



A Global Passport

Revised GIPS® standards promote comparability

BY CRYSTAL DETAMORE-RODMAN

In conjunction with many local organizations around the world, the CFA Centre for Financial Market Integrity has taken an unprecedented step toward global harmonization with the recently revised Global Investment Performance Standards (GIPS®), which increase minimum standards worldwide and allow for comparability of investment firms' performance history and fee schedules.

Global standardization provides investors around the world with increased transparency to evaluate and compare investment managers, which in turn builds investor confidence. For investment management firms, it helps create a level playing field — money managers calculate and present investment performance within the same ethical framework — and allows them to compete for new business in foreign markets.

"Firms are able to tout their GIPS compliance and hold themselves out differently than their competitors who aren't compliant," says Alecia Licata, director of investment performance standards at the CFA Centre. "In the more developed markets, if the firm is not able to check the box indicating that they're GIPS-compliant, they may be placed at a marketing disadvantage that in many cases can exclude them from manager searches and being considered for business."

Indeed, anecdotal evidence suggests that noncompliant firms are often excluded from competitive bids as momentum grows for one global standard. What's more, a 2004 PricewaterhouseCoopers survey found that 90 percent of 124 global asset management firms are already complying with the GIPS standards or working to do so.

But the benefits to compliant firms go well beyond the obvious marketing

advantages. "I think there is a tendency for asset management firms to focus only on the marketing benefits," Licata explains. "Firms are always weighing whether compliance with the GIPS standards is worth the cost. It is important to remember that there are many benefits that come from complying with the standards. Not only do firms gain a global passport to compete for assets in most major markets, but as importantly, the GIPS exercise provides firms a great deal of confidence in their overall processes and internal controls."

Twenty-two local organizations endorsed by the CFA Centre-sponsored Investment Performance Council (IPC) are now part of the "GIPS family." A handful of others, including Hong Kong, Singapore, and Germany, are in various stages of endorsement, bringing the number of currently participating countries to 25. From a geographical standpoint, GIPS adoption is closely tied to capital market development. For instance, while most of Europe is onboard, participation is less consistent among Asian countries.

"It's trickling through to Asia," Licata observes. "We're making contacts to reach investment management firms and clients to educate them about the benefits of the GIPS standards." The CFA Program is one of the most effective outreach tools; CFA candidates in 150 countries study the standards as part of the regular curriculum. Says Licata, "That's one way in which we're using some of our current delivery mechanisms to reach those countries."

Unique Challenges in the US

But even in countries with well-developed capital markets, certain challenges persist. In the United States, where the AIMR Performance Presentation Standards (AIMR-PPS®), the US and Canadian version of GIPS, will fully transition to the revised

KEY POINTS

- The GIPS standards offer a marketing advantage to asset management firms by enabling them to compete for new business in foreign markets.
- Twenty-five countries have either been endorsed by the CFA Centre-sponsored Investment Performance Council or are applying to join the "GIPS family."
- A 2004 PricewaterhouseCoopers study found that 90 percent of global asset management firms surveyed were already complying with GIPS or working to do so.

GIPS standards on 1 January 2006, one of the biggest obstacles is the sheer size and scope of the investment industry, which includes not only a large number of money managers but many consultants as well.

"The market here is so much bigger and more diverse," says Karyn Vincent, CFA, chair of the AIMR-PPS Implementation Committee and founder of Vincent Performance Services in Portland, Oregon. "The issue of compliance is not the problem — it's going to be getting the message out. It's the consultants, the people who are the users of compliant presentations, who need to start asking and appreciating why a firm in the United States or Canada will be complying with the GIPS standards as opposed to the AIMR-PPS standards."

"Plus," adds Vincent, "our market is different. In much of the world, money managers operate in the equivalent of our retail market. Many other countries don't have the same established kind of institutional marketplace that we have."

In reality, the two standards have relatively few major differences between them, which will help smooth the transition for US and Canadian firms, the predominant users of the AIMR-PPS standards. "We're trying to help the industry understand that, for the most part, if they're AIMR-PPS-compliant, they're also GIPS compliant," Licata stresses. "The majority of differences between AIMR-PPS and the GIPS standards can be summarized in a few points, and the

AIMR-PPS Implementation Committee will release additional information in the coming months to spell out the changes and what they really mean for AIMR-PPS-compliant firms.”

An Encouraging Start

The objective was always to have one solution for calculating and presenting investment performance returns — the GIPS standards. However, when the IPC solicited feedback from the public in 2004 on the proposed next edition of the GIPS standards, this goal didn't seem achievable before 2006. “In 2004, it was thought that we could create a version that was a higher order, but there would still be a need to address country-specific issues,” says IPC Chair James Hollis, CFA, managing director of Cutter Associates in Duxbury, Massachusetts. “Countries would adopt the new upgraded edition of the GIPS standards and incorporate them into their country versions — that was the original idea. But in the end, as we looked at it, we realized there were very small differences from country to country. It wasn't really substance; it was just perception.”

And for global money management firms, it was much more costly and cumbersome to comply with multiple country versions rather than a single global standard. “In the end, we were so close to having one global version that we all decided that we should just converge,” Hollis says. “It was a rather courageous decision, because we didn't have any blueprint or any roadmap as to how to do that.”

In addition to treading into new territory, the standard setters had to contend with cultural diversity and unique investment market attributes at the local level. “In the beginning, [the investment performance standards] were crafted primarily for institutional money managers in the United States,” Hollis explains. “The European market was less institutional and more mutual fund oriented, and now they're developing institutional and high-net-worth management businesses. And the Japanese market was unique — it had a lot of Western overrides, but it was a new market. We had different types of markets that were adopting these stan-

THIRD-PARTY VERIFICATION

When developing the revised Global Investment Performance Standards (GIPS), one of the most contentious issues was whether to require mandatory third-party verification of a firm's claim of compliance by the year 2010.

During the consultation period, there was significant feedback both for and against mandating third-party verification. “We weighed those comments and feedback and determined that, at this point, it's not feasible to mandate verification primarily because verification services differ around the world,” explains Alecia Licata, director of investment performance standards at the CFA Centre for Financial Market Integrity. “As we consider countries that might like to participate in the GIPS initiative in the future, the quality and the availability of verification firms in those regions is not such that we can justify imposing verification as a required element necessary for every firm to claim compliance.”

However, Licata notes that the IPC believes the industry would be best served by implementing mandatory verification at some point in the near future. “They are taking steps to ensure the quality and quantity of verifiers increases such that, by the year 2010, mandatory verification is an achievable target,” she says.

dards originally created for the US institutional market. The industry is converging but is still rather fractured.” Hollis also points out that ethical concepts, as well as valuation and liquidity challenges, are testing the mettle of some emerging market countries.

According to Stefan Illmer, chair of the IPC's European Investment Performance Committee (EIPC) and director of performance management and portfolio analytics at Credit Suisse Asset Management, developing a single standard was difficult because of “missing knowledge” about different local practices and needs. Says Illmer, “It takes quite a long time to convince the others of the fact that, in different countries, certain things may be different from other countries, like the treatments and types of fees charged, asset class carve outs, or trade-date accounting.”

In the Pacific Basin, only Japan, Australia, and New Zealand had committed to the concept of a global standard until recently. Today, not only are Hong Kong and Singapore embracing the GIPS standards, but there is growing interest in Thailand, Malaysia, Korea, China, and the Philippines, says Louis Boulanger, CFA, who represents the Pacific Basin on the IPC. “I believe that with the recent burst of enthusiasm to emerge from Hong Kong in particular, but also Japan and Singapore, the geographical representation

challenge would seem to be on its way to being properly addressed,” Boulanger says. “This will pave the way for much greater and faster penetration of the GIPS standards in the region, in my view.”

While the future will present many challenges in implementing the GIPS standards on a complex world stage, “the progress made to date, as well as the enthusiasm and commitment of the players involved, has provided the industry an encouraging start,” Licata says enthusiastically. ▀

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RECOMMENDED RESOURCES

“Convergence to GIPS®”
2004 CFA Institute webcast
(cfawebcasts.org)

GIPS Standards Revision
(www.cfainstitute.org/standards/pps/gips_redraft_2005.html)

Status of GIPS Adoption at the Country Level
(www.cfainstitute.org/standards/pps/gips_statusdetail.html)

GIPS Fact Sheet
(www.cfainstitute.org/pressroom/overview/GIPSFactSheet.html)

PricewaterhouseCoopers Survey on GIPS Standards Compliance
(www.pwc.com/Extweb/pwcpublishations.nsf/docid/0950CDD9B3993B6085256EA10057C58B)