



ATTEST **BVS**

Hello everyone and welcome to the December issue of Attest BVS. In this edition we will discuss some of the unique circumstances associated with one account composites. This can be a potentially troublesome area for many firms as they grapple with composite construction. Our goal in this article is to answer any questions there may be as how best to construct and present these one account composites. In addition, this newsletter features another installment of our on-going ‘Countdown to 2010’ in which we briefly discuss upcoming changes to the GIPS. We’re also excited to welcome a new addition to our team.

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One Account Composites

On a firm’s path to becoming GIPS compliant, a common challenge is the composite construction segment. Since this is one of the fundamental aspects of the Standards, it is important to consider one of the more unique issues that a firm may have to face during this process: the one account composite.

To be in compliance with the GIPS, all fee paying, discretionary portfolios must be included in at least one composite. This seemingly innocuous Standard can potentially be more troublesome than initially expected. The requirement can be easy if the firm has a simple account structure and manages very few strategies to a model. However,

it has been our experience that many firms typically have tried different management styles and have certain accounts that were at some point managed according to a singular/unique management style. The firm then struggles to include the particular account into an existing composite to ensure that it adheres to the rule. However, the Standards also prohibit the inclusion of portfolios with different investment strategies or objectives in the same composite since the performance of such a catch-all composite is meaningless. This leads to the use of the one account composite. If the firm has many portfolios with unique, defining investment characteristics, it may be necessary to create many single account composites.

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There are many issues that must be considered with one account composites. The first one is the operational aspect of keeping up with many composites. While firms typically are eager to prepare GIPS compliant presentations for their marketed composites, it is important to remember that one of the required disclosures is the availability of a complete List and Description of Composites. However, firms must keep in mind that ALL composites (even single account ones) must be listed in the List and Description of Composites. In addition, firms must have the ability to provide GIPS compliant presentations for every one of the listed composites. Some uncertainty exists concerning the time frame to respond to a request for a fully compliant presentation, and we've received guidance indicating that a firm has the ability to provide a compliant presentation within one business week. One last thought is that closed composites must remain on the List of Composites for at least five years.

Another issue we see firms face is the break of performance within a composite's track record.

There are many policies that firms have the option to implement within the context of the GIPS. Examples include minimum value thresholds and removal of accounts due to Significant Cash Flows. However, it is imperative for firms to understand that all rules must be consistently applied. Thus, if the sole account in a composite with a Significant Cash Flow rule experiences a Significant Cash Flow, said account MUST be removed from the composite. This then leads to a break (both mathematical and presentational) of the performance track record of the composite.

There are many operational issues pertinent to the maintenance of single account composites. As discussed, important examples are the inclusion of all composites in the firm's List and Description of composites, the ability to create a compliant presentation in a timely manner for any composite, and the preservation of a continuous performance track record. Firms must keep these examples in mind when working through composite construction issues.

Countdown to 2010 – Composite Return Calculation

2010 is quickly approaching and with it will come many changes. To ensure that nobody gets caught unaware, we will periodically send out reminders of some of the most significant changes that will be required by the beginning of that year.

This month we are reminding everyone of the change concerning the composite return calculation frequency.

The philosophy of the GIPS is to present performance returns that are as accurate as practically possible, and as a result, the Standards are transitioning to more precise and frequent calculations.

In this spirit, beginning January 1, 2010 composite returns must be calculated by asset weighting the individual portfolios at least monthly. The reason for this is that the more frequently composite returns are calculated, the more accurate the returns will be. Quarterly composite returns will continue to be allowed through January 1, 2010, at which point it will be required that all composite returns be calculated on a monthly basis.

We strongly encourage firms to start integrating these changes to ensure a seamless transition. As always, if you have any questions, please contact your verification associate.



Employee Spotlight: Brooks Blair

Brooks Blair is a Verification Associate serving our client base with the initial and on-going verification of GIPS compliance.

Prior to joining ACA, Brooks spent two years as a commercial banking relationship manager at SunTrust Bank, where he was responsible for evaluating, generating, and managing a profitable portfolio of commercial businesses throughout Chattanooga.

Brooks graduated Cum Laude from the University of Mississippi with a B.A. in Banking & Finance as well as a B.A. in Managerial Finance with an emphasis on Investment Analysis. He looks forward to taking the Principle level of the CIPM exam in the coming months.

Upcoming Webcast

Latest GIPS Guidance and New Requirements for 2008 and 2009

December 16, 2008 1:00 pm EST

Alicia Hyde, CIPM

This important webcast will address recent guidance and interpretations of the GIPS. The standards and their application are constantly evolving and compliant firms “must comply with all applicable requirements of the GIPS standards including any updates, reports, guidance statements, interpretations, or clarifications published by CFA Institute...” Firms that only follow the written Standards will most likely fall out of compliance if they are not regularly monitoring the latest guidance. We will share the latest guidance with you as well as give you an in-depth update on the unique issues addressed at the 2008 GIPS conference. For more information, please visit our website acacompliancegroup.com