Going for Gold: IPC Seeks Comment on Updated GIPS Standards

BY CHRISTINE MARTIN

The AIMR Board and the Investment Performance Council (IPC) just released the latest version of the Global Investment Performance Standards (GIPS®) for a six-month public comment period ending August 2004. Called the "gold" GIPS standards, the proposed version will raise the bar for firms claiming GIPS compliance and eliminate the need for separate local standards in many countries.

"The GIPS standards are no longer simply a minimum worldwide standard," says AIMR Vice President Alecia Licata. "With the proposed changes, the GIPS standards now encompass much of what the global industry deems to be best practices in terms of performance presentation and measurement."

The proposed version will certainly impact local versions of the GIPS standards, such as AIMR-PPS® standards, as these versions must incorporate all interpretations and changes to the GIPS standards. As a result, Licata fears that some constituents may miss out on the opportunity to give feedback.

"Although most AIMR members know GIPS standards exist, many don't have a perspective on the relationship between GIPS standards and their local version, and therefore they may gloss over their role in the standard-setting process — to provide feedback — and consequently, the IPC's invitation to comment," Licata says.

Yet Licata maintains that the public commentary process is vital to the success of GIPS standards. "The IPC has broad representation geographically and technically, but it is only so large. Encouraging the public to think about the practicality and applicability of IPC proposals adds significant value to the process," says Licata.

"If we only hear the negative comments, it leaves us wondering whether the majority of the industry agrees with the proposal or whether they just don't know about it," says Licata. All comments received are posted to the AIMR website for others to view.

The proposed updated version of GIPS standards includes new, modified, and deleted provisions for which the IPC requests comments. Provisions anticipated to draw the most feedback include a new provision requiring mandatory verification as of 2010, a new provision requiring firms to provide a compliant presentation to all prospective clients, and a provision that clarifies that firms must provide a list and description of composites to any prospective client that makes such a request.

Notable modified provisions include postponing the requirement for accrual accounting of dividends and the requirement for carve outs to be managed with their own cash from 2005 to 2010. Licata points out that the decision to push back the effective dates for these requirements is a direct result of industry feedback. "The IPC takes public comment very seriously, and for these two provisions — although they are important and represent best practices — it made sense to give the industry more time to implement these requirements," she explains.

The proposed version also no longer permits two of the three current options for how a firm chooses to define itself for purposes of complying with the *Standards* (based on legal entity or base currency). "These deletions are based on the idea that a firm should be defined by how an entity is actually presenting itself to the public. It's a minor change in the sense that it will not affect most firms' ability to claim compliance. But it is a major change in that it captures the essence of what the GIPS standards are all about," says Licata.

These changes illustrate the great effort made to make the "gold" GIPS standards and process as transparent as possible. Particular attention was given to the structure of the document so that despite changes intended to improve the *Standards*, such as the addition of a glossary and a section on fundamental concepts, the proposed version looks very similar to the current GIPS standards. Even numbering was kept consistent with the current version.

One of the concentrations over the past five years with the development of the "gold" GIPS standards was adding comparability and transparency to nonstandard, mostly private asset classes, such as private equity and real estate. The updated version also incorporates provisions for other technical areas, such as fees and advertising, which already have been released for public comment and finalized by the IPC and AIMR Board.

Following the public comment period, the IPC anticipates adoption of the "gold" GIPS standards early in 2005 with an effective date of 1 January 2006. The IPC's goal is to have updated country versions and translations also adopted by 1 January 2006 so that all firms complying with the GIPS standards, or a version or translation, incorporate the changes by the same date.

"Some of the country versions will lose all their differences once the modifications are adopted. For those countries, the question will be whether there is a need for the country version to have a brand name different from GIPS," says Licata. In the spirit of convergence and transparency, the IPC and the sponsors of each country version are considering the implications of a name change for each market.

While the "gold" GIPS standards represent a triumphant milestone, Licata is quick to remind that the evolution doesn't stop with its adoption. "The GIPS standards are dynamic," says Licata, adding that guidance for leverage and derivatives will be up for public comment in the near future.

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