GUIDANCE STATEMENT ON RISK EXPOSURE DRAFT
WEBINAR

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WEBINAR AGENDA

• Confirmed: the “P” in GIPS is the same as the “r” in risk

• Stepping back: drivers behind the risk guidance statement

• Highlights from the Risk GS Exposure Draft

• Consultation Timetable

• Feedback Expectations and Aspirations
GUIDANCE IN LONG GESTATION

• Hopefully worth the wait but in our way we had:

  - a global credit crisis
  - GIPS 2010
  - ever increasing regulatory interest in GIPS
  - conflicting priorities
  - Dismemberment of the original draft!

• Important that we continued to sound out the industry on risk guidance

• Important that we also listen to it too!
RISK, RETURN AND REGULATION

• Some might quibble but the determination of performance feels mature…..

• …..not so risk as it is still on a steep evolutionary curve

• Regulatory risk seems like it has developed in a vacuum from investment return

• Regulatory linkage between risk and return is ill-formed (absent?), GIPS seeks to address this as understanding the risks taken with returns enjoyed has intuitive appeal

• NB: remember the firm’s obligations with respect to disclosure of apparent conflict with regulation
SPECIFIC HIGHLIGHTS

• Additional risk measures: do we really need to describe and disclose the relevance?
• Calculation and presentation housekeeping:
  - Common periodicity throughout
  - Net or gross return stream usage disclosure
• Focus on risk descriptions
• Inputs to calculations featuring a Risk Free Rate (RfR)
• Suggested criteria for determining the appropriateness of a risk measure
• Implications for maintenance and update of Policies and Procedures
DESCRIPTIONS OF RISK: SOME POINTERS

• Intent is to focus on more qualitative descriptions of risk, recognising though that some can still be quantified
• Intent is to uncover the more subtle risks inherent to the strategy
• Don’t reinvent the wheel: regulation requires that firm’s disclose this in the fund prospectus
• Wise policy to adopt a diametric opposite approach to “caveat emptor”
RISK DESCRIPTION: THE KITCHEN SINK

The Unconstrained Activist US Equity Composite includes all institutional portfolios invested in both listed and unlisted US equities that pursue an activist investment policy. There is no restriction on the market capitalization of companies held but companies tend to be smaller capitalisation so may exhibit greater volatility than large or main market stocks. Portfolios within this composite will be highly concentrated, holding around 12-15 stocks so returns will have a lower correlation to the benchmark than a fully diversified strategy. In times of increased market volatility, the composite characteristics may change significantly and stock liquidity could be reduced. Activism requires by nature long term investment in individual companies before value is realised so the strategy can behave more like private equity when compared to a strategy consisting of exchange traded securities. Due to their more concentrated nature, portfolios will tend to have more stock-specific risk than a more diversified strategy. Portfolios can use both exchange-traded and OTC derivative contracts for efficient portfolio management, which may expose the strategy to counterparty risk. The benchmark is the S&P 500 Index.
PRACTICAL IMPLEMENTATION CONSIDERATIONS: AKA Q&A

• Ten questions drawn from consultee responses to GIPS 2010 but also the practitioner experience of those in the Risk Working Party

• Definitely not an authoritative guide to calculation methodologies but does dwell on calculation inputs

• Definitely cannot accommodate the myriad practical questions so refer to GIPS Help Desk
CONSULTATION AND CONSIDERATION PROCESS

Key dates:
• 28th June - exposure draft released
• 26th September - closure of consultation period
• [1st January 2019 – effective]

Key processes:
• Risk Working Party reformed to review all consultation responses
• Incorporation of accepted consultee responses into GS
• Submission to Technical Committee for consideration
• Review by Executive Committee for sign-off
RISK GUIDANCE IN A WIDER SENSE

• Original brief was wide-ranging
• Decision taken to park off non GIPS related guidance
• Industry voices now suggesting time is right for broader practice guidance on risk……including ex-ante
• Should we thaw out the cryogenically frozen materials as the foundation for industry-wide paper…..
• …..but how far to go: operational, reputational, credit, regulatory
• Intuition, common sense and a limited time budget suggests confined to investment risk
CONSULTATION FEEDBACK ASPIRATIONS

• Does the guidance and indeed the standards go far enough with respect to risk?

• Additional risk measure: only limited by one’s imagination but practically what else should be included as examples (where are bonds?)

• Is there appetite for a fuller practice paper on risk and should it additionally encompass ex-ante?

• Feedback on the practical implications of having to bilaterally deal with (hard) regulatory risk requirements and risk provisions within the GIPS Standards
RESOURCES

- The **GIPS standards website**:
  - Guidance Statements
  - Q&A Database
  - Free Webcasts
  - How to Become Compliant
- The GIPS Standards Handbook
- Helpdesk: gips@cfainstitute.org
- GIPS Newsletter
- Twitter: @gips
- Certificate in Investment Performance Measurement (CIPM): cfainstitute.org/cipm

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