

GIPS Receives Open-Armed Acceptance in Switzerland

BY CHRISTINE MARTIN

Self regulation is a long-standing hallmark of the Swiss banking and investment industry. Not surprisingly, the Swiss Performance Presentation Standards (SPPS) received overwhelming acceptance by all major investment players when first introduced in 1997 by the Swiss Bankers Association (SBA). With the SBA as country sponsor, the SPPS standards were amended and restated in 2001 as the *SPPS standards, the Swiss version of the Global Investment Performance Standards (GIPS®)*. Today they continue to guide industry practice in Switzerland.

AIMR Investment Performance Council (IPC) member Hans-Jörg von Euw, from Swissca Portfolio Management Ltd., chaired the SBA committee of experts to develop performance presentation standards in Switzerland. He explains how the structure of the Swiss investment industry and SBA's position as the industry's foremost association practically guaranteed the universal acceptance of SPPS — and the subsequent changes necessary to align them as a country version of GIPS.

"Switzerland's investment management market is distinguished by a few very large players, a developed pension plan market, and influential consultants — all of which require performance figures in compliance with SPPS and external verification," says von Euw.

According to von Euw, accumulation of wealth in Switzerland is achieved mainly through the banks. He estimates that the two big banks — Credit Suisse Group and UBS AG (the latter of which is the world's second largest bank) — along with private banks and the state-guaranteed cantonal banks hold more than two-thirds of the US\$2.4 trillion total assets under management, as reported by the Swiss National Bank.

"Nearly all institutional investors work with banks or bank-owned companies, such as commingled funds for

pension plans. And individual investors also typically invest through banks," he says. "Individuals sometimes invest through non-banking intermediaries, such as life insurance companies or independent investment firms, but their market share is minor compared to that of the banks."

The Swiss Federal Banking Commission (FBC) oversees the Swiss banking industry, which is strictly regulated by the Swiss Banking Act and Ordinance. The FBC also collaborates with the SBA to develop binding codes of conduct, which define ethical standards of practice for the industry. The FBC monitors the banks' compliance with the banking act and the codes of conduct, imposing sanctions on banks that violate either.

The SBA also develops voluntary guidelines for conduct, such as the SPPS standards. Von Euw explains how the SBA's committee of experts initially intended to develop performance presentation standards unique to Switzerland until one member, Thomas Vock, CFA, suggested the AIMR Performance Presentation Standards (AIMR-PPS®) be used as a model. When the SPPS made its debut on 1 January 1997, Switzerland was the first country outside of the United States and Canada to introduce performance presentation standards.

"Because the SBA is an association of all banks in Switzerland and because of the industry's commitment to self-regulation, the standards were immediately adopted by all the major banks for institutional mandates," says von Euw. "Most of the banks also immediately arranged for external verification, regardless of the costs."

"Later, but still impressively, more and more banks and mutual fund companies began adopting SPPS for their private clients as well," says von Euw. "UBS, for example, handles thousands and thousands of accounts. So including private client mandates is esteemed not only from a general perspective,

but also considering the logistical and financial commitment that SPPS compliance entails."

The Swiss investment community supported the development of the GIPS standards from the very beginning. Several SBA members, including von Euw and Vock, were involved through their membership on the IPC and AIMR's Global Performance Presentation Standards Subcommittee. "As soon as it was possible to issue a country version of GIPS, the SBA began the application process," says von Euw. The Swiss version of GIPS was endorsed by the IPC in September 2001.

The Swiss version of GIPS requires firms to disclose the firm's fee schedule(s), which is only recommended in GIPS. The SPPS standards also recommend that firms include portfolios with leverage in different composites from those portfolios that do not. According to von Euw, in Switzerland, most SPPS-compliant firms adhere to the recommendations as well as the requirements.

Although Switzerland has three official national languages, the SBA decided to sponsor the SPPS standards in English only. "As they are a version of GIPS, the SPPS have few differences from GIPS, so translation seemed unnecessary. Plus, neighboring countries have excellent translations into Italian, French, and German — which also are endorsed by the IPC," says von Euw.

Not unlike the first edition of the SPPS standards, the amended version of SPPS was quickly accepted across Switzerland. "Institutional investors put pressure on firms that are not GIPS-compliant, as does the consultant industry. Consequently, nearly all RFPs request performance data in accordance with the SPPS standards. Although most individual investors are not yet familiar with GIPS, they will ask the same questions five years from now that institutional investors ask today," predicts von Euw.

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Because the demand for SPPS and GIPS is market-driven, external verification is becoming increasingly necessary for firms to remain competitive. According to a 2003 survey of compliance with SPPS conducted by PricewaterhouseCoopers, 66 percent of respondents have their performance results verified while another 27 percent are still in the SPPS implementation phase. Only 7 percent claiming SPPS compliance are not verified.

Although external verification is clearly the trend in Switzerland, the SBA does not believe that it should be mandatory at this time. "Not until the majority of countries sponsoring GIPS are ready," says von Euw.

Von Euw's confidence in the future of SPPS and GIPS is based on the ongoing efforts of SBA and other organizations, including the Swiss Society of Investment Professionals, to educate the Swiss investment industry and

Swiss investors. SBA reports new developments in GIPS to the financial media and meets regularly with industry players. This fall, the SBA will formally invite the Swiss Pensions Association to endorse the SPPS standards, which von Euw expects will happen.

Switzerland's support of GIPS also extends beyond its borders. Last November, von Euw, on behalf of the SBA, presented GIPS to a delegation from the People's Republic of China, inviting the country to adopt GIPS. And the SBA is encouraging the European Investment Performance Committee, a regional subcommittee of the IPC, to establish a guidance statement on performance attribution, a topic already addressed in Switzerland. "We strongly support performance attribution because it is a good way to increase the value of the performance

presentation standards," he says.

The FBC's recognition of SPPS and GIPS includes naming an alliance officer to the SBA group of experts. Says von Euw: "The FBC has not increased the role of the SPPS beyond self-regulation. But the FBC is interested in keeping up with the GIPS initiative, and the SBA suspects that a more prominent role for SPPS and GIPS is possible in the future." ■

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as of June 2003

Country Version of GIPS (CVG)

AIPS (Australia)
E-IPS (Egypt)*
IPS (Ireland)
IPPS (Italy)
SAAJ-IPS (Japan)
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 (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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