A Novel Concept

Since their introduction 20 years ago, performance presentation guidelines have evolved into a single global standard

BY CRYSTAL DETAMORE-RODMAN

Standards for the calculation and presentation of investment performance results did not exist until the late 1980s. The shift came in 1987 when the misuse of performance information prompted the Securities and Exchange Commission to consider regulatory action. Rather than wait for the SEC to intervene, the Financial Analysts Federation (FAF)—one of the predecessor groups to CFA Institute—developed its own set of guidelines. It was the first attempt at standardizing the way investment managers report performance to clients.

Although the standards have been reviewed, revised, and reintroduced a number of times in the past 20 years—most recently as the Global Investment Performance Standards, or GIPS®—the underlying principles of fair representation and full disclosure remain unchanged.

“Most people would say we’re much better off for having adopted these standards because the regulators, in many instances, have sort of let us do our own thing,” says Karyn Vincent, CFA, CIPM, founder of Vincent Performance Services in Portland, OR, and a member of the CFA Institute GIPS Executive Committee. “It’s a novel concept that firms that are in the institutional marketplace can pretty much follow one set of standards globally.”

Since their adoption in 1999, the GIPS standards have significantly influenced the way firms report their investment performance results. The standards allow investment managers to “transport” their historical investment results to other countries without having to restate them using different calculation and presentation rules. The GIPS standards also benefit firms by providing a level playing field for marketing their performance history in an ethical and consistent manner. Investors, meanwhile, benefit by having a higher degree of confidence in the numbers and the ability to make an “apples-to-apples” comparison of all investment managers, no matter their geographic location.

“I think what the GIPS standards did for the asset management industry, especially outside the U.S., is to raise the awareness of ethical principles (and especially in the investment controlling area) from a client perspective and from a portfolio management perspective,” explains Stefan Illmer, head of client reporting for Credit Suisse in Switzerland and chair of the GIPS Executive Committee.

The Road to the GIPS Standards

The process began when performance presentation standards were introduced by the Financial Analysts Federation in the September/October 1987 issue of the Financial Analysts Journal. Three years later, the standards were revisited when the predecessor organization of CFA Institute—the Association for Investment Management and Research (AIMR)—introduced its Performance Presentation Standards (or AIMR-PPS®).

The AIMR-PPS standards were overwhelmingly accepted in the United States and Canada, but performance reporting practices varied considerably elsewhere. Some countries had established performance calculation and presentation guidelines, while others offered limited guidance on presenting investment performance results. The lack of consistency ultimately hindered asset management firms’ ability to penetrate global markets.

“Generally speaking, there was a realization by the industry that standards should be created incorporating best practices that would allow firms to compete on an ethical and level playing field, simultaneously providing investors with the information necessary to make a more informed decision regarding the selection of an investment manager,” recalls Todd Juillerat, CFA, global head of performance measurement for INVESCO in Louisville, KY, and a member of the GIPS Executive Committee.

In response, CFA Institute introduced a single global standard, the GIPS standards, in 1999. In 2006, a revised version of the GIPS standards became effective, replacing AIMR-PPS and other local country versions of the Standards. Today, the GIPS standards enjoy a fairly general acceptance among the international industry of investment managers—a total of 27 countries in North America, Europe, Africa, and the Asia-Pacific region have adopted the standards.

In Illmer’s home continent of Europe, the movement to adopt uniform standards was fueled in large part by the Mercury Asset Management (MAM) case from the late 1990s in which one of MAM’s pension fund clients, Unilever, accused the British fund manager of negligence for posting negative investment results. “Everybody realized we needed to do something in the area of investment performance and risk management,” he says.

Charting the Future of the GIPS Standards

The nine-member GIPS Executive Committee is the decision-making body for the standards. Committee members represent both key industry stakeholder groups (interpretations, investment manager, investor/consultant, and verification/practitioner) and geographic regions that have officially adopted the GIPS Standards (Americas; EMEA [Europe, Middle East, and Africa]; Asia-Pacific). Jonathan Boersma, CFA, executive director of the Global Investment Performance Standards at the CFA Institute Centre for Financial Market Integrity, has a seat on the committee, as does the chair of the GIPS Council (the body consisting of representatives from...
GIPS In China

China is generally moving toward a more open economy, but historically, tight restrictions have prevented capital from flowing freely through its borders. In a move to ease restrictions, China has loosened controls on overseas investments by Chinese domestic investors by allowing qualified domestic fund managers and securities companies to invest abroad.

Asset managers and securities firms can now apply for a Qualified Domestic Institutional Investor (QDII) license that allows them to invest in stocks and funds in overseas markets. Commercial banks and insurance companies have been allowed to invest in overseas capital markets since the QDII scheme was first announced in 2006. The changes for fund managers and securities firms went into effect on 5 July 2007. The China Securities Regulatory Commission has stated that the funds should be calculated and reported based on the Global Investment Performance Standards (GIPS).

Since 2002, foreign investors have been allowed to invest in Chinese securities by obtaining a Qualified Foreign Institutional Investor (QFII) license.