

STANDARDS

COMPLIANCE

REGULATIONS

POLICIES

GIPS® 2020

TO COMPLY OR NOT?- THAT IS THE QUESTION



By Chris Lourens, Director, Solve Business Consulting

By now I believe most Asset Management firms know what GIPS® is. The 2020 Global Investment Performance Standards (GIPS®), developed by the CFA Institute was a significant revision of the original standards published in 1999 and revised in 2010.

Considered to be industry best practice for investment performance reporting and presentation, GIPS® has slowly been adopted by most large asset management firms around the world.

Many small Asset Managers must be thinking: *“Why does a small Asset Manager even need to be compliant? We are niche and our marketing does not rely on GIPS®? It is not a regulatory requirement, and we have many other important things to consider before we look at GIPS®.”*

Why should all Asset Managers consider it?

I want to touch on a few of the advantages I have seen managers achieve when implementing GIPS®.

-It gives management the assurance that their performance process is based on an industry-accepted standard.

-It gives the performance team guidelines to ensure their processes and methodologies are aligned with the rest of the market.

-It acts as an early warning for portfolios going out of sync versus similar mandates, as well as identifying potential issues with the implementation of the investment process.

-It can identify issues/errors in the investment administration process.

-If implemented appropriately, it can also add value to management information.

-Compliance with the Standards can get one over an extra hurdle when pitching for new business.

Why not just comply then?

There are several factors that complicate it for a small asset manager to comply. The two main factors are cost and skills.

COMPLIANCE



Cost can be subdivided into three main elements:



a. System – All performance data and composite information need to be stored. Many vendors that supply performance systems have included a GIPS® management tool in their solution. Many of these systems are very advanced and can simplify the compliance process when set up correctly. Unfortunately, this typically comes at a considerable cost which the smaller investment managers cannot afford.

b. Implementation of the system and GIPS®. In many instances, a specialist knows what is required and can facilitate/implement much more efficiently than a company that starts from scratch. The expertise of experienced consultants can come at a considerable fee, and complex implementations can increase the implementation cost even further.

The cost to implement GIPS® using internal staff is more challenging to price. If you take the extended period it can take to complete an implementation internally and the number of staff who need to get involved, the cost might even be higher doing it internally. An incorrect GIPS compliance implementation is an additional risk. This can lead to increased verification costs. The opportunity cost of not being compliant and losing a new client could be much more than the implementation cost of a well-run project.

c. Verification is not mandatory, but many of the managers going through the trouble of getting compliant also get verified. In many instances, this can be as expensive as the implementation.

Does the skills factor mean smaller firms do not have the skills?

No, not at all. Many smaller asset managers do not have the luxury of a performance team who can take on these tasks. Performance is generally handled by one person or, in other cases, outsourced. Business-as-usual is always a priority, which means that an undertaking like creating a policy document can take anything from 6 months to a year to complete. This is in contrast with an expert potentially doing it in a week. Other people in the company might have the skills, but they could be more focused on their business-as-usual deliverables when compared to GIPS®.

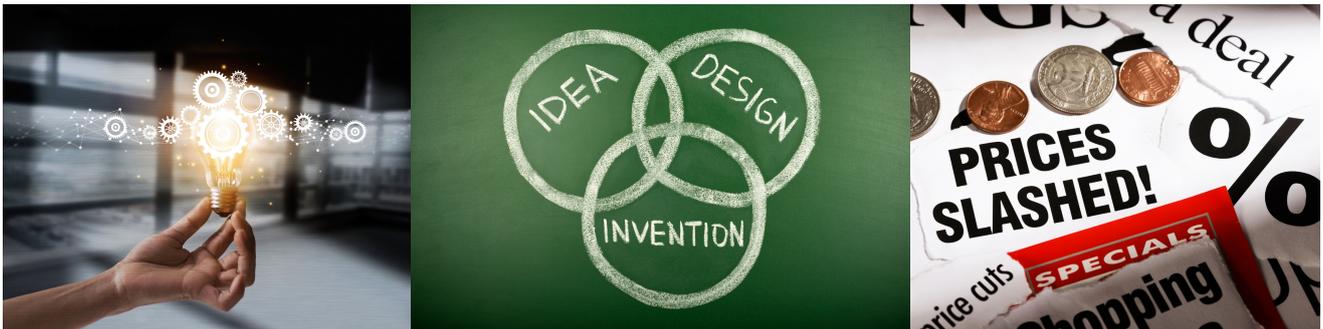
These days performance is under scrutiny by a variety of parties. The question must then be asked if achieving compliance with a globally recognised standard will not be a worthwhile undertaking? It would certainly add some degree of credibility to what is being reported.

Even Asset Owners worldwide are starting to comply with GIPS. For asset owners, the implementation of GIPS® does not relate to marketing and sales, but it shows that they want to ensure that their performance processes comply with industry standards.

Suppose a specialised company can address the challenges above and reduce the time and cost constraints. In that case, there should be no reason for an asset manager of any size or asset owner not to be GIPS compliant.

We estimate the average cost of becoming GIPS compliant to be just shy of R1m for a small asset manager. This includes the system, the implementation, and the verification.

We have identified this as a major stumbling block for small asset managers and even medium-sized asset managers. We have put nearly 60 years of asset management experience together to develop a more efficient solution.



Chris Lourens is a GIPS SME, who is ideally positioned to assist firms with addressing the challenges discussed in this article and achieving GIPS compliance in a timely and cost-efficient manner. Contact me to understand how we can assist you to achieve this competitive advantage for your firm.



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