Global Investment Performance Standards

# WHAT ARE THE GIPS® STANDARDS?

Introduced in 1999, the Global Investment Performance Standards (GIPS®) are universal, voluntary standards to be used by investment managers for quantifying and presenting investment performance that ensure fair representation, full disclosure and apples-to-apples comparisons.

The GIPS standards serve as the guidelines that investment managers should follow when reporting performance to prospective clients. The GIPS standards make it possible for investment managers around the world to "transport" their historical investment returns to other countries without having to restate these figures using different calculation and presentation rules. This not only creates an even playing field for firms but also gives current and potential clients more confidence in the integrity of the performance presentations as well as the general practices of a compliant firm.

The GIPS standards are administered globally through the thought-leadership and policy-setting arm of CFA Institute. The GIPS Executive Committee is a committee of CFA Institute responsible for the strategic development, promotion and implementation of the GIPS standards. The GIPS Technical Committee is responsible for technical oversight of the Standards, and its members represent key industry stakeholders and geographic regions.

The presence of local organizations to sponsor the effective implementation and on-going development of the GIPS standards is essential. Today, more than 35 GIPS country sponsors (and growing) provide an important link between the GIPS Executive and Technical Committees and local markets where investment managers operate. Country sponsors ensure that local interests are taken into account as the GIPS standards are developed going forward. Compliance with the GIPS standards is voluntary, but support from the country sponsors help drive the success of the Standards.

## WHO IS AFFECTED BY THE GIPS STANDARDS?

Asset managers, asset owners, regulators, pension funds, plans sponsors, investment consultants, and compliance officers from around the world.

## WHO BENEFITS FROM THE GIPS STANDARDS?

The GIPS standards benefit two main groups: investment management firms, and asset owners (investing or prospective clients, along with the investment consultants whose job is to evaluate, supervise, hire, and dismiss investment management firms on behalf of those clients).

- By choosing to comply with the GIPS standards, investment management firms assure prospective clients that the historical "track record" they report is both complete and fairly presented. Compliance enables the GIPS-compliant firm to participate in competitive bids against other compliant firms throughout the world. The Standards represent best practice, provide significant internal controls and are an important way for the firm to ensure accurate and consistent investment performance data.
- Prospective clients have a greater level of confidence in the integrity of performance presentations as well as the general practices of a compliant firm and can more easily compare performance presentations across different investment management firms globally. While the GIPS standards certainly do not obviate the need for other in-depth due diligence on the part of the investor, compliance with the standards provides a level of credibility to the performance results of investment management firms that have chosen to undertake this responsibility.

## A GLOBAL STANDARD

CFA Institute has long been committed to establishing one broadly accepted standard for calculating and presenting investment performance history. In 1991, after years of work on the complex issues, AIMR (predecessor organization to CFA Institute) formally adopted the AIMR Performance Presentation Standards (AIMR-PPS®). These standards established an industry-wide approach as to how investment firms should calculate and report their investment results, ensuring fair representation and full disclosure to prospective clients. In 1995 AIMR began to address the need for one global accepted set of performance standards and in 1999 sponsored and published the GIPS standards. Today, more than 35 countries in North America, Europe, Africa and the Asia Pacific region have adopted the GIPS standards.

## GIPS COMPLIANCE AND VERIFICATION

Compliance with the GIPS standards is voluntary. Refusing to comply does not violate any law or regulation. However, a false claim of compliance does. For example, the US Securities and Exchange Commission has warned investment advisers against falsely claiming that their performance history complies with the Standards. The SEC has sanctioned firms for falsely representing that their performance returns were compliant.

The GIPS Executive Committee develops and maintains the Standards, but does not conduct verification or "audit" of a firm's claim. Rather, an industry of verification specialists—including the biggest accounting firms—has sprung up in recent years to meet the need for third-party verification. See http://www.gipsstandards.org/resources/Pages/index.aspx.

## WHO TO CONTACT

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