Cascade Compliance
Cascade Investment Compliance & Verification, LLC

CFA Society Los Angeles

Ethics: Module 4
Introduction to the Global Investment Performance Standards (GIPS®)

January 15, 2026

Presented by:
Kim Cash, CFA, CAIA, CIPM, CSCP
kim.cash@cascadecompliance.com

THE GIPS® STANDARDS - OBJECTIVES

Five objectives of the Global Investment Performance Standards:

- Promote investor interests and instill investor confidence
  - Based on ***fair representation*** and ***full disclosure***
- Ensure accurate and consistent performance data
- Obtain worldwide acceptance of a single standard for calculating and presenting performance
- Promote fair, global competition among investment firms, and
- Promote industry self regulation on a global basis

BENEFITS

To prospective clients/investors and asset owners:

- Facilitate a dialogue between managers and prospective clients and investors
- Increased confidence in the accuracy and integrity of presentations
- Comparability among managers throughout the world and overtime

For investment managers:

- Voluntary compliance adds credibility to the firm
- Often required by institutional consultants/clients
- Broad adoption improves the industry’s credibility
- Strengthen managerial controls over performance-related policies

WHO CAN CLAIM COMPLIANCE?

Any organization/firm that ***manages actual assets***.

Key Exclusions:

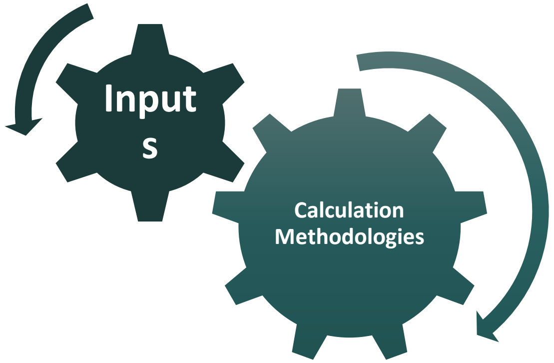
- **Consultants** – limited to endorsing or requiring their investment managers' compliance
- **Software vendors** – must take great care not to overstate their ability to help firms comply, as methodologies that are consistent with the calculation requirements are only one small part of a firm's claim of compliance
- **Individual funds**

1.A.1 The GIPS standards must be applied on a firm-wide basis. Compliance must be met on a firm-wide basis and cannot be met on a composite, pooled fund, or portfolio basis.

1.A.5 The firm must: a. Document its policies and procedures used in establishing and maintaining compliance with the requirements of the GIPS standards, as well as any recommendations it has chosen to adopt, and apply them consistently.

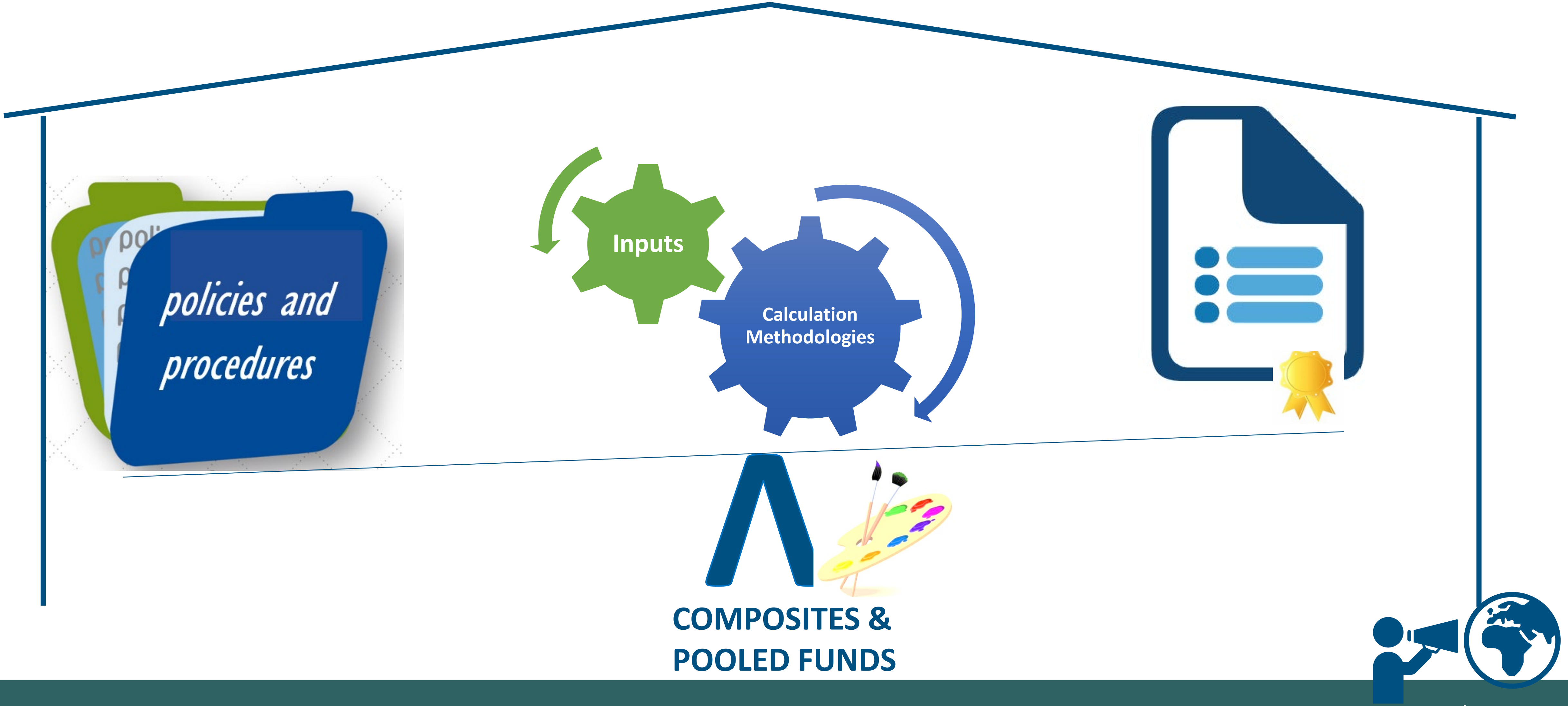
1.A.11 The firm must make every reasonable effort to provide a GIPS composite report to all prospective clients when they initially become prospective clients. The firm must not choose to which prospective clients it presents a GIPS composite report.

1



2

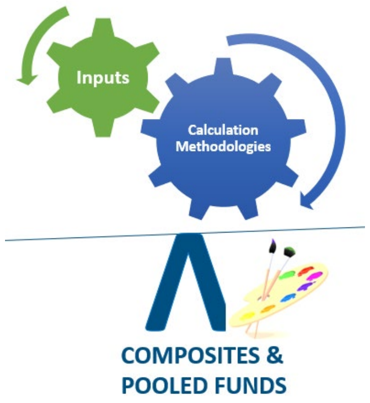
3



Explain **the fundamentals of compliance** with the GIPS standards, including the definition of the firm and the firm's definition of discretion.

TABLE OF CONTENTS

- Voluntary, ***ethical**** rules governing firms, asset owners and verifiers, and include ***requirements*** and ***recommendations***
- For Firms:
  - Fundamentals of compliance
  - Input data and calculation methodology
  - Composite and Pooled Fund Maintenance
  - GIPS Reports:
    - ***TWR Composite***
    - MWR Composite
    - TWR Pooled Fund
    - MWR Pooled Fund
  - GIPS Advertising Guidelines



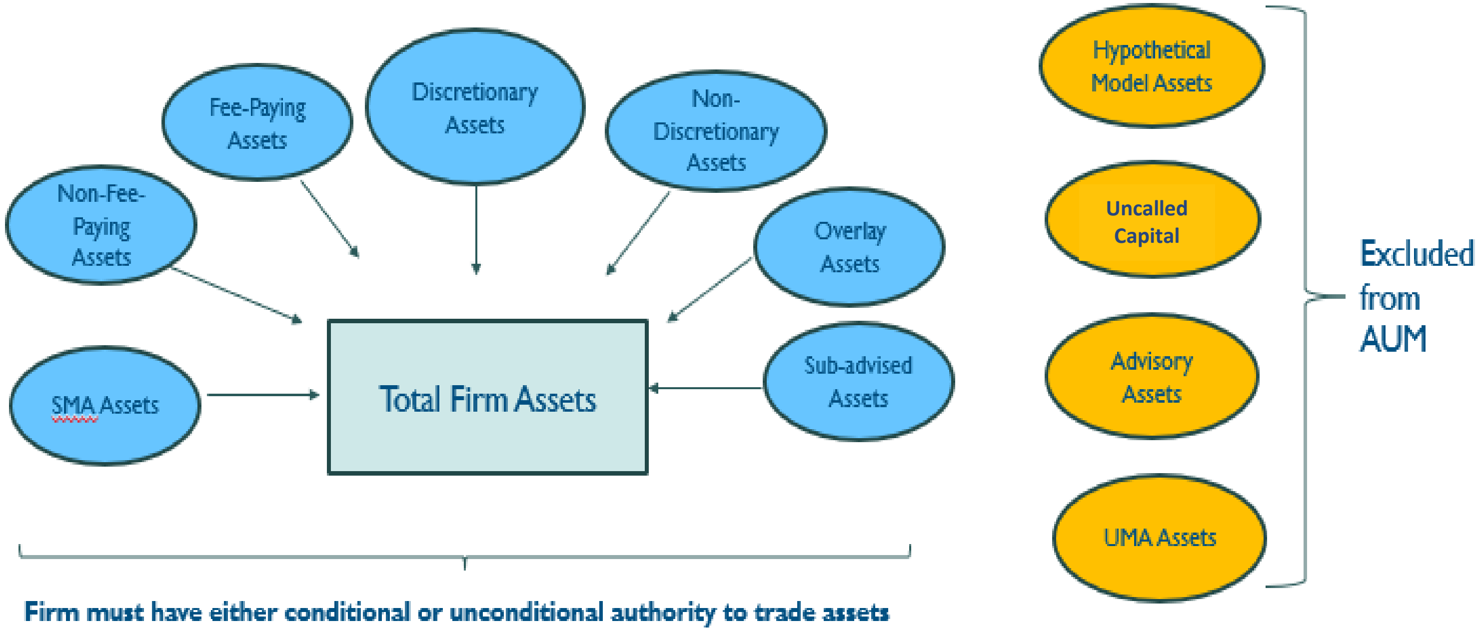
USE OF REQUIREMENTS AND RECOMMENDATIONS

- To claim compliance:
  - All applicable **requirements** - minimum that **must** be followed firmwide
  - **Recommendations** – best practices that **should** be followed
  - Guidance Statements, interpretations, Q&A and clarifications

SECTION 1: FUNDAMENTALS OF COMPLIANCE

- Firm:
  - Can be a registered firm, or a subsidiary, or division
  - ***held out*** to clients or potential clients as a ***distinct business entity***
- Discretion:
  - GIPS discretion ≠ regulatory discretion
  - Is the manager able to implement the intended investment strategy?
  - Do client restrictions prevent the manager from implementing the intended strategy?
- Non-discretionary examples:
  - No tobacco, alcohol or fire arms
  - Limits on security/sector weights
  - Regular and ongoing cash withdrawals

1.B.4 THE FIRM SHOULD ADOPT THE BROADEST, MOST MEANINGFUL DEFINITION OF THE FIRM. THE SCOPE OF THIS DEFINITION SHOULD INCLUDE ALL GEOGRAPHICAL (COUNTRY, REGIONAL, ETC.) OFFICES OPERATING UNDER THE SAME BRAND NAME, REGARDLESS OF THE ACTUAL NAME OF THE INDIVIDUAL INVESTMENT MANAGEMENT COMPANY.



OTHER FUNDAMENTALS OF COMPLIANCE

- Firms must comply initially for at least 5 years or since inception of the firm
- Firms must comply with all of the requirements of the GIPS standards, including applicable laws and regulations regarding the calculation and presentation of performance
  - No “except for”
  - No calculated “consistent with” or “in accordance” with
  - No false or misleading performance information
  - If a conflict exists between the GIPS standards and law, obey the law and disclose the conflict
- *<u>Firms must be able to demonstrate they have made every reasonable effort to provide a GIPS Report.</u>*
- *<u>If requested</u>*, firms must provide a:
  - Complete List of Composite and LDPF Descriptions, and a list of BDPFs
    - The list must include terminated composites for up to 5 years, but not terminated funds
    - GIPS Reports for any composite or LDPF on the list
- Use of Total Return Benchmarks reflective of the presented composite or pooled fund

PRESENTATION AND REPORTING

GIPS compliant firms must make every reasonable effort to provide a GIPS Report to all prospective clients/investors **when they become a prospect**

- a prospective *client* is any person or entity that has **expressed interest** in one of the firm's strategies **and** qualifies to invest in that strategy via a segregated account
- a prospective *investor* is any person or entity that has **expressed interest** in one of the firm's pooled funds **and** qualifies to invest in that fund
- Includes existing clients offered new investment strategies

Prospective clients/investors must receive an updated GIPS Report with the most recent annual performance at least once every 12 months if the prospect remains a prospect.

MORE FUNDAMENTALS OF COMPLIANCE

- Must correct redistribute material errors in the GIPS Report.
- Must take responsibility for the accuracy of the data in the GIPS Reports and capture and maintain records to support data and information in the GIPS Reports
- Must ensure the Firm claiming compliance is clearly defined and distinct from any other firm in joint marketing efforts.
- Must meet all of the portability requirements in order to link performance from a past firm or affiliation.
- Must not link actual performance to historical theoretical performance or noncompliant performance.
- Changes in the organization can't lead to changes in historical performance.

QUESTION 1

A fixed-income portfolio is *most likely* to be considered non-discretionary if the client's investment policy states that:

A. securities held at a gain must not be sold.

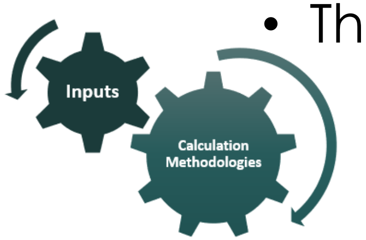
B. the average credit quality must be investment grade.

C. securities held in the portfolio must be issued in developed markets.

SECTION 3: COMPOSITE CONSTRUCTION

- All **actual, fee-paying, discretionary** portfolios must be included in **at least one** composite.
  - Non-feepaying accounts <u>may</u> be included, along with a presentation requirement to disclose the % of nonfeepaying assets
  - Non-discretionary accounts <u>must not</u> be included
  - Portfolios that are not actual accounts must not be included
  - Pooled funds that meet composite definition must be included

- GIPS discretion ≠ regulatory discretion
- Discretion:
  - Is the manager able to implement the intended investment strategy?
  - The answer will differ from firm to firm, and strategy to strategy



FOR DISCUSSION:

Discretionary or Nondiscretionary?

- Limits on derivatives in a portfolio that doesn’t use derivatives
- Regular and ongoing cash flows in a:
  - U.S. Large cap equity portfolio – large institutional account
  - U.S. Large cap equity portfolio – small retail account
  - International small cap portfolio

TEMPORARY LOSS OF DISCRETION EXAMPLE – TAX LOSS HARVESTING

Dec				
EMV	Gross TWR	Net TWR	Delta	BMV
11,561.51	0.102%	0.102%	0.00%	11,549.74
100,888.65	0.104%	0.104%	-0.59%	101,384.12
45,705.89	0.104%	0.104%	0.00%	45,658.47
36,349.30	0.104%	0.104%	0.00%	36,311.58
35,347.24	0.104%	0.104%	0.00%	35,310.57
26,886.36	0.104%	0.104%	0.00%	26,858.46
617,660.09	0.028%	0.028%	0.00%	617,484.23
20,063.71	0.104%	0.104%	0.00%	20,042.87
5,660.76	0.017%	0.017%	26.58%	4,471.34
246,418.74	-2.639%	-2.639%	-0.47%	254,336.59
1,787,218.75	-0.32%	-0.32%		1,796,616.58
	-0.06%			

Dec				
EMV	Gross TWR	Net TWR	Delta	BMV
11,561.51	0.102%	0.102%	0.00%	11,549.74
100,888.65	0.104%	0.104%	-0.59%	101,384.12
45,705.89	0.104%	0.104%	0.00%	45,658.47
36,349.30	0.104%	0.104%	0.00%	36,311.58
35,347.24	0.104%	0.104%	0.00%	35,310.57
26,886.36	0.104%	0.104%	0.00%	26,858.46
617,660.09	0.028%	0.028%	0.00%	617,484.23
20,063.71	0.104%	0.104%	0.00%	20,042.87
5,660.76	0.017%	0.017%	26.58%	4,471.34
1,540,800.01	0.07%	0.07%		1,542,279.99
	0.09%			

Fictional example; not all portfolios in the composite are shown.

COMPOSITE CONSTRUCTION

Composites must be defined according to **investment mandate**, **objective**, **or strategy**:

- Composites **must** include all portfolios that meet the composite definition
- Well-defined composites are essential to the firm's marketing strategy

The GIPS guidance statement on composite definition suggests a hierarchy for composite definition that is ***suggested*** but ***not required***

- Suggested Hierarchy:
  - Investment mandate – *Ex: Large cap global equities*
  - Asset Class – *Ex: Equity, fixed income, balanced, real estate*
  - Style or Strategy – *Ex: Growth, value, indexed, asset class sector*
  - Benchmarks – *Ex: S&P 500 index, Barclays Capital Aggregate Index*
  - Risk/Return Characteristics –

Ex: An equity composite with a targeted excess return of 3% and targeted maximum volatility of 6%

COMPOSITE CONSTRUCTION

- How many composites should a firm have?
  - The firm decides how broadly defined a composite will be. There is no right or wrong answer, it is firm-specific.

  - The more composites ≈ the more specific the strategy = the < smaller the assets and the smaller the dispersion

  - The fewer the composites ≈ the broader the strategy = the > larger the assets and the larger the dispersion

COMPOSITE CONSTRUCTION: NEW / CLOSED ACCOUNT TIMING

Timing of Inclusion/Exclusion

New Accounts	Institutional Composites (C1, C6) New portfolios are included in the composite at the beginning of the first full month under management provided that the account is fully invested. Fully invested is defined as a cash level no further away than 5% of the investment model. For example, an account funding on 01/15/18 would be included in the composite on 02/01/18.
	HNW Composite (C2, C3, C4) New portfolios are included in the composite at the beginning of the first full month after the first full quarter under management provided that the account is fully invested. For example, an account funding on 1/15/18 would be included in the composite on 07/01/18.
Terminated Accounts	Terminated accounts are removed from a composite at the end of the account's last full month under management. For example, an account closing on 2/15/18 would be removed from the composite as of 01/31/18.
Changes in Mandate	Changes in mandates are removed from old composite at the end of an account's last full month under the prior strategy and put into the new composite at the beginning of the first full month under management in the new strategy. For example, an account changing mandates on 2/15/18 would be included in the old composite through 1/31/18 and added to the new composite 3/1/18.

Composites must include new portfolios on a **timely and consistent basis**.
Terminated portfolios must be included up to **the last full measurement period**.

COMPOSITE CONSTRUCTION:
CHANGES IN MANDATE, TEMPORARY ACCOUNTS FOR SCF, COMPOSITE MINIMUMS

Portfolios can only be moved from one composite to another under two scenarios

- First – if client imposed changes to the investment mandate, objective, or strategy of the portfolio cause it to no longer meet the definition of the original composite
- Second – if a redefinition of the composite makes it appropriate

Temporary Loss of Discretion – Significant External Cash Flow

- RECOMMENDATION: firms use a temporary new account rather than removing the entire portfolio from the composite

Composite minimums:

- Minimum asset levels for a composite are optional, not recommended. This policy must be applied **consistently** and **not retroactively**
  - Requires documented policies regarding consistent and timely removal if accounts fall below the minimum.
- RECOMMENDATION: avoid presenting a compliant presentation to a prospective client who is known not to meet the composite minimum

PORTABILITY REQUIREMENTS

Requirements are applied on a composite-specific basis

1. Substantially all investment decision makers are employed by the new or acquiring firm
2. The decision-making process remains substantially intact and independent within the new or acquiring firm
3. The new or acquiring firm has records that document and support the reported performance
4. There must be no break in the track record between the past firm or affiliation and the new or acquiring firm

One exception…

Firms can still port performance over to new or acquiring firm if there is a break in track record, but the two performance records may not be linked.

Firms must **disclose** when past performance is from a prior firm.

When a GIPS-compliant firm acquires another firm/affiliation, they are given one year to bring any non-compliant assets into compliance

- Only current performance must be brought into compliance within one year of the firm acquisition—historical performance can still be ported over after the first year

QUESTION 2:

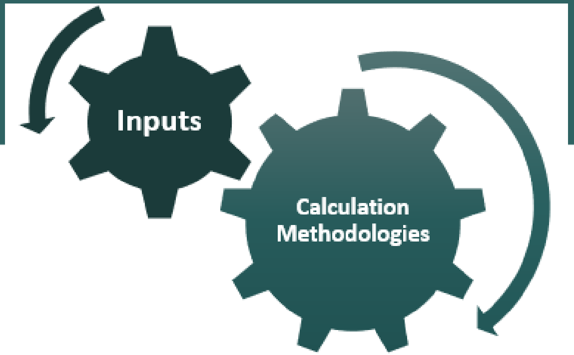
Which statement *most accurately* expresses a requirement of the GIPS standards?

A. Non-fee-paying portfolios must not be included in composites.

B. All actual fee-paying discretionary segregated accounts must be included in at least one composite.

C. All actual fee-paying discretionary segregated accounts must be included in only one composite.

RETURN CALCULATION METHODOLOGY



Total returns must be used. Firms must present time-weighted returns (TWRs), unless strategy meets certain requirements to present MWRs.

- A total return captures both the return from realized and unrealized capital gains and investment income
  - REMEMBER: include accrued interest income
- Beginning 1/1/2005, firms must adjust for **daily weighted external cash flows**
- Beginning 1/1/2010, firms must revalue **on the date of all large cash flows, and** as of each **calendar month end** or the last business day of each month
- Monthly and sub-period returns must be geometrically linked

TIME WEIGHTED RETURN CALCULATION METHODOLOGY

- Total return $r_t = \frac{V_1 - V_0}{V_0}$
- Adjusted for day weighted cash flows $r_{ModDietz} = \frac{V_1 - V_0 - CF}{V_0 + \sum_{i=1}^{n}(CF_i \times w_i)}$
- Revalued for large cash flows – sub-periods in between monthly valuations
- Geometrically linked $r_{twr} = (1 + r_{t,1}) \times (1 + r_{t,2}) \times \ldots \times (1 + r_{t,n}) - 1$

RETURN CALCULATION METHODOLOGY

(EFMV – BFMV – Cash Flow) / (BFMV + Cash Flow)

Feb 1 BFMV: 100
Feb 28 EFMV: 130
Feb 21 CF: -20

Feb 21 FMV: 140

- Dietz = (130 – 100 –(-20)) / (100 + (-20/2) = 50 / 90 = 55.56%
- Modified Dietz = (130 – 100 –(-20) / (100 + (-5)*) = 50 / 95 = 52.63%
- Revalued = (140-100)/100 = 40%

(130-140-(-20) / 140+(-20) = 10/120 = 8.33%

Linked: 1.4 * 1.0833 - 1 = 51.67%

*(-20)(***28-21/28***))

EFFECTS OF EXTERNAL CASH FLOWS

In relatively flat, steadily rising or steadily falling markets, the timing of cash flows has a relatively small impact on the accuracy of returns.

From Prior Ethics Module

Returns			
	31-May Fair Value		$ 100,000
2.00%	5-Jun Fair Value		$ 102,000
		Contribution	$ 10,000
		Total Fair Value	$ 112,000
5.88%	30-Jun Fair Value		$ 118,588
8.00%		Modified Dietz	7.93%

Returns			
	31-May Fair Value		$ 100,000
4.00%	15-Jun Fair Value		$ 104,000
		Contribution	$ 10,000
		Total Fair Value	$ 114,000
3.85%	30-Jun Fair Value		$ 118,385
8.00%		Modified Dietz	7.99%

EFFECTS OF EXTERNAL CASH FLOWS

When the market turns volatile, the impacts of external cash flows have a material impact on the accuracy of returns.

From Prior Ethics Module

Returns			Returns		
	31-May Fair Value	$ 100,000		31-May Fair Value	$ 100,000
–5.00%	5-Jun Fair Value	$ 95,000	–10.00%	15-Jun Fair Value	$ 90,000
	Contribution	$ 10,000		Contribution	$ 10,000
	Total Fair Value	$ 105,000		Total Fair Value	$ 100,000
13.68%	30-Jun Fair Value	$ 119,364	20.00%	30-Jun Fair Value	$ 120,000
8.00%	Modified Dietz	8.64%	8.00%	Modified Dietz	9.52%

MONEY-WEIGHTED RETURNS

- Criteria to be able to choose to present MWRs:
  - Control over the timing of the external flows, **and**
    - Portfolios are closed-end, fixed life or fixed commitment **or**
    - Illiquid investments are a significant part of the investment strategy.

  - TWRs = MWRs if there are no cash flows

TREATMENT OF CASH, EXPENSES AND FEES

- Returns from cash must be included
  - Impact of holding cash:
    - Reduce returns in up markets
    - Improve returns in down markets
- Returns must be calculated after the deduction of ***trading expenses***
  - Typically deducted at point of trade: commissions, bid/ask spreads
  - BOTH GROSS AND NET Performance must be ***net of trading expenses***
  - BUNDLED FEES: If trading expenses and custody fees are part of a bundled all-in fee, firms must reduce gross returns by the entire bundled fee or the portion that includes transaction costs. Alternatively, firms can estimate transaction costs.

TREATMENT OF CASH, EXPENSES AND FEES

- Management fees:
  - Can be actual or model; accruing fees and expenses is recommended
  - Management fees, including performance-based fees, are the only difference between NET and GROSS PERFORMANCE
  - Lots of disclosure requirements
- Custodial fees and other administrative expenses:
  - Do not affect performance: Beyond a manager's control for composite returns – impact **not** reflected in performance
  - Do affect net performance for pooled funds: within a manager's control
  - For calculation purposes for composites – treat like an external cash withdrawal made by a client: EMV – BMV – custodial fee/ BMV

QUESTION 3:

Under the GIPS standards, the *most* accurate statement is that transaction costs do **not** include:

A. spreads from internal brokers.

B. brokerage commissions.

C. custody fees charged per transaction.

2.B.6 VALUATION HIERARCHY

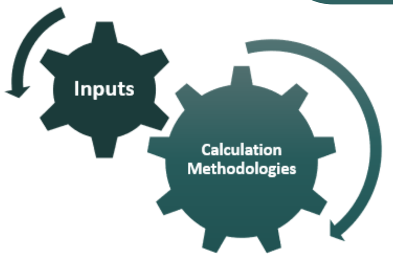
First Choice: Investments must be valued using **objective, observable, unadjusted** quoted market prices for identical investments in active markets **on the measurement date**, if available.

2nd Priority: For **similar** investments in active markets

3rd Priority: For identical or similar investments in **inactive** markets

4th Priority: Observable, **market-based** inputs, other than quoted prices

5th Priority: **Subjective, unobservable** inputs where markets are inactive at measurement date.



COMPOSITE TWR RETURN CALCULATIONS

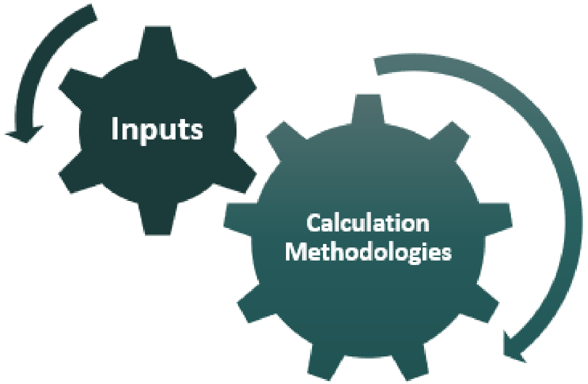
Must use an ***asset-weighted*** average of the portfolio returns

- The portfolios or an aggregate of the composite must be weighted using:
  - ***Beginning*** of period values, or
  - ***Beginning*** of period values, adjusted for cash flows

- What would happen if portfolios are weighted using ending values?
  - Best performers would get more weight
  - Worst performers would get less weight

Composite returns must be calculated at least monthly.

Periods of less than one year must **NOT** be annualized.



SECTIONS 4 - 7: PRESENTATION AND REPORTING

Two Types of reports: GIPS Composite Reports and GIPS Pooled Funds Reports

Minimum 5 years performance (or since inception) extended each year thereafter leading up to 10 years

Key elements of Composite TWR Report (presented for **each period end**) :

- Composite and benchmark annual returns
- Number of portfolios (if six or more) in the composite
- Amount of assets in the composite
- Total firm assets under management
- Internal dispersion (if six or more portfolios)
- Three-year annualized ex post standard deviation of the composite and benchmark (if monthly returns are available)

GIPS COMPLIANT PRESENTATION EXAMPLE

SAMPLE 1 COMPOSITE WITH TIME-WEIGHTED RETURNS

Spinning Top Investments
Large Cap Growth Composite
1 February 2011 to 31 December 2020

				3-Year Std Deviation					
Year	Composite Gross Return TWR (%)	Composite Net Return TWR (%)	Benchmark Return (%)	Composite Gross (%)	Benchmark (%)	Number of Portfolios	Internal Dispersion (%)	Composite Assets ($ M)	Firm Assets[b] ($ M)
2011[a]	2.18	1.25	1.17			31	n/a	165	n/a
2012	18.66	17.49	15.48			34	2.0	235	n/a
2013	41.16	39.80	33.36			38	5.7	344	n/a
2014	14.50	13.37	13.03	11.30	9.59	45	2.8	445	1,032
2015	6.52	5.47	5.67	12.51	10.68	48	3.1	520	1,056
2016	8.22	7.15	7.09	12.95	11.15	49	2.8	505	1,185
2017	33.78	32.48	30.18	12.29	10.53	44	2.9	475	1,269
2018	−0.84	−1.83	−0.65	13.26	11.91	47	3.1	493	1,091
2019	33.08	31.78	29.76	12.81	11.71	51	3.5	549	1,252
2020	7.51	6.44	6.30	13.74	12.37	54	2.5	575	1,414

[a] Returns are for the period 1 February 2011 to 31 December 2011.

MEASURES OF INTERNAL DISPERSION

Internal dispersion: how consistently did the firm implement its intended strategy across the individual portfolios in the composite.

A high dispersion infers a higher variability of account level returns, it may suggest that the composite is defined too broadly.

The GIPS standards indicate acceptable measures include (but are not limited to):

- High/low
- Range
- Equal-weighted standard deviation
- Asset-weighted standard deviation

INTERNAL DISPERSION – EQUAL WEIGHTED STANDARD DEVIATION

Slightly more difficult to calculate and interpret: the standard deviation of returns for portfolios may convey better information

- Most spreadsheet programs facilitate the calculation of equal weighted standard deviation
- Many prospective clients will have a basic understanding of standard deviation
- By giving all of the portfolios the same weight, it assumes that each portfolio is just as reflective of the investment strategy

The equal weighted standard deviation is calculated as:

$$S_c = \sqrt{\frac{\sum_{i=1}^{n}(r_i - \bar{r}_c)^2}{n-1}}$$

INTERNAL DISPERSION – ASSET WEIGHTED STANDARD DEVIATION

Many firms chose to present the asset weighted standard deviation rather than the equal weighted.

- Asset weighted can be quite different than the equal weighted
- It indicates that larger portfolios are more reflective of the investment strategy
- The biggest drawback is that prospective clients will not know how evenly distributed the composite assets are among all of the portfolios

The asset weighted standard deviation is calculated as:

$$S_{C_{aw}} = \sqrt{\sum_{i=1}^{n}\left[\left(r_i - \overline{r}_{proxy}\right)^2 \times w_i\right]}$$

Where $$\overline{r}_{proxy} = \sum_{i=1}^{n}\left(w_i \times r_i\right)$$

VERIFICATION - 1.B.3 THE FIRM SHOULD BE VERIFIED.

- Once a firm is in compliance with the GIPS Standards, verification is recommended to provide the firm and the users of its GIPS Reports **greater confidence** in its claim of compliance.
- Verifiers MUST be independent.
- Verification may also lead to:
  - **Increased knowledge** in the performance measurement team
  - Consistently **higher quality** of performance presentations
  - Improved internal **processes and procedures**
  - Market **advantages**

WHAT'S THE CRITERIA FOR AN INDEPENDENT VERIFIER

Verifiers must:

- Understand all of the requirements and recommendations of the standards
  - Including guidance statements, updates, interpretations, Q&A and clarifications published by the CFA institute and GIPS executive committee
- Be knowledgeable about laws and regulations regarding the calculating and presentation of performance
- Understand the firm's policies and procedures and ensure they are properly included and documented
- Understand the methodology used by the firm to value portfolios and compute performance

SCOPE AND PURPOSE OF VERIFICATION

- Verification provides assurance on whether:

  (a) the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance have been designed in compliance with the GIPS standards, and

  (b) Have been implemented on a firm- wide basis

- A verification report must opine that <u>the firm meets these two criteria</u>
- The firm must not state that it has been verified unless a verification report has been issued
- Verification is *<u>firm-wide</u>* and cannot be carried out on a composite
- Verification does *<u>not</u>* provide assurance about the performance of any specific composite
- A firm may choose to have a detailed **performance examination** conducted on one or more specific composites or pooled funds.

VERIFICATION PROCESS

The minimum *initial* period for which verification can be performed is one year

- Or from the firm's inception date through period-end, if less than one year
- RECOMMEND: verification cover all periods the firm claims compliance

Because verification is firm-wide, verifiers must subject the entire firm to testing, such as:

- Portfolios are included in the correct composite
- The composite benchmark reflects the investment mandate/strategy
- The treatment of input data is consistent with the firm's policies
- Validate the discretionary status of portfolios included in composites and that all actual, fee-paying, discretionary portfolios are included in at least one composite

QUESTION 4:

Firm XYZ has chosen to initially claim compliance with the GIPS standards for 15 years. A Verifier asks Firm XYZ to provide the account agreements for certain open and closed accounts during an initial verification. Firm XYZ has all open account agreements and all closed account agreements for the past 7 years, and provides them to the Verifier. The Verifier is *most likely* to tell Firm XYZ that it:

A. Must not claim compliance, because they do not have records to substantiate their composite track record.

B. Must only get verified for the 7 years they have records to substantiate their closed composite accounts.

C. May claim compliance for 7 years and build to 10 years, without linking noncompliant performance.

QUESTION 5

A charitable foundation transfers securities in kind to Taurus Asset Management Ltd. to fund a new private equity portfolio. Taurus estimates that, after liquidating the transferred securities, it will take five months to invest the foundation's assets in privately held companies. Which statement *best* describes a requirement of the GIPS standards? Taurus must include the foundation's portfolio in the appropriate private equity composite:

A. on a timely and consistent basis.

B. when the assets are substantially invested.

C. as of the beginning of the next full measurement period.

QUESTION 6

It is *most* accurate to say that verification:

A. makes the claim of compliance more credible.

B. certifies that the firm has adequate internal controls.

C. ensures the accuracy of specific composite presentations.

SUMMARY / EXAM STRATEGY

Understand themes:

- Fair and full disclosure, requires **ethical** application, not technical compliance
- Consistent application - Only make changes on a go forward basis: no historical changes, except in the case of an error needing correction
- When standards change, they often recommend but never require, historical adoption

SUMMARY / EXAM STRATEGY

Common sources of confusion that make for good test questions about claiming GIPS compliance:

- × The claim of compliance or verification pertains to a composite
- × Being compliant Is the same thing as getting verified
  - Being Compliant with GIPS ≠ Getting Verified
- × Firms can be compliant by using accounting systems that can calculate GIPS compliant performance
- × Software vendors, consultants or other advisory only financial organizations can make claims that they follow GIPS best practices

SUMMARY / EXAM STRATEGY

3 POINT FOLLOW-UP STRATEGY (Suggestion)

- Focus on the Fundamentals and 3A
- Review the Glossary and sample GIPS Reports
- Practice Questions

QUESTIONS?

Kim Cash, CFA, CAIA, CIPM, CSCP
Cascade Investment Compliance & Verification
503.887.6008
kim.cash@cascadecompliance.com