

Introduction to the Global Investment Performance Standards (GIPS)

Test ID: 7658665

Question #1 of 21

Question ID: 412727

McGregor Investment Management promotes itself as a fixed-income investment management firm. The vast majority of the portfolios it manages are fixed-income portfolios. McGregor does, however, manage a few portfolios, utilizing a growth equity investment strategy, but the firm has no intention of ever promoting this strategy. Under the Global Investment Performance Standards (GIPS), must these portfolios be included in a composite?

- ☒ **A) Yes, because the portfolios are managed to a widely recognized investment strategy.**
- ☐ **B) No, because the firm does not normally manage portfolios to a growth equity strategy and is not planning to promote it.**
- ☒ **C) Yes, because the portfolios are discretionary and fee paying.**

Explanation

The GIPS Standards require that all actual fee-paying discretionary portfolios are included in at least one composite. It does not matter if the firm ever plans to promote the particular strategy to which a portfolio is being managed, if the portfolio is fee-paying and discretionary, it must be included in at least one composite. Thus, McGregor must include the growth equity portfolios in at least one of its composites.

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Question ID: 441013

When measuring and presenting their investment performance, GIPS compliant firms are required to:

- ☒ **A) include terminated accounts in their performance history.**
- ☐ **B) disclose the performance of the best-performing accounts in each composite.**
- ☐ **C) exclude time periods that are unrepresentative of the firm's performance history.**

Explanation

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

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Question ID: 412717

Which of the following *best* describes the underlying principles upon which the Global Investment Performance Standards (GIPS) are based?

- ☒ **A) Full disclosure and fair representation of performance results.**
- ☐ **B) Uniformity and consistent application of standards for the global regulation of the securities industry.**

- ☒ **C) Fair and consistent application of a global set of regulatory requirements.**

Explanation

The GIPS standards are a set of voluntary standards based on the fundamental principles of full disclosure and fair representation of performance results.

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Question ID: 412715

In 1995, the CFA Institute sponsored and funded the Global Investment Performance Standards (GIPS) in response to:

- ☒ **A) both of the reasons listed here.**
- ☒ **B) an increase in insider trading.**
- ☒ **C) a need to address issues, such as portability of investment results.**

Explanation

The GIPS were created to address the portability of investment results, varying time periods, and survivorship biases. Insider trading was not an issue.

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Question ID: 485752

Which of the following statements about a GIPS-compliant firm's verification of GIPS compliance is *most accurate*? Verification is:

- ☒ **A) required, and must be performed by an independent third party.**
- ☒ **B) required, and may be performed by the firm's internal auditors.**
- ☒ **C) optional, but if chosen it must be performed by an independent third party.**

Explanation

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

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Question ID: 412731

When verifying a firm's compliance with Global Performance Investment Standards (GIPS), the verifier must:

- ☒ **A) attest that the firm's processes and procedures are established to present performance in accordance with GIPS requirements.**
- ☒ **B) clearly identify the composites for which verification has been performed.**
- ☒ **C) disclose whether the verification was performed by the firm's internal auditors or a third party.**

Explanation

The verifier must attest that the firm has complied with all GIPS requirements for composite construction on a firm-wide basis

and that the firm's processes and procedures are established to present performance in accordance with the calculation methodology, data, and format requirements of GIPS. Verification is not a GIPS requirement. If performed, verification applies to the firm as a whole, not to individual composites, and must be performed by an independent third party, not the firm itself.

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Question ID: 412712

A good way to describe the Global Investment Performance Standards (GIPS) is a:

- ☐ A) screening mechanism for determining appropriate international investments.
- ☐ B) legal doctrine with criminal penalties.
- ☒ C) common yardstick for means of comparison.

Explanation

Just like the Presentation Performance Standards (PPS), the GIPS serve as a yardstick so the performance of one individual or firm can be properly compared to that of another.

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Question ID: 412719

Compliance with the CFA Institute Performance Presentation Standards (PPS) or the Global Investment Performance Standards (GIPS) is:

- ☐ A) the only way to comply with Standard V(B), Performance Presentation.
- ☐ B) required by the Code of Conduct.
- ☒ C) the best way to comply with Standard V(B), Performance Presentation.

Explanation

According to the *Standards of Practice Handbook*, complying with the PPS and GIPS is the best way to comply with Standard V(B). However, a firm is not required to be in compliance with either PPS or GIPS in order to claim compliance with Standard V(B). Compliance with the PPS or GIPS is neither required by the Code and Standards nor the SEC.

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Question ID: 412720

The Investment Performance Council (IPC) is composed of 36 members from 15 countries and serves as the global committee responsible for the Global Investment Performance Standards (GIPS). The principal goal of the IPC is to have:

- ☐ A) all countries with developed financial markets adopt the GIPS standards as the standard for investment firms presenting historical performance and become members of the IPC.
- ☐ B) all firms in the IPC-represented countries adopt the GIPS standards as the standard for investment firms presenting historical performance.
- ☒ C) all countries worldwide adopt the GIPS standards as the standard for investment firms presenting historical performance.

Explanation

The IPC envisions the GIPS compliance as a "passport" that allows firms to enter the investment arena, which will level the playing field on a global basis.

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Question ID: 412721

The Global Investment Performance Standards (GIPS) apply to which of the following parties?

- ✓ **A) An investment management firm located in Indonesia.**
- x **B) A software firm that developed a software package that assists investment firms in achieving GIPS compliance.**
- x **C) The chief compliance officer for a regional money manager.**

Explanation

Only an investment firm that actually manages assets can claim compliance with GIPS.

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Question ID: 412722

The Global Investment Performance Standards (GIPS) were designed to apply primarily to which of the following groups?

- x **A) Investment firms located in the 21 countries that have contributed significantly to promoting and developing the GIPS.**
- x **B) Investment management firms located in countries without locally accepted investment standards already in place.**
- ✓ **C) Investment management firms located worldwide that seek to comprehensively and accurately present historical investment performance.**

Explanation

The GIPS were designed to become "the" worldwide standard for all investment firms seeking to present historical investment performance.

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Question ID: 412723

Lora Murphy has an account at Ferrell Investments, a GIPS-compliant firm. Murphy invests in small-cap value stocks and pays Ferrell a standard fee to execute her buy and sell orders. According to GIPS, is Ferrell required to include Murphy's portfolio in their small-cap value stock composite?

- ✓ **A) No, because the portfolio is non-discretionary.**
- x **B) No, because constructing composites is voluntary.**
- x **C) Yes, because the portfolio is fee-paying.**

Explanation

To comply with GIPS, a firm must include all fee-paying discretionary portfolios in at least one composite. Discretionary portfolios are those for which the firm makes investment decisions. Because this portfolio's owner is making her own investment decisions, the portfolio is non-discretionary and should not be included in the firm's composites.

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Question ID: 412728

Advisors, Inc., is in the process of adopting the Global Investment Performance Standards (GIPS). The managers of the firm are combining the results of fee-paying discretionary portfolios into composites for reporting purposes. For purpose of comparison, each fee-paying discretionary portfolio must be included in at least:

- ✓ **A) one composite.**
- X B) two composites.
- X C) three composites.

Explanation

A composite is a group of portfolios with similar investment strategies and objectives. The grouping is done so a comparison can be done between the portfolios in each composite. A portfolio must be included in at least one composite for compliance with the GIPS.

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Question ID: 412718

Which of the following statements *most accurately* describes why the Global Investment Performance Standards (GIPS) were created? To:

- X A) **meet the need for a single globally accepted set of regulatory guidelines among developed securities markets.**
- X B) provide comparability of performance results among nations for which no presentation guidelines currently exist.
- ✓ C) meet the need for a single globally accepted set of investment performance presentation standards.

Explanation

Recognizing the need for one globally accepted set of investment performance presentation standards, CFA Institute sponsored and funded the Global Investment Performance Standards Committee to develop and publish a single global standard by which all firms in all countries calculate and present performance to clients and prospective clients.

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Question ID: 412725

Jones, Inc., is attempting to qualify for Global Investment Performance Standards (GIPS) compliance. Regarding mandatory disclosures, which of the following disclosures will be insufficient and thus prevent Jones, Inc., from claiming compliance?

- X A) **Jones' definition of the firm is that they are a brokerage/portfolio management firm registered with the Securities and Exchange Commission (SEC).**

- ✓ **B)** Jones discloses all firm assets under active management each period.
- ✗ **C)** Jones discloses all non-fee paying portfolios that are included in composites and notes the percentage of composite assets that are non-fee paying portfolios.

Explanation

Jones must disclose *total firm assets* each period, not assets under active management. The definition of the firm, the disclosure of the firm's composites, and the disclosure regarding non-fee paying portfolios are all appropriate.

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Question ID: 412724

The purpose of composites in a GIPS-compliant performance presentation is to:

- ✓ **A) provide information about a firm's performance in various asset classes.**
- ✗ **B)** clearly distinguish the entity that is presented to the public as a GIPS-compliant firm.
- ✗ **C)** present overall firm performance in a single statistic that is comparable across firms.

Explanation

The purpose of composites is to give clients and prospects information about a firm's past performance managing investments in various asset classes.

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Question ID: 412726

Viroqua DeSoto, CFA, is reading a discussion in an online forum about the construction and purpose of composites in performance reporting. She finds these statements from participants:

Statement 1: The purpose of composites is to let investors know how well a firm has performed managing different types of securities or investment strategies.

Statement 2: A managed portfolio should have a performance history of at least one year before the firm assigns it to a composite.

With respect to both statements:

- ✗ **A) both are incorrect.**
- ✓ **B) only one is correct.**
- ✗ **C) both are correct.**

Explanation

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

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Question ID: 412713

As countries adopt the Global Investment Performance Standards (GIPS), which of the following is *least likely* to occur?

- ✓ **A) The trend toward cross border investments will decline.**
- ✗ **B) Competition in the global investment industry will be enhanced.**
- ✗ **C) Existing and potential clients will be able to make fair and unambiguous comparisons among investment firms.**

Explanation

There is no reason to expect the level of international investing to decline as a result of the adoption of a global set of performance standards. If anything, international investing will become more attractive as the credibility of reported performance results improves.

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Question ID: 412716

Which of the following statements regarding CFA Institute Global Investment Performance Standards (GIPS) is CORRECT? A firm that employs members of CFA Institute:

- ✓ **A) is not required to conform to the GIPS.**
- ✗ **B) must choose to comply with either the Performance Presentation Standards (PPS) or GIPS.**
- ✗ **C) must comply with the GIPS only within the United States.**

Explanation

No firm is required to comply with either PPS or GIPS. These are CFA Institute guidelines, and a firm can choose to conform to one or both.

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Question ID: 412729

Which of the following statements *most accurately* describes the requirements for GIPS verification?

- ✗ **A) A firm must select a representative set of composites for third-party GIPS verification.**
- ✗ **B) Third-party verification is required for a firm to claim compliance with GIPS.**
- ✓ **C) Verification of GIPS compliance is recommended, but not required.**

Explanation

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

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Question ID: 412730

Which of the following statements *most accurately* describes verification under the Global Investment Performance Standards

(GIPS)? GIPS verification:

- ☐ **A) requires verification of individual composites.**
- ☐ **B) is required for a firm to claim GIPS compliance.**
- ☒ **C) requires a verification report to be issued for the entire firm.**

Explanation

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