

Top 10 GIPS Standards Principles

1. Compliance must be met on a firmwide basis.
Context: Intermediaries may end up misrepresenting the source of/ organization where (investment) decision-making is taking place.
2. Performance must be based on actual assets managed by the firm.
Context: Asset management firms must clearly state the performance against fee-paying assets. If this clarity is not there, asset managers may also end up with other assets, for example, assets that are not really being managed at the data of the presentation.
3. Performance must be based on discretionary assets managed by the firm.
Context: Asset managers may end up showing advisory-only assets as managed assets
4. Performance must be calculated using specific methodologies and input data.
Context: The principle seeks to highlight how methodologies and data could create problems. For example, IRR is appropriate where cashflows are large and frequent.
5. Composite performance must reflect performance of all portfolios managed in that strategy.
Context: Strategies also called “composites” should not cherry-pick portfolios.
6. All prospects must receive specific performance information with accompanying disclosures (a GIPS Report) for the products for which they have expressed interest.
Context: Important that all clients and prospects get a similar format presentation at designated frequency.
7. Benchmark returns must be provided along with the firm’s performance.
Context: Without benchmarks, returns convey very little information. Also, it is important to understand how benchmarks are chosen.
8. A firm must maintain records to support all information included in GIPS Reports.
Context: Maintaining records and procedures is often overlooked and this can be a key source of errors
9. A firm must comply with all laws and regulations regarding the calculation and presentation of performance.
10. A firm must not present performance that is false or misleading.
Context: Firms must make every effort to not misrepresent performance

Comments on Consultation Paper on 'Performance Validation Agency'

Name of the person/entity proposing comments	Indian Association of Investment Professionals (CFA Society India)
Category (Listed Entity / MII / Market Intermediary / Professional / Investor / Academician /	Association of Investment Professionals
Email id	advocacy@iaipirc.org
Contact no.	91 99021 17087 (Ravi Gautham, CFA)

Para no. in Consultation Paper	Comments sought on -	Comments with Rationale
3	Need for Performance Validation Agency	
3.1	Proposal to facilitate registered intermediaries to disclose their performance to investors.	
3.2	Proposal to create an independent body called Performance Validation Agency ('PVA') to validate the claims/ performance related to investment advice, 'buy/sell/hold' recommendation, mutual fund scheme, portfolio management service, algorithm, etc by SEBI registered intermediaries/ other entities such as IA, RA, portfolio manager, AMC, stock brokers, etc.	<p>We appreciate SEBI's effort to bring in more transparency in the performance related claims published by SEBI-registered entities.</p> <p>However, we believe that issues with claims and performance-related matters vary widely across various entities and a single entity may not be able to cater to them. We have some rationale as described below.</p> <ol style="list-style-type: none"> 1.In case of MFs/AMCs the methodology and standards of performance calculation and advertisements has been clearly laid out by SEBI over the years. The performance calculation (NAV) is also being done by an external agency independently. Considering this, we believe that the issues here are much lesser and we may not need an external validator to verify the performance claims. 2.In case of Portfolio managers (PMS), the performance calculation methodology is clearly defined by regulation but the challenge is the presentation of the performance in some cases. Also, in a very small number of cases the fund accounting are being done in house, which may have led to some issues. However, we believe that this can largely be resolved by increasing the scope of the audit to verify the calculation done by Portfolio managers. 3.In case of IAs, Ras, we believe there is a need for verification or validation of claims of their investment advice, as they are currently not allowed to showcase the performance of their advice or buy/sell calls. But, we believe for this to happen, first we may need to clearly define the performance calculation and presentation methodology through regulation. Only post that, we can have an external agency or validator verifying the veracity of claims. 4.In case of Algo trading strategies by stock brokers, we believe the problem magnifies, as we may require special capability. Further, we may need regulations to clearly define how the performance (both returns and risk) needs to be calculated. <p>Therefore, we believe that there are gaps in performance measurement, uniform presentation and advertisements, but a validating agency may not be able to fill all the gaps.</p> <p>We are currently not clear, as to what would be the gap being filled by a validating agency, in the case of various type of registered entities. We would request SEBI to provide more clarity on the objective of establishing such an agency, post that we would be able to further have a meaningful discussion on this again.</p> <p>We also take this opportunity to highlight that a large part of the problem is not with the calculation of performance (if the formulae are well published) but it is very much to do with how performance is presented. So maybe SEBI can focus on that.</p> <p>Further, we also would like to submit that pre-validation of performance data may be very difficult to implement, considering the performance</p>
4	Criteria for grant of recognition	
4.2	PVA to be a wholly-owned subsidiary of MII or a jointly supported entity by multiple MIIs whose purpose would be to enable intermediaries/ other entities to market their products based on validations made by the PVA.	<p>We believe that the approach of only allowing a wholly-owned subsidiary of MII or a jointly supported entity by multiple MIIs may need to be rethought.</p> <p>We believe that assigning this task to only 1-2 entities may result in some drawbacks. We believe that having multiple agencies acting as PVA may be a better way forward for certain reasons.</p> <p>It may be better for SEBI to have a conceptual framework to let the license be open for multiple agencies who are not necessarily mandated to be funded by MIIs. The licensing requirements could be set in advance and reviewed at designated intervals.</p> <p>Firstly, we believe that multiple PVA agencies may help to cover more entities as the data involved is humongous and may be impractical for a 1-2 entities to handle such data.</p> <p>Secondly, as referred to earlier, we also would like to submit that globally we have examples of the Global Investment Performance standards</p>
4.3	Recognition of PVA shall be based on the eligibility of the parent entity.	
5	Setting up of requisite systems	

5.1	PVA shall be required to put in place systems/ processes for maintaining data, grievance redressal and sharing of information with SEBI.	We agree with this, there needs to be clear eligibility requirement for PVAs, which involves these aspects. However, currently we have some concerns regarding the objective of establishing a PVA, which we have voiced above.
5.2	PVA shall also be required to have necessary infrastructure such as adequate office space, equipment and human resource to effectively	We agree with this, there needs to be a clear eligibility requirement for PVAs, which involves these aspects. This is important to have these requirements clearly laid out, so that the verification agencies have the requisite capability and infrastructure to meet the requirements.
6	Role and responsibility of PVA	
6.1	Performance claims shall be validated by PVA based on specified parameters such as returns, risk, volatility and other suitable parameters as may be decided by industry forum in consultation with PVA and SEBI. PVA shall be responsible to maintain confidentiality of the information received by it during this process.	We would request SEBI to provide further clarity on the objective and role of PVAs, and we have voiced our concerns regarding that above. We agree that risk and return both should be part of the performance reporting. Currently, the performance reporting and focus is heavily skewed towards returns, we need to bring in risk parameters also. Further, we agree with SEBI that there is a need for SEBI to establish a committee with market participants, which can lay down the performance measurement principles. We believe that the principles laid out in GIPS may be a great starting point to lay down these principles.
6.2	PVA may partner with other knowledge partners such as Credit Rating	
6.3	SEBI registered intermediaries/ other entities will be enabled to seek the services of PVA for validating all their security/ portfolio recommendations or claims.	Currently, we have some concerns regarding the objective of establishing a PVA, which we have voiced above. Further, we believe that implementing PVA for all the registered entities at one go may be a tall ask and may not be practical. We would suggest considering the humongous data analysis and validation involved, SEBI may look to take a step-wise approach and first implement it for one or few of the registered entities. Further, we have clarity on the objective, we would suggest that PVAs be assigned by SEBI and not selected by the entities who need their
7	Charging of fees by PVA	
7.1	PVA shall be permitted to charge a reasonable fee for its services.	Agreed.
8	Types of claims permitted to be validated by PVA	
8.1.1	Claim of 'Actual profit' made by clients.	We believe that client specific claims should not be verified and even allowed to be published and marketed. The performance should be calculated at a group level, there may be criterias to bifurcate client groups, but the verification should be as a group, not at individual level.
8.1.2	Performance claim of SEBI registered intermediaries/ other entities and algorithms.	We would request SEBI to provide further clarity on the objective and role of PVAs, and we have voided our concerns regarding that above. But, if we believe that the objective of this paper, is that, any performance published and marketed publicly should be validated. We suggest that SEBI can look to make sure that risk involved also becomes part of any such claims or performance published. Performance calculations and presentation could be made available on SEBI's website (with appropriate references to actual studies and the methodology i.e. GIPS).
8.1.3	Performance of recommended stock/ portfolio.	We would request SEBI to provide further clarity on the objective and role of PVAs, and we have voided our concerns regarding that above. But, if we believe that the objective of this paper, is that, any performance published and marketed publicly should be validated, we need to include the stock/portfolio recommendations also.
8.1.4	Any other performance claims.	We believe that claims by various entities vary widely in nature of complexity and may first require specific regulations on those part, before an external validator can play a role in verifying the claims. We have voiced our concerns in our comments to Point 3.2 above.
9	Display of recommendations by intermediaries and PVA	
9.1	SEBI registered intermediaries seeking performance validation for client-specific security/ portfolio recommendations shall display such recommendations and their validation by PVA on their respective websites with restricted access to the concerned clients only.	We believe that client specific claims should not be verified and even allowed to be published and marketed to investors. We believe that individual client performance can be showcased only to that client. The public performance should be calculated at a group level, there may be criterias to bifurcate client groups, but the verification should be
9.2	Where SEBI registered intermediaries seek performance validation for recommendations made publicly, such recommendations shall be displayed on the websites of the intermediaries and PVA on the same day.	We believe that same day may not be required, the entity can display the date of verification while publishing the performance. Further, we would actually propose that verification should be at a semi-annual or annual level to make it less cumbersome and more practically feasible for both registered entites and PVAs.
9.3	Where SEBI registered intermediaries seek performance validation of a recommended security/ portfolio, the performance of such recommended security/ portfolio shall be appropriately displayed on the website of the intermediary and PVA in the format as may be decided by industry forum in	We appreciate this move, a detailed discussion on principles of performance measurement may be required. We believe that a look at the global approach within GIPS can be a good reference point.
10	Public comments	

10.1.(i)	Whether SEBI registered intermediaries/ other entities should validate their claims/ performance before disclosing them to clients/ investors.	We appreciate SEBI's effort to bring in more transparency in the performance related claims published by SEBI-registered entities. We believe that there are gaps in performance measurement, uniform presentation and advertisements, but a validating agency may not be able to fill all the gaps.
10.1.(ii)	Whether there is a need to have a separate entity (PVA) to validate the claims/ performance of SEBI registered intermediaries/other entities.	We appreciate SEBI's effort to bring in more transparency in the performance related claims published by SEBI-registered entities. We believe that there are gaps in performance measurement, uniform presentation and advertisements, but a validating agency may not be able to fill all the gaps. However, we are currently not clear, as to what would be the gap being filled by a validating agency, in the case of various type of registered
10.1.(iii)	Whether PVA should be a subsidiary of MII or a jointly supported entity by	We believe this is too limiting a criteria, we have certain concerns which we have highlighted above.
10.1.(iv)	Suggestions on any other types of claims that should be validated by PVA.	