



Global Investment Performance Standards

Guidance Statement on Definition of the Firm

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Retroactive Application: Not Required

www.gipsstandards.org

GIPS® Guidance Statement on Definition of the Firm (Revised)

Introduction

Three of the most fundamental issues that a firm must consider when becoming compliant with the GIPS® standards are the definition of the firm, the firm's definition of discretion, and the firm's composite definition ~~principles and guidelines~~. The definition of the firm is the foundation for firm-wide compliance and creates defined boundaries whereby total firm assets can be determined. The firm's definition of discretion establishes criteria to judge which portfolios should be in a composite to accurately reflect the application of the firm's investment strategy. Once the firm and discretion have been defined, composites can be constructed based on the strategies implemented by the firm.

The GIPS standards must be applied on a firm-wide basis. As the first step in complying with the GIPS sStandards, the firm must be defined fairly and appropriately. Compliance with the GIPS standards relies on a clear and consistent definition of the firm. The GIPS sStandards require that the definition of the firm be disclosed ~~in the compliant~~ presentations, and the verification ~~principles~~ procedures require that verifiers perform sufficient procedures to determine ~~if that~~ the firm is, and has been, appropriately defined.

In addition, the definition of the firm delineates the universe of "all" portfolios that must be included in total firm assets ~~under management~~. Fundamental to the GIPS sStandards is the premise that all actual, fee-paying, discretionary portfolios must be included in at least one composite.

As merger and acquisition activity can affect the definition of the firm, the Guidance Statement on Performance Record Portability ~~should~~ must also be considered.

Guiding Principles

When defining the firm, it is important to consider the following:

- How the firm holds itself out to the public.
- The firm definition must be appropriate, rational, and fair.
- Firms ~~are encouraged to~~ should adopt the broadest, most meaningful definition of the firm.
- Firms must not use the definition of the firm as a substitute for defining composites, (e.g., defining the firm too narrowly, as to only encompass one product).

Defining the Firm

The GIPS sStandards require that firms must be defined as an investment firm, subsidiary, or division held out to clients or ~~potential~~ prospective clients as a distinct business entity. A distinct business entity is a unit, division, department, or office that (1) is organizationally and functionally segregated from other units, divisions, departments, or offices, (2) ~~and~~ retains discretion over the assets it manages, and (3) should have autonomy over the investment decision-making process.

Possible criteria that can be used to determine this include:

- Being a legal entity,
- Having a distinct market or client type (e.g., institutional, retail, private client, ~~etc.~~), ~~and~~
- Using a separate and distinct investment process.

As previously stated, firms ~~are encouraged to~~ should adopt the broadest, most meaningful definition of the firm and consider how it is held out to the public. The scope of this definition should include all geographic (country, regional, etc.) offices operating under the same brand name regardless of the actual name of the individual investment management company.

These factors to consider when defining the firm include, but are not limited to:

- All offices operating under the same brand name (e.g., XYZ Asset Management),
- Other names resulting from mergers, acquisitions, ~~etc.~~, and/or trading under a different name for branding purposes,
- Financial service holding companies defined as one global firm with multiple brands, several legal entities, multiple offices, investment teams, and investment strategies,
- An investment management firm with one brand, but multiple strategies and investment teams,
- All offices trading under a globally recognizable trading name with regional/country specific additions (e.g., XYZ Asset Management Asia),
- Investment management firms in most countries must register with one or more governmental agencies or regulators. The GIPS standards recognize a regulatory registration as a possible definition of a firm for purposes of compliance, but also require firms to consider the manner in which they are holding themselves out to the public when determining the firm definition.

Additional Considerations

In addition to the guiding principles listed above, firms should consider the following when defining the firm:

- The GIPS sStandards require that when the firm jointly markets with other firms, the firm claiming compliance with the GIPS standards must be sure that it is clearly defined and separate relative to ~~any~~ other firms being marketed, and that it is clear which firm is claiming compliance.
- The GIPS sStandards recommend that if a parent company contains multiple **defined** firms, each firm within the parent company ~~is encouraged to~~ should disclose a list of the other firms contained within the parent company.
- The use of a third party (e.g., custodian, broker/dealer, ~~etc.~~) to perform record-keeping or performance measurement is not a valid reason for excluding assets from the definition of the firm.
- Systems incompatibilities cannot be used as a reason for excluding assets from the definition of the firm (i.e., a firm cannot make the claim of compliance for only those assets that are measured and monitored on compatible systems).

Inception of the Firm/Redefinition of the Firm

In some cases, due to corporate restructuring and merger and acquisition activities, the changes within the firm may be so significant that it is held out to the public as a new firm. The new firm

must determine if there is a continuation from the prior firm or if the restructuring is so substantial that it is essentially a new firm.

Changes in investment style or personnel are not valid reasons for redefining the firm, unless the changes are such that the firm is held out to the public in a significantly different way. A simple name change is not sufficient reason to redefine the firm and restart the performance record. In some cases, a firm definition may change without the firm losing its performance history. Please refer to the Guidance Statement on Performance Record Portability for related guidance. In all cases, the underlying principles of the GIPS sStandards must be considered: fair representation and full disclosure. If a firm is redefined, ~~Provision 4.A.21 requires that~~ the firm must disclose the date of, description of, and reason for the redefinition. The GIPS sStandards require that changes in a firm's organization ~~are~~must not ~~permitted to~~ lead to alteration of historical composite ~~results~~performance.

Total Firm Assets

The definition of the firm also determines the boundaries for determining total firm assets. This includes all assets for which a firm has investment management responsibility and includes assets managed outside the firm (e.g., by sub-advisors) for which the firm has discretionary authority.

For periods beginning on or after 1 January 2011, total firm assets must be the aggregate fair value of all discretionary and non-discretionary assets managed by the firm. This includes both fee-paying and non-fee-paying portfolios.

The GIPS sStandards state that for periods prior to 1 January 2011, total firm assets must be the aggregate of the market value of all discretionary and non-discretionary assets under management within the defined firm. This includes both fee-paying and non-fee-paying assets.

For periods prior to 1 January 2011, ~~a~~Assets to which the GIPS sStandards cannot be applied are not to be considered by firms when claiming compliance and are not to be included in total firm assets. Such assets include investment vehicles that are based on cost or book values rather than market values.

Sub-advisors

Some firms utilize a sub-advisor to manage part or all of a particular strategy. For example, if a firm specializes in managing equities, it might hire a sub-advisor to manage the fixed income portion of its balanced portfolios. The GIPS sStandards require that firms must include the performance of assets assigned to a sub-advisor in a composite provided the firm has the authority to allocate the assets to a sub-advisor.

If a firm has discretion over the selection of the sub-advisor (i.e., can hire and/or fire), the firm must claim the sub-advisor's performance as part of its performance history and include the assets in ~~the firm's~~ total firm assets. Because the sub-advisor has discretion over the actual investment of the assets and the firm has discretion over the selection of the sub-advisor, both the firm and the sub-advisor are able to claim the performance of the assets as their own. The firm is able to claim this performance because the sub-advised portion of the portfolio is essentially

viewed as an asset (similar to purchasing a mutual fund within the portfolio) and the firm must be held responsible for its decision to utilize a sub-advisor. The firm can only include the sub-advisor's performance record relevant to those assets assigned by the firm. If a firm does not have discretion over sub-advisor selection, it must not include the sub-advisor's performance in its performance history.

The GIPS sStandards require that for periods beginning on or after 1 January 2006, firms must disclose the use of a sub-advisor(s) and the periods a sub-advisor(s) was used.

Effective Date

The effective date for this Guidance Statement is 1 January 2011. When bringing past performance into compliance, firms may comply with this version of the Guidance Statement or with prior versions in effect at the time. Prior versions of this Guidance Statement are available on the GIPS standards website (www.gipsstandards.org).