

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

Q.196 Which of the following statements regarding the GIPS is *least likely* accurate?

- A. The GIPS wants to promote fair global competition among investment management firms.
- B. One vision of the GIPS is to put more barriers to entry for new investment management firms.
- C. The GIPS standards ensure that competition occurs on an equal footing and that comparisons can be drawn between investment vehicles.

The correct answer is **B**.

One vision of the GIPS is not to put more barriers to entry for new investment management firms.

A is incorrect. The GIPS standards are a practitioner-driven set of ethical principles that establish a standardized, industry-wide approach for investment firms to calculate and present their historical investment results to prospective clients.

C is incorrect. GIPS allows clients to more easily compare investment performance among investment firms and have more confidence in reported performance.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS standards for firms.

Q.197 Which of these is *most likely* not one of the issues a verification report must confirm?

- A. Justify whether all of the members of the administrative decision tribunal are financial experts.
- B. Determine whether a firm has complied with all firm-wide composite construction requirements.
- C. Proof of whether processes and procedures are designed to calculate and present compliant performance results.

The correct answer is **A**.

The members of the administrative decisions tribunal have nothing to do with the GIPS.

B is incorrect. A verification report must contain the main issues: "Whether a firm has complied with all firm-wide composite construction requirements".

C is incorrect. "Proof of whether processes and procedures are designed to calculate and present compliant performance results" forms part of the verification report.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (c): Explain the purpose of composites in performance reporting.

Q.200 The *most accurate* definition of a discretionary fund is a fund:

- A. In which the fund manager decides what to buy or sell.
- B. That is aimed at tracking the performance of a specific index.
- C. In which the investor advises the fund which securities to buy or sell.

The correct answer is **A**.

A discretionary fund is accurately defined as a fund where the fund manager has the authority to make investment decisions, including what securities to buy or sell, without needing to seek approval from investors for each transaction. This autonomy allows fund managers to act swiftly in response to market changes, potentially capitalizing on investment opportunities more efficiently.

B is incorrect. While some funds, known as index funds or exchange-traded funds (ETFs), are designed to track the performance of a particular index, discretionary funds operate differently.

C is incorrect. This option misrepresents the nature of a discretionary fund by implying that the investor directly advises on which securities to buy or sell. In contrast, the essence of a discretionary fund is that the investor delegates decision-making authority to the fund manager. While investors may set broad investment guidelines or objectives, they do not partake in the day-to-day decision-making process regarding specific securities.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (d): Describe the fundamentals of compliance, including the recommendations of the GIPS standards with respect to the definition of the firm and the firm's definition of discretion.

Q.201 Which one of these is *least likely* a goal of the GIPS?

- A. Foster self-regulation.
- B. Discourage global competition
- C. Obtain worldwide acceptance for a single standard.

The correct answer is **B**.

One of the GIPS goals is to ENCOURAGE global competition. It also fosters self-regulation.

The GIPS standards are a practitioner-driven set of ethical principles that establish a standardized, industry-wide approach for investment firms to calculate and present their historical investment results to prospective clients.

A is incorrect. Fostering self-regulation is indeed one of the core goals of the GIPS. By adhering to these standards, investment firms voluntarily commit to an ethical framework for presenting their investment performance. This self-regulation helps in maintaining high levels of integrity and transparency within the industry, which are crucial for building investor confidence and trust.

C is incorrect. Obtaining worldwide acceptance for a single standard is indeed a goal of the GIPS. The aim is to have a universally accepted set of guidelines that investment firms can follow to report their performance. This global standardization is crucial for ensuring that performance reports are comparable across different regions and investment strategies.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS Standards for Firms.

Q.628 Which of the following is *most likely* not a section of the GIPS Standards?

- A. Real Estate.
- B. Service Industry.
- C. Calculation Methodology.

The correct answer is **B**.

GIPS applies to investment management firms. They are intended to serve prospective and existing clients of investment firms and consultants who advise these clients.

A is incorrect. Real Estate is also a section of the GIPS Standards and further categorized into requirements and recommendations.

C is incorrect. Calculation Methodology is a section of the GIPS Standards.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS Standards for Firms.

Q.629 Which of the following statements is *least likely* accurate?

- A. A firm cannot perform its own verification.
- B. The verification ensures the accuracy of specific composite presentations.
- C. The verification improves the internal processes and procedures of the firm.

The correct answer is **B**.

Verification is performed concerning an entire firm, not on specific composites, and does not ensure the accuracy of any specific composite presentation.

A is incorrect. It's most likely that an independent third party must perform verification. A firm cannot perform its verification.

C is incorrect. A verified firm may provide existing and prospective clients with greater assurance about its claim of compliance with the GIPS standards. Verification may also provide improved internal processes and procedures as well as marketing advantages to the firm.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (e): Describe the concept of independent verification.

Q.631 The survivorship bias is *most likely* said to exist in which of the following situations?

- A. The performance was depicted only for a selected period.
- B. Investment results were shown only for top-performing accounts.
- C. Companies that ceased to exist were not included while depicting investment performances.

The correct answer is **C**.

The survivorship bias exists when the results of companies that ceased to exist are not included in the investment performance results.

A is incorrect. It relates to misleading practices related to varying periods.

B is incorrect. It relates to misleading practices related to representative accounts.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS standards for firms.

Q.632 Compliance to GIPS is *most appropriately* required by which of the following institutions?

- A. The World Trade Organisation (WTO).
- B. Regulations by the Standards-Setting Board (SSB).
- C. Compliance is voluntary and not mandated by any law or regulation.

The correct answer is **C**.

Compliance with the standards is voluntary and not required by any law or regulation.

A is incorrect. The World Trade Organization (WTO) is an international organization that deals with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably, and freely as possible.

B is incorrect. While the Standards-Setting Board (SSB) may refer to various bodies that set standards in different fields, GIPS compliance is not mandated by any specific regulatory authority or standards-setting board.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS standards for firms.

Q.634 Which of the following parties is *most likely* beneficiaries of GIPS compliance?

- A. Prospective clients.
- B. Investment management firms.
- C. Both prospective clients and investment management firms.

The correct answer is **C**.

The GIPS standards benefit both the investment management firm and the prospective clients.

A is incorrect. It suggests that only prospective clients benefit from GIPS compliance.

B is incorrect. It implies that the benefits of GIPS compliance are exclusive to investment management firms.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS standards for firms.

Q.635 Which of the following is *most appropriately* defined as an aggregation of one or more portfolios managed according to a similar investment mandate, objective, or strategy?

- A. Section.
- B. Segment.
- C. Composite.

The correct answer is **C**.

A composite is defined as an aggregation of one or more portfolios managed according to a similar investment mandate, objective or strategy.

A is incorrect. A section refers to the various provisions in the GIPS.

B is incorrect. Segments don't relate to portfolio management.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (c): Explain the purpose of composites in performance reporting.

Q.636 Which of the following statements is *least likely* accurate regarding the Global Investment Performance Standards (GIPS)?

- A. Compliance enables GIPS-compliant firms to participate in competitive bids.
- B. The GIPS standards eliminate the need for due diligence on the part of investors.
- C. Compliance with the GIPS enhances the credibility of investment management firms.

The correct answer is **B**.

While the GIPS enhances the credibility of compliant firms, it does not eliminate the need for due diligence on investors.

A is incorrect. It is correct to say that compliance enables GIPS-compliant firms to participate in competitive bids.

C is incorrect. It is correct that compliance with GIPS enhances the credibility of investment management firms.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS Standards for Firms.

Q.2639 Which of the following is *least likely* an objective of GIPS?

- A. CFA-regulation.
- B. Promote global competition.
- C. Standard calculation of investment presentation.

The correct answer is **A**.

The GIPS promote self-regulation rather than regulation by a third-party.

B is incorrect. One of the key objectives of GIPS is to encourage fair, global competition among investment firms without creating barriers to entry.

C is incorrect. A key objective of GIPS is to obtain worldwide acceptance of a single standard for calculating and presenting investment performance based on the principles of fair representation and full disclosure.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS Standards for Firms.

Q.2642 Sandra Filner works for a firm that's been actively managing investments since 2009. She serves on a team whose charge is to prepare GIPS-compliant presentations for 2016. In researching which investment accounts to include in her firm's calculation, she chooses the best performing index funds for the previous seven years.

Does Filner's decisions *most likely* lead to GIPS compliance for her firm's upcoming presentation?

A. No, Filner chose only the best-performing index funds to include in her firm's calculations.

B. No, Filner must include at least 10 years' worth of composite results in order to be GIPS-compliant.

C. Yes, Filner has included data from each year of the firm's activity, including the minimum requirement of five years' data.

The correct answer is **A**.

GIPS requires that firms chose a full representation of results for each presentation of historical data. This includes both high and low yields. By hand-picking the best-performing funds, Filner voids compliance with GIPS standards.

C is incorrect. By including the seven-year data, Filner only selected the best-performing index funds.

B is incorrect. GIPS regulations require that when a firm presents a minimum of five years of GIPS-compliant performance, the firm must present an additional year of performance each year, building up to a minimum of 10 years GIPS-compliant performance.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (c): Explain the purpose of composites in performance reporting.

Q.2643 The *most appropriate* definition of a GIPS verification is corroboration by an independent third-party that a firm's:

- A. Policies and procedures are GIPS-compliant.
- B. Portfolio returns and procedures are GIPS-compliant.
- C. Composite returns and procedures are GIPS-compliant.

The correct answer is **A**.

Verification reviews an investment management firm's performance measurement processes and procedures by an independent third-party verifier. Specifically, verification assesses whether the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis. It also tests whether the firm's policies and procedures are designed to calculate and present performance compliance with the GIPS standards.

B and C are incorrect. They refer only to compliance test requirement procedures and not the definition of verification.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (e): Describe the concept of independent verification.

Q.2979 Which of the following statements is *most likely* correct regarding verification?

- A. Verification ensures the accuracy of a composite presentation.
- B. To claim compliance with the GIPS standards, firms must seek verification.
- C. Verification tests the soundness of a firm's policies and procedures to calculate performance in accordance with the GIPS standards.

The correct answer is **C**.

Verification tests the soundness of a firm's policies and procedures to calculate and present performance compliance with the GIPS standards.

A is incorrect. Verification cannot ensure the accuracy of any specific performance presentation.

B is incorrect. Verification is voluntary, and firms are not required to seek verification.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (e): Describe the concept of independent verification.

Q.2983 Which of the following actions is *least likely* mandatory to comply with GIPS?

- A. Applying GIPS on a firm-wide basis.
- B. Independent third-party verification.
- C. Listing discontinued composites for five years.

The correct answer is **B**.

Third-party verification is voluntary for GIPS complying firms.

A is incorrect. Applying GIPS on a firm-wide basis is a requirement of firms complying with GIPS.

C is incorrect. Listing discontinued composites for at least five years is a requirement of firms complying with GIPS.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (d): Describe the fundamentals of compliance, including the recommendations of the GIPS standards with respect to the definition of the firm and the firm's definition of discretion.

Q.2992 A firm values its assets using fair values. Its asset base comprises of the following asset categories:

Category 1: Fee-paying discretionary portfolios

Category 2: Non-fee paying discretionary portfolios

Category 3: Fee-paying non-discretionary portfolios

Category 4: Non-fee paying non-discretionary portfolios

Based on the requirements of the Global Investment Performance Standards (GIPS), for periods beginning on or after January 1, 2011, the firm's total assets are *most likely* the aggregate of:

A. All four categories.

B. Categories 1 and 2.

C. Categories 1, 2, and 3.

The correct answer is **A**.

For periods beginning on or after January 1, 2011, total firm assets must be the aggregate fair value of all discretionary and non-discretionary assets managed by the firm. It includes fee-paying and non-fee-paying portfolios (0.A.13). It implies that the firm will include all four categories when defining total firm assets.

B is incorrect. It suggests that the firm's total assets should include only categories 1 and 2, which are fee-paying discretionary portfolios and non-fee paying discretionary portfolios.

C is incorrect. It suggests that the firm's total assets should include categories 1, 2, and 3, which are fee-paying discretionary portfolios, non-fee paying discretionary portfolios, and fee-paying non-discretionary portfolios.

CFA Level I, Ethics, Learning Module 4: Introduction to the Global Investment Performance Standards (GIPS). LOS (b): Describe the key concepts of the GIPS Standards for Firms.
