

# GIPS and MiFID investment reporting: Practical aspects of implementing MiFID requirements in GIPS composite reports

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## Agenda

### GIPS and MiFID investment reporting

1. Adaptation of MiFID Regulations for CH
2. Client Categories and Level of Detail Requirements
3. Key General Requirements (Retail Clients)
4. Key Specific Requirements (Retail Clients)
5. Key General Requirements (Professional Clients)
6. Concluding Remarks



## Adaptation of MiFID regulations for CH

### Why adopt the MiFID requirements?

- ◆ UBS Booking Center Switzerland not formally obliged to implement MiFID.
- ◆ Under risk management considerations, selected aspects of MiFID regulations are adopted for Global WM&BB Booking Center Switzerland.
- ◆ MiFID affects all the UBS Business Areas, via services provided from CH to the EEA locations, e.g.:
  - EEA onshore and cross-border business with EEA
  - Centralized services provided to EEA Locations
- ◆ Provide better service and meet expectations of our EU clients.
- ◆ GIPS is "behind the MiFID bandwagon"...
- ◆ Follow industry best practice.

Profit from better risk management.

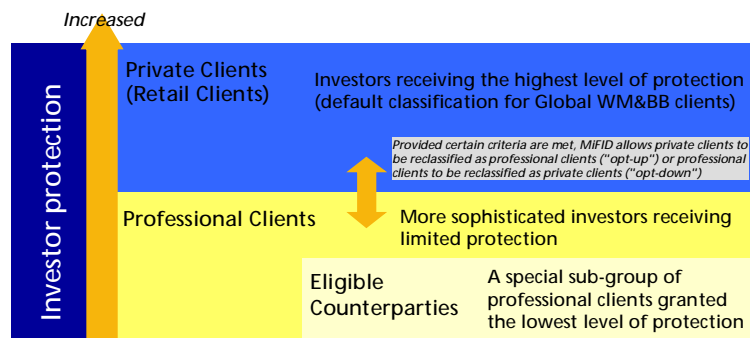


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## Impacted Client Category – Retail vs Professional Clients

### 'Marketing communication' and 'client' classifications –

- ◆ Investment firms obliged to classify clients into one of 3 categories



- ◆ Majority of UBS Global WM&BB clients treated as private clients ("opt-up/opt-down")
- ◆ Detail requirements for retail clients vs. general ones for professional clients

... determine scope and level of detail of MiFID requirements



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## General marketing communications (retail clients)

### I) The general requirements at a glance –

- ◆ Marketing communications must:
  - a. Be clearly identifiable as such<sup>1</sup>.
  - b. Include the name of the investment firm<sup>2</sup>.
- ◆ Information contained in marketing communications must:
  - c. Be consistent with any info provided to clients in the course of carrying on investment services<sup>3</sup>.
  - d. Be accurate and in particular must not emphasize any potential benefits of an investment service or financial instrument without also giving a fair and prominent indication of any relevant risks<sup>4</sup>.
  - e. Be sufficient for, and presented in a way that is likely to be understood by, the average member of the group to whom it is directed, or by whom it is likely to be received<sup>5</sup>.
  - f. Not disguise, diminish or obscure important items, statements or warnings<sup>6</sup>.
  - g. Not use the name of any competent authority in such a way that would indicate or suggest endorsement or approval by that authority of the products or services of the investment firm<sup>7</sup>.

- 1 Article 19 (2) MiFID
- 2 Article 27 (2) Implementing Directive
- 3 Article 29 (7) Implementing Directive
- 4 Article 27 (2) Implementing Directive
- 5 Article 27 (2) Implementing Directive
- 6 Article 27 (2) Implementing Directive
- 7 Article 27 (8) Implementing Directive

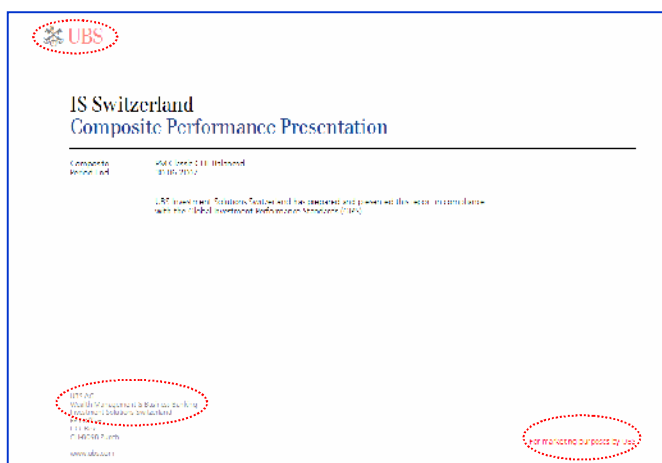
... GIPS do not cover all of them



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## General marketing communications (retail clients)

### I) Implementing general MiFID requirements in the GIPS report –



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- ◆ I) a. - "For marketing purposes by ..."
- ◆ I) a. - Disclaimer on front or last page
- ◆ I) b. - Firm name or logo sufficient
- ◆ I) f. - font size for disclaimers and disclosures at a minimum same as that used for normal text (e.g., size 10)

... relatively straightforward but ...



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## General marketing communications (retail clients)

### I)a. Adding disclaimers –

- ◆ General legal notice: This publication is intended for your information and marketing purposes only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment, investment service or other specific product. Although all information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, no representation or warranty, express or implied is made as to its accuracy or completeness. All information and opinions as well as any prices indicated are subject to change without notice. At any time, UBS AG ("UBS") and other companies in the UBS group (or employees thereof) may have a long or short position, or deal as principal or agent, in relevant securities or provide advisory or other services to the issuer of relevant securities or to a company connected with an issuer. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. Futures and options trading is considered risky and past performance of an investment is not a guide to its future performance. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in FX rates may have an adverse effect on the price, value or income of an investment. If the currency of the financial product is different from the currency of your home country, the return may increase or decrease as a result of currency fluctuations. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial advice as to the implications including tax of investing in any of the products mentioned herein...
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- ◆ Notices applying to certain regions: ...

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... takes away valuable composite report page space



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## General marketing communications (retail clients)

### I)d. Including relevant risk measures, elaborating in disclosures -

Single Period Risk Measures								Risk Classic CHF Balance per 26.09.2007	
								Returns are Net of Fee & Net of Tax	
Period	Period Return (%)	Risk Volatility (%)	Correlation	Beta	Tracking Error	Information Ratio	Sharpe Ratio		
	Composite	Individual	Composite	Individual	(%)	Ratio	Composite	Individual	
2000									
2001									
2002									
2003									
2004									
2005									
2006									
2007									
2008									
2009									

Multi-Period Risk Measures								Returns are Net of Fee & Net of Tax	
								Returns are Net of Fee & Net of Tax	
Annualized Return (%)	Risk Volatility (%)	Correlation	Beta	Tracking Error (%)	Information Ratio	Sharpe Ratio			
Composite	Individual	Composite	Individual	(%)	Ratio	Composite	Individual		
12M Return									
36M Return									
60M Return									
12M Return									
36M Return									
60M Return									

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Composite Disclosure/Glossary Example:

"The Sharpe Ratio indicates the excess return - difference between the composite and risk free rate returns - per unit of risk associated with the excess return (the higher the Sharpe Ratio, the better the performance)."

- Composite Dispersion
  - Leverage or Derivatives
  - + Beta / Tracking Error
  - + Sharpe ratio / Information ratio
  - + Volatility / Value at risk
  - + Definitions and glossary of related terms
- = fair and prominent indication of any relevant risks

- ◆ But remember:
  - the risk measures are only recommended by GIPS

... provides a more balanced description of risk and return



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## General marketing communications (retail clients)

### I)d./e. Composite disclosure and/or glossary of terms –

- A composite is an aggregation of individual portfolios representing a similar investment mandate, objective, or strategy.
- Alternative investments are investments which are not attributable to the traditional asset classes such as equities and bonds.
- Risk is the exposure to damage or financial loss, e.g. a fall in the price of a security, or insolvency on the part of a creditor. Financial market theory measures the risk exposure of an investment in terms of the degree of variance. Risk and return are in direct mutual correlation: the higher the risk exposure, the more substantial the long-term return on an investment should be.
- Annualized standard deviation of the monthly Composite returns (volatility) is used as the measure of external risk. The Sharpe Ratio, Information Ratio, Correlation, Beta and the Tracking Error are calculated as additional external risk measures. For the determination of the return on a risk-free investment (risk free interest rate), the Citigroup MM Index Euro Dep 3 Mt. in the corresponding Composite base currency is applied. External risk measures are not calculated if the number of consecutive periods (months) is smaller than 12.
- Correlation is the statistical measure of the linear relationship between two series of figures (e.g., performance of a composite and the benchmark). A positive correlation means that as one variable increases, the other also increases. A negative correlation means that as one variable increases, the other decreases. By definition, the scale of correlation ranges from +1 (perfectly positive) to -1 (perfectly negative). A correlation of 0 indicates that there is no relationship between the two variables.
- Beta expresses the sensitivity of the composite relative to the benchmark. By definition, the benchmark has a beta of 1.0. A composite that swings more than the benchmark over time has a beta above 1.0. If a composite moves less than the benchmark, the composite's beta is less than 1.0. High-beta composites are supposed to be riskier but provide a potential for higher returns; low-beta composites pose less risk but also lower returns.
- Tracking error is a measure of how closely the composite follows the benchmark, and is measured as the standard deviation of the active return - difference between the composite and benchmark returns.
- The Information Ratio is a risk-adjustment of and measures the Alpha per unit of active risk, i.e. tracking error.
- The Sharpe Ratio indicates the excess return - difference between the composite and risk free rate returns - per unit of risk associated with the excess return (the higher the Sharpe Ratio, the better the performance).
- For any further explanations, please refer to the UBS Dictionary of Banking at [www.ubs.com](http://www.ubs.com) or to your UBS client advisor.

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... sufficient for and understood by 'average member of the group'



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## Special types of marketing communications (retail clients)

### II)a. Requirements for indications of past performance<sup>8</sup> –

- 1) The indication must not be the most prominent feature of the communication.
- 2) Appropriate performance information which covers the immediately preceding 5 years, or the whole period for which the investment service has been provided if less than 5 years (or such longer period as the firm may decide).
- 3) The performance information must be based on complete 12-month periods.
- 4) The reference period and the source of the information must be clearly stated.
- 5) Prominent warning that the figures refer to the past and that past performance is not a reliable indicator of future results.
- 6) Where the indication is based on gross performance, the effect of commissions, fees or other charges must be disclosed.
- 7) Where the indication relies on figures denominated in a currency other than that of the Member State in which the retail client or potential retail client is resident, the currency must be clearly stated, together with a warning that the return may increase or decrease as a result of currency fluctuations.

<sup>8</sup> Article 27 (4) Implementing Directive

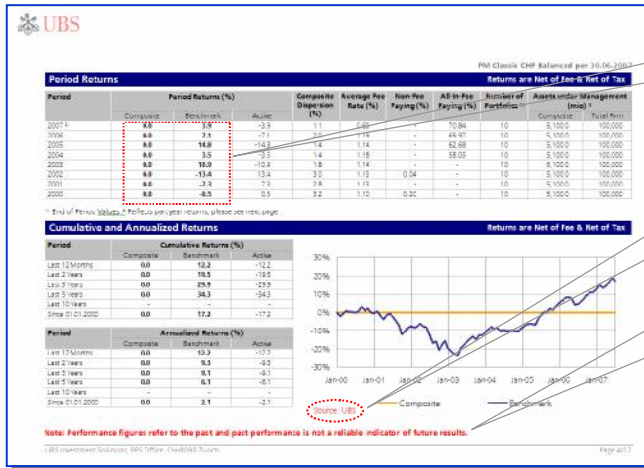
... involve extra effort in the GIPS report



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## Special types of marketing communications (retail clients)

### II)a. Implementing conditions for past indications in GIPS –



II) a.2) - present full history or since inception plus year to date figures

II) a.4) - clearly state the source of info (internal / external) under each chart and on each page

II) a.5) - "prominent" warning, min font same as normal text plus in bold on every page with performance results

II) a.7) - disclose respective currency fluctuation details in the disclosures section

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... also relatively straightforward



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## Special types of marketing communications (retail clients)

### II)b. References to a particular tax treatment<sup>9</sup> –

#### COMPOSITE DISCLOSURES: Special terms and provisions

- ...
- For Clients resident in Switzerland and the Principality of Liechtenstein, part of the all-in fee is subject to VAT (currently 7.6%). VAT is not included in the all-in fee and will be charged separately without additional surcharges.  
Tax treatment depends on the individual circumstances and may be subject to change in the future. UBS does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in general or with reference to specific client's circumstances and needs. Clients should obtain independent tax advice on the suitability of products, assets or instruments before investing and as they may consider appropriate.
- It is possible that other costs, including taxes, related to transactions in connection with the financial instrument or the investment service may arise for the client that are not paid via the investment firm or imposed by it.
- If Switzerland is not your home country, the return of your mandate in the currency of your home country may increase or decrease as a result of currency fluctuations. The same fluctuations will simultaneously have an inverse impact on all fees charged in CHF.

II) a.7 Example Disclosure

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9 Article 27 (7) Implementing Directive

... require a prominent disclosure



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## Special types of marketing communications (retail clients)

### II) Some specific requirements –

- ◆ Special MiFID requirements, outside the scope of GIPS:
  - c. Marketing communications containing an offer or invitation to enter into an agreement
  - d. Marketing communications containing comparisons
  - e. Marketing communications containing simulated past performance
  - f. Marketing communications containing information on future performance
- ◆ Covered primarily by MiFID Article 27 as well as Article 29.
- ◆ Summary details included for info (next two slides).

... not applicable for a standard GIPS report



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## Special types of marketing communications (retail clients)

### II) [FOR INFO] Specific requirements for –

- c. Marketing communications containing an offer or invitation to enter into an agreement<sup>10</sup>

In cases where there is an offer to enter into an agreement or an invitation to make an offer to enter into an agreement, the information requirements of Articles 30-31 of the Implementing Directive (information about the investment firm and its services / financial instruments / safeguarding of client financial instruments or client funds / costs and associated charges) must be included in the communication.

- d. Marketing communications containing comparisons<sup>11</sup>

Where the info compares investment or ancillary services, financial instruments, or persons providing investment services, the following conditions must be satisfied:

- 1) the comparison must be meaningful and presented in a fair and balanced way;
- 2) the sources of the information used for the comparison must be specified;
- 3) the key facts and assumptions used to make the comparison must be included.

<sup>10</sup> Article 29 (8) Implementing Directive  
<sup>11</sup> Article 27 (3) Implementing Directive

... not applicable for a standard GIPS report



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## Special types of marketing communications (retail clients)

### II) [FOR INFO] Specific requirements for (cont'd) –

#### e. Marketing communications containing simulated past performance<sup>12</sup>

Where simulated past performance relates to a financial instrument or index, the following conditions must be satisfied:

- 1) the simulated past performance must be based on the actual past performance of one or more financial instruments or financial indices which are the same as, or underlie, the financial instrument concerned;
- 2) in respect of the actual past performance referred to under point 1), the conditions set out on previous slides for indications of past performance [i.e., II) a.] must be complied with;
- 3) prominent warning that the figures refer to simulated past performance and that past performance is not a reliable indicator of future performance.

#### f. Marketing communications containing information on future performance<sup>13</sup>

The following conditions must be satisfied:

- 1) the info must not be based on or refer to simulated past performance;
- 2) the info must be based on reasonable assumptions supported by objective data;
- 3) where the info is based on gross performance, the effect of commissions, fees or other charges must be disclosed;
- 4) prominent warning that such forecasts are not a reliable indicator of future performance.

<sup>12</sup> Article 27 (5) Implementing Directive  
<sup>13</sup> Article 27 (6) Implementing Directive

... not applicable for a standard GIPS report



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## General marketing communications (professional clients)

### III) General principles –

- ◆ Marketing communications addressed by the investment firm to clients or potential clients must be fair, clear and not misleading<sup>14</sup>.
- ◆ Marketing communications must be clearly identifiable as such<sup>15</sup>.
- ◆ Information must be consistent with any information the firm provides to clients in the course of carrying on investment services<sup>16</sup>.

<sup>14</sup> Article 19 (2) MiFID  
<sup>15</sup> Article 19 (2) MiFID  
<sup>16</sup> Article 29 (7) Implementing Directive

... applicable to all kind of marketing communications, including those exclusively addressed to professional clients



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## Concluding Remarks

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Updating the GIPS composite reports in such areas as -

- ◆ Fundamentals of Compliance
  - ü Investment Firm
- ◆ Disclosures
  - ü Clear identification as marketing material
  - ü Sources of info (for charts)
  - ü Prominent warnings (e.g., tax treatment, ccy fluctuation)
  - ü Glossary of terms and/or definitions of concepts
  - ü Standard/Legal Disclaimers
- ◆ Presentation & Reporting
  - ü Investment risk
- ◆ Additional Considerations
  - ü Specific Country Aspects (Level III UK)
  - ü Language of Client



... will put you ahead of the game



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## Contact Information

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