



**Minutes of the GIPS EXECUTIVE COMMITTEE  
Open Session**

---

**Date:** Wednesday 24 September 2008  
**Location:** In-Person – Boston, Massachusetts  
**Time:** 9:00 a.m. – 12:00 p.m. (Eastern Daylight Time)

---

**Members Present:** Carl R. Bacon, CIPM – Verification/Practitioner Chair  
Jonathan Boersma, CFA – GIPS Executive Director  
Louis Boulanger, CFA – Asia-Pacific RIPS Chair  
Stefan Illmer – EC Chair Elect and EMEA RIPS Chair  
Todd Juillerat, CFA – Americas RIPS Chair  
Carol Kennedy – Investor/Consultant Chair  
Sunette Mulder – EC Chair and Investment Manager Chair  
Neil E. Riddles, CFA, CIPM – GIPS Council Chair  
Karyn Vincent, CFA, CIPM – Interpretations Chair

**Observers:** Jennifer Allison, CFA, CIPM – Osterweis Capital Management  
Kenneth Dawson – Investors Choice Financial Management, Ltd.  
Garvin Deokiesingh, CFA – Deloitte & Touche, LLP  
Barry Finkle, CIPM – Columbia Management Advisors, LLC  
Kevin Goodman – U.S. Securities and Exchange Commission  
Pamela Grossetti – K&L Gates, LLP  
Justin Guthrie, CFA – ACA Compliance Group  
Sandra Hahn-Colbert, CFA – O’Shaughnessy Asset Management  
Annie Lo, CFA, CIPM – Charles Schwab Investment Management  
J. Michael Lowry – Investors Choice Financial Management, Ltd.  
Larry Israel – The Boston Company Asset Management, LLC  
Laura Jirele-Borleske, CIPM – Barrow, Hanley, Mewhinney & Strauss  
Yoh Kuwabara – Ernst & Young ShinNihon  
Valerie Lamanna – Goldman Sachs Asset Management  
Douglas Lempereur, CFA, CIPM – Franklin Templeton Investments  
Iain McAra – JP Morgan Asset Management  
John Minahan, CFA – NEPC, LLC  
Naoto Nose – Ernst & Young ShinNihon  
Jessica Parker, CIPM – Ashland Partners & Company, LLP  
Ann Putallaz, CIPM – Munder Capital Management  
Timothy Simons, CFA, CIPM – Ashland Partners & Company, LLP  
John Simpson, CIPM – The Spaulding Group  
Arin Stancil, CFA, CIPM – Ashland Partners & Company, LLP  
Leisa Western – Absolute Performance Verification  
Wesley Western – Absolute Performance Verification  
Mark van Eijk – PricewaterhouseCoopers

**CFA Institute:** Fannie Fang, CFA, CIPM – Investment Performance Specialist  
Polly Johnson – Administrative Assistant  
Beth Kaiser, CFA – Investment Performance Specialist  
Cindy Kent – GIPS Development Specialist  
Ken Robinson, CFA, CIPM – Investment Performance Specialist

---

#### **Action Items**

- CFA Institute staff will send an e-mail to Country Sponsors to provide an update on the status of the Country Sponsor Performance Evaluation Process.
- The Verification/Practitioner Subcommittee will review Supplemental Information Guidance Statement for input on supplemental items that can/should be verified.
- The Investor/Consultant Subcommittee will also review Prospective Client Q&As and provide the Investment Manager Subcommittee with their feedback.
- The Verification /Practitioner Subcommittee will work with the Investment Manager Subcommittee and RIPS to obtain their views on verifier independence.
- The Promotion & Awareness Subcommittee will prepare materials to highlight changes to the revised GIPS standards.
- The EC will be share feedback with the Country Sponsors on their review the of the governance structure at the in-person meeting in March 2009.
- The issue of enforcement will be added to the agendas of the next RIPS and GIPS Council in-person meetings.

#### **Decision Points**

- The EC decided to incorporate several revisions into the Country Sponsor Performance Evaluation Process documents and will further review and approve at the March 2009 in-person meeting. (9 Votes)
  - The EC elected Stefan Illmer as the next EC Chair effective 1 September 2009.
- 

Ms. Mulder opened the meeting welcoming the two new members of the GIPS Executive Committee, Neil Riddles, CFA, CIPM, GIPS Council Chair, and Carl Bacon, CIPM, Verification/Practitioner Subcommittee Chair. She also welcomed all of the observers who were in attendance at the meeting.

#### **1. Approve Country Sponsor Performance Evaluation Process**

The EC briefly reviewed the Country Sponsor Performance Evaluation Process documents that were initially presented at the June 2008 Open Conference Call. It was mentioned that a few Country Sponsors have provided comments on the documents to date. It was proposed and agreed that the EC should independently conduct the evaluation of the United States Country Sponsor (CFA Institute) and the GIPS Executive Director would recuse himself.

The EC decided that once revisions have been incorporated into the documents to schedule approval of the Country Sponsor Performance Evaluation Process for the March 2009 in-person meeting. (9 Votes)

An e-mail will be sent to all Country Sponsors to provide them with an update on the status of the Country Sponsor Performance Evaluation Process.

## 2. Interpretations Subcommittee

### GIPS 2010 Review Update

- The Investment Manager Subcommittee is reviewing the current Supplemental Information Guidance Statement for any needed changes. A possible concept was presented to the EC on Supplemental Information being supplemental to a firm (e.g., a firm without a specific strategy in place and would like to run a model portfolio as supplemental).

EC stated that Supplemental Information is supplemental to an existing composite but not to a firm. It was suggested that maybe a new category could be developed or positioned in a different way. It was also suggested that the Verification/Practitioner Subcommittee should review Supplemental Information for any verification issues.

- One of the new requirements being proposed is to require disclosure of proprietary or “house” portfolios in a composite. This disclosure would be effective for any period presented after 1 January 2011 going forward and will be a percentage of the composite. Because of this proposed requirement, it was discussed that “Firm” definition may need to be changed.

Removing historic effective dates from the body of the GIPS standards is being considered and that these dates may be included an appendix.

- One of the new recommendations being proposed is to recommend that a firm update their compliant presentation more frequently (e.g., quarterly). It was discussed that firms should update the entire compliant presentations and not just the returns or firm assets.
- The Investment Manager Subcommittee should look at Flash Reports as part of their review of Supplemental Information.
- The term “linking” will defined in the glossary as both mathematical linking and presentational linking (e.g., presenting items next to each other) and a Q&A will be created to further clarify the term.
- It was been decided that requirements regarding Carve-Outs will continue as currently written. After 1 January 2010 Carve-Outs with allocated cash will no longer be allowed and Carve-Outs must be managed separately. Some of the changes that were considered but not chosen included:
  - not permitting Carve-Outs to be combined with stand-alone portfolios and to require them in separate composites;
  - allowing cash allocations if the Carve-Outs are in a separate composites and not combined with other stand alone portfolios;
  - allowing Carve-Outs with cash allocations; and
  - considering Carve-Outs without cash to be considered fully invested and included in fully invested composites.

### Alternative Investment Strategies Working Group Update

The Alternative Investment Strategies Working Group believes that the GIPS standards can currently be applied to Hedge Funds and other alternative investments and that no new provision is necessary. However, it believes that additional guidance is needed. A Guidance Statement is currently being drafted and it is anticipated that it will go out for public comment early next year. It was mentioned that the working group is focusing on issues related to composite construction and how to calculate net returns for alternative investments. It was also mentioned that this guidance will be applicable to all types of investment vehicles.

### 3. Investment Manager Subcommittee

#### Risk Working Group Update

The Risk Working Group has identified potential risk measures for the GIPS 2010 Exposure Draft. New provisions being proposed include:

- A requirement that firms must disclose the composite description which must include enough information to allow prospective client to understand all the key characteristics including risks of the composite strategy.
- A requirement being proposed is that firms must disclose annualized ex-post standard deviation for a 3 year period for the composite and for the benchmark.
- A recommendation that firms present additional relevant composite level risk measures. The EC discussed the issue of whether standard deviation may or may not be appropriate and allowing firms to provide what they consider to be a more applicable risk measure. The EC also discussed if the standard deviation should be based on 3 years or 5 years of returns. It was mentioned that the Risk Working Group is currently working to produce a Guidance Statement for the new requirements and recommendations as well as Q&As.

#### Prospective Client Paper Update

The Investment Manager Subcommittee has prepared Q&As defining “prospective client”. This project resulted from questions regarding a firms’ obligation to provide a compliant presentation to prospective clients. The four main areas determined to identify prospective clients are:

- Initial Qualification of Prospective Client;
- Identification of Prospective Client from Existing Client Base;
- Marketing of a New Discipline to an Existing Client; and
- Presentation of Compliant Presentation in General Materials.

The EC discussed exploring other possible examples such as retail clients, mutual funds, etc. It was also suggested that the Investor/Consultant Subcommittee should review the Prospective Client Q&As and provide their feedback to the Investment Manager Subcommittee.

### 4. Investor/Consultant Subcommittee

#### Performance Reporting for Existing Clients Document

The Client Reporting Working Group is a joint project of the Investor/Consultant and Investment Manager Subcommittees to explore the possible extension of the GIPS standards to existing clients. To date a short paper has been prepared summarizing the issues and potential benefits to existing client, including the promotion of the Standards and the ability to leverage off the existing infrastructure and consistency of reporting performance. Out of a range of possible options, it was recommended that affixing the GIPS logo or a compliance statement with a footnote to regular monitoring reports that additional information is available upon request would be a good starting point. Additionally, Q&As were drafted to clarify how the GIPS standards methodology could be referenced, as well as a guidance document outlining a framework for suggested best practices.

At a recent Client Reporting Conference in New York that a majority of the attendees were looking for guidance or standards on reporting to existing clients which may be due to recent market conditions. It was suggested that there may be a need to develop a separate set of standards for existing clients.

## 5. Nominations Committee

Each year the EC Nominations Committee is formed to make recommendation on the technical seats rotating within the EC. The 2009 Nominations Committee is currently being formed. The four seats on the Nominations Committee are: the GIPS Executive Director, the GIPS Council Chair, a CFA Institute Appointed Representative, and a GIPS Country Sponsor Elected Representative. Application forms have been forwarded to Country Sponsors to submit nominees for the GIPS Country Sponsor elected representative. The deadline to submit nominees is 30 September 2008. The next technical seat to rotate on the EC is the Investor/Consultant as of 1 September 2009.

## 6. Verification/Practitioner Subcommittee

The Verification/Practitioner Subcommittee completed review of Section III, Verification, of the GIPS standards for inclusion in the GIPS 2010 Exposure Draft. The Subcommittee is currently reviewing the issue of verifier independence.

The EC discussed verifier independence issues. It was suggested that the Verification/Practitioner Subcommittee work with the Investment Manager Subcommittee and RIPS to obtain their views on verifier independence.

## 7. Review Revised EC Strategic Plan

The EC reviewed the revised EC Strategic Plan which focuses on three main objectives:

1. Maintain GIPS as current and relevant for the investment performance industry – this is the area that captures the work of the GIPS 2010 review, creating working groups, guidance statements and, in general, content of the GIPS standards.

Significant progress has been realized in this area with the 2010 review project. In addition, the Private Equity and Real Estate Working Groups are providing specific input related to those sections with the Standards. The GIPS 2010 draft for public comment is on target and scheduled for release in January 2009. Additionally, the Alternative Strategies and Risk Working Groups have also been formed and they are making significant progress.

The public comment period for the proposed Standards will last for 6 months. The remainder of the year will be spent on reviewing and determining which comments to incorporate into the revised Standards with a goal of publishing the revised Standards in January 2010. There will be a 1 year period for firms to prepare to implement the revised Standards that will become effective as 1 January 2011. Performance results for periods after 31 December 2010 will be required to meet the revised Standards.

The GIPS 2010 Exposure Draft will be distributed with a covering document highlighting the proposed revisions. It was also mentioned that the Promotion & Awareness Subcommittee will prepare materials to further highlight changes to the revised Standards.

2. Promote and protect the GIPS brand – the milestones in this section are to build brand awareness, establish and implement a marketing strategy, and to promote the Standards in new strategic locations (i.e., new geographic markets and areas of the industry such as hedge funds, private equity, and real estate).

In this area, the GIPS website continues to be developed to include new enhancements and additional resources. Work continues with developing a program to allow firms to use the GIPS logo for firm usage. New marketing materials have been created for investors, regulators, and country sponsors.

3. Complete and evaluate the governance structure - the Country Sponsor Performance Evaluation Process is the next step in the governance structure. In South Africa in March 2007, the GIPS governing documents were approved. There was consensus that these documents would be reviewed again in the next 2 years to determine if any areas need to be revisited and to provide a general review of how the governance structure was functioning. This review will commence over the next 6 months and will be discussed more at the March in-person meetings.

#### Upcoming GIPS Executive Committee Meetings

The next GIPS EC in-person meeting is scheduled for March 2009 in Europe and additional details will be available soon.

The next GIPS EC Closed Conference Call is scheduled for Wednesday 15 October 2008.

#### **Other Business**

##### GIPS Logo Usage

A proposal is being developed to allow firms to use the GIPS logo on either a GIPS compliant presentation or advertisement that adheres to the GIPS Advertising Guidelines. This proposal should be completed and ready to present at the March EC meeting, if not before.

##### Enforcement Efforts

The South Africa Country Sponsor shared the framework they use when compliance complaints are received. The EC would like to work with the Country Sponsors to develop a framework with some corrective action or direction to address complaints of compliance. It was suggested that the issue of enforcement should be added to the agenda for the next RIPS and GIPS Council meetings.

##### Announce Incoming Chair

The EC elected Stefan Illmer as the next EC Chair effective 1 September 2009.

#### **Observer Comments:**

John Minahan, CFA – Stated that standard deviation is a very useful measure of dispersion. It is not a measure of risk. Risk is the possibility of something undesirable happening. The jargon which equates risk with standard deviation is professional shorthand which creates confusion among practitioners, and should not be encouraged. I request that any requirement to require the reporting of the standard deviation of returns not be labeled 'risk'.

Michael Lowry – Mentioned that most verification and performance examinations in Canada is done by CA firms, which is regulated. The CPA profession and CA profession have guidance on independence and verification and performance examinations and suggested it should be the basis for any further developments in this area. Mr. Lowry voiced concern that non-CA or CPA firms may water down the quality of verification and performance examinations in Canada. Mr. Boersma responded that the Verification/Practitioner Subcommittee has investigated causes for differences in verification work from one jurisdiction to another or from one verifier from another. The differences found were from professional responsibilities such as a CPA, CA, or other designations involved standards of practice that must be met. Another area causing differences was market expectations. In Europe there was the expectation that performance examinations were also included in a typical verification.

Yoh Kuwabara – Questioned if the EC recognized Carve-Outs for fully invested portfolios or zero cash portfolios. Mr. Boersma responded that it was considered and decided that if you have fully invested strategy as a stand-alone portfolio that could be in its own composite defined appropriately. What would not be allowed is a carve-out of a fully invested strategy to be included in a composite. Mr. Kuwabara believes the distinction between the fully invested/zero cash portfolio and segment of multi-asset portfolio is almost non-existent, and

requested that, if the EC intends to allow only the former, the EC should prepare a paper describing their position so that asset managers are not confused. Mr. Illmer explained that the first draft of the GIPS 2010 will come up with comments on why the EC did certain things. The EC did not make any changes in regard to fully invested carve-outs so it may not be highlighted in the guiding document. He suggested discussing the issue with his Country Sponsor, colleagues, and with his committees and encouraged comments to be submitted on the issue for the EC to consider. Mr. Illmer mentioned that it is very important that the EC receives comments on whether it is believed that the EC got everything the right way. Mr. Boersma asked if Mr. Kuwabara believes firms should be permitted to carve-out fully invested segments and include them in a separate composite. Mr. Kuwabara requested that an update of “GIPS 2010 Key Issues” should be released as soon as possible reflecting all the discussions made by the EC here this week.

Larry Israel – Stated that if supplemental information was required to be verified that the cost, the time, and the effort to support that may discourage some smaller firms from adopting the Standards even though verification is not required. Mentioned many compliance departments are requiring firms to get verified if they want to maintain their claim of compliance with the current market environment. Mr. Israel requested the EC’s opinion given the recent market events of how a firm can remain in compliance with short-sell strategies and requested a guidance statement or Q&A on how to present model performance as supplemental information. Mr. Bacon stated that the comment on requiring supplemental information to be verified is understood and will be considered. The EC has not discussed short selling. It may be too early to tell if strategies will change in the future but any change in strategy could be shown as a significant event disclosure.

Douglas Lempereur, CFA, CIPM – Suggested classifying model performance as “additional information” instead of “supplemental information”. Ms. Mulder acknowledged these comments will be taken into consideration but cautioned the need to be careful not to open opportunities for abuse. Mr. Bacon noted that the term “additional information” is already used and a new term would need to be found.

Michael Lowry – Mentioned that some clients in Canada do not want to send compliant presentations to existing clients because it may invite trouble for those clients whose returns are below the composite. Mr. Illmer responded that it is important to note that the Standards are not only for asset managers for but clients, prospective clients, and investors in general. Ms. Vincent added that providing compliant performance reports to existing clients is a proposal to be a recommendation and not a requirement and firms could chose not to follow it.

Iain McAra – Mentioned that the whole concept of 'Supplemental Information' is currently being discussed. He suggested that now may be a good opportunity to consider the concept of flash/quarterly updates (and the lack of disclosures etc. that are allowed with that type of data) as part of the Supplemental Information review and revisions. This would allow all guidance about information that is typically being provided to prospects, that is not part of the compliant presentation, to found in the Supplemental Guidance Statement.

There being no further questions, Ms. Mulder thanked all the Observers for attending the GIPS EC Open Meeting and participating in the question and answer session.

Meeting Adjourned at 12:05 p.m.