




Question #1 of 14

Question ID: 1459549

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

- A) clearly distinguish the entity that is presented to the public as a GIPS-compliant firm. 
- B) provide information about a firm's performance in various asset classes or investment strategies. 
- 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 or investment strategies.

(Module 72.1, LOS 72.c)

Question #2 of 14

Question ID: 1459542

Which of the following parties may adopt and claim compliance with Global Investment Performance Standards (GIPS)?

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

Explanation

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

(Module 72.1, LOS 72.a)

Question #3 of 14


Question ID: 1459548

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 correct. 
- B) only one is correct. 
- C) both are incorrect. 

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.

(Module 72.1, LOS 72.c)

Question #4 of 14

Question ID: 1459553

Which of the following statements *most accurately* describes verification under the Global Investment Performance Standards (GIPS)? GIPS verification:

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

Explanation




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

(Module 72.1, LOS 72.e)

Question #5 of 14

Question ID: 1459555

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

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

(Module 72.1, LOS 72.e)

Question #6 of 14

Question ID: 1459545

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

- A) GIPS Advertising Guidelines. 
- B) Composite and Pooled Fund Maintenance. 
- C) Fundamentals of Compliance. 

Explanation


According to Section 1, 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.

(Module 72.1, LOS 72.b)

Question #7 of 14

Question ID: 1459546

Which of the following is *least likely* one of the eight sections of the GIPS standards for firms?

- A) Implementation and Verification. 

B) Input Data and Calculation Methodology.



C) Pooled Fund Money-Weighted Return Report.



Explanation

The eight sections of the GIPS standards for firms are:

1. Fundamentals of Compliance.
2. Input Data and Calculation Methodology.
3. Composite and Pooled Fund Maintenance.
4. Composite Time-Weighted Return Report.
5. Composite Money-Weighted Return Report.
6. Pooled Fund Time-Weighted Return Report.
7. Pooled Fund Money-Weighted Return Report.
8. GIPS Advertising Guidelines.

(Module 72.1, LOS 72.b)

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Question ID: 1463685

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

A) disclose the performance of the best-performing accounts in each composite.



B) exclude time periods that are unrepresentative of the firm's performance history.



C) include terminated accounts in their 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.

(Module 72.1, LOS 72.d)

Question #9 of 14

Question ID: 1459547

McGregor Investment Management promotes itself as a fixed-income investment management firm. The vast majority of the discretionary 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)** No, because the firm does not normally manage portfolios to a growth equity strategy and does not promote it to potential clients. 
- B)** Yes, because the portfolios are discretionary. 
- C)** Yes, because the portfolios are managed to a widely recognized investment strategy. 

Explanation




GIPS require all discretionary portfolios to be included in a composite. Thus, McGregor must include the growth equity portfolios in a composite.

(Module 72.1, LOS 72.c)

Question #10 of 14

Question ID: 1451358

With regard to Global Investment Performance standards (GIPS), if the Chief Investment Officer of an investment advisory firm also is a CFA charterholder:

- A)** the firm is required to comply with GIPS. 
- B)** neither the firm nor the charterholder are required to comply with GIPS. 
- C)** the charterholder is required to comply with GIPS. 




Explanation

Adoption of GIPS is voluntary for firms. GIPS apply to firms, not individuals.

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Question ID: 1459551

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, but does not permit her account manager to initiate trades on her behalf. According to GIPS, is Ferrell required to include Murphy's portfolio in their small-cap value stock composite?

- Yes, because the portfolio is consistent with the defined strategy for this composite.
- A) 
- B) No, because constructing composites is voluntary. 
- C) No, because the portfolio is non-discretionary. 

Explanation




Because this portfolio's owner restricts the firm from implementing its own investment strategy, the firm should designate this portfolio as non-discretionary and should not include it in the firm's composites.

(Module 72.1, LOS 72.d)

Question #12 of 14

Question ID: 1459552

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.

(Module 72.1, LOS 72.e)

Question #13 of 14

Question ID: 1459554

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.

(Module 72.1, LOS 72.e)

Question #14 of 14

Question ID: 1459543

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

- A) Establish ethical requirements for individuals who are responsible for performance presentation. 
- B) Meet the need for a single globally accepted set of investment performance presentation standards. 
- C) Provide a single globally accepted set of regulatory guidelines among developed securities markets. 

Explanation

Recognizing the need for one globally accepted set of investment performance presentation standards, CFA Institute created the Global Investment Performance Standards (GIPS). GIPS are voluntary standards that investment management firms may adopt.

(Module 72.1, LOS 72.a)