

20100224 CFA: Revised Global Investment Performance Standards (GIPS) to Provide New Requirements on Risk and Valuation

Source: CFA

Updated GIPS standards are the result of the most comprehensive review since they were first introduced in 1999

CFA Institute released today the most comprehensive edition of the **Global Investment Performance Standards (GIPS)** to date. Whether a prospective client is a pension plan, an endowment or foundation, or an average investor, the information they receive from GIPS-compliant firms about the performance of various investment strategies allows them to make informed investment decisions. Compliance with the GIPS standards improves investor confidence because they know the performance information presented is fairly represented and fully disclosed. All investors should ask whether their manager complies with the GIPS standards.

The revised Standards reflect the joint cooperation with Country Sponsor organizations in 32 countries that help develop and promote the adoption of the GIPS standards. The revised GIPS standards represent an update to the 2005 edition, the second upgrade since their introduction in 1999.

Firms that claim compliance with the GIPS standards have until 1 January 2011 to adhere to the new requirements, and early adoption is recommended. The revised GIPS standards are the outcome of a thorough, comprehensive review, and include amendments to clarify language and improve consistency throughout the provisions.

Significant changes include:

- Fair Value – The GIPS standards will require that assets be valued using a fair value methodology when no market value is available. A recommended valuation hierarchy is included as an appendix in the revised Standards.
- Risk – The GIPS Executive Committee (the CFA Institute governing body for the GIPS standards) unanimously agreed that risk should be addressed in the GIPS standards because understanding past performance requires an understanding of the risks taken to achieve the performance. Firms will be required to present the standard deviation (widely accepted as a common measure of portfolio risk) of the monthly returns of both the composite and the benchmark.
- Compliance Statement and Verification Status – The revised GIPS standards will require firms to disclose their verification status (i.e. whether they have been verified) and also require prescribed language describing what is and is not covered by verification.

Based on the principles of fair representation and full disclosure, the GIPS standards provide an ethical framework for the calculation and presentation of investment performance for investment management firms. The GIPS standards benefit two main groups: investment management firms and investors/investment consultants.

For example:

- Investment managers that adhere to investment performance standards contribute to investor confidence that the firm's investment performance is complete and fairly presented.
- Both prospective and existing clients benefit from a global investment performance standard by having a greater degree of confidence in the performance information presented to them.
- Global standardization of investment performance reporting gives investors around the world the additional transparency they need to compare investment managers and allow managers to fairly compete for new business in foreign markets.

"While compliance is voluntary, investors are increasingly demanding that firms comply," said Jonathan Boersma, CFA, executive director of the GIPS standards at CFA Institute. "Firms that do not report their investment performance according to the GIPS standards are often excluded from competitive bids. By adhering to a universal set of standards that apply to investment management firms worldwide, investors are better served because firms are required to fully disclose their past performance based on the same criteria. This assists the investor in making fair comparisons when selecting an investment firm."

The adopted revisions to the GIPS standards were developed by the GIPS Executive Committee, the CFA Institute governing body for the GIPS standards, comprised of nine senior investment industry members representing stakeholders around the globe. The GIPS Executive Committee is supported by more than 100 volunteers serving on 10 subcommittees and working groups, each with diverse and in-depth industry experience.

NovaRes Team