

GIPS Executive Committee Announces Decisions on Key Issues

The GIPS Executive Committee (EC), the governing body for the Global Investment Performance Standards (GIPS), recently met in Singapore to review the comments received on the GIPS 2010 Exposure Draft and discuss proposed revisions. The following is a summary of the key decisions made by the EC. While these decisions are not expected to change, the final version of the revised Standards will not be approved until the end of the year. The revised version of the Standards will become effective on 1 January 2011.

Fair Value – The GIPS standards will require that assets be valued using a fair value methodology when no market value is available. The valuation hierarchy that was included in the Exposure Draft as a requirement will be included in the Standards only as a recommendation.

Risk – The EC unanimously agreed that risk should be addressed within the Standards. While agreeing to remove a specific reference to risk from the wording of the composite description disclosure requirement, the EC stated that it will issue guidance to indicate that risk is an integral part of any composite strategy description and should already be included in this disclosure. The intent of this disclosure is for firms to indicate risks that are specific to the composite strategy.

Standard Deviation – The EC also agreed to require firms to present the three year annualized ex-post standard deviation of monthly composite and benchmark returns for each annual period presented beginning on or after 1 January 2011. If firms determine that standard deviation is not a relevant measure, they will be required to additionally present another risk measure. Further guidance is in development.

Non-Fee-Paying Portfolios – The Exposure Draft proposed removing of the distinction between fee-paying and non-fee-paying portfolios with regard to composite construction, thus requiring that all non-fee-paying portfolios be included in at least one composite. The EC decided against implementing this change, but encouraged firms to include non-fee-paying portfolios meeting the composite definition in the composite.

Proprietary Assets – The Exposure Draft included a requirement for firms to disclose the percentage of the composite that represented proprietary assets. Rather than requiring the disclosure of the percentage, the EC agreed to recommend that firms disclose if a composite contains proprietary assets.

Error Correction – The EC decided to remove the requirement to disclose for 12 months any changes in a compliant presentation resulting from a material error. This requirement was drawn from the Error Correction Guidance Statement which goes into effect on 1 January 2010. The EC stated that it is not the intent to force firms to disclose errors to parties that never received the erroneous presentation. The EC committed to reviewing the Error Correction Guidance Statement as soon as possible and will issue any necessary clarifications. Until such time, firms are reminded that the Error Correction Guidance Statement will become effective in its current form on 1 January 2010.

Taxation Issues – The EC agreed to remove the tax-related guidance from the GIPS standards. Country-specific provisions and/or guidance will be transferred to the respective GIPS country sponsor. Firms are expected to be allowed to continue to follow the existing guidance, but direction will be forthcoming from the local country sponsors.

Compliance Statement and Verification Status – The EC agreed to require firms to disclose if they have or have not been verified. However, there will be no differentiation between a verification that is “current” versus “not current” in the GIPS compliance statement. The EC also decided to require firms to include prescribed language describing what is and is not covered by verification. This new requirement will be included so that the user does not misinterpret the scope of verification. Firms will be allowed to reference a performance examination in the GIPS compliance statement when appropriate. Revised compliance statement language will be included in the upcoming release of the Standards.