



## EAGLE ARTICLE

# DATA MANAGEMENT'S IMPACT ON GIPS®: GET IT RIGHT THE FIRST TIME AROUND

Joseph McDonagh, CFA

Eagle Performance Product Manager

Danielle Newland

Eagle Data Management Product Manager

Between 70 and 90% of investment managers worldwide currently state that they are either GIPS® (Global Investment Performance Standards) compliant or are putting processes into place to adhere to the GIPS Standards. Adopted in thirty countries, GIPS are a set of industry-accepted principles that define how investment managers should calculate and present performance with fair representation and disclosure to prospects. Although self regulated, it's not uncommon for local market regulatory bodies to frequently review an organisation's claim of GIPS compliance and supporting processes as part of an audit.

Like any industry-wide regulation, GIPS have been implemented in stages, with the last changes introduced in 2005. The most recent requirements, referred to as GIPS 2010, are to take effect in January 2011. However, the ability to adhere to them will likely depend on the effectiveness of an organisation's data management practices and solutions. The deadline for a portion of the 2005 GIPS changes was extended because organisations could not manage their data to meet the standard. Five years later, these requirements are back for GIPS 2010, and many organisations may still struggle with getting the data right to support their performance measurement needs. Further, a key portion of GIPS 2010 focuses on guidelines for handling error correction and the necessary steps for restating performance data. Clearly much thought has gone into dealing with bad data and how it impacts the performance process. Ironically, the industry is still lacking solid processes for getting the data right the first time around.

For many organisations, the most challenging aspect of the GIPS 2005 requirements is the ability to produce daily valuations. These valuations are required to mitigate potential distortion of the return calculation. Daily valuations require pricing all portfolio assets, and while this is fairly straightforward for a portfolio of large cap stocks, it is problematic for a portfolio of derivatives and alternative investments. In the language of FASB 157, the lack of market quotes for level 2 and 3 tiered holdings presents significant valuation challenges. Industry concerns from global markets around portfolio management system deficiencies, market data costs, and manual oversight risks delayed this requirement until 2010.

Another aspect of providing daily valuations is the need to reflect activity from a prior day. It is not unusual for corporate action notifications to be received late and processed on the date of notification, which thereby impacts the portfolio valuation for that day. A more accurate and frequently used performance valuation approach processes the corporate action as of its effective date and adjusts valuations from the effective date forward to the processing date. The data implications to support adjusted daily valuations require a universe of historical security reference data points, including historical daily versions of prices, fair value estimates and classifications. It becomes further complicated if the organisation needs to manage multiple sources for each data point. In this case, the universe becomes multidimensional, and only organisations with a solid data management infrastructure will be able to effectively accomplish this.

GIPS requires a clear and consistent definition for underlying funds in the product composites used for performance presentations. These composites are typically constructed based on entity attributes such as discretionary status, tax status and strategy. Therefore, accurate entity data is critical to assigning portfolios to the appropriate product composite. This data must be maintained across time to provide an audit trail for organisations that retain an external auditor to perform a GIPS verification.

Finally, GIPS recently released an Error Correction Guidance Statement which applies to errors impacting the presentation of GIPS composite results. That said, getting the GIPS composite right is dependent on getting all the underlying accounts in the composite correct. Despite the millions of sterling that investment organisations have invested in data management, the GIPS executive committee and performance professionals are assuming that performance errors, which are primarily attributed to bad data, will continue to occur in a significant fashion across the industry. As of 2010, organisations will need to maintain a policy that details and identifies levels of error, materiality guidelines and workflows to restate, disclose and notify affected parties. Accountability and/or true understanding of corporate data governance, as it relates to the various operational activities that impact performance, are unfortunately still not in place across many organisations. However, the industry is changing and more and more organisations are realising the value of data governance and implementing practices within their businesses.

Clearly, getting it right the first time through the use of a solid data management solution will pay back in the form of lower risk and cost in claiming GIPS compliance. The ability to execute quality data processes to support performance calculation, and GIPS 2010 specifically, also contribute greatly toward effective corporate data governance, which cannot get enough focus as we prepare for additional industry regulation and reporting requirements.

## EAGLE INVESTMENT SYSTEMS

Eagle Investment Systems LLC is a global provider of financial services technology, serving the world's leading financial institutions. Eagle is committed to providing enterprise-wide, leading-edge technology and professional services for data management, investment accounting and performance measurement. Eagle's Web-based solutions support the complex requirements of firms of any size including institutional investment managers, mutual funds, hedge funds, brokers, public funds, plan sponsors and insurance companies. Eagle's products are offered as an installed application or can be hosted via Eagle ACCESS<sup>SM</sup>, Eagle's application service provider. By deploying Eagle's world-class solutions over the internet, Eagle ACCESS can help firms minimize the risk and expense associated with maintaining hardware and software internally. Eagle Investment Systems LLC is a subsidiary of The Bank of New York Mellon Corporation.

[www.eagleinvsys.com](http://www.eagleinvsys.com) | [sales@eagleinvsys.com](mailto:sales@eagleinvsys.com)

Copyright © 2009 Eagle Investment Systems LLC. All rights reserved.

Reprinted in *Inside Reference Data* - February 2009