

Global Investment Performance Standards (GIPS®) for Firms

Explanation of the
Provisions in Section 1

January 2020



CFA Institute®
Global Investment
Performance Standards

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INTRODUCTION

The Explanation of the Provisions in Section 1 provides interpretation of each provision contained in Section 1: Fundamentals of Compliance. Firms that choose to comply with the Global Investment Performance Standards (GIPS®) must comply with all applicable requirements of the GIPS standards, including any Guidance Statements, interpretations, and Questions and Answers (Q&As) published by CFA Institute and the GIPS standards governing bodies.

The Fundamentals of Compliance section includes several core principles that create the foundation for the GIPS standards, including properly defining the firm, providing GIPS Reports to all prospective clients and pooled fund prospective investors, adhering to applicable laws and regulations, and ensuring that information presented is not false or misleading.

Each provision appears in a grey text box. Some words in the provisions are in small capital letters, which indicates defined terms that can be found in the GIPS Standards Glossary. Following each provision is a discussion that provides interpretive guidance to help readers understand the provision.

1. FUNDAMENTALS OF COMPLIANCE

1.A. Fundamentals of Compliance—Requirements

Provision 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.

Discussion

The GIPS standards provide an ethical framework for calculating and presenting a firm's investment performance history. The definition of the firm is the foundation for firm-wide compliance and creates defined boundaries for determining total firm assets. Only firms that manage actual assets may claim compliance with the GIPS standards.

To claim compliance, a firm must comply with all the applicable requirements of the GIPS standards. Compliance cannot be met on a composite, pooled fund, or portfolio basis and can be met only on a firm-wide basis. For example, if a firm definition includes both equity and fixed income products, the firm cannot present only its equity products (strategies) as being in compliance with the GIPS standards. If a firm definition includes both segregated accounts and pooled funds, the firm must meet the GIPS standards requirements for both segregated accounts and pooled funds in order to claim compliance with the GIPS standards.

Provision 1.A.2

The **FIRM** **MUST** be defined as an investment firm, subsidiary, or division held out to the public as a **DISTINCT BUSINESS ENTITY**.

Discussion

It is the firm's responsibility to ensure that the definition of the firm is appropriate, rational, and fair, reflecting the way the firm is held out to the public. A firm's definition will take into account the specific circumstances of the firm and must reflect how it is held out to current and prospective clients or current and prospective pooled fund investors as a distinct business entity. A distinct business entity is a unit, division, department, or office that is organizationally and

functionally segregated from other units, divisions, departments, or offices and that retains discretion over the assets it manages. The business entity should have autonomy over the investment decision-making process.

Possible criteria that can be used to determine what constitutes a distinct business entity include, but are not limited to, the following:

- being a legal entity,
- having a distinct market or client type (e.g., institutional, retail, or private client), and
- using a separate and distinct investment process.

It would be inappropriate for an organization to establish a business entity solely for GIPS compliance purposes unless the entity will be consistently held out to the investing public as an autonomous business unit through the firm's marketing efforts and other communications with the investing public. The separate business entity should be identified on the organization's website and in other forms of marketing communications, not solely in GIPS Reports.

The GIPS standards recommend that the firm adopt the broadest, most meaningful definition of the firm. The scope of this definition should include all geographic (country, regional, etc.) offices operating under the same brand name, if all of these offices together are held out to the public as a distinct business entity, regardless of the actual name of the individual investment management company. In some cases, however, it may be appropriate to define the firm based on geographic location if each location is held out to the public as a distinct business entity (e.g., the London office of ABC Firm). It may also be appropriate to have multiple defined firms that use the same brand name if each defined firm is managed separately and operates independently or if each firm serves distinctly different client types. A firm must not use a narrow definition of the firm simply to reduce the scope of work required to achieve and maintain compliance with the GIPS standards.

There may be changes within a defined firm, such as those resulting from a corporate restructuring or merger and acquisition activities, that cause a firm to reconsider the definition of the firm. When such a change occurs, the firm must determine which scenario applies:

- The change is so substantial that it is essentially a new firm, and there is no continuation of the track record;
- The change is material enough to warrant a disclosure of the change, but there is a continuation of the track record; or
- No change in the firm definition is necessary.

The following are examples of how a firm may be defined.

Example 1:

A firm consists of two legal entities. The two legal entities are held out to prospective clients and prospective investors as one business entity, and the firm definition states the following:

“For the purpose of complying with the GIPS® standards, the firm is defined as all assets managed by Treetown Investment Management, LLC and Treetown Investment Management, Inc., together Treetown Investment Management.”

If Treetown Investment Management, LLC, and Treetown Investment Management, Inc. were each held out to prospective clients and prospective investors as a distinct business entity, each legal entity could be defined as a separate firm for the purpose of complying with the GIPS standards.

Example 2:

A legal entity has a division serving institutional clients and a division serving wrap fee clients. Each division is managed autonomously, and each has a distinct client type. The legal entity’s marketing department decides that these two divisions of the firm will begin to use the same brand, regardless of client type, because of the significant cost savings in promoting a single brand.

Each division of the entity serves a distinctly different client type. The firm may define the institutional division and the wrap fee division as separate firms for the purposes of GIPS compliance if it wishes to do so, even if both divisions are operating under the same brand. However, the two firms must be consistently held out to that public as distinct business entities and be clearly defined to avoid potential confusion, particularly if one of the firms claims compliance with the GIPS standards but the other does not. A non-compliant firm must not receive any inappropriate benefit from a related firm’s claim of compliance.

Example 3:

A parent corporation has three divisions: one serving Asia, one serving the United States, and one serving Europe. Each division uses a similar investment process.

The decision regarding how to define the firm must consider each division’s characteristics. If each division is held out to the public as a distinct business entity, is organizationally and functionally segregated from the other divisions, and retains discretion over the assets it manages, the parent corporation may define each division as a separate firm for the purposes of GIPS compliance. Alternatively, if all of these divisions are held out to the public as a single business entity, the firm should be defined as a single firm that includes all three divisions.

Provision 1.A.3

To initially claim compliance with the GIPS standards, the FIRM MUST attain compliance for a minimum of five years or for the period since the FIRM inception if the FIRM has been in existence for less than five years.

Discussion

A firm cannot initially claim compliance with the GIPS standards until it meets the applicable requirements of the GIPS standards for at least a five-year period, or since inception of the firm if the firm has been in existence for less than five years. Being in compliance for a minimum five-year period, or since inception if less than five years, means that for this period, the firm has complied with all applicable requirements of the GIPS standards, including any Guidance Statements, interpretations, and Questions & Answers (Q&As) published by CFA Institute and the GIPS standards governing bodies.

Assuming a firm initially attains compliance for the minimum five-year period, and the firm is presenting time-weighted returns (TWRs) in a GIPS Report, it is required to present five years of GIPS-compliant performance, or performance since inception of the composite or pooled fund if it has been in existence less than five years. The ability to present five years of GIPS-compliant performance does not mean, however, that the firm is able to claim compliance with the GIPS standards. The firm must fulfill all of the requirements of the GIPS standards for at least the initial five-year period or since inception if the firm has been in existence for less than five years, not simply the requirements relating to the presentation of performance in a GIPS Report. If a firm initially claims compliance for a longer period than five years, the firm must present a track record for the entire period of time for which it claims compliance, or for at least 10 years if the firm claims compliance for a period longer than 10 years.

If a firm is presenting money-weighted returns (MWRs) in a GIPS Report, it is required to present only one return: the annualized since-inception MWR of the composite or pooled fund through the most recent annual period end. The number of years included in this since-inception MWR will depend on the length of time for which the composite or pooled fund has been in existence as of the most recent annual period end. Regardless of the period encompassed in this since-inception money-weighted return, the firm cannot claim compliance with the GIPS standards until it has fulfilled all of the requirements of the GIPS standards, including but not limited to all of the input data and calculation requirements, for a full five-year period or since inception of the composite or pooled fund if the composite or pooled fund has been in existence for less than five years. If the composite or pooled fund has been in existence for longer than five years but the firm is initially claiming compliance with the GIPS standards for the minimum five-year period, the firm is still required to present the since-inception MWR since the composite or pooled fund inception date—not only for the period for which the firm claims compliance with the GIPS standards.

Once a firm has claimed compliance for a five-year period, or since inception of the firm if the firm has existed for less than 5 years, the firm must include in GIPS Reports an additional year of performance each year, building up to a minimum of 10 years of GIPS-compliant performance. Although a firm is required to present only 10 years of performance in a GIPS Report when it is presenting TWRs, it is recommended that firms present more than 10 years of performance in a GIPS Report.

Consider the following examples of time periods required to be presented when first claiming compliance with the GIPS standards and TWRs are presented.

Example 1:

A firm has been in existence since 1 January 2011 and wishes to claim compliance starting with GIPS Reports for periods ending 31 December 2020. The firm decides to attain compliance for the minimum five-year period and chooses to present performance on a calendar-year basis.

The firm must comply with all applicable requirements of the GIPS standards on a firm-wide basis for an initial five-year period, in this case from 1 January 2016 through 31 December 2020. The firm must prepare GIPS Reports that include five years of GIPS-compliant performance in its first GIPS Reports for all composites or limited distribution pooled funds (LDPFs) that have a track record of at least five years. For all composites or LDPFs that have a track record of less than five years, the firm must present a since-inception track record. The firm must then continue to add one year of additional performance to its GIPS Reports each year, building to a minimum of 10 years of GIPS-compliant performance for each of its GIPS Reports.

Example 2:

A firm has been in existence since 2013 and wishes to claim compliance starting in 2020. For various reasons, the firm can create a GIPS-compliant track record only beginning 1 January 2017.

The firm may not claim compliance with the GIPS standards until it can present five years of GIPS-compliant performance. In this case, the firm must wait one more year until it has GIPS-compliant returns from 2017 through 2021. Only then can the firm claim compliance with the GIPS standards.

Example 3:

A firm has been in existence for two years and has two years of performance through 31 December 2019.

If a firm has been in existence for less than five years, the firm may initially claim compliance for the period since the firm's inception. The firm must present performance since the composite or pooled fund inception date and then build to a minimum of 10 years of GIPS-compliant performance. In this case, the firm may claim compliance with the GIPS standards with two years of GIPS-compliant performance (2018 and 2019) and add an additional year each year until it reaches a minimum of 10 years of compliant performance. A firm is not required to present a track record longer than 10 years but is recommended to do so.

Example 4:

A firm has been in existence for less than one year and has no annual composite or pooled fund returns to report.

The firm may claim compliance with the GIPS standards as soon as it meets all of the applicable requirements of the GIPS standards and has performance to report. If the firm is less than 12 months old, it is permitted to present since-inception performance in GIPS Reports for its composites and/or pooled funds and claim compliance with the GIPS standards.

Returns for periods of less than one year must not be annualized.

Provision 1.A.4

The FIRM MUST comply with all applicable REQUIREMENTS of the GIPS standards, including any Guidance Statements, interpretations, and Questions & Answers (Q&As) published by CFA Institute and the GIPS standards governing bodies.

Discussion

The GIPS standards are ethical standards for investment performance presentation to ensure fair representation and full disclosure of a firm's performance. Firms must comply with all requirements of the GIPS standards that apply to the firm, including requirements found within the provisions of the GIPS standards as well as within any Guidance Statements, interpretations, and Questions & Answers (Q&As) published by CFA Institute and the GIPS standards governing bodies. Firms must also comply with all updates and clarifications published by these entities. Firms must review all of the provisions and other requirements of the GIPS standards to determine each requirement's applicability.

The GIPS standards must be applied with the objectives of fair representation and full disclosure of investment performance. Meeting the objectives of fair representation and full disclosure will likely require compliance with more than the minimum requirements of the GIPS standards. If a firm applies the GIPS standards in a performance situation that is not addressed specifically by the GIPS standards or is open to interpretation, disclosures other than those required by the GIPS standards may be necessary. To fully explain the performance included in a GIPS Report, firms are encouraged to present all relevant information, beyond required and recommended information, that will help a prospective client or prospective investor understand the information presented. Firms are also encouraged to adopt the recommendations included in the GIPS standards.

Provision 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.
- b. Create policies and procedures to monitor and identify changes and additions to all of the Guidance Statements, interpretations, and Q&As published by CFA Institute and the GIPS standards governing bodies.

Discussion

Policies and procedures are essential to implementing adequate business controls at all stages of the investment performance process—from data input to preparing marketing materials—to ensure the validity of the claim of compliance. A firm must document all of the policies and procedures it follows for meeting the requirements of the GIPS standards, as well as any recommendations the firm has chosen to adopt. There is no requirement to create and document policies and procedures to comply with requirements that do not apply to the firm. However, firms must actively make a determination about the applicability of all the requirements of the GIPS standards and document their policies and procedures accordingly.

Once a firm establishes its policies and procedures, it must apply them consistently. Policies and procedures should be reviewed regularly to determine if they should be changed or improved, but it is not expected that they will change frequently. A firm must not change a policy retroactively solely to enhance performance or to present the firm in a better light. Retroactive changes to policies and procedures should be avoided.

Firms must also create policies and procedures to monitor and identify changes and additions to all of the Guidance Statements, interpretations, Q&As, and any other guidance published by CFA Institute and the GIPS standards governing bodies. A firm should assign at least one person internally who is responsible for monitoring its compliance with the GIPS standards. Depending on the firm's size and complexity, it might have a team of people responsible for GIPS compliance, and maintaining compliance may require coordination across multiple departments, including but not limited to operations, performance, compliance, and marketing.

Provision 1.A.6

The FIRM MUST:

- a. Comply with all applicable laws and regulations regarding the calculation and presentation of performance.
- b. Create policies and procedures to monitor and identify changes and additions to laws and regulations regarding the calculation and presentation of performance.

Discussion

The GIPS standards provide an ethical framework for calculating and presenting a firm's investment performance history. Firms must also comply with all applicable laws and regulations regarding the calculation and presentation of performance in the country or countries in which they are domiciled as well as those countries in which they do business. Firms must create policies

and procedures to ensure that they adhere to all applicable laws and regulations regarding the calculation and presentation of performance. Firms must also have policies and procedures to identify and monitor changes and additions to laws and regulations regarding the calculation and presentation of performance.

Compliance with applicable laws and regulations does not necessarily result in compliance with the GIPS standards. Firms claiming compliance must comply with the GIPS standards in addition to all applicable laws and regulations. In the rare cases when laws and regulations conflict with the GIPS standards, firms are required to comply with the laws and regulations and disclose the manner in which the laws or regulations conflict with the GIPS standards.

Provision 1.A.7

The FIRM MUST NOT present performance or PERFORMANCE-RELATED INFORMATION that is false or misleading. This REQUIREMENT applies to all performance or PERFORMANCE-RELATED INFORMATION on a FIRM-wide basis and is not limited to those materials that reference the GIPS standards. The FIRM may provide any performance or PERFORMANCE-RELATED INFORMATION that is specifically requested by a PROSPECTIVE CLIENT or PROSPECTIVE INVESTOR for use in a one-on-one presentation.

Discussion

The underlying principles of the GIPS standards, fair representation and full disclosure, help to ensure that current and prospective clients and investors are not given performance or performance-related information that is incomplete, inaccurate, biased, or fraudulent. Firms must not present any performance or performance-related information that is known to be inaccurate or that may mislead either current or prospective clients or current or prospective investors. This concept applies to all performance and performance-related materials on a firm-wide basis and is not limited to those materials that reference the GIPS standards. Examples of information that is misleading and unrepresentative include the presentation of custom benchmark returns that have been reduced by model investment management fees (i.e., net-of-fees benchmark returns) when only gross-of-fees composite returns are presented, or model performance that is presented as actual performance.

Firms are not limited to providing only GIPS-compliant information to prospective clients, prospective investors, or other interested parties. Firms may present other performance or performance-related information as long as it is not false or misleading.

The following information has an especially high risk of being interpreted by prospective clients and prospective investors in a way that is likely to be false or misleading:

- Actual performance linked to model, hypothetical, backtested, or simulated historical results;
- Non-portable performance from a past firm linked to current ongoing results;
- Portable performance from a past firm linked to ongoing results, when there was a break in performance between the prior firm and the current firm; and
- Non-compliant data after the minimum effective compliance date linked to compliant data.

This linked information must not be presented in a GIPS Report.

Outside of a GIPS Report, firms may present this linked information if asked to do so by a prospective client or prospective investor. The linked information may be presented in a one-on-one presentation that is created for and will be used only by the prospective client or prospective investor.

The linked information may also be presented outside of a GIPS Report in marketing materials provided to other prospective clients or prospective investors if the following conditions are met:

- The linked information is presented in a one-on-one presentation that includes the delivery of a GIPS Report, if the corresponding GIPS Report has not been previously delivered to the prospective client or prospective investor;
- The linked information is presented only to prospective clients or prospective investors who the firm believes are sufficiently knowledgeable about investments and can understand the relevance and limitations of the track record being presented;
- There are sufficient disclosures regarding the linked information so that prospective clients and prospective investors understand that this is not a GIPS-compliant track record. Disclosure, however, does not necessarily prevent information from being false or misleading;
- The linked information is not presented if a GIPS-compliant track record is requested; and
- The linked information is not included in a consultant database.

A firm may wish to present performance for select time periods, other than the time period(s) required and recommended by the GIPS standards. For example, if the market experienced a sharp decline during the first two months of the calendar year and became more stable in March, the firm may want to show performance of its strategy from 1 January through 28 February and from 1 March through 31 December. If the performance for these select time periods is presented in addition to the performance for the required time periods, it may be presented in a GIPS Report. This is permitted because the select time periods are being presented in addition to the required time periods. To present only performance for the select time periods without performance for the required time periods, especially if the select time periods were chosen because the periods had the highest performance, would be misleading and is not permitted for firms that claim compliance with the GIPS standards. Firms may present performance for select time periods outside of GIPS Reports with the appropriate disclosure and labeling.

The firm may provide to a prospective client or prospective investor any information requested by that prospective client or prospective investor. Such information must be restricted to a one-on-one presentation for use with that specific prospective client or prospective investor and must be accompanied by comprehensive disclosures that explain the information being presented. A one-on-one presentation is not limited to a formal presentation or to information presented in a face-to-face meeting. A one-on-one presentation refers to a presentation that is created for and will be used only by the prospective client or prospective investor who made the request.

Provision 1.A.8

If the FIRM does not meet all the applicable REQUIREMENTS of the GIPS standards, the FIRM MUST NOT represent or state that it is “in compliance with the Global Investment Performance Standards except for...” or make any other statements that may indicate compliance or partial compliance with the GIPS standards.

Discussion

When a firm makes the claim of compliance with the GIPS standards, it is representing that all of the applicable requirements of the GIPS standards have been met on a firm-wide basis. Either a firm meets all of the applicable requirements of the GIPS standards and may claim compliance, or a firm does not meet all of the applicable requirements of the GIPS standards and must not claim compliance or partial compliance with the GIPS standards. If the firm does not meet all of the applicable requirements of the GIPS standards, the firm must not represent or state that it is “in compliance with the Global Investment Performance Standards except for...” or make any other statements that may indicate compliance or partial compliance with the GIPS standards.

Provision 1.A.9

Statements referring to the calculation methodology as being “in accordance,” “in compliance,” or “consistent” with the Global Investment Performance Standards, or similar statements, are prohibited.

Discussion

Only firms that manage actual assets may claim compliance with the GIPS standards. For firms that do manage actual assets, either directly or through the use of sub-advisors, compliance can be achieved only when the firm has met all of the applicable requirements of the GIPS standards on a

firm-wide basis. Compliance with the GIPS standards involves more than just the use of a particular calculation methodology. To avoid any confusion, references to the GIPS standards must not be used in the context of reporting performance or performance presentations when the firm is not in compliance with the GIPS standards.

Software vendors, custodians, and other service providers do not manage actual assets and cannot claim compliance with the GIPS standards. They may make reference to the fact that their software or services may help an asset manager achieve or maintain compliance with the GIPS standards, if that is the case. For example, a software vendor may state that its software system calculates performance that satisfies the calculation requirements of the GIPS standards, but the vendor must not state or imply that using its system automatically makes a firm compliant with the GIPS standards or that its system complies with the GIPS standards.

Consultant databases or questionnaires often require investment management firms to fill in monthly or quarterly performance data. The databases or questionnaires then ask the manager to indicate whether or not the data presented has been prepared in accordance with the GIPS standards. When responding to such a database or questionnaire, a firm that claims compliance with the GIPS standards may state that the returns “are prepared in compliance with the GIPS standards” if the following conditions are met:

- The performance information used to complete the questionnaire is consistent with the information used to prepare the corresponding GIPS Report;
- If applicable, the performance information used to complete the questionnaire is more current than the information currently included in the corresponding GIPS Report but will be used in the future to update the corresponding GIPS Report; and
- If applicable, the performance information used to complete the questionnaire is older than the information currently included in the corresponding GIPS Report but could have been used to report the composite’s or pooled fund’s performance for periods prior to those currently included in the GIPS Report.

Provision 1.A.10

The FIRM MUST NOT make statements referring to the performance of a current client or POOLED FUND investor as being “calculated in accordance with the Global Investment Performance Standards,” except for when a GIPS-compliant FIRM reports the performance of a SEGREGATED ACCOUNT to current clients or a POOLED FUND to current investors.

Discussion

The GIPS standards do not specifically address how a firm must report performance of an individual client's portfolio to current clients or how the performance of an investor's investment in a pooled fund must be reported to current pooled fund investors. The GIPS standards do provide an ethical framework for calculating and presenting a firm's investment performance history, allowing both prospective and current clients and pooled fund investors the best opportunity to fairly evaluate the firm's past performance.

The firm must not make statements referring to the performance of a current client or pooled fund investor as being "calculated in accordance with the Global Investment Performance Standards," except for when a GIPS-compliant firm reports the performance of a segregated account to current clients or a pooled fund to current investors. When a firm that claims compliance with the GIPS standards reports the performance of a current client's portfolio to that client or reports the performance of an investor's investment in a pooled fund to a current pooled fund investor, the firm may note on the current client's or investor's performance report that the return was calculated in accordance with the requirements of the GIPS standards if the statement is true.

Provision 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.

Discussion

Firms claiming compliance with the GIPS standards must make every reasonable effort to provide all prospective clients with a GIPS Composite Report when they initially become prospective clients. The GIPS Composite Report must be one that represents the strategy being marketed to the prospective client. The firm must not choose to which prospective clients it presents a GIPS Composite Report.

A GIPS Composite Report is defined as a presentation for a composite that contains all the information required by the GIPS standards and may also include recommended information and supplemental information. It may also include other information that the firm believes would be helpful to interpreting the GIPS Report. A prospective client is defined as any person or entity that has expressed interest in one of the firm's composite strategies and qualifies to invest in the composite. Current clients may also qualify as prospective clients for any strategy that differs from their current investment strategy. Providing a GIPS Composite Report to current clients interested in a strategy different from their current strategy will help ensure that they have the

information necessary to evaluate the new investment strategy and make an informed decision. Investment consultants, consultant databases, and other third parties are considered prospective clients if they represent individuals or entities that qualify as prospective clients.

It is up to the firm to establish policies and procedures for determining who is considered to be a prospective client. These include policies and procedures for determining when an interested party becomes a prospective client. An interested party becomes a prospective client when two tests are met. First, the interested party must have expressed interest in a specific composite strategy or strategies. Second, the firm must have determined that the interested party qualifies to invest in the respective composite strategy. For example, assume a firm is meeting with an interested party to introduce the firm to the interested party. At this initial meeting, the firm provides information about itself in an attempt to interest the interested party in investing with the firm. At this point, the two tests to qualify as a prospective client have not been met; therefore, the interested party is not yet a prospective client, and the firm is not obligated to provide a GIPS Composite Report. The firm should, however, communicate that it claims compliance with the GIPS standards and offer to provide a list of all composite and limited distribution pooled fund descriptions.

Once the interested party expresses interest in a specific composite strategy and the firm determines that the interested party qualifies to invest in the composite strategy, the interested party then becomes a prospective client. This is the point at which the firm must make every reasonable effort to provide the prospective client with the appropriate GIPS Composite Report, if the firm has not already provided it to the prospective client.

At times, a prospective client may ask the firm about a composite strategy that the firm does not yet manage. For example, assume a firm manages one equity and one fixed-income composite and has been meeting with a prospective client who originally was interested in (and qualified to invest in) the equity composite. The prospective client learns that the firm also manages fixed-income portfolios and inquires about a balanced strategy that blends the equity and fixed-income strategies. If the firm does not have an appropriate composite to present to the prospective client, the firm must inform the prospective client that it does not currently manage the specific style or strategy. The firm may present information regarding the hypothetical blended balanced strategy, but this must not be presented as a GIPS-compliant track record. The hypothetical blend may be included in a GIPS Report as supplemental information only if all the component composites on which the hypothetical blend is based are included in the respective GIPS Report. If a hypothetical blend based on the performance of actual component composites is presented outside of a GIPS Report, it is recommended but not required that the presentation include all the component composites on which the hypothetical blend is based.

A prospective client may request a GIPS Composite Report for a new composite for which the firm is not yet required to prepare a GIPS Composite Report. The firm may also wish to market a new composite for which a GIPS Composite Report has not yet been created. For example,

a firm launches a strategy 1 June and is marketing the strategy in October. In such cases, the performance for the composite must be made available, but it is not required to be within a GIPS Composite Report. The firm must create a GIPS Composite Report for the new composite that includes performance from inception through the initial annual period end. If the prospective client for this new strategy is still a prospective client after the GIPS Composite Report is prepared with performance from composite inception through the initial annual period end, the firm must provide this GIPS Composite Report to the prospective client.

Because a firm is required to demonstrate that it made every reasonable effort to provide prospective clients with a GIPS Composite Report (see Provision 1.A.17), a firm should establish policies and procedures for tracking which GIPS Composite Reports or initial partial-period performance outside of a GIPS Composite Report were provided to which prospective clients, and when. Doing so will allow a firm to determine when ongoing prospective clients must receive an updated GIPS Composite Report. (See Provision 1.A.12 regarding the requirement to provide an updated GIPS Composite Report to ongoing prospective clients.) It will also allow a firm to know who must receive a corrected GIPS Composite Report in cases for which the firm determines that a previously distributed GIPS Composite Report contained a material error. (See Provision 1.A.20.)

It is the firm's obligation to make every reasonable effort to provide a GIPS Composite Report to prospective clients. The firm may do so by providing the GIPS Report directly to the prospective client or by providing the prospective client with an electronic link to the GIPS Report. The link provided must be a direct link to the GIPS Composite Report, however, and not simply a general link to firm information, such as a link to the firm's website.

Firms are not limited to providing only GIPS Composite Reports to prospective clients or interested parties. Firms may present other performance or performance-related information, in addition to the GIPS Composite Report, as long as it is not false or misleading. Firms may also provide any performance or performance-related information a prospective client requests for use in a one-on-one presentation. Such information must be restricted to a one-on-one presentation for use with that specific prospective client and must be accompanied by comprehensive disclosures that explain the information being presented. A one-on-one presentation is not limited to a formal presentation or to information presented in a face-to-face meeting. In this case, the one-on-one presentation refers to the presentation that is created for and will be used only by the prospective client who made the request.

Provision 1.A.12

Once the FIRM has provided a GIPS COMPOSITE REPORT to a PROSPECTIVE CLIENT, the FIRM MUST provide an updated GIPS COMPOSITE REPORT at least once every 12 months if the PROSPECTIVE CLIENT is still a PROSPECTIVE CLIENT.

Discussion

Some prospective clients remain prospective clients for extended periods. Once a firm has provided a GIPS Composite Report to a prospective client, the firm must provide an updated GIPS Composite Report at least once every 12 months if the prospective client is still a prospective client. If a firm provides performance information to an investment consultant or a database, these entities qualify as prospective clients and must receive the appropriate GIPS Composite Report(s). They must also receive an updated GIPS Composite Report at least once every 12 months.

Provision 1.A.13

The FIRM MUST make every reasonable effort to provide a GIPS REPORT to all LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTORS when they initially become PROSPECTIVE INVESTORS. The GIPS REPORT may be either:

- a. A GIPS POOLED FUND REPORT, or
- b. A GIPS COMPOSITE REPORT. A GIPS COMPOSITE REPORT may be provided only if the LIMITED DISTRIBUTION POOLED FUND is included in the respective COMPOSITE.

The FIRM MUST NOT choose to which LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTORS it presents a GIPS REPORT.

Discussion

The firm must make every reasonable effort to provide a GIPS Report to all limited distribution pooled fund (LDPF) prospective investors when they initially become prospective investors. The GIPS Report may be either a GIPS Pooled Fund Report or a GIPS Composite Report. A GIPS Composite Report may be provided only if the LDPF is included in the respective composite. The firm must not choose to which LDPF prospective investors it presents a GIPS Report. For purposes of complying with the GIPS standards, the firm must classify pooled funds as either broad distribution pooled funds (BDPFs) or LDPFs. Because the reporting requirements in Provision 1.A.13 apply only to LDPFs, firms that offer pooled funds must be able to correctly classify their pooled funds in order to determine whether this provision applies. The classification of pooled funds is made at the fund level, not the share class level.

A *broad distribution pooled fund* (BDPF) is a pooled fund that is:

- regulated under a framework that would permit the general public to purchase or hold the pooled fund's shares, and
- is not exclusively offered in one-on-one presentations.

A *limited distribution pooled fund* (LDPF) is any pooled fund that is not a broad distribution pooled fund.

Although the classification of pooled funds is often straightforward (e.g., a fund that may be purchased by the general public online is typically a BDPF), there are situations in which the appropriate classification of a pooled fund is less clear.

In some cases, a firm elects to offer or sell the pooled fund to only a subset of the general public, such as retirement accounts for individuals. For purposes of classifying funds as limited or broad, these funds are considered to be available to the general public because anyone within the limited group of investors may purchase or hold the pooled fund's shares.

Because the classification of a fund is made at the pooled fund level, no pooled fund will have some of its classes of shares classified as a BDPF and some as an LDPE. If the firm offers, or is permitted to offer, any of the pooled fund's share classes to the general public, and the shares are not sold exclusively in one-on-one presentations, the pooled fund may be classified as a BDPF. This would be the case even if some shares classes of the fund are not available to the general public or are offered only in a one-one-one presentation.

If a firm is the sub-advisor for a pooled fund that is marketed or distributed by another firm as either an LDPF or a BDPF, the firm acting as sub-advisor must treat the sub-advised pooled fund as a segregated account. It must be included in a composite if it is fee-paying and discretionary. Only if the firm offers participation in the pooled fund, either directly or through an agent, would the pooled fund be considered either a BDPF or LDPF.

The following table provides information about how to classify pooled funds as BDPF or LDPF.

Example	Description	BDPF/ LDPF	Not Offered Exclusively in One-on-One Presentations	Regulations Permit General Public to Purchase Shares	Explanation
1.	Pooled fund with one or more share classes that are offered to the general public (retail share classes). The share classes are not sold exclusively in one-on-one presentations.	BDPF	Yes	Yes	The fund is classified as a BDPF because it is regulated under a framework that would permit the general public to purchase or hold shares and is offered to the general public in a manner that does not exclusively involve one-on-one presentations.
2.	Pooled fund that is regulated under a framework that would permit the general public to purchase or hold shares, but the firm has chosen to offer institutional share classes only. All share classes are sold exclusively in one-on-one presentations.	LDPF	No	Yes	The fund is classified as an LDPF because it is offered exclusively in one-on-one presentations.
3.	Pooled fund that is regulated under a framework that would permit the general public to purchase or hold shares, but the firm has chosen to offer institutional share classes only. The fund is marketed in a variety of ways that do not always involve a one-on-one presentation with prospective institutional investors.	BDPF	Yes	Yes	The fund is classified as a BDPF because it is regulated under a framework that would permit the general public to purchase or hold share although the firm has chosen not to do so, and it is not offered exclusively in one-on-one presentations.
4.	Pooled fund regulated under a framework that would permit the general public to purchase or hold the pooled fund's shares. The firm offers shares of the fund exclusively in one-on-one presentations.	LDPF	No	Yes	The fund is classified as an LDPF because all share classes are offered exclusively in one-on-one presentations.

(continued)

Global Investment Performance Standards (GIPS®) for Firms: Explanation of the Provisions in Section 1

Example	Description	BDPF/ LDPF	Not Offered Exclusively in One-on-One Presentations	Regulations Permit General Public to Purchase Shares	Explanation
5.	Pooled fund with one or more retail share classes and one or more institutional share classes.	BDPF	Yes	Yes	The fund is classified as a BDPF because it has retail share classes, whether or not its institutional classes are offered exclusively in one-on-one presentations.
6.	Pooled fund with one or more retail share classes that is classified as a BDPF in its home country, but it may be offered only as a private placement in other countries for regulatory reasons.	BDPF	Yes	Yes	The fund is classified as a BDPF because it has retail share classes, even though in other jurisdictions it may not be held by the general public and is offered in one-on-one presentations.
7.	Pooled fund with shares traded on an exchange.	BDPF	Yes	Yes	The fund is classified as a BDPF because it is regulated under a framework that would permit the general public to purchase or hold shares and is not offered exclusively in one-on-one presentations.
8.	Pooled fund that is regulated under a framework that would permit the general public to purchase or hold shares, but that for regulatory or business reasons is offered exclusively through intermediaries and/or via platforms that are accessible to investors that meet certain qualifications. The fund is not offered exclusively in one-on-one presentations.	BDPF	Yes	Yes	The fund is classified as a BDPF because it is regulated under a framework that would permit the general public to purchase or hold its shares and it is not offered exclusively in one-on-one presentations.

(continued)

Example	Description	BDPF/ LDPF	Not Offered Exclusively in One-on-One Presentations	Regulations Permit General Public to Purchase Shares	Explanation
9.	Pooled fund that is regulated under a framework that would permit certain members of the general public to purchase or hold shares, and is sold exclusively to investors with certain tax or affinity characteristics (e.g., retirement accounts). The fund is not offered exclusively in one-on-one presentations.	BDPF	Yes	Yes	Funds that are available only to a subset of investors with certain tax or affinity characteristics that are shared by a large portion of the public are considered to be available to the general public.
10.	Pooled fund that has a partnership structure and is exclusively offered in one-on-one presentations.	LDPF	No	No	The fund is classified as an LDPF because it is offered exclusively in one-on-one presentations and is not available to the general public.
11.	Pooled fund that is exclusively offered in one-on-one presentations to sponsors or agents that make investment decisions on behalf of beneficial owners (e.g., plan participants).	LDPF	No	No	The fund is classified as an LDPF because it is offered exclusively in one-on-one presentations to the sponsor or agent that makes investment decisions (determines which pooled funds will be offered to beneficial owners) on behalf of beneficial owners. In this scenario, the firm has no obligation to provide GIPS Reports to individual beneficial owners.

This table categorizes several common pooled fund structures as LDPFs or BDPFs. Because of the diversity of fund structures in various jurisdictions, these examples cannot address every possible structure, and many firms will need to make good faith determinations regarding the treatment of specific pooled funds.

Providing GIPS Reports to LDPF Prospective Investors

If a firm offers LDPFs, it is required to provide an LDPF prospective investor with a GIPS Report. The GIPS Report can be either a GIPS Pooled Fund Report or a GIPS Composite Report.

- A GIPS Pooled Fund Report is a presentation for a pooled fund that contains all the information required by the GIPS standards and may also include recommended information,

supplemental information, and other information. Other information may be included as long as it is not false or misleading.

- A GIPS Composite Report is a presentation for a composite that contains all the information required by the GIPS standards and may also include recommended information, supplemental information, and other information. Other information may be included as long as it is not false or misleading.

A GIPS Composite Report may be provided to an LDPF prospective investor in lieu of a GIPS Pooled Fund Report but only if the LDPF is included in the respective composite.

An LDPF prospective investor is any person or entity that has expressed interest in one of the firm's LDPFs and is qualified to invest in the fund. Current pooled fund investors may also qualify as prospective investors for any pooled fund that is different from their current pooled fund. Providing a GIPS Report to current pooled fund investors interested in a pooled fund different from their current pooled fund will help ensure that they have information to better evaluate the new pooled fund and make an informed decision. Investment consultants, consultant databases, and other third parties are included as prospective investors if they represent individuals or entities that qualify as prospective investors.

It is up to the firm to establish policies and procedures for determining who is considered to be a pooled fund prospective investor, including policies and procedures for determining when an interested party becomes an LDPF prospective investor. An interested party becomes a pooled fund prospective investor when two tests are met. First, the interested party must have expressed interest in a specific LDPF. Second, the firm must have determined that the interested party qualifies to invest in the respective pooled fund. For example, assume a firm is meeting with an interested party to introduce the firm to the interested party. At this initial meeting, the firm provides information about itself in an attempt to attract the interested party to invest with the firm. At this point, the two tests to qualify as a pooled fund prospective investor have not been met; therefore, the interested party is not yet a prospective investor, and the firm is not obligated to provide a GIPS Report. However, the firm should communicate that it claims compliance with the GIPS standards and offer to provide a list of all composite and LDPF descriptions.

Once the interested party expresses interest in a specific LDPF and the firm determines that the interested party qualifies to invest in the pooled fund, the interested party then becomes a pooled fund prospective investor. At this point, the firm must make every reasonable effort to provide the prospective investor with the appropriate GIPS Report.

LDPFs with No Performance History

Participation in a new LDPF is often marketed by a firm before the pooled fund has a track record. If an LDPF has no performance history, there is no requirement to provide a GIPS Report. It is recommended, however, that the firm provide the most appropriate track record for the new fund if an appropriate track record is available. (See Provision 1.B.7.) The most appropriate track record

would be a GIPS Report for a composite or another pooled fund that the firm manages according to the same or similar strategy as the LDPF that has not yet started. If an appropriate track record is presented to prospective investors, sufficient information should be provided so that pooled fund prospective investors understand the source and nature of the track record presented. As is always the case, the information presented must adhere to the principles of fair representation and full disclosure.

A prospective investor may request a GIPS Report for a new LDPF for which the firm is not yet required to prepare a GIPS Report. The firm may also wish to market a new LDPF for which a GIPS Report has not yet been created because the LDPF has not reached the initial annual period end. In such cases, the performance for the LDPF must be made available, but it is not required to be within a GIPS Report. If the prospective investor for this new LDPF is still a prospective investor after a GIPS Report with performance through the initial annual period end is prepared, the firm must provide this GIPS Report to the prospective investor.

Tracking Which GIPS Report Has Been Provided

Because a firm is required to demonstrate that it made every reasonable effort to provide LDPF prospective investors with a GIPS Composite Report or GIPS Pooled Fund Report (see Provision 1.A.17), a firm should establish policies and procedures for tracking which GIPS Report(s) or initial partial-period performance outside of a GIPS Report were provided to which LDPF prospective investors and when. Doing so will allow a firm to determine when ongoing LDPF prospective investors must receive an updated GIPS Report. (See Provision 1.A.14 regarding the requirement to provide an updated GIPS Report to ongoing prospective investors.) It will also allow a firm to know who must receive a corrected GIPS Report in cases where the firm determines that a previously distributed GIPS Report contained a material error. (See Provisions 1.A.20 and 1.A.21.)

Electronic Delivery

It is the firm's obligation to make every reasonable effort to provide a GIPS Report to prospective investors. This obligation may be met by providing the GIPS Report directly to the prospective investor or by providing the prospective investor with an electronic link to the GIPS Report. However, the link provided must be a direct link to either the GIPS Pooled Fund Report for the LDPF in which the prospective investor is interested or the GIPS Composite Report for the composite in which the LDPF is included, and not simply a general link to firm information, such as a link to the firm's website.

Performance Information Outside of a GIPS Report

Firms are not limited to providing only GIPS Reports to LDPF prospective investors or interested parties. Firms may present other performance or performance-related information, in addition to the GIPS Report, as long as it is not false or misleading. The firm may also provide

any performance or performance-related information a prospective investor requests for use in a one-on-one presentation. Such information must be restricted to a one-on-one presentation for use with that specific prospective investor and must be accompanied with comprehensive disclosures that explain the information being presented. A one-on-one presentation is not limited to a formal presentation or to information presented in a face-to-face meeting. In this case, the one-on-one presentation refers to the presentation that is created for and will be used only by the prospective investor who made the request.

Provision 1.A.14

Once the FIRM has provided a GIPS POOLED FUND REPORT or GIPS COMPOSITE REPORT to a LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTOR, the FIRM MUST provide an updated GIPS POOLED FUND REPORT or GIPS COMPOSITE REPORT at least once every 12 months if the LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTOR is still a LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTOR.

Discussion

Some limited distribution pooled fund (LDPF) prospective investors remain pooled fund prospective investors for extended periods of time. Once a firm has provided a GIPS Report, either a GIPS Pooled Fund Report or a GIPS Composite Report, to an LDPF prospective investor, the firm must provide an updated GIPS Report at least once every 12 months if the pooled fund prospective investor is still a prospective investor. If a firm provides performance information to an investment consultant or a database, these entities qualify as prospective investors and must receive the appropriate GIPS Report. They must also receive an updated GIPS Report at least once every 12 months.

Provision 1.A.15

The FIRM may provide a GIPS POOLED FUND REPORT or a GIPS COMPOSITE REPORT that includes the BROAD DISTRIBUTION POOLED FUND to BROAD DISTRIBUTION POOLED FUND PROSPECTIVE INVESTORS but is not REQUIRED to do so.

Discussion

A broad distribution pooled fund (BDPF) is a pooled fund that is regulated under a framework that would permit the general public to purchase or hold the pooled fund's shares and is not

exclusively offered in one-on-one presentations. (More extensive guidance on the classification of a pooled fund as a BDPF can be found in the discussion of Provision 1.A.13.) BDPFs are typically highly regulated. Because of both the complexity and diversity of local laws and regulations applying to BDPFs, which typically specify what must be included in the materials for these funds, as well as what must not be included, it is not required that a GIPS Report be provided to BDPF prospective investors. If a firm wishes to provide a GIPS Pooled Fund Report or GIPS Composite Report that includes the BDPF to a BDPF prospective investor, however, it may do so.

Because a firm that manages and markets only BDPFs is not required to provide a GIPS Report to pooled fund prospective investors, if such a firm complies with the GIPS standards, a claim of compliance with the GIPS standards might not appear in any of its materials. If the firm wishes to present a claim of compliance with the GIPS standards to prospective investors, the claim of compliance may appear in a:

- GIPS Advertisement,
- GIPS Pooled Fund Report, or
- GIPS Composite Report for a composite that includes the BDPF.

The claim of compliance may also appear on the firm's website by including a GIPS Advertisement, or the website itself can adhere to the GIPS Advertising Guidelines. A claim of compliance may also appear in a GIPS Report that is posted on the firm's website.

Because the 2010 edition of the GIPS standards required all portfolios, both segregated accounts and pooled funds, to be included in a composite, many firms had included BDPFs and LDPFs in composites that included only one or more pooled funds. The 2020 edition of the GIPS standards does not require a firm to include a pooled fund in a composite unless the pooled fund is managed in a strategy that is managed for or offered as a segregated account, or the pooled fund meets a composite definition. When a firm adopts the 2020 edition of the GIPS standards, the firm may terminate any composite that contains only pooled funds whose strategy is not offered as a segregated account. However, a firm that wishes to continue to include pooled funds in composites that include only one or more pooled funds, even though the strategy of the pooled funds is not offered as a segregated account, may continue to do so.

Provision 1.A.16

When providing GIPS REPORTS to PROSPECTIVE CLIENTS and PROSPECTIVE INVESTORS, the FIRM MUST update these reports to include information through the most recent annual period end within 12 months of that annual period end.

Discussion

GIPS Composite Reports and GIPS Pooled Fund Reports are designed to provide information to prospective clients or prospective investors that will help them understand the investment mandate, characteristics, and performance of a specific composite or pooled fund managed by the firm. Although a GIPS Report contains important information, the value and relevance of that information are affected by the timeliness with which the GIPS Report is updated. A GIPS Report that presents returns that are significantly out of date is not helpful to prospective clients or prospective investors. It is therefore required that any GIPS Report that is provided to a prospective client or prospective investor must be updated within 12 months of the end of the most recent annual period end. As an example, suppose that a firm presents calendar-year returns in GIPS Reports. GIPS Reports with information through 31 December 2020 must be available no later than 31 December 2021. The lack of the completion of an annual verification is not a valid reason for delaying the updating of a GIPS Report.

If a specific composite or pooled fund is not being marketed, and as a result there are no prospective clients or prospective investors for the composite or pooled fund, the firm is not required to update the respective GIPS Report. As stated in Provision 1.A.24, however, a firm must provide a GIPS Report for any composite that is on the firm's list of composite descriptions, and any pooled fund that is on the firm's list of limited distribution pooled fund (LDPF) descriptions, to a prospective client or prospective investor upon request. While a firm is not required to annually update a GIPS Report when there are no prospective clients or prospective investors, the firm must be able to provide an updated GIPS Report, within a reasonable period of time, to a prospective client or prospective investor for the respective composite or LDPF.

Provision 1.A.17

The FIRM MUST be able to demonstrate how it made every reasonable effort to provide:

- a. A GIPS COMPOSITE REPORT to those PROSPECTIVE CLIENTS REQUIRED to receive a GIPS COMPOSITE REPORT.
- b. A GIPS POOLED FUND REPORT OR GIPS COMPOSITE REPORT to those LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTORS REQUIRED to receive a GIPS POOLED FUND REPORT OR GIPS COMPOSITE REPORT.

Discussion

Firms are required to make every reasonable effort to provide a GIPS Composite Report to all prospective clients and a GIPS Pooled Fund Report or GIPS Composite Report to all limited distribution pooled fund (LDPF) prospective investors. A firm may provide a GIPS Composite

Report to an LDPF prospective investor in lieu of a GIPS Pooled Fund Report only if the respective LDPF is included in the composite. Firms are also required to have policies and procedures in place that are used to establish and maintain compliance with the requirements of the GIPS standards. Therefore, any firm claiming compliance with the GIPS standards must have specific policies and procedures to ensure that every reasonable effort is made to provide the required GIPS Composite Report to prospective clients and the required GIPS Report to LDPF prospective investors. These should include policies and procedures for tracking which GIPS Reports were provided to which prospective clients or prospective investors, and when. For example, a firm's policies and procedures might specify that the required GIPS Report will be included as part of the standard package of marketing materials prepared for prospective clients or pooled fund prospective investors, and that a checklist will be used to indicate the dates on which the GIPS Report was provided to the prospective client or prospective investor and which version of the GIPS Report was provided. Documenting the date on which the GIPS Report was last provided to the prospective client or prospective investor as well as the version of the GIPS Report will help a firm fulfill the requirement that the appropriate GIPS Report be provided to a prospective client or prospective investor who remains a prospect at least once every 12 months. The most effective policies and procedures for a firm will depend on the circumstances surrounding the typical interactions between the firm and its prospective clients or prospective investors.

To demonstrate that the firm made a reasonable effort to provide the appropriate GIPS Report to prospective clients and prospective investors, it is necessary for the firm to document both the relevant policies and procedures for providing the required reports to prospective clients and pooled fund investors and the steps taken to implement the relevant policies and procedures.

Provision 1.A.18

A COMPOSITE BENCHMARK used in a GIPS COMPOSITE REPORT MUST reflect the investment mandate, objective, or strategy of the COMPOSITE. The FIRM MUST NOT use a price-only BENCHMARK in a GIPS COMPOSITE REPORT.

Discussion

Benchmarks are important tools that aid in the planning, implementation, and evaluation of a portfolio's investment policy. They also help facilitate discussions with prospective clients regarding the relationship between risk and return. As a result, firms are required to present the total return for a benchmark that reflects the composite's investment mandate, objective, or strategy in all GIPS Composite Reports.

GIPS Composite Reports that include time-weighted returns must include composite returns for each annual period. GIPS Composite Reports that include money-weighted returns must include

the composite return for the period from inception through the most recent annual period end. Firms must present benchmark returns for these required periods and for any additional periods for which composite returns are presented. For example, if a GIPS Composite Report includes quarterly composite returns, quarterly benchmark returns must also be included.

The benchmark that appears in a GIPS Composite Report may be different from the benchmark(s) used for the portfolios that are included in the composite. For example, a firm may decide that it is appropriate to include portfolios with different benchmarks in the same composite. Additionally, a firm may present more than one benchmark in a GIPS Composite Report. The firm must determine the appropriate benchmark or benchmarks for each composite.

There may be situations in which there is no appropriate benchmark for a composite—that is, no benchmark exists that reflects the composite’s investment mandate, objective, or strategy. In such cases, the firm must not present a benchmark in the GIPS Composite Report and must disclose why no benchmark is presented. Outside of a GIPS Composite Report, a firm may present a benchmark that is not reflective of the composite’s strategy. There must, however, be a valid reason for doing so. For example, if a firm believes that no appropriate benchmark exists, it might want to present a market index to represent the opportunity cost of investing in the composite’s investment strategy. If such a benchmark is used outside of a GIPS Composite Report, there must be sufficient disclosure so that a prospective client or prospective investor understands the nature of the benchmark and why it is being presented. Disclosure, however, does not necessarily prevent information from being false or misleading. A firm must not select a benchmark for the purpose of providing a favorable comparison to the performance of the composite. To do so would be misleading, regardless of the disclosures accompanying the benchmark.

Because the GIPS standards require that the total return for the benchmark be presented, a price-only index will not satisfy the requirements of the GIPS standards. This also applies to benchmarks that are components of a blended benchmark. A blended benchmark is the combination of two or more indexes, such as a benchmark that consists of 50% of the ABC Index and 50% of the DEF Index. In this example, both the ABC Index and the DEF Index must be total return benchmarks, not price-only benchmarks. However, when there is an appropriate total return benchmark, a price-only benchmark may be presented in a GIPS Composite Report as supplemental information, as well as outside of a GIPS Composite Report if the price-only benchmark is accompanied by a total return benchmark. If a price-only benchmark is included in a GIPS Composite Report as supplemental information, or is presented outside of a GIPS Composite Report, it must be identified as a price-only benchmark, and there must be sufficient disclosures so that a prospective client or prospective investor understands the difference between the return of a price-only benchmark and the return of a total return benchmark. If no appropriate total return benchmark for the composite’s strategy exists, the firm may not present a price-only benchmark in a GIPS Composite Report but may present it outside of a GIPS Composite Report. In such cases, “price only” must be included in the label or the name of the benchmark. As in all cases where a price-only benchmark is presented, there must be sufficient disclosures so that

a prospective client or prospective investor understands the difference between the return of a price-only benchmark and the return of a total return benchmark.

Some benchmarks may appear to be price-only benchmarks because they do not include income, but they should be considered total return benchmarks. These include the following:

- private market equivalent (PME) benchmarks,
- commodity benchmarks, and similar benchmarks, that do not have income because of the nature of the benchmark constituents, and
- target returns, such as an 8% hurdle rate.

Provision 1.A.19

A POOLED FUND BENCHMARK used in a GIPS POOLED FUND REPORT MUST reflect the investment mandate, objective, or strategy of the POOLED FUND. The FIRM MUST NOT use a price-only BENCHMARK in a GIPS POOLED FUND REPORT.

Discussion

Benchmarks are important tools that aid in the planning, implementation, and evaluation of a pooled fund's investment policy. They also help facilitate discussions with pooled fund prospective investors regarding the relationship between risk and return. As a result, firms are required to present the total return for a benchmark that reflects the pooled fund's investment mandate, objective, or strategy in all GIPS Pooled Fund Reports.

GIPS Pooled Fund Reports that include time-weighted returns must include pooled fund returns for each annual period. GIPS Pooled Fund Reports that include money-weighted returns must include the pooled fund return for the period from inception through the most recent annual period end. Firms must present benchmark returns for these required periods and for any additional periods for which pooled fund returns are presented. For example, if a GIPS Pooled Fund Report includes quarterly pooled fund returns, quarterly benchmark returns must also be included.

The benchmark that appears in a GIPS Pooled Fund Report may differ from the benchmark that is required to be presented in the pooled fund's regulatory materials or that is presented in other fund marketing materials. A firm may also present more than one benchmark in a GIPS Pooled Fund Report. The firm must determine the appropriate benchmark or benchmarks for each pooled fund.

There may be situations in which there is no appropriate benchmark for a pooled fund—that is, no benchmark exists that reflects the pooled fund's investment mandate, objective, or strategy.

In such cases, the firm must not present a benchmark in the GIPS Pooled Fund Report and must disclose why no benchmark is presented. Outside of a GIPS Pooled Fund Report, a firm may present a benchmark that is not reflective of the pooled fund's strategy. There must, however, be a valid reason for doing so. For example, laws or regulations sometimes require the use of what would be considered an inappropriate benchmark for a broad distribution pooled fund. As another example, if a firm believes that no appropriate benchmark exists, it might want to present a market index to represent the opportunity cost of investing in the pooled fund. If such a benchmark is used outside of a GIPS Pooled Fund Report, there must be sufficient disclosure so that a pooled fund prospective investor understands the nature of the benchmark and why it is being presented. Disclosure, however, does not necessarily prevent information from being false or misleading. A firm must not select a benchmark for the purpose of providing a favorable comparison to the performance of the pooled fund. To do so would be misleading, regardless of the disclosures accompanying the benchmark.

Because the GIPS standards require that the total return for the benchmark be presented, a price-only index will not satisfy the requirements of the GIPS standards. This also applies to benchmarks that are components of a blended benchmark. A blended benchmark is the combination of two or more indexes, such as a benchmark that consists of 50% of the ABC Index and 50% of the DEF Index. In this example, both the ABC Index and the DEF Index must be total return benchmarks, not price-only benchmarks. However, when there is an appropriate total return benchmark, a price-only benchmark may be presented in a GIPS Pooled Fund Report as supplemental information, as well as outside of a GIPS Pooled Fund Report, if the price-only benchmark is accompanied by a total return benchmark. If a price-only benchmark is included in a GIPS Pooled Fund Report as supplemental information, or is presented outside of a GIPS Pooled Fund Report, it must be identified as a price-only benchmark, and there must be sufficient disclosures so that a prospective investor understands the difference between the return of a price-only benchmark and the return of a total return benchmark. If no appropriate total return benchmark for the pooled fund's strategy exists, the firm may not present a price-only benchmark in a GIPS Pooled Fund Report but may present it outside of a GIPS Pooled Fund Report. In such cases, "price only" must be included in the label or the name of the benchmark. As in all cases where a price-only benchmark is presented, there must be sufficient disclosures so that a prospective investor understands the difference between the return of a price-only benchmark and the return of a total return benchmark.

Some benchmarks may appear to be price-only benchmarks because they do not include income, but they should be considered total return benchmarks. These include the following:

- private market equivalent (PME) benchmarks,
- commodity benchmarks, and similar benchmarks, that do not have income due to the nature of the benchmark constituents, and
- target returns, such as an 8% hurdle rate.

Provision 1.A.20

The FIRM MUST correct MATERIAL ERRORS in GIPS COMPOSITE REPORTS and MUST:

- a. Provide the corrected GIPS COMPOSITE REPORT to the current verifier.
- b. Provide the corrected GIPS COMPOSITE REPORT to current clients and any former verifiers that received the GIPS COMPOSITE REPORT that had the MATERIAL ERROR.
- c. Make every reasonable effort to provide the corrected GIPS COMPOSITE REPORT to all current PROSPECTIVE CLIENTS and PROSPECTIVE INVESTORS that received the GIPS COMPOSITE REPORT that had the MATERIAL ERROR. The FIRM is not REQUIRED to provide a corrected GIPS COMPOSITE REPORT to former clients, former investors, former PROSPECTIVE CLIENTS, or former PROSPECTIVE INVESTORS.

Discussion

Firms claiming compliance with the GIPS standards are likely to face situations in which errors are discovered that must be specifically addressed. Even with the tightest of controls, errors will occur. An error, which can be qualitative or quantitative, is any component of a GIPS Composite Report that is missing or inaccurate. Errors in GIPS Composite Reports can result from, but are not limited to, incorrect, incomplete, or missing:

- composite returns or assets,
- firm assets,
- benchmark returns,
- number of portfolios in a composite,
- three-year annualized ex post standard deviation, and
- disclosures.

Firms must establish error correction policies and procedures, and materiality must be defined in the error correction policies.

If a GIPS Composite Report contains a material error, the GIPS Composite Report must be corrected and the corrected GIPS Composite Report that includes a disclosure of the error must be provided to the current verifier and to all current clients, current investors, and any former verifiers that received the GIPS Composite Report with the material error. Former verifiers that received the GIPS Composite Report with the material error must receive the corrected GIPS Composite Report with a disclosure of the error in case the error affects a previously issued verification report or performance examination report. The firm must also make every reasonable effort to provide the corrected GIPS Composite Report to all current prospective clients and prospective investors that received the GIPS Composite Report with the material error. The firm

is not required to provide the corrected GIPS Composite Report to former prospective clients or former prospective investors that received the GIPS Composite Report that contained the material error.

The firm generally has three options for dealing with non-material errors in GIPS Composite Reports:

1. *Take no action.*

The error is deemed immaterial and does not require a change to any data or disclosures in the GIPS Composite Report.

2. *Correct the GIPS Composite Report with no disclosure of the change and no distribution of the corrected GIPS Composite Report.*

The correction of the error results in a change to one or more items in the GIPS Composite Report, but these changes are deemed not material and therefore do not require disclosure of the change or distribution of the corrected GIPS Composite Report.

3. *Correct the GIPS Composite Report with disclosure of the change and no distribution of the corrected GIPS Composite Report.*

The correction of the error results in a change to one or more items in the GIPS Composite Report, but these changes are deemed not material. The firm does not distribute the corrected GIPS Composite Report but, according to the firm's pre-established error correction policies and procedures, the error does require disclosure in the corrected GIPS Composite Report.

A firm must decide what criteria it will use to determine materiality. The following is a definition of materiality that firms might find useful as a starting point:

An error (or item) is material if the magnitude of the omission or misstatement of performance information, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed by the omission or misstatement.

When determining materiality, a firm may consider the following factors:

- magnitude of the error, in absolute and relative terms,
- whether the error is material relative to the benchmark,
- whether returns are overstated or understated,
- significance of the missing or incorrect disclosures,
- whether the error affects returns over time or is a timing issue,
- period(s) affected by the error,
- if these policies will be applied firm-wide or on a composite-specific or pooled fund-specific basis, and
- whether the firm has any legal or regulatory obligations related to error correction.

The size and effect of the error may vary for different asset types (e.g., equities, fixed income, emerging market equities), reporting periods (e.g., monthly, quarterly, or annual returns), and by time period (e.g., prior to a specific date, more than five years ago).

It is important to remember that the omission of required information is considered an error, as well as a misstatement in the information presented. The GIPS Composite Report must be corrected to include the required information, and the firm must apply its error correction policies to determine if the error is material.

Firms must establish and document error correction policies and procedures and must implement them consistently. A firm should strive to create an unambiguous process that includes specific steps to discover errors.

Provision 1.A.21

The FIRM MUST CORRECT MATERIAL ERRORS IN GIPS POOLED FUND REPORTS and MUST:

- a. Provide the corrected GIPS POOLED FUND REPORT to the current verifier.
- b. Provide the corrected GIPS POOLED FUND REPORT to current investors and any former verifiers that received the GIPS POOLED FUND REPORT that had the MATERIAL ERROR.
- c. Make every reasonable effort to provide the corrected GIPS POOLED FUND REPORT to all current PROSPECTIVE INVESTORS that received the GIPS POOLED FUND REPORT that had the MATERIAL ERROR. The FIRM is not REQUIRED to provide a corrected GIPS POOLED FUND REPORT^a to former investors or former PROSPECTIVE INVESTORS.

Discussion

Firms claiming compliance with the GIPS standards are likely to face situations in which errors are discovered that must be specifically addressed. Even with the tightest of controls, errors will occur. An error, which can be qualitative or quantitative, is any component of a GIPS Pooled Fund Report that is missing or inaccurate. Errors in GIPS Pooled Fund Reports can result from, but are not limited to, incorrect, incomplete, or missing:

- pooled fund returns or assets,
- firm assets,
- benchmark returns, and
- disclosures.

^aThe 2020 edition of the GIPS standards incorrectly state GIPS Composite Report versus GIPS Pooled Fund Report.

Firms must establish error correction policies, and materiality must be defined in the error correction policies.

If a GIPS Pooled Fund Report contains a material error, the GIPS Pooled Fund Report must be corrected and the corrected GIPS Pooled Fund Report that includes a disclosure of the error must be provided to the current verifier, as well as to all current investors and any former verifiers that received the GIPS Pooled Fund Report with the material error. Former verifiers that received the GIPS Pooled Fund Report with the material error must receive the corrected GIPS Pooled Fund Report with a disclosure of the error in case the error affects a previously issued verification report or performance examination report. The firm must also make every reasonable effort to provide the corrected GIPS Pooled Fund Report to all current prospective investors that received the GIPS Pooled Fund Report with the material error. The firm is not required to provide the corrected GIPS Pooled Fund Report to former prospective investors that received the GIPS Pooled Fund Report that contained the material error.

The firm generally has three options for dealing with non-material errors in GIPS Pooled Fund Reports:

1. *Take no action.*

The error is deemed immaterial and does not require a change to any data or disclosures in the GIPS Pooled Fund Report.

2. *Correct the GIPS Pooled Fund Report with no disclosure of the change and no distribution of the corrected GIPS Pooled Fund Report.*

The correction of the error results in a change to one or more items in the GIPS Pooled Fund Report, but these changes are deemed not material and therefore do not require disclosure of the change or distribution of the corrected GIPS Pooled Fund Report.

3. *Correct the GIPS Pooled Fund Report with disclosure of the change and no distribution of the corrected GIPS Pooled Fund Report.*

The correction of the error results in a change to one or more items in the GIPS Pooled Fund Report, but these changes are deemed not material. The firm does not distribute the corrected GIPS Pooled Fund Report but, according to the firm's pre-established error correction policies and procedures, the error does require disclosure in the corrected GIPS Pooled Fund Report.

A firm must decide what criteria it will use to determine materiality. The following is a definition of materiality that firms might find useful as a starting point:

An error (or item) is material if the magnitude of the omission or misstatement of performance presentation information, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed by the omission or misstatement.

When determining materiality, a firm may consider the following factors:

- magnitude of the error, in absolute and relative terms,
- whether the error is material relative to the benchmark,
- whether returns are overstated or understated,
- significance of the missing or incorrect disclosures,
- whether the error affects returns over time or is a timing issue,
- period(s) affected by the error,
- if these policies will be applied firm-wide or on a composite-specific or pooled fund-specific basis, and
- whether the firm has any legal or regulatory obligations related to error correction.

The size and effect of the error may vary for different asset types (e.g., equities, fixed income, emerging market equities), reporting periods (e.g., monthly, quarterly, or annual returns), and by time period (e.g., prior to a specific date, more than five years ago).

It is important to remember that the omission of required information is considered an error, as well as a misstatement in the information presented. The GIPS Pooled Fund Report must be corrected to include the required information, and the firm must apply its error correction policies to determine if the error is material.

Firms must establish and document error correction policies and procedures and must implement them consistently. A firm should strive to create an unambiguous process that includes specific steps to discover errors.

Provision 1.A.22

The FIRM MUST maintain:

- a. A complete list of COMPOSITE DESCRIPTIONS. The FIRM MUST include terminated COMPOSITES on this list for at least five years after the COMPOSITE TERMINATION DATE.
- b. A complete list of POOLED FUND DESCRIPTIONS for LIMITED DISTRIBUTION POOLED FUNDS. The FIRM is not REQUIRED to include terminated LIMITED DISTRIBUTION POOLED FUNDS on this list.
- c. A complete list of BROAD DISTRIBUTION POOLED FUNDS. The FIRM is not REQUIRED to include terminated BROAD DISTRIBUTION POOLED FUNDS on this list.

Discussion

Firms must maintain a complete list of composite descriptions and limited distribution pooled fund (LDPF) descriptions. It must also maintain a list, without descriptions, of broad distribution pooled funds (BDPFs). Firms must include terminated composites on the firm's list of composite descriptions for at least five years after the composite termination date. One reason for this requirement is that a terminated composite may be re-started so a list of current and terminated composites may provide a more complete picture of a firm's capabilities.

In contrast, it is not required that a firm's list of LDPF descriptions or its list of BDPFs include terminated pooled funds. Once a pooled fund is closed, it is no longer available for investment and typically would not be restarted.

A firm that manages BDPFs is required to maintain a complete list of BDPFs. The list can be at the fund level; it does not have to be at the share class level. Firms are not required to maintain a complete list of BDPF descriptions. Instead, a firm must provide a description of any BDPF to any BDPF prospective investor upon request.

If a firm is the sub-advisor for a pooled fund that is marketed or distributed by another firm as either an LDPF or a BDPE, the firm acting as sub-advisor must treat the sub-advised pooled fund as a segregated account. It will not appear on the firm's list of LDPFs or BDPFs. Only if the firm offers participation in the pooled fund, either directly or through an agent, will the pooled fund be considered either a BDPF or LDPF.

Prior to the 2020 edition of the GIPS standards, firms were required to include all portfolios, both segregated accounts and pooled funds, in a composite. When a firm adopts the 2020 edition of the GIPS standards, it will no longer be required to include pooled funds in a composite unless the pooled fund is managed in a strategy that is managed for or offered as a segregated account, or the pooled fund meets a composite definition. Once a firm adopts the 2020 GIPS standards, any composites containing only one or more pooled funds whose strategy is not offered as a segregated account may be terminated. These terminated composites are not required to be included on the firm's list of composite descriptions. This is a one-time exemption to the requirement that terminated composites must be included on a firm's list of composite descriptions for five years after the composite termination date. This exemption applies only to those composites that contain only one or more pooled funds and whose strategy is not managed for or not offered as a segregated account.

If an LDPF or BDPF is included in a composite, the LDPF or BDPF must still appear on the required list of LDPF descriptions or the list of BDPFs, if the firm offers participation in the pooled fund, either directly or through an agent. The firm may combine its complete list of composite descriptions, complete list of LDPF descriptions, and complete list of BDPFs into one document if it wishes to do so. The firm may also prepare a list of all the strategies that it offers and indicate, as part of the strategy description, the vehicles (segregated account, LDPF, or BDPF) in which the strategy is available.

Composite and LDPF Descriptions

A composite or LDPF description provides key information about the investment strategy. The description is not meant to replace more comprehensive descriptions of the investment strategy included in the composite or pooled fund definition, investment management agreement, and/or fund offering documents, but it should provide enough information about the strategy to be informative while remaining concise. It must provide enough information to prospective clients or prospective investors to make them aware of any significant features of a composite or pooled fund investment strategy that may distinguish the strategy from similar strategies within and between firms.

A composite description must include the material risks of the composite's strategy. All investment products or strategies have some degree of inherent common risk, such as, but not limited to, market, currency, investment-specific, inflation, or interest rate risk. Firms may include these generic, systemic risks in a composite or pooled fund description but are not required to do so. It is not expected that the composite description or pooled fund description will include reference to every one of these generic, systemic risks unless any is materially more significant to a composite or pooled fund strategy than typically expected. The following are some of the risks that should be discussed in a composite or pooled fund description if the risks could have had significant influence on the historical returns or are a key feature of the strategy and need to be considered alongside the future expected returns:

- liquidity risk,
- leverage and derivatives risk,
- credit/issuer risk,
- counterparty risk,
- interest rate risk, and
- currency risk.

It is recognized that some strategies can be highly volatile or may be profoundly affected by market-driven events. Firms are reminded that composite descriptions and pooled fund descriptions must reflect material changes in the risks of the strategies that would be caused by market events or changes imposed by the firm.

Example of a Composite Description for a Constant Proportion Portfolio Insurance Strategy

The strategy of this composite is based on the Constant Proportion Portfolio Insurance (CPPI) approach and is composed of a mix of risky assets (global large-cap equities) and short-term high-quality treasury bills. The strategy includes a dynamic allocation between the risky assets and treasury bills, which is adjusted on a monthly basis. The allocation to risky assets may vary from 0% to 100% and depends on the performance of the risky assets and the current risk tolerance limit (floor) expressed by the portfolio's calculated

minimum target value. The allocation to risky assets increases with positive performance of the risky assets and is reduced if the performance of the risky assets trends downwards. The strategy does not allow any leverage. This composite's performance is compared with the Global Large-Cap Equities Index as the composite benchmark.

A sample list of composite descriptions and pooled fund descriptions is provided in Appendix D of the GIPS standards.

Provision 1.A.23

The FIRM MUST provide:

- a. The complete list of COMPOSITE DESCRIPTIONS to any PROSPECTIVE CLIENT that makes such a request.
- b. The complete list of POOLED FUND DESCRIPTIONS for LIMITED DISTRIBUTION POOLED FUNDS to any LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTOR that makes such a request. This list may include only the LIMITED DISTRIBUTION POOLED FUNDS for which the PROSPECTIVE INVESTOR is eligible.
- c. The complete list of BROAD DISTRIBUTION POOLED FUNDS to any BROAD DISTRIBUTION POOLED FUND PROSPECTIVE INVESTOR that makes such a request. This list may include only the BROAD DISTRIBUTION POOLED FUNDS for which the PROSPECTIVE INVESTOR is eligible. If the FIRM maintains a complete list of BROAD DISTRIBUTION POOLED FUNDS on its website, the FIRM may instead direct the PROSPECTIVE INVESTOR to the FIRM'S website.
- d. The POOLED FUND DESCRIPTION for any BROAD DISTRIBUTION POOLED FUND to any BROAD DISTRIBUTION POOLED FUND PROSPECTIVE INVESTOR that makes such a request.

Discussion

In addition to maintaining a complete list of composite descriptions, a complete list of limited distribution pooled fund (LDPF) descriptions, and a complete list of broad distribution pooled funds (BDPFs), as applicable to the firm, firms must provide these lists to prospective clients or pooled fund prospective investors upon request. The discussion of Provision 1.A.22 addresses the creation of these lists.

Requests by a Prospective Client for a Firm's List of Composite Descriptions

The complete list of composite descriptions must be provided to any prospective client upon request. This list must include all of the firm's composites, including those that have terminated

within the past five years. Although firms are required to provide a complete list of composite descriptions to any prospective client that makes such a request, they are encouraged to provide this information to anyone else who makes the request.

Requests by a Prospective Investor for a Firm's List of LDPF Descriptions

The complete list of LDPF descriptions must be provided to any prospective investor upon request. Note that this list may be tailored to include only those LDPFs for which the prospective investor is eligible, but the firm is not required to do so. Although firms are required to provide a complete list of LDPF descriptions to any prospective investor who makes such a request, they are encouraged to provide this information to anyone else who makes the request.

Requests by a Prospective Investor for a Complete List of BDPFs

The complete list of a firm's BDPFs must be provided to any prospective investor upon request. Note that this list may be tailored to include only those BDPFs for which the prospective investor is eligible, but the firm is not required to do so. If the firm includes information about all of its BDPFs on its website, the firm may direct a prospective investor to its website rather than provide the list directly.

For BDPFs, a firm is required to maintain and provide only a complete list of BDPF names. Firms are not required to provide a complete list of BDPF descriptions. However, a firm must provide a description of a specific BDPF to any BDPF prospective investor who makes such a request. Firms may provide a prospectus or offering document for the BDPF to fulfill this request.

Although firms are required to provide a list of BDPFs or a description of a specific BDPF to any prospective investor who makes such a request, they are encouraged to provide this information to anyone else who makes the request.

Provision 1.A.24

The FIRM MUST provide:

- a. A GIPS COMPOSITE REPORT for any COMPOSITE listed on the FIRM'S list of COMPOSITE DESCRIPTIONS to any PROSPECTIVE CLIENT that makes such a request.
- b. A GIPS POOLED FUND REPORT OR GIPS COMPOSITE REPORT, provided the LIMITED DISTRIBUTION POOLED FUND is included in the respective COMPOSITE, for any LIMITED DISTRIBUTION POOLED FUND listed on the FIRM'S list of POOLED FUND DESCRIPTIONS for LIMITED DISTRIBUTION POOLED FUNDS to any LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTOR that makes such a request.

Discussion

Provisions 1.A.11 and 1.A.13 require firms to make every reasonable effort to provide the appropriate GIPS Report to all prospective clients who are interested in a particular composite strategy and to all prospective investors who are interested in a limited distribution pooled fund (LDPF). This provision requires a firm to provide a GIPS Report to a prospective client or prospective investor upon request.

This requirement is an acknowledgement that, before investing with a firm, a prospective client or a prospective investor will often want to gain knowledge of the firm that goes beyond information about the particular composite or pooled fund strategy in which they may want to invest. Requesting a GIPS Report for other composites or pooled funds may help the prospective client or prospective investor gain a fuller picture of the firm's investment activities and a deeper understanding of the firm with which they are considering investing.

A firm must provide a GIPS Composite Report for any composite listed on the firm's list of composite descriptions to a prospective client upon request. The firm must therefore have the ability to prepare and provide a GIPS Composite Report for any composite on the firm's list of composite descriptions, including composites that are not typically marketed or that have been terminated within the past five years.

A firm must provide a GIPS Report for any LDPF listed on the firm's list of LDPF descriptions to an LDPF prospective investor upon request. The report provided may be a GIPS Pooled Fund Report or a GIPS Composite Report if the LDPF is included in the respective composite. The firm must therefore have the ability to prepare and provide a GIPS Report for any LDPF listed on the firm's list of LDPF descriptions, including LDPFs that are not marketed.

Firms that manage sub-advised pooled funds that are marketed or distributed by another firm as either an LDPF or a broad distribution pooled fund (BDPF) must treat these portfolios as segregated accounts and not pooled funds for the purpose of determining the composite assignment and on which list they must be maintained.

Provision 1.A.25

All data and information necessary to support all items included in GIPS COMPOSITE REPORTS, GIPS POOLED FUND REPORTS, and GIPS ADVERTISEMENTS MUST be captured, maintained, and available within a reasonable time frame, for all periods presented in these reports and advertisements.

Discussion

A fundamental principle of the GIPS standards is the need for firms to be able to ensure the validity of their claim of compliance. It is, therefore, important for current and prospective clients and investors, verifiers, and regulators to have confidence that all items included in a GIPS Report or GIPS Advertisement are supported by the appropriate records. This provision applies to GIPS Composite Reports for all composites and to GIPS Pooled Fund Reports for all pooled funds, whether the composite or pooled fund is marketed or not.

Firms must maintain records to be able to recalculate their performance history as well as substantiate all other information, including supplemental information, included in a GIPS Report or GIPS Advertisement, for all periods shown. This requirement applies to all time periods for which performance is presented in the GIPS Report or GIPS Advertisement. This requirement is consistent with the regulatory requirements of many countries. In some jurisdictions, however, regulators require records to be kept for longer periods than those required by the GIPS standards. Care should be taken to ensure that the firm follows the strictest of the recordkeeping requirements applicable to the firm.

It is understood that the required data may not be immediately available. For example, data may need to be retrieved from an offsite location or from a third-party service provider. However, the data and information required to be maintained by this provision must be available in a usable format within a reasonable time frame. In all instances, either paper (hard-copy) records or electronically stored records will suffice. If records are stored electronically, the records must be accessible and able to be printed or downloaded, if needed. Records stored in a system that is not operable and from which data cannot be retrieved will not satisfy the recordkeeping requirements.

Although most firms are looking for a very precise list of the minimum documents that must be maintained to support all parts of the GIPS Report or GIPS Advertisement, including the ability to recalculate the firm's performance history, there is no single list of records that will suffice in all situations. Each firm must determine for itself which records must be maintained. The following lists include records that firms should consider maintaining to meet the recordkeeping requirements of this provision. None of these lists should be considered exhaustive. The actual records required will depend on the firm's particular circumstances.

Records to Support Portfolio-Level (Segregated Account and Pooled Fund) Returns

1. portfolio statements, including positions and valuations, as well as information supporting the determination of fair value,
2. information to prove that performance is based on actual assets, including bank/custodial statements and reconciliations,
3. portfolio transactions reports,
4. outstanding trades reports,
5. corporate action reports,

6. income received/earned reports,
7. accrued income reports,
8. foreign or other withholding tax reclaim reports,
9. cash flow/weighted cash flow reports,
10. foreign exchange rates,
11. information on calculation methodology used,
12. information provided by a third party (e.g., a sub-advisor or custodian) for which a firm may need to take additional steps to ensure the information can be relied on to meet the requirements of the GIPS standards,
13. investment management fee information, and
14. information specific to pooled funds:
 - a. pooled fund net asset value (NAV) reports,
 - b. pooled fund dividend and gain distributions,
 - c. supporting documentation for a pooled fund's NAV (e.g., trial balances),
 - d. fee data, including custody and administrative fees,
 - e. pooled fund expense ratio information,
 - f. shareholder/owner information and cash flow activity, and
 - g. profit and loss allocation reports for limited distribution pooled funds (LDPFs).

Records to Support Composite-Level Returns and Other Composite-Level Data

1. portfolios included in the composite,
 - a. when each portfolio entered (and exited, if applicable) the composite,
 - b. each portfolio's return for each period, and
 - c. value used to weight each portfolio (beginning value or beginning value plus weighted external cash flows) for each period,
2. number of portfolios in the composite and the composite assets as of each annual period end and any other period for which this information is presented in GIPS Reports,
3. internal dispersion calculation data,
4. investment management fee information, if composite returns are calculated using model investment management fees,
5. support for the three-year annualized ex post standard deviation calculation and any additional risk measures, and
6. exchange rates used to convert composite returns into different currencies.

Records to Support the Inclusion of a Portfolio in a Specific Composite or Its Exclusion from All Composites

1. composite definition, particularly related to the composite inclusion criteria, including the definition of discretion,
2. portfolios excluded from all composites and the reasons for exclusion,
3. investment management agreements and investment guidelines, as well as amendments thereto,
4. reports provided to clients and investors if used to help determine composite assignment,
5. analytics used to support composite assignment or composite exclusion, and
6. e-mail/other correspondence with clients regarding documented changes to a portfolio's investment mandate, objective, or strategy.

Records to Support Other Information Included in a GIPS Report

1. advisory-only assets,
2. uncalled committed capital,
3. firm and composite overlay exposure,
4. composite investment management fee schedules,
5. pooled fund expense ratio and investment management fee schedules,
6. performance-based fee calculations,
7. benchmark returns, including custom benchmark calculations,
8. estimated transaction costs, and
9. supplemental information.

Records to Support a Firm's Claim of Compliance

1. GIPS standards policies and procedures, covering all periods for which the firm claims compliance with the GIPS standards,
2. definition of the firm, historically and current,
3. supporting calculation for total firm assets as of each annual period end and any other period for which total firm assets are presented in GIPS Reports,
4. composite inception and creation dates,
5. determination of whether each pooled fund is a broad distribution pooled fund (BDPF) or LDPE,
6. list of composite descriptions,
7. list of LDPE descriptions, including inception date,
8. list of BDPFs, if not maintained on the firm's website,

9. GIPS Composite Reports for all composites, and
10. GIPS Pooled Fund Reports for all pooled funds for which a GIPS Pooled Fund Report was created.

Any Additional Records Necessary to Support a Claim of Compliance

1. marketing output/request for proposal (RFP) responses,
2. system and control reports from independent accountants or other third parties (e.g., accounting reports, other internal controls/compliance reports for the client and/or custodians),
3. third-party (e.g., sub-advisory, custodial, performance data provider) agreements,
4. minutes of relevant decision-making committees (e.g., a board, an investment committee, a GIPS compliance committee),
5. client and investor fee schedules/agreements,
6. systems manuals, especially for the systems that generate the portfolio, pooled fund, and composite returns, as well as GIPS Reports (including both numerical information and disclosures),
7. documentation of efforts made to provide all prospective clients and prospective investors with GIPS Reports,
8. documentation that the firm followed its error correction policy, including efforts made to provide, in the case of a material error, a corrected GIPS Report, including disclosure of the error, to all appropriate parties in accordance with the firm's error correction policy,
9. underlying benchmark data (if not publicly available), and
10. documentation of providing the following to any prospective client or prospective investor who requested:
 - a. a list of composite descriptions or LDPF descriptions,
 - b. a list of BDPFs, if this information is not maintained on the firm's website,
 - c. a BDPF description, if this information is not maintained on the firm's website,
 - d. a GIPS Report,
 - e. policies for valuing portfolios (segregated accounts and pooled funds),
 - f. policies for calculating performance,
 - g. policies for preparing GIPS Reports,
 - h. verification report(s), and
 - i. performance examination report(s).

It is expected that all firms will have disaster recovery plans to mitigate the loss of records for any reason, whether it is a catastrophic event beyond the control of the firm or a situation within the control of the firm. If a firm that claims compliance with the GIPS standards experiences a catastrophic event that destroys all of its records and electronic or other backup systems, the firm should try to reconstruct the necessary information by obtaining the information from clients, custodians, consultants, verifiers, or any other party outside the firm that might have duplicate copies of those records. If the underlying data to support the GIPS Report was destroyed because of extreme circumstances beyond the firm's control and is unavailable from other sources, however, the firm may continue to claim compliance and show performance if the lack of records for the unavailable period(s) is disclosed.

For example, assume Firm A claims compliance with the GIPS standards, and the records for Firm A from its inception on 1 January 2017 through 31 December 2017 were destroyed under extreme circumstances beyond the firm's control. The firm can claim compliance with the GIPS standards but must disclose that the firm's records for the period from 1 January 2017 through 31 December 2017 were destroyed under extreme circumstances beyond the firm's control and the data are unavailable from other sources. The firm must also consider any applicable regulatory requirements and must remember that the GIPS standards are ethical standards based on the principles of fair representation and full disclosure. Any performance information that is presented must adhere to these principles.

Firms that have not yet claimed compliance with the GIPS standards and want to do so but do not have records to support the recordkeeping requirements because they experienced a catastrophic event in the past cannot take advantage of this exception from the recordkeeping requirement. They cannot claim compliance until they have complied with all the requirements of the GIPS standards, including the requirement to have the records to support at least a five-year performance track record.

All firms are reminded that, above all else, they must follow all applicable laws and regulations regarding the calculation and presentation of performance, including all recordkeeping requirements.

Provision 1.A.26

The FIRM is responsible for its claim of compliance with the GIPS standards and MUST ensure that the records and information provided by any third party on which the FIRM relies meet the REQUIREMENTS of the GIPS standards.

Discussion

A firm that claims compliance with the GIPS standards is responsible for its claim of compliance. Therefore, a firm that uses a third party to provide any service (e.g., custody or performance measurement), and relies on that service, must ensure that the records and information provided by the third-party service provider meet the requirements of the GIPS standards. The firm is responsible for ensuring that the data received from various external sources is accurate and must be able to aggregate any information supplied by external service providers as needed. A firm should carefully research any third-party service provider and should engage only reputable service providers.

It is acknowledged that, in some cases, it may be challenging to obtain information from a third party that meets the requirements of the GIPS standards. A firm has the option of bringing performance in house rather than relying on a third party. A firm can also make adjustments to the information provided by a third party so that it meets the requirements of the GIPS standards. For example, if a firm received composite data from a third party, and the third party weighted portfolio returns by ending value instead of beginning value, the firm could weight the returns itself using beginning-of-period values to calculate composite returns. As another example, suppose that a custodian reflects interest income on a cash basis. The firm may make adjustments to the income information from the custodian to properly reflect accrued income.

When using third-party service providers, firms are encouraged to ensure that adequate service-level agreements are in place to provide the historical records necessary, both currently and as needed in the future. It may be helpful to partner with custodians, administrators, prime brokers, and investment managers that understand what is needed to comply with the GIPS standards.

Firms must establish policies and procedures to ensure that third-party information, such as the information provided by a custodian or an underlying external manager, adheres to the requirements of the GIPS standards, if the firm relies on that information. A thorough examination of third-party service providers' policies and procedures should be conducted when they are hired. It is recommended that firms that claim compliance with the GIPS standards conduct periodic testing or other monitoring procedures that ensure that the policies and procedures of any third-party service provider on which the firm relies have not changed since the service provider was first hired and are being applied consistently and appropriately.

Finally, this provision does not require a firm to “look through” net asset value (NAV) valuations of pooled funds that are investments in a portfolio. Firms may rely on NAVs of pooled funds that reflect the fund's tradable value and use that as the pooled fund's fair value.

Provision 1.A.27

The FIRM MUST NOT LINK actual performance with historical THEORETICAL PERFORMANCE.

Discussion

Theoretical performance is a broad term encompassing different types of performance that is not derived from a composite, portfolio, or pooled fund with actual assets invested in the strategy or fund presented (“non-actual” performance). There are several names for this type of information: model, back-tested, hypothetical, simulated, indicative, and forward-looking, among others. Firms may present theoretical performance but, within a GIPS Report, historical theoretical performance must not be linked to the performance of a composite that includes actual portfolios or to the performance of an actual pooled fund. As an example, a firm that has a composite with a one-year track record must not extend the history to five years using back-tested performance for four years linked to the actual one-year performance. As a second example, a composite that lost all its constituent portfolios for two months cannot continue the track record without interruption by using the benchmark return for the missing months of performance to simulate performance. Historical composite or pooled fund returns must represent performance of only actual discretionary assets managed by the firm.

Theoretical performance, such as simulated or model performance, may be included in a GIPS Report. If historical theoretical performance is included in a GIPS Report, it must not be linked to actual performance and must be clearly labeled as supplemental information. Theoretical performance should be provided only to clients and investors or prospective clients and prospective investors who are sufficiently experienced and knowledgeable to assess the relevance and limitations of theoretical performance.

Theoretical performance that is not linked to actual performance may be presented when responding to a request for proposal (RFP) or when providing information in a database for a strategy a firm does not currently manage, but it must be clearly identified as model or hypothetical information.

Outside of a GIPS Report, firms may present actual performance linked to historical theoretical performance if asked to do so by a prospective client or prospective investor. The linked information may be presented in a one-on-one presentation that is created for and will be used only by the prospective client or prospective investor.

The linked information may also be presented outside of a GIPS Report in marketing materials provided to other prospective clients or prospective investors if the following conditions are met:

- The linked information is presented in a one-on-one presentation that includes the delivery of a GIPS Report, if the corresponding GIPS Report has not been previously delivered to the prospective client or prospective investor;
- The linked information is presented only to prospective clients or prospective investors who the firm believes are sufficiently knowledgeable about investments and can understand the relevance and limitations of the track record being presented;

- There are sufficient disclosures regarding the linked information so that prospective clients and prospective investors understand that this is not a GIPS-compliant track record. Disclosure, however, does not necessarily prevent information from being false or misleading;
- The linked information is not presented if a GIPS-compliant track record is requested; and
- The linked information is not included in a consultant database.

Provision 1.A.28

Changes in the FIRM'S organization MUST NOT lead to alteration of historical performance.

Discussion

Over time, the organization of a firm may change. For example, a firm may transition from a private to a public corporation or a management buyout may result in a publicly traded company becoming a private entity. Regardless of the reason for the change in a firm's organization, historical composite or pooled fund performance must remain part of the firm's history. In considering issues regarding the use of historical performance, it is important to remember that performance is the record of the firm, not of the individual. For example, suppose that a sole investment decision maker for a composite or pooled fund leaves a firm and the new portfolio manager continues to manage the composite or pooled fund according to the same investment mandate or strategy as the previous portfolio manager. The firm must link the historical performance of the composite or pooled fund to the ongoing performance achieved by the new portfolio manager.

Provision 1.A.29

FOR TIME-WEIGHTED RETURNS presented in GIPS REPORTS, the FIRM MUST NOT LINK non-GIPS-compliant performance for periods beginning on or after the MINIMUM EFFECTIVE COMPLIANCE DATE to GIPS-compliant performance. The FIRM may LINK non-GIPS-compliant performance to GIPS-compliant performance in GIPS REPORTS provided that only GIPS-compliant performance is presented for periods beginning on or after the MINIMUM EFFECTIVE COMPLIANCE DATE.

Discussion

The minimum effective compliance date is the date after which a firm may present only GIPS-compliant performance in GIPS Reports. When presenting time-weighted returns in a GIPS Report, the firm must not link non-GIPS-compliant performance for periods beginning on or after the minimum effective compliance date to GIPS-compliant performance. Most composites and pooled funds have a minimum effective compliance date of 1 January 2000. Therefore, for these composites and pooled funds, performance for periods after 1 January 2000 that does not comply with the GIPS standards must not be presented as part of a GIPS Report. Real estate and private equity composites and pooled funds and wrap fee composites have a different minimum effective compliance date of 1 January 2006. For these composites and pooled funds, performance for periods beginning on or after 1 January 2006 that does not comply with the GIPS standards must not be presented in a GIPS Report. For any performance presented for periods beginning prior to the minimum effective compliance date that does not comply with the GIPS standards in a GIPS Report, firms must disclose the periods of non-compliance.

Outside of a GIPS Report, non-compliant performance for periods beginning on or after the minimum effective compliance date may be linked to compliant performance if the linking is requested by a prospective client or prospective investor. The linked information may be presented in a one-on-one presentation that is created for and will be used only by the prospective client or prospective investor.

The linked information may also be presented outside of a GIPS Report in marketing materials provided to other prospective clients or prospective investors if the following conditions are met.

- The linked information is presented in a one-on-one presentation that includes the delivery of a GIPS Report, if the corresponding GIPS Report has not been previously delivered to the prospective client or prospective investor;
- The linked information is presented only to prospective clients or prospective investors who the firm believes are sufficiently knowledgeable about investments and can understand the relevance and limitations of the track record being presented;
- There are sufficient disclosures regarding the linked information so that prospective clients and prospective investors understand that this is not a GIPS-compliant track record. Disclosure, however, does not necessarily prevent information from being false or misleading;
- The linked information is not presented if a GIPS-compliant track record is requested; and
- The linked information is not included in a consultant database.

In a GIPS Report, the GIPS standards allow firms to link non-GIPS-compliant performance to the composite's GIPS-compliant history provided that only GIPS-compliant performance is shown for periods beginning on or after the minimum effective compliance date.

For example, suppose that a firm has been in existence since 1997 and would like to show its entire performance history. It wants to claim compliance beginning 1 January 2005. Given the type of assets the firm manages, its minimum effective compliance date is 1 January 2000. The firm must present returns that meet the requirements of the GIPS standards for periods beginning on or after 1 January 2000. The firm may link non-compliant performance history for periods ended prior to 1 January 2000 to its GIPS-compliant performance. It must not link non-GIPS-compliant performance for periods beginning on or after 1 January 2000 to its GIPS-compliant performance. If any non-compliant performance is presented for periods ended prior to 1 January 2000, the firm must disclose that the performance for periods prior to 1 January 2000 is not in compliance with the GIPS standards. The firm is encouraged to bring its entire performance history into compliance but is not required to do so.

The purpose of this requirement is to ensure that all performance presented after the minimum effective compliance date complies with the GIPS standards so that prospective clients and prospective investors can more easily compare performance results between firms. Firms are reminded that they must comply with all applicable laws and regulations regarding the calculation and presentation of performance and they must not present performance or performance-related information that is false or misleading.

Provision 1.A.30

FOR MONEY-WEIGHTED RETURNS presented in GIPS REPORTS, the FIRM MUST NOT present non-GIPS-compliant performance for periods ending on or after the MINIMUM EFFECTIVE COMPLIANCE DATE. The FIRM may present non-GIPS-compliant performance in GIPS REPORTS for periods ending prior to the MINIMUM EFFECTIVE COMPLIANCE DATE.

Discussion

The minimum effective compliance date is the date after which only GIPS-compliant performance may be presented by a firm in GIPS Reports. For money-weighted returns, the firm must not present non-GIPS-compliant performance for periods ending on or after the minimum effective compliance date. Most composites and pooled funds have a minimum effective compliance date of 1 January 2000. For these composites and pooled funds, performance for periods ending on or after 1 January 2000 that does not comply with the GIPS standards must not be presented as part of a GIPS Report. Real estate and private equity composites and pooled funds have a minimum effective compliance date of 1 January 2006. For these composites and pooled funds, performance for periods ending on or after 1 January 2006 that does not comply with the GIPS standards must not be presented in a GIPS Report. For any performance presented for periods ended prior to the minimum effective compliance date that does not comply with the GIPS standards in a GIPS Report, firms must disclose the periods of non-compliance.

The measurement period for a since-inception money-weighted return (MWR) is the period from the inception date of the composite or pooled fund through the end of the period that is being reported. The beginning date remains constant and the ending date is extended as the measurement period becomes longer. The period-end date will determine what is a compliant time period for GIPS Report purposes.

The inception date is always incorporated into a since-inception MWR in contrast to a time-weighted return (TWR), which does not necessarily incorporate since-inception results. It could be argued that the since-inception basis of MWR reporting would mean that any period of historical non-compliance could make the current period also non-compliant because the current calculation includes inputs from periods for which the firm did not claim compliance with the GIPS standards. This is not the case, however—a firm may present returns that use inputs (i.e., cash flows) from periods for which the firm did not claim compliance as long as the inputs meet any applicable requirements of the GIPS standards. Daily external cash flows must be used within any GIPS-compliant since-inception MWR calculation as of 1 January 2020. Prior to 1 January 2020, quarterly or more-frequent external cash flows must be used.

Outside of a GIPS Report, non-compliant performance for periods ending on or after the minimum effective compliance date may be presented if the non-compliant performance is requested by a prospective client or prospective investor. The non-compliant performance may be presented in a one-on-one presentation that is created for and will be used only by the prospective client or prospective investor.

The non-compliant performance may also be presented outside of a GIPS Report to other prospective clients or prospective investors if the following conditions are met:

- The non-compliant performance is presented in a one-on-one presentation that includes the delivery of a GIPS Report, if the corresponding GIPS Report has not been previously delivered to the prospective client or prospective investor;
- The non-compliant performance is presented only to prospective clients or prospective investors who the firm believes are sufficiently knowledgeable about investments and can understand the relevance and limitations of the track record being presented;
- There are sufficient disclosures regarding the non-compliant performance so that prospective clients and prospective investors understand that this is not a GIPS-compliant track record. Disclosure, however, does not necessarily prevent information from being false or misleading;
- The non-compliant performance is not presented if a GIPS-compliant track record is requested; and
- The non-compliant performance is not included in a consultant database.

The purpose of this requirement is to ensure that all performance presented for periods ending after the minimum effective compliance date complies with the GIPS standards so that prospective clients and prospective investors can more easily compare performance results between firms.

Firms are reminded that they must comply with all applicable laws and regulations regarding the calculation and presentation of performance and they must not present performance or performance-related information that is false or misleading.

Provision 1.A.31

When the FIRM jointly markets with other firms, the FIRM claiming compliance with the GIPS standards MUST ensure that the FIRM is clearly defined and separate relative to other firms being marketed and also that it is clear which FIRM is claiming compliance.

Discussion

A firm that claims compliance with the GIPS standards may jointly market with another firm that may or may not comply with the GIPS standards. To avoid confusion when jointly marketing with another firm, a GIPS-compliant firm must be sure that it is clearly defined relative to the other firm with which it is jointly marketing, and it must be clear as to which firm is, or which firms are, claiming compliance with the GIPS standards. The clarity regarding which firm is, or which firms are, claiming compliance with the GIPS standards is necessary for the firm's joint marketing activities to meet the criterion of fair representation, a fundamental principle of the GIPS standards.

Provision 1.A.32

Performance from a past firm or affiliation may be used to represent the historical performance of the new or acquiring FIRM and LINKED to the performance of the new or acquiring FIRM if the FIRM meets the following REQUIREMENTS on a COMPOSITE-specific or POOLED FUND-specific basis:

- a. Substantially all of the investment decision makers MUST be employed by the new or acquiring FIRM (e.g., research department staff, portfolio managers, and other relevant staff);
- b. The decision-making process MUST remain substantially intact and independent within the new or acquiring FIRM;
- c. The new or acquiring FIRM MUST have records to support the performance; and
- d. There MUST be no break in the track record between the past firm or affiliation and the new or acquiring FIRM.

If any of the above REQUIREMENTS are not met, the performance from a past firm or affiliation MUST NOT be linked to the ongoing performance record of the new or acquiring FIRM.

Discussion

When a manager, group of managers, or an entire firm joins a new firm, the performance of the past firm or affiliation may be linked to or used to represent the historical performance of a new or acquiring firm if all of the following requirements are met on a composite-specific or pooled fund-specific basis:

- Substantially all of the investment decision makers (e.g., research department staff, portfolio managers, and other relevant staff) are employed by the new or acquiring firm;
- The decision-making process remains substantially intact and independent within the new or acquiring firm;
- The new or acquiring firm has records that document and support the performance; and
- There is no break in the track record between the past firm or affiliation and the new or acquiring firm.

If all of these portability requirements are met, the historical track record for the composite or pooled fund from the past or acquired firm may be ported and linked to the continuing composite or pooled fund track record at the new or acquiring firm and presented as a continuous track record. Although the linking of the track record is not required, it is best practice to do so. A firm should not use theoretical performance instead of actual performance to market a strategy when an actual portable track record is available.

If the firm does not meet all of these portability requirements, it may not link to the track record from the past or acquired firm. The actions that a firm may take with respect to the use of the composite or pooled fund track record from the past firm will depend on which requirement(s) cannot be met. In all cases, performance from a past firm must never be presented when the new or acquiring firm does not have records to document and support the performance. Suppose that the new or acquiring firm has records that document and support the performance from a past firm or affiliation but one or more of the other portability requirements are not met. In such a case, performance from the past or acquired firm must not be linked to performance at the new firm. For guidance on situations where there is a break in the track record between the past firm and the new or acquiring firm but all other portability requirements are met, see Provision 1.A.33.

For a firm to be able to link the track record from the past firm to the ongoing composite performance at the new firm in a GIPS Report, the track record must include all portfolios that were managed in the strategy at the past firm—that is, it must be composite performance. Where the provision states “on a composite-specific basis,” the word “composite” refers to the entire composite from the past firm, not a subset of portfolios. This is true even if the past firm did not claim compliance with the GIPS standards. Although the GIPS standards do not have a requirement that all portfolios must transfer from the past firm to the new firm, the firm must have all the records needed to document and support the entire composite performance history. If the new or acquiring firm cannot create a complete composite track record from the past firm or affiliation and can only create the track record using a subset of portfolios, that information cannot be linked

to the track record of the composite at the new or acquiring firm in a GIPS Report. The track record based on a subset of the portfolios from the past firm can be presented only as supplemental information in a GIPS Report and must not be linked to the track record of the composite at the new or acquiring firm.

Outside of a GIPS Report, an acquiring firm that has records for only a subset of portfolios in a composite from a past firm or affiliation may link the performance of the subset of portfolios in the composite to the ongoing performance of the composite at the new firm if the linking is requested by a prospective client or prospective investor. The linked information may be presented in a one-on-one presentation that is created for and will be used only by the prospective client or prospective investor.

The linked information may also be presented outside of a GIPS Report if the following conditions are met:

- The linked information is presented in a one-on-one presentation that includes the delivery of a GIPS Report, if the corresponding GIPS Report has not been previously delivered to the prospective client or prospective investor;
- The linked information is presented only to prospective clients or prospective investors who the firm believes are sufficiently knowledgeable about investments and can understand the relevance and limitations of the track record being presented;
- There are sufficient disclosures regarding the linked information so that prospective clients and prospective investors understand that this is not a GIPS-compliant track record. Disclosure, however, does not necessarily prevent information from being false or misleading;
- The linked information is not presented if a GIPS-compliant track record is requested; and
- The linked information is not included in a consultant database.

If an acquired firm is compliant with the GIPS standards, the performance history meets the portability requirements, and the new or acquiring firm chooses to port the performance, then the firm must port the entire compliant track record that was presented by the acquired firm. If the ported track record is greater than 10 years, the acquiring firm may choose to present only a 10-year track record in GIPS Reports.

If a firm that is compliant with the GIPS standards acquires a non-compliant firm, the GIPS standards permit a one-year grace period to bring the acquired assets of the non-compliant firm into compliance with the GIPS standards. (See Provision 1.A.34 for additional guidance on the one-year grace period.)

If a firm wishes to port performance from an acquired non-compliant firm and link it to the firm's ongoing performance, if it is possible, it must build a composite or pooled fund track record from the prior firm of at least five years, or since inception if the composite or pooled fund has been

in existence for less than five years. If it is not possible to build a composite or pooled fund track record from the prior firm of at least five years, or since inception if the composite or pooled fund has been in existence for less than five years, it must build the history for as long as the firm is able to do so.

There may be cases in which a similar strategy is managed by the past firm or affiliation and the new or acquiring firm. The new or acquiring firm cannot combine the pre-acquisition track records or assets of a composite from the acquired firm with a composite from the acquiring firm and then show the combined track record or assets as GIPS-compliant information. The firm must determine if it will use the track record from the past firm or affiliation or use its own track record. On a prospective basis, the ongoing composite may consist of portfolios from the past firm or affiliation that have transferred to the new or acquiring firm and continue the same investment mandate or strategy as well as portfolios from the new or acquiring firm that meet the definition of the composite.

If a firm that is not compliant with the GIPS standards acquires a firm that is compliant, the non-compliant acquiring firm cannot then claim compliance with the GIPS standards, even if all the portability tests are met. The non-compliant acquiring firm will have to attain compliance for its own assets for at least a five-year period (or since the firm's inception if it has been in existence for less than five years) before it can claim compliance for the newly combined entity.

Example 1:

Firm A is acquired by and merges with Firm B to create Firm AB. The effective merger date is 1 August 2019. Both Firm A and Firm B claim compliance with the GIPS standards, and all portability requirements are met. Firm A has a large-cap growth equity composite (Composite A), and Firm B has a large-cap core equity composite (Composite B). It is decided that, after the acquisition, all large-cap equity portfolios will be managed based on the strategy of Composite A, which will be the “surviving” composite. The portfolios in Composite B will be modified to conform to the strategy of Composite A and moved into Composite A. Composite B will cease to exist and will be included on the list of composite descriptions as a terminated composite. Firm AB wants to present a track record for its large-cap composite that includes performance from Firm A and will use Composite A's historical track record.

Starting 1 August 2019, the effective date of the merger, the historical track record of Composite A will be linked to the ongoing performance of Composite A. Starting no earlier than 1 August 2019, Composite A will also include the portfolios from Composite B that have been modified to conform to the strategy of Composite A.

Example 2:

Firm A is acquired by and merges with Firm B to create Firm AB. The effective merger date is 1 August 2019. Both Firm A and Firm B claim compliance with the GIPS standards, and all of the

portability requirements are met. At the time of the merger, each firm has a large-cap composite. Firm A's large-cap composite (Composite A) and Firm B's large-cap composite (Composite B) have the same benchmark and strategies that are very similar. Firm AB plans to combine the two composites and create one large-cap composite, Composite AB. Firm AB wants to present a track record for Composite AB that includes the pre-merger track record.

When presenting large-cap composite history through 31 July 2019:

- The large-cap composite history through 31 July 2019 may be the track record of either Composite A or Composite B, whichever is selected as the “surviving” composite.
- The track record presented for the large-cap composite history through 31 July 2019 must not be a combination of the track records of Composite A and Composite B.

When presenting the large-cap composite performance from 1 August 2019 forward:

- Starting no earlier than 1 August 2019, Firm AB may combine the portfolios in the surviving composite with the portfolios in the non-surviving composite. For example, if Composite B is the surviving composite, the firm can include the portfolios from Composite A in the surviving Composite B on or after 1 August 2019.
- The performance of Composite AB, which includes portfolios from Composite A for periods from 1 August 2019 forward, is linked to the pre-merger track record of Composite B.

The non-surviving composite, Composite A, must be included on the list of composite descriptions as a terminated composite.

Example 3:

Firm A is acquired by and merges with Firm B to create Firm AB. The effective merger date is 1 August 2019. Both Firm A and Firm B claim compliance with the GIPS standards, and all portability requirements are met. Firm A has a large-cap growth equity composite (Composite A), and Firm B has a large-cap core equity composite (Composite B). It is decided that Firm AB will create a new large-cap equity strategy that will blend the strategies of Composite A and Composite B. Therefore, neither the strategy of Composite A nor Composite B will be carried forward into the new merged firm. In this case, there is no “surviving” strategy. Firm AB's new large-cap composite will have no performance history. Performance for the firm's new large-cap composite will begin on or after the effective merger date of 1 August 2019.

The track records of Composite A and Composite B, based on pre-merger investment strategies, must be included on the list of composite descriptions as terminated composites.

Provision 1.A.33

Performance from a past firm or affiliation may be used to represent the historical performance of the new or acquiring FIRM when there is a break in the track record between the past firm or affiliation and the new or acquiring FIRM if the new or acquiring FIRM meets the following REQUIREMENTS on a COMPOSITE-specific or POOLED FUND-specific basis:

- a. Substantially all of the investment decision makers MUST be employed by the new or acquiring FIRM (e.g., research department staff, portfolio managers, and other relevant staff);
- b. The decision-making process MUST remain substantially intact and independent within the new or acquiring FIRM;
- c. The new or acquiring FIRM MUST have records to support the performance;
- d. The new or acquiring FIRM MUST separately present the performance before the break and after the break; and
- e. The new or acquiring FIRM MUST NOT LINK performance prior to the break in the track record to the performance after the break in the track record.

Discussion

A break in the performance track record between the past firm or affiliation and the new firm may occur for a number of reasons. For example, an acquired team may be required to take a garden leave prior to joining the new firm, and the portfolios previously managed by the acquired team would not be managed by them during the garden leave, resulting in a gap in performance until a track record is established at the new firm. If there is a break in the performance track record between the past firm or affiliation and the new or acquiring firm, it may be permissible for performance from the past firm or affiliation to be used to represent the historical performance of the new or acquiring firm if certain requirements are met.

First, the firm must meet all of the other requirements for portability (listed in items a through c in the provision):

- Substantially all of the investment decision makers are employed by the new or acquiring firm;
- The decision-making process remains substantially intact and independent within the new or acquiring firm; and
- The new or acquiring firm has the records to support the performance.

Second, the firm must meet the requirements for the presentation of the performance from the past firm or affiliation (listed in items d through e in the provision):

- Performance before and after the break in the track record must be presented separately; and
- Performance prior to the break in the track record must not be linked to the performance after the break in the track record.

If the firm does not meet all of the tests specified in items a through c, the performance from the past firm or affiliation must not be used to represent the historical performance of the new or acquiring firm.

If all of the tests specified in items a through c are met, and the firm chooses to present the performance from the past firm or affiliation, the track record must be shown in two segments: one segment representing performance before the break in the track record and one segment representing performance after the break in the track record.

As an example, suppose that Firm A acquires Firm B, which has a large-cap growth composite. All conditions for portability are met, except that there is a break in the performance track record of the large-cap growth composite during the acquisition process. The performance track record for the large-cap growth composite at Firm B begins on 1 August 2014 and ends on 18 June 2019, the date of the acquisition. The track record resumes at Firm A on 1 July 2019. The complete track record for the large-cap growth composite may be shown, but it must be shown in two segments. Assuming that Firm A calculates composite performance on a monthly basis, Firm A may show performance from 1 August 2014 through 31 May 2019. It may then show performance from 1 July 2019 forward. These two segments of the large-cap growth composite track record must be presented separately and must not be linked. The following example shows how the performance of the large-cap growth composite could be presented in a GIPS Composite Report, with the break in performance clearly indicated.

Year	Composite			Composite 3-Yr-St Dev (%)	Benchmark 3-Yr St Dev (%)	Number of Portfolios	Internal Dispersion (%)	Composite Assets (\$ M)	Firm Assets (\$ M)
	Gross Return (%)	Composite Net Return (%)	XYZ Index (%)						
2020	-0.84	-1.83	-0.65			2	4.8	493	12,989
1 Jul- 31 Dec 2019 ⁽¹⁾	3.98	3.46	3.58			2		475	12,678
1 Jan- 31 May 2019 ⁽¹⁾	1.22	0.81	3.46						5,367
2018	8.22	7.15	7.09	12.95	11.15	3	3.8	594	5,249
2017	6.52	5.47	5.67	12.51	10.68	5	3.1	682	5,439
2016	14.50	13.37	13.03			12	3.6	1,094	5,986
2015	41.16	39.80	33.36			22	2.7	2,012	8,401
2014 ⁽²⁾	18.66	17.49	15.48			20		1,978	7,423

⁽¹⁾ There were no portfolios in the composite from 19 June 2019 through 30 June 2019.

⁽²⁾ Returns are for the period from 1 August 2014 (inception date) through 31 December 2014.

If the firm is asked to provide cumulative performance for the large-cap growth composite as of 31 December 2020, including performance for one-year, three-year, and five-year periods, the firm would be able to provide cumulative performance for only a one-year period. Three-year and five-year cumulative performance does not exist because of the break in performance in 2019.

In keeping with the principles of fair representation and full disclosure, the GIPS standards require firms to handle all situations involving a break in performance with the greatest transparency.

In order for a firm to be able to use the track record from the past firm or affiliation in a GIPS Report, the track record must include all portfolios that were managed in the strategy at the past firm—that is, it must be composite performance. Where the provision states “on a composite-specific basis”, the word “composite” refers to the entire composite from the past firm, not a subset of portfolios. This is true even if the past firm did not claim compliance with the GIPS standards. While the GIPS standards do not have a requirement that all portfolios must transfer from the past firm to the new firm, the firm must have all the records needed to document and support the entire composite performance history. If the new or acquiring firm cannot create a complete composite track record from the past firm or affiliation and can only create the track record using a subset of portfolios, that information cannot be used at the new or acquiring firm in a GIPS Report. The track record based on a subset of the portfolios from the past firm can be presented only as supplemental information in a GIPS Report.

Outside of a GIPS Report, an acquiring firm that has records for only a subset of portfolios in a composite from a past firm or affiliation may use the performance of the subset of portfolios from the past firm or affiliation at the new firm if the information is requested by a prospective client or prospective investor. The subset information may be presented in a one-on-one presentation that is created for and will be used only by the prospective client or prospective investor.

The subset information may also be presented outside of a GIPS Report if the following conditions are met:

- The subset information is presented in a one-on-one presentation that includes the delivery of a GIPS Report, if the corresponding GIPS Report has not been previously delivered to the prospective client or prospective investor;
- The subset information is presented only to prospective clients or prospective investors who the firm believes are sufficiently knowledgeable about investments and can understand the relevance and limitations of the track record being presented;
- There are sufficient disclosures regarding the subset information so that prospective clients and prospective investors understand that this is not a GIPS-compliant track record. Disclosure, however, does not necessarily prevent information from being false or misleading;
- The subset information is not presented if a GIPS-compliant track record is requested; and
- The subset information is not included in a consultant database.

Provision 1.A.34

If the FIRM acquires another firm or affiliation, the FIRM has one year to bring any non-compliant assets into compliance. Assets of the acquired non-compliant firm or affiliation **MUST** meet all the REQUIREMENTS of the GIPS standards within one year of the acquisition date, on a going forward basis.

Discussion

The GIPS standards recognize the difficulties that firms encounter when transferring assets from one firm to another or when merging two firms. Similar to the idea of allowing a firm time to invest new portfolios before adding them to composites, in the case of an acquisition or merger, the GIPS standards permit a one-year grace period to bring the assets of a newly acquired or merged non-compliant firm into compliance with the GIPS standards. Assets of the non-compliant firm must meet all the requirements of the GIPS standards, on a going forward basis, as of the first full reporting period one year after the acquisition date.

The one-year grace period begins on the effective acquisition date—the date on which the acquirer obtains control of the acquired firm. The effective date of a merger typically depends on the date on which certain legal documents are filed. During the one-year grace period, the acquired assets are included in total firm assets, although not all assets managed by the compliant firm are in compliance with the GIPS standards because of the acquisition or merger. The compliant firm may continue to claim compliance with the GIPS standards, however.

The compliant firm must disclose all significant events that would help prospective clients and investors interpret the GIPS Report. An acquisition of or merger with another firm would normally be considered a significant event.

Example Timeline for the Grace Period:

- Acquisition date: 15 July 2018
- End of grace period, one year after the acquisition date: 15 July 2019
- First full reporting period one year after the acquisition date: August 2019

In this example, assuming the firm calculates composites using monthly portfolio returns, the firm would need to include all acquired portfolios in composites no later 1 August 2019. Note, however, that if the firm does not construct the composite retroactive to the acquisition date, a break in the track record will occur and the firm will be unable to link to the prior firm track record.

A firm is not required to but may decide to port a track record from an acquired firm at any point in the future, as long as the portability requirements are met. (Please see Provisions 1.A.32 and 1.A.33 for portability requirements.) There is no specific end-date by which all track records from the non-compliant acquired firm must be ported. A firm may decide to port a track record from an acquired firm at any point in the future, as long as the portability requirements are met.

The following is an example of the one-year grace period for a firm that is compliant with the GIPS standards that acquires a firm that is not compliant with the GIPS standards.

Coastire Capital Management, a firm that complies with the GIPS standards, acquires Fanglobe Investment Advisors on 15 July 2018. Fanglobe does not comply with the GIPS standards. Coastire completes the task of having all of Fanglobe's assets in compliance with the GIPS standards by 15 July 2019, the end of the one-year grace period. When Coastire calculates monthly performance for August 2019, all performance is in compliance with the GIPS standards.

Although Coastire has satisfied the requirements of the one-year grace period by having all of the firm's assets in compliance with the GIPS standards for reporting periods beginning on and after 15 July 2019, Fanglobe's assets for periods prior to 15 July 2019 are not in compliance with the GIPS standards. After several months, Coastire determines that it would like to port two track records from the acquired firm—a track record for Fanglobe's mid-cap value strategy, which has 6 years of history, and a track record for Fanglobe's large-cap value strategy, which has 13 years of history. Both track records meet the portability requirements.

Coastire may bring the historical assets of Fanglobe into compliance with the GIPS standards at any time in the future and may then port the two track records. Both track records, however, must be based on all of Fanglobe's portfolios managed in the respective strategies and not on a subset of portfolios. If Coastire ports the track record for Fanglobe's mid-cap value strategy, it must create a mid-cap value composite and port at least 5 of the 6 years of history, if possible. If Coastire ports the track record for Fanglobe's large-cap value strategy, it must create a large-cap value composite and port at least 5 of the 13 years of history, if possible.

Note that to be able to port the two track records from Fanglobe, the composites on which the track records are based must meet all of the requirements for composite construction and input data. For example, Coastire must be able to prove that all fee-paying discretionary portfolios that meet the composite definition for the mid-cap value strategy and large-cap value strategy have been included in the respective composites. To create a continuous composite history, Coastire must also create a composite history for these strategies from the acquisition date of 15 July 2018 through 31 July 2019.

Provision 1.A.35

The FIRM MUST present TIME-WEIGHTED RETURNS unless certain criteria are met, in which case the FIRM may present MONEY-WEIGHTED RETURNS. The FIRM may present MONEY-WEIGHTED RETURNS only if the FIRM has control over the EXTERNAL CASH FLOWS into the PORTFOLIOS in the COMPOSITE or POOLED FUND, and the PORTFOLIOS in the COMPOSITE have or the POOLED FUND has at least one of the following characteristics:

- a. CLOSED-END
- b. FIXED LIFE
- c. FIXED COMMITMENT
- d. ILLIQUID INVESTMENTS as a significant part of the investment strategy.

Discussion

The GIPS standards require firms to present time-weighted returns (TWRs) unless very specific circumstances are met. This requirement is because external cash flows are generally client driven and investment managers should not be rewarded or penalized for investment decisions outside of their control. In addition, by removing the effects of external cash flows, a TWR best reflects the firm's ability to manage the portfolio according to a specified investment mandate, objective, or strategy. This allows prospective clients and prospective investors the best opportunity to fairly evaluate the firm's past performance and to facilitate comparison between investment management firms.

There are some investment strategies and products, however, including many private market investment strategies for which the timing and the size of cash flows are controlled by the investment manager and are part of the investment decision process. In such cases, it is appropriate that performance reflects the results of the investment manager's cash flow timing decisions. Therefore, a firm may present composite or pooled fund money-weighted returns (MWRs) instead of, or in addition to, TWRs if the firm has control over the external cash flows into and out of the portfolios in the composite or the pooled fund, and the portfolios in the composite have or the pooled fund has at least one of the following characteristics:

- closed-end
- fixed life
- fixed commitment
- illiquid investments as a significant part of the investment strategy.

Illiquid investments would be considered a significant part of the investment strategy if the illiquidity is a key feature of the investment strategy and is likely to have a material effect on returns.

If these conditions are met for a specific composite or pooled fund, the firm may choose to present only MWRs in the respective GIPS Report. If these conditions are not met for a composite or pooled fund, the firm must present TWRs in the respective GIPS Report. When a firm does not meet the tests to present only MWRs for a composite or pooled fund, it may present MWRs in addition to TWRs in the respective GIPS Report as supplemental information.

Provision 1.A.36

The FIRM MUST choose if it will present TIME-WEIGHTED RETURNS, MONEY-WEIGHTED RETURNS, or both for each COMPOSITE OR POOLED FUND, and it MUST consistently present the selected returns for each COMPOSITE OR POOLED FUND.

Discussion

The firm must choose whether to present time-weighted returns (TWRs) or money-weighted returns (MWRs) for a composite or pooled fund, keeping in mind that MWRs may only be presented in the circumstances specified in Provision 1.A.35. If either TWRs or MWRs are permitted under the GIPS standards, the firm may choose to present TWRs, MWRs, or both TWRs and MWRs. If the firm does not meet the criteria for presenting MWRs for a specific composite or pooled fund, the firm must present TWRs and may present MWRs but only as supplemental information. Once a firm has chosen which return(s) it will present, the firm must consistently present the return(s) selected for each composite or pooled fund.

To “consistently present” the selected returns means that, once a firm has chosen the type of permitted return to present (TWR, MWR, or both), it must continue to present the selected return(s) unless there is a compelling reason to change the type of return presented. Doing so is important for consistency in the presentation of a firm’s track record and to prevent the changing of the type of return presented in order to present more-favorable returns.

The following are some of the appropriate reasons for a firm to change the type of return presented:

- There is a change in the GIPS standards with respect to the criteria for the use of a TWR or MWR.
- There are new legal or regulatory requirements that require a change in the type of return presented.
- The firm decides to present both TWRs and MWRs in GIPS Reports, rather than the one type of return that had been presented, in order to provide a more comprehensive view of performance.

- A review of the firm’s strategy leads to a changed view regarding the type of return that most accurately reflects the strategy. (This should be a very infrequent occurrence).
- There is a change in the strategy’s key features that would require or permit a change in the type of return that is presented. (For example, a firm may change the structure of a fund from a closed-end fund to an open-end fund, or there may be a change in the investments used for the strategy).

Once a change in the type of return(s) presented is made, however, the newly selected return(s) type must be presented unless there is a compelling reason to make another change.

Provision 1.A.37

If the FIRM chooses to include a GIPS COMPOSITE REPORT or GIPS POOLED FUND REPORT in marketing materials, the FIRM MUST indicate this fact in the marketing materials.

Discussion

Provisions 1.A.11 and 1.A.13 require firms to make every reasonable effort to provide a GIPS Report to prospective clients and pooled fund prospective investors. If a GIPS Report is included in marketing materials, there must be a disclosure that will inform prospective clients or prospective investors that a GIPS Report is included in the marketing materials. The disclosure should be prominent (e.g., included in the table of contents) and is intended to help prospective clients and prospective investors locate the GIPS Report within the marketing materials. Such a disclosure will help to highlight the importance of the GIPS Report.

Provision 1.A.38

The FIRM MUST notify CFA Institute of its claim of compliance by submitting the GIPS COMPLIANCE NOTIFICATION FORM. This form:

- a. MUST be filed when the FIRM initially claims compliance with the GIPS standards.
- b. MUST be updated annually with information as of the most recent 31 December, with the exception of FIRM contact information, which MUST be current as of the form submission date.
- c. MUST be filed annually thereafter by 30 June.

Discussion

Firms must notify CFA Institute of their claim of compliance by submitting the GIPS Compliance Notification Form, which can be found on the CFA Institute website (cfainstitute.org).

When a firm is first coming into compliance, the firm must submit the GIPS Compliance Notification Form to CFA Institute once it has met all of the requirements of the GIPS standards and is at the point of initially claiming compliance with the GIPS standards. The firm must not claim compliance with the GIPS standards unless the GIPS Compliance Notification Form has been submitted to CFA Institute.

After the initial filing, the form must be filed annually by 30 June. Information provided in the GIPS Compliance Notification Form must be as of the most recent 31 December, with the exception of the firm's contact information. Contact information must be current as of the form's submission date. The period of any verification performed would not impact the notification submission date or the date as of which the information is provided. Firms must establish policies and procedures to ensure the form is submitted by the deadline.

The GIPS Compliance Notification Form must reflect the definition of the firm used to determine firm-wide compliance with the GIPS standards even when the definition of the firm is different from the legal entity of the firm. If the overall legal entity contains multiple GIPS firms for GIPS compliance purposes, a separate GIPS Compliance Form must be submitted for each defined firm.

Provision 1.A.39

If the FIRM chooses to be verified, it MUST gain an understanding of the verifier's policies for maintaining independence and MUST consider the verifier's assessment of independence.

Discussion

Verification is a process by which a verification firm (verifier) conducts testing of a firm on a firm-wide basis, in accordance with the required verification procedures of the GIPS Standards for Verifiers. Verification provides assurance on whether 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 have been implemented on a firm-wide basis. Crucial to the verification process is the assumption by all interested parties that the verifier performs its service in an unbiased manner and is not testing its own work. Therefore, verification must be performed by an independent third party. If a firm chooses to be verified, the firm must understand the verifier's policies for ensuring that the verifier is independent from the firm. To do so, the firm should obtain a summary of the verifier's policies for ensuring independence and should have sufficient discussions with the verifier to understand the policies.

Although a firm is not responsible for a verifier's independence assessment, the firm must understand the issues encountered and the conclusions reached by the verifier regarding independence from the firm, particularly when the verifier provides other GIPS-compliance related services.

This understanding is important because the firm may have knowledge that the verifier does not have. The firm is obligated to inform the verifier if the firm believes that the verifier missed some factor in its independence assessment or if the firm believes the assessment is incorrect.

When considering verifier independence, both the firm and the verifier must keep in mind the following question: If a prospective client or prospective investor of the firm relies on the fact that the firm has been verified, could the prospective client's or prospective investor's perception of the verification's value potentially change if the prospective client or prospective investor knew about other existing relationships between the firm and the verifier? A firm must gain enough of an understanding of the verifier's policies and procedures for maintaining independence to lead to a strong answer of "no" to this question.

The firm's understanding of the verifier's policies and procedures for maintaining independence is not a one-time event. It is an ongoing process and must be performed in connection with each verification engagement.

It may be helpful for both the verifier and the firm to consider independence as a continuum. At one extreme of the continuum is a verifier that has no other relationships with the firm. At the other extreme is a verifier with existing relationships and independence issues with the firm that cannot be resolved, such that the verifier cannot conduct the engagement because independence cannot be achieved. The firm and the verifier must determine where their relationship lies on this continuum and whether it is appropriate to proceed with the verification engagement.

1.B. Fundamentals of Compliance—Recommendations

Provision 1.B.1

The FIRM SHOULD comply with the RECOMMENDATIONS of the GIPS standards, including RECOMMENDATIONS in any Guidance Statements, interpretations, and Q&As published by CFA Institute and the GIPS standards governing bodies.

Discussion

The recommendations contained in the GIPS standards are suggested tasks or actions that are considered best practice and should be followed or performed, although they are not required. The GIPS standards must be applied with the objectives of fair representation and full disclosure of investment performance. However, meeting the objectives of fair representation and full

disclosure, which are the fundamental principles of the GIPS standards, may mean that a firm must follow the recommendations in addition to the requirements of the GIPS standards. If a firm chooses to adopt any recommendations, its policies and procedures must reflect how that recommendation is applied.

Provision 1.B.2

The FIRM SHOULD update GIPS COMPOSITE REPORTS and GIPS POOLED FUND REPORTS quarterly.

Discussion

GIPS Composite Reports and GIPS Pooled Fund Reports contain important information, but the value and relevance of that information are affected by the timeliness with which the GIPS Report is updated. A GIPS Report that includes returns that are significantly out of date is not helpful to prospective clients or prospective investors. For this reason, it is required that firms update GIPS Composite Reports and GIPS Pooled Fund Reports within 12 months of the end of the most recent annual period, even if a verification for the firm, or a performance examination of a composite or pooled fund, is not yet completed. In the interest of fair representation and full disclosure, however, it is recommended that GIPS Composite Reports and GIPS Pooled Fund Reports be updated quarterly to provide more timely information to prospective clients and prospective investors.

When updating a GIPS Report that presents time-weighted returns to include monthly, quarterly, or year-to-date returns, firms are required to update only the following information:

- composite or pooled fund returns,
- benchmark returns, and
- significant events that would help a prospective client or prospective investor understand the GIPS Report.

When performance in a GIPS Report that presents money-weighted returns is updated more frequently than the required annual update, firms are required to update only the following information:

- the composite or pooled fund return,
- the benchmark return,
- the required multiples, such as the paid-in capital (PIC) multiple, the investment multiple (TVPI), and the unrealized multiple (RVPI), as of the most recent quarter end or month end, and
- significant events that would help a prospective client or prospective investor understand the GIPS Report.

Firms may also update other information in the GIPS Report, such as total firm assets and the number of portfolios in the composite, but are not required to do so.

Provision 1.B.3

The FIRM SHOULD be verified.

Discussion

Verification is intended to provide a firm and its current and prospective clients and pooled fund investors additional confidence in the firm's claim of compliance with the GIPS standards. It is recommended that firms be verified for all period(s) for which compliance with the GIPS standards is claimed. Verification may increase the knowledge of the firm's performance measurement team and improve the consistency and quality of the firm's GIPS standards-related performance information. Verification may also result in improved internal policies and procedures as well as marketing advantages to the firm. Verification does not provide assurance, however, about the performance of any specific composite or pooled fund or the accuracy of any specific GIPS Report. Although verification brings additional credibility to the claim of compliance, it does not provide assurance on the firm's claim of compliance with the GIPS standards in its entirety.

Provision 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.

Discussion

It is important that firms remember the overarching principles of fair representation and full disclosure when defining the firm. Although there are specific requirements that must be met related to defining the firm (see Provision 1.A.2), firms are recommended to define the firm as broadly as possible, encompassing all of the relevant locations and departments, so that the prospective client or prospective investor is given enough information about the investment strategies being managed and the firm as a whole to make an informed decision about whether or not to invest with the firm. It is recommended that the definition of the firm include all geographical offices

operating under the same brand name, regardless of the actual name of the individual investment management company.

Examples of how a firm could be defined as broadly as possible include:

- all offices operating under the same brand name (e.g., XYZ Asset Management),
- other names resulting from mergers, acquisitions, and/or trading under a different name for branding purposes,
- financial service holding companies defined as one global firm with multiple brands, several legal entities, multiple offices, investment teams, and investment strategies,
- an investment management firm with one brand but multiple strategies and investment teams, and
- all offices trading under a globally recognizable trading name with regional/country-specific additions (e.g., XYZ Asset Management Asia).

The appropriate definition of the firm will depend on the firm's actual circumstances. In some cases, it may be appropriate to define the firm based on geographic location or to have different firms that use the same brand name if that is how the firm is held out to prospective clients and prospective investors.

Investment management firms in most countries must register with one or more governmental agencies or regulators. The GIPS standards recognize a regulatory registration as a possible definition of a firm for purposes of compliance but also require firms to consider the manner in which they are holding themselves out to the public when determining the firm definition.

Provision 1.B.5

The FIRM SHOULD provide to each current client, on an annual basis, a GIPS COMPOSITE REPORT of the COMPOSITE in which the client's PORTFOLIO is included.

Discussion

It is recommended, but not required, that a firm provide a GIPS Composite Report to a current client on an annual basis. It is likely to be helpful for a client to know how the client's own portfolio performed relative to other portfolios that are managed according to the same investment objective, mandate, or strategy. In addition to composite performance, GIPS Composite Reports include important disclosures and presentation items that a firm may not provide to current clients as part of client reporting. These disclosures and presentation items will likely provide useful information to current clients in their periodic assessment of the firm.

Provision 1.B.6

The FIRM SHOULD provide to each LIMITED DISTRIBUTION POOLED FUND current investor, on an annual basis, a GIPS POOLED FUND REPORT of the LIMITED DISTRIBUTION POOLED FUND in which the investor is invested.

Discussion

It is recommended, but not required, that a firm provide a GIPS Pooled Fund Report to a current investor in a limited distribution pooled fund (LDPF) on an annual basis. In addition to fund performance, GIPS Pooled Fund Reports include important disclosures and presentation items that a firm might not provide to current investors as a part of investor reporting. These disclosures and presentation items will likely provide useful information to current investors in their periodic assessment of the pooled fund. If the firm includes the LDPF in a composite, the firm may instead provide the GIPS Composite Report for the composite in which the fund is included.

Provision 1.B.7

If the FIRM is selling participation in a new LIMITED DISTRIBUTION POOLED FUND that does not yet have a track record, the FIRM SHOULD present the most appropriate track record for the new LIMITED DISTRIBUTION POOLED FUND, if available. The most appropriate track record is a GIPS REPORT for a COMPOSITE or another POOLED FUND that is managed according to the same or similar strategy as the new LIMITED DISTRIBUTION POOLED FUND.

Discussion

Participation in a new limited distribution pooled fund (LDPF) is often being marketed by a firm before the pooled fund has a track record. If an LDPF has no performance history, there is no requirement to provide a GIPS Report. In such cases, however, the firm should present the most appropriate track record for the new fund if an appropriate track record is available. The most appropriate track record would be a GIPS Report for a composite or another pooled fund that the firm manages according to the same or similar strategy as the new LDPF that has not yet started. If an appropriate track record is presented to prospective investors, sufficient information should be provided so that pooled fund prospective investors understand the track record presented. The firm should consider whether any adjustments to net returns should be made to align fees used to calculate net returns with the fees that will be charged by the new LDPF. As is always the case, the information presented must adhere to the principles of fair representation and full disclosure.

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