



**AGENDA**  
**Regional Investment Performance Subcommittee EMEA**

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**Date: Friday 6 November 2009**

**Location: Frankfurt, Germany**

**Time: 9:00am - 3:00pm**

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9:00

- |  |               |         |
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| 1. Welcome / Introductions / Opening Remarks                     | Stefan Illmer | 10 mins |
| o Approve minutes of last RIPS EMEA meeting<br>26 March 2009     |               |         |
| o Review action items of last RIPS EMEA meeting<br>26 March 2009 |               |         |

9:10

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| 2. German Asset Management Market | Rudolf Siebel | 20 mins |
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9:30

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| 3. Update on EC activities since 26 March 2009                      | Stefan Illmer | 10 mins |
| o Recap results from the EC conference calls and<br>EC Action Items |               |         |

9:40

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| 4. Discuss RIPS Associate Members                               | Stefan Illmer     | 20 mins |
| o Update on Targeted Organizations<br>- EVCA, INREV, NAPF, EFRP |                   |         |
| o Next Steps  |                   |         |
| o EFFAS Presentation  | Remco van Eeuwijk |         |

10:00

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| 5. Update on the RIPS EMEA working groups  | Martin Schliemann | 20 mins |
| o Regulator Relations Working Group<br>- comparison of developed/proposed client<br>reporting regulation |                   |         |
| o GIPS Applicability for Retail Investors<br>- Defining Client (retail, institutional, private, etc.)    |                   |         |

10:20			
6.	Discuss GIPS Governance Structure	Stefan Illmer	10 mins
	o Operating Policies & Procedures Documents		
10:30	- Break -		15 mins
10:45			
7.	Update from Interpretations Subcommittee	Colin Morrison	15 mins
11:00			
8.	Update from Alternative Investments and Risk Working Groups	Colin Morrison Dimitri Senik	15 mins
11:15			
9.	Update and discussion on GIPS 2010 EC's perspective	Stefan Illmer	75 mins
	o Interpretations Subcommittee's perspective	Colin Morrison	
	o Country Sponsor Discussion		
	o Next Steps		
12:30	- Working Lunch -		30 mins
1:00			
10.	Country Sponsor Update Reports on Activity	All	60 mins
2:00			
11.	Country Sponsor Enforcement Efforts	Sunette Mulder	25 mins
2:25			
12.	Other Business	Stefan Illmer	30 mins
	o EMEA RIPS Chair Rotation		
	o Update on GIPS Logo Usage by Firms		
	o Discuss Existing Client Reporting Project		
	o USIPC Paper: Theoretical Suggested Practices		
2:55			
13.	Future meeting dates	Stefan Illmer	5 mins
	o 2010 RIPS EMEA in-person meeting 18-19 March in Lisbon, Portugal		
3:00			
	<b>Adjourn</b>		



**MINUTES**  
**EMEA RIPS**  
**Thursday 26 March 2009**  
**Dublin, Ireland**

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**DATE:** Thursday 26 March 2009

**TIME:** 1:00 p.m. – 5:00 p.m.

**CHAIR:** Stefan Illmer

**COUNTRY SPONSOR**

**ATTENDEES:**

Joao Cantiga Esteves - Portugal  
Joachim Hein - EFAMA  
Catherine Jasserand - France  
Christophe Javaux - Belgium  
Susanne Klemm - Switzerland  
Jørn Gunnar Kleven - Norway  
Wolfgang Mayer - Austria  
Colin Morrison - United Kingdom  
Sunette Mulder - South Africa

Joe O'Donnell - Ireland  
Yücel Özyaka - Liechtenstein  
Dias Sarsenov - Kazakhstan  
Martin Schliemann - Germany  
Mark van Eijk - Netherlands  
Peter Varga – Hungary\*  
Madeleine L. Woodward - Sweden  
Liudmyla Zhurakhovska - Ukraine

**COUNTRY SPONSOR**

**ATTENDEES ABSENT:**

Dmitrij Alexandrov - Russia  
Peter Luntang Christensen - Denmark

Monica Gordillo, CIPM - Spain  
Alessandro Rota - Italy

**OBSERVERS:**

Jonathan Boersma, CFA – GIPS EC  
Gordon Doyle - Ireland  
Voula Fasoulioti - Greece  
David Gould - United Kingdom  
Leslie Harvey - South Africa  
Joseph Kavanagh, CFA - Ireland  
Carol Kennedy - GIPS EC  
Peter König - Germany

Joyce Martindale - United Kingdom  
Eric Pagniez - France  
Hans Pieper - Germany  
Neil Riddles, CFA, CIPM - GIPS EC\*  
Barry Traynor - Ireland  
Remco van Eeuwijk, CFA - EFFAS  
Veronique Wegnez - Belgium

**CFA INSTITUTE:**

Ray DeAngelo – Managing Director, CFA Institute  
Polly Johnson - Administrative Assistant, CFA Institute Centre  
for Financial Market Integrity  
Cindy Kent – Investment Performance Specialist, CFA Institute  
Centre for Financial Market Integrity

**\*PARTIAL ATTENDANCE**

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### **Action Items**

1. Mr. Morrison reported that he made initial contact with Mr. Cronin, the Head of EMEA for CFA Institute Centre for Financial Market Integrity, to determine appropriate contacts and organizations that EMEA RIPS should invite to participate as Associate Members. Mr. Cronin has resigned as a member of the UKIPC due to work pressures. Mr. Morrison will follow up with Mr. Boersma to determine whether there is someone else in the EMEA office to work on this action point.
2. Mr. van Eijk is to provide Ms. Kent his revised version of the GIPS Today presentation that is adapted specific to real estate.
3. Mr. van Eeuwijk was asked to provide a short presentation on the EFFAS organization at the upcoming in-person EMEA RIPS meeting in November.
4. Mr. Illmer agreed to contact Ms. Ene at the EVCA (European Private Equity and Venture Capital Association) about Associate Membership.
5. Mr. van Eijk agreed to contact INREV (Investors in Non-listed Real Estate Vehicles) about Associate Membership.
6. Mr. Morrison agreed to contact the NAPF (National Association of Pension Funds) and EFRP (European Fund Retirement Provisions) about EMEA RIPS Associate Membership.
7. Country Sponsors were requested to review proposed first draft changes to the OPPs and provide their comments (negative and positive) on the documents and the governance structure to Mr. Illmer and Ms. Kent no later than 30 June 2009.
8. Country Sponsors will be requested to share their GIPS activities/events with others at the next EMEA RIPS meeting and the Country Sponsor Update Report will be changed to highlight those activities/events.
9. Country Sponsors were requested to review Guidance Statements and provide their feedback on the existing Guidance Statements to the Interpretations Subcommittee.
10. It was requested that Mr. Schliemann create a proposal regarding illiquid asset valuation that will be distributed to EMEA RIPS Country Sponsors for feedback.
11. Discussions will continue at the next EMEA RIPS meeting to clarify what is meant by retail, institutional, or private clients.
12. Country Sponsors were requested to provide to the Risk Working Group with specific, conceptual issues, and problems that have been raised regarding applying risk information.
13. Mr. Schliemann was requested to provide a link to the draft KID document to Country Sponsors for them to review the contents.
14. CFA Institute will provide copies of the presentations presented at the EMEA RIPS meeting.
15. Country Sponsors were requested to consider, with their local committees, suggestions on how enforcement efforts should be addressed.
16. Country Sponsors were reminded to send in their comments early on the GIPS 2010 Exposure Draft which has a deadline of 1 July 2009.
17. Country Sponsors were reminded to encourage qualified individuals to send in applications as soon as possible for the Investor/Consultant Subcommittee Chair position as the deadline is 1 April 2009.
18. Country Sponsors were requested to review the GIPS Logo Application, the GIPS Logo Usage License Agreement, and the Usage Guidelines and forward the documents to interested parties in their local markets.
19. The Regulators Working Group was requested to prepare a comparison of what has been developed and what has been proposed on the client investment reporting project for the next EMEA RIPS meeting.

### **Decision Points**

1. The EMEA RIPS Madrid Minutes of 21 November 2008 call were approved as amended.
  2. The EMEA RIPS Country Sponsors approved EFFAS (European Federation of Financial Analysts Societies) as an Associate Member.
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## 1. Welcome/Introductions/Approval of 21 November 2008 Minutes

Mr. Illmer welcomed all attending Country Sponsors, Associate Member (EFAMA), and Observers. A change to the Agenda was announced to merge Agenda Item #4 with Agenda Item #9.

The EMEA RIPS Minutes of 21 November 2008 in Madrid were approved with a correction to Action Item #4 changing “NAPF” to “EFRP” (European Federation for Retirement Provision) and a correction to Item #4 - Discuss RIPS Associate Members, to add a statement that, “the French Country Sponsor voiced a reservation regarding regulators (i.e., CESR) becoming EMEA RIPS Associate Members.”

The Action Items from the 21 November EMEA RIPS meeting were reviewed and three action items were identified as still open:

- Mr. Morrison reported that he made initial contact with Mr. Cronin, the Head of EMEA for CFA Institute Centre for Financial Market Integrity, to determine appropriate contacts and organizations that EMEA RIPS should invite to participate as Associate Members. Mr. Cronin has resigned as a member of the UKIPC due to work pressures. Mr. Morrison will follow up with Mr. Boersma to determine whether there is someone else in the EMEA office to work on this action point.
- Mr. van Eijk is to provide Ms. Kent his revised version of the GIPS Today presentation that is adapted specific to real estate.
- Mr. Morrison was requested to speak with David Gould regarding the NAPF interest in joining EMEA RIPS as an Associate Member.

## 2. Update on EC Activities since 21 November 2008

Mr. Illmer reviewed the EC activities over the last four months highlighting the following:

- The GIPS EC conducted seven (7) conference calls since the EMEA meeting in Madrid on 28 November. The majority of the EC efforts have been dedicated to finalizing the GIPS 2010 Exposure Draft. On 15 January, the EC approved the proposed GIPS 2010 Exposure Draft and it was immediately distributed to GIPS Country Sponsors and Subcommittee members. It was then posted to the GIPS Website and the Standards Email Alert was sent to the over 8,000 individuals informing that the GIPS 2010 Exposure Draft was available for comment until 1 July 2009. EMEA RIPS Country Sponsors were encouraged to provide both negative and positive feedback on the GIPS 2010 Exposure Draft.
- The GIPS EC officially endorsed the German TG and the Korean TG.
- It was announced that The Hellenic CFA Society has been endorsed as the 31<sup>st</sup> GIPS Country Sponsor by the GIPS Executive Committee.

Mr. Illmer reminded the EMEA RIPS members to visit the GIPS Website to follow the action and decision items of the EC on the GIPS Website. These are posted immediately after the EC approves the Minutes of each closed and open meeting.

## 3. Discuss RIPS Associate Members

At the last EMEA RIPS meeting a list of organizations were targeted to contact invite for EMEA RIPS Associate Membership: EVCA, EFFAS, CESR, INREV, NAPF, and the European Pension Fund.

It was announced that EFFAS (European Federation of Financial Analysts Societies) organization submitted an application to become an EMEA RIPS Associate Member shortly before the Dublin meeting. Mr. van Eeuwijk gave a brief presentation on the background of the EFFAS formed in 1962, represents 25 member organizations in Europe, and many EFFAS member organizations serve as a GIPS Country Sponsor or as a part of a GIPS Country Sponsor. The organization has a history of support and commitment to the promotion of the GIPS standards and welcomes the opportunity to join EMEA RIPS as an Associate Member.

Mr. Illmer called for a vote to approve EFFAS as the second EMEA RIPS Associate Member and all EMEA RIPS Country Sponsors approved. Mr. Illmer provided Mr. van Eeuwijk with a copy of the fully executed Associate Member Agreement between EMEA RIPS and EFFAS. Mr. van Eeuwijk was asked to provide a short presentation on the EFFAS organization at the upcoming in-person EMEA RIPS meeting in November. This item will be added to the Agenda for the next meeting.

Mr. Hein gave a presentation on EFAMA (European Fund and Asset Management Association). He mentioned that EFAMA is comprised of 24 country members (20 EU members along with Liechtenstein, Norway, Switzerland, and Turkey), 2 countries with observer status, and 44 corporate members. Many of the GIPS Country Sponsors are members of EFAMA. Mr. Hein reported that due to the recent economic downturn the net assets of European Investment Funds as of the end of September 2008 were 6.142 billion EUR. He listed the current management members and reviewed the EFAMA mission and strategic goals. It was mentioned that copies of EFAMA presentation will be made available on the GIPS Website with the EMEA RIPS meeting materials after the meeting.

Mr. Illmer requested volunteers to follow up with the various organizations targeted to invite to become EMEA RIPS Associate Members. Mr. Illmer agreed to contact Ms. Ene at the EVCA (European Private Equity and Venture Capital Association); Mr. van Eijk agreed to contact INREV (Investors in Non-listed Real Estate Vehicles); and Mr. Morrison agreed to contact EFRP (European Fund Retirement Provisions) and the NAPF (National Association of Pension Funds) about Associate Membership.

#### **4. Update on the RIPS EMEA Working Groups**

Please see Item #9

#### **5. Discuss GIPS Governance Structure**

At the London Summit in 2006 it was agreed that the GIPS governance structure would be reviewed periodically. It has now been 24 months since the governance documents were approved in Cape Town in March 2007. Consequently, the governance documents that include the EC, Standing Subcommittees, GIPS Council and RIPS OPPs were circulated as part of the meeting materials for the RIPS and Council meetings to start the review. Country Sponsors were requested to review proposed first draft changes to the OPPs and provide their comments (negative and positive) on the documents and the governance structure to Mr. Illmer and Ms. Kent no later than 30 June 2009. It was mentioned that the proposed changes to the governance documents incorporate changes provided by Country Sponsors over the past two years, and also streamline the documents, remove all unnecessary language, and provide clarification. Mr. Illmer opened discussion on the OPPs and the overall governance structure.

Ms. Jasserand asked about changing the term GIPS Secretariat to CFA Institute, while it is understood CFA Institute provides the staff working on the agenda, minutes and other administrative tasks related to the GIPS standards, the France Country Sponsor believes that setting up a GIPS Secretariat will complete the GIPS governance structure. Mr. van Eijk asked why specific reference to the EC Director was removed from the OPPs and Mr. Illmer explained the EC Director is part of the GIPS Executive Committee (EC), and that the GIPS organization is governed by the EC.

Mr. Schliemann stated that a list of committees in the GIPS governance structure on the website would be helpful. Ms. Kent reported that CFA Institute was previously requested to list all GIPS Subcommittees and subcommittee members on the GIPS Website and this was completed some time ago. Mr. Illmer recommended that Country Sponsors visit the GIPS Website often and become familiar with it and send any recommended changes to the CFA Institute staff.

Mr. Morrison brought up the issue of subcommittee rotation/retention and his belief that the current structure is not flexible enough. Mr. Illmer mentioned that the Nominations Committee and GIPS EC are discussing this issue and preparing a proposal. Mr. Boersma reported that the Nominations Committee has recommended a change to the subcommittee rotation to allow subcommittee members to be renewed annually up to a maximum of six years instead of a maximum of four years. The change was recommended because the four year maximum term could potentially prevent a subcommittee member from serving as the chair of the subcommittee, who also serves of the GIPS EC for a four year term, renewable annually. Mr. Schliemann, a current member of the GIPS Nominations Committee, supports the recommendation to increase the potential subcommittee member term from four years to a maximum of six years. From his experience in serving on GIPS Subcommittees, it is important to have dedicated volunteers and maintain continuity so that a large number of the subcommittee members are not turning over at the same time.

#### **6. Discuss Country Sponsor Performance Evaluation**

Mr. Illmer explained that the GIPS EC decided to revise and remove the “Next Steps” section of the Country Sponsor Performance Evaluation document, and the revised document was distributed to EMEA RIPS members and observers. Mr. Illmer reported the Process Working Group initially developed the template and process to review existing Country Sponsors and that document had been circulated to Country Sponsors since the open EC conference call last June 2008. Written comments from two Country Sponsors, Japan and France were submitted and those comments were included with the meeting materials. Additional comments were received from Japan shortly before GIPS meetings in Dublin.

These documents have also been discussed at the Madrid EMEA RIPS meeting in November 2008 and the GIPS EC closed meetings in Dublin. Each of the RIPS subcommittees will review this document at their meetings today and this item is also included on the GIPS Council Agenda. The EC will vote on the approval of this document at the open meeting on Friday.

Mr. Illmer explained that the EC decided to change the name of the document to the “Country Sponsor Review Process” and to develop a separate termination process. Several Country Sponsors agreed with the EC’s decision to separate the review from the termination process because they are two separate and distinct issues and processes. Ms. Mulder suggested that the Country Sponsor Review process should be viewed as a “self-assessment” by Country Sponsors and is a great tool for Country Sponsors to stay on task. It provides the opportunity to show the areas they are succeeding and to address the areas where more efforts are needed.

Ms. Jasserand commented the revised process is much better than the previous version, and agree that the termination procedure/provision has to be separated from the Country Sponsor Review Process and Matrix. Regarding the termination procedure of a Country Sponsor, Ms. Jasserand stated they that the GIPS Council, representing the voices of all of the Country Sponsors, should be involved in the procedure that needs to be clearly defined and support the proposal made by the SAAJ on this issue.

Mr. ODonnell noted that the document sets out the items and specific areas the review will cover, but not the process of how the review will be handled. It was suggested that information is needed in the Country Review Process on how the review will take place, who will conduct the review/complete the matrix, and what is the involvement of the Country Sponsor. It was commented that Country Sponsors should be involved in drafting the termination process. Mr. Illmer stated that this is an EC project and will discuss with them obtaining guidance from Country Sponsors.

Mr. Morrison and Mr. Ozyaka asked that it be recognized that not all Country Sponsors have the resources or are able to accomplish all the items listed on the Review Process. Mr. Illmer responded that the EC must consider the abilities of Country Sponsors in differing markets and with varying resources.

Mr. Illmer praised Country Sponsors for providing their Update Reports detailing the great activities in their local markets and suggested these details be incorporated into the Country Sponsor Review Process. He suggested Country Sponsors share their activities/events with others. This will be added to the Agenda for the next meeting. Suggestion was made to change the EMEA RIPS Update Report to highlight the Country Sponsor activities/events. It was suggested listing and promoting Country Sponsor activities or events on the GIPS Website. Another suggestion was to announce an upcoming Country Sponsor event on the Standards Alert Email. Country Sponsors were reminded that they can contact other Country Sponsor representatives and GIPS EC members to speak about the GIPS standards at their conferences.

#### **7. Update from Interpretations Subcommittee**

It was reported that the GIPS 2010 Exposure Draft has been completed and released for public comments that are due 1 July 2009. There are a number of additional disclosures recommended by the exposure draft. The Risk Working Group believes the Exposure Draft will trigger significant comments, as the Group is deliberating how to incorporate risk data in a compliant presentation. The EC reviewed the Global Credit Crisis Q&As to ascertain if they imposed any new requirements and would need to be released for public comment. The EC determined these are interpretation of how the principles of the Standards apply in those situations. The Alternatives Investment Strategies Working Group is attempting to complete a Guidance Statement by the 30<sup>th</sup> of June.

Country Sponsors were requested to review Guidance Statements and provide their feedback on the existing Guidance Statements to the Interpretations Subcommittee.

Mr. Illmer stated that the Interpretations Subcommittee and CFA Institute staff did a fantastic job drafting the GIPS 2010 Exposure Draft on time and expressed his thanks to the Subcommittee and staff for a great achievement.

#### **8. Discuss Treatment of Illiquid Assets within Performance Management**

Mr. Schliemann briefly outlined the challenges of valuation and pricing assets with no value. The GIPS standards require market valuation, which is a problem when assets become illiquid. The GIPS standards do not currently have an answer to this problem and do not allow an estimated or calculated value. He reported that previous suggestions to solve this issue were considered to be fraudulent or radical. A proposed requirement has been included in the GIPS 2010 Exposure Draft to address this situation and includes a hierarchy to value assets. There are concerns regarding this proposed requirement that the description of the hierarchy is too detailed and it will be difficult for asset managers to follow. Mr. Schliemann believes the proposal on valuation methodology is a good solution and could become a requirement, but it should not be described in detail. He suggested that the detailed description of the hierarchy valuation methodology should become a guidance statement instead.

The opinion was voiced that the GIPS standards should not become valuation standards. It was also mentioned that it is important to consider the time and amount of assets becoming illiquid, maintaining independence, and avoiding any conflict of interest in the pricing/valuation process.

Mr. Illmer urged Country Sponsors to provide their feedback on the GIPS 2010 Exposure Draft on this proposed required valuation methodology, and also to share their comments with each other to make the process as efficient as possible.

It was requested that Mr. Schliemann create a proposal regarding illiquid asset valuation that will be distributed to EMEA RIPS members for feedback.

## **9. Update on the RIPS EMEA Working Groups and GIPS Applicability for Retail Investors**

Mr. Illmer reported the Regulator Relations Working Group has not begun any projects because it was agreed to wait until the EFAMA Associate Member Agreement was approved before beginning to build an active relationship with regulators. Mr. Schliemann mentioned topics that the Working Group will consider are: retail investors, regulations, other existing standards (i.e., UCTIS and MiFID) that are for client protection, - while the GIPS Standards are primarily for prospective investors. Important question to be answered is who does a particular standard protect? The GIPS standards state that the scope of information is limited to straight performance figures. It was reported that UCTIS IV has new guidance to provide KID (Key Information Document) to clients. KID is product related and risk oriented information provided to institutional and retail investors. It was mentioned that there is a gap to provide protection for existing clients (engaged clients).

Ms. Jasserand agreed that an assessment of the different regulations applicable (especially the European rules derivating from the MiFID but also the UCITS Directive) would be very useful.

Mr. Morrison stated that the GIPS standards can be applied to retail investors in the same way it can be applied hedge funds. The issue is whether there is a demand for the GIPS standards from the retail investor or professional advisor. The inclusion of retail clients will cause several changes in the GIPS standards to be consistent with existing regulation and to put it in a format that is readily consumed and understood by a retail investor. He mentioned that two of the three organizations of the UK Country Sponsor have commissioned an independent paper entitled “Development of Synthetic Risk and Reward Indicator” which fits partially with the guidance developed to date and partially with KID. Mr. Morrison pointed out that it is important to note that retail investors and institutional investors make decisions based upon different information.

Mr. Illmer requested continuation of this discussion at the next EMEA RIPS meeting to clarify what is meant by retail, institutional, or private clients.

## **10. Update from Alternative Investments and Risk Working Group**

Mr. Morrison mentioned that Alternative Investment Strategies Working Group developed a matrix approximately 18 months ago of all the structured products that would potentially fall within the scope of the proposed alternatives guidance (e.g., benchmarks, feeder funds, side-pockets, valuation characteristics). He reported that of those structured vehicles that were valid 18 months ago about 65 percent have vanished or imploded due to the global credit crisis.

Once this technical document has been vetted for accuracy, he mentioned that the Working Group is planning to “road test” the Alternatives Guidance Statement and circulate it, confidentially, to subject matter experts (e.g., sophisticated hedge funds managers, academics, and practitioners).

The Country Sponsors were requested to provide to the Risk Working Group specific, conceptual issues, and problems that have been raised regarding risk information.

Mr. Schliemann was requested to provide a link to the draft KID document to Country Sponsors for them to review the contents.

## **11. Country Sponsor Enforcement Efforts**

Ms. Mulder referred to the Madrid EMEA RIPS meeting in November 2008 where she distributed a copy of South African Country Sponsor enforcement steps to deal with claims of false GIPS compliance sent to them. She asked if EMEA RIPS Country Sponsors had any comments or suggestions on improving the document. Ms. Mulder encouraged a general discussion on enforcement efforts issues: who has the responsibility of enforcement, should it be handled at the local level by Country Sponsors, when should an enforcement issue be escalated to a regulator.

It was mentioned that the key is in the relationship between the Country Sponsor and the local regulator. It was reported that the UKIPC were asked to take a view or to provide enforcement which they do not have the mandate to do. It was reported that one situation resulted in a regulatory censor of an asset manager. The UKIPC plans to talk with regulators to outline a clear process or approach to escalating false claims of GIPS compliance.

Country Sponsors were requested to consider, with their local committees, suggestions on how enforcement efforts should be addressed and further explore the Country Sponsor role in their local markets.

## 12. Update and Discussion on GIPS 2010 EC's Perspective

Mr. Illmer asked Country Sponsors to provide their feedback regarding the key issues in the GIPS 2010 Exposure Draft and specifically to discuss the proposed changes that are problematic, and what changes are supported.

### The Netherlands

- The Glossary expansion is a big improvement, as well as other areas of clarification.
- Suggest to eliminate the statement “you have to comply with the GIPS standards requirements” since compliance with the Q&As and Guidance Statements is also required, just state that “you must comply with the GIPS standards.”

### South Africa

- There is concern about the concept of fair value, the actual implications behind it, and the implementation. The South Africa market is challenged by the proposed fair value requirement.

### Germany

- It seems the proposed changes will result in making the GIPS Standards far more precise, concrete, and prescriptive (e.g., you should not disclose incorrect information), and are simply bureaucratic burden.
- Some things in the exposure draft may become mandatory (e.g., requiring firms to disclose that they are not verified and requiring firms to disclose why they are not able to show a benchmark).

### Switzerland

- The Swiss Experts Group is concerned about the proposed valuation principles and hierarchy, and suggests they should be less rigid.
- Until now the benchmark description has been a recommendation and it should be mandatory. The benchmark recommendation contrasts with the Advertising Guidance that states the benchmark description has to be given.
- Use of standard deviation as the risk measure should be more flexible to give asset managers the ability to select an appropriate or adequate risk measure because standard deviation may not be applicable to all assets presented.

### Sweden

- Consider changing the term “client” since the GIPS standards main focus is for the “proposed investor”.
- Fair value is fine except for Swiss banks that have had no experience with it; insurance companies have been using it since 2005. But using fair value in an index, when the indices are not represented in fair value, causes problems. They have been in contact with BARA and they are aware of it but they are not going to change anything for the time being.
- Suggested using GIPS standards policies and procedures as a type of KID (Key Information Document) which would enumerate and disclose all the underlying documents as a mandatory summary and provide the underlying documents only if requested.

#### Norway

- Definition of prospective clients and retail clients might cause some problems. However, it is understood that a Q&A is being developed by the Investment Manager Subcommittee.
- Fair value concept – will propose including a disclosure as to how much of a composite is based on observable and market prices, and how much is calculated at fair value.
- Closed end real estate principles – will propose moving these principles to the private equity section because they are so similar.

#### Ireland

- Fair value is an issue that needs more consideration.
- Benchmarks need to apply fair value.
- There is concern that the size of disclosure report is becoming enormous and overtaking the whole report.

#### Belgium

Mr. Illmer thanked the Belgium Country Sponsor for sending in their comments with their Country Sponsor Update Report for everyone to review.

Additional review comments:

- It may be difficult to implement the provision related to presenting composite results to prospective clients with assets less than the composite minimum, as it is not always possible to assess the potential of the client or the potential assets. Additionally, a prospective client may increase the amount of assets they would be ready to invest if they are able to assess the information.

#### France

- Fair valuation is an important issue that will need further discussion.

#### United Kingdom

- There is discussion on the practical application of the error correction guidance, specifically when an error is not an error but a natural consequence of an update from the market.
- 4.A.20 – “Firms must disclose the composite description which must include sufficient information to allow a prospective client to understand the key characteristics of the composite including risks.” There is a legal opinion that this may cause the compliant presentation to be considered part of the legal contract and cause potential for litigation by literally adhering to this statement.

Mr. Illmer reminded the Country Sponsors to send in their comments early on the GIPS 2010 Exposure Draft which has a deadline of 1 July 2009.

### 13. Other Business

#### Nominations Committee Update

Country Sponsors were reminded to encourage qualified individuals to submit applications as soon as possible for the Investor/Consultant Subcommittee Chair position as the deadline is 1 April 2009.

#### Update on GIPS Logo

It was reported that the use of the GIPS Logo by firms to show compliance with the GIPS standards has been approved by CFA Institute. The GIPS Logo can be used by firms on compliant presentations and advertisements that comply with the GIPS Advertising Guidelines. It was mentioned that the Swiss Country Sponsor assisted with the development of the documents and was quite helpful because of their prior logo arrangement with firms. Country Sponsors were requested to review the GIPS Logo Application, the GIPS Logo Usage License Agreement, and the Usage Guidelines and forward the documents to interested parties in their local markets. It was mentioned that the GIPS Logo is a good marketing tool to promote awareness of the GIPS standards.

There was a discussion that the GIPS Logo is not for verification firms to use, but that Country Sponsors are allowed to use the Logo for educational purposes. It was mentioned that there is concern over whether enforcement of the GIPS Logo usage is the responsibility of the local Country Sponsor.

Ms. Jasserand mentioned that the logo is close to the broader issue of intellectual property rights which needs to be addressed. Mr. Illmer reported that the GIPS Logo use by firms was proposed by Country Sponsors. CFA Institute approved this process and the documents because CFA Institute is the owner of the GIPS trademark. He stated that the issue of the Intellectual Property will be addressed in the future.

#### Client Reporting Initiative

Mr. Illmer presented a proposal based on the EIPC working paper entitled “Guidance for Recipients of Investment Reporting” and asked if now is the time to address investment reporting for recipients of performance results due to the current financial market crisis situation. Mr. Illmer explained that it is proposed that the client investment report should be a more detailed illustration of the investments made, results achieved, and risks taken for individual investors, mutual funds, etc. That it should not a performance report. He noted he found a great deal of support for this initiative at different conferences on client reporting. Mr. Illmer asked the Country Sponsors to share their thoughts on this proposal.

Mr. Morrison commented that he is much more comfortable with this initiative than he was initially. He notes the investment report for clients should explicitly include looking at the broad risk management process, stress testing, and scenario analysis that is conducted.

Mr. Schliemann noted that in Europe there are several standards that currently compete on client reporting and that the GIPS standards should not get into this competition. It was commented that instead there is a hope that these existing standards will be realigned to support each other. An opinion was stated that the GIPS standards are fine for private and retail clients but they should not extend into client reporting.

It was reported that CESR has been working on client reporting transparency for approximately two years and it would be interesting to see what they have developed before moving forward on this proposal.

It was decided to form the Regulators Working Group and to request that they prepare a comparison of what has been developed and what has been proposed on the investment reporting project for the next meeting. It was announced that the members of the Regulators Working Group is Mr. Schliemann, Mr. Hein, and Mr. Van Eeuwijk. Other interested members should contact Mr. Schliemann or Mr. Hein to volunteer for this working group.

#### **14. Future Meeting Dates**

The next EMEA RIPS in-person meeting will be held in Germany in November 2009. We appreciate the German Country Sponsor offer to host the next meeting and more details will be provided at a later date.

#### **Observers**

Mr. Gould suggested that subcommittee member terms could remain the same (four year maximum term limit) and to add two years for a newly elected chair’s term as they have done on the NAPF.

Mr. Gould reported that he found after speaking to some clients that when they receive a GIPS compliant presentation as a prospective client and then become a client, they are under the impression that the client information they are receiving is a GIPS based performance audit. So there is credibility gap on client reporting to be addressed but he is not sure the answer has been found.

Mr. Gould stated that he understands the need for a Country Sponsor Review Process to determine if a Country Sponsor is failing, not as an appraisal. But he believes that the process is too over engineered and that this detailed structure is not necessary.

Mr. O'Donnell announced, on behalf of the Irish Country Sponsor, that the event scheduled for the evening was changed due to an invitation by the Office of the Prime Minister of Ireland. The GIPS delegates have been invited to attend a reception at the government buildings where they will be formally welcomed to the country by a senior government minister prior to the GIPS Dinner at the Westbury Hotel.

Mr. Illmer thanked the Ireland Country Sponsor for hosting the GIPS meetings in Dublin and to all the Country Sponsors for participating and their contributions.

**Meeting Adjourned at 5:00 p.m. (17:00 p.m.)**

## **ASISA Enforcement Process Summary**

**Steps to be taken should complaints regarding the claim of GIPS® compliance be received by ASISA:**

- Receive complaint at ASISA
- Get detailed written complaint from complainant
- Provide written information regarding complaint to firm in question
- Receive written response from firm
- Discuss the issue at the GIPS Committee without divulging details on the complainant or firm in question
- Verifier might be queried depending on the issue at hand
- GIPS Committee to make a suggestion regarding severity and corrective action – determine whether it constitutes a real issue or not
- ASISA to supply feedback to firm and complainant
- Have a three or five person committee that will then make a final recommendation that could include sending the details to CFA-Institute

## **Suggested Practices: Model, Hypothetical, and Backtested Performance**

Many investment firms wish to provide prospective clients with model, hypothetical, or backtested performance results to either enhance actual results or to substitute for actual results when actual results do not exist. While model, hypothetical, or backtested results may not be used as part of GIPS compliant presentations, they may be included as “supplemental information,” as explained in the *Guidance Statement on the Use of Supplemental Information*.

In order to help avoid the presentation or dissemination of possibly misleading information, GIPS Exposure Draft provision 3.A.7 specifically disallows linking model, hypothetical, backtested, or simulated results to actual performance results.

This paper provides suggested practices involving the reporting of model, hypothetical, and backtested performance. Performance results also include statistics based on model, hypothetical, and backtested returns such as standard deviation, drawdown, Sharpe ratio, etc. In all cases, the firm’s legal counsel, compliance staff or internal risk management should be consulted to ensure that all regulatory requirements are met.

### **Definitions**

*Model Performance:* Investment results of a “model” portfolio where the portfolio does not include any actual assets under management. For the purpose of this paper, “simulated” performance will be included under the definition of “model performance.”

*Hypothetical Performance:* Results that may have been derived from actual performance but not in the context in which it is being presented. For example, if the performance of actual portfolios in an equity composite are combined with the performance of actual portfolios in a fixed income composite to show what the results *might have been* had they been combined, the results would constitute as hypothetical performance.

*Backtested Performance:* Performance results created by applying an investment strategy or methodology to historical data. Backtested performance attempts to indicate how a product constructed with the benefit of hindsight would have performed during a certain period in the past if the product had been in existence during such time.

The term “theoretical” will be used to represent all of these types.

## Suggested Practices

1. Clearly label all theoretical performance results as such. Labeling can be accomplished by using the word “model”, “hypothetical”, or “backtested” in the title of the exhibit. For example: Backtested Global 130/30 performance.
  - a) Theoretical performance should not be mathematically linked with actual performance in any fashion, including linking performance for an extended period (e.g., a firm has five years of actual results and wants to link the prior five years of backtested results to actual returns in order to provide a 10-year annualized and/or cumulative return). This includes the linking of actual returns with theoretical returns and calling it all “theoretical.” For example: a firm has two years of actual results and eight years of theoretical to make a 10 year track-record. Labeling the entire 10 year track record as theoretical is not advised.
  - b) If actual and theoretical returns are used in the same presentation they should be shown on separate pages and be clearly labeled (e.g., a firm that wishes to display a table that shows five years of theoretical and five years of actual results should show results on separate pages; it is not advisable to show them consecutively in the same column or side by side).
2. A statement that “past performance is not an indication of future results” may suggest that actual performance results are being presented. Disclosures such as “the results do not represent actual results” and “actual results may significantly differ from the theoretical returns being presented” may be more indicative of the nature of the data. The firm’s legal counsel, compliance staff or internal risk management should be consulted for advice on the wording of specific disclosures.
3. Clear disclosure should be provided to ensure that the recipient(s) understands the presentation of theoretical performance. All disclosures should be clear and prominent. *Please refer to the “Recommended Disclosure” section for additional guidance.*
4. Theoretical performance should only be provided to clients, prospects or consultants who are sufficiently experienced and knowledgeable to assess the relevance and limitation of theoretical performance of the financial product.
5. Firms using any theoretical performance results should have sufficient records/documentation to support the calculation of any theoretical performance results.
6. Firms should consult with their legal counsel, compliance staff or internal risk management regarding applicable local or country-specific law or regulation.
7. Firms using any theoretical performance results should have control procedures for presenting theoretical results.

## Recommended Disclosures

The following disclosures should be incorporated when theoretical performance results are used:

1. Disclose a basic description of the model, assumptions, inputs, and quantitative parameters necessary to interpret the theoretical performance results. For example:
  - a. “All of the securities used in the model were available during the time period presented.”
  - b. “The model assumes that the markets were sufficiently liquid to permit the types of trading used in the model.”
2. Disclose that the results are theoretical and include a warning that the results are not based on the performance of actual portfolios and that the interpretation of the results should take into consideration the limitations inherent in the results of the model.
3. Disclose if a proprietary model was used to generate the theoretical performance results.
4. Disclose material facts and material differences between any theoretical performance and the benchmark or a similarly managed product to which it is compared.
5. Disclose if theoretical performance has not taken into investment management, account advisory fees, trading costs, or other fees or charges.
6. Disclose that theoretical performance is constructed with the benefit of hindsight, including the ability to adjust the method for selecting securities until returns for the past period are maximized.
7. Disclose material changes to the model, assumptions, or inputs during the period shown and the reasons for such changes.
8. Disclose any actual performance with respect to the portfolios managed during the period under the model strategy (or disclose if materially different).
9. Disclose any assumptions regarding cash balances and external cash flows.
10. Disclose and describe the treatment of reinvestment of dividends, interest, capital gains and withholding taxes.
11. Disclose the possibility of loss.
12. Disclose the dates over which the theoretical performance results are presented and the creation date.

## Sample Disclosure for Backtested Performance

***Backtested performance is NOT an indicator of future actual results.*** The results reflect performance of a strategy not [historically] offered to investors and do NOT represent returns that any investor actually attained. Backtested results are calculated by the retroactive application of a model constructed on the basis of historical data and based on assumptions integral to the model which may or may not be testable and are subject to losses.

General assumptions include: XYZ firm would have been able to purchase the securities recommended by the model and the markets were sufficiently liquid to permit all trading. Changes in these assumptions may have a material impact on the backtested returns presented. Certain assumptions have been made for modeling purposes and are unlikely to be realized. No representations and warranties are made as to the reasonableness of the assumptions. This information is provided for illustrative purposes only.

Backtested performance is developed with the benefit of hindsight and has inherent limitations. Specifically, backtested results do not reflect actual trading or the effect of material economic and market factors on the decision-making process. Since trades have not actually been executed, results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity, and may not reflect the impact that certain economic or market factors may have had on the decision-making process. Further, backtesting allows the security selection methodology to be adjusted until past returns are maximized. Actual performance may differ significantly from backtested performance.

Backtested results are adjusted to reflect the reinvestment of dividends and other income and, except where otherwise indicated, are presented gross-of fees and do not include the effect of backtested transaction costs, management fees, performance fees or expenses, if applicable. *Please note all regulatory considerations regarding the presentation of fees must be taken into account.* No cash balance or cash flow is included in the calculation.