



## 10<sup>th</sup> Annual GIPS Conference Highlights

On September 27-28, 2006, the Tenth Annual GIPS® Standards Conference, sponsored by CFA Institute, was held in Toronto. Over 300 people from the U.S., Canada, Europe, and Africa attended. As there has been virtually no new GIPS guidance in the past year, the focus of the conference was on clarifications and interpretations of existing guidance. The volume of audience-submitted questions led to extensive panel question and answer sessions. We have included several noteworthy questions here:

### Are the AIMR-PPS standards dead?

No, but they are taking their last few breaths. A firm may continue to claim compliance with the AIMR-PPS standards until compliant presentations are updated to include results for periods after 12/31/05.

### What happened to the AIMR-PPS Implementation Committee?

The new name of this committee is the North American Investment Performance Committee (NAIPC). This committee is alive and well under the new GIPS governance structure.

### Must a GIPS-compliant firm follow the GIPS Advertising Guidelines?

No. A GIPS-compliant firm is not required to claim compliance in the advertisement. However, if a GIPS-compliant firm wishes to claim compliance in an advertisement, the ad must follow the GIPS Advertising Guidelines and include certain required disclosures.

### GIPS Provision 0.A.6. requires a firm to document, in writing, policies and procedures for complying with the GIPS standards. How detailed must our policy manual be?

The Standards do not dictate exactly what information must be included in the policy manual. However, each requirement of the Standards must be addressed. If your policy manual is less than two pages long, we'd suggest rethinking whether you've met the requirement. A robust GIPS policy manual mitigates a firm's risk of non-compliance.

### GIPS Provision 4.A.19. requires a firm to disclose all significant events. What is a significant event?

Significant events are defined by the firm and

might include the departure of the firm's star portfolio manager or the purchase of the firm by another company. Each firm must determine for itself what events might be considered significant. When in doubt about whether something should be disclosed, you should always err on the side of disclosing, versus not.

### My firm owns its office building, and we include its value in firm assets. Do the Standards support this?

No. GIPS standard 0.A.3 addresses the calculation of firm assets. Only assets that the firm controls and to which the Standards can be applied are included in firm assets. Pieces of art or a firm's private airplane would also be excluded from firm assets.

### GIPS Provision 4.A.20. requires a firm to disclose the composite description. How detailed must the composite description be?

A composite description is general information about the strategy of the composite, e.g., the Core Equity Composite includes all institutional accounts benchmarked to the S&P 500 Index. In most instances one or two sentences should suffice.

### The Standards state that no "negative assurance" language is needed for non-applicable disclosures. What does this mean?

This language was added to clarify that a firm is not required to disclose if something is not applicable. For example, if a composite does not have a minimum size for inclusion a firm is not required to include a disclosure that the composite has no minimum size for inclusion. This clarification should help firms decrease the length of their disclosures.

### GIPS Provision 4.A.17. requires a firm to disclose that additional information regarding policies for calculating and reporting returns is available upon request. What kind of document should we prepare to meet this new requirement?

A firm could choose to provide the full GIPS Policy Manual, as information for calculating and reporting returns should be included. Alternatively, a firm might create a separate

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document that would be better suited for delivery to a prospective client.

### **GIPS Provision 0.A.11. requires a firm to make every reasonable attempt to provide a compliant presentation to all prospective clients. How might a wrap/SMA manager accomplish this?**

For a wrap manager in an existing sponsor program, the prospective client is the end user retail client. However, the wrap manager typically has no access to these clients. The wrap manager should ask the sponsor to provide the compliant presentation to the end client. If this is not possible, the wrap manager might consider sending the compliant presentation in the new client welcoming package along with Form ADV.

*“GIPS Provision 0.A.11. requires a firm to make every reasonable attempt to provide a compliant presentation to all prospective clients.”*

### **The public comment period for guidance statements on performance examinations, recordkeeping, and error correction ended a long time ago. What is the status of these documents?**

Under the new GIPS governance structure, the Interpretations Subcommittee has been formed and is already working hard on getting these documents finalized and issued. The Performance Examination Guidance Statement should be issued shortly.

### **My firm is able to document and support returns from 9 of our 10 wrap sponsors representing 99% of our total wrap accounts. One sponsor will not provide us any account-level information, and that is the only item keeping us from claiming GIPS compliance. Can we use an average of the other sponsors' returns as a proxy for the troublesome sponsor's returns and claim compliance?**

Unfortunately, no. A GIPS-compliant firm must be able to support all account-level returns and composite-level returns. Judging from the audience and panel-member responses, this was an issue affecting numerous conference participants. The Wrap Fee Guidance Statement suggests determining whether reliance can be placed on the records that are provided, and acknowledges that the level of detail available for each sponsor may not be ideal.

### **When calculating net returns, should we use model fees or actual fees?**

The Standards allow either option. In practice, large firms tend to use model fees while smaller firms are more likely to use

actual fees. Often the choice revolves around the number of accounts at a particular firm and the ease of integrating the billing information with the performance system.

### **We hired a verifier to help us attain compliance with the GIPS standards. Can the same firm subsequently do the GIPS verification?**

As long as the verifier has not stepped into management's role during the provision of consulting services, the same firm may subsequently conduct a verification. The Guidance Statement on Verifier Independence describes issues that must be considered when determining if the verifier is independent. The key concept is that a verifier cannot test their own work. For example, a verifier cannot perform a verification for a firm if the verifier created and calculated the firm's composites.

### **We manage private equity assets. We prepared composite presentations following the sample in the GIPS Handbook but a prospective client just told us we are falsely claiming compliance because we are missing a disclosure. What are we missing?**

The sample private equity compliant presentation improperly excludes a required disclosure for the fee schedule. GIPS Provision 4.A.12. requires disclosure of the fee schedule appropriate to the presentation. The error has been noted and will be included in the GIPS Corrections Summary which is available at <http://www.cfainstitute.org/centre/ips/gips/>. A Q&A addressing this issue will also be posted to the GIPS Q&A database shortly at <http://www.cfainstitute.org/programs/standards/gips/faqs/>.

### **We have a question that is not addressed in the Standards. What should we do?**

Don't panic. The Standards will never be able to address every potential situation. You should first consider whether there are similar situations addressed in the Standards that can provide some guidance. Also, always remember the underlying principles of the Standards: full disclosure and fair representation. If you've reviewed all the GIPS guidance, including interpretations and guidance statements and still are stuck, there's always the GIPS Help Desk! But don't expect them to fill the role of a consultant or a verifier. You should expect to receive general information and not guidance specific to your firm.

## Preparing for Verification

At the Toronto conference Rob Stype of Adviser Compliance Associates spoke about key SEC compliance issues, including how best to interact with SEC examiners when they show up at your door. Rob's presentation caused us to reflect on the similarities between preparing for an SEC exam and preparing for a verification. We recommend performing the following procedures when you prepare for a verification. Doing so could help you save time, effort, and money.

**Focus on your GIPS policies and procedures.** Ensure your policies are adequately documented and address all applicable requirements of the GIPS standards. Also ensure you have actually followed your policies. For example, if your policy is to include new accounts in a composite after the first full month under management, ensure that is how you have handled all new accounts. You must be able to justify and support any instances where you did not follow your established policy.

**Ensure you fully understand how account-level and composite-level returns are calculated.** Do you know whether cash flows are calculated using the beginning or end of day assumption, or what triggers repricing of a portfolio? Can you recreate the monthly aggregate composite calculation? Ensure such details are understood and are fully documented in your GIPS Policy Manual.

**Ensure supporting records are available for all periods.** For a sample of accounts, test to ensure the records stored offsite are easily accessible and include the supporting records you will need to provide. Pay particular attention to the availability of records for terminated accounts.

**Ensure compliant presentations are available, or able to be created, for all composites.** Many firms have no trouble providing a compliant presentation for the marketed composites; it's the non-marketed and closed composites that can be troublesome. While you don't have to prepare

presentations for all composites in advance of the verification, you will certainly be asked for a sample across all composites.

**Ensure client contract files support composite assignment.** Review client files to ensure they support each account's discretionary and fee paying status, as well as composite assignment. If client contracts, particularly older contracts, do not identify a particularly strategy, determine how you will be able to prove that a client from 1973 whose contract is silent on strategy should be included in the SMID Cap Composite versus the Mid Cap Composite.

**Ensure you have adequate support for why accounts are excluded from composites.** You must be able to support why accounts are identified as non-discretionary for GIPS purposes. We can't overstate the importance of the need to have a clear definition of discretion for each composite.

**Reconcile AUM to composite assets.** This reconciliation will need to take into account any assets that are excluded from composites as of the reconciliation date as well as any double counting of assets. This reconciliation should prove that you have identified all accounts within the firm that comprise total firm assets and must be considered for inclusion in composites.

**Review the materials requested by the verifier before passing them on.** If the verifier requests support for an account's removal from a composite, ensure the client's termination letter supports the timing of the removal.

**Organize the requested materials.** Greatest efficiency is achieved when the client files and other requested documents are ready and numbered per the verifier's request when the verifier arrives to perform their on-site testing. As verifications are normally priced based on estimated time that will be incurred, you don't want to have your verifier incur unnecessary time sorting through boxes and stacks of documents.

*"Ensure you fully understand how account-level and composite-level returns are calculated."*

## Upcoming GIPS Workshop in Boston

We are co-instructing the upcoming CFA Institute GIPS workshop in Boston, at the Westin Copley Place, on December 6, 2006. This one-day interactive workshop is an introduction to the GIPS standards and is appropriate for those new to the GIPS standards or those

who wish to brush up on the details of the GIPS standards. Registration information is available on CFA Institute's website, at [http://www.cfainstitute.org/memresources/conferences/Event\\_1624/index.html](http://www.cfainstitute.org/memresources/conferences/Event_1624/index.html).

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Vincent Performance Services LLC provides consulting and verification services to firms that comply, or wish to comply, with the Global Investment Performance Standards (GIPS®). Our clients range in size from less than \$1 billion of assets under management to over \$500 billion and are located throughout the U.S.

Additional information about our services and expertise can be found at [www.vincentperformance.com](http://www.vincentperformance.com).

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## Meet Our Newest Employee

Vincent Performance continues to add employees in response to client additions.

We are thrilled that Ashley Reeves has recently joined our firm. Ashley brings a wide breadth of experience and knowledge from a career spent in performance. Ashley spent the last 4 years at Western Asset Management Company as the Supervisor of Performance. Prior to that, she spent 4 years as an Audit Senior at Deloitte & Touche, providing verification services to numerous West Coast clients. Her experience as a verifier as well as a performance manager gives her a unique ability to put the Standards into practice. Ashley is a graduate of the University of California, Santa Barbara and is based in Los Angeles.

Karyn Vincent, Crista DesRochers and Jack Keith are located in our Portland, Oregon office along with Donna Smith, our administrative assistant. Greta Nathan is based in Boston.

Additional information about our staff members is located on our website at [www.vincentperformance.com](http://www.vincentperformance.com)



Ashley Reeves