

## Reading 5: The GIPS Standards

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### Question #1 of 23

Question ID: 412738

Assume that on January 1, 2005, a 15-year old firm with no Global Investment Performance Standards (GIPS) compliant performance history wishes to claim compliance with the GIPS standards. Which of the following *accurately* reflects the appropriate action for the firm to take?

- ☐ **A)** Comply with GIPS for the year beginning January 1, 2004, and report nine additional years of performance history (ten total) and disclose why the earlier years are not GIPS compliant.
- ☐ **B)** Comply with GIPS for the year beginning January 1, 2004, and report four additional years of performance history (five total) and disclose why the earlier years are not GIPS compliant.
- ☒ **C)** Comply with the GIPS standards for the 5-year period January 1, 2000, through December 31, 2004, and report five additional years of non-GIPS-compliant performance and disclosure of why the performance in the earlier years is not GIPS compliant.

#### Explanation

In order to claim GIPS compliance, a firm must present at least five years of annual investment performance that is compliant with GIPS. If a firm or composite is less than five years old, the performance since the inception of the firm or composite must be presented. A firm may link a non-GIPS-compliant performance record to their 5-year compliant history as long as only GIPS-compliant performance is presented for periods after January 1, 2000, and the firm discloses the periods of non-compliance with an explanation of why the presentation is not GIPS compliant (Standard 4.A.15 and 5.A.1.a).

#### References

**Question From:** Session 1 > Reading 5 > LOS a

#### **Related Material:**

- Key Concepts by LOS

### Question #2 of 23

Question ID: 412742

Which of the following is NOT an important characteristic of how a firm defines itself? The firm definition establishes the:

- ☐ **A)** boundaries for what is included when measuring the total firm's assets.
- ☐ **B)** set of portfolios that must be included in at least one of a firm's composites.
- ☒ **C)** entity to which local securities laws apply when they exceed the GIPS requirements.

#### Explanation

When a firm claims compliance with GIPS, it must be compliant on a firm-wide basis. The definition of the "firm" under the GIPS standards establishes the boundaries for what constitutes firm assets, and the set of portfolios that must be included in at least one composite.

#### References

**Question From:** Session 1 > Reading 5 > LOS b

**Related Material:**

- Key Concepts by LOS
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### Question #3 of 23

Question ID: 412746

The Global Investment Performance Standards (GIPS) were designed to be applied with the goal of full disclosure and fair representation of investment performance in all instances EXCEPT:

- X **A)** when a firm or composite has been in existence for less than five years, in which case, less stringent standards apply.
- ✓ **B)** when applicable local laws or regulations conflict with the GIPS, in which case, firms must comply with local laws and fully disclose the conflict.
- X **C)** when a composite includes nondiscretionary funds to which the GIPS are not applicable.

#### Explanation

In the case of a conflict, GIPS require that firms comply with local or country-specific laws or regulations rather than GIPS, but must fully disclose the nature and scope of the conflict.

#### References

**Question From:** Session 1 > Reading 5 > LOS c

**Related Material:**

- Key Concepts by LOS
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### Question #4 of 23

Question ID: 492009

To prepare a GIPS-compliant performance presentation, a firm must:

- X **A)** restate the performance history of its composites if the firm's organization has changed materially.
- X **B)** disclose which specific performance calculations are made in compliance with GIPS.
- ✓ **C)** maintain a complete list of the firm's composites and their descriptions.

#### Explanation

GIPS Section 0, "Fundamentals of Compliance," states that firms:

- Must provide a complete list of the firm's composites, including those that have been discontinued within the last five years, to any prospective client who requests one.
- Must not claim any partial compliance with GIPS or state that a specific calculation is in compliance with GIPS.
- Must not alter historical performance of composites based on a change in the firm's organization.

#### References

**Question From:** Session 1 > Reading 5 > LOS d

**Related Material:**

- Key Concepts by LOS
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**Question #5 of 23**

Question ID: 412748

All of the following are titles of one of the nine sections of the Global Investment Performance Standards (GIPS) EXCEPT:

- X **A)** Real Estate.
- X **B)** Input Data.
- ✓ **C)** Implementation.

Explanation

"Implementation" is not a name of one of the nine major sections of the GIPS standards.

References

**Question From:** Session 1 > Reading 5 > LOS d

**Related Material:**

- Key Concepts by LOS
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**Question #6 of 23**

Question ID: 412745

The El Rey Investment Company, located in Barcelona, Spain, is in the process of adopting the Global Investment Performance Standards (GIPS) for the current fiscal year. One of the GIPS standards is in direct conflict with Spanish investment reporting regulations. In order to be in full compliance with GIPS, El Rey must:

- X **A)** comply with the GIPS standard and make full disclosure of the conflict.
- X **B)** choose either the GIPS standard or the local regulation, whichever is the more conservative approach, and make full disclosure of the conflict.
- ✓ **C)** comply with the local regulation and make full disclosure of the conflict.

Explanation

A GIPS requirement is that firms comply with the local law and make full disclosure of the conflict.

References

**Question From:** Session 1 > Reading 5 > LOS c

**Related Material:**

- Key Concepts by LOS
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**Question #7 of 23**

Question ID: 412737

Longhorn Investments prepares its performance presentations in accordance with Global Investment Performance Standards (GIPS). As part of its employee benefits package, Longhorn does not charge a fee to its employees for managing their portfolios.

When calculating total firm assets for the purpose of GIPS compliance, Longhorn should:

- X **A)** only include those employee portfolios that are in discretionary accounts.
- X **B)** not include these employee portfolios because they are in non-fee-paying accounts.
- ✓ **C)** include these employee portfolios.

#### Explanation

When calculating the firm's total assets for a GIPS-compliant presentation, the market value of all discretionary and non-discretionary assets should be included, regardless of whether the account is fee-paying or not.

#### References

**Question From:** Session 1 > Reading 5 > LOS a

#### **Related Material:**

- Key Concepts by LOS
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### **Question #8 of 23**

Question ID: 412747

Which of the following statements regarding GIPS is *least* accurate?

- X **A)** GIPS allows clients to have more confidence in reported performance.
- X **B)** A GIPS objective is to promote global "self-regulation."
- ✓ **C)** To stay GIPS compliant, a firm must abide by GIPS guidelines even when conflicting with local or country-specific regulations.

#### Explanation

To stay GIPS compliant, firms are required to comply with local laws even if they conflict with GIPS. However, the discrepancy must be disclosed.

#### References

**Question From:** Session 1 > Reading 5 > LOS c

#### **Related Material:**

- Key Concepts by LOS
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### **Question #9 of 23**

Question ID: 412732

Which of the following is NOT a key characteristic of the Global Investment Performance Standards (GIPS)? GIPS:

- X **A)** require firms to use certain calculation and presentation methods and to make certain disclosures along with the performance record.
- ✓ **B)** require managers to include all actual fee-paying and non-fee-paying discretionary portfolios in composites defined according to similar strategy and/or investment objective.
- X **C)** do not address every aspect of performance measurement, valuation, attribution, or coverage of all assets.

### Explanation

The GIPS do not require managers to include non-fee-paying accounts in composites (Standard 3.A.1).

### References

**Question From:** Session 1 > Reading 5 > LOS a

#### **Related Material:**

- Key Concepts by LOS
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## **Question #10 of 23**

Question ID: 412736

Which of the following statements *least* accurately describes a key characteristic of the Global Investment Performance Standards (GIPS)?

- X **A)** All fee-paying, discretionary portfolios must be included in at least one composite.
- ✓ **B)** A firm may not claim compliance with GIPS until it has recorded at least five years of GIPS-compliant performance data.
- X **C)** The distinct business entity that is claiming compliance with GIPS must be defined.

### Explanation

If a firm has been in existence less than five years, it can claim GIPS compliance if it presents GIPS-compliant performance data since the firm's inception. The other statements are accurate.

### References

**Question From:** Session 1 > Reading 5 > LOS a

#### **Related Material:**

- Key Concepts by LOS
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## **Question #11 of 23**

Question ID: 412751

The section of the Global Investment Performance Standards (GIPS) that outlines defining the firm and documenting firm policies and procedures is:

- X **A)** Presentation and Reporting.
- X **B)** Disclosures.
- ✓ **C)** Fundamentals of Compliance.

### Explanation

According to Section 0, Fundamentals of Compliance, the definition of the firm is the foundation for firm-wide compliance and creates boundaries in order to determine total firm assets.

### References

**Question From:** Session 1 > Reading 5 > LOS d

#### **Related Material:**

- Key Concepts by LOS
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### Question #12 of 23

Question ID: 412743

With respect to reporting investment results, Global Investment Performance Standards (GIPS) require a minimum of:

- X **A)** ten years of historical performance.
- ✓ **B)** five years of historical performance.
- X **C)** three years of historical performance.

#### Explanation

GIPS require a minimum of five years of conforming historical performance results.

#### References

**Question From:** Session 1 > Reading 5 > LOS b

#### **Related Material:**

- Key Concepts by LOS
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### Question #13 of 23

Question ID: 412735

Which of the following statements regarding Global Investment Performance Standards (GIPS) is *most* accurate?

- ✓ **A)** GIPS requires that all fee-paying discretionary portfolios be included in composites defined according to investment objective or similar strategy and firms must show GIPS compliant history for a minimum of five years or since inception if a composite has existed less than five years.
- X **B)** GIPS exists as a best or maximum worldwide standard where local or country specific law for investment performance measurement does not exist.
- X **C)** GIPS is intended to foster the notion of a world-wide regulatory body to oversee investment performance and measurement on a global scale.

#### Explanation

GIPS provides a minimum, not a maximum, standard for investment performance measurement and/or presentation. GIPS requires that all fee-paying discretionary portfolios be included in a composite, not rank ordered, to prevent firms from presenting the results of their best portfolios. GIPS is intended to foster the notion of *self-regulation*, not a world-wide regulatory body, to oversee investment performance and measurement.

#### References

**Question From:** Session 1 > Reading 5 > LOS a

#### **Related Material:**

- Key Concepts by LOS
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### Question #14 of 23

Which of the following statements is *most accurate* with regard to Global Investment Performance Standards (GIPS)?

- X **A)** GIPS require managers to include all actual fee-paying and non-fee-paying discretionary portfolios in composites defined according to similar strategy and/or investment objective.
- X **B)** Firms that adopt GIPS must initially show GIPS-compliant history for a minimum of ten years, or since inception of the firm or composite if in existence less than ten years.
- ✓ **C)** GIPS are ethical principles that firms can follow voluntarily where local or country-specific law, regulation, or industry standards may not exist for investment performance presentation.

#### Explanation

The GIPS standards: (1) do not require managers to include *non-fee-paying* accounts in composites, and (2) require five years (or since inception) of GIPS compliant history in a firm's initial GIPS-compliant performance presentation.

#### References

**Question From:** Session 1 > Reading 5 > LOS a

#### **Related Material:**

- Key Concepts by LOS

### **Question #15 of 23**

Question ID: 697259

According to the Global Investment Performance Standards (GIPS), where existing laws or regulations conflict with GIPS, firms:

- X **A)** are required to comply with GIPS in preparing a compliant presentation.
- ✓ **B)** are required to comply with local laws and regulations in preparing a compliant presentation.
- X **C)** may choose to comply with either GIPS or local laws and regulations, but must make full disclosure of the conflict in any compliant presentation.

#### Explanation

In a situation where GIPS conflict with local laws and regulations members are required to follow local laws and regulations and to include an explanation of the conflict in any compliant presentation.

#### References

**Question From:** Session 1 > Reading 5 > LOS c

#### **Related Material:**

- Key Concepts by LOS

### **Question #16 of 23**

Question ID: 412740

Which of the following was NOT a motivation for creating the Global Investment Performance Standards (GIPS)?

- X **A)** Achieve greater uniformity and comparability among presentations of performance.

- X **B)** Improve the service offered to investment management clients.
- ✓ **C)** Increase the role of government agencies in the investment industry.

#### Explanation

All of these were motivations for creating GIPS except to increase the role of government. In fact, these standards have been created to bolster the notion of self-regulation and reduce the encroachment of government into the investment industry.

#### References

**Question From:** Session 1 > Reading 5 > LOS b

#### **Related Material:**

- Key Concepts by LOS
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### **Question #17 of 23**

Question ID: 412676

Jessica French is an individual investment advisor with 200 clients and claims she conforms to Global Investment Performance Standards (GIPS). French includes all of the clients on her books. One of those clients is her father, to whom she charges no fee. However, she manages that portfolio using the same processes as she uses for her paying clients. Another client included in the composite is John Randolph, a wealthy entrepreneur. Randolph is the only client who does not give her discretion over the assets and makes every decision himself, getting suggestions from French and using her to implement decisions. French:

- X **A)** conforms to GIPS, if disclosures are made about the non-fee-paying account.
- ✓ **B)** has violated GIPS because it includes Randolph's account, but not because it includes her father's account.
- X **C)** has violated GIPS because it includes her father's account, but not because it includes Randolph's account.

#### Explanation

Non-fee-paying clients can be included in the same composite as fee-paying clients as long as it is disclosed. Nondiscretionary clients should not be included in the composite as the clients would not adhere to the investment strategy used by the investment advisor.

#### References

**Question From:** Session 1 > Reading 5 > LOS a

#### **Related Material:**

- Key Concepts by LOS
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### **Question #18 of 23**

Question ID: 412750

The nine major sections of the Global Investment Performance Standards (GIPS) *least likely* include:

- X **A)** required disclosures.
- X **B)** input data requirements.
- ✓ **C)** verification procedures.



### Explanation

The nine major sections of GIPS are: 0) Fundamentals of compliance; 1) Input data; 2) Calculation methodology; 3) Composite construction; 4) Disclosures; 5) Presentation and reporting; 6) Real estate; 7) Private equity; 8) Wrap fee/Separately Managed Account (SMA) portfolios.

### References

**Question From:** Session 1 > Reading 5 > LOS d

**Related Material:**

- Key Concepts by LOS
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## Question #19 of 23

Question ID: 412749

Within the Global Investment Performance Standards (GIPS) are supplemental provisions which must be applied to which of the following asset classes?

- ✓ **A)** Private equity and real estate.
- X **B)** Emerging markets and private equity.
- X **C)** Alternative investments and derivatives.

### Explanation

The GIPS standards do not address performance measurement or coverage of all asset classes, but sections 6, 7 and 8 are supplemental provisions which must be specifically applied to private equity, real estate, and wrap fee/separately managed account (SMA) portfolios.

### References

**Question From:** Session 1 > Reading 5 > LOS d

**Related Material:**

- Key Concepts by LOS
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## Question #20 of 23

Question ID: 412739

Which of the following is *least likely* to be a requirement for a firm claiming compliance with Global Investment Performance Standards (GIPS)?

- X **A)** When jointly marketing with a noncompliant firm, make sure the compliant firm is clearly defined as separate from the noncompliant firm.
- ✓ **B)** Provide a compliant presentation only to prospects who request one.
- X **C)** List discontinued composites for at least five years.

### Explanation

To comply with GIPS, a firm must provide a compliant presentation to all prospects. For all prospects who request them, the firm must also provide a composite list and composite description, and a compliant presentation and composite description for any composite included in the firm's list.

## References

**Question From:** Session 1 > Reading 5 > LOS a

**Related Material:**

- Key Concepts by LOS
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### Question #21 of 23

Question ID: 412741

Assume that on January 1, 2005, a firm with no Global Investment Performance Standards (GIPS) compliant history since its inception four years ago wishes to claim compliance with GIPS. Which of the following *accurately* reflects the appropriate action for the firm to take?

- X **A)** Comply with GIPS for the year beginning January 1, 2002, and report its performance prior to this date with a disclosure of why the earlier years are not GIPS compliant.
- X **B)** Nothing, a firm must have five years of compliant performance history to claim compliance with GIPS.
- ✓ **C)** Comply with GIPS for all four periods since the firm's inception.

## Explanation

In order to claim GIPS compliance, a firm must present at least five years of annual investment performance that is compliant with GIPS. If a firm or composite is less than five years old, the performance since the inception of the firm or composite must be presented.

## References

**Question From:** Session 1 > Reading 5 > LOS b

**Related Material:**

- Key Concepts by LOS
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### Question #22 of 23

Question ID: 412752

The provisions for each section of the Global Investment Performance Standards (GIPS) are divided between:

- X **A)** fee-paying and non fee-paying portfolios.
- X **B)** minimum standards and recommendations.
- ✓ **C)** requirements and recommendations.

## Explanation

Firms must meet all requirements in order to claim compliance with the GIPS standards, and are encouraged to adopt and implement the recommendations.

## References

**Question From:** Session 1 > Reading 5 > LOS d

**Related Material:**

- Key Concepts by LOS

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## Question #23 of 23

Question ID: 412734

Which of the following is NOT an objective of the Global Investment Performance Standards (GIPS)?

- X **A)** To encourage self-regulation.
- X **B)** To encourage full disclosure and fair global competition without barriers to entry.
- ✓ **C)** To obtain worldwide recognition by securities regulators of a standard for the calculation and presentation of investment performance in a fair, comparable format that provides full disclosure.

### Explanation

GIPS applies to investment management firms and is intended to serve the existing and prospective clients of investment management firms, not regulators.

### References

**Question From:** Session 1 > Reading 5 > LOS a

### **Related Material:**

- Key Concepts by LOS