

# A strategy for an ethical standard

**Julian Le Fanu**, Secretary of the UK Investment Performance Committee, looks at the evolving standards for global investment performance

UK institutional investors have played a leading role in the development of the Global Investment Performance Standards (GIPS) – not surprisingly given the importance of the financial sector in the economy.

The standards – a set of ethical principles which provides guidance to investment firms on how to calculate and report their results to prospective clients. For investors, GIPS allow them to make comparisons between investment managers and oblige their investment managers to compete for their business on the basis of ‘fair representation and full disclosure’ of their investment performance.

GIPS are administered by the CFA Institute but they have their own governance structure. At a national level, the standards are sponsored by national sponsors. In the UK this is the UK Investment Performance Committee (UKIPC), which brings together three GIPS co-sponsors (NAPF, IMA and ABI) and a number of other trade associations and stakeholders.

## A revised version of the GIPS

After extensive consultation the latest version of GIPS was published in February 2010, to become effective from 1 January this year. The new version of standards includes a number of important changes from the previous one:

valuation policies and the adoption of fair value concepts; a requirement for risk measurement; greater clarity around verification and verification status; and specific requirements for particular asset classes, most notably real estate and private equity.

## A strategy for the future

With GIPS 2010 complete and the accompanying Guidance Statements published, the GIPS Executive Committee has turned its attention to the strategy for GIPS for the next five to ten years. While the medium-term plan is still evolving (and open to comment by interest parties) its outline is becoming increasingly clear.

The strategy is likely to be based around a number of key areas:

- Evolution of the standards through the development of interpretations and guidance on their application. The GIPS Handbook will be updated and Guidance Statements reviewed and updated. New guidance might be developed, for example on specific asset classes, investment strategies or measurement methodologies.
- Expansion of the standards through the addition of new content. The feasibility of developing guidance in a number of new areas is under consideration. These could well include calculation and presentation of after-tax performance, transition management and further guidance on attribution. However, it is recognised that the development of standards in some areas might not prove practicable and that some standards might sit better outside the GIPS framework as examples of industry best practice but using the core GIPS tenets of fair representation and full disclosure.
- Greater engagement with investors, regulators and country sponsors. This is likely to include measures to strengthen the involvement of investors and investment consultants and to improve participation by country sponsors.
- Review and evaluation of the GIPS governance structure to ensure effective administration and oversight of the standards.
- Extension of the standards, encouraging take-up for new asset classes and investments and seeking country sponsors in parts of the world such as the Middle East where the standards are not well established.
- Education, through training and provision of educational materials and through efforts to ensure their wider dissemination (for example through the GIPS website, help-desk and country sponsors).



GIPS have come far since they were first published in April 1999. They have enjoyed the administrative support of the CFA Institute, but their development has also depended on the work of a host of volunteers around the world. The five to ten year strategy will look to strengthen GIPS further as the pre-eminent standard when calculating and presenting performance. At the same time it will look to extend its scope as required into new asset classes, into new areas of the world and to new categories of asset owner.