

North American Investment Industries Shift Perspective from Local to Global

BY CHRISTINE MARTIN

Changing one's frame of reference isn't necessarily easy. Since the redraft and endorsement of the AIMR-PPS® standards as the US and Canadian version of the Global Investment Performance Standards (GIPS®) in 2001, the United States and Canadian investment industries have been challenged to view investment performance standards from a global rather than a local perspective.

"AIMR-PPS standards do not exist in a vacuum — although many people in the United States still seem to think that they do," says Karyn Vincent, CFA, chair of the AIMR-PPS Implementation Committee and a member of AIMR's Investment Performance Council (IPC). According to Vincent, inculcating the notion that the GIPS standards are *the* universal standards to strive for has been a slow process.

"Anecdotally speaking, it's still primarily AIMR-PPS standards that the consultants are asking about. Some are also beginning to ask about the GIPS standards, but no one is asking just about GIPS," says Vincent. "However, I do see some movement toward the GIPS standards, primarily driven by the big global players, who see one standard as the way to go," she adds.

Any confusion that may exist in the United States and Canada about AIMR-PPS and GIPS standards is understandable, Vincent says. AIMR-PPS standards had been widely accepted and practiced in the United States and Canada for several years before the GIPS standards were introduced. And, although AIMR-PPS standards served as the model for GIPS development, the establishment of the GIPS standards necessitated a revision of existing AIMR-PPS standards in order for it to comply with GIPS requirements and thereby become a Country Version of GIPS (CVG).

Vincent stresses, however, that the GIPS standards are the core of the AIMR-PPS standards. Like other country versions, the AIMR-PPS standards include some provisions that are in addition to the GIPS standards, which are a result of local best practices that were in existence prior to GIPS — most notably, requiring compliance with all AIMR-PPS requirements as of 1 January 1993 at a minimum (versus 1 January 2000 for GIPS) and requiring a 10-year compliant track record (versus a five-year track record building to a 10-year track record for GIPS compliance).

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However, in an effort to eliminate differences between local practices, each CVG must contain a transition plan that outlines how the CVG will move toward the GIPS standards over a specified period of time and eliminate the differences between the two standards — leaving only the GIPS standards.

Because GIPS compliance is intended to level the playing field and to facilitate competition across borders, one might question whether the more stringent aspects of AIMR-PPS stan-

dards present a barrier to entry for non-US firms into US markets during the transition to and evolution of the GIPS standards.

Vincent thinks not. "Realistically, one has to acknowledge that there are going to be differences in local markets, different regulatory requirements and conventions for a period of time. But that fact does not dilute the value of a claim of compliance with the GIPS standards versus a local standard. Essentially, they all share the fundamental principles."

And, notes Vincent, as new guidance is developed at the global level, it will replace what is in the AIMR-PPS standards. "For example, the AIMR-PPS standards currently include guidance for real estate. The Real Estate Subcommittee of the IPC is in the process of finalizing its guidance for the GIPS standards. So, when those global real estate provisions are created, they will replace what exists in the AIMR-PPS standards. This is also happening with private equity provisions and advertising guidelines."

Still, many US and Canadian investment professionals look exclusively to AIMR-PPS standards for answers to questions of performance presentation, and are simply unaware of the role GIPS standards now play in the evolution of local standard setting despite AIMR's extensive campaign to build GIPS awareness. Says Vincent, "I wish I had a dollar for every time I said or wrote, 'Firms must pay attention to the GIPS standards because they matter. It's GIPS that is driving the changes to AIMR-PPS standards.'"

The AIMR-PPS Implementation Committee's present work on wrap-fee or separately managed accounts (SMA) illustrates Vincent's point. In 2002, the committee developed a guidance statement, which interpreted the application of the AIMR-PPS provisions on wrap-fee/SMA accounts, and submitted it for public comment, which in turn, sent the

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committee back to the drawing board.

Subsequent to the closing of the comment period, two key concepts in the wrap-fee guidance statement came under discussion at the global level. Consequently, the Implementation Committee had to wait for resolution of these issues at the global level in order to avoid issuing an AIMR-PPS guidance statement that would conflict with global guidance.

That resolution came at the September 2003 IPC meeting in Sydney, NSW, Australia, thereby giving the AIMR-PPS Implementation Committee the guidance it needs to move forward. Says Vincent, "In the short term, waiting for guidance is frustrating for people who don't have an appreciation of the global picture. But sometimes you just have to be patient and let the process proceed. It's how the system is supposed to work."

According to Vincent, another frustration for US and Canadian firms is "not what the GIPS standards say, but

what they do not say." She continues, "Interpreting standards at the global level is a lot more challenging, and because of this, the guidance may not provide the nitty-gritty detail that some US and Canadian firms like or are used to having." The point the AIMR-PPS Implementation Committee continues to drive home, however, is that the GIPS standards provide the broad, theoretical framework to guide ethical decision making when clear-cut guidance is not provided.

Vincent believes that the upcoming redraft of the GIPS standards will expeditiously shift the US and Canadian mentality from local to global because the IPC's standards-creation process zealously solicits the industry's involvement through public commentary. "In the past, the mindset of the US and Canadian investment industry was that they didn't have the ability to influence the process. It used to be that the rules came out, and firms followed them," explains Vincent.

Although Vincent attests to the US and Canadian investment industries'

enthusiasm for global standard setting, the convergence of local and global perspectives will take time: "I think that getting people to change their mindsets about an existing concept often is more difficult than getting people to accept one that is brand new." **■**

Christine Martin is a freelance journalist who writes for a variety of professional and trade publications.

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INVESTMENT PERFORMANCE COUNCIL

MEETING DATE

4 March 2004

Brussels, Belgium

All meetings are open to the public. To observe a meeting, e-mail standardsetting@aimr.org at least two weeks prior to the scheduled meeting date.

IPC-ENDORSED STANDARDS

(CVGS, TGS, and GIPS in English)

as of September 2003

Country Version of GIPS (CVG)

AIPS (Australia)
E-IPS (Egypt)*
IPS (Ireland)
IPPS (Italy)
SAAJ-IPS (Japan)
GIPS (South Africa)*
SPPS (Swiss)
UKIPS (UK)
AIMR-PPS (US & Canada)

Translation of GIPS (TG)

GIPS (Austria)
GIPS (Denmark)
GIPS (France)
DVFA-PPS (Germany)*
GIPS (Hungary)
GIPS (Luxembourg)**
VBA-PPS (Netherlands)
GIPS (Norway)
GIPS (Poland)
GIPS (Spain)*

GIPS (In English)

Belgium*
Luxembourg**
Portugal
New Zealand

* Indicates submission has been received, but not yet endorsed by the IPC.

** Luxembourg has adopted three standards: GIPS in English, France TG, & Austria TG

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