

GIPS Standards – The same procedure as every five years

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Two years have now passed since the current version of the Global Investment Performance Standards (GIPS) was adopted in February 2005. As the Executive Committee of the GIPS Standards has decided to review the standards every five years, one may wonder why the Executive Committee has already started a project on the next version – the so called GIPS 2010 project. However, there are good reasons for this extensive and lengthy review process. Firstly, the review of the existing standards takes a considerable amount of time as all the different opinions and perspectives need to be considered and discussed globally. Secondly, there is the lengthy public comment and feedback process which aims to ensure acceptance of the revisions. And finally additional time is required to get the revision approved by all the GIPS committees. These factors as well as the requirement for the GIPS standards to meet the needs of the asset management industry and its clients led to the decision to review the GIPS standards and therefore to start the GIPS 2010 project in 2007 already.

Since their introduction in 1999, the Global Investment Performance Standards have become *the* global standard for the calculation and presentation of investment performance information. Developed and administered by the CFA Institute, the GIPS standards are based on the principles of fair representation and full disclosure. The GIPS standards have been designed for the benefit of investors by promoting performance information that is comparable and includes the key elements needed to evaluate an investment manager. The GIPS standards also benefit investment management firms by creating a level playing field when competing for new business.

The investment industry is continually changing as new products and strategies are developed, markets are globalized, and exchanges move toward twenty-four-hour trading. The GIPS standards need to evolve to encompass these changes, remain relevant, and continue to represent global best practice. Accordingly, every five years the GIPS Executive Committee conducts a comprehensive review of the GIPS standards. This review includes the assessment of all of the GIPS provisions and interpretations by the Executive Committee and relevant technical subcommittees as follows:

1. Review of the existing provisions for any needed additions, deletions, or changes.
2. Decision whether any existing recommendations should be upgraded to requirements.
3. Review of the provisions with future effective dates to determine if those dates are relevant and achievable.

In the past, it was generally understood that over time, recommendations would become requirements. That was true historically, particularly when the GIPS standards were first developed. It was necessary to first gain acceptance of the core principles and requirements and then over time to raise the standard by upgrading recommendations to requirements. Today, however, the core of the GIPS standards has been further developed and the view of recommendations is that they represent best practice, but they may not be things that can be

applied to all strategies or asset classes or in every country or jurisdiction at all time. So, there are some recommendations that will remain recommendations.

In consideration of the needs of the asset management industry and the clients, there also is additional work going on in parallel to the 2010 review. The topics being examined include:

1. Application of the GIPS standards to alternative investment strategies, including hedge funds.
2. If and how the GIPS standards should be leveraged and applied to on-going performance reporting to existing clients.
3. How risk can be more effectively addressed through the GIPS standards.

As stated above, the 2010 review has already begun and it is anticipated that the draft of the GIPS 2010 will be completed and available to the public in January 2009. The public is encouraged to participate by submitting comments. The comments received will then be reviewed and amendments made to the draft as appropriate. The final version of the revised GIPS standards should be available in January 2010. In order to provide firms and other stakeholders with sufficient time to prepare for any changes, the new Standards will not take effect until January 2011. Additional information on the GIPS standards is available at www.gipsstandards.org.