PERFORMANCE MEASUREMENT AND EVALUATION

Achieving and Maintaining AIMR-PPS® (GIPS®) Compliance

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Becoming compliant with Global Investment Performance Standards can be a challenge for any firm. Although significant efforts are necessary to achieve compliance, the results can more than compensate for the anxiety caused by the process. Benefits of compliance include a marketing advantage and improved integrity of performance data.

This article is a case study of one firm that embarked on a 15-month odyssey to gain compliance with the Association for Investment Management and Research's Performance Presentation Standards. Since that time, the names have been changed to CFA Institute and Global Investment Performance Standards (GIPS®), but the study is relevant in describing the process, offering hints for its completion, and suggesting the perceived benefits.

Firms must translate the desire to become compliant with GIPS into significant employee work efforts. The message that each employee will contribute to the project must come from the top. A champion who accepts responsibility for timely completion of the project must be selected. Education sessions should be designed and conducted early in the process for portfolio managers as well as for marketing, legal, and compliance teams. Other early efforts include defining the firm, including the markets in which it operates and the lines of business in which it engages. This process can become complicated

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for multinational firms with several product lines. The next step involves the determination of all composites that will be used by the firm. Each composite will need examination by regulators or those engaged to verify the process. Although the marketing team may see the need for more composites with finer distinctions, it is helpful to recall that each selected composite will generate an ongoing cost in terms of account assignment and other verifications.

It is necessary to define such criteria as discretionary accounts, rules for adding new accounts to composites, minimum account sizes, and cash flow rules. Rules must also be determined for excluding accounts from a composite. Examples of exclusions might include accounts with client discretion or managers who are prohibited from taking losses. Time spent in refining the exclusions and assigning accounts can have a payback during sessions with regulators or private verifiers. A final element of the compliance process is the development of a policies and procedures manual.

Firms will find composite software available from several vendors, and consultants are readily available to firms that do not wish to complete the process without assistance. In fact, it may be worthwhile to obtain a consultant early in the process rather than find out too late that a more logical and consistent compliance process could have been developed.

Checklists should be developed to guide the firm toward compliance as well as to monitor continued compliance. The author includes a monthly checklist that can be adapted to firms seeking compliance. Work efforts are not complete when compliance has been obtained. Portfolio managers should plan to review account codes semiannually, and monthly runs must be conducted to discover and correct errors.

Payoffs to firms that become compliant include a significant marketing advantage that can be evident when attracting retail accounts as well as when submitting proposals for institutional accounts. Just as important, although not always as visible, is the improvement in internal controls that accompanies compliance and instills confidence.

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