity is a unit, division, department, or office that is organizationally and functionally segregated from other units, divisions, departments, or offices and that retains discretion over the assets it manages. It is the firm's responsibility to ensure that the definition of the firm is appropriate, rational, and fair, reflecting the way the firm is held out to the public.

Firms comply with the GIPS standards to fulfill their ethical duty to fully disclose and fairly present performance, to advance fair competitive practices within the industry, and to respond to the demands of prospective clients and investors. In claiming compliance with the GIPS standards, a firm represents that it:

- Adheres to several core principles, including properly defining the firm, adhering to applicable laws and regulations, and ensuring that information presented is not false or misleading.
- Uses input data consistently to calculate performance and uses certain calculation methodologies to facilitate comparability.
- Creates and maintains meaningful composites, which are defined as an aggregation of one or more portfolios managed according to a similar investment mandate, objective, or strategy.
- Creates GIPS Reports based on the requirements in the GIPS standards for presenting and disclosing investment performance and provides appropriate GIPS Reports to all prospective clients and prospective pooled fund investors.

The needs of investment firms are continually changing. The GIPS standards are relevant for all firms, including those managing alternative investments and pooled funds.

The GIPS Standards for Asset Owners

In the GIPS standards, an asset owner is defined as an entity that manages investments, directly and/or through the use of external managers, on behalf of participants, beneficiaries, or the organization itself. These entities include, but are not limited to, public and private pension funds, endowments, foundations, family offices, provident funds, insurers and reinsurers, sovereign wealth funds, and fiduciaries.

Some asset owners manage the assets themselves. Many asset owners use third-party managers to manage some or all of their assets similar to an investment manager that may use a sub-adviser to manage a specific asset class, portfolio segment, or strategy. If an asset owner chooses to outsource some or all of its investment functions and/or operations, it can still claim compliance with the GIPS standards as long as it retains discretion over the assets it manages.

Asset owners comply with the GIPS standards to present a transparent and complete picture of investment performance to their oversight bodies. In claiming compliance, an asset owner represents that it:

- Adheres to several core principles, including properly defining the asset owner, adhering to applicable laws and regulations, and ensuring that information presented is not false or misleading.
- Uses input data consistently to calculate performance and uses certain calculation methodologies to facilitate a clear understanding of the information.
- Presents information to the oversight body about the total fund, which is defined as a pool of assets managed by an asset owner according to a specific investment mandate, typically composed of multiple asset classes.
- Creates GIPS Asset Owner Reports based on the requirements in the GIPS standards for presenting and disclosing investment performance and provides appropriate GIPS Asset Owner Reports to the oversight body.

The GIPS Standards for Asset Owners are for asset owners that do not compete for business and that report their performance to an oversight body. Organizations that compete for business must comply with the GIPS Standards for Firms.

Verification

Verification is intended to provide additional confidence in an entity's claim of compliance with the GIPS standards. Verification is a process by which a verification firm (verifier) conducts testing of a firm on a firm-wide basis, or an asset owner on an asset owner-wide basis, in accordance with the required verification procedures of the GIPS standards. The GIPS standards recommend that firms and asset owners be verified.

Verification offers many benefits.

- Verification provides assurance on whether the firm's or asset owner's policies and procedures related to composite, pooled fund, and total fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide or asset owner-wide basis.
- Verification may result in improved internal policies and procedures.
- Verification may provide marketing advantages to a firm.
- Verifiers can provide expert advice for implementing the GIPS standards and applying them to specific scenarios.
- A firm's verification status can be an important factor in manager searches.

A verifier must conduct the verification in accordance with the required verification procedures of the GIPS standards, which can be found in the GIPS Standards for Verifiers.

The verifier must be independent from the firm or asset owner. To be independent, there must be no independence issues between the verifier and the firm or asset owner. The verifier must perform its service in an unbiased manner and must not test its own work.

In addition to being independent, the verifier must be qualified. To be qualified, a verifier must have certain attributes, including having appropriate professional abilities and experience as well as a practical level of expertise regarding audit methodology and investment management practices, including investment accounting, performance calculation methodologies, and business processes. The verifier must also be knowledgeable about the GIPS standards as well as applicable laws and regulations regarding the calculation and presentation of performance.

Firms and asset owners must comply with all applicable requirements of the GIPS standards, which include requirements beyond those specified in the required verification procedures. Therefore, verification does not provide assurance on the firm's or asset owner's claim of compliance in its entirety.

Verification cannot be carried out only on a composite, pooled fund, or total fund and, accordingly, provides no assurance about the performance of any specific composite, pooled fund, or total fund, or on any specific GIPS Report. However, firms and asset owners may also choose to have specifically focused testing of a composite, pooled fund, or total fund (i.e., a performance examination) performed by an independent third-party verifier to provide additional assurance regarding a particular composite, pooled fund, or total fund.

The many benefits of the GIPS standards

For Investment Management Firms complying with the GIPS standards

- Compliance may improve the chances of being hired by a prospective client or prospective investor because it signals that the firm has designed and implemented policies and procedures to fully disclose and fairly present past performance.
- Standardized GIPS Reports help ensure that firms are evaluated on their actual record and that calculation and presentation methods do not result in unfair competition.
- Compliance makes it possible for investment managers around the world to present historical returns in any market without having to restate performance using different calculation and presentation methods.
- Compliance requires firms to establish robust investment performance policies and procedures.
- Compliance demonstrates to current and prospective clients and investors and the general public a voluntary commitment to follow ethical standards.

For Prospective Clients and Investors, including Asset Owners hiring external managers

- Demanding compliance with the GIPS standards makes manager searches and RFPs more efficient because it allows only those firms that have designed and implemented policies and procedures to fairly present their past performance to pass the initial screen, a labor-intensive step of the process.
- Standardized GIPS Reports from prospective managers provide comparable and fully disclosed performance information, thereby improving the quality of due diligence and risk management.
- Hiring a GIPS-compliant firm provides greater confidence that the manager will act in a trustworthy, ethical, and professional manner.

For Asset Owners complying with the GIPS standards

- Compliance helps ensure that the asset owner's investment performance is complete and fairly presented, regardless of whether assets are managed internally, externally, or both.
- Compliance requires establishment of robust investment performance policies and procedures, and it allows an asset owner to be confident that the data being presented to the oversight body is consistent and transparent.
- Compliance indicates a commitment to adopt the same performance standards often required of external investment managers the asset owner retains.

For Asset Owner Oversight Bodies

- Compliance demonstrates to legislative bodies, oversight bodies, and the general public a voluntary commitment to follow ethical standards.
- GIPS Asset Owner Reports foster strong investment decision-making and governance.
- Compliance helps assure that the asset owner's investment performance is complete and fairly presented, regardless of whether assets are managed internally, externally, or both.
- GIPS Asset Owner Reports aid in the evaluation of investment performance, facilitate the understanding of progress toward investment objectives, and provide critical inputs into allocation decisions.

The GIPS standards within the regulatory landscape

The rules pertaining to investment calculation and presentation differ significantly from jurisdiction to jurisdiction, and often exclude guidance for presentations to sophisticated, professional, or institutional investors. This situation, which still exists today, makes it difficult for firms to compete on an equal footing and for prospective clients and investors to compare performance. Firms and asset owners worked together to create the GIPS standards and fill this regulatory void.

The GIPS standards assist regulators in exercising their responsibility for ensuring the fair disclosure of information within financial markets. Regulators are encouraged to do the following:

- Recognize the benefit of voluntary compliance with standards that represent global best practices;
- Consider taking enforcement action against firms and asset owners that falsely claim compliance with the GIPS standards; and
- Recognize the value of and encourage independent third-party verification.

One of the main objectives of the GIPS standard is to promote industry self-regulation on a global basis.

GIPS standards for Fiduciary Management Providers to UK Pension Schemes

In 2019 the UK Competition and Markets Authority (CMA) approved the GIPS Standards for Fiduciary Management Providers - a specialized version of the GIPS standards - as the standard that certain market participants must comply with when presenting fiduciary management performance information to prospective UK pension schemes.

Where existing laws or regulation already impose requirements related to the calculation and presentation of investment performance, firms and asset owners are strongly encouraged to comply with the GIPS standards in addition to applicable regulatory requirements. Compliance with applicable laws and regulations does not necessarily lead to compliance with the GIPS standards. In cases in which laws or regulations conflict with the GIPS standards, firms and asset owners are required to comply with the laws and regulations and make full disclosure of the conflict in the GIPS Report.

The important role of GIPS Standards Sponsors

The GIPS standards aim to obtain worldwide acceptance of a single standard for the calculation and presentation of investment performance in a fair and comparable format that provides full disclosure. To facilitate the implementation of the GIPS standards, CFA Institute, together with the GIPS standards governing bodies, creates and administers the GIPS standards while local GIPS Standards Sponsors help to promote them.

All countries and regions are strongly encouraged to promote the GIPS standards as the local standard and translate them into the local language when necessary. Although the GIPS standards may be translated into many languages, if a discrepancy arises, the English version of the GIPS standards is the official governing version.

The presence of a local GIPS Standards Sponsor is essential for effective implementation of the GIPS standards and ongoing support within a country or region. Working in partnership with CFA Institute, GIPS Standards Sponsors play a key role in promoting the GIPS standards globally. GIPS Standards Sponsors, composed of one or more industry organizations, provide an important link between their local markets and the GIPS standards governing bodies. In addition to delivering educational programs and promoting the GIPS standards across the local investment profession, the GIPS Standards Sponsors own any CFA Institute-approved translation of the GIPS standards materials and are responsible for protecting it.

As of June 2020, CFA Institute has partnered with organizations in more than 40 countries and regions that contribute to the development and promotion of the GIPS standards.



A brief history of the GIPS standards

CFA Institute has a longstanding history of commitment to establishing and supporting the Global Investment Performance Standards (GIPS®).

In 1995, CFA Institute, formerly known as the Association for Investment Management and Research (AIMR), sponsored and funded the Global Investment Performance Standards Committee to develop global standards for calculating and presenting investment performance, using the AIMR Performance Presentation Standards (AIMR-PPS®) as the foundation.

The first Global Investment Performance Standards were published in April 1999. That year, the Global Investment Performance Standards Committee was replaced by the Investment Performance Council (IPC) to further develop and promote the GIPS standards. The development of the GIPS standards was a global industry initiative with participation from individuals and organizations from more than 15 countries.

The IPC was charged with developing provisions for real estate and private equity asset classes and addressing other performance-related issues (e.g., fees and advertising) to broaden the scope and applicability of the GIPS standards. The second edition of the GIPS standards, published in February 2005, accomplished this goal.

With the 2005 edition release and the growing adoption and expansion of the GIPS standards, the IPC decided to move to a single global investment performance standard that would eliminate the need for local variations of the GIPS standards. All country-specific performance standards converged with the GIPS standards, resulting in 25 countries and regions adopting a single, global standard for the calculation and presentation of investment performance.

In 2005, with the convergence of country-specific versions to the GIPS standards and the need to reorganize the governance structure to facilitate involvement from GIPS Standards Sponsors, CFA Institute dissolved the IPC and created the GIPS

Standards Executive Committee and the GIPS Standards Council. The GIPS Standards Executive Committee served as the decision-making authority for the GIPS standards and the GIPS Standards Council facilitated the involvement of all GIPS Standards Sponsors in the ongoing development and promotion of the GIPS standards.

In 2008, the GIPS Standards Executive Committee began a review of the GIPS standards in an effort to further refine the provisions. The GIPS Standards Executive Committee collaborated closely with its technical subcommittees, specially formed working groups, and GIPS Standards Sponsors. These groups reviewed the existing provisions and guidance and conducted surveys and other research in the effort to produce the 2010 edition of the GIPS standards.

In 2017, the GIPS Standards Executive Committee concluded that the GIPS standards should better accommodate the needs of managers of pooled funds and alternative investments, as well as firms focusing on high-net-worth clients. In 2017, a Consultation Paper, which described the proposed key concepts of the GIPS standards and requested feedback on specific issues, was issued for public comment. Subsequently, the 2020 GIPS Standards Exposure Draft was released on 31 August 2018 for a four-month public comment period. The final version of the 2020 edition of the GIPS standards was issued on 30 June 2019.

Next steps

01



Learn more about the GIPS® standards

The best way to learn more about the GIPS standards is to visit the GIPS Standards website, gipsstandards.org.

Below are some of the tools and resources and other information you'll find there.

- PDF versions of the GIPS standards
- Links to purchase hardcopies of the GIPS standards
- Explanation of the Provisions and supporting spreadsheet calculations
- Links to view and subscribe to the GIPS Standards Newsletter
- List of compliant organizations that have opted to have their names listed on the website
- List of GIPS Standards Sponsors
- Upcoming conferences and events
- List of GIPS Standards service providers
- GIPS Standards Help Desk email address for technical questions

02



Evaluate the scope of work

Transparency, Comparability, Consistency, Competitiveness. The benefits of the GIPS standards are clear. The next step is to identify the changes your organization will need to undertake, and this will depend on your goals. For example, some asset owners may want the benefits of transparency and comparability when hiring external managers and will simply need to demand GIPS compliance within their manager search process. Other asset owners may want to claim compliance themselves and may need to undertake policy, process, and technology changes. Similarly, some firms may want to become compliant and verified while others may choose to not be verified. Some organizations find it helpful to use external advisors to help attain compliance. A list of service providers is available under Tools and Resource on the CFA Institute gipsstandards.org website.

03

Engage leadership

Compliant organizations have found that it is essential to engage the organization's leadership in the decision to pursue compliance with the GIPS standards as well as in the implementation and ongoing maintenance once compliance is achieved.

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CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials.

The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow.

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