

Ralph Purtcher-Wydenbruck's response to GIPS Executive Committee's (EC) invitation to comment on proposed GIPS 2010 Exposure Draft:

I would like to comment on the draft rule that *firms will be required to disclose a three-year annualised ex-post standard deviation of the composite and benchmark using monthly data.*

According to portfolio theory, when a composite contains accounts that are perfectly correlated, the volatility of a composite will be the same as those of its member accounts. On the other hand when the correlation is not perfect, the composite's volatility will be lower than its member accounts. Since correlations within composites may occasionally vary significantly, I would like to propose for your consideration a refinement to this rule, that the figure should be based on an *average of the standard deviations of member accounts*, rather computing the figure based on the returns of the composite itself.

GIPS software products already compute various dispersion statistics (e.g. mean, top quartile, min, max, etc). Thus the calculation of an average volatility (using similar code) might be quite cost effective for many vendors.

Ralph Purtcher-Wydenbruck
SI Product Manager and Architect
StatPro
London