



Global Investment Performance Standards

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

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**Date:** Friday 29 January 2010

**Location:** Conference Call

**Time:** 9:00 a.m. to 10:00 a.m.

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

**Observers Present:** Lulu Alaqili, Goldman Sachs – United States  
Mir Muhammad Ali, CFA, UBL Funds – Pakistan  
Alseny Bah, CFA, CIPM, Zephyr Associates, Inc. – United States  
Katherine Barker, Investec Asset Management – South Africa  
Xavier Bellavista, BBVA – Spain  
Vincent Bencivenga, Metropolitan West Asset Management – United States  
Lana Bergstein, Dimensional Fund Advisors – United States  
Ivana Bertuzzelli, CIPM, Intech – United States  
Nancy Bosco, ING Investment Management – United States  
Andrew Bourke, First Investments – United Kingdom  
Susan Boyd, Seabridge Investment Advisors, LLC – United States  
Jason Bresler, Jacobs Levy, United States  
Maria Breslin, Smith Capital – United States  
BaRon Brown, The Capital Group – United States  
Jessica Burns, Dobson Capital Management – United States  
Jeffrey Buttonow, CIPM, State Street Corporation – United States  
Christine Catanzaro, Ernst & Young – United States  
Jason Celente, MBIA Asset Management, United States  
Rajiv Casie Chitty, Fitch Ratings, Ltd. – Sri Lanka  
Yin (Tony) Chan, Morgan Stanley – United States  
Brian Chapman, KPMG, SA – United Kingdom  
Judy Chein, Intercontinental Real Estate Corporation – United States  
Kevin Chin, Deutsche Bank – United States  
Jennifer Choi, Investment Management Association – United States  
Mei Ling Chu, CFA, State Street Global Advisors – United States

**Observers Present (Continued)**

David Chung, ING Investment Management – America – United States  
Jerome Chung, PricewaterhouseCoopers – Hong Kong  
Brendan Clarke, CapGemini – United States  
Debbie Ann Clarke-Johnson, TIAS-CREF Financial Services – United States  
Michelle Clements, RREEF Alternative Investments – United States  
Tobin Cochran, Ashland Partners & Company, LLC – United States  
Paul Copplestone, Gartmore – United Kingdom  
Paul Costello, F&C Asset Management plc – United Kingdom  
Michelle Couey, RREEF Real Estate – United States  
Brian Cronkright, Public Financial Management – United States  
Todd Crouthamel, Kreischer Miller – United States  
Joseph Dabney, III, CFA, CIPM, Dabney Investment Consulting – United States  
Robert Dannhauser, CFA Institute – United States  
Kamelia Dari, CIPM – ACA Compliance Group – United States  
Simone A. Davis, Legg Mason & Company, LLC – United States  
Mark Dempsey, Jupiter Asset Management – United Kingdom  
Joe Devlin, Fidelity – United States  
Christie Dillard, ACA Compliance Group – United States  
David DiPaolo, ING Clarion – United States  
John Dolheimer, PFM Asset Management, LLC – United States  
Paul Donovan, LaSalle Investment Management – United States  
Adrian Doswald, CIIA, LGT Capital Management, Ltd. – Liechtenstein  
Ambika D'Souza, PMP, CIPM, State Street Global Advisors – United States  
Edward Dunn, Franklin Templeton – United States  
Jenny Lynn Dunn, Wasmer, Schroeder & Company, Inc. – United States  
James Edmonds, AllianceBernstein Investments, Inc. – United States  
Alvere Eignacio, Excell - France  
Mark Elliott, SS&C Technologies – Canada  
William Finlayson, Capital International, Ltd. – United Kingdom  
Gwen Fitzgerald, Pyramis Global Advisors – United States  
David Flint, HSBC – United Kingdom  
Patrick Fowler, The Spaulding Group, Inc. – United States  
Scott Fraser, HSBC – United Kingdom  
Willy Fuentes, PricewaterhouseCoopers – France  
Vaishali Gaba, Ernst & Young – United States  
Steven Gaudette, CFA, Northfield Information Services – United States  
Gary Gerstung, The Nowel Group – United States  
Carli Gimson, Jupiter Asset Management – United Kingdom  
Bill Goebel, Ernst & Young – United States  
Alexandre Gosselin, Natcan Investment Management – United States  
David Gould, NAPF – United Kingdom  
Monica Grady, Armstrong Shaw Associates, Inc. – United States  
Kenneth Greguski, RREEF Alternative Investments – United States  
Laurence Grosbaum, CPA, CFA, T-NOLA Capital – United States  
Mark Guillaume, Kreischer Miller – United States

**Observers Present (Continued)**

Justin Guthrie, CPA, CFA, ACA Compliance Group – United States  
Mark Hadland, CIPM, HSBC Global Asset – United Kingdom  
Lars Bjerre Hansen, SimCorp A/S – Denmark  
Jenny Hargis, CPA, USAA Real Estate Company – United States  
Frank Hartmann, Deko Investment GmbH – Germany  
Maureen Hawker, CGA, CIPM, New Brunswick Investment Management Corporation – Canada  
Laurie Hayek, Argent Capital Management, LLC – United States  
Mark Hedley, Factset Research Systems – United States  
Jane Henning, The Clifton Group – United States  
Sandy Ho, Morgan Stanley – United States  
Lynn Hoover, CPA, STRS Ohio – United States  
Yvonne Hum, CIBC Global Asset Management, Inc. – Canada  
Alicia Hyde, CIPM, ACA Compliance Group – United States  
Larry Israel, The Boston Company Asset Mgt., LLC – United States  
Michael James, Legg Mason & Company, LLC – United States  
Todd Jankowski, CFA – CFA Institute – United States  
Laura Jirele-Borleske, Barrow, Hanley, Mewhinney & Strauss, Inc. – United States  
Todd Johnson, Ernst & Young – United States  
Henry Joseph, Real Estate Research Corporation – United States  
Kazumichi Karita, SAAJ – Japan  
Joe Kavanagh, CFA, KBC Asset Management, Ltd. – Ireland  
Margaret Kelleher, CFA Institute – United States  
Scott Keller, Truepoint, Inc. – United States  
Del Kendall, Real Estate Research Corporation – United States  
Ellen Kerr, MAI, J.P. Morgan Asset Management – United States  
Harrison Kim, Bank of New York Mellon – United States  
Jennifer Kim, Capital Guardian Trust Company – United States  
Susan Kim, Goldman Sachs – United States  
Susanne Klemm, Ernst & Young – Switzerland  
Jorn Gunnar Kleven, Eidsiva Vannkraft AS – Norway  
Doris Kohutek, PricewaterhouseCoopers AG – Switzerland  
Chris Kloppelman, RBC Wealth Management – United States  
Krista Kreicas, Goldman Sachs – United States  
Marybeth Kronenwetter, REISUS – United States  
Leslie Kuo, CFA, City National Bank – United States  
Valerie Lamanna, Independent Consultant – United States  
Thomas Leavitt, Not Employed – United States  
Karel Leder, Lombard Odier Darier Hentsch & Cie – Switzerland  
Karen Lee, Goldman Sachs – United States  
Douglas Lempereur, FRM, CFA, CIPM, Franklin Templeton – United States  
Michael Lim, Investment Management Association of Singapore – Singapore  
Ingrid Lindblade, Heitman – United States  
Annie Lo, CAIA, CFA, CIPM, Charles Schwab Investment Mgmt., Inc.  
– United States

**Observers Present (Continued)**

Jenny Lor, CIPM, State Street Bank and Trust Company – Hong Kong  
Dr. Carsten Luders, BVI Bundersverband Investment und Asset Management e.V.  
– Germany  
Conor Lyons, Smith Affiliated Capital – United States  
David MacDonald, State Street Corporation – United States  
Simon Mallison, Invesco Real Estate – United Kingdom  
Karim Manaa, Deloitte – Canada  
Marianne Martin, CFA, CIPM, Transamerica Investment Services, LLC  
– United States  
Maritza Matlosz, BlackRock – United States  
Iain McAra, J.P. Morgan Asset Management – United States  
Martha McCoy, Putnam Investments – United States  
Sean McKee, KPMG, LLP – United States  
Kathleen McKeown, Wellington Management – United States  
Coleman McKinstry, CIPM, ACA Compliance Group – United States  
Stewart McMillin, Artemis Investment Management, Ltd. – United Kingdom  
Joanne Mey, Eaton Vance Management – United States  
Miquel Mora, BBVA – Spain  
Noako Mori, SAAJ – Japan  
Nicolas Moser, KPMG, SA – Switzerland  
Katya Moshkovich, Western Asset –  
Tara Mulligan, Goldman Sachs – United States  
Ray Murphy, BlackRock – United States  
Kathleen Novasack, Capmark Investment LP – United States  
Blunmany Outama, Legg Mason & Company, LLC – United States  
Joyce Pang, Metropolitan West Asset Management, LLC – United States  
Mark Pazdyk, State Street Global Advisors – United States  
Jason Pepe, Valley Forge Asset Management Corp. – United States  
Thomas Peters, Kreisler Miller – United States  
Megan Piarulli, Pyramis Global Advisors – United States  
Hans Pieper, DPG Deutsche Performancemessungs-Gesellschaft fur  
Wertpapierportfolios mbH – Germany  
Sue Pike, Wellington Management Company, LLC – United States  
Ann Putallaz, Ph.D., CIPM, Munder Capital Management – United States  
Mark Regier, CFA, Dimensional Fund Advisors – United States  
Ken Riggs, CFA, Real Estate Research Corporation – United States  
Tiffany Roberts, F&C Asset Management plc – United Kingdom  
Diane Robertson, Legg Mason & Company, LLC – United States  
Paul Robinson, Ernst & Young – United States  
Debbie Rossi, CIPM, Turner Investment Partners – United States  
Gina Scavetta, Franklin Templeton Portfolio Advisors, Inc. – United States  
Kay Schmaier, AXA Rosenberg – United States  
Jeffrey Schropp, CFA, Legg Mason & Company, LLC – United States  
Lucy Schwartzman, CIPM, Jacobs Levy Equity Management – United States  
Ian Searle, Fidelity International – United Kingdom

**Observers Present (Continued)**

Scott Seefeldt, Nicholas Company, Inc. – United States  
Dimitri Senik, CFA, PricewaterhouseCoopers AG – Switzerland  
Sue Seto, Cohen & Steers, Inc. – United States  
Vipan Sharma, HSBC – United Kingdom  
Philip Shea, Babson Capital Management, LLC – United States  
John Simpson, CIPM, The Spaulding Group – United States  
Joanne Skerrett, K&L Gates, LLP – United States  
Lindsey Smart, HSBC – United Kingdom  
Lina Sor, PricewaterhouseCoopers – United States  
David Spaulding, CIPM, The Spaulding Group, Inc. – United States  
Denise Stake, Cornerstone Advisors – United States  
Arin Stancil, CFA, CIPM, PIMCO – United States  
Markus Staub, Swiss Bankers Association – Switzerland  
Michael Stevens, Prudential –  
Della Stewart, CIPM, Brandes Investment Partners – United States  
Eric Stubbs, RBC Wealth Management – United States  
Jen Suellentrop, Fidelity – United States  
Teresa Taylor, CIPM, Fifth Third Asset Management, Inc. – United States  
Manuel Tereso, Standard Life Assurance Company of Canada – Canada  
Lorraine Tutovic, CIPM, Neuberger Berman – United States  
Andrea Ulrich, T. Rowe Price – United States  
Gerhard Van de Venter, CFA, CFA Institute – United States  
Frank Varanavage, Kreischer Miller – United States  
Brian Velky, Real Estate Research Corporation – United States  
Bobbi Vernon, CFA Institute – United States  
Jesal Vora, Zurich Alternative Asset Management, LLC – United States  
Lisa Wagemann, Navigare Partners, LLC – United States  
Jack Walsh, Titanium Asset Management – United States  
Margaret Wasnak, CPA, Pine Bridge Investments – United States  
Veronique Wegnez, BEAMA – Belgium  
Leisa Sanchez Western, Absolute Performance Verification, LLC – United States  
Cinda Whitten, Principal Global Investors – United States  
Theresa Williams, Advisors Asset Management – United States  
David Young, PIMCO – United States  
Nick Zinicola, Legg Mason & Company LLC – United States

**CFA Institute  
Staff Present:**

Fannie Fang, CFA, CIPM – Director, Global Investment Performance Standards  
Anju Grover, CIPM – GIPS Analyst  
Polly Johnson – Administrative Assistant  
Beth Kaiser, CFA, CIPM – Director, Global Investment Performance Standards  
Cindy Kent – Director, Global Investment Performance Standards  
Ken Robinson, CFA, CIPM, Director, Global Investment Performance Standards  
Trudy Via – Administrative Assistant  
Robin Willis – Administrative Assistant

### Action Items

- CFA Institute staff will publish and release the final version of the 2010 edition of the GIPS standards in approximately two weeks electronically on the GIPS Website and distribute a GIPS Newsletter email announcing when it is posted.
- The Risk Working Group will complete the Risk Guidance Statement to be released for public comment.
- Guidance is currently being developed (e.g., Q&As, Guidance Statements, GIPS Handbook) and will be released as soon as possible to provide guidance and clarification regarding the 2010 edition of the GIPS standards.
- The Alternative Investments Strategy Working Group will complete the Alternative Investments Guidance Statement to be released in the next few months for public comment.
- CFA Institute staff will release a press release when the final version of the 2010 GIPS standards is published and provide Country Sponsors with a template press release for use in their country.
- Promotion & Awareness Subcommittee will update the GIPS Today presentation for all Country Sponsors and other volunteers to use that will address the changes in the revised 2010 GIPS standards.

### Decision Points

- The Executive Committee approved the 2010 GIPS standards, subject to the amendments mentioned. (9 Votes)
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### 1. Welcome

Mr. Illmer welcomed Executive Committee members, Country Sponsors, GIPS Subcommittee members and interested industry participants to the GIPS Executive Committee open conference call to review and approve the 2010 edition of the GIPS standards. He expressed his tremendous appreciation to the Executive Committee members, CFA Institute, all the volunteers and the many people involved with the development of the 2010 edition of the GIPS standards. The Executive Committee is extremely grateful to all those who contributed, for their tireless hours, and their dedication.

Mr. Illmer provided a brief background of 2010 edition of the GIPS standards. To maintain global relevance, and in recognition of the dynamic nature of the asset management industry, the GIPS standards are continually updated through interpretations, guidance, and new provisions. In 2008, the GIPS Executive Committee began its review of the GIPS standards in an effort to further refine the provisions, as well as eliminate provisions that are no longer necessary, and add new requirements and recommendations that promote best practice in the asset management industry. The GIPS Executive Committee worked in close collaboration with its technical subcommittees specially formed working groups, GIPS Country Sponsors, and volunteers in many local markets. These groups reviewed the existing provisions and guidance and conducted surveys and other research as part of the efforts to produce the 2010 edition of the GIPS standards.

The revised GIPS standards are the culmination of thousands of hours of work by volunteers from around the world who serve on our different technical committees and working groups, as well as a dedicated team of professionals at CFA Institute. In addition, over 150 firms, associations, and individuals submitted comments during the public comment period. The participation and input from practitioners help to ensure the GIPS standards remain current, relevant, and reflective of global best practices.

It was mentioned that the materials for the open conference call are two versions of the draft revised GIPS standards posted to the GIPS website at <http://www.gipsstandards.org/about/governance/meetings/index.html>: one shows the changes made to the 2005 edition of the GIPS standards and the other shows only the final revised 2010 edition of the GIPS standards.

Mr. Boersma also welcomed the GIPS Executive Committee Open Conference Call participants. He noted this conference call signifies completion of more than 3.5 years of work reviewing and revising the GIPS standards. This project involved over 100 volunteers from around the world. During the public comment period comments were received from firms, industry associations, and individuals from more than 20 different countries.

Mr. Boersma stated that the revisions bring needed clarity, consistency, and precision to the GIPS standards. He mentioned that the 2010 edition of the GIPS standards are a big step forward in meeting transparency and investor needs. Mr. Boersma stated that the revisions dramatically improve the consistency of the Standards and hopes they will be easier to understand.

Mr. Boersma thanked everyone involved with the review and revision of the 2010 edition of the GIPS standards.

## **2. Highlight Key Changes of Proposed 2010 GIPS Standards**

Ms. Vincent reported that many of the changes reflected in the 2010 edition of the GIPS standards were done to accomplish consistent use of terms, improve precision, increase clarity, and to reorganize the provisions for greater clarity and comprehension.

The effective date of the 2010 edition of the GIPS standards is 1 January 2011. Any compliant presentation prepared, that includes performance results for periods after 1 January 2011 will be required to be prepared and presented in compliance with the revised 2010 edition of the GIPS standards.

### Key Changes

Ms. Vincent summarized the key changes of the 2010 edition of the GIPS standards. She explained that two new provisions have been included that explicitly state requirements that had previously been implicit in the GIPS standards:

“0.A.2. FIRMS MUST comply with all applicable laws and regulations regarding the calculation and presentation of performance.”

“0.A.3. FIRMS MUST NOT present performance or performance-related information that is false or misleading.”

The following provision includes new language on ensuring the existence and ownership of client assets. There is also a related change in the Verification section to require verifiers to explicitly look at and test the firm procedures in this area.

“0.A.5. FIRMS MUST document their policies and procedures used in establishing and maintaining compliance with the GIPS standards, including ensuring the existence and ownership of client assets, and MUST apply them consistently.”

Provision 0.A.9 was 0.A.11 now states:

“0.A.9. FIRMS MUST made every reasonable effort to provide a COMPLIANT PRESENTATION to all PROSPECTIVE CLIENTS. FIRMS MUST NOT choose to whom they present a COMPLIANT PRESENTATION. As long as a PROSPECTIVE CLIENT has received a COMPLIANT PRESENTATION within the previous 12 months, the FIRM has met this REQUIREMENT.”

To provide added clarity for 0.A.9 there is now a new definition of Prospective Client revised from the one proposed in the 2010 GIPS Exposure Draft.

“PROSPECTIVE CLIENT – Any person or entity that has expressed interest in one of the FIRM’S COMPOSITE strategies and qualifies to invest in the COMPOSITE. Existing clients may also qualify as PROSPECTIVE CLIENTS for any strategy that is different from their current investment strategy. Investment consultants and other third parties are included as PROSPECTIVE CLIENTS if they represent investors that qualify as PROSPECTIVE CLIENTS.”

A significant change in the 2010 edition of the GIPS standards is that firms will be required to value investments according to a fair value methodology, when no market values are available.

Firms that manage investments that are not highly-marketable or traded in active markets will need to determine fair value using a valuation hierarchy. A recommended valuation hierarchy has been included in the GIPS standards Valuation Principles that firms may adopt. There are also some additional disclosures related to valuation.

Another significant change is that firms will be required to present the three-year annualized ex-post standard deviation of the composite and the benchmark for annual periods ended on or after 1 January 2011. This is different from the standard deviation that many firms currently use as the internal dispersion measure in their compliant presentations. This new requirement is for the standard deviation of the composite and benchmark returns, not for the underlying portfolios within the composite. Firms that

determine that this measure is not relevant or appropriate, must also present an additional ex-post risk measure.

There is a new claim of compliance disclosure for the GIPS standards. Currently, all firms use the same claim of compliance. The new claim of compliance has been modified and enhanced to include information about a firm's verification status regarding whether it has been verified or not. For a firm that has been verified, there is additional language explaining what is and is not covered by verification. It also states that verification does not provide assurance on the results of any specific composite. If a firm decides to have a performance examination on a specific composite, in addition to having a firm-wide verification, the firm may make reference to the examination and additional language is provided as well.

The composite description must also be included in the firm's list of composite descriptions and must be provided to anyone who requests the information. In the exposure draft, the concept of risk was considered a required element of the composite description. However, a required risk disclosure is not included in the language of the composite description requirement in the final edition of the 2010 GIPS standards. Executive Committee members strongly believe that performance includes both risk and return, and a discussion of risk is essential to any investment strategy description. Sample composite descriptions have been provided in Appendix A to provide guidance.

Real estate investments are currently required to be externally valued once every 36 months. In the 2010 edition of the GIPS standards firms will be required, on a prospective basis, to externally value real estate investments once every 12 months. An exception to this requirement exists if a client agreement specifies that real estate investment must be externally valued on a less frequent basis than every 12 months. A firm would then be allowed to follow the client agreement requirement (e.g., if the agreement specifies every 24 months, but no less frequently than every 36 months).

Another significant change is that for closed-end real estate fund composites, firms must also present since inception internal rates of return (SI-IRR) for the closed end real estate fund composites, in addition to the time weighted rates returns (TWRR) as is currently required.

Regarding private equity investments, there is new guidance for firms. Currently, all private equity composites are required to be created based on vintage year first and strategy second. In the 2010 edition of the GIPS standards private equity fund of funds composites are going to be allowed to create composites based on strategy. There are additional disclosure and presentation requirements if a firm has private equity fund of funds composites.

The verification section has been greatly enhanced and clarified with much more specificity added to the requirements and recommendations for verifiers.

The tax-related provisions for the United States and Italy were not included in the revised 2010 GIPS standards. For firms that have followed the tax-related provisions, the local country sponsors will now oversee that content. Details from the local country sponsors will be forthcoming in the next few months regarding the tax-related provisions for their local markets.

No change was made to the treatment of non-fee paying portfolios, so firms are not required to include them in composites. The proposed change to non-fee paying portfolios in the exposure draft that would not allow firms to exclude them from composites was removed. This reverses the proposed change from the exposure draft that required firms to include non-fee paying portfolios in composites.

It was reported that current provision 3.A.6., “Firms must treat convertible and other hybrid assets consistently across time”, was removed from the revised 2010 GIPS standards. There will be a Q&A issued to explain that firms must treat all securities types consistently.

It was reported that additional Q&As, guidance statements, and the GIPS handbook will be issued to provide guidance on changes in the 2010 edition of the GIPS standards. Firms were reminded that they not only have to comply with the GIPS standards, but must also comply with any other interpretations that are issued (e.g., guidance statements and Q&As).

Other minor edits mentioned were:

The disclosure requirement 4.A.13 will be deleted from the revised 2010 GIPS standards and the sample presentations as the disclosure regarding the ownership of the GIPS trademark was deemed not to be necessary.

“4.A.13. FIRMS MUST disclose that “GIPS is a registered trademark of CFA Institute. CFA Institute has not been involved in the preparation or review of this presentation.”

In 5.B.5, the recommendation on standard deviation now includes the language “using monthly returns”.

“5.B.5. For each period for which an annualized return of the COMPOSITE and the BENCHMARK are presented, the corresponding annualized EX-POST STANDARD DEVIATION (using monthly returns) of the COMPOSITE and the BENCHMARK SHOULD also be presented.”

Verification Section 8.A. Scope and Purpose of Verification, the word “complete” will be deleted to avoid any misconception that an incomplete verification exists.

“A.8. After performing the VERIFICATION, the verifier may conclude that the FIRM is not in compliance with the GIPS standards or that the records of the FIRM cannot support a VERIFICATION. In such situation, the verifier MUST issue a statement to the FIRM clarifying why a VERIFICATION REPORT could not be issued. A VERIFICATION REPORT MUST NOT be issued when the verifier knows that the FIRM is not in compliance with the GIPS standards or the records of the FIRM cannot support a ~~complete~~ VERIFICATION.”

In the Glossary definition of large cash flow, the word “revalued” will be changed to “valued” to be consistent with the language in the revised 2010 edition of the GIPS standards.

“LARGE CASH FLOW – The level at which the FIRM determines that an EXTERNAL CASH FLOW may distort performance if the PORTFOLIO is not ~~revalued~~ valued. FIRMS MUST define the amount in terms of the value of cash/asset flow or in terms of a percentage of the PORTFOLIO assets or the COMPOSITE assets.”

Conference call observers were informed the final version of the 2010 edition of the GIPS standards will be published and released in approximately two weeks.

Mr. Morrison commented on the risk provisions being included in the GIPS standards for the first time. He reported that a full guidance statement on risk will be released soon for public comment.

Mr. Bacon mentioned that one of the significant changes to the 2010 edition of the GIPS standards is that verifiers must obtain a copy of the firm’s policies and procedures and make sure the applicable policies and procedures are properly included and adequately documented. Verifiers cannot provide a verifier’s report if they know the firm is not in compliance. This is true even if the verifier becomes aware of a firm’s non-compliance outside of the time period the firm was being verified. He also mentioned existing procedures on new regulations regarding ensuring the existence of client assets, calculation of standard deviations, and benchmark calculations as well.

Mr. Boersma mentioned that the recent fraud cases in the industry led to inclusion of the language regarding ensuring the existence of client assets. He stated that most firms already have these policies and procedures. Verifiers will be required to test the firm’s policies and procedures, but not to actually determine or confirm the existence or ownership of all the firm assets. Verifiers may need to test a firm’s policies and procedures on a sample basis to ensure the policies and procedures are being implemented consistently.

### 3. Approve 2010 GIPS Standards

The Executive Committee approved the 2010 edition of the GIPS standards, subject to the amendments mentioned. (9 Votes)

### 4. Observer Questions & Answers

#### **David Spaulding, CIPM | The Spaulding Group | United States**

Mr. Spaulding congratulated the GIPS Executive Committee members on the work they accomplished in completing the 2010 edition of the GIPS standards. He mentioned that early adoption of the 2010 edition of the GIPS standards is encouraged, and he asked Executive Committee members to clarify whether or not a firm could pick certain parts of the 2010 edition of the GIPS standards to adopt early or if firms have to adopt the 2010 edition of the GIPS standards 100%?

Mr. Boersma responded that the 2010 edition of the GIPS standards is different from revisions in the past, as some requirements have actually been removed (e.g., tax-related provisions). If a firm were to adopt only certain elements of the 2010 edition of the GIPS standards it may cause comparability problems because firms would not be complying with either the 2005 edition or the 2010 edition. The Executive Committee believes firms should comply 100% with the 2010 edition if they decide to adopt the revised standards early. However, if firms want to continue to comply with the current 2005 edition and include any of the new requirements for the 2010 edition (e.g., standard deviation of composite and benchmark returns) there is nothing to prevent them from providing this information now. However, firms can only drop a current requirement that has been removed from the revised standards, by complying with the 2010 edition in its entirety.

Ms. Vincent mentioned that guidance is currently being developed to further explain issues regarding early adoption of the 2010 edition of the GIPS standards.

#### **Kazumichi Karita | The Securities Analysts Association of Japan | Japan**

Mr. Karita expressed his sincere congratulations to the Executive Committee members and others members of CFA Institute, country sponsors, and everyone involved with the 2010 edition of the GIPS standards.

Mr. Karita reported that the Security Analysts Association of Japan (SAAJ) has started their translation work of the 2010 edition of the GIPS standards and would like to make the translation as accurate as possible. He understands that there have been some changes to the draft 2010 edition and requested a final copy as soon as possible. He asked when the SAAJ can expect the 2010 edition to be published.

Mr. Boersma stated that he anticipates that the final version of the 2010 edition of the GIPS standards will be published within the next two weeks. He mentioned that a notice will be sent to subscribers of the GIPS Newsletter when the final version is posted on the GIPS website. Mr. Boersma suggested that anyone who has not subscribed to the GIPS Newsletter email alert visit the GIPS website to sign up at <http://www.gipsstandards.org/news/index.html>.

**Justin Guthrie, CFA, CIPM | Beacon Verification | United States**

Mr. Guthrie congratulated the Executive Committee members and everyone involved on doing a great job and truly making this a global standard over the past five years.

He asked the Executive Committee members when draft guidance on alternative investments (e.g., hedge funds) is expected to be available.

Ms. Vincent reported that the Alternative Investments Strategy Working Group has been diligently working over the past year and half to provide additional guidance to firms of alternative investments, hedge funds, etc. The first step of the project was to determine if there were any changes necessary to go into the provisions to assist the firms in how to comply with the GIPS standards. It was determined that additional interpretations of the current provisions are needed. With the finalization of the 2010 edition of the GIPS standards, the working group will complete an Alternative Investments Guidance Statement to be released in the next few months for public comment.

**Debbi Rossi, CIPM | Turner Investment Partners | United States**

Ms. Rossi also congratulated the Executive Committee members and understands that revising the GIPS standards was huge challenge and they did an excellent job.

She mentioned she has a question about provision 1.A.3.c. “No more frequently than required by the valuation policy” regarding portfolio valuations. She questioned the treatment of composites that contain mutual fund or other accounts that might have NAVs that are calculated daily, but other accounts may only be calculated monthly. Does that mean you cannot have these mutual funds in the composite or will there be further guidance regarding that issue?

Ms. Vincent responded that a firm’s valuation policy may indicate that different types of portfolios may have different valuation frequencies. For accounts that are not valued daily, the valuation policy will state they value at month end, and for cash flows above a certain amount. The policy can be composite-specific. The important aspect is to state the valuation policy for the composite, and that the policy for that specific composite addresses the different types of accounts.

She further stated that this requirement not to value more frequently is to prevent a firm from opportunistically revaluing for cash flows to boost performance.

Ms. Vincent also reported that there is a Q&A being drafted to provide further guidance on this provision.

**Mir Muhammad Ali, CFA | CFA Pakistan | Pakistan**

Mr. Ali congratulated everyone and stated that this is a significant moment, as it is keeping the GIPS standards relevant and current. He asked if there is any specific plan for public awareness and dissemination of the 2010 edition of the GIPS standards, specifically in the Asia Pacific region.

Mr. Boersma stated that press releases will be issued and there is a marketing plan to raise awareness on the 2010 edition of the GIPS standards on a regional basis. The Promotion & Awareness Subcommittee is actively involved in an ongoing public awareness program. The GIPS Today presentation will be updated for all country sponsors and our volunteers to use that will address the changes in the 2010 edition. He mentioned that they are working on as many resources as possible to help facilitate the promotion of the revised Standards.

**Philip Shea | Babson Capital | United States**

Mr. Shea asked if any of the Executive Committee members could comment on the Error Correction Guidance Statement. He mentioned that from the Singapore Meeting Summary there was a reference to lessening of the restrictions.

Ms. Vincent responded that in the exposure draft there was a requirement for firms to provide a disclosure if their compliant presentation had been updated as a result of a material error and include that disclosure for 12 months thereafter. She stated that a Q&A had previously been issued providing firms with guidance on how to comply with this requirement. The Q&A explains to firms that if the corrected compliant presentation is being provided to a prospective client that has never received the erroneous presentation then that disclosure is not required. Ms. Vincent referred Mr. Shea the Error Correction Q&A posted on the GIPS website for additional guidance.

Mr. Boersma stated that the Q&A was provided to further explain that the error correction disclosure requirement is not to be punitive to firms to disclose a material error to prospective clients who never received the erroneous presentation. There are additional questions from firms (e.g., whether firms are required to provide a corrected compliant presentation to prior prospective clients that are no longer prospective clients). He stated that Q&As will be developed to address these issues.

**Brian Chapman | KPMG | United Kingdom**

Mr. Chapman requested additional clarification on provision 1.A.3.c. regarding a firm's valuation policy, firms may continue to value mutual funds daily and other segregated accounts monthly, subject to large cash flow requirements.

Ms. Vincent responded that firms may continue to do so as long as their valuation policy specifically addresses how the different types of accounts will be valued.

Mr. Boersma stated that provision 1.A.3.c. may seem counterintuitive but it is to prevent cherry picking and selectively revaluating a portfolio when it is beneficial even if it is below the threshold set in the policy.

**Diane Robertson, CIPM | Legg Mason & Company | United States**

Ms. Robertson began by congratulating everyone and stating that this is an historic day. She asked how meaningful the changes are in the verification guidance and clarification on how a verifier would conduct a verification before and after the 2010 edition of the GIPS standards?

Mr. Bacon responded that the most verifiers on the Verification/Practitioner Subcommittee stated that they are already performing most of requirements. The verification section language is now more specific and the wording has been tightened up. He did acknowledge that several more things are being required. The verifiers on the Subcommittee believe the GIPS standards are now just catching up to how they perform verifications. Mr. Bacon stated that verification is an open discussion and in the upcoming conferences they want to gather wider input from other verifiers in the industry. He stated there is a little bit extra required but many verifiers will claim they have already been following the new verification requirements.

Ms. Vincent agreed with Mr. Bacon's assessment.

**Naoko Mori | The Securities Analysts Association of Japan | Japan**

Ms. Mori mentioned in Japan there is a firm that wants to continue to calculate carve-out returns by the cash allocation method and want to continue to present carve-outs returns in some way even after 1 January 2010. She asked if the Executive Committee members have any plans to consider any measures to allow such a request for periods after 1 January 2010.

Mr. Boersma responded that the changes regarding carve-outs have been discussed for quite some time. The final version of the 2010 edition of the GIPS standards does not allow firms to continue to allocate cash as it did in the past. His suggestion to the firm, if they want to remain in compliance, is to only show those returns with allocated cash as supplemental information. But the actual compliant returns may not include the allocated cash after 1 January 2010.

Mr. Bacon also agreed and suggested another way is for the firm to manage those accounts as sub-portfolios with their own cash. Carve-outs managed with their own cash can still be used but the cash allocation process cannot.

Ms. Vincent agreed and mentioned that Q&As have recently been issued that provide more guidance on what firms are required to do and may do with regard to carve-outs as of 1 January 2010.

**Kevin Chin | Deutsche Bank | United States**

Mr. Chin mentioned that regarding large cash flows, his company is currently using the true-time weighted method of calculating performance. But a small percentage of the securities are illiquid and hard to value, but is the firm required to revalue these hard to value securities for large cash flows if they are not material?

Ms. Vincent stated that a firm must determine for themselves how securities are to be valued in accordance with the requirement of the Standards. The firm has to establish those procedures and follow them consistently. Your firm has to decide exactly how those illiquid or hard-to-value securities will be valued, not only at month end but also for any cash flow during the month. The firm needs to pick a policy, decide how you are going to do it, and apply it consistently.

Mr. Boersma mentioned that the whole point of this requirement is for returns to be more accurate. The distorting effects of large cash flows are present regardless of the types of assets that you are invested in. If you are holding these difficult to value securities, firms will need an internal process and procedures regarding the valuation of those in the event of a large cash flow.

Mr. Bacon reiterated that the issue is for the firm to be consistent in the application of the valuation policy they develop. Firms need to make ensure there is no element of self-selection. Firms need to determine their valuation policy for valuing these assets in the portfolio and apply it consistently over time.

With no further questions, the observer question and answer portion of the call was ended.

## **5. Upcoming GIPS Executive Committee Meetings**

It was mentioned that there will be a GIPS standards conference in London on 24-25 February that will provide details on how firms should implement the changes in the 2010 edition of the GIPS standards as well as an interactive workshop in Phoenix, Arizona on 11 March.

It was announced that the next GIPS Executive Committee in-person meetings will be held in Lisbon, Portugal on the 17, 18 and 19 March 2010.

The subsequent GIPS Executive Committee in-person meeting will be held in San Francisco on the 27<sup>th</sup> of September 2010.

Mr. Illmer stated that this is a great day for the GIPS standards and for the asset management industry. He thanked the observers, the country sponsors, the volunteers in the GIPS initiatives, and all interested parties.

**Adjourn – 10:14 a.m.**