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1. Is the mission of the GIPS standards different today compared with 10 years ago and how has it changed over time?

Boersma: Our mission is to ensure that the GIPS standards are the premier performance standard globally and continue to represent best practice for the calculation and presentation of investment performance information. The core principles of the GIPS standards, fair representation and full disclosure, have not changed. The objectives of the GIPS standards also remain unchanged: to support fair competition and to promote comparability through consistent calculation and presentation of investment performance information. However, the

GIPS Strategic Plan 2015

An interview with Jonathan Boersma

details of the GIPS standards have needed to continue to evolve, considering the dynamic nature and increased complexity of the financial services and asset management industries.

2. Please briefly explain to our readers the "6 E's" of the GIPS Strategic Plan.

Boersma: The 6 E's can be summarized as follows:

- ▶ **Evolve:** review the GIPS standards and develop additional interpretations and guidance on the application of the existing GIPS standards. This includes developing further guidance on topics such as portability, supplemental information, the use of internal rates of return and applying the GIPS standards to retail products and alternatives.
- ▶ **Expand:** look outside of the GIPS standards and add new content as needed. This involves conducting feasibility studies regarding adding new but related aspects to the GIPS standards. For example, applicability to transition management, creating a global framework for after-tax reporting (i.e., after-tax net performance for investors) and attribution standards. Not all of these topics will be added to the GIPS standards necessarily, but they are certainly areas we have to evaluate and consider.
- ▶ **Engage:** increase the involvement of the demand side – investors, regulators and country sponsors. As the GIPS standards continue to be adopted globally, we need to reach out to asset owners and sovereign wealth funds in particular. These asset owners play a significant role in the industry and, at the same time, are not yet significantly represented in the GIPS standards governance structure. Furthermore, we would like to reach out to regulators around the globe to share our knowledge and experience in order to try to bring harmonization (e.g., methodology and disclosures) to the various regulations, while simultaneously trying to ease the burden on asset managers. Lastly, we will continue to actively engage those GIPS country sponsors to increase awareness and promotion of the GIPS standards.
- ▶ **Extend:** increase the depth and breadth of the reach of the GIPS standards, both geographically and by asset class or investment type, as well as try to improve the compliance rates in less developed market sectors. Looking at geographical reach, Latin America, the Middle East, China and India will be the main markets on which we will focus. We will also focus on increasing rates of compliance in sectors such as private equity, real estate and hedge funds.

- ▶ **Educate: provide ongoing educational materials and training.** The focus will be to expand our education efforts, reach out to regulators, provide additional resources to firms that are implementing GIPS standards, educate investors and provide more intensive training and workshops. We will also develop more materials to be easily accessible via the web by means of webcasts and podcasts. We are also planning to focus on internal education within asset management firms (e.g., sales and marketing personnel) and hope to develop resources specifically for various internal stakeholders. There are many facets to preparing, distributing and marketing information in a proper way.
- ▶ **Evaluate: review governance structure and positioning to ensure smooth administration and monitoring of the GIPS standards.** This will be more of an internal governance review, looking at our structure at CFA Institute, considering our own efficiency and if there is a better way to operate. We can look at the governance of the International Accounting Standards (IAS) for example, and consider if it would be appropriate for us to apply their model, or parts of it, to our governance.

3. CFA Institute wants to form a cohesive picture of the 6 E's and the strategic priorities despite the fact that, as we know, it doesn't see eye to eye with everyone in the "GIPS community" on some issues. In which area do you expect to face the most challenges, why and how can we all address this successfully in the future?

Boersma: If we all agreed on everything, we would not move forward too much. I like the fact that we have different opinions and I welcome the various discussions, ideas and input from the industry. Sometimes I do not agree either, but as long as we have a fair and transparent process, and proposals are properly vetted, that is what matters in the end.

If I could single out one item, it would be one of the priorities in the "Evolve" category – applying the GIPS standards to retail or pooled funds. Different views exist here and clearly education and additional knowledge is needed. For example, in the case of a retail pooled fund, how is it presented and reported in the context of the GIPS standards? Is a net or a gross return presented (the GIPS standards allow either or both)?

When a client buys an investment fund, the client should be presented with only the respective fund's performance rather than the fund together with other funds or strategies aggregated in a composite. We will need to be heavily engaged on this topic with regulators and try to move this discussion forward.

Client reporting is another sensitive area. We have created a working group on this subject, outside of the GIPS standards. Some individuals were not very positive about this initiative. It is understandable that asset managers are not interested in another set of standards or rules on client reporting. However, speaking from my own experience, both as a client and as an asset manager, client reporting is very specific to a client (it is primarily customized reporting and there is no need to provide unnecessary information). At the same time, it is clear that additional guidance is needed for the industry and there is much room for improvement. This initiative remains outside of the scope of the GIPS standards and there is no intention to bring client reporting into the GIPS standards, but we are taking our job seriously and we should all examine this area more closely and determine whether client reporting should be incorporated into the GIPS standards in the future.

4. What major challenges do asset managers face today and how can the GIPS standards help deal with these challenges?

Boersma: I believe the biggest challenge is the lack of integrity in the industry that has led to investors' lack of trust and a collapse in investor confidence. In the wake of the financial crisis, investors have been deeply troubled and shaken by what happened in the last few years. The GIPS standards address some of these issues because they are ethical standards that focus on fairness and improving transparency, which can help restore trust.

Part of that challenge has also been the tendency to point fingers at the industry, certain investment products or particular individuals. I believe Warren Buffett said: "If I do not understand it, I won't buy it." The old principle of "know what you own" is true today and some investors were guilty of investing in instruments they didn't understand. Maybe there was some misselling going on, but even some sophisticated investors did not fully understand the risks they took in their investments, and this is something the GIPS standards try to address.

Overall, the GIPS standards fit very nicely into the toolbox that the asset manager is using to rebuild integrity and investor trust.

5. To what degree do you feel you have reformed the GIPS standards (compared with the first edition in 1999)? What still needs to be done for the GIPS standards to become an even more effective international standard?

Boersma: It is a privilege for me to be part of the standard-setting and development process of the GIPS standards. The process involves a lot of effort by many others and so it would be unfair for me to say that I myself have reformed the GIPS standards. The 2010 edition of the GIPS standards is miles ahead compared with the previous edition, and not necessarily only in terms of content. The principles of the GIPS standards remain the same, but we have made significant improvements in the precision and consistency of the language. Looking back even at the 2005 edition, we often used different words for the same terms and this caused confusion. The organization of the GIPS standards is another aspect where we have reformed significantly – it is now much more organized from a conceptual perspective as well as more internally consistent. We have also included some important changes and improvements that I believe help to improve the strength and integrity of the standards.

In my view, we have taken the GIPS standards to the next level – "the professionalization of the standards" – a much more professional publication with much tighter and cleaner language. I am very satisfied with where the standards are today and we have not really had any negative feedback from the industry on the changes. I hope I have had a positive influence on GIPS standards and it has certainly been an effort involving many individuals.



Interview: Eugene Skrynnyk