

Newsletter Interview – with Stefan Illmer

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By: Dr. Stefan J. Illmer

EIPC Initiatives and The EIPC Performance Attribution Guidance

Stefan Illmer, Ph.D., is Director and Head of Performance Measurement and Portfolio Analytics at Credit Suisse Asset Management (CSAM) in Zurich. He is responsible for Investment Controlling, Performance Attribution and for compliance of CSAM (Switzerland) with GIPS. Stefan Illmer has published a number of articles and also works on global projects on performance measurement and portfolio analysis. Globally, he is the Chairman of the European Investment Performance Committee (EIPC), represents Europe within the IPC and is a member of the Interpretations Subcommittee. In Switzerland he is a member of the SPPS Group of Experts of the Swiss Bankers Association (SBA) since 1996, representing CSAM.

Ernst & Young: The EIPC Performance Attribution Guidance has been recently approved by the EIPC and is awaiting approval from the IPC. Considering the overall strength and quality of this guidance document, do you expect any critical modifications from the IPC's side? What are the next steps, if any?

Stefan Illmer: The IPC has positively reacted to the Performance Attribution Guidance, but it is not planning to approve it yet since the main priority of the IPC is now to finalize and to introduce "Gold" GIPS. The Performance Attribution Guidance will remain as an important working paper and will most likely be approved at a later stage when the final "Gold" GIPS standards are adopted. I also hope that such guidance will be a basis for global guidance statements or working papers, and endorsed by the IPC.

Ernst & Young: How do you think the investment management industry will respond to and accept the practicality of such guidance?

Stefan Illmer: Some individuals/firms find this guidance good and some not. Unfortunately, some do not see the positive but only the negative aspects of it. I want to emphasize that we produced this working paper as a guidance document and not as a set of rules or standards. It is a recommended guidance on return and risk attribution, prescribing additional disclosure guidelines on what information should be presented if a performance attribution report is shown to a prospective client. Our main objectives behind this guidance are – as always – disclosure and transparency. There are two steps in this process. First we produced an 'EIPC Guidance For Users Of Attribution Analysis' which covers the topic of what questions should the investor ask a prospective asset manager? And the second step is now the Performance Attribution Guidance, which on the other hand prescribes what information the investment manager should present to a prospective client. Despite that the overall costs and effort of implementing these recommendations are expected to be relatively low; there is some resistance against this working paper. This may go back to the fact that some companies have not implemented performance attribution analysis for all accounts and for all composites yet. In addition software firms may also see this working paper as a

problem because they think it is necessary to change formulas and to adjust the design of the existing software packages. The latter is definitely not the case because no calculation methodology was defined in this guidance at all and - by the way - it would be very difficult when not even impossible to standardize such methodologies. Our intention is not to confuse the firms but to come up with the necessary guidance to help the asset management industry in the area of performance measurement and presentation. This EIPC working paper is a logical step on the way towards more transparency in the asset management industry after introducing GIPS – and may be not the last step.

Ernst & Young: What specific plans do you have in terms of promoting this guidance within Europe?

Stefan Illmer: We plan to talk at workshops and seminars and to write articles as well as to ask audit-verification firms and software companies to make this guidance public and to promote it. Industry newsletters, such as those published by Ernst & Young or PriceWaterhouseCoopers will be another way of spreading the message. We will also hold meetings with major players in the industry like software companies, consultants and other relevant associations, so that they are aware of this and know how to handle relevant issues.

Ernst & Young: The EIPC has been also working on two other interesting working papers: ‘Questionnaire for Investors’ and a ‘Guidance for Presenting Risk Measures’. Please describe the objective and status of these two guidances.

Stefan Illmer: The ‘Questionnaire for Investors’ is on the agenda at the next meeting of the EIPC in June and we hope that it will be approved at this meeting. Just like the ‘EIPC Guidance For Users Of Attribution Analysis’, it is also a working paper designed to be of assistance to investors. The underlying goal of the questionnaire is for the investor to better understand the asset management product and the composite figures or in general to get more information in addition to the numbers and disclosures already shown in a normal GIPS presentation. For example more information on the treatment of taxes, on the handling of non-fee paying accounts, etc. which are all minor points, but necessary for the investor to get the full picture about the firm’s performance and its policies/processes. Other questions like on verification or internal controls are incorporated as well. Considering that the industry is very much consultant driven and that GIPS was introduced first in the institutional asset management, the questionnaire is focused at institutional rather than private investors. We also are working on the ‘Guidance for Presenting Risk Measures’ and are expecting to produce a first discussion draft also in June which may be finalized and approved sometime next year. Risk measures are a very broad subject and not covered in detail by GIPS yet. Until GIPS addresses this complicated topic in more detail, the EIPC wants to advise the asset management industry also on this subject and to cover specific questions and issues in the area of presenting risk figures. We may come up first also with a questionnaire and in a second step again with a working paper on presenting risk figures.

Ernst & Young: One of your key goals at the EIPC is to continuously promote GIPS in Europe. Are you having success and/or any developments in Eastern European countries as well as in Europe in general? If not, what are the obstacles?

Stefan Illmer: In Europe there are at present four CVGs (Country Version of GIPS), eight TGs (Translation of GIPS) with two other ones in the pipeline, and three “English” versions of GIPS. So in total we have fifteen countries that are already part of the ‘GIPS Family of Standards’ in Europe. This means that 3 quarters of the 22 different countries represented in the EIPC have implemented GIPS in one or the other form. Keeping in mind that the EIPC started only 4 years ago this is a great success story. In the next years it is one of the EIPC’s role to

expand the GIPS initiative to even more countries also in Eastern Europe. When it comes to Eastern Europe, there are several obstacles in implementing GIPS. These markets are small and often not yet fully developed and costs of coming into compliance with GIPS are a more relevant argument when deciding on GIPS implementation. In addition often lack of professionalism, experience and education of the investors may hinder the adoption of GIPS in these countries. However, once the support is there, then it will not take long to sell the idea to the industry and to get companies to comply since such markets are usually dominated by a few players. By the way two Eastern European countries – Hungary and Poland – already adopted GIPS as a TG.

Ernst & Young: What is the EIPC's position on continuing the use of TGs and/or CVGs after the planned 'arrival' of the "Gold" GIPS in 2005?

Stefan Illmer: The EIPC addressed this issue already at its last meeting. It is the EIPC's first priority to transfer the existing CVGs and TGs to the "Gold GIPS" by 2005. The question is now whether in one and a half years time the different countries want to continue keeping their CVGs (currently Italy, Ireland, Switzerland and the UK) or their TGs. The countries must decide locally if this makes sense or not and whether a new translation is necessary. English remains the official language and the English version of GIPS stays the main source of the standards. Unless there will be differences with "Gold" GIPS, CVGs will disappear altogether. An important question that is being raised now is how to continue the 'brand' of the CVGs locally, something that I think is worthwhile to consider and to agree on.

Ernst & Young: What future developments or needs in the industry do you currently foresee, and what do you think the EIPC's role and focus will be going forward?

Stefan Illmer: If we look at the next five years, we will see considerable more rules and regulations to further fair competition and to ensure that 'cherry-picking' does not occur any longer in the asset management industry. This will be a major focus. When, is a question of time. Looking at the direction of GIPS, I expect the GIPS standards to expand further in the area of reporting (e.g., risk measures, performance attribution, benchmarks, etc.), where the focus will also shift from prospective clients to existing and private clients. Transparency is still the key word and the EIPC wants to broaden that idea of transparency in the asset management industry – also in the future. The plan is to push this idea to all levels, not just to composite performance presentations but also to other areas like client reporting, risk analysis and measurement, performance attribution, sources and methodologies for valuation and pricing, etc. Saying this, in future we will further promote transparency in the asset management industry by continuing to launch initiatives to broaden the application of GIPS.

Ernst & Young: We wish you success in your agenda at the EIPC and thank you for sharing your perspectives with us.

Stefan Illmer: Thank you.