



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

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**Date:** Friday 23 September 2011

**Location:** In-Person Meeting – Hong Kong

**Time:** 1:00 p.m. to 5:00 p.m.

**Members Present:** Carl Bacon, CIPM – EC Chair and Verification/Practitioner Chair  
Jonathan Boersma, CFA – GIPS Executive Director  
Louis Boulanger, CFA – GIPS Council Chair  
Yoh Kuwabara – Interpretations Chair  
Iain McAra – Investment Manager Chair  
Colin Morrison – Investor/Consultant Chair  
Ann Putallaz, CIPM – Americas RIPS Chair  
Dimitri Senik, CFA – EMEA RIPS Chair

**Members**

**Absent:** Trevor Persaud – Asia Pacific RIPS Chair

**Observers:** Karl Lung, CFA – Hong Kong  
Kazumichi Karita – Japan  
Kilyong Kim, CFA - Korea  
Peter McCaffrey – New Zealand  
Mir M. Ali, CFA – Pakistan  
Mike Seng – Singapore  
Prassanna S.R. Casie Chitty, CFA, CIPM – Sri Lanka  
Mayumi Takahashi, Deloitte Touche Tohmatsu, LLC  
Laurent Laclaverie, StatPro Asia, Ltd.  
Chengsen Yeh, CFA, Ernst & Young  
Vincent Di Vasta, Manulife Asset Management  
Jenny Lor, CIPM – Hong Kong  
Shawn Zhang – Hong Kong  
Jerome Chung – Hong Kong  
Frederick Tsang, CFA – Hong Kong

**Staff Present:** Fannie Fang, CFA, CIPM – Director, Global Investment Performance Standards  
Cindy Kent – Director, Global Investment Performance Standards  
Beth Kaiser, CFA, CIPM – Director, Global Investment Performance Standards  
Ken Robinson, CFA, CIPM – Director, Global Investment Performance Standards  
Joanna Kwok – CFA Institute  
Shirley Ng – CFA Institute  
Terry Lee – CFA Institute  
Samuel Lum, CFA – CFA Institute  
Wendy Guo – CFA Institute  
Padma Venkat – CFA Institute  
Virginia Bonanni – CFA Institute  
C.K. Lee, CFA – CFA Institute

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### **Action Items**

- Country Sponsors were requested to review the GIPS EC Strategic Plan when it is posted for the public and to provide feedback on the items priorities and make suggestions of any items that they would like to be considered to be included.
- Mr. Senik, the EMEA RIPS chair, will bring the Germany Country Sponsor draft position paper on the calculation of assets under management to the attention of the Interpretations Subcommittee.
- Mr. Senik, along with CFA Institute staff, will develop a presentation on alternatives to be distributed to GIPS Country Sponsor to utilize in their promotional activities once the Guidance Statement has been finalized and released.
- CFA Institute staff will organize outreach efforts to promote the Guidance Statement on Alternative Investment Strategies and Structures once it is finalized.
- Mr. Senik will add the issue of a second public comment period for a Guidance Statement to the EMEA RIPS Agenda for their November 2011 in-person meeting.
- Mr. Boersma suggested that although it resides outside of the GIPS standards, an update on the Investment Reporting Working Group could be presented at the March 2012 in-person meetings.

### **Decision Points**

- The Executive Committee approved the GIPS EC Strategic Plan, as amended, by including an additional item under 2.0 Expand portion of the Plan regarding other potential alternatives strategies.  
(8 Votes)
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Mr. Bacon welcomed everyone to the open in-person meeting of the GIPS Executive Committee. Participants were notified that the meeting is being recorded and will be posted as an audio recording on the GIPS standards website along with a copy of the Executive Committee Open Minutes.

## **1. Approve GIPS EC Strategic Plan**

The GIPS Executive Committee discussed the GIPS EC Strategic Plan that outlines the work that is being done and the projects to be addressed in the future. It was mentioned that the GIPS EC Strategic Plan is broken down into six main areas:

- Evolve: develop interpretations and guidance on the application of the existing GIPS standards;
- Expand: add new content to the GIPS standards as needed;
- Engage: increase the involvement of investors, 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; and
- Educate: provide on-going educational resources and training.

It was reported that the Investor/Consultant Subcommittee is planning to engage asset owners and consultants by speaking at targeted conferences, participating in various industry groups and other initiatives. The Subcommittee is developing a presentation as a tool to educate investors and provide insight on what the investor should look for in a compliant presentation. The presentation will demonstrate how the required measures are presented alongside the disclosures.

It was reported the top priorities of the GIPS EC Strategic Plan are:

1. Pooled Funds and Retail Products

The GIPS standards lack clear guidance regarding the treatment of pooled funds and retail products. In general, firms want to include assets from these products in total firm assets, yet few provide compliant presentations to prospective pooled fund investors. At the same time, presenting composite performance that includes multiple portfolios may not be appropriate to present to a prospective pooled fund investor. Firms are unclear about their responsibilities, which has led to inconsistent treatment. Certain markets are dominated by retail pooled funds and in order to reach these markets, it is critical that clear guidance be developed.

2. Risk Guidance

The 2010 edition of the GIPS standards introduced a few provisions related to risk. It is essential to develop guidance to explain these requirements, provide examples, and guide firms.

3. Update Supplemental Information Guidance Statement

The use of supplemental information continues to be an area of confusion. Clarity is needed regarding what is supplemental information, what must be labeled, and where it can appear. In addition, when a firm introduces a new product and presents model, hypothetical, or back-tested performance, guidance is needed regarding how this information can be used.

4. Guidance on Overlay Assets

The GIPS standards currently offer little guidance regarding the treatment of overlay strategies. Overlay strategies present a number of challenges including calculation of firm assets, composite construction, and return calculation. The growth of overlay strategies underscores the need for guidance in this area.

5. Update/Expand Performance Record Portability Guidance Statement

The ongoing consolidation and merger and acquisition activities in the industry highlight the need for clear guidance related to the treatment of the performance records of the firms. In many instances it is the performance record that is being acquired and clear guidance in this area is a necessity. Merged composites and determination of a surviving track record are specific areas that

require clarification. In addition, guidance is needed regarding the period of time between acquisition and full integration into the merged or acquired firm.

It was highlighted that during the past year activities have been focused on the process of updating all the Guidance Statements, 300 existing Questions and Answers, and the *GIPS Standards Handbook* to make all these documents consistent with the latest edition of the GIPS standards. It was mentioned that the target is to complete the updated *GIPS Standards Handbook* by the end of the year. It was announced that an electronic copy of the *GIPS Standards Handbook* will be made available for the first time for free and that a hardcopy of the Handbook will still be available for purchase.

A proposal was made to include an additional item under 2.0 Expand portion of the GIPS EC Strategic Plan regarding other potential alternatives strategies.

GIPS Country Sponsors are requested to review the GIPS EC Strategic Plan when it is posted publicly and to provide feedback on the items priorities and to make suggestions of any items that they would like to be considered for inclusion.

It was mentioned that the final GIPS EC Strategic Plan will include an explanation of the objectives of the items and posted on the GIPS Standards Website by the end of October 2011. It was stated that only those items on the GIPS EC Strategic Plan that are currently ongoing or that have resources committed will have a scheduled date assigned. It was mentioned that the GIPS EC Strategic Plan is not a one year plan, but a dynamic document subject to change due to other initiatives developing in the industry or the characteristics of the GIPS standards.

The Executive Committee discussed enlisting the expertise of Country Sponsors in preparing initial drafts for some of the topics in the GIPS EC Strategic Plan. There is an item on the Plan to develop a detailed process for papers submitted by Country Sponsors.

The Executive Committee approved the GIPS EC Strategic Plan, as amended, by including an additional item under 2.0 in the Expand section regarding other potential alternatives strategies.  
(8 Votes)

## 2. EC Subcommittee Key Projects

### Investment Manager Subcommittee

It was reported that the Investment Manager Subcommittee is currently focused on two main projects:

- **Implementation Assistance:** A document to address specific challenging issues that firms encounter if the resources to implement/maintain the GIPS standards are not as readily available or established. Simple steps for firms beginning compliance are available on the GIPS standards website, the Investment Manager Subcommittee is developing more detailed explanations and illustrations.
- **Benchmark:** The Investment Manager Subcommittee is developing clarification of the provisions and Q&As related to benchmarks from the 2010 edition of the GIPS standards and is reviewing and updating the necessary discussion section of the *GIPS Standards Handbook*. The scope of the project is confined to Sections 0-5 and 8 given that the benchmark

associated with real estate investments will be addressed by the Real Estate Working Group and the benchmark related provisions have already been addressed by the Private Equity Working Group.

It was suggested that the Investment Manager Subcommittee should consider creating a case study paper on the benefits for investment managers on becoming compliant with the GIPS standards, not only based on client demands, but in areas such as improved internal controls, improving performance information, etc.

#### Retail Project

It was stated that the issue of retail is a fairly broad topic which is in the initial stages of being reviewed to better clarify the application of the GIPS standards for retail products. It was mentioned that the first step is to define the scope surrounding the retail issue and then solicit feedback from the industry before developing guidance. It is anticipated that information regarding the Retail Project will be presented at the GIPS meetings in March 2012.

It was mentioned that the Retail Project should be linked to the Regulator Relationship initiative as one of the objectives is to bridge the gap between regulations.

#### Real Estate Working Group

It was reported the Executive Committee recently reviewed an initial draft of a paper on Component Returns for Real Estate which has taken a significant amount of time and resources to produce.

#### Americas RIPS

It was reported that the Americas RIPS Country Sponsors have made continued progress on the Guidance Statement on the Applicability of the GIPS standards to Plan Sponsors and the draft is currently being finalized and will be presented to the GIPS Executive Committee for their review.

#### Promotion & Awareness Subcommittee

It was mentioned that Todd Juillerat, CFA, is currently serving as Chair of the Promotion & Awareness Subcommittee, which is a very active subcommittee with the purpose of developing marketing pieces and promoting the GIPS standards.

It was reported that the Investor/Consultant Subcommittee will be working with the Promotion & Awareness Subcommittee on the project of establishing relationships with asset owners.

#### EMEA RIPS

An important initiative of the EMEA RIPS is to establish relationships with the supranational regulators in the European Union in order to provide comments on forthcoming legislation during the consultation and hearing process. It was reported that Colin Morrison will chair the EMEA RIPS Regulator Relations Working Group and that the Terms of Reference are currently being drafted. One of the main objectives of the EMEA RIPS Regulator Relations Working Group is to harmonize regulations at the pan-European level with the GIPS standards.

It was reported the Germany Country Sponsor established a working group which prepared a draft position paper on the calculation of assets under management for the GIPS standards. A number of

issues have been identified in this draft paper to enhance the GIPS standards framework. The draft position paper mainly reviews calculations for overlay products which should be tied into the overlay guidance project on the GIPS EC Strategic Plan. It was stated that the EMEA RIPS chair will bring this draft position paper on the calculation of assets under management to the attention of the Interpretations Subcommittee.

It was announced that Luxembourg CFA Society is a new Country Sponsor in the EMEA RIPS region.

It was mentioned that an in-person meeting of the EMEA RIPS Country Sponsors will be held in Oslo, Norway on Friday 18 November 2011 and is open to the public to observe.

### 3. GIPS Standards Guidance/Interpretations

#### Guidance Statement on Alternative Investment Strategies and Structures Update

Mr. Senik reported that the Exposure Draft of the Guidance Statement on Alternative Investment Strategies and Structures was released earlier this year and the public comment period closed on 15 June 2011. Over 40 comments were received from the industry. The comments have all been reviewed and categorized to highlight specific issues in relation to the Guidance.

A brief recap of the key issues of some of the public comments and response:

Public Comments:           Unclear differentiation between real estate and private equity guidance and the alternatives guidance.

Working Group Proposal: The private equity and real estate provisions in the GIPS standards are to be adhered to and will not be overwritten by anything provided in the alternatives guidance but will compliment those provisions.

Public Comments:           There was a significant call from the public comments for an exemption from the monthly valuation requirement for certain alternative investments categories where a monthly valuation does not improve the accuracy of the data.

Working Group Proposal: An exception from the monthly valuation requirement will be introduced for alternative assets that do not lend themselves to monthly valuations by nature and also for investment vehicles that only accept cash flows less frequently than monthly. If firms do opt out of the monthly valuation requirement, this must be disclosed in the composite presentation.

There was a brief discussion on the implication this exception would have on the new three-year annualized standard deviation requirement. It was mentioned that firms should consider showing alternative risk numbers and there will be some coordination between the alternatives and risk guidance.

Public Comments:           Several comments asked for clarification on the use of stale prices, delayed valuations, use of estimated values, final values for underlying funds, etc.

**Working Group Proposal:** Firms must establish a valuation policy in accordance with the fair value framework. Part of that policy must assess the nature of the investments in their portfolios. Firms must determine the fair value of the investments in a portfolio. If a firm determines that the prior period's values are the same as the current fair value, they may be used. Any subsequent changes or updates to those valuations must be assessed according to the Error Correction Guidance Statement.

It was pointed out that there is already an existing disclosure requirement in the GIPS standards that the firm's Valuation Policies and Procedures must be available upon request.

**Public Comments:** Request clarification on what is considered the Trade Date, because the final price and/or quantity may be provided several days or weeks after a trading order has been submitted.

**Working Group Proposal:** There may be a need to differentiate between the date of placing an order versus the date of the effective asset ownership transfer. The Trade Date is the execution or transfer of ownership (when the price and allocation becomes known).

**Public Comments:** Many public comments asked for clarification on the exemption from the GIPS standards requirement for fund of funds structures where the fees and expenses of the underlying funds must always be netted out when calculating the fund of funds gross-of-fees return. An explanation was provided that for some fund of funds structures, where the asset manager manages both the fund of funds and the underlying funds, the management fees can be structured in way that a portion of the fee is charged at the fund of funds level and another portion of the fee is charged at the underlying fund level.

**Working Group Proposal:** Clear criteria will be established when both the fund of funds and the underlying funds are managed by the same firm and there must be ample evidence that the whole fee structure is actually designed to compensate this asset manager.

**Public Comments:** Several public comments were received requesting an additional option when using model fees not only to use the highest model fee among all the portfolios in the composite but also to use the highest model fee for a specific client type.

**Working Group Proposal:** Acknowledge that this situation exists and firms should be allowed to use model fees based on specific client category or type. However, to do so the firm must first determine whether this model fee is effectively the highest model fee from the actual fees charged among all the portfolios in the composite.

It was mentioned that the Working Group is proposing to add a clear set of criteria for when a side-pocket is actually considered non-discretionary such as:

- A physical segregation of the side-pocket from the portfolio (i.e., separate custody account);
- Side-pocket assets must no longer be considered in the asset allocation or any investment management decision-making process for this specific portfolio fund (except for monitoring or liquidating the side-pocket assets); and
- No or reduced management fee can be charged on the side-pocketed assets.

There was a brief discussion on side-pockets and some of the reporting issues. It was suggested reviewing some of the actions taken last year by the U.S. SEC regarding side-pockets in some high-profile cases still awaiting a court date.

Public Comments:           A number of public comments received advocated for the presentation of returns both excluding and including side-pockets should be required to be presented.

Working Group Proposal: If the side-pocket is discretionary (included in the portfolio) then both return streams must then be presented in the compliant presentation. This is a potential new requirement in the GIPS standards.

It was reported that the Working Group decided to keep the proposed approach in the Exposure Draft that the existence of a side-pocket must always be disclosed in the composite report regardless of whether the side-pocket is discretionary or non-discretionary.

It was mentioned that there are a couple of key issues yet to be addressed from the public comments by the Working Group in the near future which are:

- appropriateness of benchmarks;
- risk measures for alternative strategies (consider the forthcoming risk guidance);
- presentation of leveraged returns; and
- double-counting of assets (i.e., eliminating double-counting of assets when calculating composite returns).

It is anticipated that the Alternatives Working Group will review the remainder of the public comments on the Exposure Draft of the Guidance Statement on Alternative Investment Strategies and Structures by the end of the year and to be finalized by the GIPS Executive Committee in early 2012.

It was suggested re-engaging the Hedge Funds Standards Board (HFSB) during the first quarter of 2012 to encourage them to adopt the GIPS standards as an example of industry best practices.

It was mentioned that CFA Institute staff will organize outreach efforts to promote the Guidance Statement on Alternative Investment Strategies and Structures once it is finalized.

An overview of the process was provided regarding new Guidance Statements drafted and released for public comment:

- public comments are reviewed;
- revise the Guidance Statement based on the public comments, if necessary; and
- an assessment is made whether any revisions to Guidance Statement from the original draft is a material change or of such significance that the revised Guidance Statement may need to be released for another public comment period.

The Executive Committee was requested to contemplate asking GIPS Country Sponsors for their feedback on whether, if a Guidance Statement was materially revised and needed to be re-released for a second public comment period, a shorter time period such as 30 days would be appropriate as current governance requires a 90-day public comment period for the initial comment period, but is silent on the length of a second public comment period.

#### Guidance Statement on Performance Examination Update

Mr. Bacon reported that the Exposure Draft of the Guidance Statement on Performance Examination was released and the public comment period closed on 31 August 2011. From the public comment period approximately 20 comments were received from the industry and the Verification/Practitioner Subcommittee has begun reviewing the comments.

#### Guidance Statement on Risk Update

Mr. Morrison provided an update on the development of the Guidance Statement on Risk. The Risk Working Group has carefully reviewed industry needs and what the market wants from risk guidance. It is stated that the Guidance Statement on Risk will not be a textbook on calculating risk measures but will cover risk in a broad context and also specifically in relation to risk-related provisions in the GIPS standards.

An important issue to be considered in the development of the Guidance Statement on Risk is how it contrasts to current regulatory requirements and the existence of a firm's risk policies and procedures.

There was a brief discussion on the appropriateness of the inclusion of composite dispersion in the Guidance Statement on Risk. It was mentioned that there is an application written for the guidance that will show the weighted average of the standard deviation of the portfolios within the composite versus the actual composite return as it may be muted depending on the constituent portfolios. However, the Working Group is not endorsing one method over another, but plan to simply present a possible approach.

It is anticipated that an initial draft of the Guidance Statement on Risk will soon be approved by the Risk Working Group for submission to the Investment Manager Subcommittee. After review by the Investment Manager Subcommittee, the Guidance Statement will be forwarded to the Interpretations Subcommittee for review. Then a final draft will be presented to the GIPS Executive Committee for approval. Once the Guidance Statement on Risk has been approved by the GIPS Executive Committee the Exposure Draft will be released for a public comment period.

### GIPS Standards Handbook Update

It was reported that the Interpretations Subcommittee has completed its review of Sections 0, 1, 2, 3, and 4 of the *GIPS Standards Handbook*. Additional work is needed on Sections 5 and 8. It was mentioned that the review of Sections 6 and 7 will be provided by the Real Estate Working Group and the Private Equity Working Group, respectively.

It is anticipated that the second edition of the *GIPS Standards Handbook* will be published early next year. It was reported that an electronic version of the Handbook will also be introduced.

### Discussion on Supplemental Information

Mr. Kuwabara reported that the essence of the issue regarding Supplemental Information is centered on what information firms can present on/with GIPS compliant performance reports. It was stated that there are several provisions in the GIPS standards related to Supplemental Information but the most important are:

O.A.3 “FIRMS MUST not present performance or performance-related information that is false or misleading”; and

O.A.9 “FIRMS MUST make 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.”

Both the USIPC and the Investment Manager Subcommittee have drafted papers regarding Supplemental Information to be considered in the review and revision of the Guidance Statement on Supplemental Information. The EC discussed various considerations and approaches to dealing with supplemental information. This is one of the priority items on the strategic plan and will be further examined.

### **Other Business**

#### Market Research Data

Mr. Boersma explained that there is no reliable, comprehensive data on firms that claim compliance with the GIPS standards. It was stated that survey data and consultant databases are limited due to the extent of the membership/participation of the database and/or survey. It was mentioned that CFA Institute staff is researching methods to obtain market research information on firm compliance rates.

#### Update on GIPS EC In-Person Meetings

It was reported that there will be GIPS in-person meetings in Europe in March 2012 but the location has yet to be determined.

#### Incoming GIPS Executive Committee Chair

It was announced that Trevor Persaud, the current Asia Pacific RIPS chair, has been elected as incoming GIPS Executive Committee Chair beginning on 1 September 2012.

### New Country Sponsor

It was announced that Peru has been approved as the 34<sup>th</sup> GIPS Country Sponsor by the GIPS Executive Committee.

### **Observers Questions and Answers**

Mr. Karita, Japan, requested the name of the organization serving as the Peru Country Sponsor.

Mr. Boersma responded that the name of the Peru Country Sponsor is Procapitales. The mission of Procapitales is to promote the development of the capital markets in Peru as well as the promotion of sound corporate governance practices.

Mr. Karita expressed his appreciation to Mr. Boulanger for addressing the topic of Retail within the GIPS standards. He mentioned that further clarification of the definition of Retail is needed.

Mr. Karita believes that 30 days would be a good guideline for a second public comment period if re-exposure of a Guidance Statement is needed. He suggested that a 30, 60 or 90 day public period be based on the discretion of the GIPS Executive Committee and be decided on a case by case basis.

Mr. Boersma mentioned that the topic of retail is a challenge to define. He thanked Mr. Karita for his comments regarding a second public comment period for Exposure Drafts.

Mr. Karita suggested revising the EC Constitution to address the issue if/when a Guidance Statement needs to be released for a second public comment period and whether it should be 30, 60 or 90 days should be contingent upon the GIPS Executive Committee's discretion.

Mr. Senik stated that the issue of a second public comment period for a Guidance Statement will be added to the EMEA RIPS Agenda for their November 2011 in-person meeting.

Mr. Ali, Pakistan, expressed his belief that we should include correlation among portfolios in the composite while calculating the three-year standard deviation of the whole composite.

Mr. Ali stated that there should be more GIPS compliant firms in the Asia Pacific RIPS region and that the Promotion & Awareness Subcommittee is looking to promote the GIPS standards in the region through conferences and other activities.

Mr. McCaffrey, New Zealand, requested a status update on the issue of extending the GIPS standards to the presentations of performance to existing clients.

Mr. Boersma reported that CFA Institute has been deliberate and careful to separate the project on existing client reporting from the GIPS standards. He mentioned that a separate working group has been started to develop best practices for investment reporting to existing clients. This working group is not under the auspices of the GIPS Executive Committee or the GIPS organization, there is no formal update to provide on this project. Mr. Boersma suggested that an

update on the Investment Reporting Working Group could be presented at the March 2012 in-person meetings.

Mr. McCaffrey mentioned that client reporting may become an important aspect in the development of retail guidance. Mr. McCaffrey stated he agrees with Mr. Karita's suggestion regarding the release of an Exposure Draft for a second public comment period.

Mr. Chitty, Sri Lanka, mentioned there is concern regarding the quality of verification, he suggested including the development of a minimum standard for verifiers in the Strategic Plan.

Mr. Bacon responded that the issue regarding the quality of verification is an item on the Strategic Plan. He explained there are minimum standards, as part of the GIPS standards, on what a verifier must do in performing verification. Mr. Bacon explained that the GIPS standards state that a verifier must understand the GIPS standards, must understand investment management, and must be independent. He mentioned that it is important to keep the language of the GIPS standards broad enough so that all types of organizations and companies may perform verifications.

Mr. Boersma mentioned that there have been discussions regarding developing Code of Ethics or Professional Standards for verifiers to subscribe.

Meeting Adjourned.