

## GIPS Standards Lead the Way

UK group anticipates a single investment performance standard

BY CHRISTINE MARTIN

At the same time that AIMR-PPS® standards were being developed in the United States during the early 1990s, the National Association of Pension Funds (NAPF) was working on a code for standardizing pension fund performance reporting in the United Kingdom. That code was well suited to the UK pension fund industry, and it achieved nearly universal acceptance among pension fund trustees and investment management firms. Yet, by the end of the decade, NAPF had abandoned its code in favor of contributing to the development of the Global Investment Performance Standards (GIPS®).

The move was not uncharacteristic for an organization that played a significant role in GIPS formation and that, as a GIPS country sponsor, continues to be progressive in its support of global standard setting. Through its UK Investment Performance Committee (UKIPC), which initially was set up by NAPF to develop the pension fund codes, NAPF has an established infrastructure that works almost exclusively on matters pertaining to the GIPS standards.

David Gould, NAPF director of investment and secretary of the UKIPC, notes that the committee is organized by NAPF but that members represent stakeholders across the UK investment industry and also include an observer from the Financial Services Authority, the UK investment industry's regulatory body.

"We're such a widespread and diverse group that debate is quite common," he says. "But we're focused on the fact that at the end of the day, the GIPS standards exist not in a vacuum but to help investors make investment choices and decisions." In keeping with this position, the UKIPC adopted an edition of GIPS called the UK Investment Performance Standards (UKIPS), which was

later endorsed by the Investment Performance Council (IPC) as a country version of GIPS. Interestingly, the sole difference between GIPS and UKIPS is the latter's provision for mandatory verification.

According to Gould, UKIPS is much more rigorous than the original pension codes, and the difference has had a polarizing effect on the UK investment industry. "Those bidding for mainstream institutional business are either GIPS compliant or will be very shortly," he explains. "But retail managers and those providing private client services have little pressure to become GIPS compliant."

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GIPS standards among institutional investors. Over 4,000 pension trustees recently were mailed a list of "essential questions" to ask when shopping around for investment managers — the lead question being "Do you comply either with Global Investment Performance Standards or a country version of GIPS?" The organization also seeks out frequent opportunities to raise awareness of GIPS through speaking engagements and the media. And UKIPS includes an appendix providing investors with additional guidance related to the standards and its benefits.

Gould sees such outreach efforts expanding to retail investors and other sectors in the future. This past winter,

the UKIPC directed Gould to begin meeting with organizations representing such groups, and Gould intends to send the message that "what's good for institutions in terms of performance records also is good for individual investors."

But NAPF's most urgent objective with regard to the GIPS standards is seeing through the endorsement of its second version: "gold" GIPS. The UKIPC formulated a working group to study the proposed updated version, and in late June, NAPF submitted a lengthy response to the IPC. Gould noted that because the committee represents many industry players with varying perspectives, the response "ought to be particularly robust and balanced." The UKIPC see the extension of GIPS to other asset classes as being a key task for the IPC over the next couple of years.

"Overall, the UK committee thought the 'gold' GIPS proposal was very good. We appreciate the aim and intention, and our comments are only aimed at making it better so as to achieve transparent and unambiguous reporting across the global investment industry," says Gould.

NAPF is satisfied with the compromise effective date of 2010 but seeks assurance that this date will be firm. "Having this assurance will help us to decide how to treat verification in the UK in the meantime," says Gould.

"We've not had that discussion yet, but we might opt to maintain the country version because mandatory verification is the only difference between UKIPS and GIPS." Yet Gould also suggested that NAPF might be willing to drop the verification requirement to keep in line with the ultimate goal of eliminating country versions and achieving a single, global standard. ▀

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