Minutes of the GIPS Executive Committee
Open In-Person Meeting

Date: Friday 29 April 2016
Location: London, United Kingdom
Time: 8:30 to 9:30

Members Present:
Ann Putallaz, Ph.D., CIPM – EC Chair and At-Large Member
Trevor Persaud – At-Large Member
Carl Bacon, CIPM – At-Large Member
Jonathan Boersma, CFA – GIPS Executive Director
Gabriele Montalbetti, CFA, CIPM – At-Large Member
Mohammad Shoab, CFA – At-Large Member
Arin Stancil, CFA, CIPM – At-Large Member
Karyn Vincent, CFA, CIPM – GIPS Technical Committee Chair

Members Absent: Andrew Bragg – At-Large Member

Staff Present:
Anju Grover, CIPM – GIPS Analyst
Polly Johnson – GIPS Project Coordinator
Beth Kaiser, CFA, CIPM – Director, Global Investment Performance Standards
Cindy Kent – Director, Global Investment Performance Standards
Annie Lo, CFA, CIPM – Director, Global Investment Performance Standards
Iain McAra – Director, Global Investment Performance Standards
Ken Robinson, CFA, CIPM – Director, Global Investment Performance Standards

Action Items
• Executive Committee members will continue discussions about the GIPS 2.0 Project on their conference call on 22 June 2016.
• CFA Institute staff will continue to meet with the European Commission to discuss issues about the PRIIPs regulation.

Dr. Putallaz welcomed everyone to the GIPS Executive Committee open in-person meeting. She announced that the meeting is being recorded and will be posted on the GIPS standards website as an audio recording, and the Minutes will be posted as a public record.

1. GIPS Technical Committee Update
Ms. Vincent reported on the status of several technical projects underway.

Assistance to Firms Considering Compliance with the GIPS Standards
The Assistance to Firms Considering Compliance with the GIPS Standards paper is a resource document intended to help firms with the initial process of complying with the GIPS standards. This paper has been completed and is currently being processed by the editorial staff of CFA Institute. After editing, the Assistance to Firms Considering Compliance with the GIPS Standards paper will be posted on the GIPS standards website for the public in the near future.
Guidance Statement on Broadly Distributed Pooled Funds Exposure Draft

The Guidance Statement on Broadly Distributed Pooled Funds Exposure Draft was released for a 90-day public comment period and the deadline for comments is 29 April 2016. To date 11 comment letters have been received and it is anticipated more letters will be submitted. The next step will be to form a small working group to review the comment letters, led by Dr. Putallaz. The proposed effective date for this Guidance Statement will mostly likely be 1 January 2018, as it will be probably take the rest of this year to finalize the document and allow firms a year to comply.

Revised Guidance Statement on the Application of the GIPS Standards to Asset Owners

The Guidance Statement on the Application of the GIPS Standards to Asset Owners (Asset Owners Guidance Statement) was issued a couple of years ago providing additional guidance on how asset owners can claim compliance with the GIPS standards. That Guidance Statement is being revised because during the Japanese translation process flaws in the English version were discovered. This discovery set in motion a process to make some minor technical corrections as well as to take a fresh look at the Guidance Statement by the Asset Owner Subcommittee. From the review it was decided that changes should be made to the effective date and the minimum period of compliance in the Guidance Statement. It was explained that asset owners are very different from asset managers as they do not have prospective clients and do not market their services. To encourage asset owners to claim GIPS compliance, it was decided that instead of requiring them to present a minimum five-year period of compliance, they will be required to present a minimum one-year period of compliance. Due to these major changes in the Asset Owners Guidance Statement, this document will be released for public comment. The revisions to the Guidance Statement are almost complete. It is anticipated that the revised Asset Owners Guidance Statement will be released for public comment in the near future.

It was stated that as the Asset Owners Guidance Statement currently has an effective date, how to handle the effective date with this new revision is an open question at this time. It was explained that an asset owner that complied with the GIPS standards prior to the Asset Owners Guidance Statement would have complied with the regular GIPS standards. Asset owners were required to comply with the Asset Owners Guidance Statement as of its effective date of 1 January 2015. One of the questions for industry feedback that will be asked during the public comment period is how to handle the effective date for the revised Asset Owners Guidance Statement. It was suggested that the effective date of the revised Asset Owners Guidance Statement should be as early as possible.

Portability Guidance Statement

Work continues on revising the Guidance Statement on Performance Record Portability that provides guidance on porting a track record from one firm to another. The GIPS Technical Committee has already reviewed, provided feedback, and agreed to the concepts in the revisions to this Guidance Statement. It is expected that a revised draft of the Guidance Statement on Performance Record Portability will be submitted to the GIPS Technical Committee to review on their June conference call.

Supplemental Information Guidance Statement

Over the past few years, there has been discussion regarding the need to update the Guidance Statement on the Use of Supplemental Information. The Guidance Statement has been revised and was a topic of major discussion at the GIPS Technical Committee in-person meeting in March. The Interpretations Subcommittee is now working to incorporate the recent feedback received from the GIPS Technical Committee. The goal is to release the revised draft Guidance Statement on the Use of Supplemental Information for public comment in the third quarter of 2016.

Risk Guidance Statement

The Guidance Statement on Risk is a new Guidance Statement. It was reviewed again by the GIPS Technical Committee in March and their feedback is currently being used to edit the Risk Guidance Statement. It is anticipated that the Risk Guidance Statement will be released for public comment in 2016.
Verifier Independence Guidance Statement
It was explained that the Guidance Statement on Verifier Independence was the only Guidance Statement that did not need to be updated as part of the 2010 revision of the GIPS standards. It was stated the Guidance Statement has been under review by the Verification Subcommittee for quite some time. The GIPS Technical Committee has reviewed the concepts and provided feedback on a revision of the Verifier Independence Guidance Statement. The goal is for a revised draft of the Verifier Independence Guidance Statement to be released for public comment in 2016.

Overlay Strategies Guidance Statement
The Guidance Statement on Overlay Strategies is also a new Guidance Statement. A working group was created to draft this Guidance Statement to address technical issues regarding how overlay managers claim compliance with the GIPS standards and their challenges. The GIPS Technical Committee has reviewed several drafts of the Guidance Statement on Overlay Strategies and provided additional feedback at their March meeting. The Overlay Strategies Working Group is working to integrate the feedback recently received into the Guidance Statement. It is anticipated that the Guidance Statement on Overlay Strategies will be released for public comment by the end of 2016.

Real Estate Guidance Statement
The Real Estate Working Group decided to take fresh look at the Guidance Statement on Real Estate to see if it is meeting the needs of investors and firms. The Working Group has created a series of questions to survey the industry and the testing phase of the survey is underway. It is anticipated that the Real Estate Survey will commence in the summer of 2016. The Real Estate Survey will be distributed to a number of Real Estate industry groups to which many members of the Real Estate Working Group belong.

Benchmarks Guidance Statement
A new working group was recently formed to draft a Guidance Statement on Benchmarks to address several topics regarding Benchmarks throughout the GIPS standards. The Benchmarks Working Group is chaired by Anthony Howland, a director at the Freedom Index Company in the United Kingdom. The Working Group has begun their work on this long-term project to create a Guidance Statement on Benchmarks. The scope for the Benchmark Working Group was developed by the Investment Manager Subcommittee and the Subcommittee previously submitted their list of topics to the GIPS Technical Committee for approval. It was stated that the Benchmark Working Group plans to have a first draft of a Guidance Statement on Benchmarks to the GIPS Technical Committee by the end of 2016.

Internal Rate of Returns (IRR) Guidance Statement
As a result of discussions that have happened over the past year, primarily due to the work that was done by the United States Investment Performance Committee (USIPC), guidance will be drafted to expand the use of Internal Rates of Return (IRR) versus Time Weighted Rates of Return (TWR) in the GIPS standards. Many closed-ends funds that do not qualify as a private equity fund, under the GIPS standards, are forced to use TWR when the firm does not believe that TWR makes sense. The GIPS Technical Committee decided that a Guidance Statement should be created to potentially expand the use of IRR primarily for closed-end, fixed-life funds where the firm controls the cash flows. The Interpretations Subcommittee has just started to work on creating a Guidance Statement on IRR.

GIPS 2.0
It was announced that another edition of the GIPS standards, known as the 2020 edition, will be developed and released for public comment. A significant amount of guidance has been developed since the 2010 edition of the GIPS standards was released and all of that guidance needs to be consolidated and integrated into the GIPS standards. This review of the GIPS standards will potentially take a fresh look at how the Standards are currently structured around composites. It will be determined if there needs to be more focus on how firms are managing specific funds and how to report funds versus using composites. A lot of the review about the structure of the GIPS standards is being motivated by the work that has been done in the Broadly Distributed Pooled Funds Guidance Statement to address the fact that not all firms are marketing a composite.
Currently the GIPS 2.0 project, to review the structure of the GIPS standards, is being worked on by CFA Institute staff to determine the project scope.

There was a brief discussion regarding how well the revised governance structure that delegated the technical work of the GIPS Executive Committee to the GIPS Technical Committee is working. It was stated that the separation of the technical work from the promotional work is a great change so that the GIPS Executive Committee does not get caught up in the technical details of the GIPS standards. It has allowed more GIPS technical experts to be able to focus on the technical issues of the GIPS standards. With the new GIPS governance structure, that includes more working groups, the benefits are starting to be seen with the 12 projects reported earlier.

It was mentioned there is obviously going to be overlap in public comment periods for many of the guidance documents that are being completed at approximately the same time. It was suggested that the GIPS Technical Committee should develop a timetable or phase the release of the different Guidance Statements. It was explained that the GIPS Technical Committee has discussed this issue and understands that all the guidance cannot go out for public comment during the same time period. It was stated that although it is hoped that the guidance work mentioned above will be completed by the end of 2016, realistically it is doubtful that will happen. It was pointed out that many of the Guidance Statements getting ready to be released for public comment are focused on a specific area and will not interest every firm but only a segment of the industry (e.g., Overlay Strategies or Real Estate). When a draft Guidance Statement is completed, the next step in the process is for the document to go the editorial staff at CFA Institute. CFA Institute editorial staff cannot process all the Guidance Statements at the same time.

2. **GIPS Executive Director Update**

   **Firm Notification Requirement**

   Mr. Boersma reminded the Executive Committee members that the new requirement for firms to notify CFA Institute of their claim of compliance took effect last year in June for the first time. Approximately 1,600 global firms completed the GIPS Compliance Form notifying CFA Institute of their claim of compliance with the GIPS standards. It is unknown whether all the firms that claim GIPS compliance have submitted the GIPS Compliance Form but it is unlikely that all firms have submitted their notification as some firms submitted their notification after the June 2015 deadline. However, the discipline to submit the notification to CFA Institute is becoming instilled with firms during this second year of the requirement.

   In reviewing the data submitted from firms, it was found that more than 85% of the firms are verified. Roughly 82% of the firms that notified CFA Institute of their claim of compliance opted to have their firm name listed on the GIPS Standards Website. The goal is to have all firms that claim compliance listed on the website. The fact there are some very large firm names listed may encourage others to be listed as well. It was mentioned that there was concern that some regulators may perceive being listed on the website as a type of advertisement and that has not materialized.

   One of the optional questions on the GIPS Compliance Form was regarding the firm’s AUM range and 82% provided their AUM range and that data is very informative. The AUM ranges on the first GIPS Compliance Form were quite large. In reviewing the AUM information and using the midpoint to try to get an idea of the AUM that is covered by compliant firms, the data shows:

   - 20% of firms manage less than $250 million USD; and
   - 20% of firms manage less than $1 billion USD.

   This confirms that a good job has been done to make sure the GIPS standards are applicable to large and small firms.
From the initial Firm Notification data it was found that 74 firms (in some cases only a portion of the firm) of the top 100 largest firms (by AUM) claim compliance with the GIPS standards. In other words, a very large financial firm could have a subsidiary or division that is defined as the firm for GIPS compliance purposes, rather than the entire organization. This is a good starting point in initially gathering data on firms that claim GIPS compliance. Based on this data, over 60% of the global AUM is covered by GIPS compliant firms. The vast majority of the compliant firms listed that their firm is based in the United States (1,200 firms). However, this does not provide information about whether it is a global firm with headquarters based in the United States or whether that is the location of the firm’s compliance person completing the form.

This year the GIPS Compliance Form will ask for regional information on where the firm does business, in an attempt to get a better picture of the global footprint of the GIPS standards. It was noted that the vast majority of firms provided the optional information on the GIPS Compliance Form. It was reiterated that the data information obtained through the Firm Notification is only shared in a summary format. It helps CFA Institute to understand the market place penetration of the GIPS standards.

It was mentioned that the large AUM ranges have been revised on the GIPS Compliance Form to narrow AUM ranges from which to select. It was explained that in trying to determine the AUM covered by the GIPS standards, other data sources that report AUM were used to obtain more accurate information. There was a discussion about asking firms to list their AUM on the GIPS Compliance Form, and the fact that there are firms that are not comfortable in reporting a precise number.

Some additional upgrades have been made to the GIPS Compliance Form to give firms a confirmation page of the all information they provided after they submit their form, as well as an email confirmation.

It was reported that a lot of good press has been received about a blog post that CFA Institute staff wrote regarding the Firm Notification requirement.

**GIPS Strategic Plan**

It was reported that the main focus of the GIPS Executive Committee’s Strategic Plan will continue be to outreach to asset owners, including large pension funds, sovereign wealth funds, and endowments. The more education that can be done with the demand side for compliance, the more likely they will be to ask for and demand compliance from the asset managers that they hire. It is also hoped that some of these organizations will adopt the GIPS standards themselves. While the primary focus is not on having asset owners claim compliance, if they do claim compliance, the chances are good that they will demand it from their external managers as well.

Based on some GIPS governance changes, a better way to engage with our stakeholders is needed, particularly with the GIPS Country Sponsors. When switching from one structure to another gaps naturally occur and it is necessary to determine how to fill gaps that occurred with GIPS Country Sponsors. It is important to maintain the engagement and investment by GIPS Country Sponsors in the GIPS standards and in the process.

The following GIPS Mission Statement was referred to which reads as follows:

**GIPS Mission Statement**

Promote ethics and integrity and instill trust through the use of the Global Investment Performance Standards by achieving:

- universal demand for compliance by asset owners,
- universal adoption by asset managers, and
- universal support from regulators

for the ultimate benefit of the global investment community.
It was explained that in order to have all asset managers comply, the GIPS standards need to be practical and relevant for all managers. Currently, the GIPS standards do cover the vast majority of asset managers. From the Pooled Fund Guidance Statement work, it is apparent that a fresh look should be taken of the GIPS standards to determine if and how to address products, as opposed to strategies or composite type structures. A long-term project entitled, GIPS 2.0 is being contemplated and will focus on the fundamental, philosophical aspects of how the GIPS standards might be applied for products.

At present, the GIPS standards apply basically to a one-to-one relationship between a firm and a client where the firm gathers similarly-managed portfolios into a composite. However, there are products that are a one-to-many relationship where a firm has many clients invested in the same product or fund. There has been a struggle to determine how products fit under the GIPS umbrella. The Pooled Funds Guidance Statement is the first step in trying to address this issue of applying the GIPS standards to products. So the structure of the GIPS standards is being evaluated to determine if there is a way to provide a way for products to be included in the Standards.

Some initial thoughts being considered are whether there could be a diagram with a column showing how the GIPS standards currently apply to composites and a second column showing how the GIPS standards apply to pooled funds. It was stated that “pooled funds” may not be the right term and the term will be reviewed. A third column could be asset owner application of the GIPS standards. Asset owners have a relationship of one-to-zero without prospective clients and assets are managed internally for the entity’s own benefit.

It was mentioned that by potentially making these changes to the structure of the GIPS standards, there is a better chance of achieving the GIPS Mission Statement by having all asset managers comply. It was stated that the GIPS 2.0 Project is the same project that may have been previously described as “pivoting the Standards, or turning the Standards on their side”, and will look at structures as opposed to asset classes.

The plan is for most of the work on the GIPS 2.0 Project to be done internally by CFA Institute staff. It was stated that the current foundation of the GIPS standards is rock solid. A lot of work for the second and third columns has been done through the Guidance Statements for Pooled Funds and Asset Owners. The task now is to find a cohesive way to structure these potential columns in the GIPS standards and communicate the various applications. Work on the GIPS 2.0 Project will take a long time and it is anticipated that it could be released as the 2020 edition of the GIPS standards.

There is currently a significant amount of technical work in the pipeline to be released soon. It was stated that the development of technical work at that level will not be able to be maintained while work is being done by CFA Institute staff on the GIPS 2.0 Project.

One important motivation for developing the GIPS 2.0 project is the issue of Internal Rates of Return (IRR) versus Time Weighted Rates of Return (TWR) and when it is most appropriate to use one calculation methodology over another. It was pointed out that both IRR and TWR may be presented. There was a brief discussion about some of the ideas being proposed to resolve the IRR vs. TWR issue. It was mentioned that another area of the GIPS standards that needs attention is Private Equity.

Other Business
GIPS Nominations Committee
It was reported that the GIPS Nominations Committee will meet soon to review applications for potential nominees for the next fiscal year beginning on 1 September 2016 for the following rotating positions:

- Two GIPS Executive Committee At-large positions;
- GIPS Technical Committee – Interpretations Subcommittee Chair; and
- GIPS Technical Committee – Investment Manager Subcommittee Chair.
GIPS Subcommittee/Working Group Volunteers
It was announced that volunteers are currently being sought for next fiscal year beginning 1 September 2016 to fill rotating member positions on the following groups:

- Asset Owner Subcommittee;
- Interpretations Subcommittee;
- Investment Manager Subcommittee;
- Verification Subcommittee; and
- Real Estate Working Group.

Individuals interested in applying to serve as a volunteer on one of the above listed GIPS Subcommittees or Working Group were encouraged to apply before the deadline of 20 May 2016.

Observer Questions
Colin Morrison, United Kingdom – Mr. Morrison shared that the United Kingdom Investment Performance Committee (UKIPC), the GIPS Country Sponsor for the United Kingdom, has left the submission of their comment letter on the proposed Pooled Funds Guidance Statement until the deadline today. He explained that this is due to the recent third reiteration of the European PRIIPs (Packaged Retail Insurance-based Investment Products) regulation. The UKIPC will need to determine how that sits alongside the draft Pooled Funds Guidance and that will influence and form the UKIPC’s comment letter. In the early stages of drafting the PRIIPs regulation, there was a suggestion that pooled fund investors should not be provided any historic information on a fund. Currently, it looks like this suggestion will be employed in the PRIIPs regulation as there is very little focus on historic performance. The PRIIPs regulation is calling for providing information on a few future performance measurements, based on historic scenarios.

Mr. Morrison urged the GIPS Executive Committee to read the third reiteration of the European PRIIPs regulation. He stated that the PRIIPs regulation, for future performance scenarios, fits very uncomfortably against the proposed Pooled Fund Guidance Statement. Mr. Morrison asked the GIPS Executive Committee what they plan to do about it? (i.e., the PRIIPs regulation and proposed Pooled Fund Guidance Statement).

Jonathan Boersma, CFA – Mr. Boersma responded that last Monday, CFA Institute staff met with members of Parliament and the European Commission and raised that very point. The one thing that is known about ex-ante performance is that it is going to be wrong as no one knows the future. The concerns about ex-ante performance were shared by other GIPS Executive Committee members. While past performance is not always indicative of future performance, it is past performance that is known with certainty. Past performance is what we look at and what everybody uses when looking at a product and how it correlates to another product historically. While past performance does not predict the future, it is a good indicator and is part of the analysis. There is hope in the response back to CFA Institute staff from the Commission that PRIIPs is not finished yet. CFA Institute staff will continue conversations with the EU Commission and have offered the availability of subject-matter experts who would be happy to provide their expertise to the Commission in their deliberations. CFA Institute staff has some direct follow up with the Commission. He mentioned that the context of the discussion was on the value of having soft regulation such as the GIPS standards (industry standards) versus regulations and how the two can fit together and complement each other. Mr. Boersma stated that it was a very positive meeting with the Commission and he is encouraged that the messages are getting through. He commented that he does not know what the future holds but the last chapter has not been written yet. Mr. Boersma said that CFA Institute staff will continue to follow up with the Commission, ESMA, and some others and will keep Mr. Morrison informed about how the discussions are going. He admitted that it is late in the game, but he is encouraged by the response received from the Commission.

Trevor Persaud - Mr. Persaud thanked Mr. Morrison for his question. He commented that he was unaware of what was happening with the PRIIPs regulation until it was raised in the GIPS Executive Committee meeting
yesterday. He observed that it is interesting that the regulator must be looking at performance from the perspective of suitability. Mr. Persaud stated he can only guess that is how the regulator arrived at what they are proposing which is interesting that it is different from performance appraisal and reporting. He mentioned that he is glad CFA Institute has the dialogue with the regulator, and for them to explore rather than have them unaware of the importance of analyzing historic performance.

Arin Stancil, CFA, CIPM – Mr. Stancil stated that if the PRIIPs regulation goes through as proposed right now, and if more regulation like PRIIPs were to be enacted in the future, how do you see this type of regulation impacting the proposed Pooled Fund Guidance Statement? Do you see any change at all to the Guidance Statement or is it considered separate?

Jonathan Boersma, CFA – Mr. Boersma responded that within the GIPS standards there are provisions that say firms must adhere to any local law or regulation. So if a local law or regulation states you cannot show past performance that would be a bad situation. It is not specified where or when the required GIPS standards information has to be presented, except when the investor is a prospective client. He stated that he thinks there is still sufficient room and flexibility to meet the requirements of the GIPS standards.

Iain McAra – Mr. McAra explained that at present it may be a very advantageous position because PRIIPs actually makes no reference at all to the information that is required in the GIPS standards. Mr. McAra stated that the current perspective is that PRIIPs is what goes into the KIID (the Key Investor Information Document). The KIID is limited in size, deliberatively to just three pages. Because the KIID is limited in size, the various bodies consider that there is more important information that needs to be in the document rather than past performance. He then mentioned that at this point there are a lot of academics who become quite heated about the relevance of past performance and what it does or does not represent. Mr. McAra stated that Mr. Persaud is right that regulators are looking at investors who are going out to look at a product with a 20 or 30 year maturity, what can the investor get out of the investment, and what will be the fees they will pay by the end of that period. He explained that the regulator’s perspective is that a retail investor is usually comfortable that what they put in is what they should get out. Mr. McAra said that this is terrible but this is the regulator’s perspective of risk for a retail investor is that they should be happy if they get out what they put in. That perspective of risk is open to a whole other debate. He stated that CFA Institute staff is sharing their perspective with the regulators that what they are including in PRIIPs about expected returns and expected risk is fine, but ex post data is always going to be there as everyone brags about what they have done. If regulators are ignoring ex post data completely, in terms of what is included in the KIID, they are leaving unstandardized all the ex post data that is there. Mr. McAra said CFA Institute staff are asking regulators to find a place in the KIID where some ex post data can be shown. He mentioned that currently in the UCITS (Undertakings for Collective Investment in Transferable Securities) KIID there is 10 years of ex post information, a standardized approach. It appears that they have deliberately ignored ex post information in the PRIIPs KIID which is proposed in 2017 to replace the UCITS KIID. Mr. McAra commented that he does not understand why the regulators have gone down that route, when it is already well set out for the UCITS. It is a bit odd and it is deliberate. He mentioned once again that the ex post information is going to be out there and if the regulators don’t standardize it, it could lead to all sorts of misinformation being presented. If that happens, CFA Institute could step in with the GIPS standards and say we have it all sorted out with the ex post data solution. Mr. McAra said there is no need for the regulators to leave this ex post data gap in the PRIIPs KIID regulation. It may be due to the size of the three-page KIID that they cannot find space to present the ex post data. He mentioned that it really came about due to academic argument about the relevance of past performance where they were not even thinking about relative past performance. Mr. McAra explained that the Alpha that is added indicates the manager’s ability to operate in a certain market place or a market environment over certain time periods. The academics were just looking at absolute returns and said that past performance shows no correlation in terms of better managers who are constantly over performing.
He pointed out that there is some correlation in past performance for underperforming managers. But the academics got past performance tossed out.

Carl Bacon, CIPM – Mr. Bacon pointed out that the GIPS standards could be viewed as the ex post standard as the GIPS Standards are being extended to risk through the proposed Risk Guidance Statement so that performance reported would be a combination of risk and return. He stated that there is room for ex ante guidance that would include ex ante return and ex ante risk as a separate set of standards which would fit in with what the PRIIPs regulation is requiring and the GIPS standards could move forward on that basis.

**Meeting adjourned at 9:40**