

## ***“The winding road to GIPS 2010 and continued development of the GIPS standards”***

An interview with Mr. Colin Morrison, GIPS Executive Committee, Investor/Consultant Subcommittee Chair and Founder, Paradigm Investment Consulting Limited by Matt Price, Partner, Ernst & Young, UK

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### **The GIPS 2010 process seems to have been a bit of a marathon. From your perspective how has the race been run and won?**

Unlike previous releases, the more significant changes for 2010 had been flagged well in advance, indeed some as far back as 2005 which gave firms ample time to prepare. Maybe this contributed to the notion of a marathon journey. Running and winning the race was down to volunteers: it is difficult to underestimate the importance of people in the process whether these are members of the sub-committees, working parties, Executive Committee or CFA Institute staff. Above all else though it is the unprecedented numbers who provided well argued and objective feedback during the consultation period that allowed the 2010 edition of the GIPS standards to be well balanced and correctly positioned.

### **What was your particular highlight?**

Without doubt the risk provisions. While in no way downplaying some of the other significant developments, extending the standards into the area of risk was both natural and necessary. There was considerable debate within the industry as to whether the standards should encompass risk- witness the range of opinions expressed during the consultation period. From my perspective all but a very small minority will agree that risk and return are inexorably linked- trying to make sense of an investment strategy using one without the other is both inconceivable and ill-advised.

If I was able to select another but more general highlight it would be recognition in the growth and prominence of the alternatives market, most notably the hedge fund industry. Throughout all the deliberations and decision making on GIPS 2010 we were very conscious of the differing practises and behaviours of the hedge fund world so we took great pains to ensure that the language, provisions and recommendations were consistent and workable for the hedge fund industry.

Those efforts complement the initiative to issue a full guidance statement on alternative investment strategies and structures in the near future, which a separate sub-committee has been working to develop over a number of years.

### **Any regrets or disappointments?**

Initially yes, in that to my mind the risk provisions contained in the original 2010 draft did not go far enough. Remember that the standards were developed for the asset owner, so it was difficult to see how a single risk figure at a single point in time would have provided investment strategy insight and transparency when up against a barrage of performance returns. Through lobbying and some less gentle persuasion I am glad to say that sense prevailed and the final version requires and recommends a range of measures designed to provide the prospective client with a rounded view of the derivation and quantification of the risks inherent in the strategy behind those returns.

While neither regret nor disappointment, perhaps the strongest emotion currently is one of foreboding in that having completed GIPS 2010 there is the colossal task of reviewing every existing Guidance Statement to ensure it is consistent with the current version of the standards. With over twenty in existence this will probably need a great deal of tenacity to test every statement to ensure none contradicts and each is consistent with the standards. On the subject of Guidance Statements, it is worth mentioning that there is recognition (either through changed market practises or broader industry developments) that some guidance will require more radical overhaul. One of the most pressing needs is to have fuller and more complete guidance on acquisitions and mergers where the complexity of the corporate event can give rise to myriad questions as to how a firm handles and treats the many underlying moving parts.

**What do you think will be the primary challenges (if any) of implementation for GIPS compliant managers?**

We have spoken about the well flagged changes to the standards for 2010 so it would surprise me if, having been given several years advance warning of the more significant changes, that firms were caught out by this. Most gratefully accepted the lead in time so should have prepared themselves well in advance and while the devil is often in the detail I doubt any firm will find the challenges insurmountable, indeed that is neither the purpose nor intent of the standards.

One of the challenges I see lies not with the firm but with the verifiers. As markets, strategies and products evolve, so too will the standards which will drive change in the skill set requirement of verifier staff away from the traditional audit background much more towards those with industry practitioner knowledge and experience.

**What will be the direction and focus of new guidance for the coming years and are there any battle lines already drawn for 2015 GIPS?**

The 2010 edition of the GIPS standards is without doubt the most technical version of the standards to date and I can only see this increasing in the future to match product innovation and broader market developments, the standards and supporting guidance statements must fully reflect how firms administer, manage and present their products and strategies. To get some idea as where the standards are going one only has to look at the strategic plan which will be finalised this autumn and will include developing guidance statements on alternatives and risk and examining the measurement of portfolio transitions.

One further area to consider: retail investors. While there is nothing in the standards that precludes retail investors or retail oriented investment houses, there probably needs to be some interpretational guidance that recognises the different behaviours, habits and investment objectives, and investment vehicles of that segment of the market.

**What do you see as the most important challenges facing asset management industry today and how are the GIPS standards relevant to the 'brave new world'?**

Anyone brave enough to stick their head above the parapet will still be trying to see what the "brave new world" looks like. Last year's dark mutterings from regulators broadly speaking still have to crystallise into fact - noble talk of product transparency in place of its greedy predecessor "opaque sophistication" still has to be evidenced. Regulators regulate but most also recognise that regulation is not always the complete answer, so voluntary but ultimately sustainable industry best practises and standards such as the GIPS standards have an important and valuable place within that framework.