**LO.a: Explain why the GIPS standards were created, what parties the GIPS standards apply to, and who is served by the standards.**

1. Which of the following is *most likely* a misleading practice often encountered in investment firms?
   A. Presenting performance for time periods irrespective of performance in such a way that it enhances comparability with other firm's results.
   B. Selecting all portfolios while presenting the firm's investment results for a specific mandate.
   C. Excluding portfolios with poor performance that no longer exist.

2. Which of the following is *least likely* a misleading practice often encountered in investment firms?
   A. Selecting all portfolios while presenting the firm's investment results for a specific mandate.
   B. Selecting a top-performing portfolio to represent the firm's overall investment results for a specific mandate.
   C. Selecting all portfolios for a selected time period during which the mandate outperformed its benchmark.

3. The objective of creating GIPS standards was:
   A. to increase comparability among investment management firms based on standardized rules within a country.
   B. to establish global, standardized, industry-wide rules for calculating and presenting investment performance.
   C. to communicate all relevant information regarding company and industry forecasts to existing clients.

4. Who can *most likely* claim compliance with GIPS Standards?
   A. CFA charterholders.
   B. Individuals.
   C. Investment management firms.

5. Assume there are three parties who play different roles in the investment industry:
   - Party 1: Calsoft Inc. is an investment management firm that manages assets worth $900 million.
   - Party 2: Stan Inc. sponsors pension plans for its employees and encourages its employees to become participants. The money is professionally managed by an investment company.
   - Party 3: Caltech Corp. is involved in the development of software for performance calculations that aids in achieving GIPS compliance.

   Which of the following parties can claim GIPS compliance?
   A. All the parties.
   B. Party 1 and Party 2.

C. Party 1.

6. IDC Asset Management Company has three funds: Premium Equity, Dynamic Bond Fund, and Small-Cap Growth Opportunities. The company claims GIPS compliance for Dynamic Bond Fund. IDC is defined as the firm. Assuming there is no distinction in the investment process or client type, is the claim for compliance accurate as per GIPS Standards?
   A. Yes, since the requirements for claiming compliance have been met.
   B. No, because claiming partial compliance is not allowed.
   C. No, because the provisions do not apply to fixed income investments.

7. Which of the following statements is *most likely* true? A firm can claim GIPS compliance for:
   A. a single product.
   B. a single fund.
   C. an asset management division defined as firm catering exclusively to institutional investors across geographies managing all types of asset classes.

8. Claiming compliance with GIPS Standards is:
   A. mandatory.
   B. voluntary.
   C. set to become mandatory in order to participate in competitive bids from 2017.

**LO.b: Explain the construction and purpose of composites in performance reporting.**

9. According to the Global Investment Performance Standards (GIPS), the criteria for including portfolios in composites is:
   A. all actual fee-paying, discretionary portfolios must be included in at least one composite.
   B. all discretionary portfolios must be included in a composite.
   C. all actual fee-paying portfolios must be included in a composite.

10. Which of the followings statements *best* describe a composite?
   A. A single portfolio for a specific client type such as a retail or institutional investor.
   B. One or more portfolios managed to a similar investment mandate, objective or strategy.
   C. One or more top-performing portfolios provided it is a pre-established criteria.

11. Which of the following *must* be included in a composite?
   A. Non-fee paying, discretionary portfolios.
   B. Non-fee paying, non-discretionary portfolios.
   C. Fee paying, discretionary portfolios.

12. Assume MA Asset Management Company has a composite called Macro Fixed Income Composite that caters to fixed income portfolios. Which of the following funds will *least likely* be a fit in this composite?
    A. A fund with high liquidity that invests in debt instruments.
    B. A fund that invests in a portfolio of money market instruments.
    C. A fund that generates returns in line with the performance of gold.

**LO.c: Explain the requirements for verification.**

13. The purpose of verification is:
    A. that it ensures the accuracy of any composite presentation.
    B. to increase confidence in the firm's claim of compliance.
    C. to ensure the performance of a specific fund or mandate is as presented.

14. Verification of GIPS compliance is:
    A. done by an independent third-party.
    B. mandatory to claim compliance.
    C. done voluntarily by the firm under the supervision of the CFA Institute.

15. Which of the following statements regarding verification is *least* accurate?
    A. The verification procedures are different for each firm.
    B. Though compliance is firm-wide, verification can be done for a specific fund or composite.
    C. Verification tests whether the composite construction requirements have been complied with on a firm-wide basis.

**Solutions**

1. C is correct. Excluding portfolios with poor performance is known as survivorship bias – an often seen misleading practice.

2. A is correct. Selecting top-performing portfolios is a misleading practice known as representative accounts. Presenting performance for a selected time period when the mandate outperformed the benchmark is also a misleading practice.

3. B is correct. C is incorrect because the objective is to communicate all relevant information of historical results to prospective clients.

4. C is correct. Only investment management firms can claim compliance. Individuals, charterholders, and software to implement the Standards cannot claim compliance.

5. C is correct. Only investment management firms that actually manage assets can claim compliance. The other two cannot.

6. B is correct. Since there is no distinction in the market or client type (institution/retail investors) and the investment process, partial compliance is not allowed. GIPS encourages firms to use the broadest definition of the firm.

7. C is correct. A single product or a single fund cannot claim compliance.

8. B is correct. It is voluntary, but it increases the competitiveness of a GIPS-complaint firm, while competing for bids on a global platform against non-compliant ones. It increases the trust among prospective clients.

9. A is correct. All actual fee-paying, discretionary portfolios must be included in at least one composite. Actual non-fee paying discretionary portfolios may be included in at least one composite with appropriate disclosure.

10. B is correct. A composite is an aggregation of one or more portfolios managed according to a similar investment mandate, objective, or strategy.

11. C is correct.

12. C is correct. A gold ETF will least likely fit in a composite with a fixed income investment strategy.

13. B is correct. Verification does not ensure the accuracy of any composite. It merely tests if all the composite construction requirements have been met, and if policies are in place for the firm to calculate, present performance and claim compliance with the GIPS Standards

14. A is correct. A firm cannot perform its own verification.

15. B is correct. Verification cannot be done for a fund or a composite. It is firm-wide just as claiming compliance is.