

ForwardThink Group Inc.

The future of management and technology consulting today

GIPS[®] - Upcoming Changes

ForwardThink Group White Paper

Introduction

The current version of Global Investment Performance Standards (GIPS) is set to undergo a planned revision. This is part of the continuing evolution of GIPS standards and allows the standards to maintain their global relevance. The revised version of the GIPS standards is expected to be published in early 2010 and will have an effective date of 01 January 2011. In addition, a series of future requirements set forth in the current version of GIPS standards will become effective 01 January 2010.

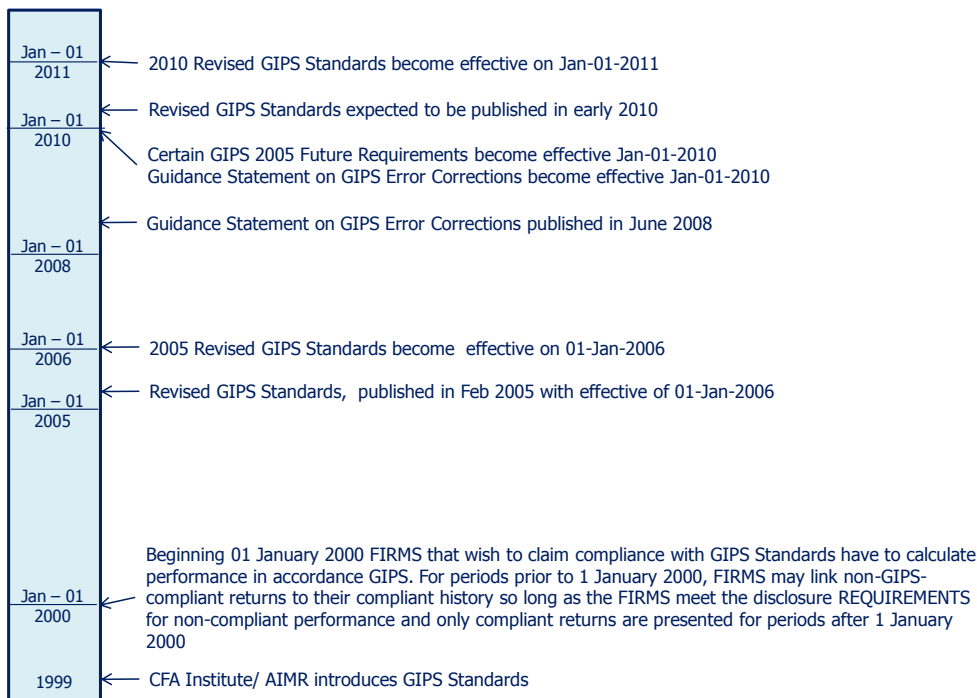
With all these changes coming due, firms that wish to claim compliance with the GIPS standards will have to make changes to the systems and processes used to prepare GIPS compliant presentations.

This paper attempts to summarize the changes that become effective 01 January 2010 and discuss their implications.

What is GIPS®?

The Global Investment Performance Standards (GIPS) are voluntary standards for calculating and reporting investment performance. The standards are based on ethical principles of fair representation and full disclosure and provide guidance to investment firms on how to calculate and report investment performance to their clients and prospects.

The CFA Institute created the GIPS standards in 1999 and continues to administer the standards. Below is a timeline of key dates in the evolution of the GIPS standards.



New Requirements effective 01 January 2010

GIPS 2005 became effective 01 January 2006; however some of the requirements set forth in GIPS 2005 have an effective date of 01 January 2010. These requirements are summarized below:

Portfolio Valuation

Portfolios will be required to be valued as of the last day of the month or on the last business day of the month. Additionally, portfolios will also be required to be valued on days on which there is LARGE EXTERNAL CASH FLOW. This requirement has been introduced to remove the distortion in calculation of portfolio returns caused by large external cash flows. Firms typically treat a cash flow as large or significant if it exceeds 10% of the beginning market value of the portfolio.

Implications: Firms that are not currently valuing portfolios daily or on days of large cash flows, this requirement can introduce a major change in their operations and systems. Firms will have to put processes and controls in place to determine portfolios that have had a significant cash flow and then to value the entire portfolio on that day. Alternatively firms may decide to value all portfolios daily irrespective of whether there is a significant cash flow or not.

In addition to the change in the valuation procedures, the return calculations will have to be modified to account for the cash flow. Depending upon the tool that is being used to calculate returns, this will normally result in re-configuring the return calculations. All major performance calculation applications and tools support the handling of significant cash flow.

Carve-out Composites

A carve-out composite cannot include sleeves of multi strategy portfolios unless the sleeve is actually managed separately with its own cash balance. Prior to 01 January 2010, a carve-out composite could include sleeves of multi strategy portfolios, even if the sleeve was not actually managed separately, as long as cash was allocated to the sleeve in a timely and consistent manner.

Implications: This requirement affects the definition of carve-out composites. Sleeves that are not managed separately with their own cash cannot be included as part of the carve-out. Any changes to composites will have to be noted in the Disclosures accompanying the GIPS presentations. Additionally, existing processes used to create carve-out composites will have to be modified and processes used to allocate cash to carve-out sleeves will no longer be required.

Calculation of Composite Returns

Composite returns are required to be calculated by asset weighting portfolio returns at least monthly. Prior to 01 January 2010, the requirement was to calculate Composite returns by asset weighting portfolio returns at least quarterly.

Implications: As a result of this requirement the frequency of return calculation for Composites changes. The processes used to calculate returns and link returns for reporting will be impacted.

Guidance Statement on GIPS® Error Corrections

In addition to the above described GIPS 2005 requirements becoming effective 01 January 2006, the requirements set forth in Guidance Statement on GIPS Error Corrections published in June 2008 will also become effective 01 January 2010. These requirements address situations where a GIPS compliant firm detects an error in its GIPS compliant presentations and provides guidance on policies and procedures that Firms must implement to identify and correct these errors.

Implications: If Firms do not already have established policies in procedures in place to detect and correct errors in compliant presentations, they will be required to do so starting 01 January 2010.

There is no requirement for Firms to retroactively apply the procedures; Firms are required to consistently apply the established procedures going forward.

2010 Revised GIPS® Standards

CFA Institute published the exposure draft of the proposed revisions to GIPS standards in early 2009, inviting the industry to comment on the changes. The comment period ended 01 July 2009 and the CFA Institute is currently in the process of reviewing the comments and finalizing the revisions to the GIPS Standards. The revised version of the GIPS standards is expected to be published by CFA Institute in early 2010 and will become effective 01 January 2011.

Some of the key revisions being proposed are summarized below:

Valuation: Firms will be required to value Assets using Fair Value methodology if market values are not available. The Fair Value should be obtained from a qualified independent external third party.

GIPS Verification Status: GIPS Standards do not require the compliant firms to be verified, however they would be required to disclose whether they have been verified or not as per the revised standards.

Proprietary Assets in Composites: If a Composite includes proprietary assets, firms will be required to disclose this in the GIPS presentations.

Ex-Post Standard Deviation: Firms will be required to present three year annualized ex-post standard deviation of monthly returns for composites and benchmarks for each annual period presented beginning on or after 1 January 2011.

References

Current GIPS® Standards: <http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2005.n5.4002>

Exposure Draft of 2010 Revised GIPS® Standards: http://www.gipsstandards.org/news/releases/2009/pdf/gips_2010_exposure_draft_unmarked.pdf

Standards: http://www.gipsstandards.org/news/releases/2009/pdf/gips_2010_exposure_draft_track_changes.pdf

Guidance Statement on GIPS® Error Correction: http://www.gipsstandards.org/standards/guidance/develop/pdf/GS_Error_Correction_Final.pdf

CFA Institute: <http://www.cfainstitute.org>

About ForwardThink Group, Inc.

ForwardThink Group, Inc., a leading consulting firm, offers a wide range of Management and IT Consultancy services to the Financial Services Industry with a special focus on Banking, Asset and Wealth Management, Capital Markets and Insurance Industries. ForwardThink Group provides solutions designed to help organizations meet the challenging business needs of today and tomorrow.

At ForwardThink Group, we work closely with our clients to address their investment performance measurement, attribution and reporting requirements. We implement performance calculation and reporting solutions. We offer guidance and advice to our clients on GIPS standards, build GIPS compliant performance presentation & reporting, assist clients maintain on-going GIPS compliance by helping them understand and implement upcoming GIPS changes.

For a complete list of our solution capabilities please visit us at our website www.forwardthinkgroup.com or contact us at sales@forwardthinkgroup.com