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Question ID: 412745

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

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

Explanation

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

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Question ID: 412741

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

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

Explanation

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

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Question ID: 412737

Longhorn Investments prepares its performance presentations in accordance with Global Investment Performance Standards (GIPS). As part of its employee benefits package, Longhorn does not charge a fee to its employees for managing their portfolios. When calculating total firm assets for the purpose of GIPS compliance, Longhorn should:

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

Explanation

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

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Question ID: 412738

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

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

Explanation

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

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

- ☐ **A) Improve the service offered to investment management clients.**
- ☐ **B) Achieve greater uniformity and comparability among presentations of performance.**
- ☒ **C) Increase the role of government agencies in the investment industry.**

Explanation

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

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

Standards (GIPS)?

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

Explanation

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

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Question ID: 412732

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

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

Explanation

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

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

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

Explanation

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

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Which of the following statements *least* accurately describes a key characteristic of the Global Investment Performance

Standards (GIPS)?

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

Explanation

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

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

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

Explanation

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

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Question ID: 441014

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

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

Explanation

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

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According to the Global Investment Performance Standards (GIPS), where existing laws or regulations already impose performance presentation standards, firms:

- ☒ **A) must comply with the GIPS standards, because they are the globally accepted standards for the investment industry.**
- ☐ **B) that comply with local requirements will be in compliance with GIPS as long as the scope and nature of the conflict is fully disclosed.**
- ☒ **C) are strongly encouraged to comply with the GIPS standards in addition to those local requirements.**

Explanation

Firms are encouraged, though not required, to comply with both GIPS and the local requirements, and also disclose any local laws and regulations that conflict with the GIPS standard. Note that this question is not asking about local laws that are in conflict with GIPS, but simply about local laws that exist.

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

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

Explanation

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

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

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

Explanation

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

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

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

Explanation

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

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

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

Explanation

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

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

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

Explanation

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

at least one composite.

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

- ☐ A) fee-paying and non fee-paying portfolios.
- ☒ B) requirements and recommendations.
- ☐ C) minimum standards and recommendations.

Explanation

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

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

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

Explanation

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

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

- ☐ A) three years of historical performance.
- ☐ B) ten years of historical performance.
- ☒ C) five years of historical performance.

Explanation

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

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

✓ **A) Implementation.**

x **B) Input Data.**

x **C) Real Estate.**

Explanation

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