

ADOPTING RELEASE: GUIDANCE STATEMENT ON RECORDKEEPING REQUIREMENTS OF THE GIPS STANDARDS

Below is a summary of the comments received during the public comment period. Respondents were asked to respond to specific aspects of the Guidance Statement, or a general question about the overall Guidance Statement itself.

All comment letters are available at: www.gipsstandards.org/standards/guidance/index.html.

The firms or individuals listed below are those that responded our invitation for comments:

ABN AMRO Asset Management
Australian Investment Performance Standards Editorial Committee
Ashland Partners & Co.
Beacon Verification Services
Britannic Asset Management
Bundesverband Investment
Dabney Investment Consulting Associates
Deutsche Asset Management
Society of Investment Professionals in Germany
Ernst and Young
HSBC Institutional Fund Services
Irish Assoc. of Investment Managers/Society of Investment Analysts in Ireland
Investment Management Association of South Africa
Jupiter Asset Management
K & DD Consulting
Norwegian Society of Financial Analysts
PricewaterhouseCoopers
Security Analysts Association of Japan
Spanish Investment Performance Committee
Swedish Society of Financial Analysts
Swiss Performance Presentation Standards
Dutch Investment Performance Measurement Committee

General Comments

The title and scope of the Guidance Statement itself was expanded beyond portfolio recordkeeping requirements to encompass the entire GIPS standards, as one respondent thought the idea of “portfolio” recordkeeping was too narrow. The Subcommittee also renamed the original Guidance Statement in order to emphasize that the Guidance Statement was not limited to portfolio recordkeeping, but also should be applied to recordkeeping on the composite and firm level.

The Subcommittee wishes to stress that this Guidance Statement is provided for interpretation of existing requirements in the Standards, as there was some concern among respondents that this Guidance Statement imposed an additional compliance “burden” on them.

The following is a summary of the questions that were posed by respondents to the Guidance Statement during the public comment period and the changes made due to the input of respondents.

Are there other elements involved in portfolio recordkeeping that are not included in this Guidance Statement?

There were a number of general changes made to the original draft of the recordkeeping Guidance Statement following the comments of respondents. The language “for all periods presented” was introduced throughout the document to make the time period covered clearer.

No clarification as to what data or information should be maintained to support compliance was added to the Guidance Statement as such guidance would have been too specific, as such decisions are left to the discretion of individual firms. Some respondents made suggestions that were already covered by the Guidance Statement, such as requiring firms to keep records used to support funds that have performance based on specific measures.

A number of respondents made comments that were outside the scope of the Guidance Statement on Recordkeeping. These comments dealt with issues such as performance portability, retention of evidence of certain internal controls, and GIPS verifier recordkeeping policies and requirements.

Do you agree with the proposed Effective Date?

There was some confusion among some respondent as to whether the Guidance Statement was to be applied retroactively. Some thought that the Guidance Statement should be applied retroactively, while others were adamant that it should not be applied retroactively. Others thought the effective date was not clear. The final effective date of the Guidance Statement was therefore changed in order to reflect a more current timeframe. The concept of retroactive application as well as clarification of the meaning was added to the Effective Date section of the Guidance Statement in order to add clarification concerning the effective date.

Guiding Principles - Introduction

Introduction

The following guidance relates only to records necessary to satisfy the recordkeeping requirements of the GIPS standards. In all instances, either paper (hard-copy) records or electronically stored records will suffice. If records are stored electronically, the records must be easily accessible and printable if needed. Although most firms are looking for a very precise list of the minimum supporting evidence that must be maintained in order to be able to recreate the firm’s performance history, there is not a single list of records that will suffice in all situations. GIPS provision 1.A.1 states “All data and information necessary to support a firm’s performance presentation and to perform the required calculations must be captured and maintained.”

The guidance was expanded to include provision 0.A.6 of the GIPS standards in order to emphasize a firm’s claim of compliance beyond just performance presentation.

The Guidance Statement was not changed to emphasize its application to any specific asset class such as real estate or private equity as all assets within the definition of the firm were seen as subject to recordkeeping requirements.

The language of the Guidance Statement was not changed to specify records that were “easily accessible and printable,” as such specific clarification would be too prescriptive and could be limiting in the long run as electronic capabilities for storage of data continue to evolve.

Guiding Principles - #1

- 1. Above all else, a firm must meet any and all regulatory requirements concerning records that must be maintained.***

Guiding principle #1 was modified to add the term “applicable” before the word regulatory for clarity.

Guiding Principles - #2

- 2. A firm must maintain sufficient records that allow for the recalculation of account-level returns. Depending on the system and methods used for calculating account-level returns, one firm may need different records than another. For each period, records to support those returns might include a combination of the following (this list is not meant to be an exhaustive list):***
 - Associated bank/custodial statements and reconciliations;***
 - Investment portfolio listing and valuations, including pricing calculations for non-market traded or illiquid securities;***
 - Portfolio transactions reports;***
 - Outstanding trade reports;***
 - Corporate action reports;***
 - Income received/earned reports;***
 - Accrued income reports;***
 - Tax reclaim reports;***
 - Cash flow/weighted cash flow reports; and***
 - Fee information.***

This guiding principle was modified to include records related to foreign withholding taxes.

The issue of automatic reconciliation procedures, including the “exception reports” generated by the practice, was not addressed as such an explanation would likely prove too detailed and prescriptive, and may not allow for future changes in industry recordkeeping practices.

Guiding Principles - #3

- 3. A firm must maintain records that allow for the recalculation of composite-level returns. For each period, records to support those returns must include:***
 - The accounts that are included in the composite;***
 - When each portfolio entered (and/or exited) the composite;***
 - The portfolio performance return for each account;***
 - The market value used to weight each account (BMV or BMV plus weighted cash flows); and***
 - Fee information, if model fees are used.***

The first bullet point of principle #3 was modified to include the words “excluded from” to clarify that a firm must maintain records to support composite portfolios.

The language of the second bullet point was modified slightly for clarity.

The last bullet point was modified to reflect “investment management” fee information to clarify the point that fee information should be maintained irrespective of whether model or actual management fees are used.

Guiding Principles - #4

- 4. A firm must maintain records to support why an account was assigned to a specific composite, or was excluded from all composites. Supporting records might include:***
- Investment management agreements and amendments thereto; and***
 - Email/other correspondence with clients regarding investment management strategy amendments.***

Suggested supporting records were edited to add composite definition information and other records used to support composite assignment.

Guiding Principles - #5

- 5. A firm must maintain records to support their claim of compliance on a firm-wide basis. Information should be maintained to establish:***
- Total firm assets under management;***
 - Excluded accounts (e.g., non-discretionary;)***
 - Complete list and description of the firm’s composites; and***
 - Compliant presentations, and supporting information for all composites.***

Multiple respondents stated that the Guidance Statement should address directly whether the firm must maintain compliant presentations for each composite, and that if the firm is not required to do so, the Guidance Statement should address an acceptable timeframe for producing a fully compliant presentation for any composite. The Subcommittee clarified this point in Application 3 of this Guidance Statement, reiterating that a firm must maintain records to support all composites within a firm, and not just those that are advertised or marketed.

A number of respondents asked for principle #5 to include a list of all portfolios within the firm showing their discretionary and non-discretionary status. This item is implicitly reflected in the final Guidance Statement within Guiding Principle #4.

Guiding Principles - #6

- 6. A firm should maintain all policies and procedures manuals (both current and previous versions) that support the claim of compliance.***

The language used in this Principle was expanded to include a reference to GIPS Provision 0.A.6 in order to add a direct reference to firm policies and procedures. The word “should” was changed to the word “must” in this principle in order to remain consistent with the GIPS standards. Please note that while firms must keep copies of policies and procedures, including previous versions, this Guidance Statement does not require retroactive application. If a firm has copies of previous versions they should keep them, but it is not required. However, beginning on the effective date of the Guidance Statement and going forward, firms are required to keep the current and previous versions of those documents.

Guiding Principles - #7

7. Firms are encouraged to ensure that they have adequate service-level agreements with third-party administrators to provide the records necessary for verification, both currently and at a date in the future.

The language of principle #7 was modified to clarify that this principle applies only when a third party administrator is used.

Guiding Principles - #8

8. A firm should maintain certain other specific records necessary to support a claim of compliance, such as (but not limited to):

- ***Client reports;***
- ***Attribution information; if utilized to determine account composite assignment;***
- ***Marketing output/RFPs responses;***
- ***Third party performance data;***
- ***Externally reviewed system and control reports (such as accounting reports or other internal controls/compliance reports for the client and/or custodians);***
- ***Third party sub-advisory agreements;***
- ***Board, Investment Committee or Composite/GIPS Compliance Committee minutes;***
- ***Assets under management reconciliations (AUM per GIPS reports to AUM per regulatory returns);***
- ***Client fee schedules/agreements;***
- ***Custody fees data;***
- ***Systems manuals especially for the systems that generate the composite reports (including returns and additional disclosures/statistics); and***
- ***A list of recipients of compliant presentations.***

The second bullet of the original principle #8, concerning attribution information, was moved to principle #4. Outsourcing concerns mentioned in the fourth bullet of the original principle #8 were also incorporated into guiding principle #7 to emphasize that it remains the responsibility of the firm claiming compliance to ensure that adequate and sufficient records are maintained in the event that the firm outsources any of its operations.

The language of the bullet reading: “Board, Investment Committee or Composite/GIPS Compliance Committee minutes, was changed to read: “minutes of relevant decision-making committees, such as Board, Investment Committee or Composite/GIPS Compliance Committee”, in order to be more thorough. The terminology “AUM” was deleted from the final principle to avoid confusion. A reference was also added to principle #8 to emphasize that underlying benchmark data should also be maintained.

The Subcommittee declined to make some suggested changes to principle #8, believing that such changes would be too prescriptive.

Specific examples of “attribution information” referred to in the second bullet were not provided, as providing such examples would lead to a need of providing examples of all sources of information.

Guiding Principles - #9

9. Subject to local regulatory requirements, once a firm has been verified, a firm may be able to reduce the amount of records stored. For example, an annual account transaction report may be maintained instead of individual monthly detail reports. The summary report could be used to recreate period-specific information if needed. Microfiche or electronically-stored reports are acceptable. However, all records deemed necessary must be maintained for each year that is presented in a GIPS-compliant presentation.

There was a concern among some respondents that the data retention requirements, especially for those firms that claim compliance for long time periods, would prove onerous. Whether summary or detailed supporting records are maintained is left to the discretion of the firm.

Principle #9 was modified to remove any reference to regulatory requirements as these requirements can differ significantly globally. Application #9 was also modified to include a reference to any records necessary to support supplemental information provided with composite presentations.

Any reference to verification in this Principle was removed, as a number of respondents questioned whether verification should have any bearing on what records need to be retained. References to Microfilm/microfiche were changed to a more general concept of “electronically-stored” records to be more inclusive of all electronic-media.

Various Structural Comments

The document was edited to reflect the use of the term “portfolio” throughout, versus “account”, to be consistent with the GIPS Standards.

The phrase “for each period compliance is claimed” was added in principles 2 and 3 in order to provide greater clarity.

There are many methods of collecting, storing, retrieving, and using data, and prescribing one as the correct way of doing so was not practical, despite the requests by some respondents for further guidance on a minimum set of required supporting evidence that must be maintained when local regulatory requirements do not already provide a standard of a certain quality.

Comments on “Applications”

Example #1 was changed so that the answer mentioned that there are no requirements to calculate performance for non-discretionary accounts.

Although some respondents thought the 25 year track record period mentioned in example #2, was too long, the example was not changed, as the possibility of a firm presenting for periods beyond 10 years is appropriate (see GIPS standards Introduction, #10 c.). The concept of maintaining records for the time periods presented in the presentation was added to the response.

The concepts of summary documents and individual documents were removed from the answer for application # 4 to avoid confusion.

Language was added to the answer for example #7 to suggest a resource which is available to all users of the Standards. The phrase “legal counsel” was also replaced with “advice” in this example to provide more clarity.

Applications #14 and #15 were included in order to add clarity to application #12.