

# **INVESTMENT PERFORMANCE COUNCIL ADOPTING OF THE GUIDANCE STATEMENT ON THE USE OF SUPPLEMENTAL INFORMATION**

**SUMMARY:** In 2002, the Association for Investment Management and Research (AIMR<sup>®</sup>) and the Investment Performance Council (IPC) released for public comment the proposed *Guidance Statement on the Use of Supplemental Information* for the GIPS Standards.

**ADDITIONAL INFORMATION:** For further information on this Guidance Statement and the GIPS standards, contact AIMR's Professional Standards and Advocacy department via facsimile at 434-951-5320, via e-mail at [gips@aimr.org](mailto:gips@aimr.org), or at 560 Ray C. Hunt Drive, P.O. Box 3668, Charlottesville, VA 22903-3668.

## **I. PURPOSE OF THE GUIDANCE STATEMENT ON THE USE OF SUPPLEMENTAL INFORMATION**

The proposed Guidance Statement provides clarification on the use of supplemental information in relation to the GIPS standards. The GIPS standards encourage firms to present all relevant information to fully explain their performance. Because supplemental information could have the potential to be misleading in relation to the firm's claim of compliance, the Guidance Statement was developed to address the proper uses of supplemental information.

## **II. SUMMARY OF COMMENTS**

Below is a summary of the comments received during the public comment period. The firm or individual making each comment is indicated using the following abbreviations:

AA:	Ashland Accounting, LLP
BPB:	Badgley, Phelps and Bell, Inc.
EM:	Emilio Maffi; Manager, Ernst & Young - Risk Management & Regulatory Practice, Italy
EYSW:	Ernst & Young (Switzerland)
HSBC:	HSBC Global Fund Services, Ltd.
IAIM/SAIA:	The Joint Irish (IAIM/SAIA) Committee on Performance Measurement
JHA:	John Hancock Advisers, LLC
KH:	Kelly Hourican
KPMG:	KPMG
MLIM:	Merrill Lynch Investment Managers
NFF:	Norwegian Society of Financial Analysts
P Group:	Performance Analysts Group of Australia (P Group)
PWC:	Price Waterhouse Coopers, LLP
SAAJ:	Security Analysts Association of Japan
TRP:	T. Rowe Price Associates, Inc.
UKIPC:	U.K. Investment Performance Committee

**1. Guidance Needs To Clarify The Definition Of Supplemental Information:**

- a. Differentiate Between “Compliant” & “Non-Compliant” Supplemental Information**
- b. Differentiate Between Additional Data & Supplemental Information**

The original proposal that was circulated for public comment defined supplemental information as “any performance-related information that supplements or enhances a GIPS-compliant presentation; that is, any additional performance-related information beyond what the GIPS standards require or recommend.” Many of the commentors indicated there were several types of information that a firm could present and the guidance needed to better differentiate between information that complies with the GIPS standards, information that was not mentioned in GIPS and information that is prohibited to be shown by a GIPS-compliant firm.

*Comment: I agree with the definition provided by the Guidance Statement, especially when it states that Supplemental Information should not include general information regarding the Firm, but only information that supplements or enhances a GIPS compliant presentation. (EM, MLIM)*

*Comment: We suggest that the following wording (in **bold**) be added: “any performance-related information **that is included as part of a GIPS-compliant performance presentation** that supplements or enhances the specific presentation presented; ...”. This would allow a compliant presentation to be included in larger documents, particularly for marketing purposes, without then requiring every table, chart and graph to be labeled as supplemental. (EYSW)*

*Comment: We propose that the definition should be modified as follows: Supplemental information is defined as any performance-related information that supplements or enhances disclosures required and recommended in the GIPS provisions and that is presented in a composite report. Supplemental information should provide users of the composite presentation with the proper context in which to better understand the performance results. (SAAJ)*

*Comment: As drafted, we believe the Supplemental Information GS too narrowly defines supplemental information, drawing false distinctions between types or categories of information. We believe that a presentation of “general information regarding the firm or the investment strategy or process” that contradicts or conflicts with the definition of the firm utilized in composite definition and construction and/or the actual investment strategy or process utilized to manage the portfolios included in the composite presented can be just as misleading – if not more so – as holdings information, risk analysis, or any of the other provided examples of supplemental information. We see no distinction in the ability of different types of information to be misleading with regard to performance or otherwise. Likewise, we see nothing unique in the supplemental information examples listed that represents any distinct advantage over any other type of information in the ability to “enhance” or provide insight on a performance presentation. (BPB)*

*Comment: We recommend that the Guidance be split to distinguish between information which provides additional data on the compliant presentation versus that which represents non-compliant information such as derived, extrapolated, or incomplete data. In other words, we recommend that the definition of “supplemental information” refer only to data that is not required by GIPS, but is actually “non-compliant” with the GIPS standards. We believe that the presentation must specifically state that the supplemental information is non-compliant with the GIPS standards. The Guidance should also recommend that firms explain why the supplemental information is not compliant with the standards and why it is meaningful to the presentation. (PWC, SAAJ)*

*Comment: Such a sweeping definition captures a vast amount of information that advisers provide to clients, prospects and consultants, and would be difficult to police adequately. Each piece of information would need to be identified as supplemental and referenced to a compliant presentation. Instead, we believe AIMR should focus the definition around performance returns. The examples of supplemental information provided in the release make clear the overly broad nature of the proposed definition. We fail to see how AIMR can consider attribution, sector/country weightings, and specific holdings information to be performance related.*

*We are also concerned with the statement that “charts and graphs” are performance related. The idea that any chart or any graph could be considered performance related is disconcerting. We believe the definition should focus instead on “performance returns.” Under such a definition, model results, carved out returns, and representative client type returns would all be deemed to be supplemental performance information. By focusing on performance returns, we believe the definition of supplemental performance would provide more clarity for advisers. (TRP)*

*Comment: We generally agree with the definition. We share AIMR’s view that Supplemental Information should consist of performance-related information. It should not be restricted to performance figures. The inclusion of any information that enhances the interpretation of the performance figures must be encouraged. At the same time we wonder what is exactly meant by performance-related information. It implies a possibility for cherry-picking (by showing individual returns). (VBA)*

*Comment: If a distinction were made between supplemental and additional information, supplemental examples would be:*

- *carve-outs that don’t include cash,*
- *representative account returns,*
- *model returns, and*
- *prior firm performance that doesn’t meet the four-part test for portability of results.*

*Attribution, sector/country weightings, holdings, peer group comparisons, risk analysis and charts and graphs could all be examples of additional information.*

*A mere reference to the compliant presentation should be enough to keep such additional information from being misleading, whereas the supplemental information obviously would need to be clearly labeled as supplemental to a particular composite, or supplemental and not the*

*performance of the firm, or supplemental and not based on the performance of actual accounts (at which point, SEC no-action guidance for presenting model performance could kick in). (AA)*

Comments: *We recommend the last sentence of the “Definition of Supplemental Information” section be stricken, along with the two instances of the qualifying term “performance-related” from the first sentence. With this suggestion we are intentionally altering the concept of “supplemental” to address broader context issues rather than trying to identify exact types of information that may or may not be considered “performance-related.”*

*With regard to the “Examples of Supplemental Information” section, we recommend the removal of the first paragraph and bullet points since we do not believe supplemental information can be so narrowly defined. If adopted, the broader definition we have suggested would not require an example list. Likewise, the next paragraph is not necessary, provided the acceptance of our suggestion to eliminate the requirement of mandatory uniform labeling of supplemental information. With managers bearing responsibility for determining what is appropriate in order to assure “fair representation and full disclosure,” it is not necessary to indicate that managers are not required to label as supplemental that information which is recommended in the Standards (BPB)*

Comment: *The guidance statement should distinguish between two types of supplemental information:*

- *Supplemental information that further clarifies compliant information; for example, graphs, multi-year composite performance, holdings, sector weights, etc.*
- *Non-compliant information, such as performance from a prior firm in case of non-portability as suggested by the AIMR-FAQ, model portfolio results, carve-out returns without cash, etc.*

*The above two cases of supplemental info should be clearly distinguished in a presentation, otherwise the reader might perceive the non-compliant supplemental information to be compliant, especially if a great deal of additional supplementary information is shown in a presentation.*

*Secondly, since GIPS already recommend the presentation of relevant risk measures for both benchmarks and composites, we are not quite sure as to what is considered supplemental information under risk analysis examples. Furthermore, since model results cannot be properly verified, unless the model portfolios involve ‘real’ money invested, all presentations of model results should be explicitly labeled as non-compliant supplemental information.*

*Finally, a firm is allowed to show a great deal of supplementary information. The Guidance Statement should also show examples of non-quantifiable information that can be used to enhance the interpretation of the performance track record of a particular composite presentation, since the examples listed are mostly of quantitative nature. (EYSW)*

Comment: *I agree with the examples of Supplemental Information provided. However, I suggest that AIMR address the proper usage of composite returns in cases where one account is included*

*in more than one composite. For instance, if a presentation of "Global Fixed Income" strategy is made, and an account is included in both a "Global Aggregate" (fixed income) composite, and another composite representing a broader "Global" (Agg and non-Agg) fixed income strategy, is it advisable to disclose both composites in one presentation, perhaps indicating the more specific one as "primary" and the broader one as "supplemental only"? Or, is it sufficient to include only one composite, even if it is broad, so long as it is (broadly) representative of the strategy? (KH)*

*Comment: In our opinion, the examples of supplemental information provided fall into two discrete categories. The first of these includes information which we would consider to be consistent with the principles set out in the guidance statement. These items can be considered to provide additional insights to how portfolios within the relevant composite have been managed and how the performance has been achieved. No information of this type would offend the spirit and principles of the GIPS standards and we would support their inclusion with GIPS compliant presentations. We consider that it may be appropriate to include these items as recommended data items within the body of the main GIPS standards, with no future date for making presentation of these compulsory.*

*The second category comprises data items which we consider either do not satisfy or contradict the spirit and principles of the GIPS standards, and may confuse the recipient by appearing to contradict or conflict with the GIPS compliant information being presented. These items are:*

- . Model results*
- . Carved-out returns excluding cash*
- . Representative client type returns*

*There may be a place for such information in marketing material, and it may be useful to provide further background to a manager's skills or to the nature of a specific product. However, we believe that to include this within a GIPS compliant presentation may obscure the compliant statistics and lead to confusion for recipients of such presentations.*

*Our concerns about inclusion of such information is increased by the first Q&A provided in the guidance statement which indicates that it would be acceptable for supplemental information to be included on the same page as the GIPS compliant presentation. We believe that this would increase the potential for misunderstanding to the point where it would become almost unavoidable. (KPMG)*

*Comment: The previous launched Guidance Statement on Performance Record Portability describes some examples of supplemental information that is not covered in the proposed Guidance Statement on Supplemental Information. "...The past performance record of the manager however can be presented **as supplemental information** when relevant." (NFF)*

*Comment: We generally support the guiding principles on the use of supplemental information. However, we are concerned that the Guidance Statement goes far beyond regulating performance information in adviser advertising. We believe the definition of "supplemental information" is overly broad and would regulate advertisement content far beyond current requirements. To the extent AIMR is compelled to provide guidance on supplemental*

information, we urge AIMR to take a more narrow view of what constitutes supplemental information. In this regard, we strongly support the comment letters submitted by the Investment Counsel Association of America and the Investment Company Institute. (TRP)

Comment: We believe that all supplemental information should be presented on separate pages from compliant data and always after the compliant presentation.

We recommend that rules regarding “additional information” (i.e. attributes, holdings, etc.) that relates to more data on the compliant information presented need not be as strict as rules regarding supplemental information. We recommend that a separate less restrictive definition for additional information be developed and addressed separately in the Guidance. We believe that such additional information could be presented either within the compliant presentation or on separate pages, and would not require separate labeling or placement.

We also believe the classification of the following examples as supplemental information is improper:

1. *Charts and graphs.* Performance charts may be another way of presenting performance and ,thus, may be performance-derived rather than simply performance-related. We recommend that performance charts and graphs depicting compliant data be characterized as additional information that would not be subject to labeling and placement requirements.
2. *Risk analysis.* The definition of a risk analysis can be very broad. Presentation of risk measures can also be considered a risk analysis and, for example, overlap with the current GIPS Recommendation 5.B.2 "Relevant risk measures - such as volatility, tracking error, beta, modified duration, etc. - should be presented....". As this is an open-end list, we recommend that the Guidance clarify what is considered a relevant risk measure or additional analysis for purposes of the composite presentation. We believe that only non-compliant risk analysis, if there is such a thing, be characterized as supplemental information. (PWC)

Comment: As compliant and non-compliant information are mixed up in the examples listed in the Guidance Statement (p4), in order to avoid confusion, examples of compliant and non-compliant information should be distinguished. In addition, as merely listing only information items is insufficient because what each item represents is unclear, explanations should be given with respect to individual items.

We **propose** that the presentation and location of supplemental information should be distinguished depending on compliant or non-compliant as follows:

**Compliant information:** It is allowed to present compliant supplemental information on the same page as the relevant information (required or recommended by GIPS provisions) appears in a composite report. (In this case, it seems unnecessary to label such compliant information as supplemental.)

**Non-compliant information:** Any non-compliant supplemental information should be placed on separate pages from those for required/recommended information and compliant supplemental information in a composite report (e.g. at the end of a composite report). It should be clearly indicated that the supplemental information is non-compliant information.

Comment: We find the phrase “but not limited to:” is critical to this statement on examples. We would be concerned if the extension of examples ever became a definitive list.

Other appropriate examples that we believe could valuably be included are:

1. Combination of non-compliant data with a compliant composite to create a longer track record.
2. The combination of two compliant composites into a single record.
3. Returns-based Style analysis. (IAIM/SAIA)

Comment:

- The list consists almost entirely of quantifiable information. We argue that investment managers should be given the opportunity to add non-quantifiable information, as long as this enhances the interpretation of the performance track record of a particular composite presentation.
- “Charts and graphs” should not be included as an example as these are examples of the style of the presentation without reference to the content of the information in the charts or graphs.
- “Carved-out returns excluding cash” should not be included. In this respect we specifically refer to our comment on “The Addition of Carve-Out Treatment and Guidance to the GIPS Standards”.
- “Representative client type returns (like an ERISA account)”. We find the wording “Representative” not proper, as it does not reflect the origin of the Supplemental Information. We therefore opt for the wording: “Explicit client type returns”, as we think this identifies the Supplemental Information as showing a part of the composite. (VBA)

The IPC readdressed the definition of supplemental information and attempted to provide more clear guidelines for presenting the different types of information. Specifically, there were four types of information described in the final version: Supplemental, Additional, Non-Performance Related, and Misleading. Guidance was provided on how to present (or not present) each type.

***Revision: Modify definition of supplemental information and provide guidance for other types of information that can be included in a compliant presentation.***

## **2. Labeling Supplemental Information – The Only Supplemental Information That Should Be Labeled “Supplemental” Is Potentially Misleading Information.**

One of the Guiding Principles of the original proposal required that supplemental information be clearly labeled and identified as supplemental to a particular composite presentation.

Comment: On the third principle, I recommended adding part of the sentence from the executive summary, that supplemental information must be clearly labeled and identified as supplemental where the “supplemental information could have the potential to be misleading.” This solves the problem of having to unnecessarily footnote every piece of additional performance information, most of which does not have the potential to be misleading.(AA)

Comment: In the “Guiding Principles” section we applaud and support the simple and straightforward guiding principles outlined in the first two bullet points. For ease of reference, we recommend the bullet points be numbered. We also suggest that the second bullet point be supplemented with the following language (underline indicates suggested new wording):

...This does not mean that information for multiple strategies or products cannot be included within the same presentation. Managers must simply ensure that guiding principle 1. is sufficiently satisfied such that it is unlikely any misunderstanding will arise as to which information pertains to which strategy or product. In other words, managers should supply enough labeling and disclosure so that there is no appearance of contradiction or conflict.

Comment: Further, we believe the first two bullet points in this section very sufficiently address the presentation of supplemental information. Managers are required to use prudent judgment to ensure they provide a “fair representation and full disclosure.” If a manager determines that labeling some piece of information as being related to a certain product, or even a specific composite, is the best way to satisfy the “fair representation and full disclosure” requirement, then we believe the manager should make that call and label accordingly. However, labeling something as supplemental does not necessarily provide any assurance that the information will not be misleading. In fact, labeling something as supplemental to a subsequent performance presentation (as described in “Application” example 3) could potentially cause confusion, as opposed to providing clarification. Since manager presentations vary almost infinitely in their exact composition and context, managers (who are already bound to uphold local law, as well as industry ethics and standards such as AIMR’s Standards of Practice) need to be allowed the freedom to determine what disclosure and labeling is most appropriate to satisfy all existing regulations and requirements within the specific context of their particular presentations. (BPB)

Comment: I agree with the principles, excepting that I wouldn’t require to clearly label information as supplemental; in fact, if the purpose of supplemental information is to enhance basic information required or recommended by the Standards, then the two items are complementary. Moreover, sometimes it could be difficult to label information as supplemental instead of required/recommended and this could cause a representation misleading when supplemental information would not be verified by a third party (to which, are reported further, I don’t agree). (EM)

Comment: We agree with the proposal to allow investment firms to present performance related supplemental information in order to fully explain investment performance. Since this supplemental information could have the potential to be misleading in relation to the firm’s claim of compliance, we believe there is a stronger need for this Guidance Statement to regulate the presentation and verification of supplemental information. (EYSW)

Comment: The Guidance states, “Supplemental information must be clearly labeled and identified as supplemental to a particular composite presentation.” We recommend that the Guidance specify the wording that should be used to identify supplemental information. Additionally, please clarify the purpose of indicating “supplemental to a particular composite presentation” if in fact the information is allowed to be located within the composite presentation. (PWC)

*We believe that the proposed requirement to clearly label and identify supplemental information from the rest of the performance presentation poses potential uncertainties with respect to the placement of such information. We recommend that the Guidance clarify the options available for the location of supplemental information within a compliant presentation (e.g. same page placement as well as separate page placement) as well as the specific wording and placement of text that must be used to identify supplemental information. For example, it is currently unclear whether supplemental information can be shown next to compliant data in equal prominence. (PWC)*

*Comment: “Supplemental information must not contradict with the information provided in the GIPS-compliant composite presentation.”*

*We agree with the meaning of the principle. The term “GIPS-compliant composite presentation” could be confusing. This could be interpreted as a kind of Level II compliance, comparable to AIMR-PPS (US and Canadian CVG). We therefore opt to remove the term “GIPS-compliant”. The first principle already refers to GIPS-compliance.*

*“Supplemental information must be clearly labeled and identified as supplemental to a particular composite presentation.” We agree. It should be the responsibility of the investment manager to choose if the information will be included in the Disclosures to the composite, or added as Supplemental Information. By including the information in the Disclosures it will be open for verification, whereas Supplemental Information is not as far as we are concerned.*

*Supplemental Information would consist for instance on performance attribution figures where no calculation methods are given in the GIPS standards. Since the calculation methodology on performance attribution, and on risk analysis, is open for comments, it remains a question whether they could and should be incorporated in the GIPS standards. No uniform rules for compliance can be verified uniformly (i.e. is subjective).*

*However we recommend that, if performance attribution or a risk analysis provides an additional insight in the performance track record, this information should be included in the GIPS compliant performance report, and it should at all times be made clear that the Supplemental Information has not been verified. It should be noted in the report from the Verifier, that all information labeled as Supplemental Information has not been verified.*

*We would like to draw attention to the points 5.B.1. and 5.B.2. of the GIPS Standards. Though 5.B. contains recommendations, a level of freedom is incorporated whether information “should be included in the composite presentation or disclosed as supplemental information”. We expect that our suggestions, as stated above, will contribute to an enhancement of 5.B. of GIPS. (VBA)*

*Comment: Again, the part of the definition “that supplements or enhances a GIPS-compliant presentation” does not apply for an emerging strategy with supplemental model or prior firm performance. The secondary definition is more effective: “any additional performance-related information beyond what the GIPS standards require or recommend”; however, it should also be qualified with the phrase “where the supplemental information could have the potential to be*

*misleading.” As mentioned above, a distinction between supplemental/additional might be useful. (AA)*

*Comment: We support the definition of supplemental information included within the guidance statement: “Supplemental information must relate directly to the GIPS-compliant presentation being provided to the prospective client.” (KPMG)*

*As currently drafted, the next two paragraphs in this section are too vague to provide pragmatic guidance but raise a very important question that should be addressed more directly. When, if ever, is it appropriate to include supplemental information on the same page as a fully compliant presentation? From a practical standpoint, fully compliant presentations leave little room on a page for any additional information. In fact, fully compliant presentations often span more than one page all by themselves. However, we believe that any manager who can fit additional information on a page with a fully compliant presentation, and can do so in full compliance with the guiding principles of the Supplemental Information GS, should be allowed to do so. If the team can provide specific examples of information that, despite labeling and disclosure, would still be misleading if included on the same page with a fully compliant presentation, we ask that these specific situations be addressed in this section of the Supplemental Information GS. Otherwise, or in addition, we suggest the following wording:*

*If a manager chooses to place supplemental information on the same page with a fully compliant presentation, that manager should utilize extra caution with regard to labeling and disclosure and should arrange the presentation page such that the fully compliant presentation, including all required disclosures, is represented with equal or greater prominence on the page. However, given the practical limitations imposed by space constraints, managers are encouraged to place supplemental information and compliant information on separate pages. (BPB)*

*Comment: The examples of supplemental information are informative but raised a question for us. Our experience has shown that clients often request specific holdings information and other characteristics information regarding a particular strategy. In order to be responsive we have proactively developed templates which convey this information and which are updated as needed and incorporated into our marketing materials. Some of this information is listed as examples of supplemental information in the Guidance Statement. Therefore, we request clarification on whether or not we can continue to show these characteristics without labeling them as supplemental information. It is not our intent that this information be considered supplemental to the performance composite for the strategy under discussion. (JHA)*

With the clarification added to the definition of supplemental information, the IPC felt it was appropriate to still require the identification and labeling of supplemental information in order to ensure prospective clients could distinguish between information that is covered under the GIPS standards and information that is not.

***Revision: None.***

### **3. Can Supplemental Information Be Presented On Its Own?**

One of the Guiding Principles of the original proposal required that supplemental information be clearly labeled and identified as supplemental to a particular composite presentation. Another fundamental Guiding Principle stated that firms should provide all prospective clients with a fully compliant presentation prior to or accompanying any supplemental information.

*Comment: Additionally, I recommend dropping the phrase in the third principle “to a particular composite presentation,” as there is not yet a composite performance history established for many situations where supplemental performance could be misleading (i.e. model performance and the first few weeks after a manager leaves a prior firm and wants to present the supplemental prior firm performance). In these instances, the information is “supplemental” to the firm’s other compliant strategies, if any, or supplemental to the new firm’s compliant policies and procedures, which cannot yet be demonstrated in a compliant presentation (unless you would like to recommend that a new firm can’t market prior performance until it has at least a month/quarter of its own performance, which would surely make getting the new firm off the ground unnecessarily difficult). (AA)*

*Comment: We recommend the inclusion of an acknowledgement that supplemental information as referred to in the Standards and the Supplemental Information GS represents, simply, the perspective of the standards but should not be construed to suggest that a GIPS-compliant presentation cannot itself be supplemental, from the viewpoint of the manager and his/her client or prospect in the context of a broader presentation.*

*Additionally, we would like to point out that the present definition of supplemental information fails to recognize that much of the information included in the definition is often presented on its own in a context that is not tied to a performance presentation. The information may stand alone or be utilized to supplement another type of presentation, such as the use of risk analysis to supplement a discussion of a manager’s portfolio risk controls. (BPB)*

*Comment: As we addressed in our comments on the “Definition of Supplemental Information” section, some of what is currently defined as supplemental information is data that may well be of interest to prospects or clients apart from a performance presentation (as is the case with firm and investment process information which is currently exempted from the definition of supplemental information). For instance, a prospect may ask about the companies in which a manager currently invests. As currently drafted, the Supplemental Information GS defines holdings information as supplemental and requires that firms “provide all prospective clients with a fully compliant presentation prior to or accompanying any supplemental information.” Such a requirement greatly impinges the manager’s ability to interact with his/her prospects and clients according to the prospects’/clients’ terms. Some prospects and clients are very particularly specific about not wanting to be deluged with information they did not request. Managers must retain the freedom to respect this preference. We know that is not the intention of the team or the Standards to commandeer a manager’s marketing process and materials, forcing everything to serve as supplemental to the manager’s performance presentation. While a performance presentation is a critical component of any manager’s marketing efforts, it is still only one tool in the box. For this reason, we feel it is important to ask that the team reword the last paragraph of the “Guiding Principles” section as indicated below*

*This guidance statement does not prohibit firms from preparing and presenting information according to specific requests from prospective clients. However, firms need to remain mindful of the requirement that all new prospects be given a fully compliant presentation.*  
(BPB)

In keeping with the spirit of the GIPS standards, the IPC feels it is necessary to require that supplemental information accompany or follow the required compliant information. To allow “supplemental” information to precede or stand alone without a GIPS-compliant presentation could be potentially misleading. Supplemental information is intended to supplement or enhance the required information – which should be shown to all prospective clients.

**Revision: None.**

#### **4. Location Of Supplemental Information Should Be Specified**

*Comment: We believe more strictly defined principles and disclosure location requirements should be put in place so as to limit the boundary of non-compliant supplemental information in relation to the compliant data, that is to narrow down the possible situations for presentation and location of supplemental info.* (EYSW)

*Comment: We do not agree with the third application example involving supplemental information preceding GIPS compliant presentations. We believe that a GIPS-compliant presentation representing an appendix of a booklet consisting primarily of supplementary information undermines the very concept of GIPS compliance and holds potential to mislead investors. If you claim GIPS compliance to be the driving force behind a Gold Standard that will lead to Global Acceptance – stating that it can be shown in an Appendix contradicts the importance and validity of the whole exercise. We believe that supplementary information should be exactly that, “supplementary”, and should therefore always represent the Appendix within a GIPS compliant presentation.* (MLIM)

*Comment: We do not agree that (a) supplemental information can be presented on the same page as a GIPS presentation and (b) that supplemental information can precede compliant information in a booklet etc. as articulated in the Guidance Statement under “Examples of Supplemental Information” and “Applications” 1 and 3. our view is that (a) and (b) run the risks of supplemental information being mistaken as verified information and compliant information being ignored altogether, respectively. We suggest the Guidance Statement should require that if a claim of compliance with GIPS is being made supplemental information should always be presented on a separate page/pages and should always follow the GIPS presentation.*  
(P Group)

*Comment: The UK Investment Performance Committee – the country sponsor of GIPS in the UK – has considered the above guidance statement and is content subject to the point below.*

*The paragraph under Guiding Principles states “This guidance statement does not prohibit firms from preparing and presenting information according to specific requests from prospective*

*clients. However, firms should provide all prospective clients with a fully compliant presentation prior to or accompanying any supplemental information.” UKIPC suggests that it should be a requirement that a compliant presentation should always accompany the supplementary information. This will prevent the supplementary information from being taken out of context. If the supplementary information is distributed on its own, it is not, by definition, supplementary. (UKIPC)*

While the IPC agrees that there is a potential for supplemental information to be misleading simply based on the fact of its location in relation to the GIPS-compliant information.

While the IPC does not have the authority to control the order or manner in which information is conveyed to prospective clients, it can influence the information that is provided. Therefore, firms will be required to provide a compliant presentation prior to or accompanying any supplemental information and that supplemental information must be clearly labeled as such.

***Revision: None.***

#### **5. Verification Of Supplemental Information: Is It Outside Of The Scope Or Should Verifiers Review This Information?**

According to the original proposal, supplemental information is not subject to verification under the GIPS standards.

*Comment: I agree that Supplemental Information concerns any information that enhances a GIPS compliant presentation, then I think that the Firm can choose to present any information not required/recommended by Standards, provided that it helps clients, according to GIPS’ spirit of fair representation and full disclosure, to better understand composite’s performance, being additional information a way to integrate GIPS’ basic requirements. I think that the examples provided by this Guidance Statement are acceptable, provided that these additional data permit to better understand composite’s characteristics and that they are verified by a third-party (as reported further). (EM)*

*Comment: Since a GIPS verification attests to composite construction and maintenance and policies and procedures in compliance with the Standards, it would be outside the scope of a verification to review supplemental performance-related information. Since GIPS-compliant performance is not examined in the scope of a verification, additional performance-related information would not be examined. When verifiers are hired to conduct performance exams, they can in fact, set the scope of the exam to cover quarterly/annual performance, cumulative performance, after-tax performance, risk-adjusted performance, etc. It would be the examiners’ responsibility to clearly state the scope of what was examined, and it would be the investment advisors’ responsibility in the spirit of full and fair disclosure to not make the claim of having a performance exam in a misleading way. Examiners have an inherent interest in reviewing investment advisors’ verification/performance claims to ensure such claims are not misleading. (AA)*

*Comment: We strongly support the Supplemental Information GS, as drafted, in its assertion that “it is ultimately the responsibility of the firm to ensure that it abides by the ethical principles and spirit of the GIPS standards each time it presents performance results.” Further, since the Standards have previously defined the scope of verification (limiting it to include only “whether the investment firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and whether the firm’s processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards.” (GIPS Handbook, 4-6 Page 1)), we additionally support the exclusion of supplemental information from verification under the GIPS standards. (BPB)*

*Comment: I don’t agree with Guidance Statement’s provision to exclude Supplemental Information from GIPS verification; in fact, I think that when a Firm prepares a GIPS compliant presentation, all data contained in it have to be verified by a third-party in order to provide to prospective clients an assurance of soundness. Moreover, I think that the Firm is free to report to its clients any additional data it wants (also merging them with GIPS compliant data but, not labeling this report as GIPS compliant), but when it presents a GIPS compliant report, this has to be fully verified by a third-party; besides, I think it’s a verifier’s specific duty to eventually invite Firm to eliminate from GIPS presentation all data that don’t satisfy Standards’ spirit of fair representation i.e., all supplemental data that don’t provide any enhancement or clarification to required/recommended information.*

*I don’t think that this provision could be a problem for verifiers, as they would have to check the soundness of supplemental information utilized by Firms in preparing their presentations in the same way they usually verify required/recommended data; in fact, it would be strange whether a Firm presents to its clients data that could not be verified by a third-party. Obviously it’s a Firm’s decision to prepare a GIPS compliant presentation as detailed as it wants and, hereon, its verifier’s activity will be sized (and remunerated) accordingly. (EM)*

*Comment: We suggest that performance related supplemental information, which is a graphical representation of GIPS required information or falls within the scope of GIPS, should be verified (such as graphs, external risk measures, etc.). This independently verified compliant performance information would not have to be labeled then as supplemental. All other non-compliant supplemental information (such as model results, carve-outs without cash, non-discretionary composites, etc.) **should not be verified**. However, such information must then be properly labeled and presented appropriately or separately from the compliant information; the compliant performance presentation must clearly state that such information has not been verified and is not compliant with the Standards. This should be also noted in the report of the verifier (Verification Report). Main goal here is for the reader to clearly understand which information is verified and which is not, assuming that the individual has no specific knowledge about GIPS. (EYSW)*

*Comment: With regard to verification, we strongly believe that Supplemental Information should be excluded. In essence, the role of the verifier is to provide independent confirmation that a firm has complied with the composite construction requirements and that the firm's policies and procedures are designed to calculate and present performance results in*

*compliance with GIPS. In practical terms this means ensuring that the firm's performance measurement infrastructure will generate accurate and representative standard presentations.*

*However, in many situations Supplemental Information is required because of a specific request from a prospect or client. Given the varied and often unique nature of these requests, and the fact that the verifier is not involved with the firm on a day-to-day basis, we feel it is impossible to expect such information to be verified.*

*When we carry out a verification we firmly believe it is good practice to ensure the firm has procedures in place to recognize and deal with situations where Supplemental Information is required. Our suggestion is that AIMR amends the Guidance Statement to encourage firms to put in place adequate procedures and controls to ensure that the use of Supplemental Information is consistent with, and in the spirit of, the GIPS principles of fair representation and full disclosure. (HSBC)*

*Comment: We do not support the verification of supplemental information. Due to the inherent non-uniform nature of supplemental information it would be difficult if not impossible to establish standards and procedures for all possible types of information that could be included and presented as supplemental information by firms. (JHA)*

*Comment: Supplemental information should not be excluded from GIPS verification. Given the potentially large quantities and heterogeneous nature of the body of supplemental information a firm may utilize, a sampling method should be used when verifying such information, whereby "x"% of composites which have been presented alongside supplemental information in the past year will be selected and the supplemental information of those composites will be verified. The same standards as for non-supplemental information should be applied for supplemental information, and when the methodology necessarily differs (perhaps 4 years of data is available instead of 10, for example) the differences should be disclosed as footnotes on the report. (KH)*

*Comment: We believe that supplemental information cannot reasonably be excluded from the scope of a GIPS verification. One reason for firm's seeking to have their GIPS compliance verified by an independent verifier is to generate greater confidence in the mind of the recipient of the report that the contents are likely to have been prepared in a compliant manner. If supplemental information is being presented in association with a GIPS compliant presentation it would be difficult to guarantee that the recipients would understand which sections of the combined presentation had been covered by verification and which had not.*

*The potential for confusion of recipients would be increased if supplemental information were to be included on the same page as the compliant presentation, and increased even further if it were to be included within the same table of statistics.*

*As a verification firm, we seek to understand how our clients intend to use their GIPS presentations and an important part of this understanding would relate to any other materials to be included with the compliant presentation, including but not limited to supplemental information as set out in the guidance statement.*

*Part of our review includes understanding where the presented information is gathered from and how it is calculated and presented. We would consider it essential to include supplemental information within the scope of this review.*

*The guidance statement does not cover how supplemental information would be reviewed in a performance audit. This is appropriate as performance audits themselves are not described within GIPS. However, the scope of work required would have to be considered on a case by case basis. (KPMG)*

*Comment: Yes, providing that supplementary information is clearly identified as non-verified material, we believe that it should be excluded from GIPS verification and remain the responsibility of the firm to ensure supplementary information abides by the GIPS Guiding Principles. If supplementary information were to be verified, what would it be verified in accordance with? GIPS standards would have to increase in scope significantly to cover all examples of supplementary information, e.g. attribution, risk etc., and this is not an exhaustive list, so it could cause problems in the short-term. (MLIM)*

*Comment: Supplemental Information should be excluded from GIPS verification. A disclaimer in the presentation should disclose that the verifier is not involved in any review of the supplemental information. We believe most verification firms should and will include such a reservation in their verification document also. (NFF)*

*Comment: We agree that supplemental information should be excluded from verification. We would further like to see inclusion of a requirement in the Guidance Statement for a specific disclosure in GIPS compliant presentations to the effect that supplemental information has not been included in the verification process. (P Group)*

*Comment: The provision that supplemental information is not subject to verification may create confusion for the users of performance presentations. Users may not be knowledgeable with respect to the GIPS and may believe the entire body of information presented in a composite report was subject to verification. Therefore, firms should be required to clearly state in their performance presentations that supplemental information is not covered by independent accountant's (or verifier's) report whenever it can be reasonably expected that the verifier would be associated with the presentation. (PWC)*

*Comment: Supplemental information should be excluded from GIPS verification. However, it is desirable to incorporate supplemental information that is deemed compliant into the GIPS required or recommended provisions in the future, and in this case such information should naturally be subject to verification. (SAAJ)*

*Comment: In our view, supplemental information should not be subject to verification under the GIPS standards. The provision of supplemental information is by its nomenclature supplemental. Requiring supplemental information to be verified will result in additional auditing expenses. We note that supplemental information will continue to be subject to the guiding principles of the Guidance Statement on the Use of Supplemental Information as well as anti-fraud provisions under State and Federal law. (TRP)*

*Comment:* We do not believe that it is appropriate to include the review of Supplemental Information in the verification process. The use of supplemental information is often a consequence of a direct request for specific information via an RFP question. It would be difficult to cover all eventualities of supplemental information at the time of a verification audit. We do not believe that it is appropriate to include the review of Supplemental Information in the verification process. We would recommend that a clear statement be made within the presentation that Supplemental Information is not subject to review by the firm's verifier. (IAIM/SAIA)

Based on the verification principles laid out in the GIPS standards and the definition of supplemental information as revised, supplemental information falls outside the scope of the Standards and is therefore not subject to verification.

**Revision: None.**

## **6. Effective Date**

*Comment:* Several responses were in agreement with the proposed effective date. (EYSW, KH, MLIM, NFF, P Group, SAAJ, IAIM/SAIA)

*Comment:* For the most part, we believe the Supplemental Information GS – with the inclusion of our suggested revisions – outlines requirements and guidance with which managers who are currently claiming compliance should already be complying, based on the existing duty under GIPS to ensure “full disclosure and fair representation.” Should our suggested revisions be incorporated into the Supplemental Information GS (or alternate revisions that alleviate the same problems our suggestions aim to alleviate), we fully support the effective date of April 1, 2003. (BPB)

*Comment:* I agree with the proposed Effective Date, even if I think that the provisions of the Guidance Statement, excluding the items to whom, as reported formerly, I don't agree, are already contained inside Standards' (GIPS Introduction 10.h) indications. (EM)

*Comment:* In principal, we agree with the proposed effective date for guidance on the use of supplemental information. However, it should be apparent from the above comments that we believe that the draft guidance statement requires further work before it should be adopted. For this reason, and taking into account the process to be followed, the target effective date would appear somewhat optimistic. (KPMG)

*Comment:* If this Guidance will require firms to re-print marketing brochures to adequately label disclosures as supplemental, perhaps the effective date with respect to such changes should be postponed to 1 April 2004. (PWC)

The IPC has determined that an effective date of 1 January 2004 is appropriate based on the need for the industry to learn of the new guidance and determine whether it impacts their marketing presentations.

