

## The Journal Interview

### **Jonathan Boersma, CFA**

*is director, investment performance standards, at the CFA Institute Centre for Financial Market Integrity. He is responsible for managing the Investment Performance Standards Policy Group; promulgating the Global Investment Performance Standards (GIPS<sup>®</sup>) positions, policies, and standards; and coordinating and supporting related educational and public awareness activities.*

*Previously, he was responsible for managing and directing the development, promulgation, and maintenance of the CFA Institute Standards of Practice, including the CFA Institute Code of Ethics and Standards of Professional Conduct, CFA Institute Soft Dollar Standards, CFA Institute Trade Management Guidelines, CFA Institute Research Objectivity Standards, and other standards of practice under development. Mr. Boersma is a frequent speaker on ethics in the investment industry.*

*Prior to joining CFA Institute, Mr. Boersma worked in the investment management industry in various positions including assistant portfolio manager, trader, and performance specialist. He has experience in asset allocation, fundamental and quantitative research, risk and performance measurement, investment policy and portfolio strategy development, and investment manager selection.*

**Sabina Hastings:** Jonathan, we normally start with a background question, so could you please share that with us?

**Jonathan Boersma:** I'm the executive director for the Global Investment Performance Standards here at CFA Institute. I've been with the organization for seven years in various roles. I initially joined CFA Institute to work on the performance standards and then I moved over to head up all of the other ethical standards. Earlier this year I was appointed to lead the GIPS initiative.

Before that I worked on the buy side for a number of years. I've been involved in performance measurement, trading, and portfolio management – in both the institutional and private wealth areas – so I've had a wide range of experiences.

**SH:** How would you define your role within the CFA Institute?

**JB:** I work within the CFA Institute Centre for Financial Market Integrity. I head up that group which administers and manages the development of the GIPS standards.

**SH:** No simple task, especially now.

**JB:** It's a challenging area and it's always changing.

**SH:** Exactly. And, with all of the things that are being added year by year, it must keep you very busy.

**JB:** Yes, definitely.

**SH:** It's been twenty years since the Financial Analysts Federation or the FAF initiated Standards for calculation and presentation of the performance results. How do you feel that the standards have evolved over those years?

**JB:** This year marks the twentieth anniversary of the conception of the Standards, and it's amazing when you look back at the first set of standards how much has not changed. The concept of presenting time-weighted returns and the creation of composites to avoid cherry picking has remained constant throughout the years. The ideas of fair representation and full disclosure have remained the guiding principles.

Certainly as the industry has evolved the Standards have needed to evolve to stay up with those changes, and they have. So new areas have been added to address things like real estate and private equity performance and some of the more technical areas, so there have been changes, but it's certainly been an evolutionary process. And that continues. Just as the market and investment instruments become more complex and the strategies become more complex, we need to make sure



that the Standards adequately capture those different strategies. That's part of our role here.

**SH:** Excellent. What's the status of the country sponsors now? Is there continuing progress there?

**JB:** Yes, we partner with other organizations in various countries to promote the Standards and provide education to the market in those countries. We do continue to endorse new country sponsors. Most recently the GIPS Executive Committee endorsed country sponsors from Belgium, Pakistan, Kazakhstan, and Korea, and so it's very exciting and rewarding to see the take-up of the Standards in countries as the various markets continue to develop.

**SH:** It's exciting to think that the Standards would actually be recognized and followed in such far-flung areas.

**JB:** Absolutely. We've also seen quite a bit of interest in China, and as these markets develop and open up, it's great to see that there is interest in basically trying to do things right from the beginning in adopting global best practices for those markets.

It's something that we're very pleased to see, and we continue to think strategically as far as which markets

we should target and try to develop relationships.

**SH:** So do you actually target specific markets, as there is development of the financial areas in those different markets?

**JB:** We do. There are other organizations that just contact us. They've heard about the GIPS standards through maybe one of the other country sponsors or some other means and are interested in taking on that role in promoting the Standards within their markets. It goes both ways, but we certainly are active in trying to promote the Standards where we don't currently have a presence.

**SH:** So that keeps it a living process for the evolution of the Standards?

**JB:** That's right.

**SH:** We're also marking the ten-year anniversary of the AIMR-PPS® standards. So with the transition to the GIPS standards, can you give us some insight into the new GIPS organization and explain how it works?

**JB:** The GIPS Executive Committee is the governing body for the Standards and consists of nine members from around the world. The members include the chairs of the Interpretations Subcommittee, the Investment Manager Subcommittee, the Investor/Consultant Subcommittee, and the Verification/Practitioner Subcommittee. In addition, there are three Regional Investment Performance Subcommittees – Asia-Pacific, Europe/Middle East/Africa, and Americas – and the chairs of those subcommittees are members of the Executive Committee.

The other organizational element is the GIPS council, which is a body where each of the endorsed country sponsors has a seat. The Council provides a forum for country sponsors to express views and consider different developments and provide input. The chair of the Council is also a member of the Executive Committee.

And I am the final member of the Executive Committee.

**SH:** What are the plans for the next edition of the GIPS standards?

**JB:** Every five years we conduct a comprehensive review of the Standards. That review consists of three elements. First, we are reviewing the content of the existing Standards to see if any changes or clarifications need to be made. Second, we are evaluating if any of the current recommendations should be upgraded to requirements. Finally, we are evaluating the provisions that have future effective dates to determine if they are still appropriate. So, for example, there is a provision that states that firms will be required to revalue portfolios at the time of any large cash flow beginning January 1, 2010. We need to evaluate if those dates are relevant and achievable, what the impact will be on firms, as well as other considerations.

We're also looking at technical areas such as real estate and private equity; making sure that those provisions represent best practice and are currently capturing the issues or relevant needs of the industry.

In addition, we are working on new areas such as addressing alternative investment strategies, risk, and other topics. That work is going on in parallel with the 2010 review and will be rolled in if it is ready; otherwise it will be released separately.

I think it is important for me to address a misconception that seems to exist in the market. There are many who believe that recommendations in the Standards will all eventually become requirements. While we do consider upgrading recommendations to requirements, it is not the case that all recommendations will become requirements. Recommendations are what we consider to be best practice, but there are elements that, for one reason or another, cannot necessarily be implemented in every market or every strategy all the time. So, it's perfectly reasonable to expect that there are certain recommendations that will forever remain recommendations.

I hope that clarifies our position a bit. It is an important message because I think sometimes when people see a recommendation added to the Standards, they begin to get a little nervous that in a few years' time it may become a requirement and what does that mean as far as costs and implementation. It's important to allay those fears.

**SH:** Is that also a condition of dealing with so many

regulatory bodies on a global basis now?

**JB:** It can be. There are a lot of facets that are involved in determining if something should remain a recommendation; it could be due to various market structures or simply the different systems that are available. Sometimes we expect software to develop a little faster than it does. There are simply some things that not every firm in every market can adhere to, so we put them out there as best practice and hope that as many firms as possible can adopt them.

**SH:** What is the CFA Institute's relationship to the Standards today?

**JB:** CFA Institute has a long history with the Standards. CFA Institute developed and owns the Standards and serves to administer and develop the Standards. As I mentioned, the Executive Committee is a committee of the CFA Institute. We are very active in promoting the Standards and providing education on the Standards to the industry, not only here in the United States but around the world, partnering with the country sponsors. It's pretty amazing to see how the Standards have really taken off in response to that.

CFA Institute also serves as the country sponsor for the United States and Canada, through the North American Investment Performance Committee. We work with that committee to promote the Standards here in North America and to develop guidance and research on performance-related issues.

**SH:** What do you think the future holds for the GIPS standards?

**JB:** Well, in some ways I think it's a lot of what we've seen in the past. As I mentioned earlier, as the industry develops we need to make sure that the Standards continue to evolve, are relevant, and represent global best practices. The great thing about working in this business is that it's always changing. There are always new instruments and strategies that are evolving, and so we need to make sure that the Standards capture that and do continue to be the "gold" standard.

**SH:** Everybody is focused on what's going to happen with hedge funds and the new alternate investment strategies being used today. I get the impression that

you're trying to keep up with those and develop some momentum as far as developing some guidance there.

**JB:** In general, we believe that the Standards can be applied to hedge funds as they stand. The principals can be applied to a broad range of strategies and investment vehicles. In fact, there are many hedge funds that already do comply with the Standards. But there are some unique aspects to hedge funds, as well as other alternative strategies, that need to be addressed. So we are working to provide specific guidance and direction on some of those issues.

**SH:** Well, I thank you very much for sharing your insights. It is a very exciting and dynamic environment and it's most likely to stay that way for a while. I think you have your hands full.