

Trends and Issues in Client Investment Reporting

GIPS seminar of the Swiss Bankers Association
Geneva, 9 November 2006

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- [Self-regulation of client investment reporting](#)

Trends and issues in the client investment reporting area

Investment reporting: prospective vs. existing clients

Reporting for prospective clients	Reporting for existing clients
GIPS Standards	<ul style="list-style-type: none"> • No reporting standard yet • Various self-regulation
Usually composite perspective	Individual portfolio perspective
Performance philosophy: TWR gross-of-fees	Performance philosophy: MWR net-of-fees
Same issues with respect to the underlying data	
Same issues with respect to the benchmark comparisons	
Same issues with respect to IT support	
Same issues with respect to transparency	
Same issues with respect to client education and expectation gaps	
Same chances: Quality reporting is becoming a key differentiation factor!	

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Investment management reporting: key issues

Main problems in the client reporting area

Ranked from 1 (most important) to 3 (third important)

	Problem 1	Problem 2	Problem 3
Poor knowledge of investment reporting matters	0%	4%	39%
Individual reporting demands and wishes of clients	50%	36%	7%
High costs	7%	29%	4%
IT Tools	32%	14%	18%

Source: PricewaterhouseCoopers 2006 Swiss Survey on Client Investment Reporting

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Costs of client reporting (1)

Estimate of a likely IT spending now and in 3 years time as percentage of revenue by investment managers

Key functions	Now	In 3 Years Time
Portfolio modelling	7%	7%
Order management	3%	2%
Trade confirmation	2%	2%
Fund accounting	5%	4%
Client reporting	5%	4%
Performance measurement	3%	4%
Compliance monitoring	3%	3%
Transfer agency	1%	1%
Customer relationship management	2%	4%

Source: PricewaterhouseCoopers 2006 Global Investment Management Survey

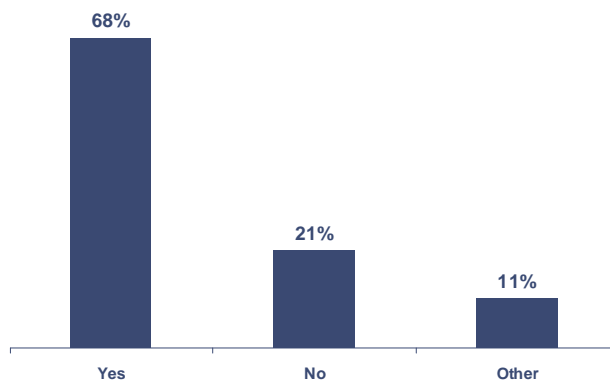
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Costs of client reporting (2)

Answers to question "Are any significant investments in the client reporting area planned in your company in the next 12 months?"



Source: PricewaterhouseCoopers 2006 Swiss Survey on Client Investment Reporting

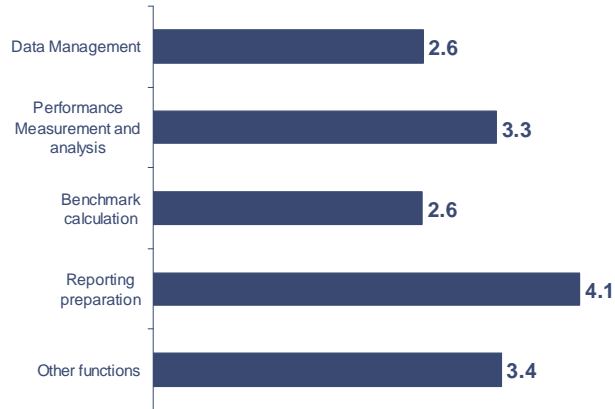
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Costs of client reporting (3)

Average number of staff members directly engaged on a full-time basis in the production of the client reporting



Source: PricewaterhouseCoopers 2006 Swiss Survey on Client Investment Reporting

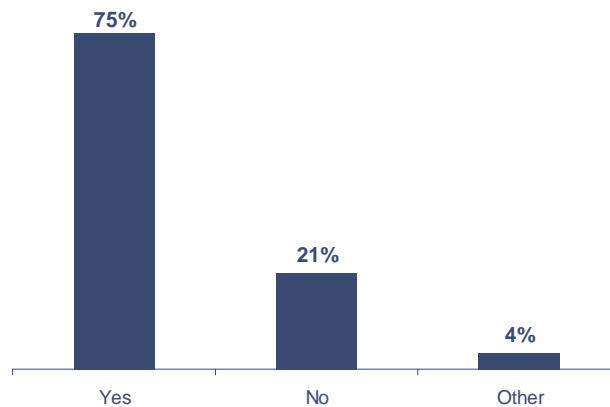
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Underlying data (1)

Answers to question: "Do you provide the underlying portfolio valuation data on a daily basis?"



Source: PricewaterhouseCoopers 2006 Swiss Survey on Client Investment Reporting

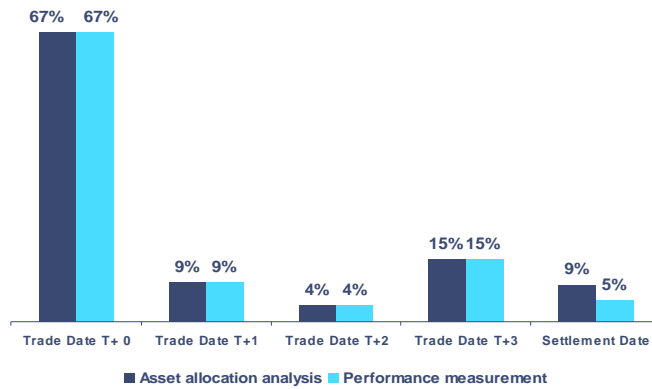
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Underlying data (2)

Trade-date vs. settlement-date principle



Source: PricewaterhouseCoopers 2006 Swiss Survey on Client Investment Reporting

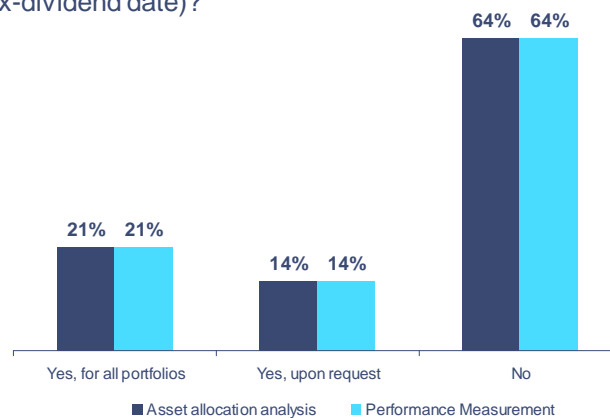
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Underlying data (3)

Answers to question: "Do you account for dividend income on an accrual basis (at ex-dividend date)?"



Source: PricewaterhouseCoopers 2006 Swiss Survey on Client Investment Reporting

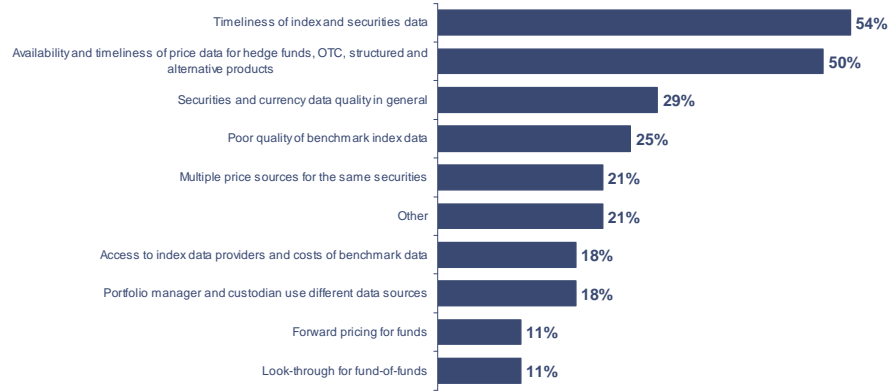
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Underlying data (4)

Most frequent problems with the underlying portfolio and benchmark data



Source: PricewaterhouseCoopers 2006 Swiss Survey on Client Investment Reporting

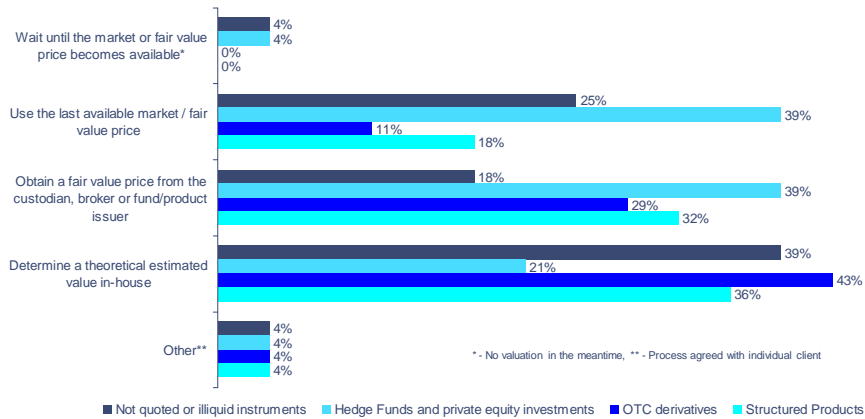
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Underlying data (5)

Handling of pricing problems for investment instruments, for which a market price is not readily available or valuation problems exist



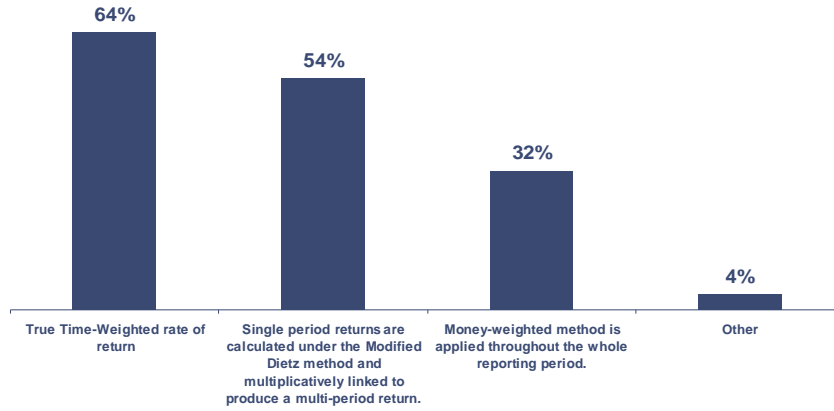
Source: PricewaterhouseCoopers 2006 Swiss Survey on Client Investment Reporting

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Return calculation methods used for client reporting



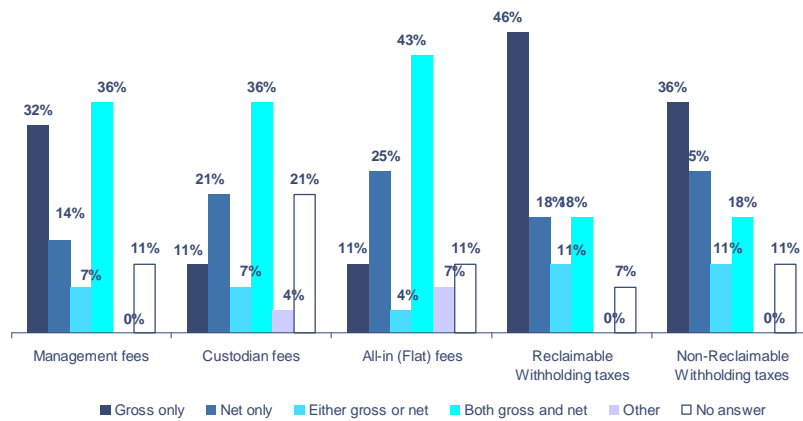
Source: PricewaterhouseCoopers 2006 Swiss Survey on Client Investment Reporting

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Treatment of fees and taxes for the performance reporting purposes



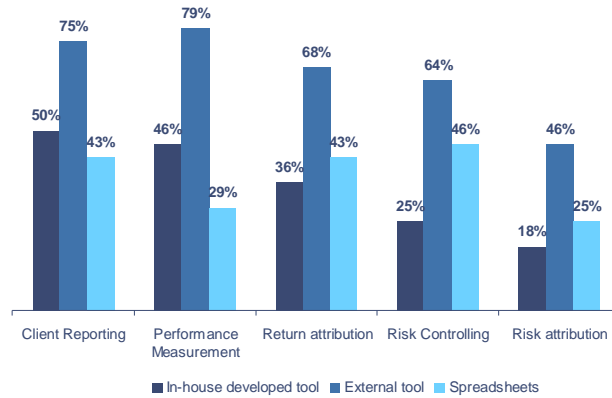
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Reporting tools



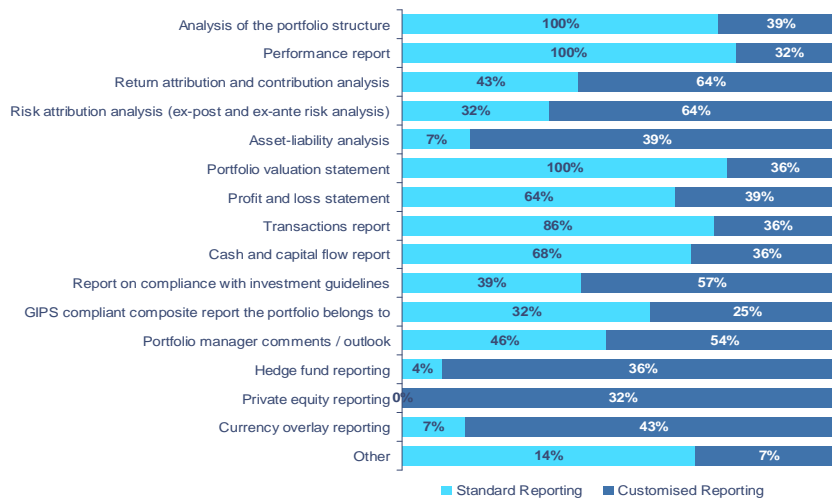
Source: PricewaterhouseCoopers 2006 Swiss Survey on Client Investment Reporting

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Components of client reporting



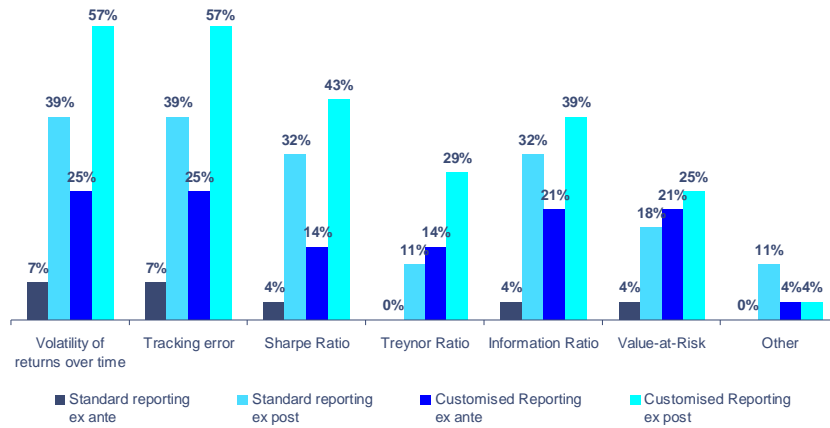
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Risk statistics included in client reporting



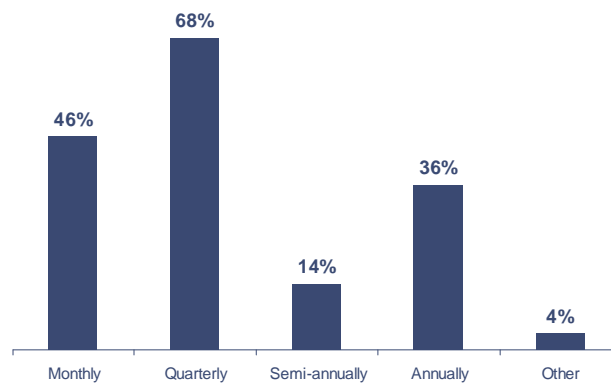
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Typical frequency of client reporting



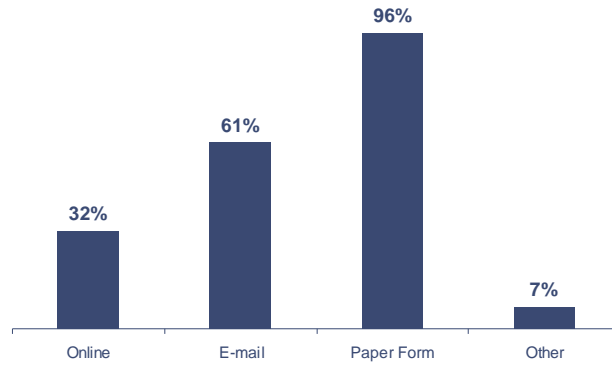
Source: PricewaterhouseCoopers 2006 Swiss Survey on Client Investment Reporting

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The form / medium of client reporting



Source: PricewaterhouseCoopers 2006 Swiss Survey on Client Investment Reporting

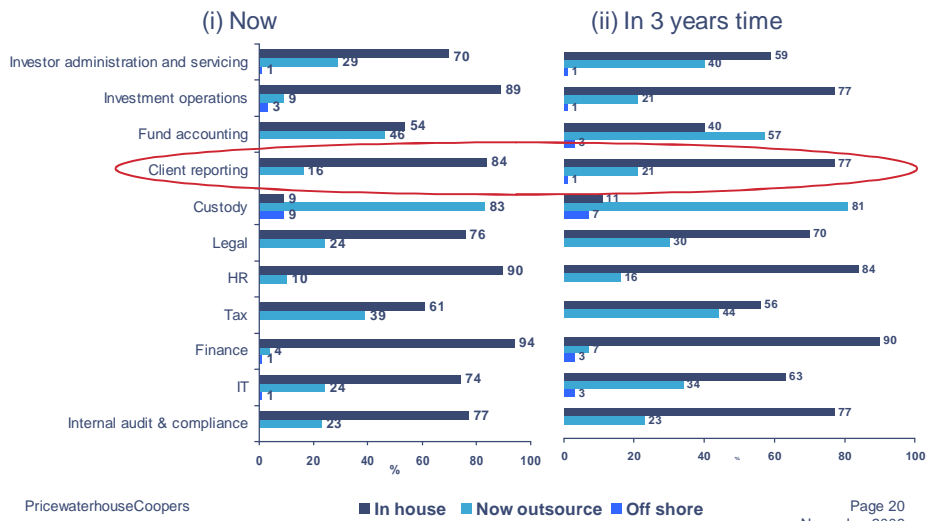
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Outsourcing

Source: PricewaterhouseCoopers 2006 Global Investment Management Survey



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Self-regulation of client investment reporting

Investment reporting: increasing regulations

Legal regulations	Self-regulations
<ul style="list-style-type: none">• UCITS III• MiFID• SFA Guidance on the presentation of the mutual fund performance	<ul style="list-style-type: none">• EFAMA Model Simplified Prospectus• EFAMA Model of Good Reporting for Investors• CFAI Asset Manager Code of Professional Conduct• EVCA Reporting Guidelines• EIPC Guidance for Recipients of Investment Reporting• ASIP Recommendations for Efficient Management of Pension Fund Assets• Global Investment Performance Standards (GIPS)• etc.

Why self-regulation guidance on client reporting?

- Educate clients and proactively steer their expectations
- Build a basis for a possible “best practice” reporting standard
- Anticipate future regulations
- Elevate the reporting to the core instrument of a comprehensive dialog between the manager and the client



RIPS EMEA self-regulation initiatives

RIPS EMEA (former European Investment Performance Committee):

- A regional subcommittee of the GIPS Council
- Represents the European interests in the GIPS development process
- Enables the participating countries to promote and implement investment performance standards
- Launches industry initiatives to enhance the investment performance reporting framework
- Representatives from 24 European countries + representatives from pension funds, EFFAS, CFA Institute, EFAMA.

RIPS EMEA Client Reporting Guidance

Target audience:

- Institutional clients and high-net-worth individuals

Format

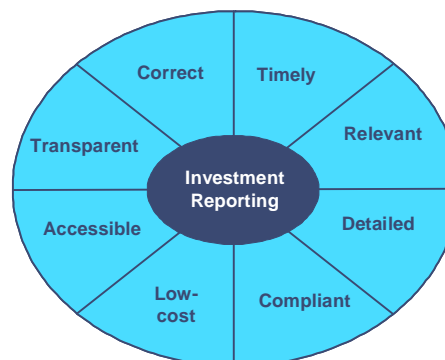
- Questionnaire
- No segregation in requirements and recommendations

Scope:

- The Guidance applies to investment reporting for *existing* clients
- The Guidance is regarded as an *educational* paper for investors / clients
- The Guidance is *not* considered as a formal part of GIPS. However, the Guidance refers to GIPS as one of the sources for investment reporting

Best Practice Principles for Investment Reporting

- Adherence to ethical standards
- Reporting philosophy should be identifiable and transparent
- Reporting should take into account the type of client
- Reporting should present a true and fair picture
- Reporting should be timely and accurate
- Reporting should take into consideration the applicable legal requirements



Self-regulation of client investment reporting

Client Reporting Guidance: areas covered

The questionnaire covers the following areas:

- 1) Investment process and portfolio strategy
- 2) Underlying portfolio input data
- 3) Performance reporting
- 4) Costs of investment management
- 5) Compliance with investment guidelines and regulations
- 6) Risk management process
- 7) Third-party examination

The Guidance was approved by RIPS EMEA in June 2006 and will be officially released soon.

The final draft of the Guidance is available on:

http://www.swissbanking.org/eipc_client_reporting_guidance_draft.pdf

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Questions?

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