

Implementing GIPS 2010

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The Global Investment Performance Standards (GIPS) are a set of voluntary ethical Standards that can be adopted by asset managers globally. These self-regulatory Standards present principles that aim to achieve full disclosure and fair representation of historical investment performance to prospective clients. Some of the main objectives aim to ensure that accurate and consistent data is used in the calculation and presentation of investment performance and to promote fair global competition between investment firms.

The GIPS Standards are owned by the Chartered Financial Analyst (CFA) Institute and governed by an Executive Committee (EC). In partnership with 32 country sponsors globally, a governance structure is in place to ensure the interests of all stakeholders are represented and incorporated into any further developments of the Standards. To ensure that the Standards maintain their relevance and keep up with continuous innovation and changes within the investment industry, the EC has committed to a review of the Standards every five years. During the past three years, the CFA Institute, EC and numerous volunteers from around the globe spent their time on such a review and the result of this work is the approval and release of the GIPS 2010 Standards in January 2010 and the release of the accompanying guidance statements at the end of 2010.

With the GIPS 2010 review the intention was not to rewrite the Standards, but rather to do a thorough assessment of GIPS 2005, tighten up language used within the Standards and address certain areas that have previously not been included. The focus now shifts from the review process to awareness, education and support until the next review is done.

The following are some of the most important changes that asset managers should be aware of:

- a) **Fair Value:** Previously the requirement in the Standards was for assets to be valued at market value. This has now been changed to fair value. Every asset managers should within their policies and procedures define a valuation hierarchy to follow should there not be a liquid observable market price available. The expectation is that in the majority of cases the fair value will be equal to the market value.
- b) **Compliance Statement:** Within the new compliance statement firms will have to disclose whether the firm has or has not been verified. There is also a statement relating to what verification is.
- c) **Risk Disclosure:** Firms will be required to disclose sufficient information to allow a prospective client to understand the relevant risks of the composite strategy. More guidance to follow within the risk guidance statement.

- d) **Standard Deviation:** Investment firms will be required to present the three-year annualized ex-post standard deviation of the composite and benchmark. More guidance will follow in the risk guidance statement.
- e) **Definition of Prospective Client:** A prospective client has been defined as any person or entity that has expressed interest in one of the firm's strategies and qualifies to invest in the composite.
- f) **Verification:** The scope and purpose of verification, as well as the required verification procedures that must be followed by verifiers have been clarified in Section III in order to increase the understanding and consistency of verification.
- g) **Private Equity and Real Estate:** The sections relating to Private Equity and Real Estate have been updated to reflect industry best practice to enable the GIPS Standard to gain further traction within these industries.
- h) **Alternative Investment Strategies:** A guidance statement is currently being finalised to give firms with alternative investment strategies guidance regarding the application of GIPS within their firms.

The changes highlighted above came into effect on 1 January 2011 and any presentations that include results for periods beginning on or after this date must be prepared in accordance with the revised Standards.

As the South African country sponsor of GIPS, ASISA will host educational sessions for all stakeholders during the course of this year once the new guidance statements dealing with "Application of GIPS in Alternative Investments" and "Risk Disclosure" have been finalised.

For further information please visit www.gipsstandards.org.