



Global Investment Performance Standards

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

Date:	Tuesday 28 September 2010
Location:	In-Person Meeting – San Francisco, California, USA
Time:	8:00 a.m. to 12:00 p.m.
Members Present:	<p>Carl Bacon, CIPM – Executive Committee Chair and Verification/Practitioner Chair Jonathan Boersma, CFA – GIPS Executive Director Louis Boulanger, CFA – GIPS Council Chair Todd Juillerat, CFA – Americas RIPS Chair Iain McAra – Investment Manager Chair Colin Morrison – Investor/Consultant Chair Trevor Persaud – Asia Pacific RIPS Chair Dimitri Senik, CFA – EMEA RIPS Chair Karyn Vincent, CFA, CIPM – Interpretations Chair</p>
Observers:	<p>Jennifer Allison, CFA, CIPM – United States Janice Brunas – Canada Kamelia Dari, CIPM – United States Brian Chapman – United Kingdom Garvin Deokiesingh, CFA – Canada Justin Guthrie, CFA – United States Sandy Ho – United States Laura Jirele-Borleske, CFA, CIPM – United States Yoh Kuwabara – Ernst & Young ShinNihon LLC – Japan Valerie Lamanna, CIPM – United States Douglas Lempereur, CFA, CIPM – United States Annie Lo, CFA, CIPM – United States Jenny Lor, CIPM – Hong Kong Sunette Mulder – South Africa Justin Pak - Korea Hans Pieper - Germany Ann Putallaz, CIPM – United States David Spaulding, CIPM – United States Leisa Western, CIPM – United States</p>
Staff Present:	<p>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</p>

Action Items

- CFA Institute staff will distribute the GIPS Strategic Plan to Country Sponsors, post it on the GIPS standards website, and announce its posting in the GIPS email newsletter after it is approved by the GIPS Executive Committee

Decision Points

- Executive Committee members voted on a proposal to remove the Supplemental Information – Verification section in the draft Guidance Statement on the Use of Supplemental Information. (2 Votes For, 7 Votes Against – proposal not passed)
 - Executive Committee members voted on a proposal to amend the first sentence of the Supplemental –Verification section in the draft Guidance Statement on the Use of Supplemental Information to state that the firm’s policies and procedures related to Supplemental Information are subject to verification (although Supplemental Information as a subject matter or specific Supplemental Information is not subject to verification). (6 Votes For, 3 Votes Against – proposal not passed)
 - Executive Committee members approved the following 11 Guidance Statements:
 - Calculation Methodology
 - Composite Definition
 - Definition of the Firm
 - Performance Record Portability
 - Fees
 - Significant Cash Flows
 - Error Correction
 - Recordkeeping
 - Treatment of Carve-Outs
 - Supplemental Information
 - Wrap Fee/Separately Managed Accounts (SMA)as amended with minor editorial changes. (9 Votes For)
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Mr. Bacon welcomed everyone to an open in-person meeting of the GIPS Executive Committee.

Participants were notified that the meeting is being recorded, including the Observer Question and Answer portion at the end of the meeting, and that the recording will be posted and available on the GIPS standards website as has been done previously with GIPS Executive Committee Open Meetings.

1. Approve GIPS Guidance Statements

It was reported that the 11 revised draft Guidance Statements included in the materials for the meeting were revised to reflect the 2010 edition of the GIPS standards and that additional changes will be made to the documents to reflect minor editorial changes. It was noted that the Q&As previously listed in the Guidance Statements have been removed and posted on the Q&A database on the GIPS standards website.

The Executive Committee highlighted the key revisions and changes being considered in each of the Guidance Statements.

- Calculation Methodology
 - Included the mathematical formulas.
 - Revising the text following the formulas has been revised and simplified so that it is more intuitive.
 - Clarify that the weighting of the cash flows assumes the end of the day cash flow assumption.
 - Ensure that the updated notations in the Calculation Methodology Guidance Statement are also made to the Private Equity Guidance Statement.
 - Clarify that calculating the portfolio weights is just the first step in calculating the composite return.

- Composite Definition
 - In the Discretion section, the word “should” will be changed to “must”, in the sixth sentence of the second paragraph, to be consistent with requirements in the 2010 edition of the GIPS standards.
 - Unique issues that occur when a firm initially comes into compliance need to be addressed in the future.
 - Need to develop broader guidance regarding benchmark construction. Specifically needed is clarification related to dynamic benchmarks and what needs to be disclosed (or not disclosed) and if such a benchmark is appropriate.

- Definition of the Firm
 - In the Introduction section, the word “must” will be changed back to “should” in the third sentence of the first paragraph and in the fourth paragraph.

- Performance Record Portability
 - No additional changes to this document.

- Fees
 - The Descriptions of Scenarios section show arithmetic differences between returns, fees, and examples. This schedule is useful, but a footnote will be added to explain it is only an illustration of which different fees are included and not a technically correct way of calculating fees.
 - The issue of performance fees is not included in the Fees Guidance Statement, but will be addressed in future guidance.
 - In the Sub-advisor, Pooled Investment Vehicles section it was decided to further address the issue of investing in underlying funds that have expenses and to provide guidance as to what should be grossed up or not grossed up.

- Significant Cash Flows
 - Q&A will be developed addressing the application of a significant cash flow policy for firms initially coming into compliance with the GIPS standards.
 - In the Temporary New Accounts section, revised the phrase in the first sentence of the second paragraph “are not required to” to “must not” to avoid confusion.
 - In the Temporary Removal of Entire Portfolios with Significant Cash Flow section, additional guidance will be provided to state that if a composite loses all its portfolios due to significant cash flows, a break in performance does not mean that firms can disregard the composite performance, they must report performance prior to the break.
- Error Correction
 - Incorporated guidance that had been issued via Q&As to further clarify the guidance.
 - Discussed providing guidance to assist firms in defining materiality as it applies to Error Correction.
- Recordkeeping
 - In the Guiding Principles section 10, incorporate guidance from a Q&A to revise the language regarding missing records and a catastrophic event to state that if a firm claims compliance initially it can continue to claim compliance as long as there is disclosure that the missing records were destroyed because of extreme circumstances.
- Treatment of Carve-Outs
 - No additional changes to this document.
- Supplemental Information
 - There are only minimal changes to the Guidance Statement.
 - Developing several Q& As to address areas such as risk-adjusted performance which should not be classified as Supplemental Information and issues of presenting model, hypothetical, backtested, and simulated returns.
 - Clarify that Supplemental Information can be supplemental to a presentation (can be a separate document) and if it needs to be in the presentation. However, Supplemental Information must still be supplemental to a compliant presentation and not supplemental to something else.
 - Discussed whether Supplemental Information should be subject to verification. The Executive Committee clarified that verification is the review of a firm’s policies and procedures. Supplemental Information needs to be clearly and appropriately labeled as supplemental as it is performance information and performance data is not verified, it is the policies and procedures of the firm that are verified. A Q&A to clarify Supplemental Information and verification will be developed.

Executive Committee members voted on a proposal to remove the section on Supplemental Information – Verification in the draft Guidance Statement on the Use of Supplemental Information (Revised). (2 Votes For, 7 Votes Against)

Executive Committee members voted on a proposal to amend the first sentence in the Supplemental – Verification section to state that the firm’s policies and procedures related to Supplemental Information are within the scope of verification, although specific Supplemental Information is not. (6 Votes For, 3 Votes Against)

- Wrap Fee/Separately Managed Accounts (SMA)
 - The Executive Committee noted that the example of the presentation in Exhibit A relating to “Pure” Gross Returns versus Net Returns does not apply to bundled-fee portfolios or other composite presentations; Exhibit A is specific only to Wrap Fee/SMA composites. This is an exception for Wrap FeeSMA portfolios.

The Executive Committee approved the following 11 Guidance Statements:

- Calculation Methodology
- Composite Definition
- Definition of the Firm
- Performance Record Portability
- Fees
- Significant Cash Flows
- Error Correction
- Recordkeeping
- Treatment of Carve-Outs
- Supplemental Information
- Wrap Fee/Separately Managed Accounts (SMA)

as amended with minor editorial changes. (9 Votes)

Review Guidance Statements Out for Public Comment

It was mentioned that three additional Guidance Statements have been released for public comment: Private Equity, Real Estate, and Verification. Comments are due no later than 25 November 2010.

It was mentioned that the draft Guidance Statement on Private Equity follows a similar format as the *GIPS Handbook* which is helpful in explaining the provisions. There was discussion on including IRR and the J curve in the Guidance Statement on Private Equity, but it was previously decided that those details are more general education and not specific to the GIPS standards. It was suggested that this information be included in the final version of the Guidance Statement.

It was explained that because of the number of changes to the Guidance Statement on Real Estate, it was decided not to provide a tracked-changes version of this document that might cause undue confusion.

It was noted there are very few changes to the Guidance Statement on Verification and most of the revisions are to provide additional clarification or due to the 2010 edition of the GIPS standards.

2. Discuss the GIPS Executive Committee Strategic Plan

It was reported that the Executive Committee held wide-ranging discussions on developing the Strategic Plan for 2015. It was mentioned that the GIPS standards are under constant review, but it is important not to make significant changes too quickly as the GIPS standards have a solid foundation. There is, however, a large demand for guidance in other areas and on different topics that need to be addressed in Guidance Statements, Q&As, etc.

The Mission is: “To ensure that the GIPS standards are the premier performance standard globally and continue to represent best practice for the calculation and presentation of investment performance information.”

The Executive Committee reviewed the different categories of the Executive Committee Strategic Plan:

- Evolve – develop interpretations and guidance on the application of the GIPS standards
- Expand – add new content to the GIPS standards as needed
- Engage – increase involvement of asset owners, consultants, regulators, and Country Sponsors
- Evaluate – review governance structure to ensure smooth administration and oversight of the GIPS standards
- Extend – increase the depth and breadth of the reach of the GIPS standards, both geographically and by asset class/investment type
- Educate – provide on-going educational materials and training

It was mentioned that it is well recognized that investors are underrepresented within the GIPS structure. The Investor/Consultant Subcommittee has reached out to investor organizations and individual asset owners. The Executive Committee will include initiatives within the Strategic Plan for investor outreach.

It was reported that the Executive Committee discussed the roles and responsibilities of Country Sponsors. The Executive Committee has asked the GIPS Promotion & Awareness Subcommittee to develop an educational plan and work with Country Sponsors to contact and engage their local regulators to further promote the GIPS standards and maintain the integrity. This type of educational component could provide Country Sponsors a process to use in educating a firm that may appear to have a false or misleading claim of compliance.

The Executive Committee discussed the importance and relevancy of extending guidance for the application of the GIPS standards to the retail products.

Executive Committee members prioritized projects on the draft GIPS Strategic Plan. Higher level priorities include:

- GIPS Handbook – target date is the end of 2011
- Review all the Q&As in the database to be revised and/or delete those no longer applicable
- Outreach to pension plans or entities that manage discretionary assets regarding application of the GIPS standards
- Develop guidance on the calculation and use of the Internal Rate of Return (IRR)

- Applying the GIPS standards to retail products (e.g., pooled funds, mutual funds, etc.). It is important to engage regulators in developing this guidance, especially in Europe. This area needs to be addressed with wide ranging topics such as fees, composite construction, compliant presentation delivery, etc.
- Develop guidance on performance fees
- Develop guidance to assist firms in defining materiality
- Develop additional guidance on benchmarks selection and construction
- Develop guidance on mergers and acquisitions that is broader than what is provided in the Guidance Statement on Performance Record Portability.

Once the Executive Committee approves the GIPS Strategic Plan it will be distributed to GIPS Country Sponsors, posted on the GIPS standards website and a link provided through the GIPS email newsletter.

3. Discuss Subcommittee Key Projects

It was reported that the Subcommittee Update Reports were posted on the GIPS standards website as part of the meeting materials.

Mr. McAra mentioned three key projects being considered by the Investment Manager Subcommittee:

- Benchmarks – identifying problem areas, areas for clarification, and their use within the GIPS standards;
- Consultant Databases – provide consultants with better questions to gather more meaningful data – interact with the Investor/Consultant Subcommittee on this project; and
- Addressing Developing Markets – identify best practices in performance reporting in developed markets which investment managers in emerging markets can use.

He briefly mentioned several other topics that the Investment Manager Subcommittee has been discussing which have also been identified as projects on the GIPS Strategic Plan.

Mr. Boersma acknowledged and thanked Ms. Mulder, previous chair of the Investment Manager Subcommittee and Executive Committee chair, who is attending the meeting as an observer. Ms. Mulder is the current chair of the Promotion & Awareness Subcommittee and he thanked her for her on-going contributions.

Mr. Boersma thanked Ms. Vincent and the Interpretations Subcommittee members for their extraordinary commitment over the past year.

4. Discuss Draft Guidance/Interpretations

Performance Examinations

The Guidance Statement on Performance Examinations is currently in the process of being revised to provide additional clarification and will be released for public comment in the near future.

Verifier Independence

The Guidance Statement on Verifier Independence was not impacted by changes to the 2010 edition of the GIPS standards and will be reviewed in 2011.

Alternatives Guidance Statement

A final draft of the Guidance Statement on Alternatives is underway for review by the Executive Committee in the coming weeks. Examples of some of the topics included are: side pockets, master feeder structures, currency hedging, and estimated versus final values. It is anticipated that the Guidance Statement on Alternatives may be released for public comment by the end of November.

Risk Guidance Statement

It was reported that the Risk Working Group has had wide ranging discussions regarding the topics to address in the guidance and include materiality and the appropriateness and selection of risk measures. There is a question of whether this guidance on risk will be limited to the explanation of the provisions in the GIPS standards or should it be an opportunity to have some harmonization with other best practices papers and behaviors in the industry.

It was mentioned that the inclusion of standard deviation is not intended to indicate that it is the ultimate risk measure but it is a starting point, a common measure, a reasonable measure, easy to calculate, and relatively well understood. Standard deviation provides an element of comparability.

5. Other Business

It was reported that the Executive Committee approved a Q&A on dynamic Benchmarks to address disclosure requirements.

It was announced that the Executive Committee members re-elected Mr. Bacon to be the incoming Executive Committee chair beginning 1 September 2011.

It was communicated that the Executive Committee discussed whether a formal review of the GIPS standards should be conducted every five years. The Executive agreed the industry is not necessarily best served if the GIPS standards are continually changing the core provisions. It was mentioned the GIPS standards are under constant review for new or needed guidance. The GIPS standards evolve as needed and consideration should be given to if a timeline of when to consolidate any new material into the document is needed.

There was a discussion on the importance of identifying the dates at which specific provisions were in effect to follow the progression of the GIPS standards for historical compliance purposes.

6. Observer Q&A

David Spaulding, CIPM – The Spaulding Group

Mr. Spaulding thanked the Executive Committee for the opportunity for observers to attend this open meeting and to ask questions.

Mr. Spaulding stated that the section on fund of funds in the Guidance Statement on Private Equity mentions Evergreen funds possibly using internal rate of return (IRR) because it would be difficult to use time weighting return (TWR). He mentioned that there are other areas where it is difficult to use time weighting return (TWR) and he encouraged the Private Equity guidance to be broadened to include any asset class when the manager controls the flows.

Mr. Spaulding commented on the earlier risk discussion and agreed that developing guidance on risk will be quite challenging as everyone's definition of risk is probably different.

Mr. Bacon responded there are gaps and overlaps between Private Equity, Real Estate and the general GIPS standards, leaving questions about when the Private Equity or Real Estate rules apply, and when should the GIPS standard rules apply. Mr. Bacon stated there is a need to provide more information about the internal rate of return calculation, its issues, its advantages, and disadvantages and additional guidance would be extremely useful.

Mr. Boersma agreed on the need for additional guidance regarding use of the internal rate of return. In terms of risk, Mr. Boersma agreed the GIPS standards have made tremendous progress regarding the return component of performance, whereas the work on risk is just beginning so there is obviously room for growth. He agreed there needs to be flexibility and does not believe the GIPS standards will be overly prescriptive.

Mr. Morrison stated that in looking at the evolution of calculated returns; he hopes we are pretty close to the end of that evolution. Risk is quite different and we are still very much on that steep curve. There are new techniques, new applications, and new uses which he expects in a year or two there will be alternative or additional ways of calculating and applying risk.

Douglas Lempereur, CFA, CIPM – Franklin Templeton Investments

Mr. Lempereur thanked the Executive Committee for giving him this opportunity to speak. He agreed with Mr. Spaulding that the key point on internal rate of returns is who controls the timing of the cash flows in terms of when you use IRR and when you don't. So it really does not make any difference if it is closed end or not or if it is private equity or not but who controls the timing of the cash flows.

Mr. Bacon mentioned that he agrees that it should be a bit more flexible but it may not be quite as simple as who controls the timing of the cash flow. There are other issues involved such as the ability to obtain the prices, liquidity in an underlying asset category, as well as other issues. Just because a firm controls the cash flow does not automatically mean the internal rate of return must be used. Mr. Bacon agreed that you might want to use IRR for other asset categories, but because control of the timing of the cash flows does not necessarily mean IRR must be used. Mr. Bacon said this is a big issue and needs a lot of time and consideration of all the aspects involved.

Mr. Lempereur mentioned his firm has a large presence in India and asked when a Country Sponsor is going to emerge in India.

Mr. Persaud responded there is not a candidate at this time for a Country Sponsor in India. However, over the past year the Securities and Exchange Board of India (SEBI) has been in communications with other Asian regulators about performance as well as risk and other types of regulatory tightening around mutual funds and investments generally. Mr. Persaud said that he was part of those discussions with SEBI and the Monetary Authority in Singapore (MAS). They are keen to see the institutional business growing in India, to identify a best practice standard that they would want to endorse. There is a hard line between retail, mutual funds, asset managers, and insurance company assets managers. There has been movement of mutual fund managers into the institutional space and there is a growing interest in the GIPS standards. He stated that this is a

country that has been identified on the Strategic Plans to actively work more with in establishing a Country Sponsor, as well as China.

Mr. Boulanger agreed that India is an important market, and it is a perfect example of the need to focus on the retail market.

Mr. Boersma agreed that India and China, are on the list of countries where the Executive Committee would like to see greater activity and outreach that will materialize in Country Sponsors. Other areas of focus for Country Sponsors are the Middle East and Latin America. It is important to get the right organizations that step into the role of becoming a Country Sponsor and to ensure that they are appropriate and capable of succeeding in that role.

David Spaulding, CIPM – The Spaulding Group

Mr. Spaulding commented he appreciated the motion to remove the paragraph on Supplemental Information - Verification in the Guidance Statement on the Use of Supplemental Information. Not that he disagrees with it, but it is such a significant change that more discussion is necessary. He supports verifiers including a review of supplemental information, but there is a need for more guidance.

Mr. Spaulding mentioned that he would love to see more countries in the Americas region become Country Sponsors.

Mr. Boulanger asked Mr. Spaulding to provide ideas on expanding Country Sponsors in the Americas and the most efficient ways to reach out to potential Country Sponsors to balance priorities and costs.

Mr. Juillerat agreed with Mr. Spaulding that it has been disappointing that there are not more Country Sponsors in the Americas RIPS at this time. He stated there have been outreach efforts and in just the past two weeks there has been further dialogue with organizations in a number of different countries in Latin America.

Mr. Boersma stated we do not want to bring on a new Country Sponsor prematurely. We need to ensure that the organization is properly positioned and capable to succeed in such a role.

Justin Guthrie, CFA – ACA Compliance Group

Mr. Guthrie mentioned that it is great to hear the commentary about strategic initiatives, outreach, and education in emerging markets. He inquired whether the Executive Committee, as they evaluate these types of things, collect any data at a global or country level about the take-up of the GIPS standards.

Mr. Bacon responded that it is certainly part of the strategic plan.

Mr. Boersma stated that the Executive Committee is looking to have greater market research available and will be conducting market research surveys and works with consultant databases to gather market data.

Brian Chapman – KPMG, London

Mr. Chapman responded to the Executive Committee comments regarding changing the on-going review of the GIPS standards and moving toward more organic growth and demand. He supports this change and believes it reflects that the GIPS standards are starting to mature. He noted that one of benefits of the quinquennial review is that it generates media attention around the interpretations and practical application of the GIPS standards. Mr. Chapman suggested that the Executive Committee consider how to communicate more effectively about the evolving changes to the GIPS standards so that people keep up to date.

Mr. Chapman commented on the moving into new markets and stated that it is quite disappointing that the majority of the people involved in the GIPS standards are not the people for whom they were originally intended. He mentioned that they were not established for the asset managers, performance measurers, or verifiers; they were established to protect and help investors compare investment firms and their reported performance results. In some of the emerging markets where he has been working, adoption of the GIPS standards has been successful as a result of investors driving the demand. For example, in Korea the national pension service said they wanted managers to comply with the GIPS standards, resulting in firms becoming compliant. In Mexico, the new mandatory savings scheme is currently setting criteria for managers who will be eligible. When investors start to demand compliance, the managers will follow. From that perspective, in the United Kingdom there is a model that is unusual, if not unique, in that the Country Sponsor is a committee made up of a number of constituencies including the National Association of Pension Funds and Association of British Insurers (both investor groups). These are the stakeholders who need this information. That is a model well worth looking at in other areas around the world.

Mr. Boersma agreed that major stakeholders or beneficiaries of the GIPS standards are the investors and they are largely underrepresented. Through the Investor/Consultant Subcommittee there is designated representation on the Executive Committee with Mr. Morrison as chair. He stated that the Executive Committee would like to see representatives from those areas on many of the subcommittees.

Garvin Deokiesingh, CFA – Canadian Investment Performance Committee (CIPC)

Mr. Deokiesingh stated that he would like to see more emphasis in the strategic plan in the area of pension plans. In discussions with Canadian pension plans they have stated that while they are not sovereign wealth funds, they do have the ability to significantly influence the Canadian and global markets. He mentioned that they are fortunate to have a pension fund representative serve on the CIPC, and that is a direction other County Sponsors should look toward.

Annie Lo, CFA, CIPM – Member of United States Investment Performance Committee (USIPC)

Ms. Lo stated that she appreciates the fact that retail products will be looked at, including fees, prospectus, and all aspects. She hopes the Executive Committee will also look at helping compliance and legal staff better understand the GIPS standards and why compliance is important. Additional guidance from the Executive Committee would definitely help advocate for compliance with the GIPS standards in the retail business.

Mr. Bacon stated the Executive Committee will certainly consider these elements of retail products.

Mr. Bacon thanked everyone for their attendance and questions.

Meeting adjourned