

# Global Investment Performance Standards (GIPS®): A new definition of transparency

CIBC MELLON



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- Claire Johnson  
Head of Marketing and Product  
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Global Investment Performance Standards has emerged as the global benchmark for investment performance measurement and reporting. GIPS are “a set of standardized, industry-wide ethical principles that provide investment firms with guidance on how to calculate and report their investment results to prospective clients.” They have been designed to be the premier set of standards globally, representing best industry practices in “quantifying and presenting investment performance that ensure fair representation and full disclosure.” GIPS delivers compelling value for investment managers as they enable institutional investors to compare manager performance against a single set of global standards. In addition, adhering to such standards enables firms to demonstrate the quality of their reporting and their strong internal control policies. ([www.gipsstandards.org](http://www.gipsstandards.org))

As Canada’s foremost asset servicer, CIBC Mellon is committed to supporting our clients in following GIPS and its methodologies. Claire Johnson, the head of marketing and product solutions at CIBC Mellon, explains that “we continue to monitor developments and updates around GIPS and its use cases. Our thorough understanding of the complex and dynamic world of investment management and our partnership with Eagle Investment Systems allows us to deliver comprehensive analytical and reporting tools to clients that support GIPS compliance. Investment managers have the confidence and the proven tools to pursue compliance and demonstrate a commitment to transparency worldwide.”

## A growing market

Alignment to these standards is becoming a business imperative for investment managers who face increasingly tough competition in attracting and retaining clients. Moreover, institutional investors are demanding that their investment managers be able to respond to new industry self-regulations quickly and without major interruption. Adoption may also better position investment firms to meet future industry demands and defend potential litigation related to performance issues. Though voluntary, as of January 1, 2011, organizations in 32 countries, including all major developed regions, have adopted the standards and are sponsoring and promoting their use. According to industry surveys, approximately 70 to 90 per cent of investment managers worldwide are either GIPS compliant or plan to achieve compliance in the near future. (McDonagh 2)

# Provisions of the GIPS standards

## I Fundamentals of Compliance

1. Input Data
2. Calculation Methodology
3. Composite Construction
4. Disclosure
5. Presentation and Reporting
6. Real Estate
7. Private Equity
8. Wrap Fee/Separately Managed Account (SMA) Portfolios

## II GIPS Valuation Principles

## III GIPS Advertising Guideline

## IV Verification

## V Glossary

### Appendix A: Sample Compliant Presentations

### Appendix B: Sample Advertisements

### Appendix C: Sample List of Composite Descriptions

# Background on GIPS

GIPS are administrated by the CFA Institute, governed by the GIPS Executive Committee and promoted globally by the GIPS Council. The objectives of GIPS Executive Committee are to:

- Establish investment industry best practices for calculating and presenting investment performance that promote investor interests and instill investor confidence
- Obtain worldwide acceptance of a single standard for the calculation and presentation of investment performance based on the principles of fair representation and full disclosure
- Promote the use of accurate and consistent investment performance data
- Encourage fair, global competition among investment firms without creating barriers to entry
- Foster the notion of industry "self-regulation" on a global basis

The third release of the standards in 2010 includes important changes and updates related to risk, fair value and compliance statement and verification status. ([www.gipsstandards.org](http://www.gipsstandards.org))

## Becoming compliant with GIPS

The CFA Institute explains that in order "to claim compliance, an investment firm must demonstrate adherence to comprehensive and rigorous rules governing input data, calculation methodology, composite construction, disclosures, and presentation and reporting." As well, firms must comply with all requirements of GIPS including on-going clarifications and any updates published by the GIPS Executive Committee; partial compliance with GIPS standards or "in compliance except for ..." is not permissible by the GIPS Executive Committee. ([www.gipsstandards.org](http://www.gipsstandards.org))

Bruce Feibel, managing director at BNY Mellon and Karyn Vincent, owner of Vincent Performance Services, LLC, in their recent book *Complying with the Global Investment Performance Standards (GIPS®)* outline some of the core requirements for claiming compliance, including:

- **Firmwide compliance** – GIPS requires compliance for the entire organization, not just selective assets or funds. The firm must define the scope of its business. The key question to ask is, "How does the firm hold itself out to the public?" Compliance must be for all the business covered in the firm's definition.
- **Composite reporting** – "A composite is an entity representing a collection of all portfolios managed according to a particular style or strategy." Reporting requirements here focus on preventing firms from misrepresenting a strategy's track record by selecting only the best performing portfolios. This is also in line with the principle of fair representation.
- **Full disclosure** – The investment firm must be able to disclose the following when displaying performance results, including: claim of compliance and verification status, the definition of the firm, composite and benchmark descriptions, availability of the list of composite descriptions, and availability of policies for valuing portfolios, calculating performance and preparing compliant presentations.
- **Reporting period** – GIPS require firms to initially show a minimum of five years of performance history, or since inception if the history is shorter. After this minimum, the standards require the firm to build a track record of 10 years.
- **Performance methodology** – As GIPS standards are created to present performance of the managers to prospective clients, time-weighted returns must be used for reporting purposes.

# Ensuring GIPS compliance

As stated above, investment firms have the option of claiming compliance. Though verification of compliance is not mandatory, the CFA Institute highly recommends confirmation by an independent third party. This independent review adds credibility to the claim and helps avoid questions from prospective clients.

Verification of GIPS compliance results in an attestation in two key areas:

1. That the firm has complied with all GIPS requirements for composite construction on a firm-wide basis, not a selected composite
2. That the firm's processes and procedures are established to calculate and present performance in accordance with the prescribed calculation methodology, data collection and formatting required

It is important to note that verification does not certify or guarantee that the firm complies with GIPS and does not ensure the accuracy of any specific composite presentation. ([www.gipsstandards.org](http://www.gipsstandards.org)) Verification only asserts that "the correct portfolios [are placed] in the correct composites for the correct time periods ... [that] the policies and procedures to determine if portfolio-level returns and composite-level returns meet the calculation requirements of the GIPS standards, and that the firm has adequate policies and procedures in place to properly assemble all of the required components of a compliant presentation."(Feibel/Vincent 228)

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## Table 1: Sample questions to assess claim of compliance ([www.gipsstandards.org](http://www.gipsstandards.org))

1. When did the firm become compliant with the GIPS standards?
2. Does the firm have readily available compliant presentations for all composites?
3. Does the firm have up-to-date written policies and procedures for maintaining compliance with the GIPS standards?
4. Are the firm's policies for valuing portfolios, calculating performance, and preparing compliant presentations available?
5. Can the firm provide a list of the firm's composite descriptions?



# CIBC Mellon supports GIPS compliance

Supporting industry-wide transparency and compliance with rapidly changing standards is fundamental to our client service model. Our products feature powerful yet customizable reporting tools which provide access to detailed account information, enabling investment management firms to adhere to new standards. In addition, as a joint venture between CIBC and BNY Mellon, CIBC Mellon offers Canadian investment managers access to the software provided by Eagle Investment Systems. Eagle, a subsidiary of BNY Mellon, offers a unique, globally-proven GIPS composite management solution to the market. Eagle's capabilities allow investment managers to monitor the individual components of their composites, easily assess account status and respond to the rapidly-changing regulatory environment. ([www.eagleinvsys.com](http://www.eagleinvsys.com))

Our combination of powerful products, local expertise and client focus provides our clients with the capabilities to enable them to accurately measure investment performance, be compliant with the evolving GIPS standards and to compete globally.

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## About CIBC Mellon

CIBC Mellon currently services approximately 33% of Canadian assets. Our client base is comprised of approximately 1,100 relationships representing 1,000 domestic clients and more than 80 foreign financial institutions; total assets under administration were more than CA\$1.1 trillion, as at September 30, 2011.

Our clients include Canadian pension funds, investment funds, corporations, government, insurance companies, foreign insurance trusts, foundations and foreign financial institutions whose clients invest in Canada. We work in partnership with our clients to increase operational efficiencies, manage risk, and increase performance.

Built on the strengths and traditions of our two parent companies: Canadian Imperial Bank of Commerce (CIBC) and The Bank of New York Mellon Corporation (BNY Mellon), CIBC Mellon strives to design and deliver reliable asset servicing solutions to institutional investors operating in Canada. We first began offering asset services to institutional investors in 1996, when CIBC joined forces with Mellon Financial Corporation (Mellon) to form a 50/50 joint venture—CIBC Mellon Global Securities Services Company. On July 1, 2007, Mellon—our U.S. parent company—merged with The Bank of New York Company Inc. to form the 11th-largest financial services company in the world. As a result of this merger, BNY Mellon is now the global leader in asset servicing with more than US\$26.3 trillion in assets under custody and administration.

For further information about CIBC Mellon, please visit [cibcmellon.com](http://cibcmellon.com).

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## Sources:

Feibel, Bruce J. and Karyn D. Vincent. *Complying with the Global Investment Performance Standards (GIPS®)*. New Jersey: John Wiley & Sons, Inc., 2011.

McDonagh, Joseph. "GIPS® 2010 - Ready or Not, Here It Comes." Eagle Investment Systems, Copyright 2008.

[www.gipsstandards.org](http://www.gipsstandards.org)



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