

GIPS 2010 Revision: Status and Outlook

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Purpose of the GIPS 2010 revision

- Review of the current GIPS recommendations as candidates for new requirements
- Review of the proposed implementation dates for the future requirements
- “Clean-up” the current GIPS, e.g. remove outdated provisions, etc.
- Review definitions and glossary
- Research the current needs of the users of the GIPS standards
- Develop new provisions where necessary and incorporate them in GIPS 2010

Time schedule for GIPS 2010

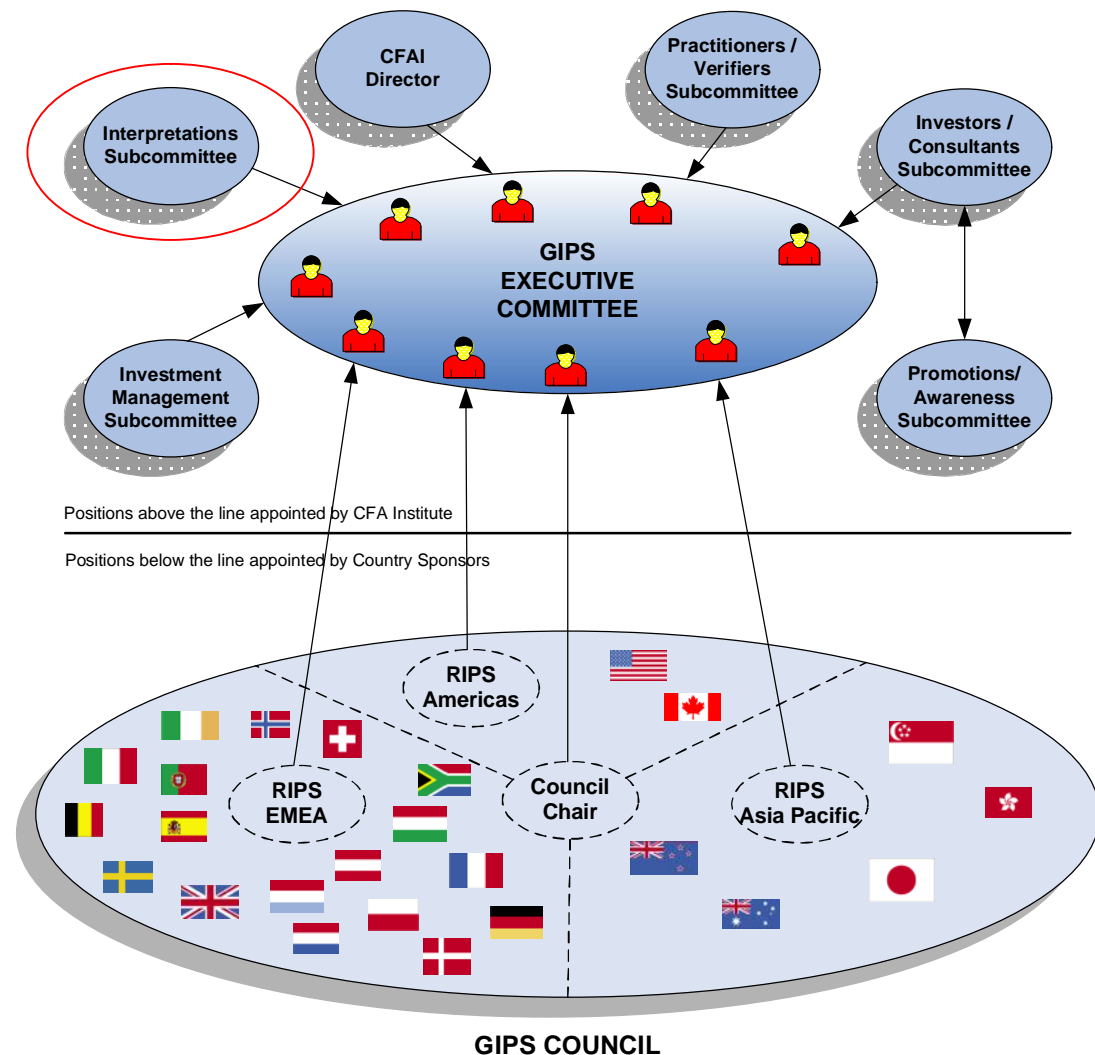
2007-2008	Review of the current GIPS
Beginning of 2009	Draft of GIPS 2010
2009	GIPS 2010 public comment period (at least 6 months)
End of 2009	Finalisation of GIPS 2010 and approval by GIPS EC and by CFA Institute's board
2010	GIPS 2010 are published
1.1.2011	GIPS 2010 become effective



A lot in the draft of GIPS 2010 may change as a result of the public comment!

Who is working on GIPS 2010 revision

- Interpretations Subcommittee (majority of work)
- Further subcommittees and dedicated expert groups (special topics, e.g. Private Equity)
- Executive Committee (final decisions and approval)



GIPS 2010: status / progress

- Interpretations Subcommittee has reviewed all existing GIPS provisions and guidance and submitted a first draft of the GIPS sections 0 – 5 to the Executive Committee in September 2008
- Verification Subcommittee has reviewed Section III of GIPS
- The Real Estate and Private Equity Provisions and Guidance are currently being reviewed by the dedicated specialist working groups
- Investment Manager Subcommittee and the Investor/Consultant Subcommittee are working on a possible extension of GIPS to reporting to existing clients
- Risk Working Group has developed a first proposal how to address investment risk measurement and presentation within GIPS
- Alternative Investments Working Group has produced a first draft of the GIPS Guidance for Alternative Investments

Status of GIPS recommendations



GIPS recommendations should now be viewed as “best practice” and not as future requirements (for example, accrual accounting for dividends)

Future "effective dates" (from 1.1.2010)

- Portfolios must be valued at all large external cash flows
- Portfolios must be valued at calendar month-end or last business day of the month
- Composite returns must be calculated at least on a monthly basis
- Carve-outs must be managed separately with their own cash balances



GIPS Executive Committee has confirmed that all above provisions will become effective from 1.1.2010

True TWR as a future requirement

- From 1.1.2010 firms must revalue portfolios at month end and on the date of all large cash flows
- Definition of a “large cash flow” can be established on a composite-specific basis
- Likely requirement in GIPS 2010 to apply the large cash flow policy consistently and the prohibition to revalue for cash flows that don’t meet the level of a “large cash flow” for the composite
- Possibly a recommendation to revalue portfolios on the date of all external cash flows

Type of assets to include in the GIPS firm

- Current GIPS provision: “Assets to which the Standards cannot be applied are not to be considered by firms when claiming compliance and are not to be included in total firm assets. Such assets include investment vehicles that are based on cost or book values rather than market values.”
- Historically, certain assets were excluded from GIPS compliance, such as works of art and other assets where there is no market value
- GIPS 2010: If the assets are managed as part of an investment strategy, they must be included in the GIPS firm, regardless of the ability to value

Non-fee paying portfolios

- Current GIPS: Non-fee-paying discretionary portfolios do not have to be included in the composites
- If non-fee-paying portfolios are managed like fee-paying portfolios, why should they be allowed to be excluded from composites based simply on fee-paying status?
- GIPS 2010: The distinction between fee-paying and non-fee-paying portfolios should be removed when considering composite construction
- The disclosure of the percentage of the composite composed of non-fee paying portfolios as of each annual period end will likely remain

Market value vs. Fair value

- The definition of market value will be expanded to include the notion of fair value for all assets
- GIPS Interpretations Subcommittee and the Private Equity Working Group are developing a fair value framework within GIPS for all asset classes (to be accommodated as Appendix D of GIPS)
- Fair value basis consistent with international financial reporting principles (US GAAP and IFRS)
- Possible recommendation to disclose key assumptions and principles used to value investments

Risk measures

- GIPS have been criticised for the focus mainly on investment returns and less on investment risks
- Risk Working Group has been created to address the aspects of presentation of investment risk
- Qualitative risk descriptions / disclosures are expected
- One quantitative risk measure will likely be required (current proposal: annualised ex-post standard deviation of the composite and the corresponding benchmark for the most recent 3 year period)

MWR returns in GIPS

- GIPS currently require TWR for all asset classes except Private Equity
- GIPS 2010: May recommend MWR (e.g. IRR) in all cases when managers are responsible for the timing and size of capital flows
- Additional work is being carried out to ascertain how this concept may be implemented within GIPS and if an IRR is the most appropriate calculation
- TWR will still be required as a point of comparison between firms

Verification

- GIPS Executive Committee has decided not to pursue mandatory verification for firms claiming compliance with GIPS
- Instead, GIPS 2010 will prescribe a revised compliance statement that will include an explicit statement regarding if the firm has or has not been verified
- In Switzerland the majority of the GIPS compliant firms undergo the verification voluntarily

Prospective vs. existing client

- **Definition of the “prospective client”:** Investment Manager Subcommittee is in the process of creating a guidance
- **Presentations to existing clients:** GIPS 2010 are expected to recommend providing a relevant GIPS compliant presentation to the existing clients on an annual basis (issue: transparency vs. practicability)

Some further changes in GIPS 2010 (1)

- **Disclosure of the composite characteristics:**
The current disclosure of the composite description to include enough information to understand all key characteristics of the composite strategy, including risks
- **Longevity of disclosures:**
Additional guidance for how long certain disclosures must be included in compliant presentations
- **Proprietary portfolios:**
Expected requirement to disclose the percentage of the composite composed of proprietary portfolios

Some further changes in GIPS 2010 (2)

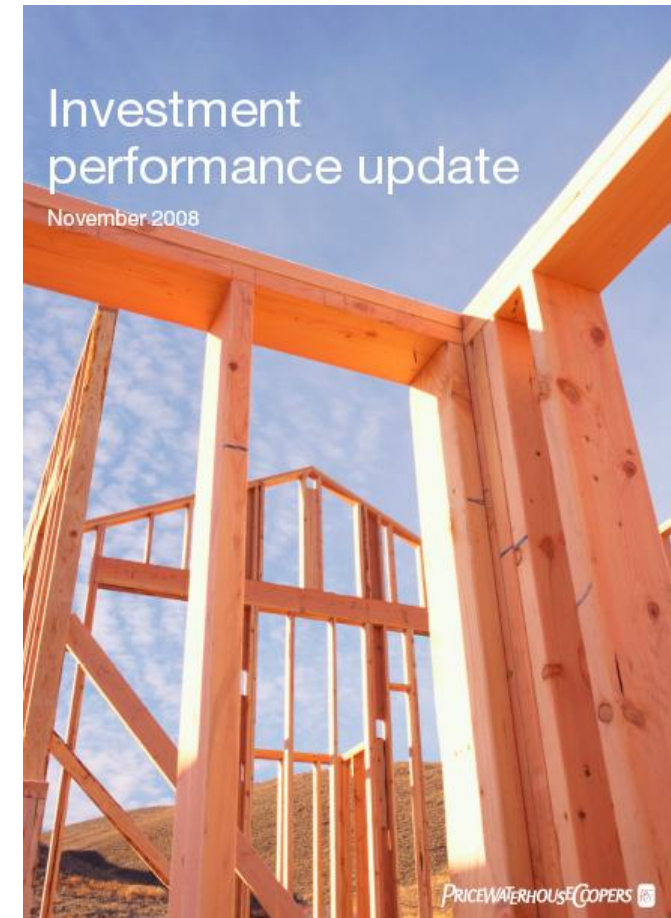
- **Length of the presented track-record:**
Expected to include a recommendation to present >10 years of composite history
- **Obsolete and outdated provisions:**
Some provisions of the current GIPS, especially in the area of presentation and disclosures, will be either simplified or removed

Further details are available from...

www.gipsstandards.org



www.pwc.ch/gips



Your action required...



Take an active part in the GIPS 2010 public comment process!

Questions?

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