

# **GIPS 2010 - A Final Update**

Version 1.0

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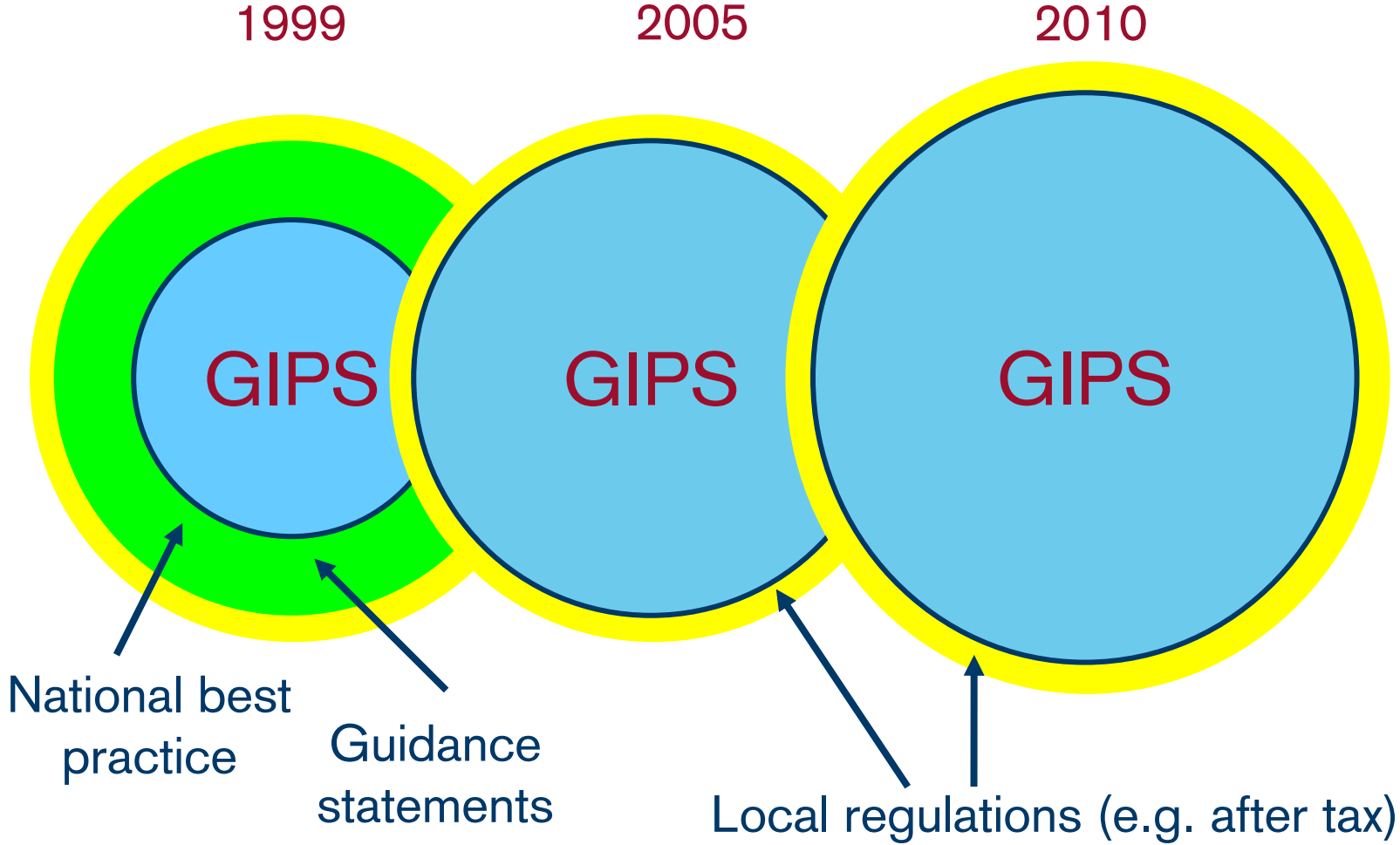


# Agenda

- GIPS standards development and update process
- Review changes effective 1 January 2010
- Key facts of and changes in the 2010 version of the GIPS standards
- Comments & questions

**Remark:** This presentation focuses on chapter I - 0 to 5 - of the GIPS 2010 and therefore for example does not cover changes to private equity, real estate, or verification.

# GIPS development process



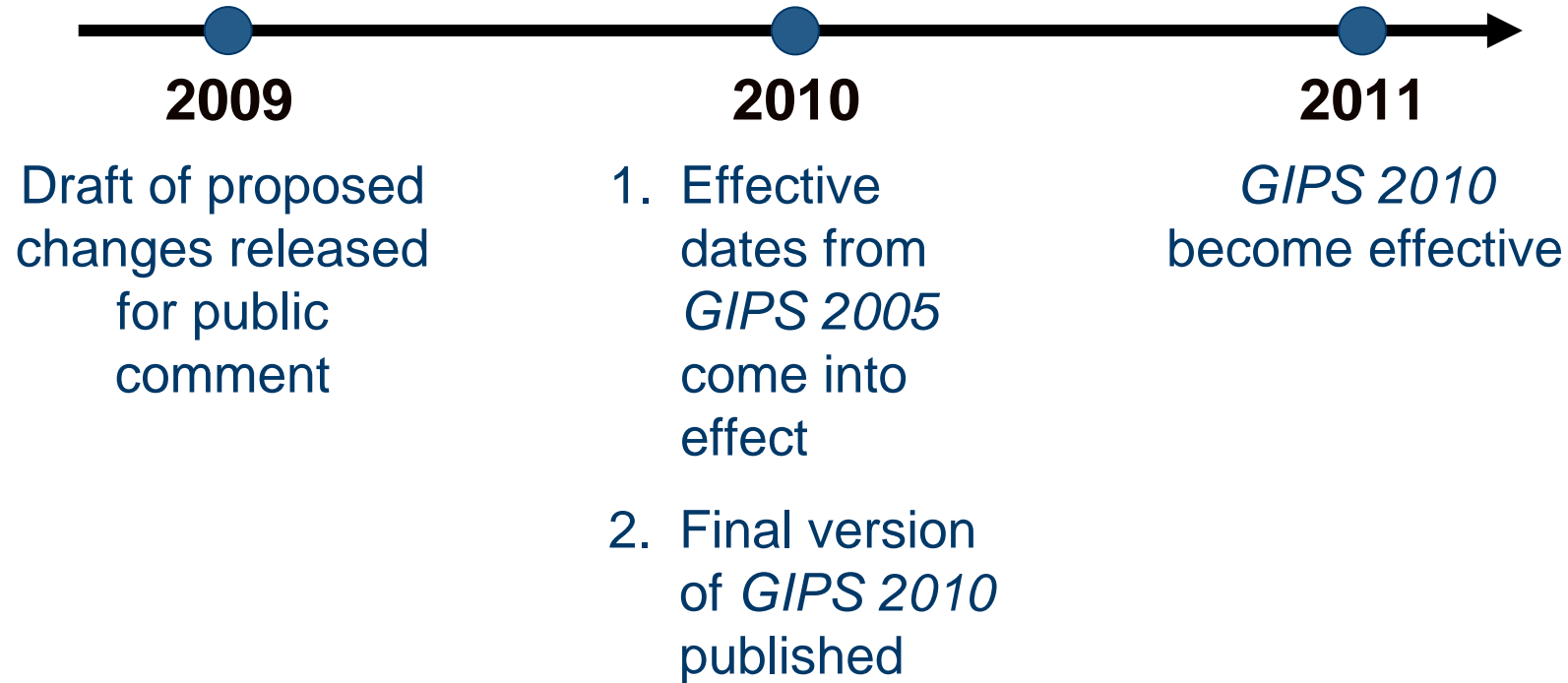
# GIPS 2010 timeline

(1/2)

- **2005**: Agreement to review GIPS standards on a five year cycle.
- **June 2006**: Discussions started on GIPS 2010.
- **December 2006**: Official start of GIPS 2010 project.
- **2007**: Review of GIPS 2005 and client / industry needs.
- **2008**: GIPS committees drafted GIPS 2010.
- **2009**: GIPS 2010 public comment period (6 months / 150 comment letters from over 20 countries).
- **2009**: GIPS EC reviewed public comments.
- **2009**: GIPS committees finalized GIPS 2010.
- **Early 2010**: GIPS EC approved GIPS 2010.
- **From 1 January 2011**: Performance figures have to be reported following GIPS 2010.

# GIPS 2010 timeline

(2/2)



## Focus of the GIPS revision

- **Clarity:** Review of the individual provisions to improve clarity with regard to the implementation of the GIPS standards.
- **Consistency:** Great attention to conforming language between provisions and using consistent language throughout the GIPS standards.
- **Structure:** Some provisions were moved between sections, were split if there was more than one concept within the provisions or were re-ordered within sections.

# Changes effective 1 January 2010

(1/2)

- Cash may no longer be allocated to carve-outs:
  - A separate cash account/balance must be created for the carve-out.
  - Separate cash account can be maintained at the custodian or on the firm's accounting system.
- Portfolios must be valued as of calendar month end:
  - E.g. valuing as of the last Friday of a month no longer allowed.
- Portfolios must be valued on the date of all “large” cash flows (if not valued daily):
  - “Large” is the level at which the firm determines that an external cash flow may distort performance if the portfolio is not valued.
  - Must be defined as a % of either portfolio or composite assets.
  - May be composite specific.

## Changes effective 1 January 2010

(2/2)

- Composite returns must be calculated at least monthly:
  - Before 1 January 2010 may calculate composite returns quarterly.
- An error correction policy must have to be in place:
  - Must address how the firm handles errors that appear in compliant presentations.
  - See the Error Correction Guidance Statement.
  
- **Reminder:** In addition to the GIPS standards themselves the firm must comply with all Q&As, guidance statements, and any other updated information.



# Agenda and structure of GIPS 2010



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## 1 January 2011 effective date

- **GIPS 2010:** Compliant presentations that include performance results for periods that begin **on or after 1<sup>st</sup> January 2011** must be prepared in accordance with the revised GIPS standards.
- Early adoption is encouraged:
  - A firm may add selected new requirements / recommendations from GIPS 2010.

## Verification and claim of compliance

- Previously the expectation was to require (at some point in the future) a firm to be verified if they wanted to claim compliance with the GIPS standards.
- The GIPS EC decided to not mandate verification.
- **GIPS 2010:** A firm's claim of compliance must state if the firm has been verified or not (see 4.A.1 - revised).

# Claim of compliance

(1/3)

- **GIPS 2010:** Claim of compliance (included in the compliant presentation) for a firm that is verified (see 4.A.1 - revised):
  - “[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of FIRM] has been independently verified for the periods [insert dates]. The verification report(s) is/are available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.”

# Claim of compliance

(2/3)

- **GIPS 2010:** Claim of compliance (included in the compliant presentation) for a firm that is not verified (see 4.A.1 - revised):
  - “[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of FIRM] has not been independently verified.”
- **GIPS 2010:** The claim of compliance must only be used in a compliant presentation (see 4.A.1 - revised).
- **GIPS 2010:** Claim of compliance for advertisements (see chapter III - revised):
  - “[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®).”

# Claim of compliance

(3/3)

- **GIPS 2010:** For FIRMS that have had a specific composite examined (see 4.A.1 - revised):
  - “[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of FIRM] has been independently verified for the periods [insert dates].

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The [insert name of COMPOSITE] composite has been examined for the periods [insert dates]. The verification and performance examination reports are available upon request.”

## Firm assets

- Currently, firm assets must be the aggregate of the market value of all discretionary and nondiscretionary assets under management within the defined firm:
  - There is an exception for excluding "assets to which the Standards cannot be applied" or where a market value is not available.
  - Also an exclusion for "art or other hard to value" assets.
- **GIPS 2010:** All managed assets, where a fair value is available, must be included in the firm assets (see 0.A.13 - revised).

# Proprietary portfolios

- A proprietary portfolio is a portfolio that is funded by the firm itself:
  - There is no third party.
  - Also known as seed money accounts, house accounts, etc.
- **GIPS 2010:** Firms should disclose the fact that the composite includes proprietary assets (see 4.B.8 - new).
- **Remark re GIPS 2010 exposure draft:**
  - Firms will not be required to disclose the % of the composite that is composed of proprietary portfolios.



# Carve-outs

- Currently, for periods beginning on or after 1 January 2010, a carve-out must not be included in a composite unless the carve-out is managed separately with its own cash balance.
- **GIPS 2010:** Carve-out definition (see glossary - revised):
  - " A portion of a PORTFOLIO that is by itself representative of a distinct investment strategy. It is used to create a track record for a narrower mandate from a multiple-strategy PORTFOLIO managed to a broader mandate. For periods beginning on or after 1 January 2010, a CARVE-OUT MUST be managed separately with its own cash balance."
- **GIPS 2010:** For periods beginning on or after 1 January 2006 and ending prior to 1 January 2011, if a composite includes carve-outs, firms must present the % of composite assets represented by carve-outs as of each annual period end (see 5.A.5 - revised).

- Currently, throughout the standards, the notion of market value is used:
  - Except private equity where fair value is common practice.
- **GIPS 2010:** The concept of fair value, versus market value, is incorporated throughout the standards.
- **GIPS 2010:** Introduction of valuation principles and hierarchy (see chapter II - new).
- **GIPS 2010:** It is required to apply a fair value methodology when market values are not available and in accordance with the GIPS valuation principles (see 1.A.2 - revised).

- **GIPS 2010:** Fair value definition (see glossary and chapter II - new):
  - "The amount at which an investment could be exchanged in a current arm's length transaction between willing parties in which the parties each act knowledgeably and prudently. The valuation **MUST** be determined using the objective, observable, unadjusted quoted market price for an identical investment in an active market on the measurement date, if available. In the absence of an objective, observable, unadjusted quoted market price for an identical investment in an active market on the measurement date, the valuation **MUST** represent the **FIRM'S** best estimate of the **MARKET VALUE**. **FAIR VALUE MUST** include accrued income."

- Currently, no disclosure about valuation methods is required.
- **GIPS 2010:** It is required to disclose policies for valuing portfolios (see 4.A.12 - revised).
- **GIPS 2010:** If investments are valued using subjective, unobservable inputs, and are material to the composite, firm must disclose this fact (see 4.A.27 - new).
- **GIPS 2010:** Firms must disclose if the composite's valuation hierarchy materially differs from the recommended hierarchy in the GIPS Valuation Principles (see 4.A.22 - revised - and chapter II - new).
- **GIPS 2010:** Firms should disclose material changes to valuation policies and/or methodologies (see 4.B.1. - new).

## Fair value

(4/5)

- **GIPS 2010:** Fair values should be obtained from a qualified independent external third party (see 1.B.2 - new).
- **GIPS 2010:** It is recommended to disclose key assumptions and principles used to value investments (see 4.B.4 - new).

- **GIPS 2010:** Recommended valuation hierarchy (see chapter II - new):
  - Valuations **must** be objective, observable, unadjusted quoted market prices in active markets; if not available, then **should** use:
  - Objective, observable quoted market prices for similar investments in active markets; if not available, then should use:
  - Quoted prices for identical or similar investments in markets that are not active; if not available, then should use:
  - Market based inputs other than quoted prices observable for the investment; if not available, then should use:
  - Subjective, unobservable inputs for the investments where markets are not active at the measurement date. Unobservable inputs should only be used to the extent that observable inputs and prices are not available.

# Valuation

- Currently, as of 1 January 2010, firms must revalue portfolios at month end, and on the date of all large cash flows:
  - "Large" is established on a composite-specific basis.
  - E.g. pooled funds are valued daily. All other portfolios are valued monthly and on the date of any cash flow greater than 5% of the portfolio's market value.
- **GIPS 2010:** It is required explicitly to not deviate from this policy, and prohibit revaluing for cash flows that don't meet the level of "large" for that composite - no more frequently than required by the valuation policy (see 1.A.3 - revised).
- **GIPS 2010:** It is recommended to revalue portfolios on the date of **all** external cash flows (see 1.B.1 - revised).

# Significant cash flow

(1/3)

- **GIPS 2010:** Significant cash flow definition (see glossary - new):
  - "The level at which the FIRM determines that a client directed EXTERNAL CASH FLOW may temporarily prevent the FIRM from implementing the COMPOSITE strategy. The measure of significance MUST be determined as either a specific monetary amount (e.g., €50,000,000) or a percentage of PORTFOLIO assets (based on the most recent valuation)."
- Significant versus large cash flow:
  - Don't confuse a significant cash flow with a large cash flow.
  - "Significant" is the level above which a cash flow makes the account temporarily non-discretionary, so the account is removed from the composite.
  - "Large" is the level above which a portfolio needs to be revalued, because if not revalued then performance will be distorted or even misstated => the account stays in the composite.



# Significant cash flow

(2/3)

- Currently, if a firm has adopted a significant cash flow (SCF) policy for a specific composite, the SCF Guidance Statement requires the following disclosures:
  - How the firm defines SCF for the composite.
  - The grace period for the composite.
  - If the definitions, policies, or grace periods have been redefined, the date and nature of the change.
  - That additional information regarding the treatment of SCFs is available upon request.
- **GIPS 2010:** Firms that wish to remove portfolios from composites in cases of significant cash flows must define “significant” on an ex-ante, composite-specific basis and must consistently follow the composite-specific policy (see 3.A.10 - new).

## Significant cash flow

(3/3)

- **GIPS 2010:** Must disclose how the firm defines a significant cash flow for that composite and for which periods (see 4.A.32 - new).

## Leverage/derivatives

- Currently, a firm must disclose the presence, use and extent of leverage and/or derivatives, if material, including a description of the frequency of use and characteristics of the instruments to identify risks.
- **GIPS 2010**: It is also required to disclose the use of "short positions" (see 4.A.13 - revised).

## Withholding taxes

- Currently, a firm must disclose relevant details of the treatment of withholding taxes on dividends, interest income and capital gains.
- **GIPS 2010:** Disclosure is only required if withholding taxes are material (see 4.A.20 - revised).
- **GIPS 2010:** It is required to disclose if the benchmark returns are net of withholding tax, if this information is available (see 4.A.20 - revised).

# Benchmarks

- **GIPS 2010:** It is required to disclose the description of the benchmark. If the firm determines no appropriate benchmark for the composite exists, the firm must disclose why no benchmark is presented (see 4.A.4 - new - and 4.A.29 - revised).
- **GIPS 2010:** If a benchmark is presented, it is recommended that firms disclose material differences between the benchmark and composite strategy (see 4.B.3 - new).
- **GIPS 2010:** It is required to disclose date, description, and reason for benchmark changes (see 4.A.30 - revised).
- **GIPS 2010:** It is required to disclose components, weights, and rebalancing process for custom or blended benchmarks (see 4.A.31 - revised).

## Ex-post standard deviation

- Currently, a firm is not required to disclose a risk measure.
- **GIPS 2010:** It is required to disclose the annualized ex-post standard deviation of the composite and the benchmark for all annual periods presented in the compliant presentation (see 5.A.2a - new).
- **GIPS 2010:** It is required to present an additional measure if ex-post standard deviation is not a relevant or appropriate risk measure including explanation why (see 5.A.2b and 4.A.34 - new).
- **GIPS 2010:** It is recommended to disclose the annualized ex-post standard deviation for additional time periods (see 5.B.5 - new).
- **GIPS 2010:** It is recommended to present additional measures (see 5.B.6 - revised).

# Composite definition and description

(1/2)

- **GIPS 2010:** Composite definition (see glossary - revised):
  - "Detailed criteria that determine the assignment of PORTFOLIOS to COMPOSITES. Criteria may include investment mandate, style or strategy, asset class, the use of derivatives, leverage and/or hedging, targeted risk metrics, investment constraints or restrictions, and/or PORTFOLIO type (e.g., segregated or pooled, taxable versus tax exempt)."
- **GIPS 2010:** Composite description (see glossary - revised):
  - "General information regarding the investment mandate, objective, or strategy of the COMPOSITE. The COMPOSITE DESCRIPTION may be more abbreviated than the COMPOSITE DEFINITION but MUST include all key features of the COMPOSITE and MUST include enough information to allow a PROSPECTIVE CLIENT to understand the key characteristics of the COMPOSITE'S investment mandate, objective, or strategy."

# Composite definition and description

(2/2)

- Currently, a firm must disclose the composite description, which is currently defined as general information regarding the strategy of the composite ... and must include all salient features of the composite.
- **GIPS 2010:** It is required to include enough information to allow a prospective client to understand all of the key characteristics of the composite strategy (see glossary - revised).
- **Remark re GIPS 2010 exposure draft:**
  - “Including risks” removed as it seems that this requirement was misunderstood.
  - Concerns re liability and length of disclosures.
  - See appendix C and upcoming Q&As to guide what GIPS EC expects to be disclosed.



# Composite list

- Currently, a firm must provide a composite list and composite description to any prospective client that makes such a request:
  - Some read this as a list of composite names had to be provided first, and then a separate composite description thereafter, if requested.
- **GIPS 2010:** Firms must provide a complete list of composite descriptions to any prospective client that makes such a request. Firms must include terminated composites on the firm's list of composite descriptions for at least five years after the composite termination date (see 0.A.11 - revised).

# Prospective client

(1/2)

- **GIPS 2010:** Prospective client (see glossary - new):
  - "Any person or entity that has expressed interest in one of the FIRM'S COMPOSITE strategies and qualifies to invest in the COMPOSITE. Existing clients may also qualify as PROSPECTIVE CLIENTS for any strategy that is different from their current investment strategy. Investment consultants and other third parties are included as PROSPECTIVE CLIENTS if they represent investors that qualify as PROSPECTIVE CLIENTS."

## Prospective client

(2/2)

- **GIPS 2010:** Firms must make every reasonable effort to provide a compliant presentation to all prospective clients. Firms must not choose to whom they present a compliant presentation. As long as a prospective client has received a compliant presentation within the previous 12 months, the firm has met this requirement (see 0.A.9 - revised).
- **GIPS 2010:** “Prospective client” is now a defined term (see glossary - new).
- **GIPS 2010:** Firms should provide to each existing client, on an annual basis, a compliant presentation of the composite in which the client’s portfolio is included (0.B.4 - new).

# Compliant presentation

(1/2)

- **Compliant presentation:** A presentation for a composite that contains all the information required by the GIPS standards and may also include additional information or supplemental information.
- **GIPS 2010:** “Compliant presentation” is now a defined term (see glossary - new).

1.

**Sample 1 Investment Firm  
Balanced Growth Composite  
1 January 2002 through 31 December 2011**

Year	Composite Gross Return (%)	Composite Net Return (%)	Benchmark Return (%)	3 Yr St Dev Composite (%)	3 Yr St Dev Benchmark (%)	Number of Portfolios	Internal Dispersion	Composite Assets (\$ M)	Firm Assets (\$ M)
2002	-10.5	-11.4	-11.8			26	4.5	165	236
2003	16.3	15.1	13.2			32	2.0	235	346
2004	7.5	6.4	8.9			38	5.7	344	529
2005	1.8	0.8	0.3			45	2.8	445	695
2006	11.2	10.1	12.2			48	3.1	520	839
2007	6.1	5.0	7.1			49	2.8	505	1,014
2008	-21.3	-22.1	-24.9			44	2.9	475	964
2009	16.5	15.3	14.7			47	3.1	493	983
2010	10.6	9.5	13.0			51	3.5	549	1,114
2011	2.7	1.7	0.4	7.1	7.4	54	2.5	575	1,236

Sample 1 Investment Firm claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sample 1 Investment Firm has been independently verified for the periods from 1 January 2000 through 31 December 2010. The verification report is available upon request. Verification assesses whether 1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis, and 2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Notes:

1. Sample 1 Investment Firm is a balanced portfolio investment manager that invests solely in US based securities. Sample 1 Investment Firm is defined as an independent investment management firm that is not affiliated with any parent organization. Policies for valuing portfolios, calculating and reporting performance results, and preparing compliant presentations are available.
2. The Balanced Growth Composite includes all institutional balanced portfolios that invest in large cap US equities and investment grade bonds to provide long-term capital growth and rising income from a well diversified strategy. While the strategy allows for equity exposure in the range of 50–70%, the typical allocation is between 55–63%. Only portfolios greater than \$5 million are included in the composite.
3. The custom benchmark is 60% YYY US Equity Index and 40% ZZZ US Aggregate Bond Index, which

# Compliant presentation

(2/2)

- Currently, a firm is required to update compliant presentations annually.
- **GIPS 2010:** It is recommended to update compliant presentation more frequently, on a quarterly basis (see 5.B.9 - new).

# Recordkeeping

- Currently, a firm is required to maintain all data and information necessary to support a firm's performance presentation and to perform the required calculations.
- **GIPS 2010:** It is required to maintain supporting records for all items included in a compliant presentation (see 1.A.1 - revised):
  - also for additional and supplemental information.

# GIPS webpage, etc.



**Global Investment Performance Standards (GIPS®)**

**What are the GIPS standards?**  
The GIPS standards are a set of standardized, industry-wide ethical principles that provide investment firms with guidance on how to calculate and report their investment results to prospective clients.  
Find out more: [Read a 20th anniversary article \(PDF\)](#)

**The GIPS standards provide:**

- Firms with an ability to compete across the globe
- Investors with the ability to make comparisons

**Who established the GIPS standards?**

- CFA Institute created and administers the GIPS standards
- Organizations in nearly 30 countries sponsor and promote the Standards

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