

**CHAPTER 59****INTRODUCTION TO TH...FORMANCE STANDARDS (GIPS)**

1. (A) only one is correct.

**Explanation**

DeSoto should agree with Statement 1 but disagree with Statement 2. Reporting on the performance of composites gives clients and prospects information about the firm's success in managing various types of securities or investment styles. The firm should identify which composite each managed portfolio will be included in before the portfolio's performance is known, to prevent the firm from including portfolios selectively and artificially creating composites with superior returns. (Study Session 19, Module 59.1, LOS 59.c)

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2. (A) An investment management firm located in Indonesia.

**Explanation**

Only an investment firm that actually manages assets can claim compliance with GIPS. (Study Session 19, Module 59.1, LOS 59.a)

**Related Material**

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3. (C) Fundamentals of Compliance.

**Explanation**

According to Section 1, 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.

(Study Session 19, Module 59.1, LOS 59.b)

**Related Material**

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4. (A) optional, but if chosen it must be performed by an independent third party.

**Explanation**

Verification of GIPS compliance is recommended but not required. If a firm chooses to obtain GIPS verification, it is required to be performed by an independent third party.

(Study Session 19, Module 59.1, LOS 59.e)

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5. (B) provide information about a firm's performance in various asset classes or investment strategies.

**Explanation**

The purpose of composites is to give clients and prospects information about a firm's past performance managing investments in various asset classes or investment strategies. (Study Session 19, Module 59.1, LOS 59.c)

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6. (C) Yes, because the portfolios are discretionary.

**Explanation**

GIPS require all discretionary portfolios to be included in a composite. Thus, McGregor must include the growth equity portfolios in a composite.

(Study Session 19, Module 59.1, LOS 59.c)

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7. (A) include terminated accounts in their performance history.®

**Explanation**

Because excluding terminated accounts introduces survivorship bias, GIPS requires firms to include these accounts in their performance history. The other two choices describe misleading performance presentation practices that GIPS are designed to avoid.

(Study Session 19, Module 59.1, LOS 59.a)

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8. (C) Meet the need for a single globally accepted set of investment performance presentation standards.

**Explanation**

Recognizing the need for one globally accepted set of investment performance presentation standards, CFA Institute created the Global Investment Performance Standards (GIPS). GIPS are voluntary standards that investment management firms may adopt.

(Study Session 19, Module 59.1, LOS 59.a)

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9. (B) neither the firm nor the charterholder are required to comply with GIPS.

**Explanation**

Adoption of GIPS is voluntary for firms. GIPS apply to firms, not individuals.

(Study Session 19, Module 59.1, LOS 59.a)

**Related Material**

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10. (B) Implementation and Verification.

**Explanation**

The eight sections of the GIPS standards for firms are:

- (1) Fundamentals of Compliance.
- (2) Input Data and Calculation Methodology.
- (3) Composite and Pooled Fund Maintenance.
- (4) Composite Time-Weighted Return Report.
- (5) Composite Money-Weighted Return Report.
- (6) Pooled Fund Time-Weighted Return Report.
- (7) Pooled Fund Money-Weighted Return Report.
- (8) GIPS Advertising Guidelines.

(Study Session 19, Module 59.1, LOS 59.b)

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11. (A) attest that the firm's processes and procedures are established to present performance in accordance with GIPS requirements.

**Explanation**

The verifier must attest that the firm has complied with all GIPS requirements for composite construction on a firm-wide basis and that the firm's processes and procedures are established to present performance in accordance with the calculation methodology, data, and format requirements of GIPS. Verification is not a GIPS requirement. If performed, verification applies to the firm as a whole, not to individual composites, and must be performed by an independent third party, not the firm itself.

(Study Session 19, Module 59.1, LOS 59.e)

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**12 (C) Verification of GIPS compliance is recommended, but not required.**

**Explanation**

Verification of GIPS compliance is recommended but not required. If a firm chooses verification, GIPS require the verification to be performed by a third party and apply to the entire firm's methods and practices, rather than that of selected composites.

(Study Session 19, Module 59.1, LOS 59.e)

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**13. (B) requires a verification report to be issued for the entire firm.**

**Explanation**

A single verification report is issued with respect to the entire firm; GIPS verification cannot be carried out for a single composite.

(Study Session 19, Module 59.1, LOS 59.e)

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**14. (B) Defining a composite so as to include portfolios that have been discontinued.**

**Explanation**

GIPS require discontinued portfolios to be included in composites. To comply with GIPS, portfolios must be assigned to composites before the returns are known; assigning them at the end of the year is not acceptable. Each discretionary portfolio must be included in one, and only one, composite. (Study Session 19, Module 59.1, LOS 59.c)

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**15. (A) No, because the portfolio is non-discretionary.**

**Explanation**

Because this portfolio's owner restricts the firm from implementing its own investment strategy, the firm should designate this portfolio as non-discretionary and should not include it in the firm's composites.

(Study Session 19, Module 59.1, LOS 59.d)

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